Acquisitions: the quest for new knowledge

Anders Hansson
David Nord
Abstract

In this study we have developed an integration model for gaining new knowledge through acquisitions, combining theories as a review concerning knowledge management, organizational culture and organizational change. The four step integration model was made for applications concerning a parent company acquiring a smaller company with the intention of integrating the two organizational cultures and accomplishing synergy for the two companies.

A thorough evaluation of the two company’s cultures with an emphasis on routines and systems, determines similarities and differences concerning cultural characteristics. Deciding what integration issues to prioritize, what departments to involve in the integration, who should participate in the change process and how to make the changes, result in an action plan. Preparing and communicating the change is important to make the process smooth, motivate people and minimize resistance. After planning and preparing the integration, the action plan is initiated. The model can be used repeatedly to consider changed conditions or reconsider earlier defined integration issues. Learning from the integration process gives the company increased organizational knowledge with potentially increased future competitive advantage.
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1. Companies can obtain new knowledge in a changing environment by acquisitions

Lewin et al. (1999) and Massini et al. (2005) describe the actions of competitors and the rapid development of technology of production, innovation and information triggers adaptation and changes. Elements of the organizational environment such as industry, geographic and political factors also affect the change decisions of different companies (Lewin and Volberda, 2003).

Olve (1998) explains that many companies continuously try to gain new knowledge and accomplish new innovations in order to develop competitive advantage in this changing environment. Research and development are activities that many companies use in order to gain new knowledge and technology internally. Other ways to develop new knowledge are copying innovations of competitors, hire people with competence, buy patents and rights from other companies, cooperate with other companies or acquire innovative companies.

The actions of the knowledge seeking company are highly influenced by the nature of the knowledge that it pursues. Knowledge can be embodied in products, belong to members of the organization or be socially embedded in the way people work together. Some aspects of knowledge are highly complex and are not easily explained or articulated.

Acquisition means that the parent company buys enough stock from the acquired company to establish more than 50% ownership. The acquired company could be in the same industry with new industrially related knowledge or in a different field where the new knowledge is a complement to the acquiring company. When considering an acquisition in search for complex and fragile knowledge the integration process between the parent company and the acquired company is critical to preserve and yet make use of the potential new knowledge. Organizational changes and integrations could be anything from minor, step by step changes to radical, extensive changes affecting the whole organizational culture and structure. Changes can be more or less based on planned, conscious decisions made by management.

When it comes to acquisitions and integration there are many cultural and structural issues that need to be taken into consideration to ensure the compatibility between the parent
company and the acquired company and the utilization the new knowledge. The change process could involve alteration to strategy, structures, labor force, management, names, logos, systems, and routines.

There are many companies that do not realize the importance of integration and the fragility of knowledge. Balugun and Jenkins (2003), means that up to 70 percent of organizational change processes fail to achieve the objectives of the change. About the same figure (two thirds) appears in the case of merger and acquisition which are processes that imply organizational change. Roberts (1999) points out that many companies experience that one of the most important reasons why deals fall short of expectations is the lag time in realizing economic synergies. He explains that reasons for synergy delay could be poor transition planning, inadequate transition resources, ineffective integration management, disparate corporate cultures, divergent policies, incompatible information technology (IT) or overpaying for an acquisition.

Studies of knowledge management show the different aspects and natures of knowledge. Balugun and Jenkins (2003) and Massini et al (2002) explains further that authors studying knowledge management and organizational change suggest the importance of synthesizing and combining theories of these fields. Theories of organizational change discuss forces driving/constraining change and how to overcome obstacles in the process. Research of organizational culture emphasizes the complexity and abstract nature of culture which implies problems of changing culture.

How can a large company gain new technological knowledge from the acquisition of an innovative company? Our purpose for this study is to combine theories of knowledge management, organizational culture and organizational change for a review and an integration model from a perspective of the acquiring company’s management team. The focus of this study is the development of new technological knowledge through acquisitions, where the information sources are mainly articles published in well known scientific papers.
2. Methods for data collection and delimitations

The literature and information sources for this study are mainly articles published in well known scientific papers and business library text books. We found the articles through online databases (ISI Web of Knowledge, sciencedirect, online library of Uppsala University). We consider these articles to be reliable since publications in scientific papers involve readers and referees from the same area of research. We also believe the information from the text books to be reliable since they have been used in business courses or held in libraries specifically for the use in business studies. Theories from the research fields of knowledge management, organizational culture and organizational change have all been parts of our previous business education that caught our attention and interest. We saw the possibilities of combines these fields for the application of integration following an acquisition, concerning the problems of dealing with acquisitions that we have read about.

The choice to only search for information from secondary data sources was made in order for us to be able to choose our specific sources more freely. Another reason to choose secondary data was the flexibility of conducting research from written material without the need to depend on the time and cooperation of other people. If we would have chosen to survey or interview people from companies dealing with acquisition we may have been able to receive additional information about the acquisition and integration process. Cooperating with a company in the process of developing our review and integration model may also have let us focus our study further for application concerning this specific company. Now the focus and scope of our study is more general and applies to any management team of a large company in the search for new technological knowledge with the intension of acquiring an innovative company.

