

International Management
Master Thesis No 2000:31

**Contextualised View of Knowledge Transfer in
Mergers and Acquisitions**

A Case Study of Knowledge Intensive Companies

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ISSN 1403-851X
Printed by Novum Grafiska

ABSTRACT

The knowledge industry's rapid increase in mergers and acquisitions has been a way of gaining knowledge, seen as increasingly important for gaining a competitive advantage, relatively fast. However, many companies are experiencing problems in reaching the anticipated synergies, which is often explained as a result of cultural clashes in the merger integration.

The aim of this thesis has been to, in a case study, investigate the relationships between motives, integration, and cultural issues, and the impact exerted on the transfer of knowledge in mergers and acquisitions.

Our main findings show that the reasons for merging generally have been based on the same motives, the need of new competencies, and new markets. However, the level and speed of integration have to a large extent differed. Could cultural differences explain why some companies have integrated more slowly? We believe to have seen tendencies that point to the notion that the meeting of two cultures, through the disturbance of cultural clashes, could have a relatively substantial influence on the level and speed of integration.

The value of transferring knowledge in mergers and acquisitions was to a large extent related to its importance of realising the motives, confirmed in one of the cases. The remaining cases showed, however, that the cultures involved worked as a barrier for enabling the transfer of knowledge. Hence, transferring knowledge in mergers and acquisitions can become problematic, as people from distant cultural contexts have different ways of thinking, and communicating. We, therefore, realised that knowledge transfer cannot be seen as the transfer of a commodity, but as a mental learning process, dependent on the cultural context in which it is conducted.

Keywords: transfer of knowledge, mergers and acquisitions, culture, motives, integration, learning, Activity theory, context

ACKNOWLEDGEMENTS

We would like to thank the people in the case companies for taking the time and letting us interview them. Angela Ström and Håkan Steenberg at Mind, Kjell Jöfelt and Bo Jangvik at Framfab, and Susanne Johansson and Jonas Leffler at Adera.

We are also grateful to Jerker Sundqvist at KPMG for sharing his thoughts and experience of Mergers & Acquisitions.

Many thanks go to Professor Torbjörn Stjernberg for helping us with the preparation and writing of the thesis. Thanks also to Stefan Tengblad, who supervised many a battles in the PBL process. And thanks to Noor, our light at the end of the tunnel shining brightly.

Last but not least, many thanks to our tutor Dr. Axel Targama, who set us off on the 'Knowledge Trail', some thirteen months ago. With his hints and advice we managed to keep on track and to finish our thesis.

Göteborg, December 2000

Andreas Ring
Helena Öfverström

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1 INTRODUCTION

The aim of this chapter is to highlight and explain the issues that will be discussed in the thesis. Subsequent to the presentation of the problem area and research questions, the methodology used to investigate these issues will be presented.

1.1 Background

The fulfilment of a company's objectives and strategies is dependent on the company's ability to control and manage its assets. For the product-based industry that was previously most common, this control process was fairly uncomplicated, since the assets to be controlled were generally physical, with a value easily measured (Bertells and Savage, 1998).

Today, however, an increasing amount of companies are engaged in industries where the end products are not physical, but rather in the form of services or knowledge. These companies, which are generally referred to as *knowledge intensive companies* are, according to Alvesson (1992), characterised by a high level of problem solving and non-standardised production, a high dependency on individuals, a high level of education among employees, and a strong reliance on the loyalty of key personnel. Nevertheless, this evolution has led to knowledge being proclaimed as companies' most important asset (Alvesson, 1992). Consequently, knowledge is more and more being seen as the foundation for gaining competitive advantage, which has resulted in the creation of a market where the access to certain types of knowledge is the commodity.

As a response to this, according to Torre-Encisco and Garcia (1996), there has in the last few years been a rapid increase in mergers and acquisitions. This activity can be observed in all types of industries, but has taken on a greater proportion in the knowledge intensive industries. Enhancing the knowledge base of the firm is often depicted as one of the most important reasons for merging, where the end goal generally is to improve the position in the market (Torre-Encisco and Garcia, 1996).

In order to take advantage of the knowledge synergies that are made possible by the merger, however, best practices must be transferred between the two organisations. According to Lahti and Beyerlein (2000), in order to enhance company performance, key knowledge must therefore be able to be shared, disseminated, and used on a company-wide basis, so that it becomes a potential asset.

At the same time, the transfer of knowledge may be seen as dependent on the people within the organisations. Mergers and acquisitions therefore increase the complexity of knowledge transfer since it results in the meeting of different languages, beliefs and values. Hence, cultural differences could disturb the process of transferring knowledge, and therefore also the success of the merger.

1.2 Problem Analysis

Conducting mergers and acquisitions is a delicate process, where many variables are at stake. These variables have an important impact upon companies' finances, future success, human careers, and personal lives. But the desired outcome of this sensitive and complex process is, according to Haspeslagh and Jemison (1991), that mergers and acquisitions can help a firm renew its market position at a speed not achievable through internal development. Furthermore, they can provide an ability to gain all the benefits from combining assets and sharing capabilities in a way not obtainable through partnerships.

Mergers and acquisitions have been reoccurring at regular intervals over the last decades, but the motives for merging have not stayed constant over time. The mergers conducted in the eighties, for example, were mainly based on rational assumptions of benefits such as economies of scale, profitability, and return on shares (Torre-Encisco and Garcia, 1996). The current merger boom in the Swedish IT sector, on the other hand, can to a large extent be explained by relating to the possibilities of getting access to certain competencies that are deficient in the organisation (Torre-Encisco and Garcia, 1996). This is supported by Bresman, Birkinshaw, and Nobel (1999), who state that a key reason for acquisitions today is to gain access to knowledge in the acquired company, and to transfer that knowledge to other parts of the firm.

In order to reap all the benefits of the merger or acquisition, however, a carefully administered integration process is needed. The integration process, according to Haspeslagh and Jemison (1991), involves sharing operational resources, and transferring functional and general management skills. The way in which the integration is managed and conducted is therefore highly dependent on the motives of the merger, hence, different motives will put different demands on integration. Kleppestø (1993) supports the latter by saying that the level of integration in mergers and acquisitions is determined by the merger motives and the eventual synergy potential incorporated. For example, it is natural to assume that if the motives are based on the possibilities of enhancing the knowledge base of the firm, as is common in the IT sector today, high demands on integration of people are necessary. On the other hand,

if an investment company buys another firm to be part of their portfolio, a low level of integration can be expected.

What many acquiring firms have discovered, however, is that the integration, and therefore also the transfer and utilisation of knowledge through acquisitions, can be a difficult task (Haspeslagh and Jemison, 1991). Bresman et al. (1999), state that while transfer of knowledge between departments or sister units is far from trivial, it is clear that the problems associated with transfer will increase with cultural distance. Cultural clashes between joining firms are suggested to be a prevalent phenomenon in mergers and acquisitions, with many negative effects like losses of identity, morale, loyalty, key personnel, and productivity (Larsson, 1990). Cultural clashes, in turn, are attributed to differences between the joining firms' organisational cultures. The extent to which cultural differences can pose threats to the merger process is highly dependent on the level of integration, which is determined by the merger motives.

At the same time as cultural differences will have an extensive impact on the integration, it is only through integration the companies can deal with these differences. For example, it is possible to assume that if the cultural differences are considered as very large, the companies could choose to merge with a relatively low level of integration to avoid cultural clashes, or, the companies could choose to deal with the cultural differences by engaging in frequent informal meetings and discussions about each other's cultures in the integration.

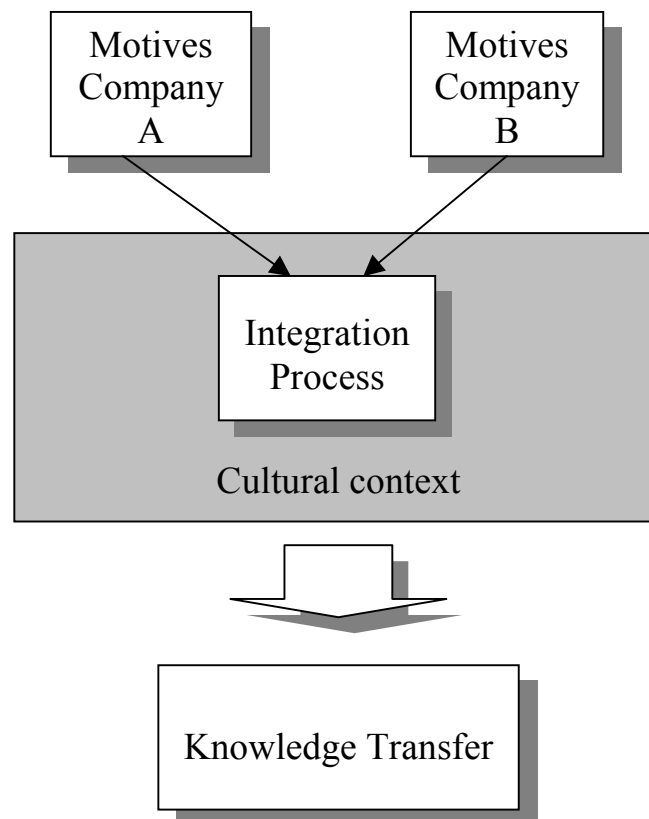
Hence, all these variables, i.e. motives, integration, and culture, will affect the knowledge transfer. The transfer of knowledge in mergers and acquisitions can here be perceived as an outcome of the integration, including for example changes in routines and ways of working, or the transfer of skills that are needed to solve certain problems. The transfer of knowledge should however not be seen as the end goal, but should instead be seen as a way to create value through integration.

To summarise, the type and amount of knowledge that is relevant for transfer can be related back to the motives of the merger or acquisition, as the motives set the ground for how the integration should be conducted. Furthermore, the integration, and therefore also the transfer of knowledge, is influenced by the cultural context in which it is conducted. In mergers and acquisitions, this context is characterised by the meeting of two cultures, which could include different values, beliefs, and ways of understanding things. Hence, as a barrier to the transfer of knowledge lie the cultural differences of the joining firms,

which could affect the willingness to share, the trust between employees, and the general perceptions of each other as individuals.

The relationships described are illustrated in Figure 1:1 below, which will be used as a framework for the analysis in this thesis.

Figure 1:1. The Transfer of Knowledge in Mergers and Acquisitions



Source: Authors' own model.

In the model, the transfer of knowledge is seen as an outcome of the integration. The required level and type of integration, in turn, are influenced by the motives of the merging firms. At the same time, all interactions in the integration process are influenced by the cultural context in which they take place, characterised by the meeting of two cultures. Hence, this will ultimately affect the transfer of knowledge.

1.3 The Aim of the Study

The aim of this thesis is to study the merger processes of three knowledge intensive companies. This will be done with the purpose of analysing how the relationships between merger motives, integration, and culture affect the transfer of knowledge in mergers and acquisitions. As the relationships between these variables are established, we aim to find an approach by which one can understand the value created by the transfer of knowledge in mergers and acquisitions.

1.4 Research Questions

In order to be able to fulfil the aim of this study, several questions need to be answered. The research questions of this study can be defined as:

How do the motives influence the merging companies' way of integrating?

How does the meeting of two cultures influence the ability of merging companies' to conduct this integration in an effective way?

How can the value created by the transfer of knowledge in mergers and acquisitions be explained by relating to the above two issues?

1.5 Methodology

1.5.1 Case Study

This thesis is based on a qualitative case study of three knowledge intensive companies based in the New Economy (for more information about the case companies, see page 10). According to Yin (1994), a case study is research that has the purpose of generating a general understanding of a specific phenomenon. The study aims to result in a new understanding and the identification of new relationships, rather than verifying presumed hypotheses. This description goes in line with the research conducted in this thesis, as our study is aimed at achieving an enhanced insight in the relationships between key factors, which characterise a specific phenomenon.

Hence, conducting a qualitative case study is in this case motivated by the fact that the investigation of the problem and the fulfilment of the purpose are dependent on a deeper understanding of the phenomena, than that which a more quantitative study would permit.

We would like to further point out that the mergers studied are relatively recent, ranging from one to two years of age. Therefore, the study of merger integration will be limited up to this moment in time. This means that the time spectrum for which we will be able to receive information about merger integration does not cover all integration processes, as these processes can continue for many years. Furthermore, we are not aiming to speculate in their development over time. Neither does the study contain criticism or advice as to how companies should act in mergers. Instead, we will try to get a better understanding of how certain relationships work together, which will be based on the empirical data we have been gathering, together with theory.

What also has to be noted is that one of the cases studied concerns a merger, while the other two concern acquisitions. The aim is however not to emphasise the differences between these forms of combination. This is since, on most essential issues, both forms of combination pose the same problems and issues.

1.5.2 Data Collection

According to Lantz (1993), an interview is often the easiest way to acquire information concerning a person's perception or attitude towards a phenomenon. Our empirical primary data consists of six interviews in total, specifically two interviews at each merger case. We aimed at trying to interview one person from each respective company, however, at one of the merger cases this attempt failed and we instead interviewed two from one of the merging companies, the acquired company. The people we interviewed all had positions within top management, who all had connections to the integration phase of the company.

However, even though the respondents can be believed to have a deep insight into the issues discussed, one must be aware that they are only observers of reality and that their opinions should not be considered as company policy. Some issues discussed during interviews, and used in our empirical presentation, are however less dependent on subjective meanings. For example, information about how the integration was conducted is less dependent on subjective meanings than information about how employees in general have perceived the culture of the merger partner. In order to deal with this, we will in the presentation of the empirical findings try to make clear when the information to a large extent concerns one person's subjective meanings, i.e., when the possibility that other respondents could have viewed the phenomenon differently is high.

We will also try to compare the answers made by the respondent to what has been written in the press concerning the issues discussed. Primarily, this

concerns the issues of merger motives and cultural differences, as this is what generally has been discussed in the press. Nonetheless, this procedure could be seen as an attempt at, to some extent, trying to improve the validity of the empirical findings.

Another problem concerns how to receive, and interpret, relevant information about issues that deal with the transfer of knowledge. An obvious dilemma here, as it may seem, is that it is hard to empirically identify knowledge being transferred. An important part of the research, therefore, has been to find a way to deal with this issue. As a result, we have been able to identify two major variables that can be used as indicators of knowledge transfer. *First*, since the transfer of knowledge can be seen as an outcome of the integration, the changes in the organisations, which are the result of the integration, can be used as a denominator of transferred knowledge. *Second*, the extent to which people from the merging companies have interacted with each other can be seen as a denominator of the extent to which conditions for knowledge transfer have been created.

A similar problem concerns the study of organisational cultures, as it may seem hard to empirically find evidence that can be used to give a valid picture of an organisation's culture. However, what one can do is to study issues that help constitute a culture, for example, age, routines, ways of working, experience, or structures. Furthermore, it is always possible to let the respondent give their view of issues such as values, attitudes, and beliefs. What also has to be mentioned is that we aim to investigate cultures on a general organisational level, i.e., we will not discuss issues such as subcultures.

1.5.3 Interview Technique

The interviewing technique used in the investigation is based on questions that are relatively open. The interviews of the investigation are formulated with a few general questions, providing a foundation for a discussion concerning the phenomenon in question. Not having the interviews based on *completely* open questions is motivated by the fact that it gives possibilities of delimiting the respondent to issues relevant to the study. This would mean that the risk of having completely open questions is somewhat curtailed, diminishing the possibility of getting answers of little relevance to the subject posed. A more structured interview, on the other hand, would require more quantitative questions, which give less room for the individual to describe his or her perception of the phenomenon. For more detailed information about the issues discussed during interviews, see Appendix – Interview Guide.

1.5.4 Role of the Researchers

In our role as researchers we have tried to convey the information acquired in the interviews as truthfully as possible. However, just as the interviewees are observers of their reality, so are we. Thus, the interpretation of gathered information is also based upon subjective values. But still, an investigation into subjective views means that the reliability and validity of the results must be discussed, not based on whether the sample is representative for the population, but on whether the results are comparable to the source, and this we believe that we have accomplished.

1.5.5 Use of Theories

A central issue in this thesis concerns the fact that it is based on the combination of three widely different theoretical frameworks; knowledge, culture, and mergers and acquisitions. Both culture and knowledge have been discussed, by other authors, in relation to mergers and acquisitions, albeit all three areas have not been combined to a large extent. This is however not seen as a problem, but should instead be regarded as an important part of the thesis, and as an attempt to use the theories in a new way.

