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Factors affecting subsidiary level capability transfer in acquisitions

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Research Report

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

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Abstract

This research identifies the factors affecting capability transfer at the subsidiary level during acquisitions. Acquisitions provide acquiring firms with the opportunity to acquire new capabilities and to apply current capabilities in new settings and in doing so improve the firm's competitiveness. Capability transfer, therefore, is critically important for acquisition performance. Limited subsidiary level analysis has been conducted on the factors affecting capability transfer during acquisition.

The study identifies implementation factors, socio-cultural factors, management practices and absorptive capacity as the key factors affecting capability transfer. To exploit and enhance these factors, strong leadership is required to create the atmosphere necessary for capability transfer though the creation of a common vision and shared identity. Aligned performance measures channel the stakeholder behaviour towards capability transfer and the achievement of acquisition objectives. Training intervention and support facilitate the contribution of retained employees to the combined firm.

Understanding the key factors affecting capability transfer allows managers to better approach capability transfer in acquisitions. Managers are then in a better position to formulate appropriate and comprehensive strategies to ensure successful transfer.

Keywords

Capability transfer

Acquisitions

Subsidiary

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1 Introduction

Mergers and acquisitions (M&A) are a common strategic option of acquiring economies of scale, diversification, synergy or a global presence (Badrtalei & Bates, 2007). Mergers and acquisitions provide a means to gaining expertise, technology, products, reduce exposure to risk and achieve economies of scale and scope. With acquisitions a firm gains capabilities it finds hard to develop, and acquisitions can provide the opportunity to leverage existing capabilities (Schweizer, 2005). According to Karim & Mitchell (2000) the need for acquisitions arises from the tradeability of routine and resources. Firms often acquire other businesses to extract value from underutilised resources the firms possess, either through more efficient use of existing resources or creation of new resources (Karim & Mitchell, 2000). Acquisitions also provide an opportunity for firms to break rigidities and trajectories to incorporate new knowledge, question existing assumptions, and alter current patterns of behaviour (Haspeslagh & Jemison, 1991).

2007 was a record year in terms of value and number of M&As (Nummela & Raukko, 2011). In that year corporations spent $4.2 trillion on M&A deals worldwide (Golubov, Petmezas, & Travlos, 2012). M&A activity slumped during the global economic downturn of 2008, when the global merger and acquisition market shrunk by 30%, reaching a total of 2.89 trillion dollars, and reduced further in 2009. The tide is turning as evidenced by the recent increase in the number and value of M&As (Nummela & Raukko, 2011). In 2011 the value of worldwide M&A totalled US$2.6 trillion, a 7% increase from comparable 2010 levels (Thomson Reuters, 2011). Therefore M&As remain a popular strategic option, despite the current economic climate.

Despite their popularity more than two-thirds of large M&A deals fail to create value for shareholders in the medium term (Lodorfos & Boateng, 2006). Lodorfos & Boateng (2006) noted that between 55 and 70 percent of mergers and acquisitions fail. A meta-analysis of 93 studies with data on 206,910 acquisitions conducted by King, Dalton, Daily and Covin in 2004 revealed that the post-acquisition performance of acquiring firms fails to surpass or tends to be slightly poorer than that of non-acquiring firms (Bjorkman, Stahl, & Vaara, 2007)

A common theme in acquisition research is that superior performance in related acquisitions can only be achieved if the organizational combination leads to synergy, whereby in combination, the two organizations create more value than each could achieve alone (Haspeslagh & Jemison, 1991). M&As create value to the acquirer when it controls unique and valuable resources that can be leveraged into the target organization (Capron & Mitchell, 2009). The objective of related-business acquisitions is to improve the competitive position of one or both of the firms by the transfer of complementary strategic capabilities between them (Bjorkman, Stahl, & Vaara, 2007)

M&A literature has mainly focused on the identification of strategic and process factors that may explain performances variance between individual acquisitions (Cartwright & Schoenberg, 2006). The literature has predominantly been based on developed market firms' integration of acquisitions. Acquisition integration is a pivotal factor in determining whether the objectives of an acquisition are achieved (Paruchuri, Nerkar, & Hambrick, 2006).

Most relevant literature in M&A is based on the ''process'' school, which is concerned with the creation of value through post-acquisition integration (Bresman, Birkinshaw, & Nobel, 2010). Haspeslagh and Jemison (1991), for example, seminal work on mergers and acquisitions focused on how capability transfer may lead to overall value creation, not on the factors facilitating capability transfer per se (Bresman, Birkinshaw, & Nobel, 2010).

The Resource Based View (RBV) maintains organizational capabilities may be a source of superior firm performance and competitive advantage when those capabilities create unique value for customers relative to value created by competitors (Day, 1994). Acquisitions are one avenue through which firms deepen their existing capabilities and obtain altogether new capabilities (Karim & Mitchell, 2000).

Internal development allows a firm to exploit and protect its specific knowledge while also engaging in development activities. To overcome the limitations associated with internal development, firms resort to external sourcing to enter new capability domains (Capron & Mitchell, 2009).

External sourcing of new capabilities through acquisitions helps a firm develop new capabilities that resolve organisational inertia (Capron & Mitchell, 2009). It has been

recognised that resource contribution (capability transfer) can have an important impact on value creation in acquisitions (Capron & Pistre, 2002), but these studies do not provide insight into the factors leading to capability transfers.

Capron, Dussage and Mitchell (1998) found that the relative strength of the acquirer and target firms of their capabilities – including technical innovation capabilities, manufacturing know-how and managerial capabilities – affected the transfer of these capabilities to the other firm. The post-acquisition transfer of capabilities from the acquirer to the target firm and vice versa contributed to acquisition performance (Capron, 1999). Capron and Pistre (2002) found that transfers of capabilities from the acquirer to the target were associated with abnormal returns. These results imply that firms involved in acquisitions tend to transfer complementary capabilities to the target and/or acquiring unit, and that these transfers are important for M&A performance.

The true value to an acquiring firm can only be captured if the valuable capabilities in the acquired firm are fully integrated into and absorbed by the acquiring firm (Hitt, et al., 2009, p. 526). Hitt, et al. (2009) argue that if the acquiring firm is able to integrate the capabilities of the target firm with its own capability, it can create new and possibly even more valuable capabilities. What many acquiring firms have discovered, however, is that the capability transfer during acquisitions can be a daunting task (Bresman, Birkinshaw, & Nobel, 2010).

Capabilities may be transferred in either or both of the following directions: from the acquiring unit to the acquired unit; from the acquired unit to the acquiring unit.

Research has not adequately explained why some firms are able to transfer capabilities during a particular acquisition, while other firms that make similar acquisitions fail to transfer their capabilities. Current research has revealed a variety of factors affecting capability transfer during acquisition (e.g. cultural differences, capability complementarity, speed and communication (Bjorkman, Stahl, & Vaara, 2007; Ranft & Lord, 2002) but even after accounting for these factors does not explain why some firms fail to transfer capabilities during acquisitions. Consequently, what other factors affect capability transfer during acquisitions? How do firms exploit these factors to successfully transfer capabilities?

Overseas subsidiaries are seldom a replication of their parent firm, and there is a tendency for overseas subsidiaries to differentiate themselves from the parent (Chen, Chen, & Ku, 2012). Organisational capabilities are embedded within a firm's local environment (Garcia-Pont, Canales, & Noboa, 2009). "Pressures for local responsiveness arise because a multinational corporation must respond to contingencies that can differ quite dramatically between the multiple environments in which it operates, including differences of customer tastes, government regulations, or resource characteristics" (Schulz, 2003). Hence, differing factors may influence subsidiaries and their parent.

Although there is some research conducted on factors affecting capability transfer during M&As, this research has been conducted at firm level, with limited literature on subsidiary level capability transfer during M&As (Bjorkman, Gunter, & Vaara, 2007; Ranft & Lord, 2002)

Research on multinationals (MNC) has highlighted the capability development that occurs in geographically dispersed subsidiaries, and several scholars have emphasized the significance of capability transfer within the MNC (Birkinshaw & Hood, 1998). Andersson (2003) conducted research on capability transfer between subsidiaries of an MNC. Andersson (2003) found that creating and sustaining competitive advantage requires the firm to maintain and develop its capabilities by learning from its own operations and by absorbing knowledge from outside the firm. Therefore capability transfer at subsidiary level is vitally important, particularly during acquisition.

This study is process based and focuses on factors affecting capability transfer at subsidiary level during M&A.

The research aims to:

- Identify the factors affecting subsidiary level capability transfer during M&A
- Determine how subsidiaries leverage these factors to achieve successful capability transfer.
- Explore the linkage between subsidiary and firm level capability transfer during M&As.

- Develop a conceptual model of subsidiary level capability transfer during M&A

The rest of the paper is organized as follows. First, relevant literature is reviewed on capability transfer and acquisitions. Second, the theory is used to build a conceptual framework from which the research questions are developed. Third, the research methodology is described. Fourth, the findings of the study are reported and discussed. Finally, conclusions are presented and the implications are discussed.

2 Literature review

From the literature review, the following core themes were identified within the context of capability transfer during acquisitions. These are:

- Implementation related factors:
  - Integration
  - Speed
  - Relatedness
  - Acquisition experience
  - Retention
- Culture
- Absorptive capacity
- Management practices

These themes will be discussed following a brief background on M&A and a definition of capability transfer.

2.1 Mergers and Acquisitions

Mergers and acquisitions are two phenomena that have distinct features, but also share common ones. “A merger occurs when one corporation is combined with and disappears into another corporation” (Lajoux, 2006). In practice, mergers often involve the friendly fusion of two equally sized firms into one new organization where practices, cultures and structures of both firms are combined. “An acquisition is the process by which the stock or assets of a corporation come to be owed by a buyer’ (Lajoux, 2006). In general terms, acquisitions are described as transactions at which the larger and more dominant firm acquires full ownership of a smaller, less dominant firm. Acquisitions are commonly characterised as the purchase of one organisation from another where the buyer or acquirer maintains control. (Schraeder & Self, 2003).

Companies can grow organically or through various external means including M&As. According to Haspeslagh & Jemison (1991) the difference between mergers and acquisitions is that mergers aim at the total integration of two or more partners into one new corporation while acquisitions permit a degree of choice regarding the level of integration. The structure, strategies, policies and practices might remain the same for

one of the partners/acquiring organisation but change profoundly for another/acquired organisation (Bajaj, 2009).

Acquisitions allow firms to alter their existing capabilities by allowing firms to quickly access capabilities that are already established and have a proven track record (Karim & Mitchell, 2000). Acquisitions allow for change in two primary ways. First, acquisitions allow for change by providing acquirers with an opportunity to apply their existing resources to new areas of business accessed in the target firm, particularly when the target firm is inefficiently utilising its existing resources. Second, acquisitions allow for change by applying the acquired capabilities to the acquiring firm's existing lines of business.

The process perspective of M&A shifts the focus from acquisitions' results to the drivers that cause these results: the transfer of capabilities that will lead to competitive advantage (Haspeslagh & Jemison, 1991). Haspeslagh & Jemison (1991) argue that actions and activities of managers after the acquisition bring the benefits and determine the results rather than the M&A transaction itself. Haspeslagh & Jemison (1991) argue that "synergy occurs when capabilities transferred between firms improve the firm's competitive position and consequently its performance."

The determinants of acquisition success have been identified as strategic vision, strategic fit, deal structure, due diligence, pre-acquisition planning, post-acquisition integration, and the external environment (Epstein, 2004). Epstein (2004) defines five drivers of success in post-acquisition integration as: coherent integration strategy, balanced integration team, constant and consistent communication, speed of implementation, and aligned performance measures. Epstein (2004) argues that failure on any one of the five can impede the achievement of acquisition goals. Acquisitions create value when the competitive advantage of one firm is improved through the transfer of capabilities (Haspeslagh & Jemison, 1991, p. 28) .

From this point onward, the terms M&A'' and "acquisition" are used interchangeably.

2.2 Capability transfer

The capabilities view of the firm sees a firm as a set of capabilities (embodied in an organisational framework) which can create and sustain elements of competitive advantage for the firm in the marketplace (Haspeslagh & Jemison, 1991, p. 23). In this perspective a firm's competitive advantage results from the application of a wide range of capabilities and, in particular, a set of core capabilities central to competitive advantage, that:

- Incorporate an integrated set of managerial and technological skills,
- Are hard to acquire other than through experience,
- Contribute significantly to perceived customer benefits
- And can be widely applied within the firm's business domain.

Faced with a constant need to renew its competitive position, the firm seeks to add new capabilities or to change the product-markets where its capabilities are applied. Entry into new product-markets usually brings with it the need for complementary new capabilities to compete effectively. Entry into new markets can add other new capabilities that can be deployed in the firm's existing product-markets or become the basis for further product-market diversification. Firms compete on the basis of their relative ability to renew and deploy capabilities as much as they do on their ability to extract profits from product-markets.

Capabilities are defined as "the firm's capacity to deploy resources for a desired end result" (Capron & Mitchell, 2009, p. 295). Capron & Mitchell (2009) further state that capabilities are tangible or intangible processes that develop through interactions with the firm's resources. Capabilities evolve over time through the complex interactions among the firm's resources, and consequently, are embedded in the organization and are firm specific (Capron & Mitchell, 2009) . Examples of capabilities include research capabilities, information technology capabilities, engineering know-how, commercial responsiveness, project management skills, distribution, and network management expertise.

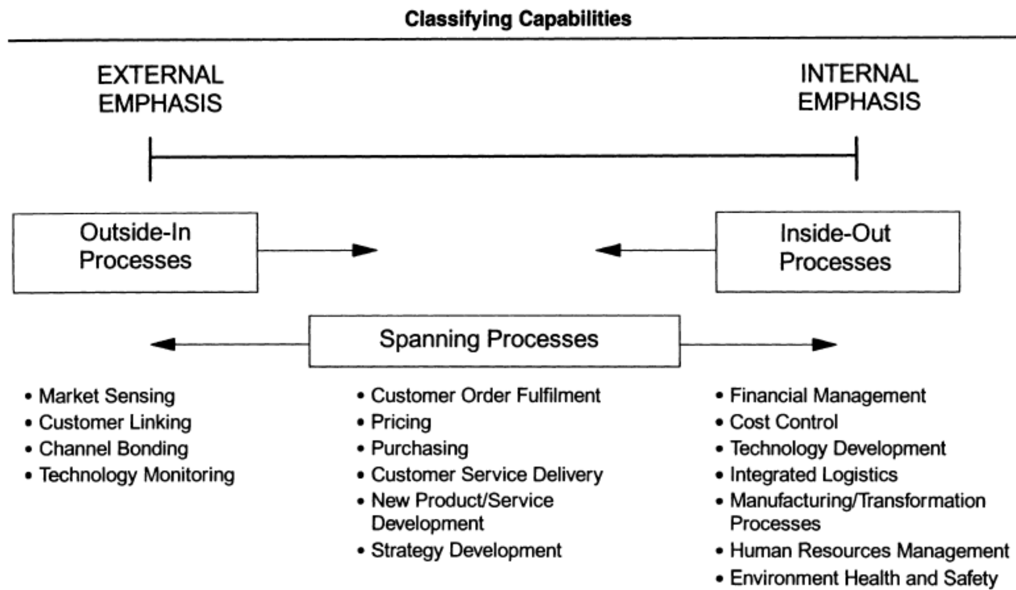
Transferring refers to the "giving or taking of resources to another contextual setting in which they can be leveraged more efficiently and effectively" (Azan & Sutter, 2010).

The ability to transfer and combine capabilities is a critical determinant of the firm's ability to achieve sustainable competitive advantage and, in so doing, earn superior returns (Grant, 1996). Firms with inferior capabilities may seek to acquire entities that possess superior capabilities, while those that have superior capabilities may look for targets that can best benefit from the transfer of the acquirer's capabilities. Transfer capabilities are worth doing only if the benefit from the transfer exceeds the cost (Chen, Chen, & Ku, 2012). Typically, the more difficult a capability is to imitate, the longer it will take to learn and apply (Haspeslagh & Jemison, 1991, p. 109).