There are many ways to gain new technological knowledge but we wanted to focus on acquisitions because of the interesting organizational problems that could apply. There could also be many other motives for studying acquisition but we chose to specify the search for new technological knowledge since we both are interested in the combination of technological and business research and studies.
3. The creation and sharing of different kinds of knowledge is crucial for achieving competitive advantage

To continuously create new knowledge, spread it successfully throughout the organization and quickly embody it in new technologies and products help companies to develop competitive advantage. Nonaka (1991) explains how these activities define the "knowledge-creating" company, whose sole business is continuous innovation. He describes how knowledge can be divided into explicit or tacit knowledge. Explicit is “know what” and easy for people to communicate and share through words and numbers. Tacit knowledge, on the other hand, is “know how” and harder to communicate since it includes insight and intuition and is deeply rooted in an individual’s values, action and experience. “Know how” is embedded in practice and is hard to get outside the context where work is done and must therefore be converted into explicit knowledge to be used throughout an organization. In addition to knowledge of individuals and members of an organization, knowledge can be integrated in the organization’s routines and systems that function as storage of knowledge and measurable units of change (Balogun et al., 2003).

Nonaka (1991) also describes a model; the spiral of knowledge, that explains how knowledge is created and shared in the company. New knowledge always begins with the individual. The central activity in the knowledge-creating company is making personal knowledge available to others. It takes place continuously and at all levels of the organization. The first step is through socialization. That occurs when an employee learns by observation (tacit to tacit). This knowledge is hard to share in the organization which is why articulation is important. Articulation is a critical step because it transforms the tacit knowledge to explicit knowledge. The third step in this spiral is when the articulated explicit knowledge is shared among members of the organization (explicit to explicit). The employees who have shared this explicit knowledge can as a fourth step, internalize it and use it to develop their own tacit knowledge which can be applied to develop new products.

There are a number of problems that make it difficult for companies to implement and use knowledge management efficiently. First, most of the firms do not completely realize what knowledge is all about. Secondly, they do not include double-loop learning; which is the key to learn from the mistakes. The feedback within and between knowledge management needs
to be embedded into a knowledge management methodology to have a learning organization. Third, focus should not be simply on the technology infrastructure. Liebowitz (2001) means that the working mantra in the field of knowledge management is that the knowledge is people and culture for 80% to 90% and technology is the rest. Last, knowledge management is a never-ending process of incremental improvement, not a one-time measure. According to Robertson (2004) this is now recognised as one of the critical success factors for knowledge management.

In the case of competitive advantage, Ranft and Lord (2002) claim this as a fundamental goal of most companies, a condition is that the knowledge is difficult to imitate and transfer. If competitors can easily copy the same knowledge it doesn’t result in competitive advantage. Herein lies a problem when the knowledge that is creating the advantage is difficult to share.

When the knowledge is in the form of products, product descriptions or patents the knowledge is explicit to a high extent. However there are usually aspects of the development of the products that are tacit and these aspects are not automatically shared just by purchasing the rights of the product. When the knowledge is embedded in an individual then his/her competence is both explicit and tacit. The person can teach others what he/she knows but certain elements of the knowledge can be intuition and is perhaps not even understood by the individual him/herself. An individual might not be able to perform in the same way as before if taken out of the organizational context. When it comes to knowledge being embedded in innovative routines and systems the knowledge is highly tacit, complex and fragile. When altering innovative systems, routines, networks and social relationships the knowledge could change or be lost.

4. The cultural change and integration is critical for utilizing new knowledge from another company

McShane and Von Glinow (2003, chapter 15) state organizational culture is a framework of the way members of organizations think and contains deeply shared beliefs and assumptions to more tangible routines, languages and symbols. An organizational culture is affected by its composition of national cultures and also the objectives and core values of the company. There are many aspects that should be taken into consideration when identifying
organizational culture.

**Organizational stories and legends** often reflect the organizational culture of the business and they are the history of incidents and experiences who guide what actions should (or should not) be done in the future. This historical context reflects which expectations and individual performance standards the company has for its employees (McShane and Von Glinow, 2003, page 451-452). The story about Ikea is written down for the employees in “Möjligheternas tid är inte förbi” (Inter Ikea Systems 1998), and is an example where the story about how the founders values and ideas started and developed a concept that came to be an international successful business.

**Organizational rituals** aim at the daily organizational routines and systems (Becker et al., 2005), for instance how information is shared between members of the organization. How much time executives spend talking with subordinates and the company dress code, are also important signals of the organizational culture (McShane and Von Glinow, 2003, page 453).

**The Organizational language** and the way members communicate in a company says a lot about the company’s culture: how employees address co-workers, express anger, describe customers and greet stakeholders (McShane and Von Glinow, 2003, page 453). Most companies also have their own internal phrases and metaphors for describing things. Some companies have a corporate language (often English) which is used for official documents and software. A saying that reflects the strong organization culture of IKEA is: “our group language is English but our culture language is Swedish” (Salzer-Mörling, 1998 s. 168).

**Physical structures and symbols** could be buildings, logos and other physical material that can convey culture meaning (McShane and Von Glinow, 2003, page 454). The office building itself tells us something about the company’s culture. We often associate the age, location, size, shape and other features of the building with values and meanings.

