International Inter-Organizational Knowledge Transfer

A case study of conformity and change

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Abstract

The aim of this thesis is to conduct a test of the models on international inter-organizational knowledge transfer (KT). This will be achieved through a case study of Vattenfall’s acquisition integration with Vattenfall Europe. Further, this thesis aims to explore whether a firm’s practices, concerning KT, with experience converges towards our model. If so, a linkage between best practice adopted by firms and academic research has been shown. The thesis will also try to make the model more concrete, which will be achieved through the case study and other more extensive case studies in acquisition KT.

The result of this thesis on KT in an international inter-organizational acquisition setting has strengthened the model’s soundness concerning its applicability on acquisition KT. Hence, we believe that the general model can be used as a starting point for firm-individual adjustments when engaging into international inter-organizational KT.

This thesis adds to the research by finding support for the variable need for control and clearly articulated goals, which earlier only has been pinpointed to strategic alliances and JVs. This variable has been added to the general model and it would be interesting if further research could be committed to evaluating this aspect.

This thesis has established that Vattenfall’s practices, concerning KT, with experience in general converges, or at least not diverges, towards our model. This implies a linkage between best practice adopted by a firm and academic research on KT. Consequently, this linkage also provides further validity, both concerning content and backward compatibility, to the model. This thesis has also together with the additional material brought more clarity to how the different aspects of the model affect KT in acquisitions.
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1 Importance of knowledge as a strategic resource

This thesis will, through a case study of Vattenfall Sweden’s integration process with Vattenfall Europe, conduct a test of the previously created model’s (see Kappen & Karlsson, 2005) validity for international acquisitions. This model was linked with knowledge transfer (KT) intrinsic aspects for acquisitions, joint ventures (JVs), and strategic alliances and it managed to generalize the KT process for all of these three modes of governance.

The current aim is to determine whether the model on international inter-organizational KT is valid for describing a KT process in an acquisition despite the generalization from acquisition-specific to inter-organizational general? Further, if the methods and thoughts on KT used by a firm, with experience from KT in previous acquisitions, converge to the model? By addressing these issues, we will achieve a greater certainty of the backward compatibility of the model. This will, for business students and practicing KT professionals, induce a greater confidence in using the model as a starting point for the firm individual adjustments preceding KT.

During the past decade researchers have increased their interest on the importance of KT within the firm. The implication for the firm is that it is increasingly difficult to obtain and sustain a competitive advantage through rationalization alone. Meanwhile, those who have gained a competitive advantage over their rivals have increasingly done so through innovative recombination of knowledge. To put it somewhat more dramatically, there is evidence suggesting that the winners in tomorrow’s market will be the masters of knowledge management. (see for example Nonaka & Takeuchi, 1995; Arthur, 1996)

Knowledge management is becoming an increasingly important strategic issue (Hedlund, 1994). Spender (1996, p. 46) describes knowledge as the most important asset of a company:

“So long as we assume markets are reasonable and that competitive advantage is not wholly the consequence of asymmetric information about those markets, or the stupidity of others, the rent-yielding capabilities must originate within the firm if they are to be of value.”
Thus it is the firm’s knowledge, and its ability to generate knowledge, that lies at the core of a more sound theory of the firm (ibid.).

Creation of new knowledge may be a combination of the accumulated knowledge, together with internal innovation or new external knowledge. Effective intra-organizational KT is important for internal innovation capabilities. While the transfer of knowledge between units in the same country is far from trivial, it is clear that the problems will increase with geographical and cultural distance. Indeed, most research has been conducted in an international setting (see for example Mansfield & Romeo, 1980; Teece, 1976; Zander, 1991). Furthermore, the value of KT in international corporations can be particularly high because foreign markets often provide access to new ideas and routines that can be subsequently applied in other countries (Hedlund, 1986; Zander 1991).

An insight from the literature on organizational adaptation and learning is that companies need to balance between exploration, or the search for new knowledge, and exploitation of existing knowledge resources (Levinthal & March, 1993; March, 1991). The ongoing use of a firm’s knowledgebase helps an organization to improve its routines in areas such as product and process technology, marketing, logistics, and so forth (Barkema & Vermeulen, 2001). These improvements enable an organization to regain the initial investment and to become profitable (ibid.). On the contrary, exploration enables a firm to renew its knowledge base but is a costly process (ibid.). Through exploitation, a firm centers its attention on the knowledge and routines that contribute most to its success and eliminate those routines that are less successful in the current situation (Levitt & March, 1988). Each time the knowledge base comes to use, opinions about why and what works are more firmly settled in the minds of managers, and routines are more firmly established in the organization (ibid.). Slowly, knowledge that is less useful in a particular setting will disappear from the organization’s memory (ibid.).

Mergers and acquisitions are not a new phenomenon and the reason may be synergies, market penetration, market positions, or knowledge alone (Buckley & Ghauri, 2002). Whatever the reason is, knowledge is important, because a firm would hardly be interested in acquiring, or merging with another firm if the firm did not possess something
of value. Transferring knowledge inter-organizationally is difficult for several reasons, such as knowledge articulation, cultural difficulties, risk of sharing, and problems of learning. However, successful KT may enable firms to maintain their ability to react adequately to changing external conditions, sustain their comparative advantage, and consequently to survive in the long run (Barkema & Vermulen, 2001).

The purpose of this thesis is to conduct a test and possibly build on the previously developed model’s (on international inter-organizational KT) validity for international acquisitions through a case study of Vattenfall Sweden’s integration process with Vattenfall Europe. The aim is to explore whether the generalized model can describe the KT process in a specific acquisition scenario. Further, this thesis aims to explore whether a firm’s practices, concerning KT, with experience converges towards the model. If so, a linkage between best practice adopted by firms and academic research has been shown. The thesis will also try to make the model more concrete, which will be achieved through the case study and other more extensive case studies in acquisition KT.

The thesis is outlined as followed: In Chapter two, we will provide a walkthrough of the theoretical framework where general knowledge is linked to knowledge transfer. It furthermore presents the generalized model from which Vattenfall’s KT will be analyzed from. This is followed by a section on the approach for this thesis. Part four comprise the specific findings from KT in acquisitions that aren’t easily linked from the generalized model. After that, chapter five introduces the case company Vattenfall. In chapter 6 we provide an overview of the interview results which will be discussed and evaluated in chapter 7. Finally, we conclude our findings in chapter 8.
2 Theoretical background

This background is almost identical to the model presented in our bachelor thesis (Kappen & Karlsson, 2005, p. 12-24). Hence, those of you familiar with the model can simply skip this chapter and proceed to chapter 3.

2.1 Different types of knowledge

Examining knowledge typologies, a classical one is Polanyi’s (1966, p. 4) ‘tacit’ and ‘explicit’, see figure 1. Research done in knowledge management by Hedlund (1994) and Nonaka (1994; 1991) expand on these typologies. Explicit knowledge transfers with ease both horizontally (inter-organizationally or between functional similar units), and vertically (cross-functional) in the organization. On the other hand, tacit knowledge is more about know-how and is hard to transfer in a codified manner; it may be taken for granted because it is embedded in individuals, groups, and organizations (Hedlund, 1994, p. 75). Tacit and explicit knowledge are not uncorrelated entities, and interaction of the two is often needed to attain a full understanding of a domain (Hedlund, 1994, p. 75).

<table>
<thead>
<tr>
<th>Knowledge Type</th>
<th>Individual</th>
<th>Group</th>
<th>Organizational</th>
<th>Inter-organizational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explicit knowledge</td>
<td>- Knowing calculus</td>
<td>- Documented analysis of Quality circle’s performance.</td>
<td>- Organization chart</td>
<td>- Prices</td>
</tr>
<tr>
<td></td>
<td>- Facts</td>
<td>- Who knows what</td>
<td>- Profits</td>
<td>- Whom to contact</td>
</tr>
<tr>
<td>Tacit knowledge</td>
<td>- Cross-cultural communication skills</td>
<td>- Team coordination in complex work</td>
<td>- Corporate culture</td>
<td>- How to cooperate</td>
</tr>
<tr>
<td></td>
<td>- Problem solving skills</td>
<td>- How to coordinate groups and transfer knowledge</td>
<td>- Higher order of organizational skills</td>
<td>- Customer’s expectations and attitudes towards</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>on how to coordinate groups and transfer</td>
<td>products</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>knowledge</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1: Knowledge categories, derived from Hedlund (1994, p. 75) combined with Kogut and Zander (1992, p. 388).

2.2 Knowledge transfer

Nonaka (1994, p.19) describes how knowledge is transformed within an organization, which is important because information needs to be transformed, cognitively, before any KT can take place. Socialization refers to tacit knowledge transferred between individuals or groups. Combination is the explicit knowledge version of socialization, where new knowledge is combined with old into a new, hopefully improved, knowledge base.
Externalization is the process of codifying tacit knowledge into explicit. Internalization is where explicit knowledge is transformed into tacit.