Some firm capabilities are relatively general and therefore easy to transfer (Fortune & Mitchell, 2012). However a firm's most desired knowledge is often complex and ambiguous (Ranft & Lord, 2002). Capabilities that are embedded in the organisation and are difficult to transfer are often the basis of competitive advantage (Fortune & Mitchell, 2012).

Capabilities can be classified into three categories, according to the orientation and focus of the defining processes (Day, 1994). Capabilities that are deployed inside-out are triggered by market requirements, competitive pressures, and external opportunities. Examples of inside-out capabilities include manufacturing, logistics and human resource management, including recruitment, training, and employee motivation. Outside-in capabilities are those that focus almost exclusively outside the organisation. These capabilities connect the internal processes to the external environment and enable the firm to anticipate future requirements ahead of its competitors and creating sustainable relationships with customers, suppliers and channel members. Finally, spanning capabilities integrate the outside-in with the inside-out capabilities. Examples of spanning capabilities include strategy development and new product/service development, which are critical activities informed by both the external (outside-in) and internal (inside-out) analyses. The model by Day (1994) model on classifying capabilities is shown in Figure 1.

Figure 1: Classifying capabilities by Day (1994)



2.3 Integration

The topic of post-acquisition integration is receiving increasing attention because there is a growing realisation that "all value creation takes place after the acquisition" (Haspeslagh and Jemison 1991, p. 129). Haspeslagh & Jemison (1991) argue that actions and activities of managers after the acquisition bring the benefits and determine the results rather than the M&A transaction itself. Pablo (1994) defines integration as "the making of changes in the functional activity arrangements, organisational structures and systems, cultures of combining organisations to facilitate their consolidation into a functioning whole" (p. 806). Haspeslagh & Jemison (1991) describe integration as "an adaptive process of interaction that takes place when firms come together in an atmosphere conducive for capability transfer" (p. 103). Integration research has predominantly focused on the following: describing the integration actions taken by managers; understanding the impact of these actions on the integration approaches may influence acquisition performance and explaining how the process leads to value-creation (Birkinshaw & Bresman, 2000). Problems with post-acquisition integration are often cited as the reason for failure in many organisations (Haspeslagh & Jemison, 1991).

Shrivastava (1986) identifies three types of post-acquisition integration: procedural integration, physical integration, and managerial and socio-cultural integration. Quah &

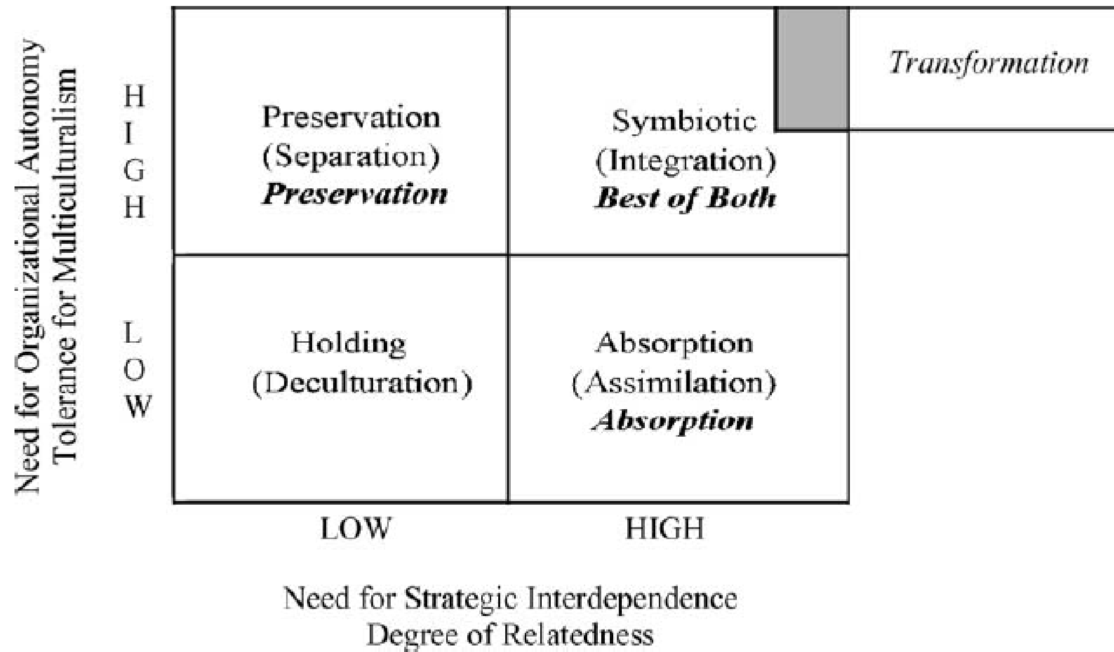
Young (2005) argue that post-acquisition integration is an interactive and gradual process in which the two firms learn to work together and collaborate in the transfer of strategic capabilities.

Haspeslagh and Jemison's (1991) capability-based framework of integration approaches, which considers the level of autonomy granted and the level of interdependency required post-acquisition, is based on different levels of integration and yields four integration approaches: absorption, symbiotic, preservation, and holding.

- *The absorption approach* is characterised by a high need for strategic interdependence in order to create the expected value, and a low need for organizational autonomy to achieve good results. The primary goal is to fully consolidate the activities of both firms, primarily through absorbing the acquired firm into its operations and culture.
- *Preservation approach* represents the condition where there is a low need for strategic interdependence between the acquirer and acquired firms, but a high need for organizational autonomy. This approach involves very little change in either the acquirer or acquired firm.
- *The symbiotic approach* is characterised by a high need for strategic interdependence and a high need for organizational autonomy. When using this approach, the activities of the two firms are preserved, followed by a gradual merging of best practices from both firms. The aim is to create a combined firm that reflects the core competencies and best practices of the acquirer and acquired firms.
- *The holding approach* represents the condition where the acquirer acts as a holding company with no intentions of integrating the two firms.

Marks & Mirvis (1998) developed a model for integration following an acquisition based on five integration approaches: absorption, reverse merger /assimilation, preservation, best of both and transformation. Figure 1 is a graphical presentation of how these integration approaches frameworks overlap (Ellis & Lamont, 2004, p. 84) .

Figure 2: Integration approaches



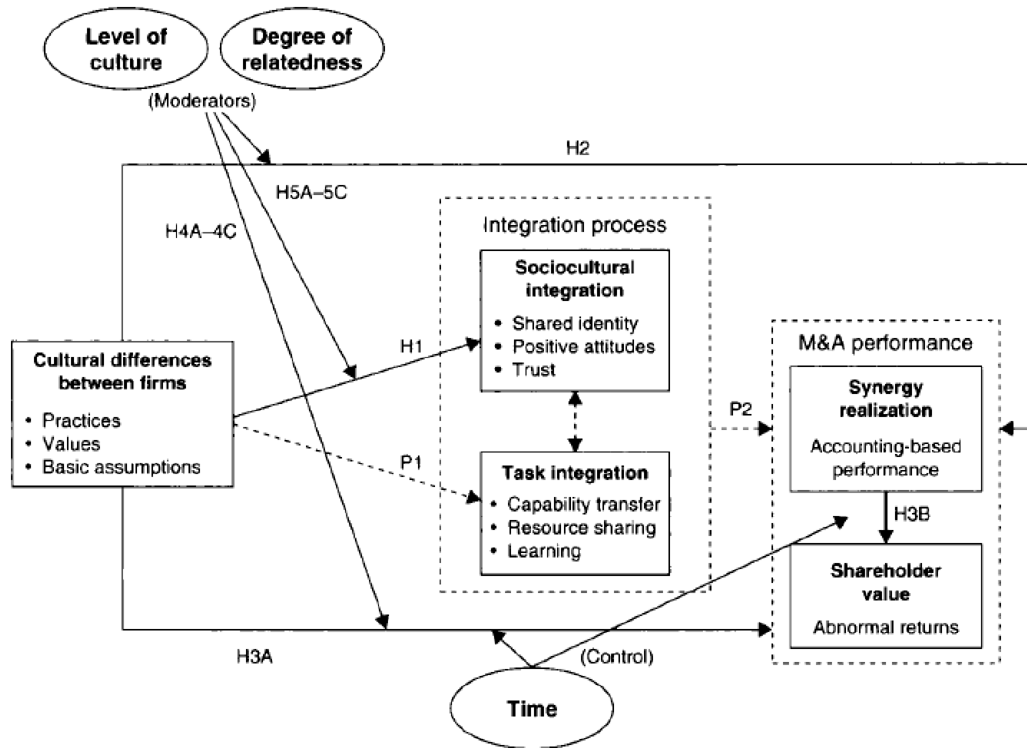
Source: Ellis & Lamont, 2004, (p. 84)

- *The transformation approach* by Marks & Mirvis (1998) is characterised by fundamental change in organisational culture and practices of both firms.

Stahl & Voigt (2008) and Birkinshaw & Bresman (2000) propose two aspects critical to synergy realisations in M&A: cultural integration, defined as the combination of groups of people with a shared identity and positive attitudes towards the new organisation , and task integration, measured in terms of capability transfer and resource sharing. Synergy in M&A refers to the increase in the acquiring and acquired firms' competitive strengths and resulting cash flows in excess of what the two companies are expected to accomplish independently (Capron & Pistre, 2002).

The authors argue that effective integration is an interactive process, which requires both socio-cultural and task integration efforts. A limitation of the research by Stahl & Voigt (2008) is that it does not explore how the cultural and task integration interact to facilitate the realisation of synergies. Figure 2 below depicts Stahl & Voigt's (2008) model of the impact of cultural differences on M&A performance.

Figure 3: Impact of cultural differences on M&A performance by Stahl & Voigt (2008)



Paruchuri, Nerkar, & Hambrick (2006) argue that if an acquired firm is given considerable autonomy and not integrated, the opportunity for knowledge sharing and synergy realisation is low. On the other hand if the acquired firm is integrated there is increased risk of organisational trauma and an increased likelihood that the resources that were attractive in the acquired firm will be damaged or destroyed (Paruchuri, Nerkar, & Hambrick, 2006).

Paruchuri et al (2006) argued that profiles of employee populations are affected to different levels by acquisition integration. They propose the design of targeted programmes to minimise the trauma for those groups that are most vulnerable. The disruptions resulting from being integrated are expected to influence post-acquisition productivity (Ranft & Lord, 2002).

The choice of integration approach must take into account the trade-off between high and low levels of integration. The realisation of high synergies requires high levels of integration, and costs as large cultural differences combined with high levels of integration cause high costs, that may offset the anticipated benefits from the acquisition (Cabornara & Rosa, 2009).

Epstein (2004) identifies five drivers of success in post-acquisition integration. He argues that failure on any one of the five can hinder the achievement of acquisition goals. The five drivers are coherent integration strategy, balanced integration team, constant and consistent communication, speed of implementation, and aligned performance measures.

2.3.1 Integration Strategy

The integration strategy articulates how the acquisition will be integrated. Decisions regarding structure, systems, processes, and practices should not be made on the basis of imitating the status quo from one organisation to the other (Epstein, 2004). All decisions should be made on the basis of an objective decision making process that considers solutions employed in the previous organisations, as well as alternatives, along with conversion costs. In personnel decisions, employees of both companies must be judged by the same standard and candidate selection process must be based on merit. Extra effort must be made to reach out to customers of the acquired firm, so that they understand their importance to the acquiring firm (Epstein, 2004). When making technical decisions, careful consideration of inter-operability is required, based on technical information rather than organisational politics.

2.3.2 Integration team

Commitment to a successful post-acquisition integration must be demonstrated by the structure, leadership and composition of the integration team. The integration team leader should be a senior executive. An important objective of the integration team is to ensure that the acquisition integration process is seamless from the customer's perspective (Epstein, 2004). The integration team must also recognise the important of organisational cultures in the integration.

2.3.3 Communication

It is argued that effective communication alleviates anxiety caused by misinformation, facilitates collaboration between individuals in the acquirer and acquiring companies, and ensures that the decision making process during integration is explicit and transparent (Bresman, Birkinshaw, & Nobel, 2010). During the post-acquisition integration, especially at the beginning of the process, communication from senior management must be appropriate, constant and consistent (Epstein, 2004). It must build confidence in the acquisition and in the integration process, emphasise the purpose of the acquisition with a set of tangible goals, and provide decisive responses to a range of stakeholder concerns. Each stakeholder must receive targeted communication that explains its role in the acquisition. Information on candidate selection process and severance policies must be quickly distributed to prevent losing employees whose skills are vital to the new firm. Once employees know they are being retained roles and responsibilities must be clearly articulated and employees must be advised of training necessary to facilitate their contribution in the new firm. Frequent and ongoing communication between the acquirer and target helps to protect potentially valuable and fragile knowledge as well as create a more favourable climate for transfer by reducing uncertainty and creating a shared understanding between the target and acquirer (Ranft & Lord, 2002).

Employees whose positions become redundant should be treated with dignity, informed of decisions early, and assisted with finding alternate employment, because this demonstrates to employees that remain that the company values its employees. From the view of the customer, an acquisition brings uncertainty, and the combination of strong performance and strong communication efforts are the best reassurance (Epstein, 2004, p. 178).

2.3.4 Speed of Implementation

Firms often set a stretch goal for speed of implementation, most commonly 100 days completion ((Epstein, 2004). Companies that move too slowly face a variety of threats, most notably employee and customer attrition due to perceived uncertainty and fear of instability. The faster the post-acquisition integration is completed, the faster the returns are realised (Angwin, 2004). From the behaviour perspective, enthusiasm for an acquisition is subject to entropy and reduces over time. Early actions achieving

quick wins helps delay the onset of entropy and seem an attractive course of action (Angwin, 2004). Angwin (2004) argues that rapid integration reduces exposure to the uncertainties of the external environment. Speed of integration also reduces the time available for competitors to respond to the new firm (Angwin, 2004).

However, there are dangers in moving too quickly. In the extreme, too much speed may destroy the fabric of what is purchased, and may lead to employee exits and loss of customers. Angwin (2004) argues that the first 100 days time frame is convenience rather than substance. Therefore the relationship between speed and acquisition success in not a straightforward one and other authors disagree with Angwin (2004) assertion that fast implementation leads to returns being realised quicker. This is discussed further later in the chapter.

2.3.5 Aligned performance measures

A successful acquisition requires the formulation of measures that are well aligned with the acquisition strategy and vision (Epstein, 2004). Targets and milestones must be created in all areas, particularly for the measurement of synergies. Integration teams and functional areas must be able to monitor progress against targets and milestones throughout the organisation. The measures should be both financial and non-financial to allow for a holistic evaluation and tracking of progress.

2.4 Relatedness

Haspeslagh & Jemison (1991) argue that the relationship between speed of integration and acquisition success is associated with the level of relatedness. Relatedness refers to aspects outside the two firms (external relatedness) as well as to aspects inside the two firms (internal relatedness) (Homburg & Bucerius, 2006). Examples of external relatedness include target markets and the firms' market positioning. Internal relatedness includes the firms' strategic positioning and culture.

Low internal relatedness impacts negatively on capability transfer (Homburg & Bucerius, 2006). There have been conflicting findings on the effects of external relatedness on capability transfer.

Relatedness comprises both similarity and complementarity (Zaheer, Castaner, & Souder, 2011). Similarity refers to the extent to which the two firms have a high degree of overlap in their technologies, operations, products, customers, or distribution channels, whereas complementarity refers to when components of the target firm complement those of the acquirer, and can be integrated to achieve joint value creation (Zaheer, Castaner, & Souder, 2011). The benefit of complementarity is that it provides the new entity with elements that are different but potentially revenue enhancing. By this definition, a difference is not sufficient to qualify as a complementarity. To meet the standard, the differences between the two capabilities must match or complete each other in a way that makes the combination more valuable than the sum of each alone (Zaheer, Castaner, & Souder, 2011).