Furthermore, not much research has been conducted in the area of knowledge transfer in mergers and acquisitions. However, two approaches are closely connected to this area; the process perspective (see e.g. Lindgren, 1982; Shrivastava, 1986; Haspeslagh and Jemison, 1991) and the acculturation perspective of mergers and acquisitions (see e.g. Berry, 1980; Sales and Mirvis, 1984; Nahavandi and Malekzadeh, 1988).

In this thesis, both these approaches will be used in order to get a better understanding of the transfer of knowledge in mergers and acquisitions. The process perspective of mergers and acquisitions will be used because of its way of connecting the motives with the integration, and with the value created by the merger. This approach therefore sees the motives for merging as mainly rational, depending on cause and effect relationships between different variables. The acculturation approach will be used because of its attention given to issues that can influence the integration process negatively. Furthermore, it is reasonable to assume that more attention must be given to cultural issues in the knowledge intensive industries, if the motives are to be reached. This is since the knowledge of individuals is dependent on the context and the atmosphere in which it is to be used or understood, giving culture an important role. The acculturation approach to mergers and acquisitions, therefore, will here be used in parallel with the process approach. Hence, the major prerequisite for this procedure is our assumption that both these

approaches include issues that are important in order to understand the transfer of knowledge in mergers and acquisitions.

1.5.6 Case Companies

1.5.6.1 Mind – Innovative

Prior to the merger, Mind (Mind Improvement Group) consisted of around 30 employees who worked relatively autonomously. The company worked as a management consultancy firm, which conducted projects mainly in the IT area, but also in the areas of change management and logistics. The company was founded by Jörgen Larsson and was situated in Stockholm.

Innovative (Innovative Media Consulting), on the other hand, had around ten employees at the time of the merger, and was founded in Gothenburg in 1995 by four people. The business focus was to construct homepages.

The merger was conducted in March 1999, and following that, the company took the name Mind-Innovative. In September the same year, however, it changed the name to Mind. Today, the company has around 500 employees, and describes itself as an Internet consultant specialising in the building and development of Internet portals, and services connected to this area. Strategic consultations, change management, traffic management and support, are examples of additional services.

1.5.6.2 Framfab – Guide

Framfab was founded in 1995 (then Framtidsfabriken), and was before the merger an Internet consultancy firm. The business idea was, through strategic advising and digital services, to create new business in the network economy. At the time of the merger, the company consisted of around 735 employees.

Guide was a strategy and IT consultancy firm, and had at the time of the merger around 750 employees. The company's business focus was to build and implement business development and technical systems, and the competence areas included Internet, Knowledge Management, IT efficiency, wireless communication, and technical infrastructure.

The offer from Framfab to acquire Guide was announced in December 1999, and the acquisition was finally conducted in January 2000. After the acquisition, Guide took the name of Framfab.

1.5.6.3 Adera - Astrakan

Adera was established in Gothenburg, 1983, as a traditional business-to-business agency, which prioritised internal marketing, PR, and trademark know-how. In 1997, it was decided to integrate the activities in traditional and new media, thus creating an 'integrated IT agency'. With this as its platform, Adera has focused and expanded its business over the last two years. At the time of the merger, Adera had around 150 employees.

Astrakan (Astrakan Strategisk Utveckling), on the other hand, was a company that focused on object oriented systems development, i.e., the modelling of IT systems. Astrakan consisted of around 60 employees at the time of the merger.

Adera acquired Astrakan in January 1999, after which Astrakan took the name of Adera. To emphasise that a new Adera, with a new alloy of competencies, had emerged, it was decided in the autumn of 1998 to change the logotype and graphic profile. Astrakan's arrival was emphasised by combining the Adera logotype with a plus sign, to show that it is in the integration of different competencies that greater customer value is created.

1.6 Disposition

In order to make it easier for the reader, we decided to begin our thesis with the theoretical framework to subsequently present the results of our findings. Lastly, the analysis of our theory and case study findings will be presented before the conclusion.

Chapter 2-5, Theoretical Framework:

In Chapter 2, 'Mergers and Acquisitions', the motives for merging and the following integration process will be discussed. In Chapter 3, 'Cultural Issues in Mergers and Acquisitions', the issue of organisational culture will be explored, together with how it could effect the integration process of merging companies. Chapter 4, 'Knowledge Transfer' contains a general explanation of the concept of knowledge transfer, but also a discussion of what it means when put in relation to mergers and acquisitions. While Chapters 2-4 mainly concern the content of the variables in the research model, Chapter 5, 'Theoretical Discussion', concerns the relationships between these variables. Hence, Chapter 5 could be seen as an analysis of the previous chapters.

Chapter 6-9, Presentation and Analysis of Empirical Findings:

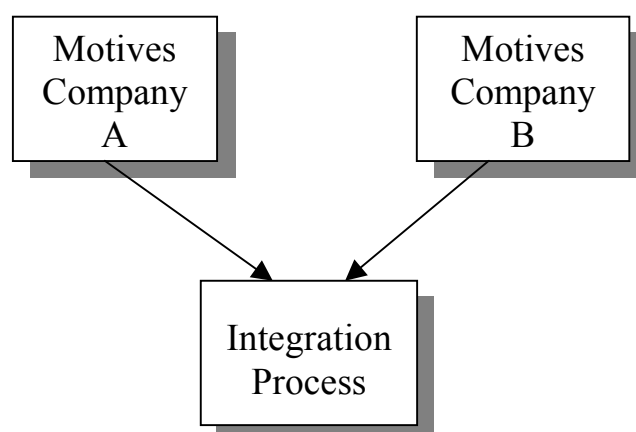
In Chapter 6, 'Results', the findings from the cases studied will be presented, and the found patterns will be revealed. These findings will then be used in

Chapter 7, ‘Discussion and Analysis’, to answer the research questions posed. In Chapter 8, ‘Reflective Discussion on Knowledge Transfer’, we will try to find an approach by which we can explain the results of the previous analysis. Our conclusions, lastly, will be presented in Chapter 9.

2 MERGERS AND ACQUISITIONS

This chapter concerns the first two variables in the model presented in the Problem Analysis, i.e. the merger motives and the integration process (see figure 2:1). As was earlier made clear, the transfer of knowledge in mergers and acquisition can be seen as an outcome of the integration, while the merger motives have a large impact on how the integration should be conducted. The purpose of this chapter is therefore to investigate in what situation, and why, knowledge is transferred in mergers and acquisitions. The motives can here be said to answer the ‘why’ question, while the integration composes the situation in which knowledge transfer takes place. What also should be noted here is that this chapter mostly concerns the content of the boxes in the model below, while the relationship between them will be more closely examined in Chapter 5, ‘Theoretical Discussion’.

Figure 2:1. Merger Motives and Integration



Source: Authors' own model.

In the last ten years merger and acquisition has become a worldwide growth industry, despite the seemingly high risks attached. For, although the opportunity to merge or acquire is presented to shareholders as a strategy for wealth creation, it is estimated that more than half of all mergers and acquisitions prove financially unsuccessful (Cartwright and Cooper, 1992). However, not all mergers have the preliminary goal of improving financial results, but also to, for example, enhance the knowledge base of the firm or to reach new market segments, indicating that it is not possible to give a universal and general answer to why companies merge.

What also has to be mentioned is that most mergers are controlled by multiple motives rather than by a single one. This is derived from the notion that several parties are involved, each with different motives and objectives. Furthermore, the motives are not always consistent over time, but rather shift, change character, and priority in the course of events (Torre-Encisco and Garcia, 1996). The purpose of the next section, therefore, is to reveal the most common reasons as to why companies choose to merge, which is necessary in order to later be able to investigate how different motives require different levels and types of integration.

2.1 Motives for Merging

Goldberg (1983) reviews the motives for merging with other companies, saying that generally, these motives are discussed in terms of economic rationality, i.e. that man will do what seems to him to be appropriate in order to further his own economic interests. Consequently, motives are reflected by variables such as size and growth, economies of scale, profitability, return on shares, market share, and market power. This rational view of motives for mergers and acquisitions is supported by Cartwright and Cooper (1992) who recognise that mergers and acquisitions generally are considered to be rational financial and strategic alliances, made in the best interests of the organisation and its shareholders.

Furthermore, according to Napier (1989), the literature on merger motives generally draws the distinction between 'financial or value maximising motives' and 'managerial or non-value maximising motives', although, in practice, the two are often related. Mergers are considered to be initiated by *financial* or *value maximising* motives when the main objective is to increase shareholder wealth and financial synergy through economies of scale, transfer of knowledge and increased control. *Managerial* or *non-value maximising* motives relate to mergers that occur primarily for other strategic reasons, e.g., to increase market share or management prestige, reduce uncertainty and restore market confidence.

Larsson (1990), on the other hand, gives more room for non-rational motives to be important, as he divides the merger motives into three main groups: economic, organisational, and personal. Typical economic motives are; the striving for large scales, transfer of experiences, and market related potentials. Organisational motives concern survival, partly by buying instead of being bought, but also by spreading risks. Personal motives, then, concern the obtaining of personal rewards, for example for expanding. According to this

typology of merger motives, personal and, to some extent, organisational motives are based on non-rational assumptions.

Whether the actual motives are the ones that are expressed officially, and used to persuade the different stakeholders is however not certain. Kleppestø (1993) states that regardless of the factual motives, the merger will officially be motivated in terms of for example growth, structural rationalisation, or the spreading of risks.

However, these motives are not completely static over time, but rather change in parallel with changes in the market environment, and with the emergence of new industries. According to Torre-Encisco and Garcia (1996), what was common for the mergers conducted in the eighties, was a belief in rational assumptions, which then was reflected by motives such as economies of scale, and growth. A natural assumption would be that some rational motives, such as economies of scale, are easier to achieve, and also more important, in older industries than in knowledge intensive companies. For example, it is reasonable to assume that it is easier to rationalise the use of machines, than to rationalise employee's use of knowledge. Motives, therefore, do not only change over time, but also vary between different industries.

In the knowledge intensive industries today, as compared to older industries, the motives for merging are, according to Torre-Encisco and Garcia (1996), commonly expressed in terms of reaching a position strong enough to being able to influence the market. Enhancement of the knowledge base of the firm, consequently, is by some people seen as both the means and the desired outcome of mergers with this purpose, as new knowledge gives access to new markets. In line with this, Bresman et al. (1999) state that the knowledge management literature now has started to mention the potential of acquisitions as a means of gaining access to new knowledge. Hence, a key reason for mergers and acquisitions today is to gain access to knowledge in the acquired company, and to transfer that knowledge to other parts of the firm. In particular, since the speed of competition in newer industries has made organic growth seem excessively time-consuming, many managers have come to consider acquisition to be an attractive means to expand a firm's knowledge base quickly (Bresman et al., 1999).

Nevertheless, the motives will ultimately have an important impact on how the companies' choose to integrate. In line with this, Kleppestø (1993) states that the level of integration in mergers and acquisitions is determined by the merger motives and the eventual synergy potential incorporated. For example, if the realisation of these synergies (expressed in terms of motives) requires joint customer solutions, or extensive communication between the two parties, a

high level of integration will be necessary. On the other hand, if the merger is based on the motives of for example spreading risks, the required level of integration will be low. However, even though the motives for merging differ, they are generally based on the potential of reaching some type of synergies. The road from synergy potential to synergy realisation, then, is constituted by the integration of the merging firms.

That the motives will automatically be reached is therefore not to be taken for granted, but is instead to a large extent dependent on how the merging firms manage the interactions in the post-acquisition phase. This phase, which generally is referred to as the integration process, is according to Haspeslagh and Jemison (1991) the key to making mergers and acquisitions work, and they continue by saying that value cannot be created until the two firms start to work together. Before companies can start to think about reaching positive outcomes, therefore, the problems and risks that are concerned with the integration of the two companies have to be considered and managed.

In the next section, we will try to reveal what transfer of knowledge means when it is put in relation to mergers and acquisitions. Clearly, mergers and acquisitions put the transfer of knowledge in a new perspective, being seen as an outcome of the integration of two firms. At the same time, it is a situation where it becomes very visible that knowledge transfer is a central matter. This is since, as we just have seen, many companies, especially in knowledge intensive industries, seem to merge with the main motive of enhancing the company's knowledge base.

2.2 Integration Process in Mergers and Acquisitions

The integration process may be described as the period in which the attempts to create synergies are taking place, a process which may take many years (Bresman et al., 1999). Marks (1982: 38) suggests that the integration phase "... is best considered as an open-ended period that extends to include any change in the people or systems involved that is attributable directly or indirectly to the merger. Some results of a merger or acquisition may not be apparent until a few years following the combination".

The most relevant theory concerning merger integration is, according to Bresman et al. (1999), the so-called 'process school', which is concerned with the creation of value through post-acquisition integration (see e.g. Lindgren, 1982; Shrivastava, 1986; Haspeslagh and Jemison, 1991). This theory's main contribution here is its ability to illustrate the relationship between integration and knowledge transfer.

The transfer and utilisation of knowledge through mergers is, according to Haspeslagh and Jemison (1991), contingent on a successful integration of the acquired unit. Although managers acknowledge the importance of the integration process, negotiators often bypass detailed discussion of integration because of its uncertainty, its complexity, and because of other pressures during the decision process. Moreover, the meaning of integration depends on the type of acquisition, who gets involved in the process, and the types of capabilities to be transferred (Haspeslagh and Jemison, 1991). In their research, however, Haspeslagh and Jemison found a common set of elements in the integration phase that remained the same regardless of acquisition type or differences in integration needs. These are the sharing of operational resources, the transfer of functional skills, and the transfer of general management skills.

1. Operational resource sharing:

The value is in this case created through economies of scope or scale. Examples of integration activities include combining sales forces, sharing manufacturing facilities, trademarks, brand names, office space, or distribution channels. The rationalisation associated with resource sharing, however, involves major organisational trauma. Therefore, in order to create value, the benefits of sharing must outweigh these hidden costs of compromise.

2. Transfer of functional skills:

The primary challenge and long term source of value creation in acquisitions is often the effective transfer of functional skills between the firms. In all cases, such a transfer of skills is neither immediate nor easy because it involves a process of both teaching and learning before the skill can be transferred. Strategic capabilities, especially skill-based ones, are difficult to imitate because they are embedded in the skills of a group of individuals and in the procedures and cultures of firms. For example, an acquisition intending to improve a firm's product development capabilities will often require an extended period of learning on the part of the firm receiving the capability.

3. Transfer of general management skills:

When general management skills are transferred, the managers of one firm (typically the acquired firm) are influenced on the general management issues of strategic direction, resource allocation, financial planning, and control, or human resource management. This influence can be exerted through subtle coaching, direct involvement, or imposition of systems.

In summary, each type of capability transfer involves different challenges. The process of capability transfer is complex because beyond simply giving or sharing resources or assets, it necessitates complex learning by both firms (Haspeslagh and Jemison, 1991). It is because of the complexity of such

learning that the context and atmosphere in which this strategic capability transfer is to take place become so important. This context and atmosphere can be said to consist of the organisational culture underlying the values, beliefs, and attitudes influencing the learning. In the next chapter we will therefore investigate how the meeting of two cultures could affect the integration process of merging companies.

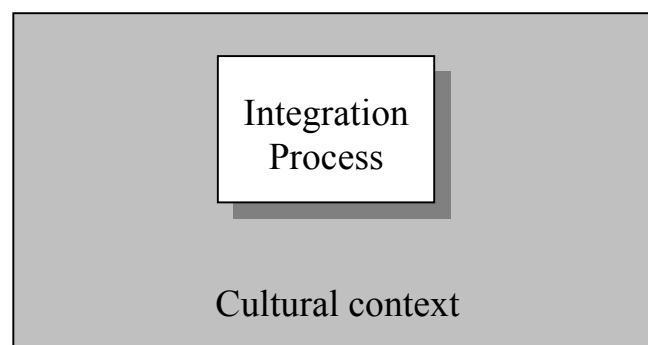
3 CULTURAL ISSUES IN MERGERS AND ACQUISITIONS

We have previously shown in the thesis that merger motives have an impact upon how the integration process will take shape, however, other variables such as culture will influence the integration process. This chapter aims to investigate the impact cultural issues have on mergers and acquisitions.