2.3 International inter-organizational knowledge transfer

The model presented in our bachelor thesis consists of three categories: Transfer-, firm-, and relation-specific. The first, transfer-specific, consists of four main aspects: Problems with tacit knowledge, problems with culture (both organizational and national), importance of interaction, and importance of motivation. Firm-specific consist of three main aspects: Importance of similar domain knowledge, similar organizational structures and systems, and experience and time’s effect on ability to transfer and use new knowledge. The third, relation-specific, consists of importance of social ties, conflict management, and trust between sender and receiver. The model is presented in the following three sections and the main aspects are printed with bold fonts on their first occurrence. The model was created with help of a literature study on JVs and acquisitions and was tested on strategic alliance literature (see Kappen and Karlsson, 2005, p. 7-11).

2.3.1 Transfer-specific aspects

Several problems with international inter-organizational KTIs are eminent, among them tacitness and complexity of knowledge, and culture. These issues were described in a different context by Reed and Defillippi (1990): Who described the ‘casual ambiguity’ of knowledge as a barrier to imitation; the more ambiguous the knowledge is, the more it serves as a sustainable competitive advantage. This section focuses on how ‘casual ambiguity’ hinders knowledge flows, and to some extent on how to loosen this ambiguity with help of interaction and motivation.

To achieve an understanding on KT some framework is needed for how knowledge flows, both within and between organizations. A main inspiration for this, was Nonaka’s (1994, p.20) ‘spiral of knowledge’, which describes and illustrates, how knowledge travels upwards in an organization. Starting at the individual level, moving to the group level, and then up to the organizational level (Inkpen & Dinur, 1998, p. 457). As the knowledge moves through the organization, it may be enriched and amplified as
individuals interact with each other (ibid.). There are several problems with the internal flow and the actual externalization needed to transfer knowledge.

A quick revelation is the problem with **tacitness** and complexity of knowledge. Figure 2 illustrates that a ‘straight forward’ (without organizational interaction) KT fails to capture large parts of the embedded tacit knowledge. This is shown by locating the ellipses, with bold lines in figure 2, more on the explicit side.

![Figure 2: Some transfer-specific aspects of international inter-organizational KT](image)

Figure 2 describes how knowledge flows between organizations. The height of the ellipses in figure 2 describes how much of the tacit and explicit knowledge that are transferable with different approaches. The big differences are in the tacit KT, but remember that they rarely are independent of each other. The bold arrows describe a ‘straight forward’ approach where KT takes place without interaction. As can be seen this approach fails to capture and transfer large parts of the tacit knowledge.

The other approach showed with sketched arrows and ellipses illustrates that organizational interaction may be a more feasible way of transferring tacit knowledge. Both of these processes are influenced by cultural noise, which may affect the quality and quantity of the KT.

Tacit knowledge disappears in the externalization process, when it is transformed into codified, easily transferred, explicit knowledge (Jensen & Szulanski, 2004, p. 517-518;
Kogut & Zander, 1992, p. 392). This is shown by Bresman, Birkenshaw and Nobel (1999, p. 452) for acquisitions, Simonin (1999, p. 617; 2004, p 419-420) for strategic alliances, and Dhanaraj, Lyles, Steensma and Tihanyi (2004, p. 438-439) for JVs. ‘Straight forward’ externalization seems to remove important aspects of tacit knowledge that only are transferable by socialization:

“Being taught the functional skills of how to do something is different than being taught how to create it (Kogut & Zander, 1992, p. 391)”.

The problem of not knowing ‘how’ and ‘why’ some knowledge has been formed might cause problems for future combinative innovations (ibid.):

Take a software company acquiring another software company as an example: The functional aspects (how to use Microsoft Word for instance), developed by the acquired company, is easy to understand, but how and for what purpose, some functions has been implemented is unknown. This knowledge is lost if the acquirer fails to maintain, and learn from the acquired staff (Hambrick & Cannella, 1993, p. 755-758). Similar for JVs, Hamel (1991, p. 87) found that sustainable learning, where a firm becomes able, without further inputs from its partner, to improve its skills - depends on the depth of learning, and the absorptive capacity of the firm.

Szulanski (1996, p. 38), looked at the ‘stickiness’ (similar to tacitness) of knowledge in intra-organizational KTs, and suggests that problems with ‘stickiness’ comes from language barriers, lack of absorptive capacity, casual ambiguity, and problems with the relationship between sender and receiver. All of these factors were stronger than motivational factors, previously suggested as critical for transfer by Porter (1985, p. 352). However, inter-organizational studies have shown support for an organizational motivation factor, where the strategic importance, of the knowledge, clearly is related with the success of a transfer in JVs (Pak & Park, 2004, p. 426-427; Tsang, 2002, p. 846-847), strategic alliances (Simonin, 2004, p.421), and acquisitions (Bresman, Birkenshaw & Nobel, 1999, p. 440-441). The cure for ‘stickiness’, suggested by Szulanski (1996, p. 39), comes with managerial attention to the development of learning capacities in the organization. It is important to foster closer relationships, and to systematically understand and communicate practices, within the organization (ibid.).
Tsang (2002, p.847) concluded that management attention is positively linked with organizational motivation (strategic importance of knowledge), in his study on JVs in China. He also established a connection between the age of JVs and the importance of management involvement, which either indicates some form of absorptive capacity development or relationship development, or both in combination (ibid., p. 846-847). Bresman, Birkenshaw and Nobel (1999: 456-458) reported something parallel to this in acquisitions: They found that the quality of the KT increases with time, starting with hierarchical transfers often initiated by managers. They also stated this as unique for acquisition transfers, which we now have indicated may be false.

**Culture** is another important aspect to be aware of in international inter-organizational KT (Lucas & Oglivie, 1999, p. 12; Hamel, 1991, p. 91; Lane, Salk & Lyles, 2001, p. 1143). How culture affects KT, however, is too situation dependent to cover in a general model: No best practice will probably ever be applicable, but studies in the area (such as Schein (1984) for organizational culture; Hall and Hall (1990) and Hofstede (1994) for national/group cultures) gives insights to how culture will influence the interpretation of both the articulated knowledge and the knowledge transferred by personal interactions. It may be more difficult to transfer knowledge from certain cultures, than from others: Difficulties of learning from the Japanese is frequently reported (Hamel 1991; Hedlund, 1994; Nonaka, 1994). The reason for this may very well be the difference between high and low context cultures (see Hall & Hall, 1990).

The internalization process, involves the circulation of knowledge within the organization, the integration, and the generation of new knowledge from it (Lane, Salk & Lyles, 2001, p. 1157). Tacit knowledge moves, and evolves through the organization in a socialization process, which best can be described as reciprocal learning of each other’s experience (Nonaka, 1994, p. 19). The explicit knowledge is combined with old knowledge and forms a new knowledge base (ibid.).

> **“Although organizational learning occurs through individuals, it would be a mistake to conclude that organizational learning is nothing but the cumulative results of their member’s learning”** (Hedberg, 1981, p. 6)
Knowledge is stored and acquired through individuals but it also contributes to the ‘organizational memory’ as it moves through the organization’s different levels (Fiol & Lyles, 1985, p. 804; Huber, 1991, p. 106-107). The ‘organizational memory’ helps to preserve certain behaviors, mental maps, norms, and values over time, even though organizational members come and go (Hedberg, 1981, p. 6). Changes occurring at higher levels of the memory are analogous with ‘higher order’ organizational learning (Inkpen & Crossan, 1995, p. 598). Processes at the group level are characterized by integration, which creates a shared belief system. Internalization at the organizational level leads to shared organizational structures and systems, which creates coherency in action.

The ellipses, in figure 2, have dotted extensions on the tacit end. This illustrates the advantage, discussed by Inkpen (2000, p. 1030), of personal inter-organizational interaction (internalization/externalization through socialization) between organizational units, especially on the level which the knowledge is intended to reach. The advantage of personal interaction has been shown in numerous works on inter-organizational KT, such as Bresman, Birkenshaw and Nobel (1999, p. 451) for acquisitions, Kale, Sing and Perlmutter (2000, p. 218) for strategic alliances, and for example, Lyles and Salk (1996, p. 893-894); Pak & Park (2004, p. 880); Tsang (2002, p. 846) for JVs.

“Tacit knowledge is abstract and can be communicated only through active involvement of the teacher (Dhanaraj et. al., 2004, p. 430).”

Lyles and Salk (1996) looked at KT in 201, small/medium-sized, international JVs, in Hungary. Their major findings were (p. 893-894) that knowledge flow is positively related with the use of parent expatriates and to labor exchanges between the parents.

The learning of tacit knowledge is generally consistent with the properties of ‘higher-order learning’ (Fiol & Lyles, 1985, p. 808), because complex tacit knowledge is learned with intention and through a stage of experimentation (Makhija & Ganesh, 1997, p. 517).

An example, to show the link between the explicit theory and the tacit practice, is in its place:

Everyone who plays golf knows how easy the ‘tricks’ and ‘quick fixes’ described in magazines seems when reading them, or how easy the pro’s swing looks on TV. However, in reality there is a problem when going from explicit instructions to tacit
practice. What seemed natural, and easy, in the magazine, does not transfer as smoothly as expected to the golf swing. (The process up to now is the process described as ‘straight forward’). Someone (other-organization), in this case a golf instructor, who possesses the knowledge, is needed to provide feedback. When the lesson is over, the golf student incrementally questions and reevaluates the old knowledge together with the new knowledge and the feedback from applying it to the game. The outcome of the learning depends on the student’s ability to play/learn golf (firm-specific) and how well he interacted with and trusted (relation-specific) the ability of the instructor.