All these aspects of organizational culture are not static but change dynamically with variation in the surrounding environment and decisions by management.
When aiming to change and integrate organizational cultures, McShane and Von Glinow (2003, chapter 16) explain the importance of considering the existence of forces that are driving change and other forces that restrain/resist change. When the forces driving and restraining change are equal the change process is at equilibrium. In order to achieve change we follow steps to manipulate the equilibrium.

Before starting a change process an evaluation of the current organizational situation should be conducted as a framework for the change process (McShane and Von Glinow, 2003, page 488-489). Experts of organizational development (OD) can conduct action research of the company’s conditions prior to the change, coordinate the different parts of the company for compatibility and ensure that change activities fit the strategic goals and surrounding environment. When conducting action research and evaluation of the company’s situation executives present or interact with experts of OD to construct appropriate courses of action considering the mission and vision of the company. What parts of the company and its culture will be involved in the change process? Some divisions, departments or routines are more involved in the change than others. When thinking about what “change” really is, Becker et al. (2005) explain how routines provide a basic definition of inputs for change. Stating that behavior is guided by familiar and stable routines means that no change is taking place. Routines and systems are units of measure for analyzing change and tools for storing knowledge in an organization. However, very strong and static routines could lock people into certain thinking patterns and make the organization less flexible. As long as managers and experts of OD know about the different problems and possibilities of routines and systems they can be assets rather than obstacles.

Different approaches and motives of cultural change imply different levels of integration as explained by McShane and Von Glinow (2003, page 461-462). They describe four different approaches of cultural integration. One approach of the parent company is to simply acquire a company and then let it continue its operations and other functions in the same way as before. The local organizational culture is maintained to the most part and almost no organizational change takes place. Another approach by the parent company is to implement its culture in the subsidiary. This is likely if the parent company perceives its culture to be one of the main reasons of its success and executives believe that it’s necessary for the subsidiary to have similar values, norms and routines for continued success of the corporation. A third option is
to acknowledge constructive parts of both organizational cultures and integrate them into a combined organizational culture. The fourth alternative, and the most common one in reality, is where both the culture of the parent company and the former culture of the subsidiary exist as parallels.

A change process can be seen as going through *unfreezing, changing and refreezing* (McShane and Von Glinow, 2003, page 476-486). *Unfreezing* is the first step of this change process towards a new, desired state defined by a clear, strategic vision. The aim of unfreezing is to create disequilibrium between the driving and restraining forces of change. Attempts are made to increase driving forces in the desired direction and minimize restraining forces in the opposite direction. Often both of these attempts are necessary to accomplish the change. Just pushing for change can result in increased resistance. People cannot be changed unless they choose to be and forcing change rarely causes real, lasting change. Before starting to push driving forces or reduce restraining forces it is important to establish a trusting relationship between the expert of OD and involved employees and parts of the company. A change process should be custom made to fit each company’s unique situation.

The driving forces to accomplish organizational change are (McShane and Von Glinow, 2003, page 481-482):

- Information about competition
- Communicating trends in markets and consumer behavior
- Inform about impending government regulations
- Motivation by having management taking part in change (Huang et al., 2005)
- Focusing on the positive characteristics of groups and the change process – Motivation by refocusing contains discovery, dreaming, designing and delivering a vision.

The restraining forces of change commitment and how they are decreased are the following (McShane and Von Glinow, 2003, page 477-480):

- Personal cost or decrease of benefits result in resistance – Stress management and negotiation could potentially reduce chances of losing individuals.
- Saving face – Training, coaching and employee involvement through the change can help to smooth the process.
• Fear of the unknown – This fear can be reduced by communication about the change far in advance as well as by employee involvement ant stress management.

• Breaking routines – Sometimes coercion or layoffs are deemed necessary when implementing organizational changes but this action could hurt the future trust from employees. Communication and employee involvement could potentially reduce resistance for this change.

• Incongruent organizational systems – Changing systems could be more difficult with increased embeddedness of the subsidiary. Like in the case of breaking routines, communication is essential and also employee involvement along with training to reduce implication problems.

• Incongruent team dynamics – Coaching and training could help in making the change of the teams smoother.

Changing is the middle part of the change process where the actual change takes place (McShane and Von Glinow, 2003, page 486). This part could be more or less radical. The time scope is a characteristic of change to take into account. Changes could be done in one point in time or in a slower step by step manner. Each situation demands new and different behavior and learning for the employees. Along the change, the progress should be evaluated and fine tuned compared to strategic goals. This evaluation could be difficult because effects of change are sometimes hard to distinguish from external effects. Experts of OD don’t actually change people but make them aware of the needs for change and supports them in solving their own problems. The pace of change is mainly due to internal dynamics.

Refreezing is the end of the change process when the company has reached the goal or desired state (McShane and Von Glinow, 2003, page 486). In order to keep routines, behaviors and thinking patterns at the new state the company refreezes this state. Organizational systems, team dynamics, motivation, reinforcement and feedback should all be in line with the culture and values of the new company state. Refreezing supports the new state to make it permanent and avoiding going back to the origin.