A related body of literature has looked at the acculturation process (e.g. Berry, 1980; Sales and Mirvis, 1984; Nahavandi and Malekzadeh, 1988; Larsson, 1990) when two different organisations are brought together. The essential contribution of such studies to the current work is that knowledge transfer between the merging organisations is dependent on the development of a co-operative relationship. Bresman et al. (1999) state that while the transfer of knowledge between departments or between sister units in the same country is far from trivial, it is clear that the problems associated with transfer will increase with geographical and cultural distance.

By relating to the model presented in the Problem Analysis (see Figure 1:1), this part therefore concerns the cultural context in which the integration takes place (see Figure 3:1) Hence, the main purpose of this chapter is to investigate how the meeting of two cultures affects the integration process. Before this is investigated further, however, the concept of culture will be introduced.

Figure 3:1. Culture's Affect on Integration



Source: Authors' own model.

3.1 Organisational Culture

According to Schein (1992), the word culture has many meanings and connections. Most people have a connotative sense of what culture is but have

difficulty defining it abstractly. To make matters worse, the concept of culture has been the subject of considerable academic debate in the last few years, and there are various approaches to defining and studying culture.

According to Nonaka and Takeuchi (1995), studies of organisational culture have been able to shed light on the organisation as an epistemological system. Furthermore, it has been recognised that the organisation, as a shared meaning system, can learn, change itself, and evolve over time through the social interaction among its members and between itself and the environment. This view of culture is similar to what Alvesson (1992) refers to as the cognitivist view of culture. Culture is then not seen as a material phenomenon, i.e. it is not seen as constituted by things, people, actions, or emotions. Instead, culture concerns the organising of these elements, in that it is something that people have in their conscious mind, in their models for perception, and use to relate to and interpret phenomena.

However, there are also other perceptions of how culture should be regarded. One view sees it as a symbolic system, where culture is defined as a system of symbols and meanings that are held in common. Another view of culture sees it as a means or as a power instrument, where issues such as validity and legitimacy of different views of reality are concerned.

A more general view of culture is, however, provided by Schein (1992). He recognises the fact that the commonly used words relating to culture, expressed in different views of culture, have something in common; the idea that certain things in groups are *shared or held in common*. The major categories of such evident phenomena, that are associated with culture in this sense, are for instance: values, ideological principles, shared meanings, embedded skills, and climate.

All of these concepts relate to culture and/or reflect culture in that they deal with things that group members share or hold in common, but none of them are 'the culture' of an organisation or group (Schein, 1992). If one asks oneself why one needs the word culture at all when we have so many other words, such as norms, values, behavioural patterns, rituals, traditions, and so on, one recognises that the word culture adds, according to Schein (1992), two other critical elements to the concept of sharing. One of these elements is that culture implies some level of *structural stability* in the group. The other element that lends stability is *patterning or integration* of the elements into a larger paradigm or gestalt that lies at a deeper level.

According to Schein (1992) culture can therefore be analysed as a phenomenon that surrounds us at all times, being constantly enacted and created by our

interactions with others. Thus, the culture of a group can be defined as: “A pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.” (Schein, 1992: 12).

3.2 Culture’s Affect on Integration

Following from Schein’s (1992) definition of culture as a group’s shared basic assumptions, its importance in relation to merger integration becomes obvious, as most integration processes necessitate meetings of people with different cultural backgrounds. Furthermore, the cultures that have been reigning prior to the merger will often to some extent be in need of adjustment, in order to enable the realisation of the merger motives. Consequently, to share and receive knowledge from other cultural settings could appear problematic.

This is supported by Kogut and Zander (1992: 395) as they state that, “by relating to the issue of knowledge transfer, it can be argued that individuals will only participate willingly in knowledge exchange once they share a sense of identity or belonging with their colleagues”. A merger or acquisition, in this sense, represents the bringing together of two ‘social communities’, which can be said to be a common set of values and beliefs among a group of individuals. If Kogut and Zander are correct, it seems likely that the flow of knowledge between the two parties will be very limited in the years immediately following an acquisition, but will gradually increase as a single social community emerges.

This process is to a large extent linked to the integration of cultures, which is generally discussed in terms of *acculturation* (Berry, 1980). At the same time, this process is often signified by *cultural clashes*, which include problems caused by cultural incompatibilities. Hence, while organisational culture refers to the collectively shared meanings among employees, the concepts of cultural clashes and acculturation attempt to capture the collective processes involved in cross-cultural interaction.

3.2.1 Acculturation

Sales and Mirvis (1984) describe the integration of cultures in mergers of acquisitions as a process that can be divided into three phases. The first phase concerns the threat towards one’s own culture, which could lead to anxiety, uncertainty and distress. These reactions, well founded or not, will affect both

the individuals' perception of the merger and the coming integration work. The second phase concerns the cultural confrontation, in which individuals from both companies meet, with their respective cultural backgrounds. During this phase, different cognitive processes are found. Most remarkable is the polarisation of each other's cultures, in which both cultures are described so that the perceived differences are maximised. The third phase is the acculturation, which according to Sales and Mirvis (1984) can lead to four main results:

At one end, the two cultures can become *integrated*, which means that they keep their integrity with no large changes, but where the cultures live peacefully together. Furthermore, one of the cultures can be *assimilated* into the other organisation, meaning that the cultures are combined, but where one of them is the reigning culture. Another result can be a *separation* of the cultures, where the merger is discontinued, or at least where the cultures exist separately of each other. Finally, the integration could result in a *deculturation*, which means that the employees will live in neither of the two old cultures.

Nahavandi and Malekzadeh (1988), as well as Sales and Mirvis (1984), consider the concept of acculturation to be relevant when analysing and understanding what occurs when cultures are integrated. The main factors that, according to Nahavandi and Malekzadeh (1988), affect the acculturation process are the companies' perceptions of the merger and the integration. For an acquired company, the most central issues concern whether they perceive the acquirer positively or negatively, and the extent to which they want to keep their culture.

Also Larsson (1990: 224) mean that the cultural interaction can be conceptualised in terms of acculturation. He defines it as "the development of jointly shared meanings fostering co-operation between the joining firms". It thereby becomes a collective process that can be expected to diminish destructive cultural clashes through development of common language, mutual consideration, values promoting commonality of interests, and so on.

However, most acculturation processes result in problems that can be related back to differences between the merging companies' cultures, which generally is discussed in terms of cultural clashes. These clashes, as we will see, could have an immense impact on the results of the merger integration.

3.2.2 Cultural Clashes

Cultural clashes between joining firms are suggested to be a prevalent phenomenon in mergers and acquisitions, with many negative effects like

losses of identity, morale, loyalty, key personnel, and productivity (Kleppetø, 1993). Cultural clashes are attributed to differences between the joining firms' organisational cultures. These negative tendencies, according to Larsson (1990), offer the possibility of a common denominator for the human side of mergers and acquisitions, namely *acquired employee resistance*. It can be defined as the opposition of acquired employees against the combination and subsequent integration of the joining firms.

In order to prevent these problems from appearing, Evans (1991) emphasises the importance of assessing a potential partner with a compatible corporate culture. Companies with the same operating philosophy, the same ethic, and similar compensation and benefit packages are, according to Evans (1991), much more likely to succeed as merger partners.

Also Larsson (1990) recognises that the seemingly obvious and often prescribed remedy is to choose partners with similar cultures, management styles etc. He continues, however, saying that a closer inspection suggests that mere initial similarity is a far too simplistic solution to cultural clashes in mergers and acquisitions. Hence, while cultural differences might give rise to something that could be called cultural clashes, they do not always have to be detrimental to the performances of merging companies. Thus, not all cultural differences are equally hazardous to the combination's health. One possible reason, according to Larsson (1990), is that differences are not just differences, instead there can be complementary and unrelated differences as well as conflictual.

3.2.3 Relationships between Cultures

According to Larsson (1990: 228), the problems associated with acculturation and cultural clashes cannot simply be deducted from the degree to which the cultures of merging companies differ. Instead he offers the following four cultural relationships to provide more nuances to cultural differences, which also take the type of integration into account:

Similar: mainly the same shared meanings in the joining firms. The relationship has the advantages of less initial dilution and more initial positive consensus due to greater overlap in shared meanings compared with the other categories. They also may have some similar socialisation mechanisms that can function jointly at an early stage. On the other hand, the separate maintenance mechanisms can be energised to defend their respective cultures more vigorously due to the increased threat from being confronted with another culture that cannot be discarded as strange.

Complementary: mainly different shared meanings, but the companies provide missing knowledge, direction, etc., to one another. They have more initial dilution due to their differences, but the complementarity makes this dilution productive by providing the other firm with missing knowledge, orientations, etc. These complementarities can create ‘islands of co-operation’ with positive interactions, socialising the members towards jointly shared meanings.

Unrelated: mainly different shared meanings, and the two businesses are of little everyday relevance to one another. The relationship is most likely to occur in conglomerate mergers and acquisitions. The companies can be expected to experience only minor cultural clashes due to irrelevant initial dilution, and typically, there is a limited involvement between the firms because of a low need of joint socialisation efforts. Correspondingly, Walter (1985) suggests that conglomerate mergers and acquisitions tend to have the most benign cultural clashes.

Conflictual: mainly different shared meanings, and with businesses that are contradictory. The most incompatible cultures can be called conflictual due to contradictory norms, values, identification, and so on. For example, conflictual cultures can arise from the joining firms having previous rivalries, antagonistic geographical differences, and ‘high versus low class’.

3.2.4 Reflections on Culture

Besides the initial cultural relationships described above, the acculturation process in mergers and acquisitions is also influenced by the socialisation efforts during the integration, and the employee interpretations of the combination and integration process. Socialisation efforts include the use of mechanisms like introduction programs, training, and joint ‘get-togethers’ such as cross-visits, joint retreats, and joint celebrations. (Larsson, 1990)

Larsson (1990) uses his findings to formulate four different propositions concerning cultural clashes and acculturation. a) The more initially shared meanings between the joining firms, the higher the acculturation, b) the more management style similarities between the joining firms, the higher the acculturation, c) the more complementary (i.e. related but not overlapping) competence between the joining firms, the higher the acculturation, d) the more socialisation efforts, the higher the acculturation.

The results of the last proposition stated by Larsson could be seen as dependent on the motives of the merger, as discussed earlier. Hence, if the motives necessitate a high level of integration, socialisation efforts will also be needed to a larger extent. This goes in line with the discussion of Bueno and Bowditch

(1989) as they state that the degree to which the integration of cultures will result in merger problems is dependent on the type of integration needed. They continue saying that it is also dependent on how deeply rooted the cultures are.

Moreover, Cartwright and Cooper (1992) state that there are two important human factors to merger and acquisition success, which determine the speed and effectiveness with which integration can be achieved. They are; the cultural compatibility of the combining organisations and the resultant cultural dynamics, and the way in which the merger or acquisition integration process is managed. Although these two issues are to some extent related, cultural compatibility or fit alone is no guarantee of merger or acquisition success. Combinations between organisations with well-matched and highly compatible cultures will, according to Cartwright and Cooper (1992), fail to meet expectations if they are insensitively or poorly managed. Conversely, in situations where the cultures of the combining organisations are highly dissimilar and potentially incompatible, good management can still prove effective.

To summarise, it is obvious that the role of human factors, expressed in terms of culture, have a large impact on the results of the integration. Thus, the outcome of the integration can be seen as highly dependent on the attitudes and perceptions of the people within the organisations. At the same time, however, the cultures are influenced by the integration in the way that it forces the cultures to either change completely or at least that they are adapted to fit the new organisation, a process called acculturation. Hence, the process of transferring knowledge between merging firms, and creating a new and functional organisation, is dependent on the inter-relationship between culture and integration.

4 KNOWLEDGE TRANSFER

In the previous chapters it has been made clear that both motives and culture impact on the merger integration, where the motives determine the need for type and level of integration, and where cultural clashes could threaten the success of this process. Furthermore, it has been concluded that it is in the merger integration that the transfer of knowledge takes place. Although one can to a certain extent understand what 'transfer of knowledge' means, we have not as of yet introduced the variable properly and this is what we attempt to do in this chapter. First we aim to present a more general description of knowledge transfers, and secondly we will investigate what transfers of knowledge means when put in relation to mergers and acquisitions.

4.1 Earlier Research on the Transfer of Knowledge

In the view of Kogut and Zander (1993), firms are efficient means by which knowledge is created and transferred. Through repeated interactions, individuals and groups in a firm develop a common understanding by which to transfer knowledge from ideas into production and markets. According to Davenport and Prusak (1998), firms grow on their ability to create new knowledge and to replicate this knowledge so as to expand their market. This indicates that the transfer of knowledge actually plays an important role for merging companies in their striving to realise the merger motives. However, there are many different perceptions of what we here refer to as the transfer of knowledge.

When going through the literature regarding what some call 'knowledge transfer', it becomes clear that others use definitions such as 'knowledge combination', 'knowledge creation', or 'learning' to describe practically the same thing (see e.g. Bartlett and Ghoshal, 1989; Kogut and Zander, 1993; Hedlund, 1994; Nonaka and Takeuchi, 1995). This divergence, in turn, could be explained by referring to differences in epistemological background. The concepts mentioned should however not be seen as dichotomies, but are instead complementary, and can all be used to describe the same phenomenon, but from different angles. So far we have decided to stick to the term 'knowledge transfer', in an attempt to reduce the confusion among the readers.

The concept of knowledge transfer is difficult to capture, as no definite distinction between transfer of knowledge and creation of new knowledge exists. This could mainly be explained by the fact that when knowledge is transferred between individuals, the knowledge will not mean the exact same thing for the recipient, therefore resulting in the creation of new knowledge.

This phenomenon is also discussed by Zander (1991: 23) who state that “recipients would normally be obliged to devote substantial resources to assimilate, adapt, and improve upon original technology. Modification and further development of the technology are thus very often an integrated part of the transfer”.

Nonaka and Takeuchi’s (1995) model of knowledge creation is based on the belief that human knowledge is created and expanded through social interaction between tacit knowledge and explicit knowledge. They have chosen to call this interaction ‘knowledge conversion’. According to Nonaka and Takeuchi (1995) there are four modes of knowledge conversion; socialisation: from tacit to tacit, externalisation: from tacit to explicit, combination: from explicit to explicit, and internalisation: from explicit to tacit.

According to Venzin, von Krogh, and Roos (1998), this view of knowledge transfer means that knowledge cannot be directly conveyed from one individual to another, because data have to be interpreted. Knowledge develops autonomously for the human being because it is not abstract, and thus, cannot be transferred directly to other people.

If knowledge, on the other hand, is seen as direct representations of reality (see e.g. Simon, 1993), knowledge is equated with information, and can be stored in and transferred through computers, databases, archives, and manuals. Accumulation and dissemination then become the major knowledge development activities in organisations. As a consequence, knowledge is seen to be easily shared across the organisation.

Another way to look upon the transfer of knowledge is to relate to the differences and relationships between data, information, and knowledge. According to Lahti and Beyerlein (2000), information is relevant data organised into a single message. Combining related pieces of information over a period of time, then, creates knowledge. Information relates to a message, while knowledge is developed and organised out of a procession of information based on the beliefs, values, and commitment of the individuals involved. Information becomes knowledge once it is understood and its value (including how it can be used) is learned. Therefore, information enables the creation of the knowledge via learning.

Lahti and Beyerlein (2000) state that in order to use the transfer of knowledge appropriately, one must consider the type of the knowledge and the nature of the transfer. If the knowledge is explicit it can be transferred through such media as books, archives, and databases. If it is tacit, these procedures will not

be adequate. The nature of the transfer can be said to concern whether it is conducted internally, or externally to the firm.

Consequently, the way that knowledge is managed and transferred between people is dependent on the type of knowledge to be transferred. This, in turn, is according to Boone (1997) dependent on the needs and goals of the firm. For example, if the firm has a need of transferring explicit knowledge about production procedures, knowledge could be transferred by for example databases. This line of thought is supported by O'Dell and Grayson (1999) as they state that if a firm for example has the goal of enhancing operational excellence, knowledge transfer could be facilitated by encouraging employees to find, record, and share best practices in plants, business units, and other parts of the operations. If the goal instead is to improve customer intimacy, the efforts could be centred on identifying, capturing, and sharing knowledge and best practices about customers, developing and transferring that knowledge to the employees who can use it to better understand customer needs.