Zaheer, Castaner, & Souder (2011) argue that high integration is viable and practical when there is similarity between the firms, because acquiring managers are familiar with the target's business and therefore have the necessary knowledge to implement the acquisition. Acquisitions with high similarity between the firms typically have high integration and low autonomy.

As the value of complementarity comes from value-enhancing differences between the two firms, its value arises from the extent to which the target is unfamiliar to the acquirer (Zaheer, Castaner, & Souder, 2011). Due to this unfamiliarity, Zaheer, Castaner, & Souder (2011) argue that firms acquiring complementary targets will prefer adopting higher autonomy as the target managers have greater knowledge and experience in the domain. Therefore, acquirers need to rely on the target managers' knowledge about the complementary elements and collaboration, to realise the potential value

A high level of integration and low autonomy risks alianating the target employees, whose knowledge and experience is needed for extracting value from the complementarity. If the acquired company's personnel are not provided with the discretion over decisions regarding the target's capabilities, the relevant knowledge and experience required to realise the benefits may be unutilised or lost through target firm attrition (Zaheer, Castaner, & Souder, 2011).

Similarity increases the acquirer's absorptive capacity for target complementarity. Similarity may lead the acquirer to feel familiar with some elements of the target's

capabilities and capable of understanding and leveraging the complementary capabilities that the target posseses. The perception of similarity might trigger the acquiring managers to believe that they understand the target's business and therefore have les reliance on the target's managers for that purpose (Zaheer, Castaner, & Souder, 2011), and thus are more likey to engage in high levels of integration than they would if they only perceived complementarity.

Barkema & Schijven (2008) have argued that the synergy opportunities existing in an acquisition are dependent on the strategic fit that the acquisition offers in the form of resource similarity or complementarity. Synergistic complementarities may include different products, research and development, market access or managerial synergies from applying complementary competencies (Barkema & Schijven, 2008).

When the firms are too homogeneous very little capability transfer can take place (Hitt, et al., 2009). Therefore, for firms to acquire new capabilities, heterogeneity is necessary. Hitt et al (2009) argue that the firms must have adequate absorptive capacity to acquire new knowledge, and therefore there must be some homogeneous elements that allow the firms to learn and integrate the new knowledge. The concept of absorptive capacity is discussed later in the chapter.

2.5 Speed of Changes

Homburg & Bucerius (2006) define speed of integration as the length of time it takes to integrate systems, structures, activities, and processes of the two companies. Homburg & Bucerius (2006) argue that the major benefit of a high speed of integration is the reducing of uncertainty among customers. However integration speed has the negative effect of increasing internal turbulence (Homburg & Bucerius, 2006).

Haspeslagh & Jemison (1991) argue that speed of integration is beneficial to capability transfer and M&A success. On the other hand Quah & Young (2005) recommend a more gradual approach, particularly in international acquisitions due to national culture distance.

In their research, Homburg & Bucerius (2006) found conflicting views on the effect of speed, and rather found that effect of speed of integration depends on the level of external / internal relatedness of the firms.

Homburg & Bucerius (2006) found a U-shaped correlation between speed and acquisition performance. They argue that speed of integration exhibits a strong positive impact on M&A success when there is low external/high internal relatedness, and a strong negative effect in the opposite case (high external/low internal relatedness).They argue that the detrimental effect of integration speed will be stronger when internal relatedness is low (p. 351).

2.6 Acquisition experience

To improve acquisitions' performance, firms must develop an organizational capability which helps implement acquisitions (Zollo & Winter, 2002). Zollo and Singh (2004) argue that management of post-acquisition integration can be learnt. The learning occurs through experience and codification of explicit knowledge in manuals, systems, and other tools. Activities aimed at knowledge codification can be mechanisms to accumulate know-how when task frequency and homogeneity are reduced (Zollo & Winter, 2002). Learning benefits will occur in the codification process, despite the acquisitions not being a daily task of the organization, as codification efforts force employees to draw explicit conclusions regarding their experience (Zollo and Winter, 2002).

2.7 Culture

Culture refers to shared and deeply held beliefs and norms. Hofstede, cited in Nkomo and Cook (2006), defines culture as the collective programming of the mind which distinguishes the members of one group from another and defines the identity of a human group in the same way that personality determines the identity of an individual. According to this definition culture refers to a collective, because it is shared with people in the same social environment.

Organisational culture concerns symbols, values, ideologies, and assumptions which operate, often in an unconscious way, to guide and fashion individual and business behaviour (Cartwright & Cooper, 1993).

Roger Harrison proposes that there are four main types of organisational culture: power, role, task/achievement and person/support (Cartwright & Cooper, 1993). While

there is no one "best" culture for organisational success, the different culture types create different psychological environments for their members (Cartwright & Cooper, 1993).

Mergers and acquisitions entail the joining together of organisational cultures and often national cultures, which poses a unique set of challenges with regards strategy, governance and the management of cultural differences.

The integration of cultures of two firms in an acquisition represents a challenge to acquiring firms (Lodorfos & Boateng, 2006). According to Lodorfos & Boateng (2006) a lack of cultural fit or incompatible cultures is often the reason for acquisitions failing to achieve the expected outcomes. Clashes between different organisational values and practices may lead to a lack of collaboration (Bjorkman, Stahl, & Vaara, 2007). On the other hand, Marks & Mirvis (1998) argue that cultural differences have a positive or negative effect on acquisition performance depending on how cultural differences are managed. Marks and Mirvis (1998) state that merger operations generally have social effects on employees that can affect acquisition success particularly in the transfer of capabilities.

While financial and strategic considerations dominate the selection of a suitable acquisition target, Cartwright & Cooper (1993) suggest that incompatible cultures are the main cause of acquisition failure. Integrating two separate and organisational cultures presents a major managerial challenge (Cartwright & Cooper, 1993). Bjorkman, Gunter, & Vaara (2007) argue that cultural differences can be both an asset and a liability. Cultural differences can both enhance the potential for synergies and negatively affect synergies because cultural differences can create barriers to socio-cultural integration.

Vancea (2011) proposes three strategies to approach the cultural differences:

- Imposing one of the two cultures. This is the most popular and in most instances the acquirer's culture is imposed. The success of this strategy requires speedy implementation and immediate adaptation.
- Creating a new culture. Although possible, it is risky strategy as it might destroy two communities and create a new culture, with which none of the communities relate.
- Maintaining the two cultures.

Lodorfos & Boateng (2006) four-stage framework for managing cultural integration process in M&As consists of:

- Phase 1: pre-merger and pre-planning stage. This phase involves information gathering and developing trust between members of both companies. This is achieved through one-to-one interaction aimed at identifying cultural gaps.
- Phase 2: planning stage, whose outcome is the formulaton of an action plan to facilitate the cultural integration process.
- Phase 3: implementation stage, designed to integrate structure and control systems.
- Phase 4: evaluation, review and reflection. This phase is aimed at creating a dynamic feedback process.

2.8 Absorptive capacity

Absorptive capacity refers to “the ability of the firm to recognise the value of new, external information, assimilate it, and apply it to commercial ends” (Cohen & Levinthal, 1990). Absorptive capacity is based on the idea that firms need prior related knowledge to assimilate and use new knowledge. There are four different but complementary dimensions of absorptive capacity: acquisition, assimilation, transformation and exploitation (Lee & Wu, 2010).

Acquisition, in this context, is defined as the ability to recognise, value and acquire external knowledge that is vital to a firm’s operation. Assimilation refers to the firm’s ability to absorb external knowledge. The firm’s routines and processes allow it to understand, evaluate and interpret and value information from external sources. Transformation refers to the ability to develop routines that facilitate integrating existing knowledge and newly acquired knowledge. This is achieved by the addition of knowledge, or by the different ways of interpreting knowledge. Exploitation refers to the routines that allow firms to refine, extend and leverage existing capabilities or obtain new capabilities by integrating the acquired and transformed knowledge into the business.

Absorptive capacity is one of the most important determinants of the firm’s ability to acquire, assimilate, and profitably use new knowledge practices (Lee & Wu, 2010).

Knowledge on its own is not enough; a firm needs to have the ability to exploit and apply the knowledge embedded in the firm.

Internal factors affecting a firm's absorptive capacity include prior related knowledge, individual absorptive capacity, organisational structure, cross-functional communication, organisational culture, organisational inertia and human resource management practices. A firm can develop absorptive capacity by developing individual absorptive capacity and by promoting a culture that is open and adaptive to change (Lee & Wu, 2010).

Higher benefits from externally acquired knowledge are derived through absorptive capacity, which facilitates effective assimilation and exploitation (Hussinger, 2012). With a distinct absorptive capacity, acquiring firms can recognise valuable new ideas and practices introduced by the acquired firm. The implementation of new knowledge is easier within firms with a significant absorptive capacity since they possess the required capability to adapt to new ideas (Hussinger, 2012).

2.9 Factors affecting capability transfer

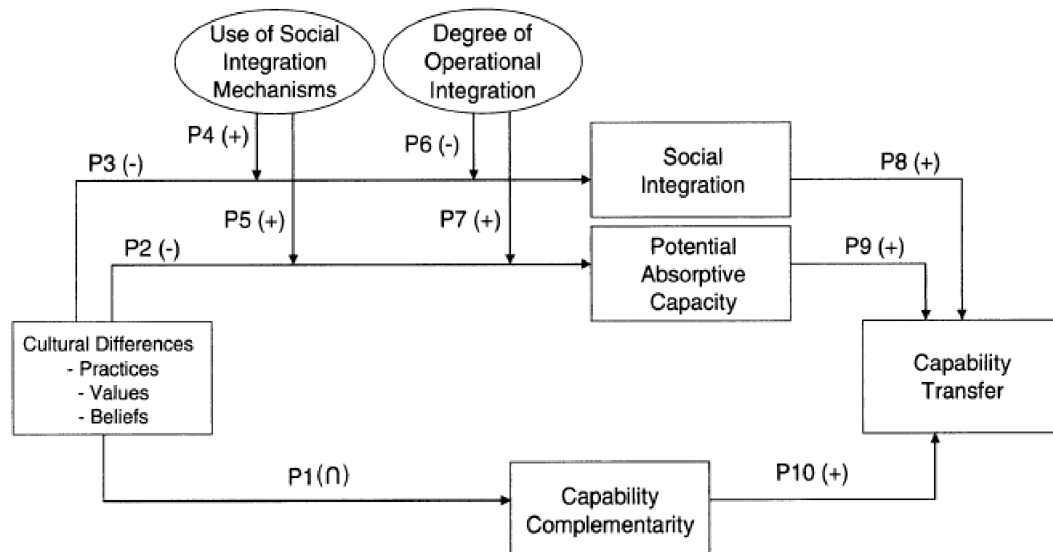
Hitt et al (2009) define complementary capabilities as "different abilities that fit and work well together (Hitt, et al., 2009). According to Haspeslagh and Jemison (1991) the objective of related acquisitions is to improve the competitive position of the acquiring or acquired firm, or both of the firms by the transfer of complementary strategic capabilities between them. Capron & Mitchell (2009) highlight the difficulties in transferring capabilities between the acquiring and acquired firms following acquisitions. Other factors contributing to post-acquisition capability transfer, in addition to the existence of complementary capabilities, include motivational factors between the firms and the recipient's capacity to absorb capabilities from the other unit. (Bjorkman, Stahl, & Vaara, 2007). The motivational factors indicate the importance of cooperation and unity between the units involved.

Bjorkman, Gunter, & Vaara (2007) conducted a study on the ability of the firms involved in an acquisition to absorb capabilities from each other, and have developed a model of factors influencing capability transfer in cross border acquisitions. The execution of a well-designed integration process that improves the organisation's capacity to acquire and absorb new capabilities, while minimising interpersonal and intercultural conflict, is

critical to transferring capabilities (Bjorkman, Stahl, & Vaara, 2007). In the firm level study, the authors argued that social integration is an important success factor of capability transfer, and that high levels of potential absorptive capacity and inter-unit capability complementarity are predictors of higher levels of capability transfer.

Paruchuri et al (2006) argue that the knowledge worker is the key to successful transfer of technological capabilities. The success in retaining these workers and maintaining their productivity is critical to acquisition performance (Paruchuri, Nerkar, & Hambrick, 2006).

Figure 4: Bjorkman, Gunter, & Vaara's (2007) model of factors influencing capability transfer in cross-border acquisitions.



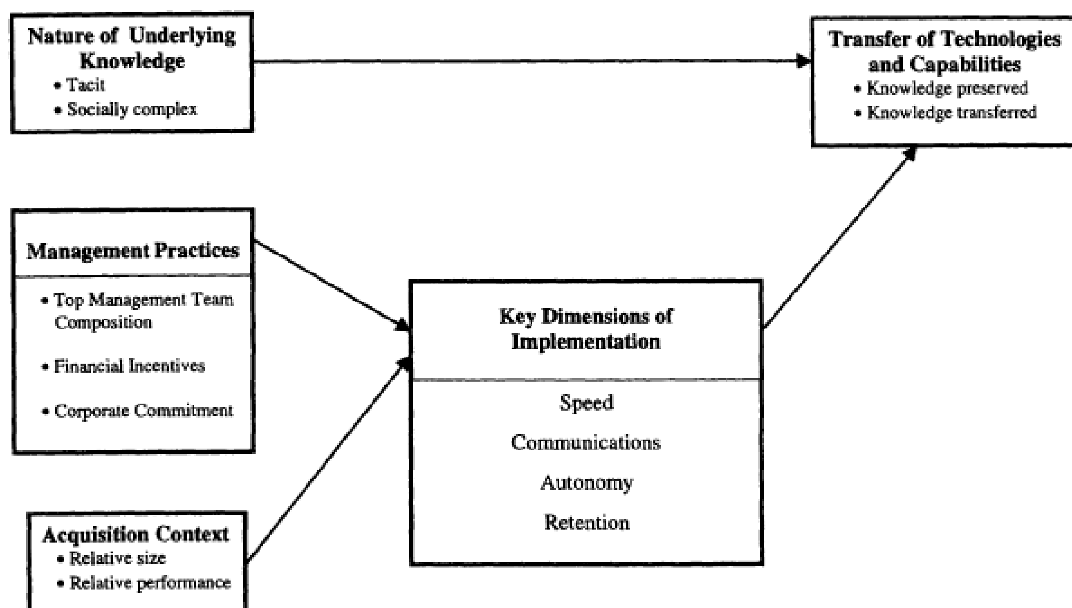
Haspeslagh and Jemison (1991) identified three types of problems affecting capability transfer. They argue that flexibility in acquisition integration is important as it enables management to adjust its integration strategy as circumstances change. In the process of creating value for shareholders, employees may perceive that they are asked to destroy value for themselves. Haspeslagh and Jemison (1991) state that in situations that employee value was destroyed, i.e. that employees perceived that in the process of creating value for shareholders, they were asked to destroy value for themselves, individuals' commitment to making the acquisition work declined because they perceived a qualitative change in the nature of their relationship with the firm. According to (Haspeslagh & Jemison, 1991) it is important to decide when to accommodate peoples' needs and concerns and when to press ahead, which makes managing the people process critical. The third integration problem is a "leadership

vacuum" which refers to a lack of institutional and interpersonal leadership, which limits the possibilities for creating the environment necessary for capability transfer (Haspeslagh & Jemison, 1991).

According to knowledge-based views, firms are generators, repositories, and integrators of knowledge (Ranft & Lord, 2002). Ranft & Lord (2002) argue that a firm's ability to create value is not primarily based on its physical or financial assets, but is generated from its sets of intangible, knowledge-based resources.