Who guides the change of the company? Change agents could be members of the organization or external people with knowledge and power to support the change process
(McShane and Von Glinow, 2003, page 487). Who are these active guides of change? Both change agents and experts of OD can be members of the organization or outside consultants. The agents could change over time to include all members of the changing organization at one time or another throughout the process.

All parts of the organization don’t have to change at the same time. Sometimes pilot change projects are used to gain experience of the nature and risks of the change process (McShane and Von Glinow, 2003, page 487). Successful pilot projects have positive effects on the change process and the knowledge created from the projects could be diffused throughout the organization by communication or pilot project members.

5. The integration model combines selected theory parts from three fields

For the observation and evaluation step we have chosen to focus on the organizational culture as a whole but mainly on routines and systems. These characteristics of an organizational culture are tangible and they can be measured and altered. Other parts of the culture like norms are abstract, difficult to measure and hard to alter in an early phase of integration.

When trying to find a balance between integration and preservation Lewin and Volberda, (2003) mean that we learn from the research field of organizational change that integration can be done in different ways and at different levels depending on the perceived necessity of integration of the parent company’s culture. From theories of knowledge management we learn how organizational knowledge is stored in its routines and systems. Excessive change can result in lost organizational tacit knowledge through alteration of routines and systems. When considering these two perspectives, a paradox is introduced between conducting change of the subsidiary’s culture and keeping routines and systems unchanged.

After step 1 and 2 the evaluation is done and the action plan is developed concerning the integration between the two companies. Now the evaluated company can be acquired by the parent company and step 3 can begin.
The *unfreezing* step deals with knowledge management which stresses the importance of communicating what the company stands for, where it’s going, what it wants and how to make this happen to its members. This is closely related to the unfreezing explained in the theory of organizational change. We focus on developing an integration model for acquisitions which is why only the unfreezing and initial phase of change from the organizational change process is applied in the model. An equivalent of the refreezing step is accomplished by applying the model for more than one cycle. We also do not agree on there being a final state of the integration. The process of integration and development of new knowledge is continues and the need for further change and integration comes from changing external and internal conditions.

In this study we do not discuss, in great detail, how the implementation of an action plan is carried out but focus on the preparation and initiation of a change process.

The model is constructed for multiple cycles. Each cycle of the model helps the parent company to gain new knowledge and experience about the acquired company and the integration process. When changes have been made the conditions also change and the next cycle starts with observation and evaluation of the situation according to the new conditions. Each cycle can be seen as pilot projects where experience is gained and can be used for future changes as a type of spiral of knowledge.

If the integration process is radical there is a risk of knowledge loss. If the conditions of the acquired company are changed too quickly the initial conditions can no longer be observed and people may leave. Valuable knowledge about the way the work is being done in the acquired company may be lost.

A similar risk is present when an integration process is not handled within a foreseeable future after the acquisition. The reason is that the knowledge might be obsolete if the integration is postponed for too long. The optimum is somewhere in between the two extremes, when the integration is not rushed but conducted in a systematic way.
5.1 **Step 1 – Observation and evaluation**

5.1.1 **Synergy realization**

When looking for potential, knowledge intensive companies for acquisition, Larsson and Finkelstein (1999) suggest that synergy realization is important for the success of the acquisition and integration. From a financial perspective, Bodie and Merton (2001) explains synergy between the two companies as the main reason for acquisitions together with tax reductions and to take advantage of bargains in the stock market. The observation and evaluation step aims to identify synergies between the two companies while the observed company is autonomous and conducts operations as usual. Synergies mean that the combined
assets of the companies have higher value than their separate assets. Hébert et al. (2005) and Hofstede (1983) describes that other factors which could potentially increase the chances of survival of the evaluated company are parent company ownership percentage, low country risk and low cultural distance. A high parent company ownership percentage communicates commitment and belief in the evaluated company. Low country risk means a stable environment for cooperation and low cultural distance means reduced risk of misunderstandings and cultural clashes. Larsson et al. (1999) explains further that the relative size of the evaluated company compared with the parent company also has a positive correlation with integration and synergy realization. There could be misunderstandings and communication problems concerning the contribution of the two companies, especially in the case of cross border acquisitions. The perception of the contribution of one company could differ between members of this company and people outside. Gupta et al. (2000) discuss differences among countries according to economic advantage. If two companies in different countries are compared, the one in the less advanced country would probably evaluate their knowledge as less valuable compared to the knowledge of the company in the more advanced country. Gupta explains how this perception can be seen as a lack of confidence. The individual firm is not necessarily aware of the potential value of its competence and knowledge. In case of big differences concerning economic advantage between the two companies the result is often a monolateral information flow from the parent company to the evaluated company.

5.1.2 Routines and Systems

Risberg (2001) explains that the tangible cultural characteristics (routines and systems) of both the parent company and the subsidiary are observed by managers of the parent company. In order to gain information about the company, a dialogue with the management of the evaluated company might be necessary. In some cases the people at lower levels of the evaluated company cannot be informed about the acquisition. This is especially true for companies listed on the stock exchange.

