ROLE OF KNOWLEDGE TRANSFER IN ENHANCING FINANCIAL PERFORMANCE DURING MERGERS & ACQUISITION

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Abstract
M&As are essential components of strategic management since they provide firms with opportunities for increased market share, decreased competition, and new technologies. There are several factors that determine the success of M&As and one of them is knowledge transfer. This paper aims at discussing how knowledge transfer can be used in order to improve financial performance in context of M&As. It explores both the conscious and unconscious knowledge sharing and provides tactics for pre-acquisition planning and post-acquisition implementation to maximize organizational compatibility. In particular, the role of leadership, strategic planning, and technological tools are highlighted as the key mediators of effective knowledge transfer. However, it also demonstrates how efficient and proper knowledge sharing can enhance operational processes and positively impact overall financial performance. Some of the challenges affecting knowledge transfer are highlighted below: Culture, Organization, and Technology. These issues can hence be meaningfully addressed to improve post-merger performance within organizations. Finally, the paper provides some suggestions and proposes potential research streams for enhancing cross-cultural knowledge sharing and technology adoption in M&As.

Keywords: Merger & Acquisition, Knowledge Management, Knowledge Transfer, Financial Performance

Introduction

M&As are crucial tactical weapons that firms apply to extend business, penetrate into vaster markets or enhance economies of scale and scope from amalgamation of resources and competencies. In the recent past, M&A activities have emerged as a dominant strategy through which organizations can improve on their competitive positions and growth. Using M&A, Gaughan (2017) claims, is one of the ways by which the value of a firm can be augmented, boosting its market share and broadening the range of its products. Some of the critical issues arising from organizations mergers or acquisitions, therefore, arise from integration processes, which should be well handled appropriately.

One of the outstanding condition that needs special attention, which defines the success of M&As, is the knowledge transfer between the merging companies (Bresman, Birkinshaw, & Nobel, 1999). Knowledge sharing enables firms to harmonize its strategic plan with its goals, take advantage of resource complementarities, and avoid redundancy. It refers to the management activity that is aimed at the transfer of both the explicit and the tacit knowledge about know-how, know-what, know-why, and know-who, between the organizational units of the firm (Nonaka & Takeuchi, 1995). Failure of this exchange of knowledge may lead to culture mismatch, loss of core competencies, and M&As underperformance (Ranft & Lord, 2002). The authors established that ineffective knowledge transfer remains one of the major reasons of M&A failure with studies showing that up to 70 percent of mergers fail to deliver the expected financial performance (Weber et al., 2011).

Knowledge Transfer and Financial Performance

Professional updating is the process whereby the information of the acquired organisation is passed to the acquiring organization, especially in mergers and acquisitions. Due to the need to transfer knowledge, there is a sense of continuity and the possibility of minimizing gaps which originate with between the two organizations in terms of culture, structure and strategy that makes the merger process easier. The explicit knowledge, which can be described in words and easily documented and passed from one person to the other needs to be transferred through direct contact of the employees while the tacit knowledge which is the kind of knowledge that is difficult to transfer from one person to the other even when one has all the intentions of doing so has to be transferred through direct observation of how the employees go about their duties.

The effectiveness in transferring knowledge during M&A is positively associated with financial performance, which is the most common indicator of the success or failure of M&As (King et al., 2004). Valuable knowledge that accrues in the two merging firms may be retained and implemented by the merged firm resulting in cost efficiencies, better organizational flows, and actualization of synergies (Hitt et al., 1991). For instance, Ahern and Weston (2007) pointed out that the companies that managed value transfer channels effectively, including knowledge, enjoyed better stock performance and financial performance after acquisition in terms of higher profitability and market shares. This brings out the need to adopt knowledge transfer as a key factor contributing to the financial performance and sustainability.