Ranft & Lord (2002) examined the process of knowledge transfer during acquisition implementation. They argue that "the transfer of technologies and capabilities to the acquirer is neither simple nor quick because of distinct acquisition implementation issues" (Ranft & Lord, 2002, p. 436). Ranft & Lord's (2002) research has not been tested on acquisitions whose objective is to enter new international markets, neither has it been applied to examine the transfer of local market knowledge rather than technological knowledge from target to acquirer during international expansion. Again it was tested on acquisitions in developed markets and on domestic acquisitions and on smaller acquisition. Figure 4 is a graphical depiction of the model by Ranft & Lord (2002).

Figure 5: Ranft & Lord's (2002) model of acquisition implementation



The lack of structural compatibility and motivation to work together makes capability transfer difficult (Cabornara & Rosa, 2009). Cabornara & Rosa (2009) argue that the atmosphere created through the intergration process affects the absorptive capacities of the two firms to recognise the value of the other firm's capabilities and assimilate it.

An important factor affecting capability transfer is creating the right atmosphere to facilitate capability transfer. It is leadership's ability to create the atmosphere necessary for capability transfer and provide a common vision (Haspeslagh and Jemison, 1991). Haspeslagh & Jemison, (1991) suggest five activities involved with creating the right atmosphere for capabilities transfer. First, the firms must develop a reciprocal understanding of the other firm's organization and culture. Second, people in the target and acquirer must be willing to work together after acquisition. Third, the acquirer and target must have the capacity to transfer and receive the capability. Fourth, to prevent a premature fixation on short term results, managers must provide the discretionary resources as a buffer and to provide head room. Lastly, managers must have a clear understanding of how the capabilities can lead to improved competitive advantage.

According to Cabornara & Rosa, (2009) the type of atmosphere depends on the structural compatibility between firms and the motivation of the firms' members to interact at all hierarchical levels. Cabornara & Rosa (2009) atmosphere model is shown below.

		Structural compatibility	
		High	Low
Motivation to collaborate	High	Supportive (A)	Aware(B)
	Low	Aware (C)	Unsupportive(D)

In a supporting atmosphere the two firms are motivated to work together and match their structures. In a supportive atmosphere, Cabornara & Rosa (2009) argue, the process of transfer is simpler and quicker.

An aware atmosphere is created under either a condition of high structural compatibility and low motivation to collaborate, or under a condition of low structural compatibility and high motivation to collaborate.

An unsupportive atmosphere is generated under conditions of low structural compatibility and low motivation to collaborate. In an unsupportive atmosphere, capability transfer is difficult to realise.

Factors that hinder the ability to create the atmosphere for capability transfer include the inability / inflexibility to adapt to changing circumstances, the destruction of value for employees and a leadership vacuum that does not provide a new vision (Haspeslagh & Jemison, 1991)

Cabornara & Rosa (2009) argue that the nature of the combined capabilities is defined by a level of absorptive capacities of the firms and the level of cultural and knowledge distance between the firms. Firms under the condition of high cultural or knowledge distance and high level of absorptive capabilities cause the new entity to generate new capabilities unrelated to the specific capabilities of the two firms.

Bresman, Birkinshaw, & Nobel (2010) argue that the transfer of technological capabilities is facilitated by face-to-face communication, and frequency of visits and meetings between the acquiring firm's employees and the target firm's employees.

Inkpen and Dinur (1998) suggest that the successful transfer of capabilities depends on a convergence in the organisational context along several dimensions: strategic, decisional, environmental, cultural and technological.

2.10 Acquisitions and the type of capability transfer

Haspeslagh & Jemison (1991) suggest four types of capability transfer: operational resource sharing, functional skills transfer and general management skills transfer.

Resource sharing involves the combination and rationalisation of some of the operating assets of both firms. Such rationalisation can take place in one or more functions and leads to cost improvements that arise from economies of scale and scope.

Functional skills transfer involves the bringing in, from another firm, of functional stills that can help the firm to be more competitive. Examples include advanced manufacturing process skills between two manufacturing firms, detailed knowledge of a distribution channel or cutting-edge research. In functional skills transfer one firm

improves its competitive position by learning from another through the transfer of functional skills. Transfer of functional skills can be difficult as these skills are typically embedded in the activities, routines and habits that are learned over time and often by trial and error; their performance becomes automatic when a particular situation occurs (Haspeslagh & Jemison, 1991). This creates problems because to benefit from a new skill, the firm must be able to apply it in its new context.

General management skills transfer involves improving the range or depth of the other firm's general management skills, making it more competitive. These capabilities range from the broad skills needed in setting corporate direction and leadership to more analytically oriented skills and systems, such as those needed for strategic planning, financial planning, control, or human resource management. The acquiring firm can also improve its own general management capabilities through acquisitions (Haspeslagh & Jemison, 1991).

According to Haspeslagh & Jemison (1991,) every value creating acquisition presents a potential mixture of the three types of capability transfer. The choice of which capability transfer to focus on depends on the strategic motivation behind the acquisition (Haspeslagh & Jemison, 1991).

2.11 Capability transfer at subsidiary level

All multinational corporations (MNCs) consist of a group of geographically dispersed organizations which consist of headquarters in the home country and subsidiaries which operate in various other countries (Bartlett & Ghoshal, 1990).

The headquarters (HQ) office is defined as an overseas office that executes certain coordination and control functions on behalf of the central office in the home country (Scott & Gibbons, 2011)). A subsidiary is defined as a firm which is controlled by another firm (called the parent) through the ownership of more than 50 percent of its voting stock (Scott & Gibbons, 2011).

Leveraging capabilities is a key challenge for MNCs. Subsidiaries of large organisations face pressures operating in today's dynamic business environment.

Over the last two decades, headquarters have progressively granted more freedom to subsidiaries to prosper from the local learning, access to local resources and

capabilities to achieve learning and dynamism throughout the MNC (Andersson, Forsgren, & Holm (2007) in Scott & Gibbons, 2011). Operating in multiple territories requires firm to ensure their dispersed activities comply with both local and international regulatory and competition rules. Subsidiaries have the potential to formulate strategies and implement autonomous decisions.

According to Birkinshaw & Hood (1998) subsidiary roles tend to shift over time driven by:

- the role assigned to it by head office according to factors like the perceived capability of the subsidiary and the strategic importance of the local market
- the decisions by subsidiary management to define for themselves the role of their subsidiary
- and the constraints and opportunities in the local market.

Overseas subsidiaries are seldom complete replicas of their parent firm (Chen, Chen, & Ku, 2012). It has been argued that organisational capabilities are embedded within a firm's local environment (Garcia-Pont, Canales, & Noboa, 2009). Subsidiaries build up specific capabilities to deal with local business affairs (Birkinshaw & Hood, 1998). Combinative capabilities enable the subsidiary to use its locally-based knowledge and opportunities to generate initiatives for exploitation across the MNC (Scott & Gibbons, 2011). Scott & Gibbons (2011) argue that the MNC's ability to realise competitive advantages is through exploitation of the unique opportunities by the subsidiary in their local setting to generate innovations.

Chen, Chen, & Ku (2012) argue that the parent will never transfer all capabilities to the subsidiaries, regardless of transfer cost. Even though subsidiaries encounter constraints in developing their own strategy due to corporate and resource constraints, the do have the latitude to shape their own future, improve performance and influence the MNC as a whole (Garcia-Pont, Canales, & Noboa, 2009). Subsidiaries build their strategies by balancing their own initiatives against intitiatives from headquarters, while coordinating efforts across the MNC (Garcia-Pont, Canales, & Noboa, 2009). Given the differences between the MNC and subsidiaries, their integration of merging firms may differ including the transfer of capabilities between the acquiring and acquired firms.

The more a subsidiary develops its potential to create and augment its capabilities in its local market, the less likely it is to transfer its capabilities within the MNC (Andersson,

2003). Andersson (2003) argues that barriers to transfer include motivational factors associated with the sending and the receiving unit.

Garcia-Pont, Canales, & Noboa (2009) argue that when a subsidiary develops its strategy, it impacts on the MNC's norms and its strategy. Andersson (2003) argues that assigning roles of responsibility or mandates to certain subsidiaries can enhance the integration of subsidiary-developed knowledge in the MNC. How does capability transfer during M&A, at subsidiary level link to transfer at firm level?

2.12 Conclusion

Firms do utilize acquisitions to overcome obstacles to changing their resources and capabilities and that change occurs through the transfer of capabilities between the acquirer and target. The potential for capability transfer in acquisitions varies based on the characteristics of the target firm, the relationship between the target and acquirer, and the characteristics of the acquiring firm.

Successful integration is crucial to the success of a business post acquisition. A symbiotic approach is beneficial in integration as it takes into account both sides and combines beneficial competencies and best practices of both companies.

The acquiring company needs to have a precise integration strategy of how the acquisition will be integrated, clearly mapping out systems, processes, structures, personnel and practices based on factors from both companies. The company needs to elect an objective integration team composed of competent and senior individuals who can address the organization's cultural aspects and ensure that the integration process is seamless for customers. Effective communication is another vital factor, management need to clearly and consistently communicate with employees. Managers should make all effort to increase their acquisition experience so exude confidence when they communicate with employees. They need to clarify roles and responsibilities, reinforce purpose and value which is crucial in retaining staff. Also reassure customers to alleviate any possible anxieties surrounding the acquisition.

All the various processes happen within a time frame, the speed of implementation is crucial. The first 100 day is one of convenience rather than substance .There are conflicting views in research on how speed of implementation affects success showing that speed is related to the size of the organization and the levels of interrelatedness

between the two. Once high interrelatedness is established; the convenient pace of 100days is generally sufficient to ensure that people do not loose energy and interest or experience heightened anxiety because the acquisition is taking too long. Relative swiftness will help boost confidence, reassure customers and realise returns quicker. There is a danger of moving too quickly as it can increase internal confusion as people need time to digest changes. Also in rushing companies will fail to realise the competencies possessed by the acquired company. The final important factor that aids the success of integration is having performance measures in place to enable the company to monitor progress throughout the company; evaluating progress on targets and milestones created. Then the company can be empowered to make improvements and changes.

Acquisitions bring about the joining of different organisational cultures; these differences in cultures can act as assets or liabilities to the company depending on how cultural integration is handled. Therefore cultural difference per se may be less of a problem, but what is relevant is how the socio-cultural integration process is managed, to promote the development of a shared identity. It is advisable to design targeted programmes that will help vulnerable groups transition better. Cultural integration can be managed by: engaging in one-to-one interactions among employees to form relationships, this process will help pinpoint gaps and vulnerabilities, then an action strategy can be designed and implemented to address the challenges, this should then be evaluated to determine the success or shortfall of the action strategy.

In the process of acquisition the two companies will either have a great deal in common presenting a high level of similarity in their systems and process or the acquired company will bring in different but value-enhancing complementary competencies. The ideal is to work towards high internal relatedness, in cases where companies are acquiring complementary companies it is advisable to use target managers that are knowledgeable and experienced in those complementary areas to implement the acquisition strategy. An alternative view point states that integration is achieved through complementary capabilities as opposed to relatedness between the two companies. In this case a well designed social integration process is crucial in the success of capability transfer. Therefore organizations need to be good at recognising, acquiring and applying capabilities. Absorptive capacity leads to greater benefits being absorbed from externally obtained knowledge as it allows more valuable incorporation and utilization.

There is also another view that puts emphasis on knowledge transfer during acquisition, stating that organisations can create value from knowledge based resources not solely from physical or financial possessions. It is also crucial to create the right atmosphere that encourages capability transfer, factors like inflexibility, not valuing employees and absent leadership will hinder capability transfer.

There are four suggested types of capability transfer: operational, resource sharing, functional skills transfer and general management skills transfer and every value adding acquisition present the opportunity to absorb a combination of at least three types of capability transfer, the choice will depend on the strategic motivation of the acquiring company.

Based on the literature review the most relevant research on factors affecting capability transfer is the papers by Bjorkman, Stahl, & Vaara (2007) and Ranft & Lord (2002). Based on their models the factors affecting capability transfer can be grouped into the following five categories:

- Implementation related factors
- Socio-cultural factors
- Management practices
- Absorptive capacity
- Capability complementarity
- Acquisition context

It is argued that organisational capabilities are embedded within the company's local environment, so subsidiaries will build relevant competencies to deal with local business dynamics which will differ from the parent company. Parent companies cannot transfer all capabilities to subsidiaries, giving them the latitude to shape their own future by acquiring their own capabilities, and the way they approach acquisitions and transfer of capabilities may differ.

3 Research Propositions and Questions

This study aimed at identifying the factors affecting capability transfer at subsidiary level and identifying the linkage between subsidiary and firm level capability transfer during acquisitions. This chapter discusses the purpose of conducting this research, which is to seek answers to the research questions outlined below and to describe, decode and translate the findings into a practical and meaningful framework for capability transfer in acquisitions. This chapter draws on the concepts identified in the literature review, together with the research aims detailed in Chapter 1.

Research question 1: What factors facilitate capability transfer at subsidiary level during M&As?

Research question 1 investigated the relevance of existing literature on capability transfer during acquisitions at the subsidiary level. Although some research has been conducted at the firm level, the literature review revealed limited research having been conducted at the subsidiary level.

Research question 2: How do subsidiaries leverage these factors to achieve successful capability transfer?

Research phase two focused on the requirements to leverage the factors affecting capability transfer during acquisitions at the subsidiary level. An improved understanding of these requirements will assist acquiring organisations leveraging the factors to achieve successful capability transfer and prompting action to have the requirements in place.

Research question 3: How do these differ from the factors affecting transfer at firm level?

Over the last two decades, headquarters have increasingly granted greater freedom to operations to benefit from the local learning of its independent subsidiaries, access to local resources and competencies to achieve learning and dynamism throughout the MNC (Scott & Gibbons, 2011). Understanding the difference in the factors affecting transfer at firm and Group level will help leaders make future acquisitions and

resourcing decisions and better prepare and equip the subsidiary to implement acquisition.

4 Research Methodology

This chapter discusses the research methodology used in this study. The theory and literature section set out in chapter 2 provided the basis of the research problem and thus the need for this study. Most relevant literature in M&A is concerned with the creation of value through post-acquisition integration (Bresman, Birkinshaw, & Nobel, 2010). Most researchers have focused on how capability transfer may lead to overall value creation, not on the factors facilitating capability transfer per se (Bresman, Birkinshaw, & Nobel, 2010). The limited available literature on the factors affecting capability transfer in acquisitions (Bjorkman, Gunter, & Vaara 2007, Ranft & Lord 2002), have focused analysis at firm level. However, given that overseas subsidiaries are seldom a complete replication of their parent firm (Chen, Chen, & Ku, 2012) and that organisational capabilities are embedded within a firm's local environment (Garcia-Pont, Canales, & Noboa, 2009), it would not be appropriate to generalise that the factors applicable at firm level would apply at subsidiary level (Bjorkman, Stahl, & Vaara, 2007).

The first phase of the research was a qualitative study focused on the factors affecting subsidiary level capability transfer in acquisitions. Research phase two was a quantitative study, which tested the constructs identified in phase 1.

4.1 Population and sampling frame

The target population of reference in this study was defined as subsidiaries of multinational acquirers. The research unit of analysis is defined as the perception of executives, integration team and department managers of the factors affecting capability transfer at subsidiary level during acquisitions.

Weir Minerals was analysed in our sample to draw conclusions on the population. The main considerations were that it is a **subsidiary** of a parent company that had been involved in **eleven acquisitions** in the past four years, and would therefore contribute to the topic. In addition, the researcher had **access** to the company, which would facilitate the completion of the research, given **the time and resources constraints**.

Weir Minerals Africa is a leader in the manufacture of pumps, valves, cyclones and mill liners for the mining and minerals processing industry. Following its acquisition of CH Warman in 2008, which gave it a dominant position (75% market share) in its chosen market space of slurry pumps, it had become clear that it had to grow its market space if it was to grow through acquisitions. Weir Minerals Africa employs approximately 1300 staff, and is a subsidiary of The Weir Group (Weir), a FTSE100 UK based engineering firm with a host of operations worldwide. Weir (both globally and in South Africa), has grown substantially of the past 4 years, with much of this growth coming through acquisition rather than organically. The company appears to be acquisitive by nature, with support for this statement coming in the form of the group's balance sheet, where the biggest asset by far is intangible assets, of which approximately 80% is goodwill.