Once the tangible characteristics are investigated and understood, a comparison can be made between the two companies to find similarities and differences. Useful routines and systems to evaluate are existing information systems and the work procedures of managers and
employees of the evaluated company. The understanding of such systems is important for future decisions concerning exchange of information and people between the parent company and the evaluated company (figure 2) in order to create and share new knowledge. It is essential for a knowledge creating company to consider knowledge sharing (explicit to explicit and tacit to tacit) in order to make transformations between tacit and explicit knowledge possible. Nonaka (1991) suggests all ways of sharing and transforming knowledge as important factor for the creation of new knowledge. Intangible characteristics of the organizational culture, such as norms and values, are difficult to evaluate (McShane and Von Glinow, 2003 chapter 15).

![Figure 2: Systems for exchange of information and people (expatriation) between the parent company and the evaluated company](image)

Information systems are important for sharing knowledge (explicit to explicit). Information systems are defined as systems which collect, work, store and distribute information. The definition contains systems for technical equipment and their human activities and routines. Systems which support the control mechanism in an organisation in the form of a inventory- or a product plan is one example. These systems have a supporting function in addition to the social interaction of people (tacit to tacit). Between meetings and interaction, the team
members can communicate and share explicit knowledge efficiently and effectively through information system. The tacit extent of such information is limited.

According to Wijnhoven et al. (2006) integration of information systems is often a crucial factor in an acquisition process. When observing and evaluating existing information systems of the evaluated company, the parent company has several different ways of thinking considering IS integration. A comparison can be made with the levels of cultural integration on page 9.

Absorption is a process when the information system of the evaluated company is totally swallowed up. The main synergy effect is cost reduction compared to an optimal, expensive combination of the existing systems. This process is not often present when the objective of the acquisition is new knowledge.

Symbiosis is a hybrid of the two prior systems. The best parts of the two are combined through overlapping control systems. The problem is finding the best combination. In one area the system of the parent company could seem to be the best choice and in another area the acquired company’s systems could be perceived superior.

Another approach is preservation. In this process the control of the acquired company is held at a distance. In this way the parent and the acquired company can maintain and develop their capabilities. With a higher level of information integration and control there is a risk that the acquired company gets constrained. Preservation is often the case when it comes to companies of high technology and competence. The acquired company needs the flexibility and space to work in an innovative manner.

To make a choice among the alternatives above the parent has to evaluate the existing information systems (IS) (Wijnhoven et al., 2006).

- The existing IS should be working if integration will be successful.
- The integration of IS demands both time and money. A budget and a time plan must be formed for the action plan.
• The capabilities of the existing IS has to be compatible with the desired operations and procedures.
• The work routines, structure and business strategy must be specified with the integration process of the IS.
• Extensive IS integration can preferably wait until future cycles of the integration model when functional operations of the acquired company are established.

Further suggestions concerning integration strategies are explained in step 2.

Expatriation is as described by Hébert et al. (2005) the event of sending people from the parent company to the acquired company. When the knowledge that should be transferred is highly tacit the expatriates become increasingly important since the knowledge transfer must include tacit to tacit learning and cannot be communicated in a simple way. Normally expatriation refers to managers from the parent company engaging the management team of the acquired company. In addition to learning about the acquired company the expatriate could also have a controlling function concerning communication and operations. The primary objective should be learning since controlling in this way is far too costly, could damage relations and is not dependable in the long run since expatriates repatriate. The expatriate works in both ways and can contribute with management skills and other knowledge from the parent company resulting in synergies between the two companies.

5.1.3 Knowledge absorption

The observed company is studied in order for the acquirer to understand what the critical knowledge is. Schweizer (2005) suggests that the absorption of new knowledge by the parent company might not flow without problems. The ability for the parent company to absorb the new knowledge is evaluated in the observation and evaluation step. He describes two different reasons why the degree of knowledge absorption varies between organizations in case of acquisitions. The first reason is access to relevant information about the other company. The second is the level of connection between individuals. Similar education, social status, beliefs etc affect the connections between individuals. Rogers (1995) explains the condition as: “Individuals share common meanings, a mutual subcultural language and are alike as persons and in social characteristics”. The acquisition could be made both to accomplish
critical mass of the research and development function of the company and to complement existing R&D. If the technology of the evaluated company differs to a large extent from the technology of the parent company there might be problems of absorption due the limitation of understanding concerning the new technology (Schweizer, 2005). If it, for reasons of absorption problems, is not favorable to combine the two R&D departments into one, the evaluated company could maintain its R&D but become a center of excellence for the parent company. The evaluated company would be a subsidiary with the knowledge and resources to develop certain technological solution related to its excellence and knowledge. Hennan and Park (1993) argue theoretically and empirically that less overlap between the know-how of the two companies, results in increasing advantages from the acquisition. The people of the evaluated company sense a greater value of their own processes, and experience greater incentives to cooperate.

On the other hand, Bodie and Merton (2001) explain that the goal of the management team is usually to maximize the value for the stock owners. If a parent company acquires a smaller company just for the sake of spreading risk with completely different technology, this can be accomplished by the stock owners themselves. Owners of stock can individually spread the risk of their portfolios without a costly and time consuming integration process. Research sometimes displays antagonist theories which result in a paradox. In such cases the reader might have to make a decision about what is most important to believe and focus on.