4.2 Knowledge Transfer in Mergers and Acquisitions

The aim of this section is to display critical issues that differentiate the transfer of knowledge in mergers and acquisitions from intra-corporate knowledge transfer. While the previous section discussed the concept in more general terms, this section will only focus on the special conditions for knowledge transfers that exist in mergers and acquisitions.

A basic assumption when talking about the transfer of knowledge in mergers and acquisitions is that the knowledge in question may be transferred to and from both companies, but also from only one company to the other. Bresman et al. (1999) recognise that when firms are acquired for their technological capabilities, it is generally expected that knowledge will mainly be transferred from acquired to acquirer. However, equally likely is the reverse case, in which the acquiring firm believes it can enhance the performance of the acquired firm by transferring its superior technology.

Nevertheless, the most significant attribute of knowledge transfer in mergers and acquisitions is that the knowledge has to leave its previous setting, entering another setting with different culture, history, structure, and routines. In a merger, thus, the knowledge has to travel outside the context in which it is generally used, and therefore, it may be difficult for the knowledge to be internalised in the company and the new context. This can be explained by referring to Lahti and Beyerlein (2000) who state that organisational members have a common context in which to interpret and adopt shared knowledge,

which becomes particularly apparent when it concerns more tacit forms of knowledge.

Kogut and Zander (1993) continue along this line, saying that if firms differ in their codes by which information is transferred, then it follows that they should differ in their capabilities to understand and apply knowledge.

As indicated earlier, the nature of the underlying knowledge will have an important impact on the knowledge transfer process. If the relevant knowledge is tacit, and thus not readily communicated in written or symbolic form, it follows that its transfer between merging firms is far from trivial. Also Bresman et al. (1999) believe that tacit knowledge will not be readily transferred in mergers and acquisitions. At the same time, they assume that articulated knowledge is likely to be quite straightforward to transfer between merging firms, because it does not rely on a strong social bond between the parties. Yet, transfers of more tacit knowledge can, according to Kogut and Zander (1992), be facilitated by intense interaction between the two parties, and by the gradual creation of a single organisation with a single social community.

While communication between individuals is important to both post-acquisition integration and knowledge transfer, there are also a variety of more protracted modes of interaction that, according to Bresman et al. (1999), can be used to enhance the quality of the relationship between the merging firms. These include technical meetings, extended visits and joint training programs. Bresman et al. believe that, in general, the more such interactions are encouraged, the more effective the post-acquisition integration process, and the higher the level of knowledge transfer.

Bresman et al. (1999) further believe that the time elapsed after the acquisition will slowly facilitate knowledge transfer, in the 'hypothetical' absence of all other integration efforts by the management of the acquiring company. This issue is also discussed by Buono and Bowditch (1989), who state that any ill feelings or stressful conditions at the time of the acquisition will gradually recede. They continue saying that, uncooperative or disillusioned individuals will gradually leave, and new people will be recruited that do not see the former boundary between the previously separate entities.

5 THEORETICAL DISCUSSION

While the previous chapters have mainly been focusing on the content of the variables included in the research model, the aim of this chapter is to explore more deeply how these variables are connected. This means that it is now the relationships between the variables that are to be made clearer. The issues that will be discussed are therefore: the relationship between motives and integration, the relationship between culture and integration, and, the relationship between knowledge transfer and the previously mentioned variables.

5.1 Relationship between Motives and Integration

One conclusion that can be drawn is that the motives can affect the integration mainly in two ways. First, the *level* of integration will be affected, i.e. the extent to which the organisations, or just some parts of them, will be affected. Second, the *type* of integration that is to take place will be affected. By referring to Haspeslagh and Jemison (1991), these types can be divided into operational resource sharing, transfer of functional skills, and transfer of general management skills. Nevertheless, the two areas of level and type of integration can not be completely separated from each other, but are instead to a large extent inter-related.

If the motives are to grow, it may only require *operational resources* to be shared. This means that the whole organisation will be affected, however, the integration of people could be kept rather low. Should the motives, on the other hand, be to incorporate a new kind of competence in existing business solutions, transfer of *functional skills* would be the most important part of the integration. This will mean that certain departments or people will be affected to a greater extent, i.e. those who have the competence that needs to be integrated. Lastly, if the motives require a high level of control of the acquired company, it may need to integrate the *management skills* of the acquiring organisation, which will result in the whole acquired organisation being greatly affected. What has to be remembered, though, is that in most merger cases, all these three capabilities will to some extent be transferred. By referring to the relationship between motives and integration, this would then mean that most merger motives require the transfer of all three capabilities.

5.2 Relationship between Culture and Integration

The consequences of differences in culture may be explained in that they could impede the success of the integration and the merger. Problems that appear as a result of incompatibility of cultures may, as earlier explained, be termed cultural clashes. The extent to which culture plays an important role is however dependent on the level and extent on the integration itself. What can be concluded is that culture will increase in importance in parallel with the extent to which the integration will affect the people involved. The interesting issue to look at is not how large the differences between the cultures are, but what the cultural differences may lead to in relation to the integration chosen. A suitable way to consider cultural differences is then to look at the relationship between cultures, as described by Larsson (1990).

At the same time as culture, in terms of cultural clashes, may affect the success of the integration negatively, the integration will also influence the cultures of the merging firms. This integration of cultures is often discussed in terms of acculturation. What should be noted here is that cultural clashes may not only appear during the acculturation, but also before attempts of cultural integration are made. Sales and Mirvis (1984) explain that cultural confrontation can appear even before the acculturation because people feel their cultures are being threatened. This can be explained by the fact that people have pre-conceptualised ideas about potential partners, and subsequently will imagine what affect an integration may have on their own culture.

5.3 The Transfer of Knowledge

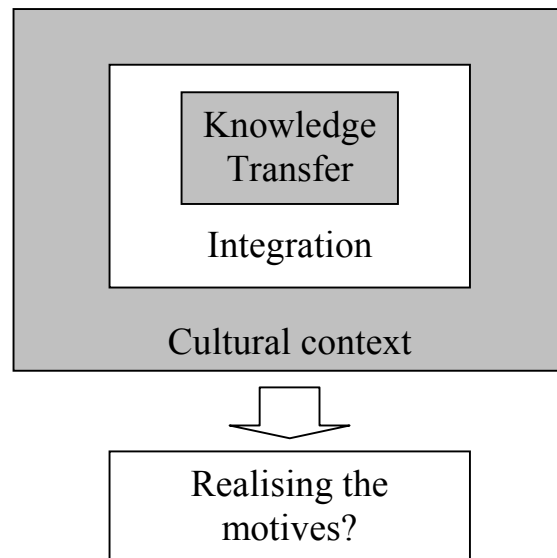
We have previously shown that both culture and motives affect the integration, and that all these variables will in turn have an important impact on the transfer of knowledge in mergers and acquisitions. The motives, through the mediation of integration, can be said to affect the transfer of knowledge as to who will transfer knowledge to whom. For example, if an acquirer is in need of incorporating a specific competence, it can be assumed that knowledge mainly will be transferred from the acquired to the acquirer. Additionally, the type and amount of knowledge to be transferred can also be said to be steered by the motives, as the motives determine what needs to be accomplished in the integration. The culture, on the other hand, is the element helping or impeding the interactors ability to understand each other, in that the culture is comprised of values and beliefs, and ways of understanding things. Furthermore, culture will, by impacting on the willingness of interactors to share and to receive, be a decisive factor concerning how much knowledge actually is transferred.

Hence, we now have several different issues that highlight the relationships between motives, culture, integration, and knowledge transfer: 1) *The type and amount of knowledge transferred*, 2) *from who to whom knowledge is transferred*, 3) *the willingness to share and receive knowledge and*, 4) *the level to which recipients understand the knowledge*. These issues will be used to investigate and describe the transfer of knowledge in mergers and acquisitions empirically.

Nevertheless, the transfer of knowledge in mergers and acquisitions is not only *dependent* on these variables, constituting an end goal. Instead, it can be seen as a means to an end, being an important variable when it comes to realising the potential synergies set by the motives. Furthermore, when knowledge is transferred between merging firms, their respective cultures will be affected in some way, hopefully with a higher understanding and appreciation of each other's cultures. Therefore, the transfer of knowledge, motives, culture, and integration all take part in an inter-relationship that has an extensive impact on the success of mergers.

The conclusion that can be drawn from this is that the transfer of knowledge in mergers and acquisitions cannot be fully understood without taking the context, in which it emerges, into account. This means that, instead of trying to extract the transfer of knowledge from its setting, one needs to see it as part of a system, which is continuously changing. This system then consists of the relationships between the cultural environment, the integration process and the transfer of knowledge. However, this does not mean that the system itself is closed, as fluctuations in the system also are influenced and dependent on changes in the external environment. The integration process and the cultural context, though, may be seen as the variables that are directly, and therefore most closely, related to the transfer of knowledge. An example of how these relationships work is that, at the same time as an integration attempt is made, the cultural context will in some way be affected, as well as the prerequisites for the transfer of knowledge.

Hence, as the realisation of merger motives is reached through the integration, it will at the same time be dependent on the relationships between integration, culture, and knowledge transfer. However, it is the knowledge transfer that ultimately turns the motives into a positive outcome, since the transfer of knowledge can be said to consist of the value that is created through integration. Thus, as these relationships continue to work together, the company will enhance their opportunities of realising the merger motives. To illustrate how these variables are inter-related, we need to modify the model presented in the Problem Analysis (see Figure 5:1).

Figure 5:1. Inter-Relationships of Knowledge Transfer

Source: Authors' own model.

Nevertheless, in order to be able to present the empirical findings in an understandable matter, we will again have to divide the variables, and study them one by one. In the analysis of the empirical findings, then, the variables will again be combined.

6 RESULTS

The results from our study will be presented so that we first disclose the findings from each case, grouped by different issues, related to our model. These issues are:

- *Motives for merging*
- *Cultural differences*
- *Initial employee attitudes towards the integration*
- *The integration process*
- *Knowledge transfer in the case companies*

After the empirical findings have been presented, we will seek to reveal the patterns of the above issues and lift the findings to a more general level by comparing the findings with related theories and earlier studies in this field. What also has to be noted is that the descriptions of the cases in each issue are only based on the respondents' personal opinions. Reflections made by the researchers are then presented in the 'Found Patterns'.

6.1 Motives for Merging

The aim of this section is to reveal what motives were considered for merging by the case companies. As we have made clear earlier, the motives for merging are closely related to the potential synergies and benefits that the merger could result in. Often, these motives are expressed by the respondents in terms of 'purposes', 'reasons', or 'goals'. However, since these terms are so closely related, making distinctions between them would not be beneficial, and when used, they should be interpreted as synonyms to motives.

6.1.1 Mind - Innovative

From the Innovative respondent's point of view, the motives for merging with Mind were mainly expressed in terms of the need for more experience and management knowledge, and access to the Stockholm market. Innovative had just started to get bigger and more complicated web projects, and there was a general feeling that they could not manage to solve these by themselves. The Innovative respondent believed that this was to a large extent due to the lack of experienced personnel since Innovative consisted of people coming straight from university. The alternative for Innovative then, was to recruit people with the experience they needed, however, they felt that this approach would be very time-consuming. Hence, merging with another company with the experience was the only alternative. Thus, getting access to important experience,

knowledge, and markets, at a very high speed, was therefore the main objective for conducting a merger.

Mind's motives were similar to those of Innovative. Mind was prior to the merger working as a management consultancy firm, with much experience and knowledge in change management and business development. However, the company wanted to move into the IT-sector and therefore needed to get access to IT-related knowledge, especially technical knowledge of design and communication. The Mind respondent believed that there was a general feeling among Mind employees that Innovative's ability to create websites could help Mind to offer more complete client solutions. Hence, the main objective could be seen as the possibility of complementing each other with new knowledge, which would make the company reach new customers and markets.

The Mind respondent also considered culture as an important motive for merging, while financial issues were not so important. This, as it was explained, was because it is important to fit together culturally when the objective is to complement each other with competencies.

6.1.2 Framfab - Guide

The main reason for Guide accepting to be acquired by Framfab, as explained by both respondents, was that they saw that the future would lie in the network economy. This was seen as a problem for Guide as they had very experienced IT-consultants, but with an image that would not give them any assignments in the network economy. Framfab, on the other hand, was mainly doing projects associated with the Internet. Therefore, the management at Guide saw the merger as a way of giving them access to Internet related knowledge and, hence, access to the network economy. The respondents were also quite intrigued by the attention given to Framfab and Jonas Birgersson, and believed that that it would be exciting to become a part of that sphere. The main reason for merging, therefore, was that Guide had difficulty in changing their business towards the network economy. For them the only alternative was to merge with a company with access to the network economy.

The respondents at Guide also expressed that when choosing among prospective partners, culture played an important part when deciding what company to merge with. Another reason why Guide chose to merge with Framfab, among several other potential partners, as explained by the respondents, was that they perceived Framfab to be not too culturally different. For example, the management team had decided that they did not want to be part of any foreign, especially French or American, company with a culture and structure based on hierarchies and ordering. Therefore, they chose Framfab

with some precision, and they did not see any high risks for the integration that could be caused by differences in structure or culture.

When it comes to Framfab's motives for merging it should be noted that the descriptions made are based on information given by the Guide respondents. Nevertheless, while the motives from Guide's point of view were mainly market oriented, they were from Framfab's point of view seen as more focused on gaining access to certain competencies, even if these variables are strongly connected. Framfab had been taking on relatively heavy assignments that they could not manage on their own, partly because of a lack of technical knowledge, and partly because of too high project volumes. Guide was the answer that could help solve these problems as they had consultants with more experience and with a broader competence.

The descriptions made by the respondents also go in line with the official statement that was made at the time of the merger. In Göteborgs-Posten (2000-02-26) the motives were explained as: "Framfab need the IT-consultants of Guide to tie together strategies and Internet design with the business systems of clients. And Guide, which have financial problems, need Framfab's client relations in the Internet sector".

6.1.3 Adera - Astrakan

Astrakan had a background in object oriented systems development, with a somewhat academic focus, and believed themselves to be very successful at what they were doing. However, as in the case of Guide, Astrakan seemed to have problems in getting projects, from old and new clients, aimed at the Internet. They realised that it would take time to become important players by themselves. Hence, as explained by the Astrakan respondent, when they met Adera, they saw the opportunity of reaching this market at a much higher speed and certainty. Additionally, Adera had many assignments, something Astrakan was lacking at that moment. One of the objectives, therefore, was to complement each others' competencies. Adera, moreover, had a clear strategy and development plans, something Astrakan was lacking. From Adera's point of view, however, the motives were by the Adera respondent only expressed in terms of getting access to important IT competence.

The picture given by the respondents is also comparable to the statements given to the press at the time of the merger. In Resumé (1998-11-12) the then CEO of Adera, Rolf Jansson, stated that: "Through the acquisition of Astrakan, Adera will hopefully be in a better market division, by having access to important IT and business competence". Furthermore, Dagens Industri (1999-05-26) described the acquisition of Astrakan as being potentially very positive for

Adera. It was explained by the fact that the demands for the building of advanced systems were increasing, which was a competence that Adera did not hold before the merger.

6.1.4 Found Patterns - Analysis of Motives for Merging

The aim of this section is to uncover the patterns of the empirical results on the issue of merger motives. These patterns will then be compared to related theories and earlier studies on the issue. The same will be done for all the issues that follow.

What is common for all the three cases is that the motives for merging were mainly articulated in non-financial terms. All three companies expressed the importance of getting access to a certain competence, or to a certain market. None of the companies felt that financial reasons were the main drivers for conducting the merger, i.e. all companies believed that they could keep reaching satisfactory results even if they had not merged. Instead, the main driver for merging was the desire to become an important player on the IT market. Incorporating a new type of competence into the organisation, consequently, was generally seen as the best way of reaching this goal.