With effect from 1 May 2008, Weir reorganised its operating units into three sector focused divisions in the higher growth markets of mining, oil & gas and power industrials. This reorganisation was undertaken with an objective to extend offerings to customers and leverage further the extensive geographic footprint of the Group. The company has sought to reposition itself from being a product to a leading engineering solutions provider. It set itself an ambitious target of doubling 2009 pre-tax profits by 2014 through a combination of organic growth, market share gain, market expansion and acquisition.

Since 2007 Weir has acquired 11 companies in different geographies ranging from South Korea and Malaysia to the Europe and the United States. With this number of acquisitions made by the organisation, employees from different backgrounds and corporate cultures are being thrown together into a melting pot, against a backdrop of innovative solutions and a collaborative mindset. It is thus vital that these mergers result in a culture that still supports Weir's key growth drivers. Weirs acquisition strategy has focused on related businesses, and businesses that have similar or complementary capabilities.

Weir Minerals Africa is the African unit of the Weir Minerals division. Its headquarters are in Johannesburg, South Africa from where it serves the Sub Saharan Africa mining and minerals industry. Weir Minerals Africa employs over 1,300 people. It has branches in resources rich countries of South Africa, Ghana, Zambia, Zimbabwe, Tanzania, Botswana and Namibia. Its regional manufacturing plants are situated in Isando and Alrode in Johannesburg, South Africa.

Weir Minerals Africa has been profoundly impacted by the Weir Group's growth strategy, with the acquisition of the CH Warman Pump Group and Linatex having had the biggest impact on local operations. The acquisition of CH Warman was a merger of equals, while Linatex was a much smaller acquisition relative to the size of Weir. The company has doubled in size since 2008. The company's goal is to double the size of the business every five years, utilising a combination of acquisitive and organic growth.

The sampling frame included individuals within the employ at Weir Minerals, representing the following groupings:

- The executive team and operations committee to ensure representation of the different functions.
- The integration team, involved with integrating the acquisitions.
- Managers of Weir and the acquired firms (Warman and Linatex)

Non probability sampling was used implying that any results cannot be generalised to the population as it does not represent the population statistically (Saunders & Lewis, 2012, p. 134).

The sampling methodology was selected to fit the research objectives, methodology and focus for the research phases.

4.1.1 Data reliability and validity

Reliability is a measure of the consistency of the research methodology (Saunders & Lewis, 2012). To ensure reliability the interview scripts were standardised as far as practicable. The researcher sought an independent perspective on both the interview script and the analysis procedure and approach. Data validity in qualitative research refers to the accuracy and precision of the data in terms of the research question being asked (Zikmund, Babin, Carr, & Griffin, 2010). Interpretive validity need to be applied to reduce the potential for the researcher's bias due to personal perceptions and assumptions. This required the researcher to focus on the language and perspective of the respondents during the interview and not his interpretation of the respondent's comments.

4.2 Research phase one

A descriptive, qualitative investigation formed the basis of phase one of the study. Descriptive research is designed to describe characteristics of a population or phenomenon (Zikmund, Babin, Carr, & Griffin, 2010). Qualitative research is a type of research that seeks new insights, asks new questions and assesses a topic in a new light (Saunders & Lewis, 2012). Qualitative data may be used to develop theory that explains a particular phenomemon (Zikmund, Babin, Carr, & Griffin, 2010). The qualitative research was used to develop constructs that will be used in phase two. These constructs will be used as inputs into the questionnaire design phase, in order to create a valid data.

According to (Yin, 1994) interviews are an essential source of qualitative evidence in which well-informed respondents can provide important insights into a situation as a result of building the respondents' understanding of their experiences relating to a particular phenomenon. However, interviews are subject to the common problems of bias, poor recall, and poor or inaccurate articulation. A reasonable approach is to triangulate interview data with information from other sources (Saunders & Lewis, 2012). Semi-structures interviews have been selected for this phase of the study, as it is a useful method of data collection if the interviewer has a broad list of questions to be covered that may become more refined as the interviews progress (Zikmund, Babin, Carr, & Griffin, 2010). Zikmund et al (2010) state that semi-structured interviews have general themes, targeted issues and specific questions to uncover definitive information from the interviewees selected. Structured interviews would not have been appropriate as they would have limited the interviewees from providing new insights.

In-depth interviewing was used as the technique to interrogate the selected subject. The in-depth interview was more like a dialogue as opposed to a formal interview with preset response categories. Six interviews were conducted. Five interviews were face-to-face, semi-structured and built on open-ended questions, which resulted in an in-depth and qualitative interview. A key benefit of face-to-face interviews is the likelihood of obtaining complete and precise information, and the opportunity to clarify and confirm the information on the spot (Zikmund, Babin, Carr, & Griffin, 2010). The sixth interview was done via tele-conferencing with the Group head of integration, who was based in the US.

These interviews were voice recorded and handled with highest confidentiality. The advantage of audio recording is that is offered a permanent record, which was complete and which can be checked by other researchers. Recording also allowed the researcher to be fully engaged in the interview, and check for other cues such as body language, which were captured on written notes by the researcher. The disadvantage of voice recording is that it only captures speech and misses a later review of non-verbal communication and other contextual factors that may have been missed during the actual interview.

Pre-testing was conducted prior to the in-depth interviews to allow the interview process to flow and allow the researcher to be comfortable with the interviewing and probing technique and the capturing of the data. Saunders and Lewis (2012) recommend this approach in order to check that the questionnaire will be effective, that the respondents understood the questionnaire and that their responses were correctly recorded, and that one hour was sufficient for the interview. Individual interviews are capable of identifying important characteristics and drivers of a phenomenon (Zikmund, Babin, Carr, & Griffin, 2010).

4.2.1 Population and sample

The target population of reference in this study was defined as subsidiaries of multinational acquirers. The sampling frame included the executive team, which formed the local integration team and the Group head of acquisition integration; which constituted individuals that contribute to the understanding of the research problem. The executives selected had a sound reputation based on their extensive experience and deep understanding of the complexity of mergers and acquisitions. One executive had only been in Weir for two years and was not chosen to be interviewed, due to lack of experience within Weir.

The sampling frame included individuals within the employ at Weir Minerals, representing the following groupings:

- The executive team and operations committee to ensure representation of the different functions to obtain varied perspectives on the topic. The executives had the big picture view of the acquisitions goals and objectives, and formed part of the core integration team.

- The Group head of integration, involved with integrating the acquisitions, as he is intimately involved in all acquisitions taken by the group, and recognised as an expert on acquisition integration within Weir.

The sample selection was judgemental in nature, where sample members would conform to some criteria, i.e. executives and expert in acquisition integration. According to Zikmund et al (2010) non-probability judgmental sampling is utilised to serve a specific purpose, when the researcher uses their judgement to select the sample based on appropriate sample characteristics.

4.2.2 Data Collection

Techniques for data collection should provide valid and reliable data (Saunders & Lewis, 2012). Data from multiple sources of evidence were triangulated to establish the credibility of the research findings. (Saunders & Lewis, 2012, p. 122) i.e. to address the potential problem of construct validity.

Data was collected through semi-structured interviews, guided by the attached interviewer schedule. Unlike the structured interview, it was not possible to work out all the questions to be asked or the order in which they would be asked (Saunders & Lewis, 2012, p. 156). The types of questions used, and the order, depended on the responses received from the participants during the interview (Saunders & Lewis, 2012, p. 156). A total of six interviews were held with each interview lasting one hour.

In order to maintain consistency and increase the reliability of the data collection, the same process was followed with each interviewee. The interviews began by placing the participant at ease by conversing on general issues like recent events. The interview proceeded to limit interviewer bias by limiting probing questions to:

Why is this factor important?
What would you consider to be other factors?
How do firms leverage these factors to achieve successful capability transfer?
What other factors would be considered at Group level?

An interview guide is included in Appendix 1. The interview guide was designed in three sections which linked back to the main research questions in Chapter 3.

The data collection commenced following receipt of clearance from the Ethics Committee of the University of Pretoria's Gordon Institute of Business Science.

4.2.3 Data Analysis

Phase one had been designed to reveal the factors affecting subsidiary level capability transfer in acquisitions. The responses were analysed using qualitative data analysis technique in the form of content analysis, which identified common themes in the primary data. A content analysis is a detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes or biases (Cummings & Worley, 2009). Cummings and Worley (2012) describe the process of content analysis as follows: First, responses to a particular question were read to gain familiarity with the range of comments made and to determine whether some answers were occurring over and over again. Then, secondly, based on this sampling of comments, themes were generated that captured recurring comments. Themes consolidated different responses that say essentially the same thing. Then, the respondents' answers to a question were placed into one of the identified categories. The categories with the most responses represent those themes that were most often mentioned (Cummings & Worley, 2009, p. 130) . The content analysis was followed by a frequency analysis.

4.3 Research phase two

Research phase two is a quantitative descriptive study, performed using a self administered questionnaire. The research phase drew on the constructs identified through the literature review as well as those identified through the qualitative phase one study.

The purpose of the questionnaire was to gauge the respondents perceptions of the constructs identified in the literature review and the qualitative interviews. This would reveal the relative importance of the various constructs.

The questionnaire design was limited to the information required for the specific research questions. The questionnaire was pre-tested to ensure that the questions

were understood and interpreted by the respondents in the way the researcher wanted them to be understood (Saunders & Lewis, 2012), and to check for the appropriateness of the length to avoid questionnaire fatigue. The pre-testing phase involved the questionnaire being distributed to three respondents on a convenience basis.

In addition to specifying constructs, the questionnaire design included space for respondents to specify constructs they felt were not addressed. This was done to improve the quality of the data since there could have been construct that may not surface during the literature review and the qualitative interviews, especially given the limited number of qualitative interviews (Naidu, 2009, p. 42).

4.3.1 Population and sample

The target population of reference in this study was defined as subsidiaries of multinational acquirers. The sampling frame includes managers within the employ at Weir Minerals, representing the following groupings:

- Managers of the acquiring company (Weir Minerals)
- Managers of the acquired companies

Non-probabilistic convenience sampling was used, using a survey questionnaire administered to the respondents in the sampling frame.

4.3.2 Data Collection

Data for phase two was collected by means of a self-administered questionnaire. The respondents were requested via e-mail to participate in the study, and the link to the questionnaire was included in the e-mail. The respondent could access the questionnaire by double-clicking on the link. Included in both the e-mail and at the beginning of the questionnaire were requests for consent as well as the statement of confidentiality and anonymity. A high level of response rate was expected given the confidentiality and anonymity, the association between the researcher and the company and given the high response rates for previous surveys by the researcher.

4.3.3 Data Analysis

The collected data was subjected to an edition process to check and adjust data for consistency. The data, including the open ended questions, were then coded to enable for data processing and statistical analysis. Common themes emerging from the open ended questions were identified. The data was then subjected to a data cleaning stage where the data was checked for errors and verified.

4.4 Research Limitations

This research has significant limitations in terms of scope and methodology. The observations derived here cannot be generalised. Nonetheless, this research highlights important factors that could be considered for further research, and some of findings could prove useful to managers involved in an acquisition. Further limitations include:

- The study was based on a subsidiary in South Africa, which may limit applicability to subsidiaries in other settings.
- The sampling was non-probabilistic and hence cannot be generalised on the population.
- There may not be enough variation in the sample as the interviewees may have similar views.
- There was a possibility of interviewer bias due to the researcher's personal perceptions, assumptions and interpretation.
- The outcome of the analysis is dependent on the quality of information disclosed during the interview.
- Potential bias in terms of data analysis may appear.

4.5 Conclusion

The research design and methodology matched the nature of the research topic, thereby ensuring that the research objectives were achieved and related directly with the problem definition.

Findings from the semi-structured interviews and survey questionnaires are detailed in the next chapter.

5 Results

The study presents the results obtained from the data collection and analysis phase. The first phase of the research involved a qualitative study that investigated the factors affecting capability transfer at subsidiary level in acquisitions and how these factors differ from those at group level. Research phase two was quantitative in nature and tested the constructs identified in phase one of the research. The data analysis was designed with the intention of answering the research questions in Chapter three.

This chapter consists of two major sections; the first section shows the results of the qualitative study and the second section shows the results of the quantitative study that uses questionnaires as a data collection instrument.

5.1 Results of the qualitative interviews`

The qualitative research developed in phase one developed constructs that were used in phase two as inputs to the questionnaire design phase. The interview participants were identified through a judgement sample methodology (Saunders & Lewis, 2012) with a sample size of six with demographics as shown below, where the selected interview participants were chosen based on their ability to contribute to the understanding of the research problem . The sample was chosen to study the views of the different organisational functions involved in acquisition implementation at the subsidiary level, which were

- Managing director
- Finance Director
- Sales & Marketing Director
- Operations Director
- HR Director
- Group Head of Integration

Company executives were chosen as they have an integrated view of the business, are important in the formulation of the firm strategy and in the execution of the strategy. The executives formed the core of the integration team at the subsidiary and together with the Group Head of Integration, be best placed to contribute to the research topic. The qualitative interviews focused on collecting data to answer the following research questions:

Research Question 1: What are the factors affecting capability transfer at subsidiary level in acquisitions?

Research Question 2: How do subsidiaries leverage these factors to achieve successful capability transfer?

Research question 3: How do these differ from the factors affecting transfer at firm level?

The interviews took 60 minutes and utilised the interview guidelines as shown in appendix 2.

The data recorded during the interviews was analysed for common themes emerging from the interviews. Firstly a raw data table was created, which contained all the individual responses so that all the data could be easily and collectively viewed to facilitate the extraction of common themes. The raw data in the table was then evaluated for common themes and the table was modified by replacing similar themed responses with a specific construct.

The next section presents the findings related to the factors affecting capability transfer at subsidiary level in acquisition

5.1.1 Factors affecting capability transfer

The answer to Research Question 1 required the identification of those factors affecting capability transfer in acquisitions that are relevant at subsidiary level. This creates a base from which to examine if there were differences between subsidiary level and Group level.

The table below lists all the factors affecting capability transfer that were identified. The factors uncovered in the literature review included autonomy but this did not surface during the interviews.

Attitude and ambition was a factor that did not appear in the literature but did reveal itself in the qualitative study. The table also shows each factor's frequency of

occurrence which gives an indication of the popularity of the various components at the subsidiary.

Having complementary capabilities was a factor that appeared in the literature but was not explicitly stated in the interviews. Although it was advised by one respondent that “firms should stick to their knitting” this could apply to both similarity and complementarity.

The frequencies of occurrence were plotted on a bar graph for a visual presentation of our findings and to allow for a comparison of the different factors affecting capability transfer in acquisitions.

Regular, appropriate, consistent communication ranks the highest of factors affecting capability transfer. Communication facilitates the exchange of ideas and creation of synergies between members of the new firm. Communication also helps create the atmosphere for the teams to work together.

Capability of the individuals ranked second highest. The respondent stressed the importance of taking time to understand the business being acquired, taking time to understand the firm-specific capabilities of the business and where the sources of knowledge reside.

> *With the acquisition of CH Warman, Weir did not rush, but took time to learn much about CH Warman. The process took a good part of 2 years.*

If acquiring firms do not take time to understand the business being acquired, then they may overlook some capabilities residing in the acquired firm, leading to a decline in acquisition performance.

> *Although the acquired company, Linatex, was the smaller company in terms of revenue, staffing and profit margin they had beneficial product specific expertise that benefitted Weir. Following the acquisition Weir attempted to follow the same sales and production processes for all the new products because we had assumed that all our capabilities were superior, but soon realised that for some of the products, screens for example, the Linatex processes were better suited to the products. The result was a drop in product sales and long lead times. Weir then had to adopt the Linatex processes for those products.*

In other words, it is important to understand what makes the target successful in order to derive benefit from the acquisition and to not destroy the essence of what is being acquired.