If the conclusion after step 1 is that the evaluated company is not suitable for acquisition or that the nature its knowledge is not compatible with the parent company, the acquisition and integration process can be aborted. In that case there is no need to continue with future step or cycles of the model.
5.2 Step 2 – Balance between integration and preservation

5.2.1 Incentives for individual to stay

When deciding what routines and systems to introduce or change, it is valuable for the managers of the parent company to keep in mind that the motive for the acquisition is to gain new knowledge. A common problem in the case of acquisitions is the unintentional loss of critical individuals in the acquisition (Ranft and Lord, 2002).

Ranft and Lord (2002) explain further that uncertainty and demotivation could sometimes be overcome by focusing on value creation for the evaluated firm at its employees. The concept of synergy implies that both sides gain from the acquisition. Financial incentive plans for the employees, departments and managers of the evaluated firm is one example. Such a plan could involve stay-put bonuses, long term contracts, stock options or increased base salaries. It is also important to take measures to make sure the people of the evaluated company do not feel overrun and inferior. If the objective of the acquisition is synergy realization it is suitable to let the staff of the evaluated company know the objective and commitment from the parent company according to Ranft and Lord (2002). One way to establish a feeling of security and autonomy is to keep the name, logo, individual titles and other symbolic characteristics of the evaluated company, with low strategic influence for the parent company. For a successful integration of an evaluated company it is important for the employees of that organization to feel needed. If the parent company can point out the value creating properties of the acquisition in an early stage the people of the evaluated company feel more secure and open for cooperation (Rogers, 1995). Commitment to the evaluated firm by the acquirer could be shown by positive media about the evaluated company’s importance for the parent company, involvement and visits of parent company executives, encouragement of people from the evaluated company to visit and integrate with the parent company and promises of investments in training and development for the evaluated company and its employees (Ranft and Lord, 2002).
Another point of view comes from the work of Larsson and Finkelstein (1999). They believe that the greater the degree of interaction and integration between the two companies, the greater the synergy realization will be. Herein lies a problem. Should the management of the parent company preserve as much as possible of the original culture of the evaluated company or try to accomplish a greater level of integration? One way to deal with this problem is to start out by preserving most of the original culture in an initial state of the integration. As the integration process progresses the level of integration becomes greater with each cycle of the integration model. When new knowledge and experience are obtained, decisions regarding further integration can be made.

5.2.2 Knowledge sharing

Decisions regarding integration of information systems focus on retaining resources and capacities in line with the knowledge creating objective of the acquisition. Different IS have different business processes as a foundation which, on a deeper level, consists of different operating philosophies. If these philosophies are different it could be difficult to change and combine the two systems. When the two companies use IS to different extents, there might be a problem of integration due to diverse levels of information knowledge and experience. One of the companies has to adjust to the competence level of the other company (Wijnhoven et al., 2006). When deciding which IS integration strategy to use the conditions and characteristics of the two companies are considered.

Complete integration: Fully integrated systems are hard to create when acquiring a big company but can more easily be accomplished in smaller firms. If working correctly, it is the preferred choice. The complete integration can be in the form of a takeover of one of the IS which might lead to conflicts. The two companies often support their own system and the argument has to be solved without compromise in order to accomplish a takeover. One key factor in this process is not to think in terms of win and loose but instead to focus on the value for the company as a whole. In many cases the choice is quite easy, in case of one of the two systems being superior to the other. In this scenario fast integration is possible but no new systems or processes are created. There is a risk of loosing valuable system knowledge when completely abandoning one of the IS. Complete integration can also result in the building of
totally new system. This is a time demanding process but can be the best choice if the two IS are hard to integrate. After the building of a new system the work processes can be changed and altered in a flexible way.

Partial integration: The most beneficial parts of both IS are chosen for initial integration. The remaining parts are left and discussed at a later stage. This is a logical way to think and act when the acquisition process is difficult to overview. Partial integration is useful when integrating complex systems or big companies where essential parts of the IS have high priority for operations. Partial integration can be done in a number of ways and one of them is standardisation which creates a new combined system from the two previous ones but standardization is not necessarily a consequence of partial integration. (Wijnhoven et al., 2006)

Co-existence: The two companies leave their IS intact. Only a few communication bridges are implemented. This approach is fast and simple but promotes few possibilities for synergy and effective solutions. For correct handling of the information flow in the systems a new information entity is required, which has the function of a connection centre. The new entity handles the problems of synchronisation.