Our findings, therefore, go in line with Bresman et al.'s (1999) discussion about mergers and acquisitions as a means to getting access to certain knowledge. The more economically rational motives such as economies of scale, growth, and profitability, mentioned by for example Goldberg (1983) and Cartwright and Cooper (1992), were however generally expressed as of less importance. Partly, this could be explained by the fact that the companies studied here differ somewhat from the companies studied by these authors. Looking at companies in traditional industries, for example manufacturing, these rational motives may very well be relevant, as the assets to be controlled are generally static, with a value easily measured. In the knowledge intensive industries, on the other hand, the most important asset is always changing, evolving, and growing, which makes economic rationality less useful, and maybe less valid.

Another issue that contributes to the perception that the companies studied here base their merger motives on less rational assumptions, is the fact that most of them saw cultural similarity as an important reason to merge with a certain company. Cultural compatibility therefore works as a motive for merging, even if its importance is less significant than that of access to knowledge and markets. Nevertheless, if there were a choice to be made between two companies with similar competence and market potentials, they would most likely have merged with the company perceived as being more culturally

similar. This goes somewhat against the analysis made by Cartwright and Cooper (1992), as they state that since people are a less measurable asset than material assets or market shares, they are often overlooked or little considered at the time a decision to merge is made. A fair explanation for this shift in preferences would be that culture is perceived to be closely related to knowledge and competence, the most important assets for knowledge intensive companies, and as we have seen, they constitute the main reason for these companies choosing to merge.

What does this imply concerning the level and type of integration needed then? First of all, the strong focus on getting access to certain knowledge would imply that a relatively high level of integration would be required. Since, in order to take full advantage of the newly acquired knowledge, people from both organisations would have to interact with each other to a large extent. Secondly, concerning type of integration, it is reasonable to assume that the transfer of functional skills would be the most important part of the integration. However, these issues will be further developed in the analysis of the companies' respective integration processes.

6.2 Cultural Differences

The aim of this section is to draw a picture of the case companies' cultures. This includes investigating issues such as values, attitudes, experience, age, and other issues directly linked to people. But issues such as ways of working and competence areas, will also be discussed, as this helps form social communities, as discussed by Kogut and Zander (1993). These findings will then be used to analyse the extent to which cultural differences are visible, and to what extent they pose threats to the success of the integration. The cultural differences to be discussed here constitute the cultures prior to the initiation of the integration. The effects of the cultural differences found here will subsequently be discussed in the analysis of the case companies' integration processes.

6.2.1 Mind - Innovative

Cultural issues were explained as playing an important role in the merger between Mind and Innovative. The perception of both respondents was that Mind and Innovative had similar values and ways of thinking, but that the structures and ways of working of the companies differed to a relative large extent. One factor that both respondents commented on was that there was a relatively large difference concerning age and experience.

The consultants at Mind were around 30-40 years of age, with experience of working in large company structures. Most of the consultants were, according to the respondent, tired of these hierarchies and saw Mind as an opportunity to get rid of these rigid structures. The employees at Innovative, however, were around 24-28 years of age coming straight from university and with no prior experience from working in larger companies. They were basically equipped with theories of how to manage a company, which, according to the Mind respondent, incorporated a belief in structures and hierarchies.

Further to this, Innovative saw themselves as a 'soft' company with strong connections among the employees, which was based on a belief in the importance of helping each other and spending time together on and off work. The Mind organisation, on the other hand, was very flat, and the organisation was viewed more to be a network with very independent and autonomous employees, responsible for getting their own clients. This was a factor worrying some of the people in the Innovative management team. They were worried that this would make the consultants at Mind sceptical to the merger because it would threaten their independence and would force them to work in quite a different way. Some consultants at Mind did leave when it was made official that the merger was a fact, however the rest of Mind decided that it was a good idea to leave the 'one-man structure' and instead work as employees with whole solutions.

In general, though, Innovative and Mind seem to have had similar cultures, in the sense that there was a mutual understanding concerning ways of thinking, values, and attitudes. Even more important, maybe, is the fact that both companies had a positive attitude towards each other's cultures, and they did not see the differences that were visible as something negative and doubtful. Still, they saw culture as something very important, and as an issue that has to be taken care of and analysed before any other integration attempts are made.

6.2.2 Framfab - Guide

At the time of the merger, Guide and Framfab had very different structures, ways of working, and experiences, and therefore also different cultures. These differences were however, from both respondents' point of view, perceived as something exciting and positive, not as something that would inhibit the co-operation between the companies.

Nevertheless, one of the areas where cultural differences were visible concerns the fact that the employees at Guide were on average around five years older the employees at Framfab. They had acquired more experience during their working life and saw themselves as having a more serious attitude towards both

life in general and doing business. As a consequence, both companies perceived the cultures as different also in relation to values, ways of thinking, and attitudes.

Concerning ways of working, Guide was a traditional consultancy firm that provided clients with a requested competence. This means that the client owns and controls the project in which the requested competence/consultant is included. In the Framfab model, the project does not remain with the client but is taken to a Framfab 'cell' (a Framfab office) where the project is undertaken and completed, and later delivered to the client. Hence, the two companies had very contrasting ways of working, i.e. out-house vs. in-house. Different ways of working implies that Guide, for instance, is required to know their employees/consultants and their skills and knowledge very well, and this also means that Guide is more dependent on the individuals within the company. Whereas Framfab, on the other hand, is not so dependent on the individual, the projects are undertaken by a group of people in a cell. Thus, it is more imperative to calculate and forecast the costs of the project.

Hence, the cultures of Framfab and Guide were perceived to be quite different, much because of differences in age, experience, and ways of working. However, according to the respondents, there was not much discussion as to how the differences in culture could threaten the success of the merger. Some employees did leave Guide at the time of the merger, however it is believed that this was not generally because of cultural differences, but that certain employees did not feel that the merger was anything for them.

6.2.3 Adera - Astrakan

At the time of the merger Adera and Astrakan were very different, both regarding structure, ways of working, business focus and cultures. The respondents from both companies agreed that Astrakan consisted of older, and more academically connected systems developers, system architects, and business developers, while Adera consisted of younger and 'trendier' people that were in the business area of marketing and PR.

Concerning ways of working, Adera used fast processes where everything was set up before the projects were initiated, while Astrakan had more slack time in their projects. According to Astrakan, the company was known to be very good at what they were doing, with high internal demands on quality and the ability to offer robust systems. Adera was mainly perceived to be making 'flashy' solutions.

Concerning structure, an advertising agency, like Adera, demands very clear professional roles, each with their own responsibilities. These responsibilities served as a basis to form project groups. At Astrakan, however, the roles of each employee were not always very clearly defined where, for example, the system architect in a project might very well also be the business developer.

Hence, the cultures of the merging firms were to a large extent different, much because of differences in age, experience, academic background and line of business. At the same time, both parties seem to have been aware of this at the time of the merger. Therefore, there was a belief that the motives for the merger could be reached in spite of these differences.

6.2.4 Found Patterns - Analysis of Cultural Differences

By referring to Larsson's (1990) distinctions between different cultural relationships, we can see that the cases studied are comparable to different relationships. First, the relationship between the cultures of Mind and Innovative could be seen as *similar*. This can be explained by the fact that the employees of the companies claimed to have mainly the same values, attitudes and shared meanings, at the same time as the competencies from both companies were to be used in the same business solutions.

Nevertheless, what is remarkable in the case of Mind - Innovative is that both parties perceived each other's cultures as very similar, despite the fact that the companies to a large extent differed concerning issues such as age, experience, and ways of working. This highlights the problem of judging a culture on a certain set of criteria. More important, and correct, is then maybe to follow the thoughts of Kleppetø (1993) as he claims that more important than the actual cultural differences, is how the employees perceive these differences. Hence, Mind and Innovative perceived their respective cultures to be *similar*, which very well could be a true picture, despite the fact that there were differences in age, experience, and ways of working etc.

Also Guide and Framfab differed concerning issues such as age, experience, and ways of working. Furthermore, and in contrast to Mind and Innovative, their perceptions were that the cultures also differed concerning issues such as values and attitudes. Still, they did not see these differences as something that could threaten the success of the integration process, even though the realisation of the merger motives would necessitate the exchange of knowledge and directions. Judging from this, the relationship between the two cultures seems to be comparable to Larsson's (1990) description of *complementary* cultures. Significant for this type of relationship is that there are mainly

different shared meanings, but where the companies provide each other with missing knowledge.

The merger between Adera and Astrakan displays a lot of similarities with the case of Framfab - Guide, i.e. variables such as age, experiences, attitudes, and values differed, but the general feeling was that the companies could complement each other with different types of competencies. The relationship between the cultures of Adera and Astrakan can therefore also be explained as *complementary*.

A relevant question is then how these cultural relationships have affected the integration processes of the case companies. However, before the integration processes are investigated, we will look upon the issue on whether cultural clashes were visible even before the integration. The reason why this is relevant can be explained by referring to Sales and Mirvis (1984) as they state that, before the actual integration, the individuals' perception the coming integration work can be affected by feeling threats towards one's own culture, which could lead to anxiety, uncertainty and distress.

6.3 Initial Employee Attitudes towards the Integration

The issue just mentioned will be discussed here in terms of employee attitudes towards the integration. Thus, if employees perceive the coming integration as very negative, this could ultimately affect their willingness to interact with each other, and therefore also the willingness to share knowledge. Correspondingly, Nahavandi and Malekzadeh (1988), state that one of the main factors that affects the acculturation process is the companies' perception of the merger and the integration.

6.3.1 Mind - Innovative

None of the companies had any prior experience of merger or acquisitions, and negative experiences of similar situations did therefore not affect the employees' attitudes towards the merger. Some consultants at Mind had worked with the integration of other companies, for example with cultural integration, but no one had any personal experience of merging.

According to the Innovative respondent, the employees at Innovative had generally a very positive attitude towards the merger, to a large extent because they saw it as a great opportunity to work together with skilled and experienced consultants. Furthermore, they had for a long time been prepared for the possibility of merging with another company or being acquired by another

company. The respondent believed that the response would have been different if the employees had not been prepared in the same way. Hence, Innovative put a lot of effort on cultural issues in the merger, and on creating engagement among the employees, mainly because they believe that these are key issues in order to make the merger work.

The employees at Mind were also quite positive towards the merger, even if it was not as much as from the Innovative side, as the Mind respondent stated. This was believed to be due to the fact that some of the consultants at Mind did not want the company to expand, and some saw the merger as a threat to their opportunities of working autonomously. This resulted in some of the Mind consultants leaving, but at the same time, those who stayed can be assumed to have a positive attitude towards the merger.

What both sides stress here is the importance of preparing the employees for what might happen, to make clear the objectives of why it is done, and to show the alternatives. This, it is believed, will motivate the employees to take part in the change process, and to feel that it is something that they want to do.

6.3.2 Framfab - Guide

Both respondents claim that the offer from Framfab to buy Guide received very positive responses in Guide. This was mainly seen as due to the fact that Guide's position was slowly declining, or at least, they had trouble getting the customers they wanted. The merger, therefore, was one way to try to secure the jobs of the employees. However, not all were pleased with the fast growth that the merger resulted in, which made 10-15 people leave Guide. Furthermore, some had experience of other mergers that were not so successful, which could have affected their attitudes negatively. One of respondents said that the merger did not entail any big changes for Framfab. Hence, it would be difficult to say the merger threatened the employees, and their culture.

6.3.3 Adera - Astrakan

In the beginning, the merger decision generally got a very positive response from the Astrakan employees, according to the respondent. This was especially visible when both companies were gathered for the first time, and the Chairman of the Board held a speech about the benefits and possibilities that lay before them. This excited everyone, however, a short while after, he disappeared from Adera, and some of the enthusiasm went with him.

One interesting issue is that Astrakan had not prepared its employees for the possibility that the company could be acquired. On the contrary, the founders

had agreed that the company should not be introduced at the stock market, and that they did not have the purpose of making any money. Furthermore, in Astrakan there were also several of the managers that had previous experience of a, what they perceived as, not so successful merger.

6.3.4 Found Patterns - Analysis of Initial Employee Attitudes towards Integration

Common for all cases is that, generally, the employees' attitudes towards the merger were more or less positive. However, in all three cases there were groupings that decided to leave the company at the time of the merger, which partly could be explained as a disagreement concerning whether to expand or not. This is however nothing unusual, and according to Cartwright and Cooper (1992), mergers and acquisitions are always associated with high levels of voluntary resignations, especially among the acquired employees.

These conclusions are consistent with the findings concerning the two acquisitions studied here, as the voluntary resignations were mainly apparent in Guide and Astrakan, both acquired companies. Mind, on the other hand, experienced personnel dropouts, despite the fact that the company was not acquired.

Further on, even though the attitudes in all companies were more or less positive, some of the employees at Guide and Astrakan seem to have experienced some doubt in regards to the acquisition. This may to some extent be explained by referring to previous experiences of mergers that have turned out to be distressing for some of the staff involved.

Another issue that could be noted is that the employees in five out of six companies studied were, before the time of the merger, prepared by the executives for the fact that the company could quite possibly take part in a merger or acquisition. A possibility is therefore that the employees in the company where there were no preparations, Astrakan, might be affected to take a more negative approach to the merger.

6.4 The Integration Process

6.4.1 Mind - Innovative

The integration of Mind and Innovative was done with the help of several different procedures. First, an integration group was formed, with the intention of analysing how they could benefit from their competencies in the best way.

The group included key persons and business area managers from both companies, and this resulted in the 'power wheel'. This was a description of how they should work and integrate in the future, and it illustrated how Mind and the projects were going to be structured. The *Technology* and *Design and Communication* competencies came from Innovative, whereas the *People* and *Process* competencies came from Mind.

According to Mind, it was part of their business model, the power wheel, to facilitate the integration of the two companies. The integration is built into the model, which in turn is dependent on a successful merger. Since they felt that they had a solid base to stand on culturally, they did not believe there would be any problems in the integration of projects and competencies.

A relatively short period after the merger, therefore, Mind and Innovative started working in a more integrated way, both internally in the organisation, and externally through assignments. The respondents felt that after only a couple of months, what was earlier two companies now worked as one company, and the reason for this, they stated, was because much of the projects were integrated.

Secondly, a culture project was set up, where the objective was to get Mind and Innovative employees to interview each other in order. This was done with the purpose of getting an understanding of the respective cultures, rather than getting information to enable cultural change. No action plan was developed based on the findings of the interviews. However, both the respondents believed that the cultural difference was insignificant, and that the most important thing was for the employees to be aware of the differences that existed.

Thirdly, when formulating the mission statement and business idea it was circled around the whole organisation in order for everyone to have the ability to influence it. This, according to the respondents, resulted in the company getting a business idea that appealed to everyone, at the same time as everyone got to understand the joint business idea of Mind-Innovative. Furthermore, one integration effort was made in order to combine knowledge and competencies. This was done by forming groups where, for example, technicians from Mind discussed their experiences with technicians from Innovative. The primary motive for this was however not to share knowledge with each other, but to help the cultural integration.

Concerning the cultural integration it is believed that, today, no large differences between what was previously Mind and Innovative are visible, and employees generally see them as one entity. It is even stated that as a result of

the successful integration, it is no longer interesting to talk in terms of Mind vs. Innovative.

6.4.2 Framfab - Guide

The level of integration in the Framfab - Guide merger has been relatively low, both regarding people, methods, and projects. The units of the two companies were relatively similar in size, around 50 employees, and were therefore used to form the new organisation based on regions. Two Framfab units and two Guide units could then for example form one region. However, even if the units of the two companies were put under the same umbrella, they still worked as relatively separate entities, and they kept their old way of working.

The management team of Guide were convinced, though, that if the two companies were to get to know each other, they had to start working together, since that is the only way to share experiences and knowledge, it was believed. In order to achieve this, they considered mixing all the employees, forming new units with no regards to who their former employer was. They realised, however, that this would not work, due to the fact that everybody had attachments to their colleagues, managers, and ways of working. There were attempts, though, to let some of the Guide consultants work in Framfab cells, but it has not been an easy task, mainly because it was difficult for Guide employees to approach new ways of working. Consequently, both parts went back to their old ways of working. As time has gone by, however, more and more Guide consultants have started to work in Framfab cells, and now, almost 40% of the old Guide consultants do so. Not many of the former Framfab consultants, though, work at what was previously Guide.