It is clear that when acquiring a business that you have something to admire about it. If we are going to spend that money, you need to make sure that you don't over 'Weir-ise' some of these companies that we acquire. The danger that you actually destroy what was creating value in the first place.

Speed of integration was identified as an important factor. However, the respondents warned against moving too quickly or taking too long. Hence, this factors was described going at the 'appropriate integration speed'.

Do not go in guns blazing so to speak, but take care not to drag out the process unnecessarily because that will prolong staff anxiety and feed into their insecurities.

The respondents articulated the importance of an integration plan, and of a weekly review of that plan. The plan facilitates consistent, systematic and disciplined approach and that the acquisition is conducted with rigour. The 100-day plan is reviewed and updated, to include learnings from subsequent acquisitions.

We had a template, we had our 100 day plan, we had a blueprint that was mapped out. Everyone understood what the milestones were. It was managed on a weekly basis.

Table 1: Factors affecting capability transfer identified during interviews

Position	**Frequency**
Consistent and ongoing communication across all levels	6
Capability of the individuals	6
Well thought through integration plan (100 day plan)	4
Strong integration team	4
Environment of Trust	4
Egos on both sides & arrogance of the acquirer	4
Appropriate implementation speed	4
Retention of key skills	3
Ability to make tough decisions	3
Ability to recognise the capabilities	3
The right attitude, ambition	2
Understand value drivers of the target	2
Acquisition experience	2
Group commitment & sponsorship	2
Ability and willingness (motivation) of the employees	2
Compatible Cultures	1

With regards acquisition speed the respondents felt that it was important to find a balance between moving things quickly and efficiently in the acquisition process, and allowing time to process the anticipated change by providing a platform to communicate and engage.

If done well, momentum is maintained and swiftness can reassure individuals from the acquired firm to have the confidence that the acquiring firm is decisive and knows what it is doing. On the other hand allowing and allowing and creating space for people to voice their concerns will contain fears and anxieties that may be brought on by the acquisition, ensuring that valuable employees do not panic and leave.

Cultural factors did not rank highly with the respondents. This can partly be explained by the observation below by one of the interview respondents to the follow-up question on why is it crucial to understand the cultures of the acquiring and acquired firm.

The CH Warman acquisition presented less cultural adjustment because both companies were more or less equal sized companies, selling similar products. Also, Warman was performing better, so it was easier to retain staff and absorb the culture. Linatex was smaller and dissimilar company in many ways, although offering complementary products. We imposed the Weir culture on Linatex, this mindset was limiting as Weir neglected to absorb the benefits of the culture at Linatex, and some staff left in the process, particularly in manufacturing.

When asked what could be done differently one respondent stated:

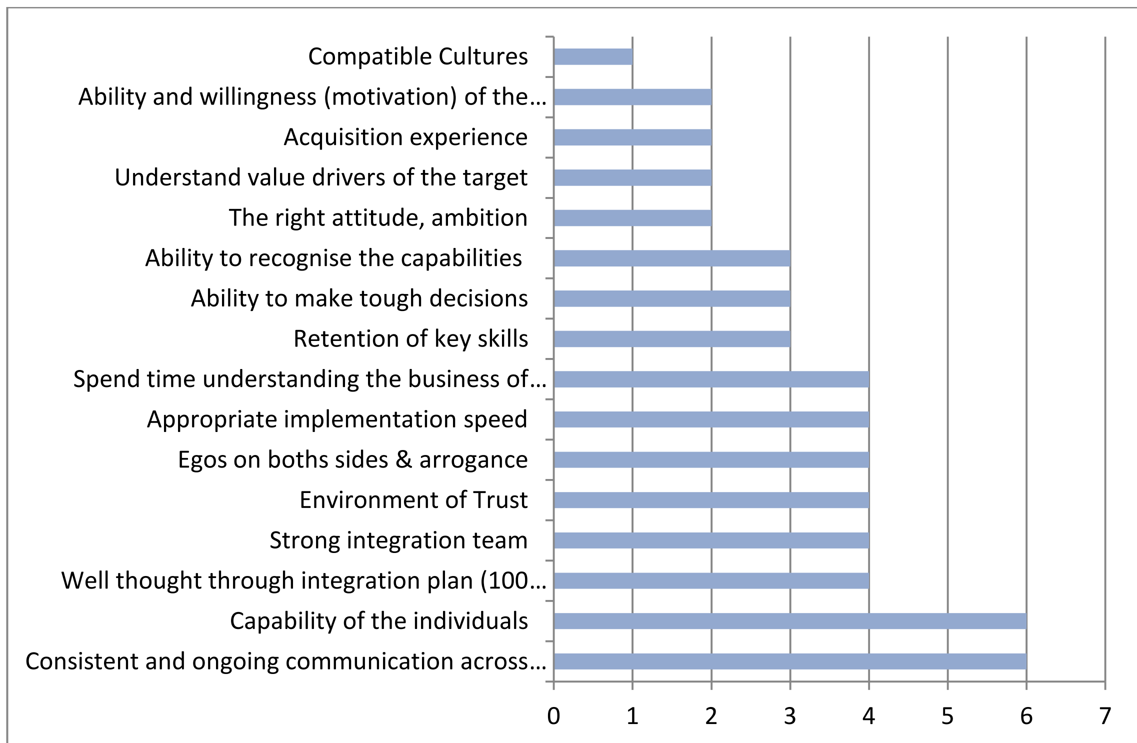
It will be beneficial in the future to listen more, have less arrogance, especially if the acquired firm is smaller.

The factors affecting capability transfer identified during the qualitative interviews were more than the factors identified during the literature review. For example the role of trust plays was highlighted in the qualitative interviews as a factor affecting capability transfer.

On staff retention, it is important to identify employees that are required to take the business forward and to retain the capabilities of the organisation. Further it is important to determine when those employees are required, whether for the transition or whether for the long term. If required for the transition, the business needs to have in place a plan to ensure that the necessary skills transfer does take place.

One of the things we do prior to completing acquisitions is identify who the key people are, that we wouldn't want to leave on day one or indeed in the first 6 to 12 months. And we do do that categorisation - we say ok that person is critical to the business, we want them for at least a couple of years, or the person leaving might be that we only need them through transition in terms of the initial integration and don't necessarily think they have the capability to go to a higher level and therefore we might want to bring a different talent in that post during the initial transition period. So I think it frankly depends on what we have in front of us in terms of talent whether that capability gets transferred to those people who are going to be with us long term, or not

Figure 6: Content analysis - qualitative interviews identifying factors affecting capability transfer



This section has identified the factors affecting capability transfer in acquisitions at the subsidiary level. The following section investigates requirements for organisations engaged in acquisitions to leverage the factors

5.1.2 Leveraging factors affecting capability transfer

The table below lists the requirements for leveraging the factors affecting capability transfer. The qualitative data was analysed in the same as the factors affecting capability transfer.

Having in place a strong leadership team ranked highest in the lists of requirement for leveraging the factors affecting capability transfer. In the context of the CH Warman acquisition, CH Warman had a strong leadership team, which pointed out the weaknesses in the Weir leadership team.

It is leadership's responsibility to create the right atmosphere to facilitate capability transfer.

> *When Weir acquired Linatex they failed to make staff fell valued, as a result they were not fully engaged in the transitioning process, as a result some left the company, taking with them valuable skills and experience. It is important for leadership to actively play a role in prioritising the value of human capital, especially those who are skilled and adding value. It should clearly come across to the firm being acquired that their products are important and beneficial, that their staff members are valuable and that there is an envisaged future for those that perform and are committed to the company moving forward.*

Leadership is also important in not only developing the vision and strategy of the combined entity, but in the execution of the strategy.

> *Embedded systems, authority levels, governance issues, health and safety, production, it has to do with the quality of leaders and their knowledge, attitude and ability to resolve these corporate issues.*

Table 2: Requirements to leverage the factors affecting capability transfer identified during interviews

Position	Frequency
Strong leadership team	6
Executive support	6
Clear roles and responsibilities	5
Clearly articulated plan	5
Critical evaluation & review	5
Strong integration team	4
Active involvement from leadership team	4
Spare Capacity / Slack	4
Recognition and reward	3
Clean up your business first	3
Proper change management	3
Training and support	2
Group commitment & sponsorship	2
Strong HR team	2
Set clear expectations	2
Mobility of employees	1
Include target in decision making	1
Goals alignment and reward	1

The bar graph below lists and ranks the level of importance of the requirements to leverage the factors affecting capability transfer and.

What is the difference between the factors at Group level and subsidiary level.

The respondents felt that there was more at play at the subsidiary level because the subsidiary had to adjust and contend with local issues. For example the CH Warman and Linatex acquisitions had to obtain competition commission approval in South Africa. The local issues are further complicated by the often lack of involvement of the subsidiary in target selection and approval, and prior due diligence is often conducted at the Group level and not at the subsidiary, with the subsidiary involvement only commencing post the acquisition.

> *At Group level, the process of acquiring another firm is solely a business transaction focussing on financial, legal, commercial, integration and other issues, whereas as at a local level it is a more personal process, acknowledging that one is dealing with a business that has people, its own particular culture, its products, influence on the market, which requires consideration of how to integrate all those systems, processes, products, and people.*

As subsidiary level, issues are dealt with regarding day-to-day workings for the organisation and as such the factors are more acute.

> *I think that at a subsidiary level the issues of talent, culture, change are much more acute because they have a direct impact on the day to day working of the company. I think actually what's more important from a corporate aspect is making sure that we are giving those acquisitions the right level of support and focus certainly during our initial year / eighteen months post acquisition. But I do think the cultural aspects and the training and support aspects at a local level are much more important than at a corporate level.*

Figure 7: Content analysis - qualitative interviews identifying requirement for leveraging the factors affecting capability transfer

Creating the right atmosphere is the duty of the leadership team. Having a strong leadership team is ranked highest in leveraging the factors affecting capability transfer in acquisitions. Having spare capacity / resources to allocate to the acquisition implementation is also important in leveraging the factors affecting capability transfer as it has the dual advantage of having resources knowledgeable about the firms processes, culture and systems involved in acquisition implementation, and also lessening the work load of having to manage the current responsibility and also being involved in the acquisition. Cleaning up the acquiring firm's business was also identified as important as "two drunks do not make a sober man", as quoted by one of the respondents.

The qualitative interviews formed phase one of the study and the constructs identified during the interviews we used to design the questionnaire that was used for data collection in phase two of the research.

5.2 Results of research phase two

Research phase two is a quantitative descriptive study, performed using a self administered questionnaire. The research phase drew on the constructs identified through the literature review as well as those identified through the qualitative phase one study.

The purpose of the questionnaire was to gauge the respondents perceptions of the constructs identified in the literature review and the qualitative interviews. This would reveal the relative importance of the various constructs.

The sampling frame includes managers within the employ at Weir Minerals, representing the following groupings:

- Managers of the acquiring company (Weir Minerals)
- Managers of the acquired companies

Non-probabilistic convenience sampling was used, using a survey questionnaire administered to the respondents in the sampling frame. The questionnaire was created using SurveyMonkey.com and the link was e-mailed to all managers at Weir Minerals. The initial questionnaire design was pretested on three respondents in the pilot phase. Following the pre-testing phase the questionnaire was modified and completed by 37 of the 116 managers.

The self administered questionnaire focused on collecting data to answer the following research questions:

Research Question 1: What are the factors affecting capability transfer at subsidiary level in acquisitions?

Research Question 2: How do subsidiaries leverage these factors to achieve successful capability transfer?

The data was analysed with descriptive statistical methods and the results are presented in the following sections.

The survey questionnaire collected data on 16 variables that measured management perception of the factors affecting capability transfer in acquisitions. The questionnaire

queried the ranking of the factors and required an examination of the factors relative to one another. The purpose was to measure the popularity of the constructs amongst respondents. The five most popular factors affecting capability transfer in acquisitions are shown in Table 3.

Table 3: The top ranked factors affecting capability transfer in acquisitions

Factor	Mode	Not Important	Somewhat important	Important	Very Important	Critically Important
		1	2	3	4	5
Consistent, regular and relevant communication across all levels	5	0	0	4	9	22
Well thought through integration plan (100 day plan)	5	0	1	2	13	19
Strong integration team	5	0	0	5	13	17
Environment of Trust	5	0	0	9	10	15
The right attitude and ambition	5	0	1	10	10	14
Ability to recognise the capabilities	4	0	2	5	18	10
Spend time understanding the business of target firm	4	0	1	4	18	12
Ability and willingness (motivation) of the employees	4	0	2	6	18	9
Capability of the individuals	4	0	0	4	17	14
Retention of key skills	4	0	0	4	16	15

Colour Key:

	Modal Response

The popularity of each variable was determined using the mode, and used to identify the most popular variable. Table 3 includes the frequency of response under each Likert Scale value, with a value of 5 indicating the highest level of agreement of the importance of the construct. None of the respondents found the most popular factors 'not important'.

A total of 16 variables were tested and the factors that ranked in the bottom 6 are shown in Table 4.

Table 4: The six least important factors affecting capability transfer in acquisitions

Factor	Mode	Not Important	Somewhat important	Important	Very Important	Critically Important
		1	2	3	4	5
Ability to make tough decisions	4	0	0	8	14	12
Management of egos on boths sides	4	1	5	9	14	6
Understand value drivers of the target	4	0	1	11	12	11
Appropriate implementation speed	3	0	0	18	12	5
Acquisition experience	3	0	5	15	10	5
Compatible Cultures	3	2	5	12	11	5

Colour Key:
Modal Response

The top ranked requirements for leveraging the factors affecting capability transfer are shown in Table 5. The two top ranked involve the leadership and the role of the executive in acquisitions. Without strong leadership and support / sponsorship from the executive then the potential for successful capability transfer diminishes.

Table 5: The top ranked requirements for leveraging the factors

Requirement	Mode	Not Important	Somewhat important	Important	Very Important	Critically Important
		1	2	3	4	5
Executive support	5	0	0	0	14	21
Strong leadership team	5	0	0	2	13	20
Clearly articulated plan	5	0	0	4	12	19
Group commitment & sponsorship	4	0	2	9	18	6
Set clear expectations	4	0	0	5	18	12
Goals alignment and reward	4	0	0	5	18	11
Training and support	4	0	0	6	17	12
Include target in decision making	4	0	1	9	17	8
Mobility of employees	4	0	4	10	17	4
Clear roles and responsibilities	4	0	0	3	16	16

Colour Key:
Modal Response

The least popular requirements for leveraging the factors facilitating capability transfer are shown in table 6. The presence of a strong human resources (HR) team ranked the lowest, probably because of the transactional view of HR at Weir and the view that much of the softer issues relating to employees are the responsibility of line management, with HR occupying a supporting role.

Table 6: The six least important requirements for leveraging the factors affecting capability transfer in acquisitions

Requirement	Mode	Not Important	Somewhat important	Important	Very Important	Critically Important
		1	2	3	4	5
Active involvement from leadership team	4	0	1	2	16	16
Clean up your business first	4	1	2	10	15	7
Proper change management	4	0	1	8	14	12
Recognition and reward	4	0	3	13	14	5
Spare Capacity / Slack	3	0	4	20	8	3
Critical evaluation & review	5	0	1	12	11	11
Strong HR team	3	0	3	11	11	10

Colour Key:

Modal Response

5.2.1 Executive and manager perceptions

The top 3 factors affecting capability transfer drawn from interviews with executives (Table 1) are:

- Consistent, regular and appropriate communication across all organisational levels
- Capabilities of the individuals in the acquiring and target firms
- Having a well thought through integration plan

The top 3 factors affecting capability transfer drawn from the survey questionnaire completed by the manager (Table 3) are:

- Consistent, regular and appropriate communication across all organisational levels
- Having a well thought through integration plan
- Quality of the integration team

With regards the most important requirements for leveraging the factors facilitating capability transfer, the executive and managers are in agreement. These are:

- Strong leadership team leading the combined entity
- Executive sponsorship and support
- A clearly articulated, robust business plan including acquisition strategy

5.3 Conclusion

The results demonstrate both support of the literature on capability transfer in acquisitions as well as unique and insightful findings into other factors not included in the literature, the requirements to leverage these factors as well as the difference in factors affecting capability transfer at the Group and subsidiary level.