This example illustrates the difficulties of a ‘straight forward’ externalization. More important, it gives an illustration of a higher-order learning process, at least at an individual level. Absorptive capacity and a good relationship (between teacher and student) can further increase a firm’s ability to absorb new knowledge.

### 2.3.2 Firm-specific aspects

Absorptive capacity refers to a firm’s ability to identify, assimilate and exploit knowledge from external sources (Cohen & Levinthal, 1990, p. 128). This capacity encompasses the capacity to imitate other firms’ products or processes, but also the capacity to utilize less commercially focused knowledge, such as basic scientific research (Lane, Koka & Pathak, 2002, p. 1). Absorptive capacity is becoming a major focus in numerous research topics including organizational learning, knowledge management, and innovation management (ibid.). Organizations with higher absorptive capacity are better at acquiring knowledge than those with low absorptive capacity (Lyles & Salk, 1996, p. 893-894; Pak & Park, 2004, p. 426-427). This section will link the importance of domain knowledge, similar organizational structures and systems, and the aspects of experience and time, to KT.

![Figure 3: The three stages of absorptive capacity](image)

The identification process demands some general understanding of the traditions and techniques upon which a discipline is based on (Cohen & Levinthal, 1990, p. 136). More precise, there should be some common knowledge in the domain possessed by both sender and the receiver in all three governance modes (Lane & Lubatkin, 1998, p. 466).
“When interacting individuals share common meanings, a mutual sub-cultural language, and are alike in personal and social characteristics, the communication of new ideas is likely to have greater effects in terms of knowledge gain, attitude formation, and overt behaviour change (Gupta & Govindarajan, 2000, p. 476).”

Similarities in organizational structures and compensation systems among the firms are important facilitators in the assimilation process (Cohen & Levinthal., 1990, p. 132-134; Makhija & Ganesh, 1997, p. 518). Kale, Singh and Perlmutter (2000, p. 218; 227) also describes absorptive capacity in strategic alliances, especially the importance of similar systems and organizational mechanisms, to be affected of all three relation-specific variables that will be discussed in the next section. Analogous knowledge processing systems further helps in the assimilation process (Lane & Lubatkin, 1998, p. 466). The ability to exploit new external knowledge depends on past experience from similar activities (Cohen & Levinthal., 1990, p. 140). A previous interaction with the external source provides some common ground of understanding, which increases the chances of success (ibid.).

Lane, Salk and Lyles (2001) conducted a study on absorptive capacity’s influence on KT in international JVs. The study was based on a resurveyed sample of the Hungarian JVs, studied by Lyles and Salk (1996). The results indicated that the similarity of their businesses, the relatedness of the problems and priorities of which they are faced are most important for the identification of new knowledge (Lane, Salk & Lyles, 2001, p. 1156). The results also indicated positive connections between successful transfers, adaptability and flexibility (ibid., p. 1157). JV parent’s involvement in training and management procedures also influenced the transfer success (Inkpen & Dinur, 1998, p. 462; Lane, Salk & Lyles., 2001, p. 1157,). Lyles and Salk (1996, p. 893-894) reported that explicit transfers of managerial routines, facilitates the quality of future KTs.

Ability to apply the transferred knowledge is linked with the performance of an acquisition (Hakkala, 2002, p. 30-31), and a JV (Lane, Salk & Lyles, 2001, p. 1157). However, adopting a business strategy appropriate for its home market matters more, and training and personnel development are most important for the success of a JV (ibid.).
The individuals of an organization often identify with their competence (Galunic & Rodan 1998, p. 1200) and may thus be reluctant to acknowledge the superiority of peers by accepting substitutive knowledge (Gupta & Govindarajan 2000, p. 492). As a result, an insufficient absorptive capacity of the firm may make it difficult to acquire managerial and technological capabilities. Hence, acquiring such capabilities may require special actions on the part of the acquired firm. In particular, the acquired firm must be willing to share its expertise (ibid., p. 490).

While JVs are characterized by mutual incentives in terms of strategic and financial returns, an acquisition is basically a one way action initiated by the acquirer. This may trigger an unwillingness to initially share knowledge. If there are differences in absorptive capacity between the acquirer and the acquiree, the acquirer may have to help the other party to develop a sufficient absorptive capacity. After the acquired firm’s absorptive capacity is developed, the necessary knowledge can be transferred.

Absorptive capacity evolves with **time** in both JVs and acquisitions: Successful learning induces more learning capabilities for both receivers and senders (see Dhanaraj et al., 2004, p. 437; Pak & Park, 2004, p. 426-427, for JVs, and Bresman, Birkenshaw & Nobel 1999, p. 456-458, for acquisitions). This is interesting and can be seen as an indication of ‘experience curve’ effects in learning, discussed by Huber (1991, p. 95). For future transfers, it is also important to learn from unsuccessful transfers (Aben, Krogh & Nonaka, 2002, p. 428). This aligns with theories of higher order learning (see Fiol & Lyles, 1985), especially ‘double loop learning’ outlined by Argyris and Schön (1974).

### 2.3.3 Relation-specific aspects

Another important aspect of inter-organizational KT is the relation between the sender and the receiver, which can be characterized in terms of the strength of their social ties, and level of trust (Dhanaraj et al., 2004, p. 429). The exchange of managerial expertise, emotional support, and time is indicative of social ties in a relationship (ibid.). Interaction, whether face to face or through telecommunications, also induces some level of trust between the parties (ibid.). Granovetter (1985) started this relational view, with the concept of ‘relational embeddedness’, where he studied the impact of networks on economic success. Firms with people, who quickly detect new innovations produced by
small businesses has an advantage in progress and development. Thus, social capital in the business environment becomes critical for the identification process, described in the absorptive capacity section. This section will try to show the importance of social ties, conflict management, and trust.

Pak and Park (2004, p. 427) reported, knowledge and relation-specific variables as the key determinants of KT within cross-border JVs. The relational aspects are most important to work on, in the beginning of the relationship, for successful transfer in JVs (Dhanaraj et. al., 2004, p. 437; Tsang, 2002, p. 846), strategic alliances (Kale, Sing & Perlmutter, 2000, p. 234) and acquisitions (Bresman, Birkenshaw, Nobel, 1999, p. 456-458).

Social ties facilitate, both quality and quantity of transfers in JVs (Pak & Park, 2004, p. 426-427), strategic alliances (Saxton, 1997, p. 454-455) and acquisitions, even though not directly researched (see for instance, Bourantas & Nicandrou, 1998). Social ties are especially important for the transfer of tacit knowledge (Dhanaraj et. al., 2004, p. 437).

Conflict is inherent in relationships where different goals and cultural differences are some potential reasons. Active conflict management will help firms to deal with these difficulties. Destructive conflict, or opportunistic behavior, in the past or in the present has been shown to severely damage potential knowledge flows, especially tacit, in JVs (Inkpen, 2000, p. 1028; Pak & Park, 2004, p. 426-427), strategic alliances (Saxton, 1997, p. 454-455) and acquisitions (Gammelgaard, Husted & Michailova, p. 8). Das & Teng, 1998, p. 507-508) did not manage to prove a relationship of importance between the skill of conflict management and the success of strategic alliances.

Conflict is tied closely to the absence of trust in a relation. Trust is defined as the belief that an exchange partner would not act in self interest at another’s expense (Uzzi, 1997, p. 43). Trust gives willingness to work things out through mutual problem-solving (ibid.). Dhanaraj et. al. (2004, p. 430) found that trust influences both the quality and the quantity of knowledge exchanged. Further, trust is also transferable by reputation from previous
relations with other partners (ibid.). In acquisitions, employees hoard their knowledge in order to protect themselves and to secure their own position. Particularly in environments characterized by a lack of trust, individuals are uncertain whether the reward of sharing knowledge will be appropriate (Gammelgaard, Husted & Michailova, p. 13; Johnson et. al., 1996, p. 1000). This is also true for strategic alliances, where the collective knowledge development will benefit from the creation of inter-organizational trust (Larsson et. al., 1998, p. 301). A well developed relationship plays three critical roles (Dhanaraj et. al., 2004, p. 430-431):

1. It provides clarification which allows proper interpretation due to the willingness of ‘filling in the gaps’ when needed.
2. It allows control through proper feedback possibilities.
3. It serves as a source of motivation, which is linked with the effects of integration, described in the absorptive capacity section.

It is logical to assume that relationship management is important in the acquisition process, because much of the knowledge is lost if the acquired personal leaves the firm. If the employees linked to the key knowledge leave the firm, the knowledge could be altered or damaged before being transferred. Castro & Neira (2005, p. 132-133) did not manage to show the link between employee retention and the success of KT, which may have been caused by their narrow case-study of three firms. Hambrick and Cannella (1993, p. 755-758) however, linked employee retention with acquisition success in their study of 97 American firms, which is feasible as a partial evidence because acquisition success has been linked with the ability to internalize knowledge from the acquired firm (Hakkala, 2002, p. 30-31). The importance of retaining the key talent naturally decreases when the knowledge is internalized in the acquirer’s organization, which also may have been the case in the Castro and Neira’s (2005) study.
3 Our approach

This thesis reviews and builds on the model on KT, described by Kappen and Karlsson (2005). The main focus is backward compatibility and convergence with experience.