This could, according to the Guide respondent, be explained by the fact that Framfab was a relatively young company, i.e., newly established with employees that just have got to know their colleagues, which means that they may not be very eager to change dramatically. This is, according to one of the respondents since, before you would want to change, you must know why and what you want to change from. The low level of integration could also be explained by the fact that Framfab has become a relatively large company, and everyone in the organisation cannot be in contact with each other. The general feeling, as stated by both respondents, is however that Framfab, today, is not culturally divided.

Examples of variables that work *for* the integration, except when members from both organisations meet in projects, is that they also use a common Intranet and a common options program, and that everybody in the organisation gets the same general information. Further contact areas are company parties,

and the sales persons who form an important link between Framfab and what was previously Guide.

Even though the level of integration has been lower than expected from the beginning, none of the respondents believe that cultural clashes could have been an important factor disrupting the integration process. However, quite a few employees left Guide at the time of the merger, which also got a lot of attention in media. For example, in Dagens Industri (2000-06-29), it was stated that the cultural clashes between Guide and Framfab made many Guide managers escape from the company. One of the managers who left the company was interviewed and explained the dilemma as: “The merger went too fast. Framfab never cooled down but instead kept on expanding, and therefore, there was no time to integrate Guide with Framfab”.

The respondents view of the cultural integration, however, is that Framfab and Guide today see themselves as one entity, and the name ‘Guide’ is never used externally. This feeling of unity is most visible at a more formal level, though, since generally the same people are working in the same organisations they did prior to the merger. Hence, both Framfab and Guide have kept their old ways of working. The cultural and structural differences, therefore, still exist, somewhat contributing to a feeling of separateness on the individual and more informal level.

What the management team think could have been better handled than it has been, though, is that the goals with the merger, and the ways of reaching them, should have been expressed more clearly. This means that the integration becomes the means instead of the end goal.

6.4.3 Adera - Astrakan

At the early stages of the merger, attempts to work together in projects were made, but most of them did not succeed at all, according to the Astrakan respondent. There was also a lot of talk about the importance of integration and knowledge transfer, through the building of a structure that supports knowledge sharing. However, not very much came out of this. Some of the integration attempts, both concerning joint projects and economic integration, were even called catastrophes by the Astrakan respondent. Therefore, the integration attempts that were made were, according to the respondent, not taken seriously. The Adera respondent, on the other hand, did not see the integration process this problematic, but instead believed that as the people of the two companies got to know each other, the integration would work out. One major issue, brought up by both respondents, was the disagreement concerning the localisation of a new joint office. As a consequence of the problems

encountered, people from both sides started to realise that maybe the two companies would work better as separate units.

The cultural clashes that occurred were also discussed in the press. In Resumé (1999-10-28) it was stated that the CEO of Adera was heavily criticised internally for neglecting the cultural problems. It was furthermore stated it was primarily the merger with Astrakan that resulted in cultural clashes. One former employee from Adera in Gothenburg was interviewed and explained the situation as: “Suddenly, 20-21 year old web designers should start working together with 50 year old academics. ... The problem is that no one in the company is working with cultural issues.”

In some instances, though, the integration has worked fairly well, according to the respondents. As it is now, around 20% of Astrakan’s projects are done together with Adera. The projects are generally set up so that one part is conducted by Adera employees, and one part by Astrakan employees. But depending on their personal network, some individuals are more integrated than others. Hence, the level of integration is therefore not very high at an organisational level, but is more dependent on the individuals’ willingness to integrate.

Concerning routines, methods, and ways of working, there has been some integration of the two companies. For example, Adera has started to use the accounting and reporting system of Astrakan. Furthermore, the differences in the routines for managing and conducting projects have been made smaller, but there are still quite large differences. The two companies also have a joint introduction for newly employed people and joint management meetings. Hence, the integration at the organisational level only concerns routines and systems, not people or the working together in projects.

To summarise, it is believed that it has been rather difficult to find a good way to integrate the two companies. They work more or less as separate entities and often still talk in term of us and them. What was handled well, however, according to the Astrakan respondent, was that the integration was done in very small portions, decreasing the risks of voluntary resignations. One of the respondents also thought that the major battles have been fought and that Adera and Astrakan have had time to get used to each other, and therefore the synergetic effects would start to show soon.

6.4.4 Found Patterns - Analysis of the Integration Process

Concerning the level of integration, it is clear that the companies Mind and Innovative have been integrated to a much higher degree, in comparison to the

other case companies studied. However, because the time that has past since the mergers is relatively limited, it might be more appropriate to see this phenomena as related to the *speed* of integration. Hence, the level of integration in the mergers between Adera - Astrakan and Framfab - Guide could in the future reach the same level as in the case of Mind - Innovate, but then at a slower speed. A question to ask is the why these companies have chosen to integrate more slowly than Mind and Innovate. Could cultural issues play an important role here?

One way to look at this issue is by relating to the cultural relationships between the merging companies. If following Larsson's (1990) description of cultural relationships, a *similar* relationship should initially lead to a positive attitude towards the merger, with an easier integration of people at an early stage. *Complementary* relationships, on the other hand, have more initial dilution of the respective cultures due to their differences. These complementarities, however, can create 'islands of co-operation' with positive interaction socialising the members towards jointly shared meanings.

When comparing these statements with the case company findings, it becomes clear that this may very well be a good way to describe why the companies' integration processes have differed. Complementary relationships, as the cases of Framfab - Guide and Adera - Astrakan previously were described as, would mean that the initial speed of the integration would be slower than that of companies with a similar relationship, as in the Mind - Innovative case. Hence, if merging companies see their respective cultures as very different, it would take time to reach a high level of integration, even though both competencies complement each other.

Another variable that speaks *for* the presumption that culture could make a difference in this issue, is that both Guide and Astrakan were older companies than Mind and Innovative, with more established routines and structures, and a longer history together, which could enhance the identity and the core of the culture, making it stronger. Mind, on the other hand, was a company where the employees were only loosely connected to the organisation. At the same time, Innovative was a relatively young company that had just started to build up structures and routines etc. As explained by Alvesson and Berg (1992), the cultural dimension can be found in formal organisation structures, administrative systems, technologies, strategies, etc. Therefore, it might be harder to conduct changes that will have effects on the cultural identity in companies where the culture is more established. This is further supported by Buono and Bowditch (1989) who state that the degree to which the integration of cultures will result in merger problems is dependent on how deeply rooted the cultures are.

On the other hand, the differences in the speed of integration may be accounted for by the fact that Adera - Astrakan and Framfab - Guide could be seen as very task oriented, where the integration must be directed towards something, as in their case, the clients. What should be noted here is therefore that just because companies merge, the client solutions do not have to require integrated projects. Mind, on the contrary, seem to have more of a, as Cartwright and Cooper (1992) define it, person/support oriented organisation. This means that the functions in the organisation to a large extent exist to nurture the personal growth and development of its individual members.

Concerning the integration of cultures, the acculturation, it seems difficult to describe the cases studied by directly comparing them to the specific acculturation results described by Sales and Mirvis (1984). However, all the cases could to some extent be compared to the situation when the cultures become integrated, where their integrity to a large extent can be kept. The merger between Mind and Innovative, though, also shows tendencies for cultural assimilation. This would imply then, that it could be easier to transfer knowledge in the Mind - Innovative case, as an assimilation of cultures also result in similar ways of perceiving things.

6.5 Knowledge Transfer in the Case Companies

The aim of this section is, by relating to the results of the integration, to analyse the transfer of knowledge in the case companies studied. The most appropriate way to make judgements of the transfer of knowledge is then, in this case, by referring to the changes that the merger has resulted in, both concerning ways of working, routines, etc. Furthermore, what can be discussed is the level of interactions between the merging companies, which then can be seen as the major condition that is needed in order to transfer knowledge.

6.5.1 Mind - Innovative

The Mind - Innovative merger has resulted in very large changes for both parties, both concerning ways of working, routines, competencies, and relations to customers. The integration has been extensive and conducted at many different levels in the organisation. The major result of the integration was the building of the 'power wheel', where the competencies of the two companies were combined. As this model is used to collect project groups, it has to a large extent affected ways of working and the reference frame for the employees. First of all, however, it meant that many of the projects were done jointly, with a high degree of interactions between employees. The result, therefore, is conditions that allow and necessitate a high level of knowledge transfer, both

concerning knowledge of conducting projects (management skills) and personal competencies (functional skills).

More conscious attempts of trying to transfer knowledge are the culture project, the functional cross-meetings, and the transfer of more practical and explicit knowledge. An example of more explicit, and practical, knowledge that was transferred is Innovative's way of administering, which was transferred to and adopted by Mind.

6.5.2 Framfab - Guide

In the case of Framfab - Guide, the level of integration has been relatively low, especially concerning people and the working together in projects. The transfer of knowledge is therefore more visible when it comes to more explicit types of knowledge about, for example, customers and ways of working. At the same time as they have learned about each other's ways of working, however, they have kept their own ways of doing things, which means that the knowledge has not really been used to change anything. Furthermore, some practical, but important, issues have been neglected, for example how to handle personnel conditions. To some extent, conditions that enable the transfer of more tacit knowledge related to skills have also been created, though, as some employees have worked in joint projects.

Nevertheless, according to the respondents, it is believed that all the possibilities and opportunities of the new constellation have not been utilised, even if they think that it is being done more and more as time goes by. Hence, how the companies should act to be able to benefit from the merger has not really been considered until now. One of the respondents believes, however, that the transfer of skills will have a more important role in the future, as the trust among employees from both sides will be built up.

6.5.3 Adera - Astrakan

The level of integration in the merger, and therefore also the changes in the organisations, have been very low. The offices work very much separately from each other, and only 20 % of the projects are done jointly. Hence, the organisational level knowledge transfer is low, even if the administration and some other activities are becoming more and more jointly conducted. For example, there has been a joint education program on project management. Furthermore, one contact area that enables knowledge to be transferred is the client responsibilities, which is common for the whole organisation.

The main thing that drives the integration, however, and the transfer of knowledge, is when the client demands mean that projects have to combine the competencies of the two offices. At the same time, there are forces that work against the transfer of knowledge. For example, economic parameters contribute to the focus on the single office, as they have their own economic responsibilities. This means that employees may be reluctant to share knowledge with other units.

Finally, it is believed that the merger has had very little effect on the knowledge base of Astrakan, and that it would have been the same if they had not merged. The knowledge base is instead said to be dependent on the market and the customers.

6.5.4 Found patterns - Analysis of Knowledge Transfer in the Case Companies

In this section we will attempt to analyse how the transfer of knowledge has worked in the studied mergers by relating to the issues of types and amount of knowledge, from who to whom knowledge is transferred, the willingness to share and receive, and the level of understanding. An important note here is that we cannot identify the exact situations where knowledge is transferred, because the objects have not been studied that closely. Instead, we can only talk about the transfer of knowledge in terms of the extent to which people have been interacting, i.e. the extent to which conditions for knowledge transfer have been established, and the changes that the integration has resulted in, which can be seen as a denominator of transferred knowledge.

6.5.4.1 Types and Amount of Knowledge Transferred

By referring back to Haspeslagh and Jemison's (1991) distinctions between different types of integration, one can clearly say that all three mergers have included the sharing of operational resources, even if it has been more extensive in the case of Mind - Innovative than in the two other mergers. This type of integration was especially low in the case of Guide - Framfab, where practically only the brand name, trademark, and Intranet were integrated.

The transfer of general management skills was an important part of the integration between Mind and Innovative, as the merger resulted in the building of a new business model, which was common throughout the whole organisation. In the other two mergers, however, routines, the role of leader, and ways of managing projects, were not changed to a large extent as a result of the merger.

Nonetheless, the third type of integration, the transfer of functional skills, is strongly visible in all three cases. This, in turn, could be explained as a consequence of the fact that, for all companies studied, getting access to a certain type of competence related knowledge was one of the most important motives to merge.

At the same time as the latter type of knowledge transfer can be seen as the most important here, it is according to Haspeslagh and Jemison (1991), the most difficult to transfer as it is embedded in the skills of individuals and cultures of firms. It can therefore be said to consist mainly of what Polanyi (1966) calls 'tacit knowledge'. In order to create a fruitful transfer of functional skills, therefore, it may seem necessary to create what Bresman et al. (1999) refer to as a 'social community', to allow the level of learning that is necessary. Hence, what is important to consider when discussing this type of knowledge transfer, is the extent to which people from both organisations have been interacting, as this is the only way that conditions for the creation of a social community can be enhanced.

In the Mind - Innovative case, the extent to which this type of knowledge was transferred could be considered as relatively high. The more tacit form of knowledge is harder to recognise, but still, the merger was conducted in a way that enabled the creation of conditions for an extensive transfer of tacit knowledge. They actively sought out each other's cultures, they involved each other in their projects, and they created meeting places for experts from both organisations. Furthermore, they created a common business idea where all employees were involved, and they included both organisations' main capabilities in a framework after which they modelled the organisation and the projects. These activities can however not be seen as resulting in the direct transfer of tacit knowledge, but should rather be seen as conditions that enable the tacit knowledge of individuals to be expressed explicitly, and thereby transferred to other members of the organisation. It also builds a platform for the members of the organisation to observe and learn the practical knowledge that resides tacitly within the other members.

Framfab - Guide and Adera - Astrakan have not, as previously mentioned, been integrated to the same degree as Mind - Innovative. Since the transfer of tacit knowledge is dependent on the interactions between people it is difficult for the transfer to take place since the platform, or condition, for this has not been established to the same extent as in the Mind - Innovative case. Today, nearly half of Guide's employees are working according to the Framfab's way of working, in projects or in 'cells' with other Framfab companies. This will promote the transfer of tacit knowledge, however there is a possibility that the Framfab company previously known as Guide will be isolated, since no former

Framfab employees have sought to work in Guide as of yet. Furthermore, as these Guide employees now only work for Framfab, the knowledge will never reach what was previously Guide. Adera and Astrakan have on the one hand equally promoted the transfer of tacit knowledge in that they work together in 20% of the projects, however there have not been any attempts to make this knowledge reach an organisational level. Instead, it will only concern those individuals who have been working in the integrated projects.

6.5.4.2 From Who to Whom

According to Bresman et al. (1999), if a company is acquired because of their competence, it may be believed that the acquirer will try to extract as much of that competence as possible. In our case studies though, the transfer of competencies, in the form of tacit knowledge, cannot be said to have been transferred in one direction, but has rather been combined through the work in joint projects. Also concerning more explicit forms of knowledge, such as routines and administration systems, the transfer seems to go in both directions, and the companies have come to an agreement on what should be used and integrated from the respective companies.

6.5.4.3 Willingness to Share and Receive

There seems to have been a great interest in sharing and receiving what Haspeslagh and Jemison (1991) call 'management skills'. This can be explained by the fact that it may be easier to share and receive such knowledge that concern things they do and will have in common, since it is much closer to their reality. This does not mean that they have to practise the newly acquired knowledge, as in the in the case of Mind - Innovative, but it could at least help to create an understanding of each other's ways of working.

However, when it comes to the transfer of functional skills it may well be that they did not merge to grasp the knowledge of the other organisation but to together be able to offer wider solutions to the clients. This means that their specific capabilities are not so interesting to the receiving organisation from a practical point of view. It could very well be that the functional skills are not yet as frequently transferred because the clients do not require the skills of the organisation to be integrated, hence the demand for the transfer of functional skills is to a large extent decided by external stakeholders such as clients. The demand for the transfer of general management skills, on the other hand, can to a greater extent be controlled internally.

However, the willingness to share and receive knowledge is not only determined by an observable demand. More important maybe is the employees'

perceptions of each other, which to a large extent can be related back to cultural differences. For example, in the Mind – Innovative case, the management team believed that it was easy to make people share their knowledge, as people generally have a very positive attitude towards the merger. In the other two cases, however, there is a possibility that the cultural differences could have worked as a force that inhibits the will to share knowledge. Furthermore, the cultural differences could also mean that it is harder for the recipient to understand the information.

6.5.4.4 Understanding of Knowledge

Earlier we have investigated the conditions created that could enhance the possibility of transferring knowledge, and the changes that the merger integration have resulted in, as a denominator of transferred knowledge. However, this is as far as we can go when it comes to our empirical analysis of knowledge transfers. Hence, we have not been able to identify the exact situations when knowledge has been transferred. When it comes to the actual transfer of knowledge, we can only assume that if the cultures have similar ways of thinking and perceiving knowledge, recipients would be in a better position to understand the knowledge than if the cultures are widely different.

