

# **Knowledge management in M&A by innovative companies: the evidence from emerging capital markets**

## **Abstract**

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**Abstract:** This paper focuses on exploring the significance of KM for a post-acquisition by innovative companies to achieve synergy effects in emerging capital markets. Reviewing abundant literatures of KM in M&As, it is noted that M&A performance of knowledge intensive firms (KIF) has largely depended on valuation of intangible capital and efficient and reliable method of KM. Examining deals of innovative listed enterprises in emerging capital market from databases Bloomberg and Zephyr over 2010 to 2016 based on event study and accounting study, it is supposed to find that the similarity of knowledge base of both acquirer and target firm plays an important role of the result in post-acquisition, the level of integration between involved firms could enhance the performance of M&A transaction. The most effective variables for KM in M&As are considered like knowledge retention, knowledge integration, knowledge application and creation. M&A strategy could be more effectively and successfully managed for innovative companies in emerging capital markets under condition that the top managers learn how to quantify the in-between relationships of the variables proposed and gradually measure the effect of these variables on the knowledge integration success.

**Keywords:** Mergers and acquisitions (M&A), Knowledge management (KM), innovative companies, emerging capital markets

## **1. Introduction**

Knowledge management (KM) in recent years has become more important for M&A strategy especially for innovative companies, accessing new knowledge seems to be the main goal for acquiring

companies to accomplish synergy and enlarge their volume. There have been enough researches about KM in the post-merger and acquisition in developed countries but for emerging capital markets this topic is unexplored. Knowledge is regarded as the major capital of innovative enterprises which brings intangible profits and benefits. To survive in the competitive global market knowledge turns to be the motivating factor for a M&A transaction and the driver for a combination of the involved companies. For acquiring companies KM seems difficult to acquire through strategic alliances because of its complexity and particularity. (Nonaka,1994)<sup>1</sup> So in knowledge economic intangible assets are always the main motivation behind the M&A deals. (Hasjem 1991)<sup>2</sup> Haspeslagh & Jemison<sup>3</sup> noted that M&A strategy helps to renew corporate and hold the market positions through internal development with gaining benefits from coming assets and learning the innovative patterns of management of target companies. According to DacPru<sup>4</sup> an increasing number of innovative companies acquire others specifically for obtaining knowledge assets, which helps add new knowledge to their own knowledge stock. For most innovative companies the most valuable assets are considered the future potential returns from those intangible parts. The acquirers aim to covert these potentials immediately into business success in a short time after acquisition. But it brings great risks of failure. Therefore, correlative KM plays

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<sup>1</sup> Nonaka I. A dynamic theory of organizational knowledge creation[J]. Organization science, 1994, 5(1): 14-37.

<sup>2</sup> Pesaran M H, Smith R. Estimating long-run relationships from dynamic heterogeneous panels[J]. Journal of econometrics, 1995, 68(1): 79-113.

<sup>3</sup> Haspeslagh P C, Jemison D B. SMR FORUM Acquisitions Myths and Reality[J]. Sloan Management Review (1986-1998), 1987, 28(2): 53.

<sup>4</sup> Cerezo J M, Escuela A M, Monagas J, et al. Equipo docente para el control de procesos en tiempo real[J]. 1970.

a significant role for M&A strategy to ensure the effective accomplishment of acquired knowledge.

## 2. Literature review

There have been abundant researches done on knowledge management already. And in the last two decades KM in M&A has been given more attention and concentration particularly in emerging capital markets. A large number of M&A deals have taken place in the field of high technology and knowledge-based industries. *Ranft and Lord (2000)<sup>5</sup> noted that since the 1990s more and more acquisitions tended to obtain critical technologies, capabilities and knowledge-based resources. They attempted to absorb high-skilled experts and employees, high-functioning teams and creative works from these innovative companies to enhance their competitive advantage.* Bresman et al(2010)<sup>6</sup> noticed that the key motivation of the acquisitions have often been to get more innovations and patents and transfer those intangible assets into potential high profits capital. Pablo and Javidan <sup>7</sup>(2004) puts it: “In technology-intensive industries, the issue of knowledge transfer is particularly important to acquisitions as an organization’s ability to compete is often dependent upon its abilities to develop innovative technologies which requires knowledge transfer, learning and innovation.”

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<sup>5</sup> Ranft A L, Lord M D. Acquiring new technologies and capabilities: A grounded model of acquisition implementation[J]. *Organization science*, 2002, 13(4): 420-441.

<sup>6</sup> Bresman H, Birkinshaw J, Nobel R. Knowledge transfer in international acquisitions[J]. *Journal of international business studies*, 1999, 30(3): 439-462.

<sup>7</sup> *Mergers and acquisitions: Creating integrative knowledge*[M]. John Wiley & Sons, 2009.

### 3. Data and sample

Examining completed and majority-stake M&A deals of innovative listed enterprises in emerging capital market based on event and accounting study from databases Bloomberg and Zephyr between 2010 and 2016, which have been compiled in EMENDATA (Emerging Multinationals' Events and Networks DATAbase). Following some previous studies about the effects of acquisitions on knowledge management (Ahuja and Katila 2001<sup>8</sup>, Cloudt, Hagedoorn, and Van Kranenburg 2006<sup>9</sup>, Valentini and Di Guardo 2012<sup>10</sup>), it's necessary to focus on knowledge intensive companies, where the most important part of assets are considered intangible.

### 4. Empirical results and conclusions

The empirical results show that the similarity of knowledge base of both acquirer and target firm plays an important role of the result in post-acquisition, the level of integration between involved firms could enhance the performance of M&A transaction. The most effective variables for KM in M&As are considered like knowledge retention, knowledge integration, knowledge application and creation. M&A strategy could be more effectively and successfully managed for innovative companies in emerging capital markets under condition that the top managers learn how to quantify the in-between relationships of

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<sup>8</sup> Ahuja, Gautam, and Riitta Katila. "Technological acquisitions and the innovation performance of acquiring firms: A longitudinal study." *Strategic management journal* 22.3 (2001): 197-220.

<sup>9</sup> Cloudt, Myriam, John Hagedoorn, and Hans Van Kranenburg. "Mergers and acquisitions: Their effect on the innovative performance of companies in high-tech industries." *Research policy* 35.5 (2006): 642-654.

<sup>10</sup> Di Guardo, M. C., and K. R. Harrigan. "Shaping the path to inventive activity: the role of past experience in R&D alliances." *The Journal of Technology Transfer* 41.2 (2016): 250-269.

the variables proposed and gradually measure the effect of these variables on the knowledge integration success.

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