3.1 Distinctions

An acquisition is defined as the take-over of an existing company. Collaboration is called a JV if two, or more, firms set up, or buy, a separate legal entity and strategic alliances are non-equity collaborations between two sovereign firms (Mahoney, Trigg & Pustay 1998). This thesis will use the word integration extensively. Our definition of integration is the process of integrating an acquired company or unit after the acquisition is completed.

3.2 Purpose deviation and the choice of Vattenfall as a case company

Our intention when we started this master thesis was to conduct a more extensive project within a company. The suggestion was e-mailed to over 25 companies in the beginning of February and one positive response from Vattenfall was received at the end of the month. We were directed to Vattenfall’s HR president, Ann Charlotte Dahlström, who thought our idea was interesting. However, after three weeks she gave up on pinpointing our project to some specific unit at Vattenfall and she instead introduced us to the head of acquisitions planning, Mikael Kramer. He in turn was willing to give an interview, but his knowledge on KT was limited to the pre-acquisition identification of interesting knowledge, which he never followed up. Nevertheless, he gave us a new name, Magnus Groth, who had been responsible for several competence programs and involved in some acquisition integration programs. We made another call and presented our idea for the forth time, and Magnus Groth seemed to be cunning in the area and agreed to an interview.

Since the positive response rate was low, we decided to make an in-depth study of Vattenfall’s KT in their integration of Vattenfall Europe. Moreover, as we only had one respondent and one company we decided to add an experience perspective to the study to
get the most out of one interview. The experience perspective aimed at investigating whether firms converge (with experience from KT) their practices to the model. Further, we decided to complement the study with secondary material in the same area to achieve a more in-depth understanding of this highly complex and theoretical topic. A preliminary look at other case studies showed one interesting aspect differing from ours. These were conducted on companies in knowledge intensive industries, typically IT and management consulting (see Castro & Neira, 2005; Ranft & Lord, 2000). Vattenfall on the other hand, is located in a more static technological industry. Vattenfall has an interesting advantage due to Sweden’s early deregulation of the energy market. It is this knowledge, or supposed competitive advantage, on operating on a deregulated market that Vattenfall has been capitalizing on in their expansion in Germany and Poland. Hence, the big difference with our case study is that they operate in a less knowledge intense industry than companies used in other studies. Vattenfall’s acquisitions are not primarily conducted to acquire competence or knowledge, which often is the case in the other studies.

### 3.3 Data gathering

To comprehend the research of KT in acquisitions we primarily used the material from our bachelor thesis (Kappen & Karlsson, 2005). However, we needed to add more case studies on acquisition KT since our previous material mostly were quantitative in its nature. When screening the Internet we primarily took advantage of three different universities (Uppsala University, Sweden, Monash University, Australia, and Copenhagen business school, Denmark) library resources, databases (such as JSTOR, Proquest, Business Source Premier, and Academic Research ASAP), and more common tools such as different search engines (Google Scholar for instance) that should cover a large part of the research conducted around the world. Moreover, we also searched for scholar papers at Swedish universities. The most frequently used phrases in different combinations were:

- Knowledge transfer
- Knowledge acquisition
- Learning
- Acquisition
- Case study
The supply of secondary data in the fields of KT is vast, however and naturally, as the research is narrowed down into case studies of acquisitions, the amount decreases. Even though several universities’ library resources were used, we were not able to access all material in its original form. The primarily reason was lack of subscription on some important journals in the field of knowledge management. This problem could have been solved with financial aid. Uppsala University lacks access, both electronically and printed, to some journals and more specifically to newer issues of *Journal of International Business*. A database named *SwetsWise* was supposed to remedy this, but we did not manage to get access to any articles published after 2002. This access however, was achieved through a database, *Academic Research ASAP*, available electronically at Monash University. The access to new material is important, especially for new sciences such as inter-organizational KT.

### 3.4 Constructing the questions

When constructing questions, it is important to relate them to the intended area of research. The research questions are: Is the model, on international inter-organizational KT, created in our bachelor thesis valid for describing a KT process in an acquisition despite the generalization from acquisition-specific to inter-organizational general?; will the methods and thoughts on KT used by a company, with experience from a KT in previous acquisitions, converge to the model? To answer the first we choose to test the aspects that we found to be important for KT in our bachelor thesis (*Kappen & Karlsson, 2005*). The aspects are the same as the ones used in the previous test of conformity on strategic alliances (ibid, p. 26):

- Problems with tacitness (TS1)
- Attention to culture (TS2)
- Importance of interaction (TS3)
- Transfer motivation (TS4)
- Importance of similar domain knowledge (FS1)
- Importance of similar organizational structures and systems (FS2)
- Experience and time’s effect on ability to transfer and use new knowledge (FS3)
- Importance of social ties (RS1)
- Importance of conflict management (RS2)
- Importance of trust between sender and receiver (RS3)
The purpose is to test the importance of these variables on knowledge transfer in the integration process of Vattenfall Europe. Hence, we will construct the questions for each aspect with a KT general focus. However, some questions are related with common acquisition aspects and problems to ease the respondents understanding. We will also ask sub-questions, on how the experience from the integration process affects their current view on KT in acquisitions. This will answer the second question of convergence through KT experience.

It is hard to determine, before the interview, how well the respondent knows the theoretical aspects of KT. To circumvent this we tried to make the questions easy to understand and we also provided each main question with sub-questions to guide, but not to control, the respondent. This is not done to force the respondent to only consider aspects covered in the model, it is done to ensure that the respondent at least thinks and gives critique about the model’s aspects. Aspects not covered in the model, brought to our attention by the respondent will be covered in an extended section, built on the general model for inter-organizational KT.

### 3.5 How the interview was conducted

To prepare the respondent, the interview questions were sent by e-mail two weeks before the interview. This gave the respondent time to consider the questions and to collect additional information from co-workers. We believed this to be important as we needed the answers to be in-depth and as accurate as possible concerning Vattenfall’s work with KT. We also gave a short introduction to the model together with the questions, this was mainly done to ease the understanding and to enable answers that might link how different aspects interact. The introduction was carefully prepared with the intent of making it free of normative theory which could affect the respondent’s answers in the interview. The information sent to the respondent, including both questions and introduction, is available in appendix A. Further, the interview questions and the interview were conducted in Swedish to ease the risk of misunderstandings and a possible feeling of discomfort on the respondent’s behalf (considering that the respondent shall do most of the talking). The questions were prepared for an interview lasting approximately 60 minutes.
The interview, with Magnus Groth of Vattenfall, conducted on the 22 of April lasted approximately 45 minutes. It was recorded using a MP3 player with voice recording capabilities of which the respondent had given his permission to before the interview started. The interview time was shorter than planned due to a last minute schedule change from the respondent. This however, did not cause many problems because the variables of the model are correlated (see Kappen & Karlsson, 2005, p. 31). Hence, questions about one aspect created answers that covered some others which saved time and allowed the interview to be conducted without stress in 45 minutes. The respondent answered all questions without any notes, so there is a good possibility that the respondent is familiar with the topic. The interview was screened and translated into English. Furthermore, the interview, after translation, was sent to the respondent by email for his approval. This was done to ensure that the interpretation and translation of the interview was correct and to give the respondent a chance to change or add some additional information.

3.6 Thoughts on the method

The usage of a case study seemed as a natural approach when looking for a test of the model and to give more concreteness to the very abstract and complex model on international inter-organizational KT presented by Kappen and Karlsson (2005). A case study is especially relevant for the analysis of little known, complex and dynamic phenomena, or when unobservable intangible elements intervene (Eisenhardt, 1989).

What we realized is that it would take a more extensive in-depth study of a company to add more concreteness to the model. The study must be conducted on several levels, not only top management, to gain a more complete and descriptive understanding on how to transfer knowledge successfully. We decided to use secondary data to provide access to this more complete understanding. This was done since we lacked access to respondents and believed that we would not have time and the recourses to find respondents on different levels that could provide us with the necessary information. The sources used as secondary data are mostly from respected international journals, such as Journal of International Business Studies, Strategic Management Journal, and Organization Science, which yield certain credibility to the findings. We have also increased the
transparency of this thesis by providing page numbers on most of the specific findings referred to.

To create a more in-depth understanding of the different aspects in the model, we decided to use other case studies in the area which worked out quite well. However, other case studies are not focused on our model, so we needed a couple of them to cover the entire model. Most of the case studies are limited to evaluating transfer-, firm-, or relation-specific aspects, few tries to cover them all.

The low response (positive answers towards an extensive project or at least providing persons for an interview) from firms may have been caused by the system used among many firms, where one person deals with all student contacts and hence does the screening of interest. It may be better to directly approach personnel with more knowledge in the domain, especially with a highly theoretical topic as KT.

We discovered during the interview that the respondent where able to answer the questions in an adequate manner (related to the topic) without many of the sub questions. This may have been the result of giving him the questions before the interview. There is also a possibility for some bias since we gave the respondent a short version of the model before the interview. However, the aspects given were carefully scanned to prevent this, and there are no obvious reasons for the respondent to give answers aligned with the model, especially since the report not will be circulated within Vattenfall.