7 DISCUSSION AND ANALYSIS

The aim of this chapter is to reflect back to the model that was used as a framework for this thesis. By relating our empirical findings to this model, we aim to analyse how the relationships between motives, culture, integration, and knowledge transfer have appeared in our case studies. Hence, while the previous sections in the empirical chapter (see Chapter 6 Results) have been focused on the content of the different variables in the model, this chapter will focus more on the relationships between these variables. Thus, in this analysis we attend the three research questions posed in the Introduction. This will ultimately give us more help in understanding the knowledge transfer in mergers and acquisitions.

7.1 Relationship Between Motives and Integration

How do the motives influence the merging companies' way of integrating?

First, by referring back to Kleppetø (1993) who stated that the level of integration in mergers and acquisitions is determined by the merger motives and the eventual synergy potential incorporated, we will investigate how the merger motives of the case companies have affected their respective integration processes.

Common for all cases is that the motives were generally discussed in terms of getting access to certain competencies (functional skills) needed in the organisations, in order to be able to offer customers better solutions. By and large, this was in turn motivated by the possibilities of obtaining a better position in the market, a belief inherent in both the acquired and the acquiring parties.

Hence, in order to reach the synergies that these motives incorporate, a relatively high level of integration, especially concerning functional skills, would seem to have been appropriate. This can mainly be explained by the fact that, in order to reach the possible synergies, the 'new' and the 'old' competencies have to be incorporated into the same projects. Hence, the competencies acquired in the cases studied were all to a high degree related, which according to Kleppetø (1993) often is said to require a high level of integration. Kleppetø continues, however, saying that this does not mean that one will find this high level of integration empirically.

The latter was also very visible when it comes to the mergers studied in this thesis. Even though the motives for merging were similar for all the companies

studied, which then would require all to have a high level of integration, the level of integration varied to a large extent. The only case where there was a high level of integration, both concerning people, structures, and routines, was the Mind-Innovative merger. The other two mergers, in spite of similar motives, have so far had a relatively low level of integration. What should be considered here also is that both Adera and Framfab feel that they have not yet been able to reach all the possible synergies, while Mind have the perception that the integration is completed and the synergies are reached.

These differences in integration could be interpreted in many ways, but first of all, it means that the level of integration is not only determined by the merger motives. Hence, even if the merger motives, in theory, set the demand for the level and type of integration, other variables seem to disturb this relationship. In the next section, therefore, we will investigate if, and in that case, how and to what extent the cultures of the merging companies have affected the integration process.

7.2 Relationship between Cultural Differences and Integration

How does the meeting of two cultures influence the ability of merging companies' to conduct this integration in an effective way?

As previously discussed, the cultural differences, we believe, may have a strong influence on how well the integration turns out. In the analysis of the relationships between the cultures studied, we drew the conclusion that the relationship between the cultures of Mind and Innovative could be seen as *similar*, while the relationships in the other two cases studied could be seen as *complementary*. According to Larsson (1990), the first relationship would mean a low level of initial dilution of the cultures and more initial consensus, making the integration run relatively smoothly. The other type of relationship, on the other hand, would result in more initial dilution due to their differences, but the complementary competencies can create 'islands of co-operation'.

After having analysed the integration phases of all three mergers, we can see that, in the Mind - Innovative case, the integration turned out to be comparable to Larsson's description of the consequences of having *similar* cultures. As we saw in the case, Mind and Innovative had no severe cultural clashes, in spite of a relatively high level of integration. Their cultural differences, consequently, did not pose any threat to the accomplishment of a rapid integration. The other two mergers, however, were earlier described as having more in common with Larsson's depiction of the *complementary* cultural relationship. This can be seen to have been the result of the initial cultural clashes that were taking place

in the cases of Framfab - Guide and Adera - Astrakan. Avoiding further extensive cultural clashes could therefore be seen as an explanation as to why the integration of these companies has been conducted more slowly. Furthermore, the creation of co-operation islands was also visible in these two cases. Hence, the integration of people was not conducted on a general organisational level, but was instead driven by individuals who chose to work in joint projects.

Another way to explain why the speed of integration differed between the case companies, is to refer to the issue of initial employee attitudes towards the integration. Much of this matter can be explained by the degree to which employees felt their own culture being threatened, which in this initial stage has much to do with how strongly rooted the culture is. First, in the case of Mind and Innovate, as explained earlier, their respective cultures could be seen as not having been very firmly established in the organisations. Hence, one possible explanation for the swift integration is that employees were not that attached to their respective cultures. In the Guide - Framfab case, on the other hand, both cultures were affected by very established ways of working, both internally and externally, which also to a large extent differed between the two companies. Therefore, there is a possibility that this affected the integration to adopt a slower pace, with a low level of integration of both people, routines, and ways of working. The employee attitudes in the case of Adera - Astrakan, lastly, seem to have had a reasonably large impact on the level of integration in the merger. Hence, the relatively negative attitudes towards the integration, especially from Astrakan's point of view, could have influenced the attempts to integrate the two companies.

To summarise, and to answer the research question posed, we have found evidence that points to the notion that the meeting of two cultures could have a relatively substantial influence on the integration of merging companies. First, both the level and type of integration could be influenced by the relationship between the two cultures, which could be disturbed by cultural clashes. However, we have also found that the level of integration might be affected by the employees' initial attitudes towards the integration. This then, has more to do with how strongly rooted the cultures are, than with the relationship between the merging cultures.

By relating these findings to Larsson's (1990) four propositions concerning cultural clashes and acculturation presented earlier, it may very well be that the level of acculturation will be higher if employees generally have shared meanings. Hence, the initially shared meanings in the Mind - Innovative case could explain the high level of acculturation. Secondly, we can neither confirm, nor reject, the notion that the level of acculturation will be higher if the

management styles are similar. This is since all cases showed similar differences in management style, but the level of acculturation differed. Thirdly, similarly to the previous proposition, we cannot confirm or reject that complementary competencies lead to higher acculturation. This is since all mergers were based on the complementarities of competencies. Lastly, in line with Larsson's proposition, we have seen tendencies that the more socialisation efforts are made, the higher the acculturation.

The interesting issue is then what these findings mean for the transfer of knowledge in mergers and acquisitions. By relating to Schein's (1992: 12) definition of a culture as "a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems", we can see that different cultures will mean different ways of thinking, and therefore also different ways of perceiving and using knowledge. Hence, it can be assumed that if two cultures differ to a large extent, it will be harder to transfer knowledge between them. However, this will be discussed more thoroughly in the next section.

7.3 The Transfer of Knowledge

How can the value created by the transfer of knowledge in mergers and acquisitions be explained by relating to the above two issues?

At the first level, the merger motives set the demand for the transfer of knowledge in mergers and acquisitions, which is conducted through the integration. However, this process can be interfered with by cultural clashes and problems in acculturation. Hence, by referring back to the model presented in the Theoretical Discussion, which was used to describe the setting in which the transfer of knowledge takes place, we concluded it is best understood as interwoven into a context, with strong relationships to culture and integration. At the same time as culture and integration influence the knowledge transfer, therefore, it is through integration and the transfer of knowledge that the cultures will be affected. Taking this discussion further, the knowledge transfer, if seen as the value created through integration, becomes an essential factor in making the motives come true, since the motives are realised through integration.

These inter-relationships also mean that in order for knowledge transfer to happen smoothly, the cultural incompatibilities, surfaced by cultural clashes, need to be decreased. The incompatibility of cultures, then, could be seen as driving the success rate of the level and speed of the integration process.

Both Framfab - Guide and Adera - Astrakan have chosen to deal with this issue, in general terms, by letting time pass. Instead of trying to force the integration on the companies they believe that the level of integration will increase, and the differences between them will decrease, both naturally with time, as they start to get to know each other. Hence, there is a belief that as one social community emerges, it will be easier to transfer knowledge between the parties. As it is now, however, the level of knowledge transfer could be seen as relatively low. Furthermore, there is a belief that the motives have not yet been realised, hence, in order for the value created through the transfer of knowledge to meet the initial expectations, a higher level of integration will be necessary.

The Mind - Innovative case separates itself somewhat from the other two cases in that they, in a relatively short period of time, managed to integrate the two companies and their cultures to a degree as to which they now believe the integration to be finished. As a consequence, the level of knowledge transfer could be seen as relatively high. One may then ask the question as to what differed in this particular case in comparison to the other two, as all mergers studied were motivated by the combination of complementary competencies. Firstly, it seems that as the employees did not see the cultural differences as large as in the other two cases, i.e., the cultures could be seen as similar instead of complementary. This could also explain why cultural clashes were less apparent. Secondly, the cultures, as it appears, were not as firmly established as in the other two cases, making it easier for acculturation to take place. We can assume then that in the Mind - Innovative case, where the level of acculturation has been relatively high, conditions for a fruitful transfer, and understanding, of knowledge could have been shaped.

The last statement touches on a central issue here, as it is based on the belief that if the cultures that meet are widely different, recipients may have problems in understanding the knowledge in the same way as the supplier does. This can be explained by the notion that it is the cultural context that gives the knowledge its meaning. Hence, if the knowledge is to be transferred to a cultural context that is to a large extent different, the knowledge might not be understood, or at least, not in the same way. Consequently, cultural differences might not only mean that employees are reluctant towards a swift integration, but could also mean that even if integration attempts are made, it may not result in the transfer of knowledge. Next, therefore, we will try to find an approach by which the importance of the cultural context for the transfer of knowledge in mergers and acquisitions can be explained.

8 REFLECTIVE DISCUSSION ON KNOWLEDGE TRANSFER

The aim of this chapter is to reveal the ambiguity concerning the concept of knowledge, but also to build a base on which it is easier to understand knowledge transfers in mergers and acquisitions. As of yet, this has been a difficult subject to approach and our intention is, in this chapter, to use the two following questions as a discussion base.

- *Why have we not been able to see and talk about the actual transfer of knowledge?*
- *Why is the cultural context so important for knowledge transfer/s in mergers and acquisitions, and how is it possible to explain the difficulties associated with this?*

8.1 Tacit and Explicit Knowledge

“We know more than we can tell” (Polanyi, 1966: 4)

The concept of knowledge has been and is still to this day a highly debated subject. This has led to a lack of consensus concerning the meaning of it. It is clear, Pemberton (1998) states, that there is no standardised vocabulary to describe knowledge and, in other words, not everyone means the same thing by identical terms. We find ourselves surrounded by ambiguous terms and key concepts such as ‘knowledge’, ‘information’, ‘data’, ‘know-how’, and many others. Spender (1996), however, signifies that the typology having had the strongest impact on the field of epistemics is the distinction between *tacit* and *explicit* knowledge. Polanyi (1962) formulated the distinction in which explicit knowledge can be described as ‘knowledge about’ in its abstractness; tacit knowledge is, on the other hand, associated with experience.

Kogut and Zander (1993) conceive knowledge, in organisational settings, as the distinction of ‘information’ and ‘know-how’. Information is a factual statement, whereas know-how is a description of how activities are carried out. Nelson and Winter (1982) point out that much organisational knowledge remains tacit because it is impossible to describe all the aspects necessary for successful performance. They argue that creating an effective organisation is not a matter of implementing a set of ‘blueprints’, because much of the crucial know-how required resides only in the minds of the organisation's members.

According to Takeuchi (1998), the explicit knowledge can be expressed in words and numbers, shared in the form of data, scientific formulae, product specifications, manuals, universal principles, and so forth. This kind of knowledge can be codified and conveyed through formal, methodical language and easily transmitted between individuals formally and systematically. Tacit knowledge, on the other hand, is context-specific and based on experience, thus becoming highly personal. Consequently, it is hard to formalise making it difficult to communicate or share with others. Subjective insights, intuitions and hunches shape the tacit knowledge. Furthermore, tacit knowledge is deeply rooted in an individual's action and experience, as well as in the ideals, values or emotions he or she embraces.

Most work involving tacit and explicit knowledge implies that these components are dichotomous - knowledge is considered either tacit or explicit, with no shades of grey. Although it is simpler to identify knowledge this way, Lahti and Beyerlein (2000) propose that this dichotomy needs to be qualified, since it does not really reflect the true nature of knowledge and knowledge transfers. Thus, knowledge may actually exist on a continuum, with explicit knowledge and tacit knowledge anchoring the respective ends.

The tacit knowledge, Nonaka and Takeuchi (1995) say, can be segmented into two levels, technical and cognitive. The 'technical' level encompasses the kind of informal and hard-to-pin-down skills or crafts often captured in the term know-how. This know-how is experiential and developed through years of practice. Nevertheless, it often proves difficult when trying to articulate the technical or scientific principles behind the knowledge. The reason for this is that the bodily experience is blended with highly subjective and personal insights, intuitions, and inspirations. The 'cognitive' level consists of beliefs, perceptions, ideals, values, emotions and mental models so ingrained in us that we take them for granted. Though they cannot be articulated very easily, this dimension of tacit knowledge shapes the way we perceive the world around us.

Thus, it can be argued that the tacit knowledge is bound by both a physical and social context, embodied in the language and behaviour of those using it and as a result, the culture surrounding the knowledge influences it to the very extent of its existence. Since cultures differ, reality can be perceived to be a social construction from processes of negotiation. Furusten (1995) contends that this negotiation results in a collective enactment of knowledge, in other words, what is believed to be 'real'. Since knowledge resides in our bodies and is closely tied to our senses and previous experience, we will come to create the world in ways that are unique to ourselves.

Thus, knowledge is not universal from a constructionist's point of view. Berger and Luckmann (1967) say that the observable differs between societies in terms of what is taken for granted as 'knowledge' in them. Furusten (1995: 24) continues by saying that there are a "variety of assumptions of knowledge in the society and consequently, almost *any* body of knowledge can be socially established as representing "reality" and "knowledge" of "reality". The meanings of both knowledge and reality thereby become *social* constructs, not *natural* objects."

Since there are *distinctions* of knowledge residing silently in a world that is socially constructed it helps us in understanding why it is so difficult to grasp the knowledge transfer. Nonetheless the picture is yet incomplete; the transfer of knowledge can be seen, as we have just shown, as *knowledge 'already situated and constructed' in a world*. However, it can also be seen as *knowledge that 'is to be'*, meaning that a knowledge is to be known and learned by some other person.

As addressed earlier, Nonaka and Takeuchi's (1995) description of knowledge *conversion* says that the knowledge will be created anew instead of remaining identical to what it was prior to the transfer. Czarniawska and Joerges (1996) and Latour (1986) adopt the term *translation* when explaining that different texts may be interpreted differently according to the mental structures of the reader, his or her belief system, culture and history. Consequently, the knowledge is always translated according to their history and culture that are properties of the collective rather than the individual. Thus, we need to discuss knowledge as situated in a learning dimension. In order to lessen the confusion we will speak of learning in the terms of abstract and practical knowledge.

8.2 Abstract and Practical Knowledge

Putting abstract knowledge against practical knowledge takes us further on our quest to illuminate the topic concerning knowledge transfer. 'Abstract knowledge' is general in its character and is formulated in a language that is not really congruent with the 'real' practical world. The general idea of the approach is, however, to reveal the essence of the objects surrounding us, thus simplifying reality into abstract concepts. These concepts, according to this approach, are the most important concepts to human beings. The abstract knowledge consists of knowledge lifted from the concrete world up to a 'general level' transformed into abstract laws and where the aim is to apply it to other concrete situations. (Molander, 1993)

The practical knowledge, however, is according to Molander (1993) embedded in the concrete world and has been developed through experience making the knowledge a personal tool to be used in concrete situations. Since ‘knowledge in action’, or practical knowledge, is about solving concrete and practical problems, it can be said to be very specific in its character. It puts emphasis on how to do specific things and is in other words an instrument for direct action. Hence, the knowledge is situated in close proximity to the action to be taken. A specific action needs to be observed and learned through experience, thus making it very difficult to formulate in a language that is coherent and understandable for novices and the outside world.

Zuboff (1988) makes a distinction between abstract knowledge and practical knowledge; he calls them embodied or ‘action-centred skills’, and ‘intellective’ skills. Action-centred skills are developed through actual performance, learning by doing. In contrast, intellective skills combine abstraction, explicit reference, and procedural reasoning, making them easily representable as symbols and, hence, easily transferable. Polanyi (1966), including the learning dimension in tacit knowledge, contends that not even an expert can explicate it fully, though it can be transferred from one person to another through a long process of apprenticeship.