Purpose of the Review

The purpose of this paper is to discuss how knowledge transfer can be used to improve financial performance in the context of M&As. Firstly, it will discuss previous research on knowledge transfer strategies and study how their proper application impacts financial performance. Therefore, with an understanding of the key success factors in knowledge transfer, this literature review aims at shedding light on how the M&A process may be managed for better financial returns.

Knowledge Management and Transfer as Factors in M&As

What is Knowledge Transfer?

In this case, knowledge transfer can be defined as the process of transferring explicit and/or tacit knowledge from one person(s) to another person or from one organization/department/team to other organization/department/team. It is formalised and non-ambiguous knowledge that can be transferred easily through writing for example, recipes, procedures, encyclopedias and files (Nonaka, 1994). Implicit knowledge, on the other hand, is rather individual and contextual, knowledge, containing different skills, experiences and insights that are difficult to express and communicate (Polanyi, 1966). Both forms of knowledge are useful in M&A because they allow the acquiring companies to institutionalize the acquired business, realize synergies, and adopt the best of both companies' practices.

In terms of M&A, this raises the issue of cognitive assets transfer, which is important because valuable knowledge is likely to be destroyed during the integration stage. To transfer knowledge, it is even harder because most of the time it lies within the minds of the employees and can only be transferred with the help of direct communication and interaction which makes use of socialization instrument (Inkpen & Dinur, 1998). Nonetheless, explicit knowledge such as that encompassing formal systems, databases and documentation are easier to transfer as it follows systems. Indeed, both forms of knowledge are crucial to post-merger success because they enable the new organisation to safeguard critical capabilities and adapt effective business practices (Szulanski, 1996).

Knowledge Transfer Phases

Pre-Merger: Matching Organizational Objectives and Recognizing Knowledge Assets

The pre-merger period forms the basis for the favorable transfer of knowledge as it is the first phase of the merger. In this phase, organizations need to ensure integration between tactical plans linked to strategic objectives and determine essential knowledge assets vital for organizations' success (Reus & Lamont, 2009). This entails the identification of all the knowledge in each of the organisations being sought to be merged, identification of which of these are valuable then ensuring that such is accorded high priority during the integration process. Firms that endeavour in proactive knowledge management practices during the pre-merger stage are likely to perform better in maintaining key capabilities during the post-merger stage (Sarala & Vaara, 2010).

The pre-merger phase is also the time when possible issues regarding differences in organizational culture and structure, as well as introduced systems, which can hinder the process of knowledge management, can be addressed by the leaders. These authors state that knowledge transfer success depends on the compatibility of organizational culture and structures in merging firms, as contended by Birkinshaw, Bresman and Hakanson (2000). Hence, it is critical that premerger planning aspirations should incorporate ways of forging cultural compatibility to enhance the transfer of both explicit and implicit knowledge.

Post-Merger: Integrating Media Knowledge into Operations for Enhanced Performance

Managing knowledge transfer post-merger is regarded to be one of the most difficult phases of the M&A process at large. In this phase, the organisational learning is implemented by integrating knowledge resources in order to enhance organisational performance. This implies not only the transmission of IT and documenting know-how; technical and operational procedures and standards but also stories as a form of communicating and transferring the uncodified knowledge through a direct contact or interpersonal interaction between the employees (Ranft & Lord, 2002).

Key knowledge-sharing management strategies that should be put in place include the use of cross-boundary training, cross-functional project teams, and knowledge-sharing platforms that facilitate the sharing of experiences between employees from the two organizations. According to Grant (1996), knowledge integration is the process where by firms create value from accumulated knowledge, and it is the firms that integrate knowledge well that are likely to report better financial returns. Lack of effective integration of knowledge has been depicted to lead to low organizational performance, inefficiency in organizational operations, and loss of competitive advantage among companies.