Another interesting aspect was that one question could give answers to others, which was of great help since we were short on time. Since the respondent seemed cunning in the area, there is a good chance that similar studies in, at least, semi-similar industries would produce results analogous to ours. Further, our use of case studies from a wider base of companies and industries will further increase the reliability of this work.
4 Knowledge transfer in acquisitions

An important insight from the empirical acquisition literature of the last two decades is that acquisitions are often linked with implementation problems and unsatisfactory post-acquisition performance (Haspeslagh & Jemison, 1991, through Vermeulen & Barkema, 2001, p. 5). A reason for this is the problems that are associated with the integration of acquisitions (Porrini, 2004, 545-546). It is during the integration stage the inflow of knowledge, practices and routines from an acquisition occur (Barkema & Vermeulen, 2001, p. 461-462). It can improve the creation of new knowledge, as new knowledge often comprises the combination of existing knowledge (ibid.). Therefore, acquisitions may broaden a firm’s knowledge base which can enhance the viability of its later undertakings and its ability to transfer knowledge (ibid).

The common objectives for acquisitions, such as the exploitation of economies of scale, geographical expansion, though not directly focused on knowledge, as objectives like acquisition of new technologies, are still obliged to acquire knowledge about different shareholder groups and products, such as (Rumyantseva, Gurgul & Enkel, 2002, p.63):

- Customers: their needs, behaviour and motivation to purchase
- Products: production process and expected sales volumes
- Suppliers: their capacities and price structures
- Employees: their experience and productivity
- Technological processes and problem solving capacities

The generalized model covers what we believe to be the most important factors concerning KT in the three modes of governance. However, when screening the literature available on KT in acquisition processes it pinpoints two distinct issues that are closely connected and definitely affected by the variables in the model. First, the approach that the principal means of transferring tacit embedded knowledge is by interaction between the personnel of the acquiring and acquired units. The interaction depends on the level of integration (which is one of the issues in acquisitions) between the acquired firm and the acquirer. Therefore, the result of the KT can be said to be dependent on the degree of autonomy the acquired firm obtains. Secondly, for a successful transfer to be made, it is clear that the individuals holding the knowledge wanted by the acquirer must remain in the acquired firm. Hence, we will discuss the
importance of retaining key personnel, which is dependent on the whole section of relation-specific variables.

4.1 **Degree of autonomy and integration of the acquired firm**

As stated earlier, the acquisition of knowledge often underlie acquisition strategies, but knowledge as a strategic asset often creates special problems for the firm (Coff, 1999, p. 144). Hence, the transfer of knowledge is dependent on the degree of integration between the firms. A high level of integration may cause disruption of existing resources and routines (Haspeslagh & Jemison, 1991, through Piske, 2002, p. 295-296) and increase the tendency for acquired managers and employees to leave the firm. (Hambrick & Cannella, 1993, p. 758)

To avoid these problems, the acquiring firm may allow a high level of autonomy to the acquired unit. However, too much autonomy may stand as a barrier to the actual transfer. (Castro & Neira, 2005, p. 121)

“If both organizations are managed totally autonomously and independently, there is a risk of creating a ‘knowledge island’ which obstructs transfer and learning, given the difficulty of accessing the knowledge possessed by the acquired firm. (Castro & Neira, 2005, p. 122)”

Birkinshaw (1999, p.33) claims that the acquiring firm should focus on human integration, which is slower and more cautious; instead of task integration, when the acquired company is knowledge-intensive. In other words, scientists, engineers and other knowledge workers must be integrated in a more careful way to avoid unnecessary disruptions of their work. This means giving them incentives such giving them the high degree of freedom they need to work efficiently (ibid.).

Ranft (1997, through Empson, 2001, p. 844) argue that the degree of autonomy must be associated with the type of the knowledge. The more tacit the knowledge is and the more deeply it is embedded in the individuals and the culture of the organization, the more fragile it will be. This implies that modifications of the context during the acquisition integration could disturb it. Moreover, it highlights the necessity to maintain the
autonomy of the acquired firm, at least to begin with, as a means of preserving the knowledge (Haspeslagh & Jemison, 1991, through Castro & Neira, 2005, p. 121-122).

The ‘transnational organization’, described by Bartlett and Ghoshal (1988), aligns with the above stated need of personal integration and organizational autonomy. The theory builds on allowing local ‘centers of excellence’ instead of adhering to simplistic solutions or ‘quick fixes’, such as standardization, rationalization, and centralization (ibid., p. 73).

“What is needed is a more gradual approach that, rather than undermining a company’s administrative heritage, both protects and build on it (ibid.).”

4.2 Retention of key talent can be crucial for the transfer of knowledge

Pitts (1976) and Lord and Ranft (2000) argue that the success of the integration process also depends largely on the retention and integration of critical talent, especially the turnover of acquired personnel of those most valuable for the acquirer. The competitors may take advantage of the opportunity to hire individuals who possess the acquired firm’s key talent. Changes in management may disturb the processes through which the firm learns and gathers knowledge (Leonard-Barton, 1995, through Castro & Neira, 2005, p. 122). Continuity in management may also be necessary to retain employees holding critical knowledge.

The routines needed to transfer knowledge and the people possessing the knowledge are needed to successfully transfer knowledge (Teece, 1998, through Castro & Neira, 2005, p. 122). If the employees linked to the key knowledge leave the firm, the knowledge could be changed or destroyed before being transferred (Nelson and Winter, 1982, p.110). The importance of retaining the key talent decreases when the knowledge is formalized and less independent of the individuals originally possessing it.

Although most studies on turnover have been restricted to the top management level (Hambrick & Cannella, 1993; Lubatkin et al., 1999), some case studies (see for example Buono and Bowditch, 1989, trough Krishnan et al., 1997, p. 365) argue that the loss of other groups of employees can compromise the success of the acquisition. In a study covering eighty-nine acquisitions (Lord & Ranft, 2000, p. 312), they found support for
the hypothesis that retention of key personnel from the acquired firm is positively associated with the transfer of knowledge-based resources to the acquirer.

5 Background on the case company: Vattenfall

The Swedish company Vattenfall was founded in 1909 and is today one of the leading Nordic and northern European energy companies. Vattenfall has an outspoken vision of becoming a leading European energy company and is Europe's fifth largest generator of electricity and the largest generator of heat. Their major customers are industrial plants, energy companies, property companies and housing associations. Vattenfall currently has operations in Sweden, Finland, Germany and Poland. The parent company, Vattenfall AB, is wholly owned by the Swedish State.

When Vattenfall became a limited liability company in 1992, most of their activities took place in Sweden. Since then, their Swedish operations have become part of a broader business – as a result, Vattenfall today has a clear international outlook. This is mainly due to their expansion program which has seen Vattenfall grow through acquisitions in Germany and Poland over the last six years, founding Vattenfall Europe in 1999. This strategy has given them a foothold in continental Europe which they hope to be a solid financial and management platform for further growth and expansions through acquisitions.
6 The interview

This section covers the main findings from the interview. The section is separated into questions, displayed in bold text. These questions are not the actual questions asked at the interview, they are constructed after the interview to make it easier to follow and to make it more structured. The answers are not to be interpreted as direct quotations of the respondent’s answers during the interview. However, this section was reviewed and approved, as a correct interpretation and translation of the interview, by the respondent. The real interview questions are available in appendix A. This section starts with a background, of the respondent, to establish some credibility to his answers.

6.1 Background of the respondent

Can you tell us about your position and tasks at Vattenfall?

My name is Magnus Groth and I am a senior vice president of Vattenfall’s business development function. My work includes growth issues, operational excellence, business performance, and so on.

Experience from previous integration processes and knowledge transfer?

Some from the integration process of acquisitions. I am also a member of the Vattenfall Poland board. And I have been involved with knowledge transfer from and to Germany for instance. I have also been involved with different competence programs within Vattenfall.

6.2 Model related questions

If we divide knowledge into tacit and explicit, where tacit knowledge is more like ‘know-how’ and the explicit is knowledge such as patents or written instructions. Can you mention some examples of knowledge applying to the two categories that you are interested of or have transferred at Vattenfall? In what directions have the knowledge been transferred?

Most important explicit: How to conduct business, which is done in a division of the value chain. How production, trading, and sales are carried out. The Vattenfall way of internal market pricing and that all units are run as profit centers.
Most important tacit: Our view of market development and customers. We are convinced that the competition and the internationalization of the market will grow, which we need to prepare our coworkers for.

The knowledge is initially transferred from us to our acquired units. Later, after 1-2 years, knowledge flows in both directions. As an example, we successfully transferred a benchmarking system developed in Germany, which is important as they comprise over 60% of our business. So if they have something operationally useful to us, it would be stupid not to use it. The reciprocal flow increases incrementally with the success of the integration process.

Which of explicit or tacit knowledge is hardest to transfer?

The tacit knowledge is hardest as culture and values cause misunderstandings, which in turn affects the explicit transfer. What is clear to me in a group instruction, or similar, is not always clear to the receiver, because they may read it with ‘different glasses’ than me.

How has the experience from the integration of Vattenfall Europe affected Vattenfall’s view on knowledge transfer in acquisitions?

Some things has to be done in the first six months of an integration process, such as consolidation of the financial control system, take the thought of synergies from word to action. Our main lesson is that we need to initiate the ‘soft’ parts of integration at the same time. This includes cultural integration, personal exchanges, work teams, and so on. These big communication issues must be started in parallel with the ‘harder’ issues.

