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Acquisitions That Make Your Company Smarter

By Nima Amiryany and Jeanne W. Ross

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Acquisitions That Make Your Company Smarter

It's challenging to successfully integrate any acquired company, but it's even more complicated when you purchase a business for its knowledge.

BY NIMA AMIRYANY AND JEANNE W. ROSS

On paper, the match between the two companies looked like a good fit. The larger business (which we will call InfraSolutions, not its real name) specialized in managing IT infrastructures. The smaller (which we'll call Mictech, not its real name) specialized in developing such infrastructures. InfraSolutions executives admired Mictech's approach to project development. "We want to do projects the way they [Mictech] did projects," said the CEO of InfraSolutions. A year after acquiring Mictech, however, the InfraSolutions team still had not learned Mictech's secrets. Instead, InfraSolutions' employees continued to stick to their old way of doing projects.

InfraSolutions' experience is far from unique. What had gone wrong for InfraSolutions is similar to what goes wrong for most companies that acquire companies in order to integrate knowledge-based resources. Many such knowledge-based acquisitions fail to achieve their goals, mostly due to similar post-acquisition integration problems.

Acquisitions intended to integrate knowledge-based resources are most common in high-tech industries, where companies like IBM, EMC, Schneider Electric and Microsoft build end-to-end solutions for their customers that combine organically developed knowledge-intensive products with purchased ones. Knowledge-based acquisitions are focused on acquiring new knowledge — related to product features, customer needs, processes and technologies — and depend on assimilating the two companies' expertise.

Our research suggests that knowledge-based acquisitions are fundamentally different from traditional acquisitions. In particular, the expertise for which a company is being acquired represents a part of its collective knowledge that gives it a competitive advantage. This expertise is embedded in company routines and social capital and thus in the way that the target company carries out its operations. In such instances, the acquiring company is interested in something that a group of people have created that involves their vision, ways of working together and approach to carrying out certain activities, the trial-and-error processes they have been through, and so on.

In other words, the acquiring company is interested in the experience and expertise of the target company, not just its existing products. Pfizer Inc.'s acquisition of Icagen Inc. in 2011 for approximately $56 million is an example of such a deal. This acquisition provided Pfizer with expertise in pain research that it was lacking. Another example is The Walt Disney Company's acquisition of Pixar in 2006. By acquiring Pixar, Disney brought in knowledge related to cutting-edge animation technology that it did not possess.

However, many acquiring companies run into a "golden goose" conundrum with knowledge-based acquisitions:

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On the one hand, the new bosses don't want to kill the goose that lays the golden eggs by disturbing the social structures and routines that made the company they bought attractive in the first place. On the other, the idea behind the acquisition was not simply to admire the goose: Generally, the acquiring company wants to learn how to lay golden eggs of its own.

Over time, companies have developed various of practices to try to overcome this dilemma as smoothly as possible. In a survey of 102 senior R&D managers from biotechnology and pharmaceutical companies across the globe, we examined 24 management practices or tools that companies use to ensure effective knowledge transfer following an acquisition. These practices each fell into one of three categories:

1. Formal acquisition structures, such as having a corporate-level department, team, manager or database to create and share best practices concerning acquisitions;

2. Communication tools and practices, such as exchanging documents, distributing descriptions of the acquired company's processes or providing access to its groupware to members of the acquiring company;

3. On-the-job learning activities, such as enhancing face-to-face interaction among employees by means of job rotation or mentoring practices, so that employees can learn from each other in practice.

These measures all sound reasonable, and most acquirers work hard at executing most of them. But there's one problem: Many of them don't actually work. We analyzed the impact on outcomes of each of the practices that respondents described as useful in transferring knowledge. The results surprised us, but underscored the unusual challenge of knowledge-based acquisitions.

•**Formal acquisition structures** (for example, leadership by a team experienced with acquisitions) are not related to a successful acquisition of a knowledge-based entity. This is probably because acquisition leaders are unlikely to be specialists in the kind of knowledge that the acquiring company hopes to gain. As they do not fully grasp the complexity of the target´s knowledge, they miss many important lessons.

•**Communication tools and practices** — such as wikis, data depositories and exchanges of company documents — actually have a negative impact on the integration of the two companies. Our theory is that such tools lead employees to assume they understand the target's knowledge and way of working, but they frequently understand less than they think they do. This overconfidence misleads them when they are trying to use the knowledge and capabilities of the acquired unit on a new innovation — and raises the odds that the acquisition will fail to achieve its knowledge transfer goals. As one executive whom we interviewed as part of our research said, "The exchange of documents really didn't have much effect ... it really doesn't tell you how you got there, in terms of arriving at that certain document, whereas when you talk to people and when you really have the best practices shared, then, you also know … how they arrived at a particular conclusion … " Learning how to integrate services "is not something really specific that you can learn from documents," said another executive.

•**Only the category of on-the-job learning activities** appears to enhance both the acquisition performance in general and post-acquisition knowledge transfer. "Of course you need to understand the [other] company, but the actual added value comes from learning from each other," said a third executive. Whether success is measured in overall performance, financial performance or innovation, only on-the-job learning helps the odds of knowledge integration.