Schön (1983) uses the term ‘theories-in-practice’ a similar definition to that of ‘abstract knowledge’. However the distinction between the two lies in the fact that Schön states that the ‘theories-in-practice’ are always used by the practitioner, whereas the former description of ‘abstract knowledge’ implies that it is generally quite difficult for the theories to be turned into practice without transforming them in some way.

Practical knowledge can also be compared to the concept of ‘practical intelligence’, which according to Lord (1995) “is the ability to manage mental capacities in achieving desired ends in real-world environments”. ‘Practical intelligence’ is better conceptualised as the mental functions used to adapt to and shape real-world environments, which is developed through experience. Sternberg (1985) takes the view that ‘practical intelligence’ is important because effective performance on many organisational tasks depends on practical rather than academic intelligence.

8.3 Learning in the Learning Dimension

Thus, the learning dimension of transfer of knowledge is aided by thinking in terms of abstract and practical knowledge. However, Lave and Wenger (1991) expand the argument by stating that learning is not merely situated in practice,

it is an integral part of social practice in the lived-in world. In their book on *'Situated Learning'* (1991: 14) they state that the "individual learner is not gaining a discrete body of abstract knowledge which (s)he will then transport and reapply in later contexts". They continue to say that the skills are acquired by engaging in the process and that the "common element here is that meaning, understanding, and learning are all defined as relative to actional contexts, not to self-contained structures." (1991: 14)

However, Lave and Wenger oppose the idea that situated learning is limited to specific tasks in specific times. They start by arguing that there is no activity that is not situated, including learning. Even the "general or abstract knowledge has power only in specific circumstances" (1991: 33). As explained above, the general knowledge is gained by decontextualising the concrete practical knowledge. They continue, however, saying that the representations are useless unless they can be used in specific situations. "The generality of any form of knowledge always lies in the power to renegotiate the meaning of the past and future in constructing the meaning of present circumstances". (1991: 34)

Weick (1995) also discusses knowledge that is set in a learning dimension. He states that people use 'sensemaking' as a means of enhancing knowledge, but is careful to distinguish sensemaking from interpretation. In short, most descriptions of interpretation state that it focuses on some kind of text, and that interpretation literally means rendering where one word substitutes another.

Sensemaking instead concerns the ways people generate what they interpret. Sensemaking is about authoring as well as reading. The concept of sensemaking highlights the action, activity, and creation that constitute the substances that are interpreted and then reinterpreted. Hence, according to Weick, sensemaking is clearly an activity or a process. Even if interpretation is treated as a process it implies that something is there to be discovered. Sensemaking is about invention, and less about discovery.

Therefore it can be said that learning, thinking, and knowing are relations among people in an activity in, with, and arising from the socially and culturally structured world. This world is socially constituted; objective forms and systems of activity, on the one hand, and agents' subjective and inter-subjective understandings of them, on the other, mutually constitute both the world and its experienced forms. Knowledge of the socially constituted world is socially mediated and open-ended. Its meaning, content, and relations of humans, are produced, reproduced, and changed in the course of activity. Thus, Weick, and Lave and Wenger insist that any given situation where learning is to take place must be deciphered to understand the "historically constructed,

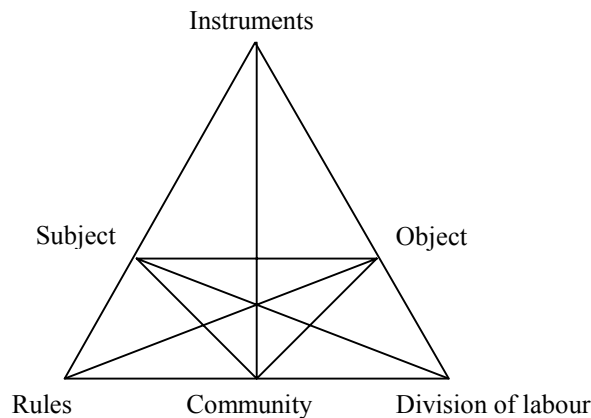
on-going, conflicting, synergistic structuring of activity and relations among practitioners” (Lave and Wenger, 1991: 56).

Hence, looking at the concept of knowledge one can see it as to mean all or nothing, whether it is expressed or experienced, and where each individual bases what (s)he believes to be ‘real’ knowledge on one’s values, beliefs, and experiences. In rough drafts, the epistemology of knowledge runs from the idea that knowledge exists outside of man to the idea that man creates knowledge, individually or socially. This paper is influenced by the constructionistic framework, as we mean that in some settings, regardless of whether we are talking about a specific culture, region, or personal interests, knowledge is socially constructed. However, to fully understand the inter-relationships of the variables this thesis is focusing on, we intend to use Activity Theory as a tool.

8.4 Activity Theory

Engeström (1999) states that Activity Theory is based on constructionism, but also, however, that it is important to understand that it does not revolve around an individual constructionism. One needs to acknowledge that the rules and the system have been constructed historically and collectively by collaboration between humans and their instruments. Albeit, one also needs to admit that the local and situated construction of the activity happens collectively by all the people involved in the system.

Engeström’s model (1999) (see Figure 8:1) of Activity Systems represents the relationships between personal knowledge and the cultural infrastructure of knowledge, individual actions and the broader pattern of activities of which they are part. Ryder (1999) explains the model by defining *activity* as “the engagement of a subject toward a certain goal or objective”. Ryder states that an activity is undertaken by a human agent (subject) who is motivated towards the solution of a problem or purpose (object), and mediated by tools (instruments) in collaboration with others (community). The structure of the activity is constrained by cultural factors including conventions (rules) and social structures (division of labour) within the context.

Figure 8:1. Model of Activity System

Source: Engeström (1999).

The suggestion is then that the appropriate unit of analysis is neither individuals nor cultures but activity systems, or that is, the inter-dependency of individuals and cultures. People act on the world, with others, utilising the linguistic, material and social resources available for supporting collective endeavours. Hence, it is not the individual per se that is interesting but the collective involved in the situation or context. However, this does not mean that one person can not alter or influence the system. This is done by acting on the issues, meaning that the focus needs to be extended from single events to systemic causes, and secondly to mobilise other people in order to expand the social scope and interactive basis of the actions. Therefore it can be said that when a system changes, a new kind of knowledge has been constructed and developed. Hence, we learn and develop by crossing the boundary of our given roles and become involved in the initiation of a historical and cultural re-organisation of the system or learning.

8.5 Contextual View of Knowledge

This section, as a last detail before the conclusion, aims to fully answer the two questions posed in the beginning of this chapter.

Why have we not been able to see and talk about the actual transfer of knowledge?

First of all, this problem could be seen as related to the nature of knowledge. Hence, important knowledge may often be seen as tacit, tacit even to the owner, hindering the knowledge being shared with others. There are different suggestions by authors for how to overcome this barrier, however, what can be concluded is that the tacit knowledge must be observed and experienced practically in order for an understanding to be realised. Hence, an outsider or newcomer will experience difficulty in immediately grasping the tacit knowledge.

Furthermore, this means that knowledge cannot really be regarded as a commodity that can be easily identified and measured. Hence, the transfer of knowledge cannot be seen as an identifiable transfer of a commodity. Instead, it has to do with what happens in the minds of recipients, i.e., the transfer of knowledge actually has to do with how people learn and understand things. How people learn and understand things, in turn, is to a large degree influenced by the cultural context in which they exist, which leads us to the next question.

Why is the cultural context so important for knowledge transfer/s in mergers and acquisitions, and how is it possible to explain the difficulties associated with this?

What is understood and accepted as knowledge concerns what is considered as knowledge in a particular social setting, thus moving from one social setting to another requires an adjustment of the learning process. Consequently, neither reality nor knowledge has a single meaning that is valid in all contexts. Not only is knowledge socially constructed but it is also extremely difficult to separate from the context, as we have tried to show in earlier discussions. One cannot just remove the knowledge from our daily lives, our values, and our activities, to think that it will stay intact. What is understood as real is not concrete but relational, constructed through processes in which a linguistic statement, text, or activity is related to pre-existing referents such as history and culture in a context.

Shotter (1983) explains it with the help of an acorn. He says that even though an acorn will specify the growth of an oak tree, and no other tree, it cannot

specify the amount of branches, twigs, and leaves. Hence, knowledge continuously will form different shapes according to the interacting variables and local contingencies, and will never really be the same anywhere. Explicit texts may be the same on paper, however, the knowledge extracted from it will be shaped by the receivers in respect to their values and belief systems. Kremer (1992: 167) puts it “truth can no longer comfortably be separated from culture and history; truth can not even be severed from moral considerations of its applications with any ease; truth can no longer be kept apart from the process of growth and self-transformation of the knower.”

Hence, as cultures include values and ways of thinking, mergers and acquisitions will result in the bringing together of two different ways of perceiving reality. Consequently, when knowledge is transferred between merging companies, it has to be extracted from the context in which it is normally used, to enter a new context, and a new social setting. Another way of explaining the importance of the context in which the knowledge exists, as we have seen, is Activity theory.

Looking at a merger from an activity system’s point of view means that the organisations (subject) are working towards realising the motives (object) of the merger. To do this the organisation uses various processes (tools) in collaboration with other people (community) involved in the integration. However, the integration process is constrained by the meeting of two cultures and the various values, norms and belief (rules) that it brings with it, and how the roles are structured (division of labour).

The description of the merger in terms of an Activity System makes it easier to grasp the accompanied complexities of a merger. The complexity is a variable dependent upon the level and type of integration, meaning that the community, instruments, division of labour etc. will change as the level and type of integration is altered. When changes occur, such as introducing new technologies, new ways of distributing work roles and responsibilities, or shifts in interpersonal processes, new relationships and developments will take place. Therefore it can be said that it features the dynamics of knowing, the balance within an activity system changes constantly as participants employ their situated knowledge in a situation that is itself constantly evolving.

Activity Theory, according to Engeström (1987), uses the ‘zone of proximal development’ to explain the learning process. The zone of proximal development means that ‘an individual has difficulty in learning when the knowledge or context lies too far away from the individual’s reality and world of conception. Hence, the learning can be viewed as a result of the individual’s ability to expand the context in which the knowledge is to reside. Knowledge is

often disregarded since it lies outside the context and is, hence, not recognised and understood as knowledge. What we are proposing here is that the ‘context’ or ‘local contingency’ is what makes knowledge.

However, the merger itself must be viewed as a learning process. The integration process forces the individuals involved to cross the boundaries of their given roles in order to transform the system to cope with the contradictions produced by the merger. A merger means to be engaged socially and culturally in a construction process to historically re-organise the organisation. Hence, the value of transferring knowledge in mergers and acquisitions can be seen as related to the notion that it works as a means in order to create a new organisation.

9 CONCLUSIONS

One conclusion that can be drawn concerns the notion that the motives for merging seem to differ somewhat between knowledge intensive companies and companies in traditional industries, in that the rationalistic motives have become less useful and valid. Furthermore, as our empirical findings have come to show, the motives also seem to have become more visionary and less based on existing demands. Thus, all companies have had the motives of getting access to certain knowledge, and to spread the acquired knowledge throughout the organisation. Nevertheless, as the integration has begun, they have realised that the client demand for the combination of knowledge was actually relatively limited. Hence, the demand for the combination of knowledge is not only set by the companies internally, but is also to a large degree influenced by the end clients.

However, this does not mean that the demand cannot be influenced by the companies' ability to convey the usefulness of their knowledge combination, and thereby create a demand for new solutions. This requires an understanding of what the combination of knowledge offers, and how the company can communicate this to the clients. Nevertheless, as the combination of knowledge is partly dependent on a demand, the need for working together in projects, and hence, the level of integration automatically slows down. This, therefore, could explain why the integration phases of Framfab - Guide and Adera - Astrakan so far have been relatively slowly conducted. On the other hand, as we have seen, this could also be related back to the fact that the cultures of these merging firms were relatively different at the time of the merger.

To describe how cultural differences could affect the speed and level of integration we chose to compare our findings to Larsson's (1990) description of cultural relationships. One of the cases studied was compared to what Larsson calls a 'similar relationship'. In this merger, cultural clashes did not have an extensive impact on the possibilities of conducting a relatively fast integration. The other two cases, however, which were described as having a 'complementary relationship', experienced much slower integration processes. This could be explained by the fact that cultural clashes were visible in both these mergers, which is also common for complementary relationships. The integration of people was then not conducted on a general organisational level, but was instead dependent on individuals' and their will to work in joint projects. To conclude, if the relationship between the cultures of the merging firms results in cultural clashes, the level and speed of integration could be rather low, in spite of the fact that the realisation of merger motives demands a higher level of integration.

However, we have also found that the level of integration might be affected by the employees' initial attitudes towards the integration. This then, is more contingent on how strongly rooted the cultures are, than with the relationship between the merging cultures.

When it comes to the impact of cultural differences on the transfer of knowledge, it is obvious that if the cultural clashes lead to a low level of integration, the level of knowledge transfer will also be low. This is because the transfer could be seen as an outcome of the integration. However, a more comprehensive understanding of how cultural issues could influence the transfer of knowledge in mergers and acquisitions recognises the notion that even if integration attempts are made, the level of knowledge transfer could still be low.

This can be explained by the concept that the cultural context, to a large extent, gives the knowledge its meaning. Hence, if knowledge is to be transferred from one cultural context to another, there might be problems in understanding the knowledge. Consequently, cultural distance might not only mean that the integration will have to be conducted in a slower pace, in order to avoid cultural clashes. It could also mean that even if integration attempts are made, the value created through the transfer of knowledge could be inhibited by the difference in cultural background, manifested in values, beliefs, and ways of working and communicating. Hence, the ability of the transfer of knowledge to create value must be understood by relating to the context in which it is conducted, which in the case of mergers and acquisitions is characterised by the meeting of two cultures in the merger integration.

Viewing this implication from an Activity Theory perspective, which states that most systems are open, means that the variables within the system are influenced by external variables and the environment to change. These changes cause the system to shift and can therefore explain why a system becomes contradictory with time. We found in our study that when two companies merge, the system becomes contradictory due to the differences in rules, community etc. (the underlying cultural elements/cultural context), causing the systems, during the integration process, to collide.

Mergers and acquisitions should therefore be seen as 'learning processes', and these processes are reliant on the 'zone of proximal development', meaning that an individual can only grasp things situated close to the context the individual knows. Hence, this could help us understand why one of the merger cases studied managed to integrate comparatively smoothly, as the two companies involved had a cultural relationship described as similar. In the two cases with complementary relationships, the cultural contexts were too far apart for the

learning to be undisturbed. We saw that the way they dealt with the distances in contexts was to proceed with the integration at a much slower pace, alleviating the cultural shocks that tended to come out in the early stages of integration.

To summarise, the value created by the transfer of knowledge in mergers and acquisitions is strongly related to its importance in realising the merger motives. However, this process, as we have seen, is dependent on the cultural context that is characterised by the meeting of two cultures. This means that both the cultures of the merging firms, and the ways of working need to begin a transformation towards a new common cultural context. Hence, a more contextual view of transferring knowledge in mergers and acquisitions can be seen as related to the conception that its value works as a means in the creation of a new organisation.

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Mind

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Angela Ström, HRM Manager. 2000-09-26.

Framfab

Bo Jangvik, Managing Director of Framfab IT Consultants. 2000-10-24.

Kjell Jöfelt, Group Manager. 2000-10-24.

APPENDIX - Interview Guide

Before the Merger:

- ◆ Tell us about the companies prior to the merger?
- ◆ Who took the initiative to the merger, and what motives was there for merging?
- ◆ Was there any previous experience of M&A activities?
- ◆ Could you describe the company culture?
- ◆ In what way did the companies differ culturally and structurally?

The Integration Phase:

- ◆ How did the two companies initiate the integration?
- ◆ What was prioritised in the integration process?
- ◆ How were the employees used in the integration process?
- ◆ Were the cultural differences visible in the integration?
- ◆ Was anything done in particular to ease the process?

The Company Today:

- ◆ How can the company be described today - in what way is it one company and in what way is it possible to tell it has been two companies?
- ◆ If that is so, what is done to overcome this?