The rotation of personnel is important and it is a common demand for employees in other companies, such as Sandvik, to be considered for higher positions. Vattenfall is behind on this point, and this is something we will work on in the future.

We did not possess a lot experience of big acquisitions before the integration of Vattenfall Europe. The experience from integration processes and transferring knowledge is important, and it is important for us to utilize both the organizational and personal experience from past processes. We have constructed a manual for integration processes to utilize the organizational experience.
How important were the cultural difference, both organizationally and nationally, in your integration process with Vattenfall Europe? How did it affect the knowledge transfer?

Concerning the national differences it is true that all your prejudices to some extent came true. Germans are structured, organized and decisive whereas we Swedes typically take great responsibility, have flat organizations and are cost effective. However, we seem to be indecisive, and slow and careful decision makers. It is therefore important to be aware of these differences and to grasp the best of both worlds.

How has the experience from the integration of Vattenfall Europe affected Vattenfall’s view on cultural differences in knowledge transfer?

The impact of cultural differences should be taken seriously but one cannot discuss cultural issues forever. We have had an extensive value identification program, after the Vattenfall Europe integration, where we identified the core values of Vattenfall.

In the future, we at Vattenfall will pay more attention to cultural issues and most importantly, it will be done earlier in the integration process. This will be done by educating employees, reallocation of staff, trainee programs and so on. Once again, the rotation of staff is important. We will also look broader when recruiting for senior positions to increase and widen the knowledge base in upper management.

Is Vattenfall’s organizational culture affected by the state ownership?

I do not feel that the organizational culture at Vattenfall is any different then other companies in the industry as we are all affected by the previously regulated market, hence, state or privately owned does not really matter.

How is interesting knowledge identified in Vattenfall? Is the identification and transfer encouraged throughout the organization?

The identification is encouraged but the knowledge is often embedded in individuals so it comes down to domain knowledge and personal skills. You often do not know what another person knows until you get to know them. It is true that a large company, such as us, comprise an enormous amount of knowledge. Some other companies have tried to
store serious amounts of knowledge in a database to make it more available. This usually ends up with a ‘data graveyard’ which is impossible to work with.

It is important to know the people who possess the relevant knowledge to easily identify and get the needed knowledge. Hence, social relationships are of utmost importance to identify the key employees who can act as knowledge providers.

**Has the view on this changed with increased experience?**

It was apparent that during our first years of acquisitions, we conducted our social tie evolvement under somewhat uncontrolled forms. This was shown by overdoing meetings and traveling between the units. In the future, Vattenfall will focus on the more important aspects, and the personal exchanges will be conducted in a more controlled manner where the goals for the exchange are set and clear.

**How do Vattenfall manage to retain key talent in its acquisitions?**

It is important at an early stage to identify key assets. If we are acquiring a coal plant, important assets would be the purchasers of coal. The turnover is not that big in our acquisitions. However, since our intention is to rationalize we need to know who knows what, inevitable where key persons are located, so that key persons are kept within the organization and not rationalized away.

**How do Vattenfall deal with conflicts in the integration processes?**

We deal with conflicts in a straight forward manner. We do not have a separate unit that deals with conflicts. Conflicts can move upwards through the organization until they are solved, we try to solve them as quickly and smoothly as possible.

**Has the view on conflict management changed?**

We have learned that it is better to be straight forward about conflicts, because this enables a knowledge about what is acceptable and not. If you are too careful, conflicts may hide under the surface for long times and may hinder important processes during that time. It is important to deal with conflict and to be clear about what goes and what does not, even if people may consider themselves as losers in a conflict.
People from both Poland and Germany are better than Swedes at confrontation. They protest against a decision not in their liking, instead of trying to accept the decision as many Swedes do.

**How long do Vattenfall normally wait before initiating knowledge transfer in their acquired units?**

The faster the better, however, the acquisition often starts with small minority stakes which hinders the exchange of operational knowledge. If we were to make a 100% acquisition we would ideally have an integration plan ready the same day.

**Is it Vattenfall’s intention to fully integrate all acquired units? If so, how does it affect the more soft issues like R & D?**

Our main goal is to achieve full management control, but the integration is often an incremental process with small minority stakes at the time.

Our research is centralized to Sweden, at least if we look at personnel. However, the research is done in all areas to support all part of Vattenfall.

**To summarize, what do you consider to be most important for knowledge transfer and how will it affect Vattenfall’s work in the area?**

It is important to be clear about what is important and not to be lenient on that aspect. All acquisitions are characterized by a great uncertainty among all parties. It is therefore important with a plan that gives certainty and trust about our intentions.

**What is the result concerning your acquisitions? Did they according to you work out as planned?**

The results of our acquisitions are good, at least if we look at the financial result. The rationalization committed in the German companies worked out well. This mainly comes with our experience from operating in a deregulated market for some time. However, the management-synergies proposed are much harder and some things have worked while others have not.
7 Discussion and evaluation of the interview

This discussion will consider and evaluate the different variables in the model in relation to the respondent’s answers. The variables (TS 1, TS 2, and so forth) are displayed in the summarized result in figure 4 and on occurrence in the discussion and evaluation.

7.1 Transfer-specific aspects

Many authors from various disciplines have discussed that knowledge cannot be transferred easily from one firm to the other (see Bresman, Birkenshaw & Nobel, 1999; Hamel 1991; Kogut & Zander, 1992; Szulanski, 1996).

Transfer of knowledge after an acquisition cannot depend on explicit knowledge alone. Often group-based tacit knowledge needs to be transferred. This type of KT is a slow process and is rarely affected by formal ways such as reports. In general, it is argued that the higher the perceived knowledge ambiguity the lower the possibilities for knowledge transfer. The more knowledge can be internalized, the less important it is for a firm to buy a whole organization as they can rely on alternatives, for example buying the explicit knowledge in form of manuals or patents. Mostly, firms acquire other firms because of the capabilities that are shared by the group and that are difficult to express in an explicit way. (Huysman, Leonard & Nicolle, 2002, p. 4-5)

The respondent clearly indicated that the tacit knowledge is hardest to transfer (TS1). He also gave indications of a linkage between tacit and explicit, where problems, caused by misunderstandings with tacit KT affect explicit KT. The effect transferred tacit knowledge has on explicit and vice versa has not been researched for acquisitions. However, Dhanaraj et. al. (2004, p. 437), in their study on JVs in Hungary, linked the amount of transferred tacit knowledge with the success of explicit knowledge transfer. That tacit transfer affects explicit in acquisitions as well is interesting and can be considered as another issue of the experience and time variable. The respondent also explained that different cultural backgrounds, both organizational and national, have an effect on the tacit KT (TS2).
Vattenfall will in the future take more actions to facilitate the more tacit aspects of an integration process. This will also be done earlier in the process with help of personnel exchanges and cultural integration. Both of these statements align with the model where the importance of tacit aspects, attention to culture, and interaction are variables.

The integration of an acquired company into a parent firm is complicated because of the differences between the organizations involved. Various studies, such as Rumyantseva, Gurgul & Enkel (2002, p. 79-80) for instance, have found that differences in organizational culture and management style damage post-acquisition performance and the transfer of knowledge. (Chatterjee, Lubatkin, Schweiger, & Weber, 1992, p. 331)

Some degree of similarity in organizational culture has also been proposed as an important ingredient to successful knowledge transfer (Gupta & Roos, 2001, p. 307). Organizational culture involves the shared meaning, norms and values that have been collectively built over the years. It is highly implicit and very difficult to change (Huysman, Leonard & Nicolle, 2002, p. 4). As a result, it is better to acquire companies that do not differ greatly in terms of culture (ibid.). Naturally, striving for similar organizational cultures is impossible; hence organizational cultures are unique by definition. Many researchers or practitioners stress the importance of cultural compatibility or fit as a major determinant for the success of mergers and acquisitions (Rumyantseva, Gurgul & Enkel, 2002, p. 79-80). Cultural similarity is generally assumed to ease integration (ibid.). The cultural differences can be overcome with the appropriate atmosphere during the integration process (ibid.).

The respondent indicated that cultural fit and cultural integration was less prioritized in their integration with Vattenfall Europe. The differences however, were more on the national level because the energy market is similar in organizational culture, influenced by the previously regulated, and often monopolized, market. The respondent, with experience from other workplaces, did not believe that the state ownership affected the organizational culture of Vattenfall. This implies that the cultural fit necessary for the successful trade of strategic resources (Veiga, Lubatkin, Calori & Very 2000, p. 541) may have been fulfilled in Vattenfall’s acquisitions. However, the respondent stated that there still existed national differences where most prejudices came true. Interesting here
was that the respondent gave mostly positive attributes of other cultures, which implies a cultural sensitivity/empathy as discussed by Dersky (2000, p. 104).

The respondent further argued for more attention to cultural differences in the integration process (TS2). He also described a value program initiated after the Vattenfall Europe integration, where Vattenfall tried to identify what Vattenfall as an organization stood for. This is good and can be seen as another step towards a cultural sensitivity, as it helps to be aware of your own values and prejudices when dealing with other cultures (Deresky, 2000, p. 104). The respondent claimed cultural issues to be a key issue in their future integration processes (TS2).