Outcomes of Knowledge Transfer

The key consequences that a proper knowledge transfer in M&As results in directly affect the organization's financial performance as discussed below. First, it can provide efficiency by acting as a benchmark to avoid duplication of efforts or processes across the merged entity for productivity (Bapuji & Crossan, 2004). Second, knowledge transfer reduces the development of duplicate resources and processes, which helps the organization to realize economies of scale (Hitt et al., 2001). Finally, knowledge transfer enables the development of innovations with improved performance, ensuring that competitiveness in the merged business entity improves, consequently leading to increased profitability and market share.

The key success factors in mergers and acquisitions as demonstrated in this paper include the effective transfer of both content and context knowledge. For knowledge management to be successful it should be shared and integrated so that organizations can attain best performance, hence minimized costs.

Knowledge Transfer Strategy and Practice

Merger: Pre-Synergy Factors and Knowledge Transfer Approaches

Strategic knowledge management prior to M&A underpins the effective knowledge management after the merger and acquisition has been completed. It has been observed that the early tactics related to knowledge transfer are essential for recognizing and protecting the important assets of knowledge. Such knowledge maps conducted before the merger help in a proper identification and categorization of the knowledge resources—both explicit and tacit—and their prioritization for transfer. The purpose of knowledge audits is to evaluate the current state of knowledge boundaries, experts and tools that are critical in the post merger organization. It reduces the chances of creating barriers to successful M&A integration, instances of which Schweizer (2005) has pointed out may arise where there is loss of critical organizational knowledge.

The process is highly dependent on leadership in these early phases. Managers must play a key role in promoting knowledge transfer and make it a priority in the organization to be achieved through the following approaches that are outlined below; This requires the engagement of the merging organizations' senior management so that it is possible to recognize and manage specific knowledge that is particularly important to the merged organization, especially the knowledge that many not be easy to write down and codify. Leadership is necessary for integration to occur and forestall such barriers as poor cultural match, lack of absorptive capacity, knowledge management which could affect performance.

Leadership Engagement in Knowledge Transfer

Generally, it is the leadership that plays the key role in ensuring that the environment is conducive for knowledge transfer during M&As. Angwin and Meadows (2015) posit that commitment to knowledge transfer is a critical success factor in mergers and that lack of such commitment results in merger failure. They ensure that knowledge sharing efforts get the go-ahead, organizational objectives are aligned with the transfer process and that all the resources including time, technology and training are provided. They also facilitate the reduction of cultural factors that might hinder sharing of knowledge between merging entities by enhancing the creation of a common vision and thereby enhancing sharing of information (Bresman et al., 1999). Managers who pay much attention to knowledge management and its associated processes create an environment that enables workers to participate more on issues of integration.

PMI Practices

Knowledge Repositories, Knowledge Champions, and Cross-Functional Teams

In the post merger stage there are certain practices which are necessary for timely and efficient transfer of knowledge in organizations. A typical example is the development of knowledge repositories which are centralized data bases where all the explicit knowledge that includes policies, procedures, standard operating procedures, manuals etc can be maintained and shared among the employees from both organizations (Davenport Prusak, 1998). These repositories are useful in order to keep important information safe and readily available while integrating.

Integration is critical for the transfer of tacit knowledge that is more often than not is harder to formalize. Through matching employees from the acquiring and target organizations, the creation of mentorship programs leads to transfer of expertise, knowledge, and practical wisdom (Polanyi, 1966). This not only facilitates the transfer of knowledge that are difficult to codify, but also fosters relationship-building which is a key determinant for the success of post-acquisition integration (Ranft & Lord, 2002).

Also, it is possible to have working teams comprised of people from the two merging organizations to handle certain issues arising during the integration process. These teams enable transfer of knowledge by cross pollination of knowledge between employees and these teams are specially effective when it comes to problem solving and innovation as they incorporate different types of knowledge as identified by Grant 1996. Multifunctional teams facilitate the exchange of both, express and implicit knowledge and ease the transition into the new structure.