In fact, most executives agreed that face-to-face communication was the only way to begin to transfer knowledge between companies. "The only thing that did help were site visits or peer-to-peer reviews," said one executive. (See "Six Steps for Smoother Knowledge Transfer.")

Accidental Knowledge Transfer

In-person communication also turned out to be key in InfraSolutions' acquisition of Mictech. InfraSolutions' good intentions when it bought Mictech did not translate into much action in the first year. The company made no progress in transferring the knowledge of its new unit. In fact, distracted by other priorities, the parent company hardly even tried.

The dynamic began to change almost by accident when a small group of InfraSolutions' and Mictech's senior employees started to collaborate on a roadmap for InfraSolutions' cloud computing strategy. During this collaboration, InfraSolutions' employees began to see that Mictech's employees had deep, valuable knowledge that could help them deliver better solutions. When InfraSolutions' employees came to understand the underlying foundation of Mictech's capability and saw how it added value during the cloud computing project, they were more motivated to adopt its approach to projects and to develop greater technical expertise and deeper vendor relationships, strategies that seemed to have paid off handsomely for Mictech.

Following the cloud computing collaboration, a group of consultants from both organizations decided there would be benefits in adopting Mictech's project management practices. Some of these consultants had been involved in the earlier cloud collaboration while others had heard about it. Since earlier attempts to implement Mictech's project management practices at InfraSolutions had failed, pioneers from both companies started an initiative to create an informal team focused on leveraging Mictech's best practices. The project management approach that the pioneers jointly developed was described in detail in a document called "Knowledge Management at InfraSolutions." Although this document generally reflected Mictech's project management approach, the joint development of this new plan resulted in employees across the combined organization embracing what they saw as "our plan" for project management.

SIX STEPS FOR SMOOTHER KNOWLEDGETRANSFER

Our research suggests that on-the-job learning activities can enhance post-acquisition knowledge transfer. Consider these six approaches to helping employees learn from one another.

1. Define tangible deliverables. Create mixed groups of employees to work on a task with a tangible deliverable. This can be a good way to help the employees understand each other´s approaches and agree on an end product that commingles the strengths of both companies and avoids turf battles.

2. Provide cultural training. Help employees understand the fundamental differences between their companies' business approaches so that they understand and appreciate the "DNA" of each company and start to identify ways to preserve what is most valuable from each.

3. Let employees provide the solution and the approach. Expert employees are far more aware than acquisition specialists of how they can learn from each other. Ask them to come up with a list of practices and necessary steps that could ensure knowledge transfer.

4. Assign boundary spanners. Look for energetic, curious, all-rounders confident enough to win people over to their cause and to move in different professional spaces. Such individuals can motivate others to share knowledge across boundaries as long as the cause in which they believe is taken into account. These individuals can be instrumental in developing a post-acquisition social community to transfer knowledge.

5. Create a buddy system. Especially when acquiring small companies, match every employee of the target company with an employee of your own company, to enhance knowledge transfer. Schedule training sessions and social events where buddies meet and get to know one another.

6. Make it a game. Changing habits is hard. Anything you can do to make it fun will help encourage knowledge sharing. Try to promote some positive competitiveness among employees, reward them for adopting new habits and help make new practices stick. Team games in which the teams are drawn from both the acquiring and the acquired firms can help develop new networks.

Commitment to Developing New Skills

Recognizing the value of Mictech's project management approach created enthusiasm for Mictech's practices, but management also needed to create opportunities for InfraSolutions' employees to enhance their technical expertise. To meet that need, InfraSolutions allocated time for individual learning — something that had never before been part of the company's culture. InfraSolutions also instituted training programs, distributed technology demos and encouraged participation in vendor technology adoption programs. Finally, InfraSolutions provided monetary rewards to employees who acquired expertise and received recognition from vendor partners. These were all practices that Mictech's CTO had implemented and that Mictech employees felt contributed to the strength of their vendor partnerships, technical expertise and customer service levels. By adopting these practices, InfraSolutions' leadership made a commitment to transfer Mictech's knowledge and ways of doing business to the larger company.

By the end of the second year after the acquisition, InfraSolutions had developed stronger vendor partnerships, extended Mictech's Gold vendor partnership status to the combined company and adopted Mictech's collective IT platform for knowledge sharing. InfraSolutions also realized that it needed to make not just a greater investment in employee education, but an additional financial investment to replicate the vendor relationships that turned out to be a key part of Mictech's advantage. In order to leverage Mictech's technical expertise and vendor relationships, InfraSolutions needed to develop similar expertise and cultivate external relationships. This involved a substantial investment that InfraSolutions' management had not counted on in the first place.

As this example illustrates, knowledge-based acquisitions are not an exercise in logistics and operations. They are about learning. When an acquirer wants to fully benefit from its acquisition's capabilities, experiences and expertise, leaders must invest in collaboration and shared experiences. Our research suggests this requires a lot of face-to-face interaction between experts. To successfully integrate such an acquisition, management must make a long-term commitment to achieving the goals of the deal.

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