The variable importance of motivation where not directly asked but it was clear that the strategic importance of the unit affects the amount of knowledge transferred: This was illustrated when the respondent explained about a benchmarking system transferred from Germany. He stated regarding that transfer, that it would be stupid not to utilize the knowledge of their German operation He further claimed it to be especially important to make use of the German knowledge since they comprise 60 % of Vattenfall’s business (TS4). Hence, we have provided partial evidence for the organizational motivation aspect. Stronger evidence may be achieved by a more quantitative study, where the linkage between the strategic importance of units and the amount of knowledge transferred from them could be explored.

A study carried out by Bresman, Birkenshaw and Nobel (1999) comprising 42 international acquisitions, undertaken by Swedish multinationals whose principal motive was to access the research knowledge of the acquired unit, showed that intense communication, visits and meetings were important factors of the transfer of tacit knowledge, but were not so when knowledge was relatively articulated. Another aspect is that the interaction often is dependent on the level of autonomy left to the acquired unit. The more autonomous the harder it is to have frequent interaction (ibid.).

The solution to this may be more frequent non-hierarchical employee rotations, where employees get the opportunity to work in different units and hence absorb important knowledge. In other words the interaction should not be initiated to increase control over
the acquired unit, it should be initiated with the intention of establishing social ties and inter-organizational learning.

The respondent clearly acknowledged the need for interaction (TS3), both organizationally and individually. Further, the interaction is important to identify the knowledge, because you must know someone to understand what they know. One interesting fact that came to attention was the problem with uncontrolled interaction described by the respondent. It was argued that there has to be more control and more clearly articulated goals with the interaction in the future. This is especially interesting because it allows for an additional general variable in the general model: **The need for control and clearly articulated goals.** This variable is well established for JVs and strategic alliances, due to the need of leakage control and because clear goals help facilitate the actual transfer (see Aben, Krogh & Nonaka, 2002, p. 426; Hamel, 1991, p. 84 for instance)

“**Companies benefits from taking a proactive approach, rather than just letting knowledge drift and evolve at the periphery of management’s attention (Aben, Krogh & Nonaka, 2002, p. 435).**”

The respondent further argued for more structured programs of employee rotation in the future, which will give increased knowledge sharing and broaden the knowledge base within Vattenfall.

The respondent also stated that Vattenfall was interested in a full integration, since their competitive advantage lies in the knowledge on how to make effective rationalizations, due to their experience from a deregulated market. Further, they also seek synergies or scale advantages, but these have been harder to realize than their rationalization advantages. The main difference in approach where Vattenfall wants to fully integrate the acquired unit, instead of giving them some level of independence, may be in the nature of their static technology industry. Vattenfall’s research is centralized to Sweden, so their innovative routines may not be affected by the change in atmosphere and level of independence at their acquired units. The innovative routines of a firm/team may be more sensitive to disturbance than others.
7.2 Firm-specific aspects

To successfully identify and transfer knowledge there is a need for some common domain knowledge between sender and receiver. This can be similar academic training as showed by Castro and Neira (2005, p. 131-132) in their case study of three knowledge-intensive acquisitions; the mentality of a telecommunications or an IT engineer is different from that of a fine arts graduate and it is complicated to create an understanding between them even if an effort is made (ibid.). The knowledge can also be linked with the organizational culture, where people from different firms have certain ways of doing things. The problems with organizational misfit however, often vanish with time and successful integration (Bresman, Birkinshaw & Nobel, 1999, p. 456).

The respondent clearly stated that individual knowledge is critical for the identification of interesting knowledge (FS1). Personal relationships are important, as there is a need to know what another person knows. There is of course a general idea of where key knowledge is located before an acquisition, as in the example with the coal buyers in a coal plant, but even if the ‘where’ of KT is identified, the context and the tacit aspect of ‘what’ is unknown. This is why it is important with interaction, social tie development and mutual trust for instance. The domain knowledge is essential to grasp the more tacit aspects of what a person knows. Vattenfall have started to recruit managers from wider functional and geographical positions in order to get access to persons with a wider knowledge base than they have done up until today.

The early stage of the integration process brings a set of new values and systems that the employees may protest against at first. The change resistance lessens with time and the employees in the acquired firm starts to appreciate the new organizational norms (Bresman, Birkinshaw & Nobel, 1999, p. 456). The new systems, let them be financial control mechanisms or information systems for instance, seems to facilitate transfer in both directions, opposed to the one-way transfer from the acquirer to the acquire usual in the early stages of the integration process (ibid.). There is a problem with measuring and discussing the effects of a control system in a qualitative way however, and no case study that we found has attempted this for acquisitions. The effect of control systems seems more suited to studies of cause-effect nature where a successful transfer of a system can
be linked with more KT (see Cohen & Levinthal, 1990, p. 132-134; Makhija & Ganesh, 1997, p. 518).

The effects of organizational or individual experience on acquisition KT is another topic yet unexplored in the form of an in-depth case study. However, there are plenty of quantitative studies done in the area (see for example Cohen & Levinthal, 1990, p. 140). These show positive results between KT and experience both on the individual and the organizational level.

On the question whether experience from previous KT is important for success, the respondent answered that personal experience is important and it is important to be aware of where in the organization this experience is located (FS3). Vattenfall has also created a handbook for integration processes from past experience. This can be seen as evidence for the importance of experience both on the organizational and individual level. As answered by the first question, time allows reciprocal knowledge flow as a result of more integration and organizational similarity. This shift in transfer pattern and quantity can also be attributed to the emergence of a social bounding between the two firms (see Bresman, Birkenshaw and Nobel 1999, p. 456).

### 7.3 Relation-specific aspects

Several knowledge studies have pinpointed that the majority of acquired knowledge is cited as residing in either particular individuals or in the social complexity of the relationships, teams and cultures of the acquired firm (Badaracco, 1991; Dhanaraj et. al., 2004; Kogut & Zander, 1992). This emphasizes the importance of social interaction and social bounding for successful KT.

In the case of Vattenfall, the respondent emphasized, as stated earlier that tacit knowledge is the harder type to transfer and to facilitate it, a close relationship to people within the acquired firm is crucial (RS1). Therefore, Vattenfall tries to build informal social networks to enable and enhance the KT, which will be achieved by extensive communication, and rotation of workforce. Vattenfall has recognized the importance of social ties as a key element in the KT process and will in the future try to structure the processes where social bounds are made (RS1).
As a direct consequence of building social ties conflicts arise. To handle conflict, Vattenfall apply a very straightforward, hands-on approach with clear guidelines (RS2). They do not however have any special unit or such for resolving tougher conflicts. Unresolved conflict moves up the organizational hierarchy until it is resolved. The straightforward way of dealing with conflict is executed for the purpose of lessening anxiety and stress and to point out and make the communication unambiguous.

A topic connected to conflict is the importance of trust between sender and receiver which Kogut and Zander (1992, p. 395) elaborate on:

“... by relating to the issue of knowledge transfer, it can be argued that individuals will only participate willingly in knowledge exchange once they share a sense of identity or belonging with their colleagues”.

This pinpoints the importance of trust and that it is closely connected with social ties. An acquisition, in this sense, represents the bringing together of two ‘social communities’, which is a common set of values and beliefs among a group of individuals (ibid.). If Kogut and Zander are correct, it seems likely that the flow of knowledge between the two parties will be very limited in the years immediately following an acquisition, but will gradually increase as social ties emerge.

An experienced player on the acquisition scene is Cisco, and their integration team jumps in as soon as the acquisition is negotiated (Rumyantseva, Gurgul & Enkel, 2002, p. 63). Their experience revealed that it is of importance to have someone people know and trust responsible for the integration (ibid.). This conduct fits very well into how Vattenfall acts during their integration process and highlights the importance of trust for successful acquisitions and KT.

An issue linked to social ties, conflict and trust is the importance of retaining the key personnel. Buono and Bowditch (1989), argue that the loss of other groups of employees can compromise the success of the acquisition. In a study covering eighty-nine acquisitions, (Lord & Ranft, 2000, p. 312) found support for the hypothesis that retention of key personnel from the acquired firm is positively associated with the transfer of knowledge-based resources to the acquirer. On the other hand, Castro & Neira (2005) did
not manage to link the importance of employee retention with KT success. Castro and Neira’s result partly associates with the acquisition case of Vattenfall as the employee turn-over was relatively small. The respondent argues that the key personnel must be identified in an early stage so initiatives to keep them within the organization can be initiated. He further argues that key personnel can have a vital effect on the result of KT and the acquisitions as a whole which is why they are important to maintain.

7.4 Model convergence with experience

The question whether a firm’s practices converge towards the model with experience remains to be discussed. This aspect was explored during the interview with a question on change since the Vattenfall Europe integration.

There is definitely convergence in the first transfer specific aspects, as the respondent clearly states that they will concentrate on the tacit parts earlier and they will also emphasize the aspects of culture and interaction. The one aspect left aside here is the motivation, but motivation is hard to create with more experience. Knowledge or units can be strategic important or not, and everything in between. Experience will not change this. However, experience can be related with the skill of creating individual motivation, but this is hard to measure with one interview. A method similar to 360 degree feedback could be used to analyze if someone creates more motivation with experience, but a question concerning whether or not a person in your surrounding with time has become better to increase your motivation to transfer knowledge seems quite complex to answer.