Sharing of Knowledge: Communications Tools, Databases and Other Technologies

In regard to this, technology has a central part to play in enabling the effective sharing of knowledge during M&As, since employees shall be able to interact in real time using Common modes of communication including video conferencing, collaborative platforms as well as messages apps, among others suggested by Alavi and Leidner (2001). In additional, due to the implementation of the enterprise-wide KM system and knowledge database, the IK involves the creation of the 'repositories' where the ES can be shared and accessed by all the employees from both organisations – where the explicit knowledge sharing is taking the place, including, training materials, operation manuals, business intelligence etc.

These technologies assist in overcoming the geographical and organisational barriers and assists in transfer of knowledge within the new formed entity. Technology also enables constant update of information databases to provide employees with the latest information that can be useful in their work (Chaudhry & Higgins, 2001). This smooth integration improves post-merger integration and leads to operational efficiency and improved financial performance.

Knowledge Transfer: Tacit or Explicit

Approaches of Transferring Accumulated & Embedded Knowledge (for instance via Tutorship, Partnerships &c.)

As discussed earlier, knowledge that is contextualized and stored in employees' experiences is particularly difficult to transfer. Because of the non-codifiability of tacit knowledge, it dissemination occur through processes such as mentoring, joint problem solving and socialization (Nonaka & Takeuchi, 1995). The exchange of tacit knowledge can be achieved using mentorship tie where employees of one organization can teach their counterparts in the other organization (Inkpen & Tsang, 2005). Similarly, the use of project teams, workshops as well as cross trainings helps in encouraging the exchange of skills and knowledge among the employees of these two organisations in actual working teams (Grant, 1996).

Other formal and informal knowledge-sharing forums include team building activities and social interactions that may favours the exchange of tacit knowledge. Such interactions facilitate the development of trust & relationships that form the foundation of knowledge sharing among the employees and provides input for sharing ideas and skills (Nonaka & Konno, 1998).

Managing Documents, Manuals and Systems: Explicit Knowledge

While explicit knowledge is documented and systematic, it can be transferred relatively easily in merging organizations. Such knowledge can involve documents, manuals, procedures, and systems that provide the framework for any organisation (Alavi & Leidner, 2001). The transfer of explicit knowledge often entails establishing knowledge repositories or knowledge base where this kind of information can be shared and stored by the employees thus can easily be retrieved (Chaudhry & Higgins, 2001).

In the context of M&As it is important to tackle the issue of IS integration which will have impact on the business operations of both sides. This could entail aligning information technology platforms, integrating databases and synchronizing work processes of the merged business. Providing for easy retrieval of the broad knowledge ensures the continued productivity of the employees and also facilitates the merging of the two organizations' business processes.

Improved documentation and better-prepared databases should be maintained as significant steps in ensuring that crucial organizational information is not lost during the transition.

Assessing the Extent of Knowledge Transfer and Limitations to Knowledge Transfer in M&As

Essentials when Measuring for Knowledge Transfer Effectiveness

Evaluation of knowledge transfer in M&As is essential to assess the relevance of this process to performance of the merged firm. The difficulty is identifying which methods and indicators can best represent the process, and to what extent the knowledge has been incorporated and applied in enhancing the organization's performance. It is noteworthy that both qualitative and quantitative approaches are effectively used to evaluate the outcomes of knowledge transfer.

Quantitative Methods

Qualitative approaches involve numbers including financial data, productivity and employee turnover among others. One is the financial growth this can be assessed by measuring the revenues, sales margin and market share after the merger. It is hypothesized that better knowledge transfer leads to positive financial performance since better decision-making, better process manage-ment, and best practices can be exploited for financial benefits (Cloodt et al., 2006).

However, operational efficiency is another quantitative KPI that can be defined by cost, implementation of improvements, and time. Where knowledge transfer leads to operational synergies, the organization should see improvements on cost of production and increase in productivity (Bresman et al., 1999). Such enhancements can be reflected in the increase in specific kinds of KPIs associated with production schedules or costs per unit of produced goods, or any other indices tied to customer satisfaction.