Knowledge sharing does not only involve IS but also the interactions of individuals. This sharing between individuals is not possible if employees with key competence and knowledge of the evaluated company do not stay with the company. To retain key individuals, Ranft and Lord (2002) suggest that the parent company can promote important employees of the evaluated company to the new executive team, in addition to communicating commitment and maintaining a sense of security. It may not be desirable to keep all previous managers in the evaluated company, for example if their work philosophies and procedures are not compatible with the parent company or if they are not effective or efficient enough by measures of the parent company. Promoting important employees could also help to retain other key individual from the original organization for commitment and symbolic reasons and also change the management team of the evaluated company in a suitable way. If new managers and executives of the evaluated company are promoted internally the risk is lower for the employees to feel overrun by the parent company. A suitable constellation of the new management of the evaluated company is a mix of managers from both companies. Managers from the parent company in the new management team of the evaluated company make sure
that knowledge is shared and the evaluated company is not isolated from the parent company. A successful way of mixing management teams is to let a single manager (or a few managers) from the acquiring company be a part of the new management team for integration but without interference and loss of autonomy and prestige of managers from the evaluated company (Ranft and Lord, 2002). In the case of sending a group of managers, they are more likely to be able to transfer the socially embedded knowledge from the parent company to the evaluated company (and later from the evaluated company to the parent company). The nature of the earlier knowledge and experience of the expatriate manager or the group are important (Hébert et al., 2005). An expatriate could have industry specific knowledge, local (in the case of international acquisitions) or integration experience.

![Diagram](image)

**Figure 3:** The curve shows the importance of mixing up management teams from both companies but not for the acquiring company to completely take over.

Hébert et al. (2005) explained the increased probability of survival for evaluated, Japanese companies based on several factors. The experience of the expatriate manager should be either industry specific or a combination of local and integration experience to support the survival of the evaluated company. Neither combination of industry experience with other types of experiences nor local/integration experience by them selves did help.
Mixing people at other levels of the two companies is also a way to create and transfer knowledge. Nonaka (1991) described that the creation of new knowledge starts with observation and imitation. This is a transfer of tacit knowledge. The employee might still not be able to express the knowledge in words explicitly. However the employee could be from the parent company and is afterwards able to further transfer and spread the knowledge upon the return to the parent company. Employees from the evaluated company could also by strategic rotation transfer tacit knowledge to the parent company. Visiting or working at the parent company can according to Risberg (2001) increase the feeling of commitment and involvement which prevents feelings of ambiguity among employees from the evaluated company. Lagerström and Andersson (2003) suggest that in the case of cross border and international acquisitions a transnational team of employees can be formed to exploit synergies while the two companies continue their operations as usual. The teams sharing and utilization of both explicit and tacit knowledge is increased by meetings and face to face contacts. There could be a language barrier in transnational teams. In such cases a team language should be chosen (usually English).

5.2.3 Action plan development

A critical question in developing the action plan is what level of autonomy that should be maintained in the evaluated company. If the evaluated company does not continue as a functional and operational unit the knowledge might be lost to a great extent. Certain differences in characteristics between the two companies are necessary to overcome by integration, and other characteristics are important to preserve, in order for the evaluated company to secure organizational tacit knowledge and continue being a well functioning unit. The action plan also determines which parts of the company to focus on, who stays in the company, who is recruited, who is involved in the change process and how the changes are carried out. All parts of the company do not have to change at the same time since overall autonomy is important, especially at an initial stage.

The first time the Integration model is applied, many change issues may be identified. Certain identified change issues are more critical and need to be carried out at an early stage of integration (as in the case of partial IS integration above). In this step it is important to
determine which changes should move on to the third step of the process and which changes should be left for later. Some issues can wait and some cannot.

5.3 Step 3 – Unfreezing (Preparing for change)

5.3.1 Communication

Before the action plan is implemented there are a number of preparations that can be done in advance. The unfreezing step deals primarily with communication. In order to make the change smoother, the people involved in the process are informed and coached prior to the change.

The communication concerning changes caused by the integration can focus on the synergy realization motive and the commitment of the parent company of the acquisition to potentially reduce employee resistance. Employees of the acquired company almost always experience a lack of communication from headquarters (Risberg, 2001). Especially in the case of cross border acquisitions, employees can feel a lack of communication due to a potential language barrier. Before the formation of cross border teams it is especially important for the members of the teams to know: the conditions, members, administration and language of the team. The team members undergo a substantial change of routines and need security to feel comfortable (Lagerström and Andersson, 2003). However, Larsson et al. (1999) explain how employee resistance could be less in the case of cross border acquisitions. An explanation could be that expectations for potentially extensive and radical changes seem less threatening in such a case. A main concern of the employees of the acquired company is loosing their jobs or a shut down of the whole company. Making the employees feel secure, communicating the commitment of the parent company and even having coaches from the parent company frequently visiting the acquired company and answering questions might make the employees avoid feeling left in the dark and less inclined to leave the company. When acquiring companies across borders, the coaches could preferably be locals with appropriate language and cultural skills. If employees are left in ambiguity, there is a high risk of them leaving the company. If there are misinterpretations concerning the information and integration there will
be feelings of ambiguity no matter how extensive the communication has been perceived by
the parent company. Strong or at least clear leadership is recommended in the beginning of
integration due to the uncertainties and ambiguities involved in change processes (Risberg,
2001). Hofstede (1983) stresses the importance of also relating the nature of the leadership
style to the national and organizational culture of the acquired company. Further, similarities
in leadership and management styles can reduce employee resistance for change and facilitate
the organizational integration (Larsson et al., 1999). Employee resistance could be devastating
for synergy realization. When communicating the synergies and gains for both companies the
acquisition and integration might seem less threatening.