The second category, firm-specific aspects, where the respondent clearly indicated the importance of similar domain knowledge, and he also emphasized the need for employee rotation and a wider recruitment base. All of these initiatives originate from experience of integration processes, and whether they will influence the success of KT in Vattenfall would be interesting to analyze in the future. The respondent further emphasized the need for an early start of the integration, which brings quicker installations of control and information systems. However, the respondent stated this as important for successful acquisition integration. On the other side, it is difficult to deal with KT, in an acquisition,
separated from the integration process, so the statement may at least be used as partial evidence of a growing awareness of the importance of similar organizational systems.

The third category, relation-specific aspects, is more concrete and easier to analyze regarding experience. Trust is hard, but it is logical to assume that successful social bounding and conflict management would induce trust in a relationship. And even more, if we consider *the need for control and clearly articulated goals*, where articulated goals is directly linked with creating trust and a sense of tranquility. The articulated goals will also serve as a control mechanism on the social bounding which in the future will be more linked with clear goals in Vattenfall. This may seem contradictory, because the knowledge is embedded in individuals and there is a need for social ties to identify knowledge. The problem however, is to maintain the focus on transferring knowledge instead of bounding for personal gain or amusement and this may be achieved with greater emphasis on organizational goals.

Another interesting issue was the active conflict management that Vattenfall had developed. The ‘Swedish way’ of hiding for conflicts is considered as time consuming and dangerous. It is better to deal with the conflict straight away, because that provides creative feedback on the context of the conflict which allows for better adjustment. Since the respondent indicates developed methods for conflict management, clear goals to achieve trust, and a growing awareness of the importance of employee rotation, it is clear that the relation-specific aspect converges.
7.5 Summary of discussion

Figure 4 summarizes the findings of this case study. Variables confirmed and strengthened ‘✓’ and the ones not confirmed ‘✗’.

<table>
<thead>
<tr>
<th>Transfer-specific</th>
<th>Firm-specific</th>
<th>Relation-specific</th>
</tr>
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<tbody>
<tr>
<td>TS 1</td>
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<td>TS 2</td>
<td>FS 2</td>
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<td>TS 3</td>
<td>FS 3</td>
<td>RS 3</td>
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<tr>
<td>TS 4</td>
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**Figure 4: An overview of the results of this case study**

As seen in figure 4, most of the variables were confirmed by the respondent. FS2 and RS3 however, were not directly supported due to difficulties of measuring them in our case study. Both of the variables are indirectly supported by how Vattenfall intends to approach KT in the future, because an earlier start of the integration process together with tighter control and goals for KT both affects FS2 and RS3. TS4 is only vaguely supported, hence the * in figure 4.
8 Conclusions

The purpose of this thesis was to conduct a test of the previously developed model’s, on international inter-organizational KT, backward compatibility for acquisitions. This was achieved through a case study of Vattenfall Sweden’s integration process with Vattenfall Europe. The result of the study on KT in an international inter-organizational acquisition setting has strengthened the model’s soundness concerning its applicability on acquisition KT. This case study together with the additional material has brought more clarity to how the different aspects of the model affect KT in acquisitions. Hence, we believe that the general model can be used as a starting point for firm-individual adjustments when engaging into international inter-organizational KT.

This thesis adds to the research by finding support for the variable need for control and clearly articulated goals (see chapter 8.1), which earlier only has been pinpointed to strategic alliances and JVs. Further, this thesis has indicated a reciprocal relationship between tacit and explicit KT for acquisitions. This indication however, is too vague to elaborate further on.

Moreover, the study has shown that the variables in the model are correlated, as stated in our bachelor thesis, which were especially evident in the interview where one question created answers that covered several aspects. This makes it difficult for students and KT professionals to examine only parts of the model, because a change in effort on one aspect may affect another. However, the problem is not that critical because there is no inverse relationship between the variables, so a positive change in one variable either brings a positive change or a status quo on some other.

We have established that Vattenfall’s practices, concerning KT, with experience in general converges, or at least not diverges, towards the model. This implies a linkage between best practice adopted by a firm and academic research on KT. Consequently, this linkage also provides further validity, both concerning content and backward compatibility, to the model.
8.1 An expansion to the general model

As stated earlier in the discussion and in the conclusion, the respondent gave support for a variable, need for control and clearly articulated goals, previously only found for KT in strategic alliances and JVs. It is interesting to explore the importance of this finding, since the variable has been left aside or unnoticed in other acquisition studies. A ‘devil's advocate’ would certainly ask the question: How important is this single finding, since it has been left out or is unsupported in other studies? The focus of validity and reliability in the question is of course correct, since the study committed is based on one interview in one company. However, the respondent mentioned this as one of the things that he thought as most important for future KT in acquisitions, which together with the respondent’s experience yields a certain level of credibility to the finding.

As in JVs and strategic alliances the reason for clearly articulated goals is to create a road map where knowledge important to transfer are targeted and expressed as a goal for the interaction of the firms. In acquisitions and especially in the integration process, the articulated goals provide tranquility because it lessens the acquired personnel’s uncertainty. This in turn helps to build trust which is an important facilitator of KT.

The need for control in JVs and strategic alliances originate from the problem with unintended leakage of knowledge, which should be less of a problem in acquisitions, at least if the acquisition is 100 %. There may be a problem however, if knowledge is transferred and there still exists some employee turnover to competitors, but this can always happen and it should therefore not be considered as a KT issue alone. Control of KT, in acquisitions, is needed to utilize the resources of the firm in the best way. There is a need for structured interaction closely linked with the established goals, because the resources of a firm needs to be optimized and hence utilized in the best way.

This study may be the first one that has identified control and goals as important for acquisition KT. It would therefore be interesting, if further research could be committed to further evaluating this aspect of KT in acquisitions.
Acknowledgements

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Appendix A: Interview questions to Magnus Groth

Bakgrund

Hej Magnus här nedan kommer en sammanfattning av vår modell. De viktigaste aspekterna för lyckad överföring (generell inter-organisatorisk) är:

- Hanteringen av mjuk kunskap
- Hantering av kulturella skillnader
- Personlig och organisatorisk interaktion
- Strategisk motivation till överföring
- Erfarenhet och dess effekt på överföringen
- Gemensam domänkunskap mellan sändare och mottagare
- Liknande organisatoriska strukturer och system
- Bra relationer mellan sändare och mottagare
- Konflikt hantering
- Tillit mellan sändare och mottagare

Frågor


2. Vad har du för erfarenhet av förvärvsintegration och kunskapsöverföring?

3. Om vi delar in kunskap i mjuk (tacit) och hård (explicit) hur kategoriserar Vattenfall sin kunskap på de olika organisationsnivåerna? Kan ni ge specifika exempel på generella och branschspecifika kunskaper som ni har överfört eller är intresserade att överföra till eller från era förvärvade enheter?

4. Hur upplever ni skillnaden mellan mjuk och hård kunskap i ett överföringsperspektiv? Hur upplevde ni skillnaden mellan dessa två i er integrationsprocess med Vattenfall Europa? Hur arbetade ni med dessa två under er integrationsprocess med Vattenfall Europa? Har ni dragit lärdom från denna process och i så fall hur påverkar det framtida överföring i integrationsprocesser?

5. Hur påverkades den mjuka överföringen av erfarenhetsgrad på de involverade personerna? Gick det bättre att överföra mjuk kunskap ju längre integrationsprocessen pågick?
6. Vad anser ni mest skilja kunskapsöverföring internt och från förvärvade enheter rörande de mjuka och hårda aspekterna? Relatera gärna till andra aspekter i modellen och få också med ett förändringsperspektiv om möjligt.


8. Hur går identifieringen av intressant kunskap till? Är det strategiskt motiverat? Hur uppmuntras kunskapsöverföring? Vilka kunskapstyper skulle det vara strategiskt viktigt för er att överföra (om vi bortser från att all kompetensutveckling på individnivå är önskad)? Vad har ni för erfarenheter av motivationsfaktorer till kunskapsöverföring och hur har er syn förändrats på detta?


11. Innan ni engagerar er i M&A-aktiviteter, vägs eventuella likheter inom organisationsstruktur, styrsystem och företagskulturer in i bedömningen över potentiella mål? Om det påverkar, har det varit avgörande i något förvärv? Har vattenfall något standardstyrsysystem som implementeras eller kan nya bolag få självständighet? Om ja, vad är tidsaspekten innan den är standardiserad? Har er syn på detta förändrats efter integrationen med Vattenfall Europa?
12. Om vi utgår från ett synsätt där konflikter undvikligen kommer att uppstå i samband med relationer, måhända på grund av kulturella skillnader, olika personliga mål etc. Hur arbetar ni (aktivt?) med konflikthantering vid M&A?

13. Ett ämne som ligger konflikter nära är förtroendet mellan individer på ett företag. Detta speciellt i M&A situationer där osäkerhet, förvirring och asymmetri inom kunskapsflöden existerar. Hur klarar ni av att behålla individer inom företaget (befordringar, löneökningar etc.) och hur skapar ni förtroende, nödvändigt för överföring, fortast möjligt för att inte anställda ska försöka göra sig oumbärliga genom att samla på sig kunskap?

14. Vad anser du vara mest viktigt för er framtida kunskapsöverföring till och från era förvärv?

15. Hur har det gått med era förvärv? Gick allting som planerat?