Qualitative Methods

Qualitative methods include assessment of such aspects as employee turnover and innovation performance, which are the prerequisites for knowledge transfer. Keeping important human capital within an organization enables the organization to own advanced hidden knowledge. While EH knowledge is more general and therefore easier to transfer it is the TK that is more personal and grounded in individual experience that is essential to organizational learning as noted by Nonaka (1994). From the survey and interview, it is possible to determine the efficiency of the knowledge transfer and better understand the integration of employees to the new organization.

Innovation is yet another qualitative variable, based on the proportion of new products, patents, or better services developed after a merger. The study found out that knowledge integration has a positive association with creative and innovative environments; with integrated knowledge, comes new ideas and emerging ways of doing things (Szulanski, 1996).

Challenges in the Implementation of Knowledge Management

Nonetheless, there are challenges that hinder the process of knowledge transfer during M&As. These barriers can slow down the process of knowledge integration and lead to poor post-merger performance and financial losses.

Cultural Barriers

Another barrier that prevents efficient knowledge transfer in the context of merging organizations is cultural dissimilarities. It was also seen that companies with different corporate culture have expectations vary from each other, there would be a lack of proper communication and unwillingness to share information. Some workers could also refuse to embrace change since it shifts their identity or rank within the company (Marks & Mirvis, 2011). For instance, two organizational cultures such as the hierarchical culture and the knowledge-friendly/innovation culture are incompatible for using a KM system and thus knowledge-sharing practices can differ significantly between the two cultures making it difficult for the tacit and the external knowledge to be transferred (Bresman et al., 1999).

Technological Barriers

Another challenge is the extent to which there is limited technology to support knowledge management and sharing. The knowledge management systems of merging companies can be incompatible or their technological infrastructure can be less suitable for integration. It is often the case that when employees do not have access to the necessary tools like informational databases, collaboration and communication platforms, as well as other technologies needed to transfer knowledge from one domain to another, knowledge transfer gets disrupted and fragmented in the process resulting in development of knowledge silos (Schweizer, 2005).

Organizational Resistance

People do not like change and this is a typical attitude that becomes a challenge when it comes to knowledge transfer. The reason for such an attitude can be the desire to maintain power or job security because in M&As, positions are often different. This resistance can hamper cooperation and limit information sharing (Ranft & Lord, 2002). Furthermore, rules of hierarchy and compartmentalized working which are often entrenched in organizational structures can also negatively impact on knowledge transfer if there are no positive reinforcements to encourage employees to share knowledge across the organization.

Knowledge Transfer

Another severe challenge is the loss of knowledge during the M&A process, often termed as knowledge leakage. This can happen when employees, especially those possessing highly valuable implicit knowledge, resign from their positions during or after the merger due to uncertainly or dissatisfaction. If this knowledge is not properly communicated to those remaining or given to other organizations before these employees leave, this may have long-term effects in the future and negatively affect operational and financial performance of the organization (Argote, 2012).

Conclusion and Future Directions

Consequently, knowledge transfer may be deemed an essential segment of M&As since it shapes merged entitiy's financial performance and future sustainability. This shows that successful knowledge transfer requires a significant amount of planning, adequate leadership and the suitable application of technology instrumentalities in integrating both the tacit and the explicate knowledge. However, culture, technology; and organizational structures can become a source of massive hindrances to this process- this is where one needs to deploy strategies to enhance the ability to counter these barriers.

The findings of this research should be followed by the identification of additional strategies to reduce these barriers in cross cultural knowledge transfer environments. Further, development of technologic capabilities like the knowledge management applications utilizing the AI may offer another level of opportunities for the actual knowledge transfer procedures enhancement in terms of effectiveness and adequacy.

Based on these findings, organisations should consider advanced planning for audits, cultivating a culture that supports knowledge sharing and, last but not the least, provide appropriate resources in the form of technological tools. Addressing these core areas will help ensure optimum knowledge transfer in order to obtain the organizations' targeted financial performance for M&As.

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