In chapter 6 the results from the research process are discussed in more detail.

6 Discussion

6.1 Introduction

The main objective of the study is to investigate the factors affecting capability transfer at subsidiary level during acquisitions.

Several research questions were posed, which can be reiterated as follows: What are the factors affecting subsidiary level capability transfer during acquisitions? What is required from an organisational perspective in order to leverage these factors? How do these factors differ from capability transfer at Group level?

The literature in Chapter 2 identified the research that has been conducted to date around the topic. The interviews with company executives then identified factors that were not identified during the literature review. Questionnaire were then developed and distributed to gauge the perception of the constructs developed in the literature review and the semi-structured interviews.

Chapter 5 documented the results obtained in the semi-structured interviews and the self-administered questionnaire. This chapter will discuss the results obtained and reflect on the literature review presented in chapter 2. The research results discussed in this chapter contribute to an enhanced understanding of capability transfer during acquisitions and on the theory published to date on this subject.

6.2 Research Question 1: What are the factors affecting capability transfer during acquisitions?

Research question 1 identified the factors affecting capability transfer during acquisitions and ranked the factors in order of perceived importance. The results of Tables 3 and 4 show that all the factors identified have a Likert Scale modal response of greater than or equal to three. This indicates the level of importance of the factors identified as affecting capability transfer during acquisitions. This was expected as the questionnaire was designed using the constructs developed during the literature review and the semi-structured interviews. Sixteen factors were identified and the ten most important a discussed in detail in this chapter.

In table 7, the ten most important factors affecting capability transfer in acquisitions are grouped according to categories.

Implementation factors: These are factors associated with the design and execution of the acquisition. These include aspects of integration and retention of key personnel.

Socio-cultural factors: Socio-cultural factors are those factors based on the society and culture. Social customs, beliefs, values, and language are all part of what shapes an individual's identity and frame of reference.

Management practices: Methods and techniques applied by managers, found to be useful and practical in achieving organisational objectives while making optimal use of the firm's resources.

Absorptive capacity: Ability to recognize the value of new information, assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990)

Table 7: The 10 most important factors affecting capability transfer categorised according to current theory.

Factor	Rank	Category
Consistent, regular and relevant communication across all levels	1	Implementation
Well thought through integration plan (100 day plan)	2	
Strong integration team	3	
Retention of key skills	10	
Environment of Trust	4	Socio cultural
The right attitude and ambition	5	
Ability to recognise the capabilities	6	Management practice
Spend time understanding the business of target firm	7	
Ability and willingness (motivation) of the employees	8	Absorptive capacity
Capability of the individuals	9	

Table 7 highlights the importance of implementation related factors in achieving the transfer of capabilities between firms involved in acquisitions. These four groups represents the basic success factors for capability transfer.

6.2.1 Implementation factors

6.2.1.1 Communication

Reciprocity is an integral part of effective communication. The transfer of capabilities is facilitated by face-to-face communication, and frequency of visits and meetings between the acquiring firm's employees and the target firm's employees (Bresman, Birkinshaw, & Nobel, 2010).

Communication soothes concerns resulting from misinformation, facilitates interaction between target and acquirer employees, and helps to show that decision making

processes are open and transparent (Bresman, Birkinshaw, & Nobel, 2010). Reducing employee uncertainty is critical if top managers are to curtail diminishing work performance caused by departmental upheaval and staff attrition (Paruchuri, Nerkar, & Hambrick, 2006).

Consistent and regular communication between the acquirer and target helps to create a more favorable climate for capability transfer by reducing uncertainty and generate a shared understanding between the acquirer and the target firm (Ranft & Lord, 2002). An absence of accurate, appropriate and timely communication results in low motivation and morale of employees. Poor or incomplete communication usually has a negative effect on staff and other stakeholders. Therefore targeted communication with all stakeholders of the acquirer and stakeholders of the target is required.

The communication messages open and transparent, with no empty promises. An integrated communication strategy must be in place before the start of an acquisition process. Weir employs a comprehensive communication strategy that includes face-to-face communication and 'town hall meetings' in addition to a communication package that includes employee letters, Weir Integration Bulletin and stakeholder FAQ to provide consistent answers to common questions.

6.2.1.2 Integration team

The execution of a well-designed integration process that enhances the organisation's capacity to acquire and absorb new capabilities, while minimising interpersonal and intercultural friction, is critical to capability transfer (Birkinshaw & Bresman, 2000; Schweizer, 2005).

Epstein (2004) highlighted the importance of a strong integration team, one that involves both firms, and one that is led by a dedicated integration manager. According to Teerikangas, Very, & Pisano (2011) integration teams support the progress of post-acquisition integration by:

- injecting speed into integration work starting before the deal, and especially in the first 100 days following the deal
- creating an integration structure for the post-acquisition phase, including integration teams and executive reviews.
- forging social connections between the two organization

- And helping to engineer short-term successes.

The integration team is best placed to enable the transfer and use of talent, knowledge, and best practices between the organizations (Teerikangas, Very, & Pisano, 2011).

There are two phases of integration implementation: planning and execution. A detailed integration plan has to be prepared well in advance. The acquiring firm should decide on many important issues, such as communication plans, executive selection for the combined entity, selection of the integration leader, talent retention, compensation schemes, training programs, etc. A project management approach with deadlines and work plans must be implemented.

The integration team performs the following tasks:

- Create a joint frame of reference: Bring together people from different cultures into one entity where people are motivated to work together towards the same goals, and build shared values.
- Emphasise organisational, cultural and social aspects, address social concerns and cultural differences, and execute the communication strategy.
- Integrate cultures, considering cultural and social differences as well as differences in business practices.
- Inspire trust in an environment of uncertainty and turbulence, where people are vulnerable and look for guidance and inspiration.
- Manage the integration project in a systematic and methodical way (100 day plan).

Employee motivation is one of the keys to successful integration. Motivation will depend on several variables: quality of communication, flexible execution of integration plans, tolerance and sensitivity to cultural and social differences, job stability and quality of reward and recognition. Therefore, apart from considering technical and operational aspects, leadership should focus on people and social matters (respect for cultural diversity, security, reward and recognition) and communicate effectively. This will create trust, enhance employee motivation and facilitate capability transfer.

6.2.1.3 Integration plan

Four of the six executives interviewed and the managers that participated in the survey ranked highly the importance of an integration plan. Key to the planning of the integration is the formulation of a well thought through, robust and clearly articulated integration plan. The integration plan should include timelines and milestone, which ensure the integration is implemented with discipline and rigour, and momentum is sustained. Weekly matrix meeting must be held, by the integration team and managers involved, to measure progress against the plan. Variances identified should be followed by corrective actions with assigned responsibilities and completion dates.

6.2.1.4 Retention

Another pressing issue during acquisition implementation is that many top employees of the acquired firm depart during the acquisition transition (Ranft & Lord, 2002). If the communication about the change is not properly handled, the best employees are the first to leave. Key staff that the organisation intends to retain are skilled and high performing and as such they are in high demand in the marketplace.

Loss of key staff can be very costly and finding new competent managers and experts can be time consuming. Early and consistent communication of the new vision and strategy of the combined operations, along with the opportunities for career development, should be presented to key staff. Weir did not focus exclusively on retention of top executives in the acquired firm. In the Warman acquisition the executive teams of the two firms was replaced with a new executive team composed mainly of outsiders, while none of the Linatex managment is represented in the executive team. The company was concerned with retention in specific locations where the executives perceived the critical underlying competencies and knowledge resided and offered retention packages during the Warman acquisition. No retention packages were offered during the Linatex acquisition, as staff attrition did not pose a significant risk to future performance.

6.2.1.5 Summary

Implementation factors are critical to the successful transfer of capabilities during aquisiton. This is consistent with the findings by Ranft & Lord (2002), however it is observed that while identified as important, implementation factors such as speed and acquisition experience did not rank highly among both the executives and managers. This may be explained by the different views regarding the speed of implementation, and the concern regarding moving too fast or too slow, discussed in the literature review. The intergration of Linatex might have contributed to the lower ranking of acquistion experience, as managers may have expected the processes to be smoother given that Weir Minerals Africa had undertaken prior acquisitions, but that was not the case.

6.2.2 Socio-cultural factors

Key to this is creating a shared identity where employees of the acquiring and target firm work towards a common goal. Generally, the cultural aspects are not taken into consideration in the due diligence process, but only the strategic and financial aspects are scrutinised. The results obtained support this finding because culture did not rank highly with our respondents.

Often when an acqusition entails a larger acquirer acquiring a smaller target, the larger acquirer imposes its culture and practices on the smaller target. As stated by the respondents this was the case with the Weir acquisition of Linatex, and it became detrimental to acquisition performance as some employees with valuable skills, whom the acquiring firm wanted to retain, departed as they could not or would not adjust to the Weir corporate culture. As stated by the respondents, the merger of equals between Weir and Warman, with coincided with the inauguration of a new executive team composed predominantly of new executives that were neither Weir nor Warman former employees, resulted in the formation of a new culture for the new organisations.

The creation of a shared identity however is important in having a work environment that fosters teamwork and resource sharing, and working towards a common vision, that are necessary for capability transfer.

6.2.2.1 Trust

Daniel Vasella, cited in Stahl, Larsson, Kremershof, & Sitkin (2011) highlights the importance of trust in acquisitions:

> *Only in a climate of trust are people willing to strive for the slightly impossible, to make decisions on their own, to take initiative, to feel accountable; trust is a prerequisite for working together effectively. … Among all the corporate values, trust was the one that suffered most from the merger*

The turbulence following the announcement of an acquisition creates a breeding ground for distrust because of uncertainty, abundance of rumours, and people feeling vulnerable. The acquiring and target firms' relationship history and the integration approach used will affect target firm member trust in the acquiring firm's management (Stahl, Larsson, Kremershof, & Sitkin, 2011). An environment of trust is a critical factor to break through the acquired / target divide.

6.2.2.2 Right attitude and ambition

In addition to having the right business plan and the resources, including people to deliver on it, is having the right attitude and ambition to reach your goal / potential. This also applies to aquistions. Employees attitude towards work and their attitude towards learning contributes to their motivation to acquire and share their knowledge. This in turn affects organisational performance.

6.2.3 Leadership / management practices

6.2.3.1 Understanding the business of the target firm

This due-diligence phase is crucial in accessing information regarding the target, which then feeds into the identification of capabilities and opportunities for synergies between the two firms. Failure at this stage can prove costly as was the case at Weir with the screens product line, where it was only after a reduction in sales performance that the capabilities of Linatex in the manufacturing and selling of screens was acknowledge, and transferred into the Weir business.

Szulanski (1996) refers to this stage as the initiation stage. The initiation stage comprises all events that lead to the decision to transfer. A transfer begins when both a need and the knowledge to meet that need coexist within the organization, possibly undiscovered. The discovery of the need may trigger a search for potential solutions, a search that leads to the discovery of superior knowledge.

6.2.3.2 Ability to recognise the capabilities

A number of interviewees have highlighted the importance of not being arrogant and being open to identify the capabilities embedded in the other firm in the first place. Arrogance was cited by both the interviewees and the managers as a barrier to capability transfer, particularly when the target is a lot smaller in size than the acquirer, as was the case in the Linatex acquisition. The acquirer went out ‘with all guns blazing’ assuming that all its capabilities are superior to the target, thereby imposing itself, its capabilities and its culture on the target. In this instance the acquirer has learnt the hard lessons, which may help it adopt its approach for future acquisitions.

Another dimension to the ability to recognise the capabilities is in having the right type of leadership leading the acquisition. This aspect will be discussed later in the chapter.
The ability to recognise the capability, assimilate it and apply it to commercial ends is discussed next.

6.2.4 Absorptive capacity

The firm's ability to acquire and assimilate knowledge depends on prior related knowledge and on the diversity of background (Cohen & Levinthal, 1990). Potential absorptive capacity refers to firm's capability to identify and acquire externally generated knowledge that is critical to the business. If the capabilities within the target are not identified then they cannot be transferred and applied to commercial ends. Acquiring firms with a high level of absorptive capacity are better able to recognise valuable new ideas and practices introduced by the acquired firm. The implementation of new knowledge is easier within firms with a significant absorptive capacity since they possess the required, flexible infrastructure for the adaption of new ideas (Hussinger, 2012).

Individual absorptive capacity is an important factor contributing to the firm's absorptive capacity. A firm can develop absorptive capacity by developing individual absorptive capacity and by promoting a culture that is open and adaptive to change (Lee & Wu, 2010).

6.3 Research question 2: What are the requirements for leveraging the factors affecting capability transfer in acquisitions?

To enable organisations to exploit the factors identified in the previous section, a number of requirements must be met. Seventeen of these requirements were identified by the interviewees and included in the survey. The requirements ranked the most important were related to leadership and the executive team. This concurred with the literature review highlighting the importance of leadership in creating the right atmosphere for capability transfer to take place.

6.3.1.1 Leadership and executive support

Leadership's ability to create the atmosphere necessary for capability transfer, provide a common vision, and carefully manage and facilitate interactions between the firms is instrumental to acquisition success (Cabornara & Rosa, 2009). The executive team has the greatest influence on the way managers manage their staff and the way they manage the acquistion at the subsidiary.

Leadership and culture are intricately linked. The CEO and his executive team has a direct influence on the culture of an organisation. Culture in turn, plays a critical role on the management practices applied in an organisation. The role that leadership plays in facilitating the exploitation of the factors affecting capability transfer is very significant as demonstated by the findings. The importance of leadership and executive support was highlighted by all the members of the executive team that were interviewed. The importance was corroborated by the respondents who ranked leadership and executive support the most important in the survey questionnaire.

6.3.1.2 Clearly articulated plan

Having a subsidiary strategy and business plan that is linked to Group strategy is important in not only ensuring the alignment of objectives, but also facilitates the efficient and optimum allocation of resources towards the achievement of organisational objectives. The plan must be clearly articulated and communicated to staff to ensure they awareness and buy-in and that the members of the organisation are aligned to the same goal. The goal of doubling the size of the Weir business is communicated in a variety of avenues at every opportunity, and as such has generated staff awareness, such that the rationale for acquisitions is clearly understood and supported. Hence, the acquisition plan must in turn be linked to the business plan of the subsidiary and to Group strategy. Managers must be able to identify the benefits of the acquisition and its potential contribution to firm performance, for them to buy into the process and exploit the factors.

6.3.1.3 Group commitment and sponsorship

The executives have highlighted the importance of being given the platform to make decisions and formulate strategies that cater for local conditions. The decentralised model employed by the Group in its interaction with its subsidiaries has proven successful at Weir. However, Group commitment and sponsorship of the subsidiaries is very important, as highlighted by the respondents. Group can render support such as allocating resources and key personnel from Group or from other subsidiaries to assist the subsidiary with the acquisition and capability transfer. Therefore it is important that employees are mobile and willing to take on international assignments to assist other subsidiaries during acquisitions. Furthermore, it is the conduit through which shared learning and knowledge transfer between the subsidiaries is formalised.

Apart from leadership, the respondents found important the aspects related to individual performance management alighned to the acquisition. These are discussed in the following section

6.3.1.4 Performance management

Performance management refers to the systems, processes and metrics that enable management to measure employee performance. Perfomance management can be an effective control mechanism that links individual performance with organisational goals. Central to this is the assignment of clear roles and responsibilities to employees.