Depending on how well defined the end result of the change process is, employee
involvement can be a useful tool for unfreezing. Being involved in the process and being able
to influence the outcome is motivating and can potentially reduce resistance compared to
when people are strictly told what to do in an change process. When the involvement of
employees is important for the organizational development and learning it might not be
desirable to erase all traces of ambiguity. Some uncertainties could be necessary to remain
flexible in the changing environment (Risberg, 2001). When implementing new routines and
systems, training is important both for the parent company to feel certain about the
competence of the employees of the acquired company and also for them to feel comfortable
and confident of there ability.

5.3.2 Power struggles

Gupta and Govindarayan (2000) describes how power struggles in organisations can make
managers of the parent company isolate the people of the acquired company and their
important knowledge as a shield of defence of power. The blocking can also be the result of
the parent company managers’ personal pride and ego.

This syndrome can be an obstacle to the information flow. Indications of this kind of
problems can appear in different ways: The quantity of information from the acquired
company’s knowledge stock is small or parent company managers steal new ideas and label
them as their own. For reasons of motivation it is preferable if the right people receive
acknowledgment and credit for their new innovations and ideas.
The research of Pitts (1974) has shown that a change can be made from a perspective of inferiority of the acquired company, to a network perspective. Focusing on the network, results in an increased knowledge flow. Managers of the acquired company get rewarded by having access to a wider network and have greater incentives to collaborate. If these managers, on the other hand, experience a lack of confidence of the integration process the perspective is more likely to be as an inferior part instead of an involved part in the network. In a situation like this when the acquired company feels inferior, chances are that information flows become monolateral and the parent company dictates conditions and orders, limiting the possibilities of gaining new knowledge from the acquired company.

5.4 Step 4 – Implementing the action plan

In this step the measures of the action plan are carried out. After the acquisition and realization of the action plan the conditions change for two companies. Some changes are due to conscious decisions of the integration and other changes could be new policies, actions of competitors and technology changes concerning production, innovation or information. Depending on the nature of the event, different cultural characteristics of the two companies are affected to different extents.

The arrow consisting of a broken line (in figure 2) illustrates a repetition of the integration model. The new situation is observed and evaluated, a new action plan is created (including previously identified change issues), a new unfreezing process is conducted and the new action plan is carried out. The integration model is seen as a learning process. Each cycle contributes with experience of cause and effect and results in increased organizational knowledge.

6. What have we learned about gaining new knowledge from acquisitions?

We have examined how companies seek new knowledge through acquisitions. By collecting information from three different field of research we have developed a four step integration
model. Through observation and evaluation about potential acquisition targets, the management team of the acquiring company collects information which works as a foundation for the action plan. Potential synergy and knowledge absorption are important conditions for the acquisition as well as compatible routines and systems as part of the organizational cultures. The action plan works at both the level of individuals and systems and contains elements such as incentives for employees of the acquired company to stay, introduction of systems for knowledge sharing and overall cultural integration measures detailed in time, people and parts of the companies. The two cultures in the form of both systems and humans have to be successfully integrated in order to gain new knowledge efficiently and effectively. Integration is planned according to a balance between thorough integration and the preservation of certain elements of the original cultures in order to achieve knowledge creation without destroying the precious tacit knowledge. Before implementing the plan, the employees are prepared and informed concerning the change and integration that follow after the acquisition. The preparations consist mainly of communication (especially about the synergy of knowledge creation), employee involvement and training to reduce employee resistance. Awareness of potential power struggles during preparation and unfreezing is essential in resolution of conflicts. When the action plan is implemented, the conditions and operations of the companies (especially the acquired company) change. Further and deeper integration can be achieved with multiple cycles of the model. In using the integration model greater experience and knowledge can be drawn from the process to form a foundation for future decisions concerning further integration and knowledge creation.

A comparison can be made between the integration model and the internationalization process (IP) described by Johanson and Vahlne (1977). Both the integration model and the IP describe procedures of systematic and stepwise learning. Our model involves technological knowledge and the IP deals with knowledge concerning foreign market knowledge. We believe that using models like these two as learning processes contributes to increased knowledge from experience. Comparing both models shows how stepwise learning can be used for several applications and different types of knowledge.

When a company seeks new knowledge about a foreign market, using the internationalization process enables the company to gradually learn about the market by committing investments and efforts to that market in steps. Each step gives the company increased experience and
knowledge about the country and the market. The internationalization process could for example mean that a company starts by exporting products to a country or market of interest. When gaining experience of local demand and conditions the company might take another step towards further internationalization by cooperating with a sales agent. The alliance could later lead to the acquisition of the agent resulting in a sales office as a part of the company. This type of acquisition would have the objective of expansion or increased market knowledge unlike of the objective concerning technological knowledge discussed in this study. Further steps could be to move production and even R&D departments to the foreign country. Each step enables the company to learn and gain new knowledge about the foreign country. The gradual international development helps the company from missing out on important new knowledge and from making the mistake of rushing ahead without reflection.

In the same way the integration model enables the parent company to gain new knowledge from the acquired company and through its products, employees, routines and systems. Similar to the way national cultures and markets differ, organizational cultures also differ. It would be a mistake to underestimate differences and take similarities for granted. Especially when cultures and markets initially seam to be very similar, it’s even easier to make such mistakes (O’Grady and Lane, 1996).

7. References


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