Mergers and Acquisitions: A Tool for Knowledge/Technology Transfer

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Extended Abstract

More companies than ever before are turning to Mergers and Acquisitions (M&As), at a pace that is not expected to abate any time soon. For many companies M&As represent the fastest possible route to growth. The acquiring companies seek to grow quickly by flowing more of the same products through new sales channels. For other companies, formally aligning oneself with another company makes it possible to enter new markets unavailable before, such as many US- and European-based automobile manufacturers have done in China and other Asian countries heretofore closed to foreign car makers.

M&As also represent an opportunity to achieve economies of scale and scope and pare operating costs, or to increase their capabilities and innovative capability. M&As facilitate the acquisition and transfer of new knowledge, technologies or systems that are critical for competitive advantage. Many technology leaders routinely snap up smaller companies solely for the promise a new invention may have for the future. The critical nature of time-to-market makes the purchase of companies whose technology is coveted more attractive than actually developing the technology in-house.

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The paper focus on the role of M&As as a tool for knowledge and technology transfer, a topic that has received very little explicit attention in the literature. However there has been considerable attention devoted to the related questions of knowledge transfer within a single company, knowledge transfer in alliances and joint ventures, and knowledge transfer between independent firms. Research on intra-firm knowledge transfer has a long history emanating from studies on choice of international technology transfer mode (e.g. Pavitt 1971; Mansfield et al. 1979). Research into knowledge transfer through alliances and joint ventures is a relatively recent phenomenon. Kogut (1988) was the first to explicitly argue that joint ventures could be motivated by an organizational learning imperative. Since then, there has been a proliferation of research into the knowledge transfer process across alliance and joint venture boundaries (e.g. Mowery et al. 1996; Zander and Kogut 1992, 1995). The common thread in the results of these studies is that the ability to re-evaluate and learn is key to success.

From a macro-economic perspective the OECD contends that the general effect of M&As tends to be a reorganization of industrial assets and production structure on a global basis. This can lead to a greater overall efficiency without necessarily significantly greater production capacity (OECD 1996). M&As and particularly cross-border M&As (i.e. those taking place between firms of different national origins, which grew six-fold in 1991-98 and account for more than 85% of foreign direct investment) tend to facilitate the movement of capital, technology, goods and services, and the integration of affiliates into global networks. Studies on the performance effects of foreign direct investment (which increasingly consists of M&As) confirm economy-wide positive benefits particularly as regards improved productivity in host countries. Kang and Johansson (2000) argue that cross-border M&As can have positive impacts on growth and employment, particularly if governments have policies which facilitate the associated industrial restructuring.
Focusing on the analysis of the friendliness of regulations to market mechanisms in the OECD, Nicoletti, Scarpetta and Boylaud (1999) argue that while the increasing degree of economic integration in the OECD has leveled out differences in international trade and investments policies, the friendliness to product market competition of inward-oriented regulation still differ significantly across OECD countries. They also present evidence of asymmetric liberalization of employment protection legislation in a number of OECD countries.

Building upon previous results we hypothesize that the impact of M&As is not the same for all countries, and that its effect depends upon the incentives, infrastructures and institutions in place (as conceptualized by scholars such as North 1990; Lall 1992; Wiliamson 1985). To test the hypothesis we use data from the “Worldwide Statistics on Cross-border M&As from 1988 to 1998” (KPMG Corporate Finance 1999), and from the OECD database on indicators of product market regulations and employment protection legislation published by Nicoletti et al. (1999).

The recent challenges created by the fact that economies are increasingly knowledge-based are also discussed. In fact, the importance of creating and disseminating knowledge challenges the traditional ways of understanding the process of economic development, raising new questions about the mechanics of that process, the role of incentives, institutions and infrastructures, and the suitability of current public policies and regulatory system to face this reality.

In this context the following broad research questions are discussed: How far are M&As dependent on country specific structural effects, and on the broad dimensions of incentives, infrastructures and institutions?; To what extent can M&As be influenced by policy frameworks and the administrative regulatory environment?; and, What is the impact of M&As for the economic development of small and open economies?