Once **roles and responsibilities** have been assigned, managers must **set clear expectations** and employees must be **rewarded and given recognition** for exceeding those expectations. When managers allocate salary increases, bonuses and incentives based on performance, employees soon understand the rules of the game and adjust their behaviour accordingly. Weir incorporates acquisition performance into the perfomance management system. For example, Linatex sales have a separate metric on the key performance indicate (KPI) document for branch managers.

Performance management is supported by **training and development** interventions to provide employees with the competencies and skills to perform to the standards set post acquisition.

6.4 Executives and managers perceptions

The top 3 factors affecting capability transfer drawn from interviews with executives are consistent, regular and appropriate communication across all organisational levels, the capabilities of the individuals in the acquiring and target firms, and having a well thought through integration plan

For the managers, communication ranks the highest followed by integration related factors, i.e. having a well thought through integration plan and the quality of the integration team.

With regards the most important requirements for leveraging the factors facilitating capability transfer, the executive and managers are in agreement, which are:

- Strong leadership team leading the combined entity
- Executive sponsorship and support
- A clearly articulated, robust business plan including acquisition strategy

Therefore there is alignment in understanding between the executives and managers of what it takes to make capability transfer possible in acquisitions. This finding is important in that the executive and managers are 'on the same page' regarding capability transfer, which helps to focus energy and eliminate conflict.

6.5 Research question 3: How do the factors differ at Group and subsidiary level

Although it appears that similar factors apply at Group and at subsidiary level, the respondents felt that there was more at play at the subsidiary level because the subsidiary had to adjust and contend with local issues. Group also has the advantage of having conducted extensive due diligence prior to the acquisition, and therefore has better insights and is better prepared to address capability transfer.

6.6 Development of the model for capability transfer in acquisitions

Insights gained from the research into the factors affecting capability transfer yielded the following constructs that were used to develop the model:

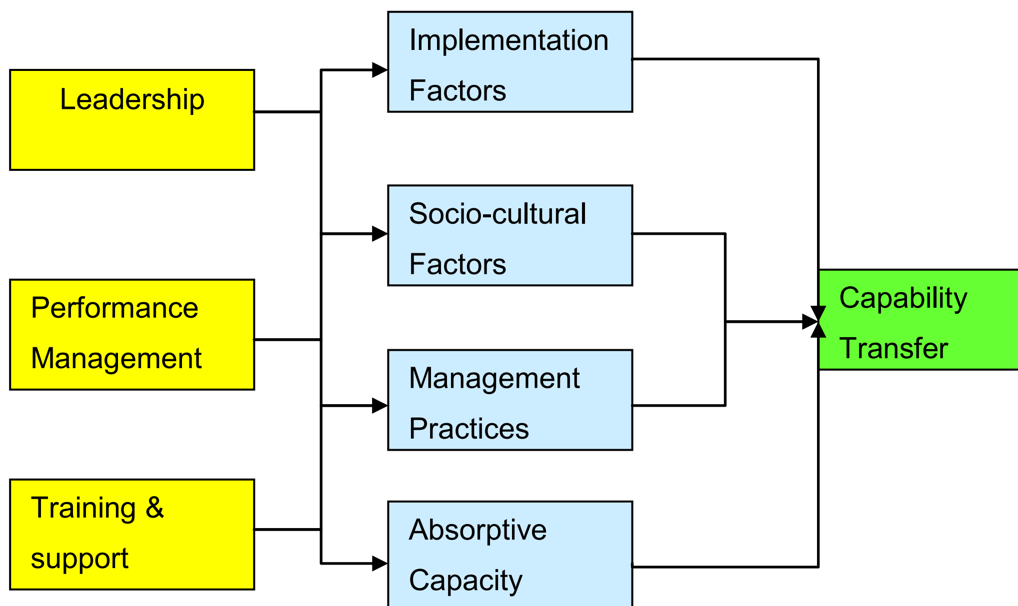
- Implementation factors
- Socio-cultural factors
- Management practices
- Absorptive capacity

In order to exploit the factors affecting capability transfer in acquisitions the acquiring firms need to have the following in place

- Strong leadership
- Effective performance management
- Training and support

These findings have been used to develop the model for capability transfer in acquisitions, shown in Figure 8.

Figure 8: Model for capability transfer in acquisitions



The model identifies the conditions facilitating the transfer of capabilities in acquisition, and the actions, reflected in the middle blocks and requirements for the conditions to be established, in the left-most blocks.

The model does not attempt to capture all variables and processes that affect the capability transfer, but it adequately explains a significant amount of variance in the post-acquisition capability transfer while being succinct.

The model presents an integrated framework for the successful transfer of capabilities during acquisitions.

6.7 Conclusion

This section analysed and discussed the results of the qualitative and quantitative phasesof the research, comparing it with the literature review. The findings correlated with the literature review, however some differences were observed.

The next section presents the conclusion of this study and makes recommendations for future research.

7 Conclusion

7.1 Introduction

This chapter reflects on the main research aims outlined in Chapter 1, as well as the associated research questions, detailed in Chapter 3. The chapter makes recommendations to managers undertaking acquisitions, based on the findings of Chapter 6 and finally makes recommendations for future research. The main research objectives were:

- Identify the factors affecting subsidiary level capability transfer during M&A
- Determine how subsidiaries leverage these factors to achieve successful capability transfer.
- Explore the linkage between subsidiary and firm level capability transfer during M&As.
- Develop a conceptual model of subsidiary level capability transfer during M&A

The extent to which the research objectives have been met is determined by the extent to which the research questions in Chapter 3 have been answered.

7.2 Synthesis of the research data

The research combines the foundation literature that has preceded it and integrates the findings with insights and understanding uncovered through the interviews and survey questionnaires. The respondents revealed insights that linked directly back to the three questions presented in Chapter 3.

The research findings are largely consistent with existing literature, with some differences. Therefore the study contributes to the literature by adding new and some different insights to the existing theory. The findings of the research are applicable to managers of both the MNC and the subsidiary undertaking acquisitions. The findings provide insight into those factors, that if addressed will contribute to the successful transfer of capabilities between the acquiring firm and the target during acquisitions. The findings can be used to make recommendations for subsidiary managers and will assist with the design and execution of acquisitions.

The qualitative interviews phase revealed the key factors that affect capability transfer during acquisitions. A total of 16 factors were identified. The quantitative phase using survey questionnaires confirmed that these are the key factors and confirmed their relative ratings.

Capability transfer is enabled by focus on the following factors:

- implementation factors
- socio-cultural factors
- management practices
- absorptive capacity

To exploit the factors organisations need to have in place the following requirements:

- Strong leadership and executive support
- Aligned performance measures
- Training and support

Group commitment and support is important in providing guidance and support to the subsidiary, and in making available the resources to facilitate capability building and transfer.

Both executives and managers have ranked communication and having a sound integration plan as the most important factors affecting capability transfer. Implementation factors have been ranked the highest, followed by social-cultural factors, management practices and absorptive capacity.

There is no difference regarding the perceptions of executive and managers on the requirements for exploiting the factors affecting capability transfer. Leadership and executive support were ranked as the most important requirements.

Model for capability transfer in acquisitions

A model for capability transfer has been developed, incorporating the key factors and requirements for the transfer of capabilities between the acquiring and target firms during acquisition. This model demonstrates that there are many facets to capability transfer.

7.3 Recommendations for managers

Acquisitions provide managers with the opportunity to acquire new capabilities and to apply current capabilities in new settings and in doing so improve the firm's competitiveness. However, capabilities transfer is largely dependent on the actions of managers involved in acquisitions. Understanding the key factors affecting capability transfer allows managers to better approach capability transfer in acquisitions. Managers are then in a better position to formulate appropriate and comprehensive strategies to ensure successful transfer. The following recommendations are applicable to managers:

- Place significant emphasis on implementation factors, particularly on having a robust integration plan, managed by a strong integration team, with a senior executive in charge
- Endeavour to retain key staff from the target, particularly in the acquisition of complementary capabilities
- Formulate a comprehensive communication strategy. The strategy should include various forms of communication such as face-to-face meetings, group presentations letters, updates on notice boards and resources (paper, paperless and online) that provide consistent answers to common questions.
- Have an open mind with regards cultural differences with the target and its social make up.
- Ensure employees have the adaptive capacity to receive and apply the transferred capabilities
- Spend time understanding the business of the target.
- Align performance measures to acquisition goals.

These actions require that managers become adaptive to change and be flexible enough to learn new ways.

7.4 Limitations and recommendations for future research

In addition to the limitations regarding discussed in Chapter 4, the research has further limitations

- The research was conducted on one subsidiary, in the manufacturing sector, based in South Africa and may not apply in a different setting. Therefore it is recommended that this research is conducted in other settings, particular in emerging markets like South Africa.
- Weir undertakes related acquisitions, and acquisitions which share similar or complementary capabilities with the target, which increases the firms' absorptive capacity. Therefore the research may not be applicable to an acquisition involving unrelated businesses and businesses that do not share any complementarity. Research could be performed on acquisitions of this type.
- The analysis was conducted at the subsidiary level. Further research could be conducted on factors affecting capability transfer at the functional level, as these factors may differ.

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Appendix

Appendix 1: Draft interview check list

PURPOSE OF STUDY

The purpose of this study is to understand the factors affecting subsidiary level capability transfer in acquisitions. The interview will last a maximum of 60 minutes. Your participation is voluntary and you can withdraw at any time without penalty. All data will be kept confidential. If you have any concerns, please contact me or my supervisor.

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DEMOGRAPHIC INFORMATION (purely for statistical purposes)

Date of interview	
Time of interview	
Name of organisation	
Name of the participant	
Position in the organisation	
How long in that position	
Number of acquisitions involved in	
Which acquired company did you work for	

PROMPT QUESTIONS

Why did your company make its acquisitions?
Has the company (subsidiary) derived any benefit from the acquisitions?
What is the nature of that benefit?
How would you describe capability transfer?
What factors are important for capability transfer?
Why are they important?
What would you consider to be other factors?
How do firms leverage these factors to achieve successful capability transfer?
What other factors would be considered at Group level?
Why is it that capability transfer does not happen?
Can you share some of your experiences with capability transfer in acquisitions

Appendix 2: Self Administered Questionnaire

What is capability transfer?

Consider looking for a spouse to marry and start a family with. You first look at the qualities you find attractive in a spouse, but also consider what you have to offer yourself. The aim is to find the best combination to achieve a successful union.

When organisations look to buy other businesses they look at what capabilities they are buying. These capabilities can include manufacturing know how, customer service, distribution and marketing capabilities. The company buying the other business also possesses its own set of capabilities, that it may intend to transfer to the firm it buys. For example an engineering firm may buy another engineering firm to access its technology, apply its own manufacturing knowhow to the other firm, and in the process improve the performance of the combined entity.

When companies buy other companies they have to find ways to transfer the capabilities to achieve their objectives. There are several factors important to achieve the transfer of these capabilities.

How important are the following factors in achieving capability transfer in acquisitions?

Please rank your response on the 5-point scale by marking the appropriate block in the table below

Please vary your responses along the scale as far as possible

Question 1: Factors affecting capability transfer

Code	**1**	**2**	**3**	**4**	**5**
	Not Important	**Somewhat important**	**Important**	**Very Important**	**Critically Important**
Consistent, regular and relevant communication across all levels					
Capability of the individuals					
Well thought through integration plan (100 day plan)					
Strong integration team					
Environment of Trust					
Appropriate implementation speed					
Retention of key skills					
Ability to make tough decisions					
Ability to recognise the capabilities					
The right attitude, ambition					
Understand value drivers of the target					
Acquisition experience					
Spend time understanding the business of target firm					
Ability and willingness (motivation) of the employees					
Compatible Cultures					
Management of egos on boths sides & arrogance					

How do you leverage these factors in achieving capability transfer in acquitions?

Please rank your response on the 5-point scale by marking the appropriate block in the table below

Please vary your responses along the scale as far as possible

Question 2: How to leverage the factors affecting capability transfer

Code	**1**	**2**	**3**	**4**	**5**
	Not Important	**Somewhat important**	**Important**	**Very Important**	**Critically Important**
Strong leadership team					
Executive support					
Clear roles and responsibilities					
Clearly articulated plan					
Critical evaluation & review					
Strong integration team					
Active involvement from leadership team					
Spare Capacity / Slack					
Recognition and reward					
Clean up your business first					
Group commitment & sponsorship					
Proper change management					
Training and support					
Strong HR team					
Set clear expectations					
Mobility of employees					
Include target in decision making					
Goals alignment and reward					

Other factors important for capability transfer

Other factors you find important in achieving capability transfer. Please say what they are and then rank them					
Code	1	2	3	4	5
	Not Important	Somewhat important	Important	Very Important	Critically Important

Question 3

What are the barriers to capability transfer in acquisition? Please explain

Appendix 3: Responses to open ended questions

What other factors do you find important in achieving capability transfer?			
No	1	2	3
1	Employer of choice	Work life balance	Growth and development
2	Recognition of previous experience.	New management need to listen, evaluate ....and then only act.	
3	Honesty	Transeparency	
4	Full disclosure of short term and long term role	Maintain capability focus on customers and not transition goals.	
5	They have all been covered in the survey		
6	Understand the business at all levels		
7	Assure target on job retention	Open communication and progress report to all levels	Adress target concerns immediately
8	Transparency from management	Management understanding other business' culture	Reduce loss of skills
9	Involement of all employees (Management to shop floor)	Regular and clear communications	Define Roles and Responsibilities of all involved
10	Knowledge of processes related to production.	Standards used in measurement of quality.	Identification and retention of key personnel.
11	Clearly defined objectives and targets	Compatable culture fit	Creating developmental and growth opportunities
12	Employee motivation	Effective communication with customers	Case study similar acquisitions
13	Not forcing the time frame	Input from middle management, don't ignore!	
14	Understanding of the business	Keeping employees informed	
15	Work as one team	Same Goals	Workshops
16	All know the Goal of the company going forward	Buy in by all parties	Imvolvement of the correct people from start
17	Knowledge transfer platform, e.g. effective CRM tool	Comprehensive customer database	Instill a culture of storytelling and recordkeeping (knowledge then becomes company owned and doesn't reside in an individual)
18	Customer expectations		
19	Two companies complementing each other		
20	IT systems integrations		
21	Creating the right atmosphere		

What are the barriers to capability transfer in acquisition? Please explain

No.	Response Text
1	Fear. Transfer into an unknown culture.
2	Change for some individuals is difficult. Use the positive individuals to assist the "change process". Address negativity immediately before it grows and becomes unmanageable.
3	Hidden agendas
4	A neutral approach is to be maintained when selecting candidates for duplicate positions.
5	Covered in questionnaire
6	Lack of understanding on the business as a whole
7	Retention of key skills and personnel with good customer relationships. Assure target customers of continuing or improving on their service. Assure target key suppliers with ongoing business. There are three critical areas for continuing the target busines and that is the skilled employees, key customers and key suppliers.
8	Culture differences in the way of doing business.People communicate with people and this requires some sensitivity in acquisition and implementation of new culture.
9	Diffirent cultures in different corporations, could result in employees not willing to transfer new company.
10	If key personal are side stepped, they can take with them valuable knowledge of manufacturing processes and customer loyalty, and ultimately sales.
11	Conflicting pay and conditions between companies. (1 has 13th cheque, 1 has not etc.) Educational abilities of new employees.
12	When your management does not communicate the roles, expectations, goals and reasoning for such an acquisistion. By not including staff with decision making and assisting with the plan, they feel dictated to and will begin to feel like a number.
13	I believe the biggest barrier is the echo of the purchaser. In many cases the purchaser does not want to accept there might be a stronger person in a position they are buying.
14	Working against each other, do not understand each others bussiness
15	Reluctance to change by staff , fear of change
16	Insufficient focus on the 'soft issues', such as change management, culture management, human resources and their needs. Information and knowledge is withheld and not shared willingly. This could pose a significant risk to reputation, brand equity and customer relationships.
17	Uncertainty from the people been taken over
18	Arrogance on the part of the acquirer