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HRM Practices and Knowledge Transfer in Cross-Border Mergers and Acquisitions

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Abstract

During mergers and acquisitions, knowledge transfer plays a strategically significant role in value creation. In a cross-border context, corporations face more challenges to ensuring the smoothness and effectiveness of the knowledge transfer process because of cultural distance. Many scholars have been trying to identify the factors that influence knowledge transfer in an international context and how corporations can facilitate this process. There is a longstanding point of view that HRM practices are interrelated to the efficiency of knowledge transfer. However, little literature has connected cross-border mergers and acquisitions, knowledge transfer and HRM practices together to examine their relationship. This research paper is based on prior literature in this field and will examine the role of HRM practices in facilitating knowledge transfer in cross-border mergers and acquisitions. Based on previous research, I discuss the key variables that influence the knowledge transfer process and how HRM practices could impact those variables and, in turn, positively influence knowledge transfer in international mergers and acquisitions.

Keywords: *HRM practices, knowledge transfer, cultural differences*

Introduction

In a globalized economy, the business world has evolved from distant markets in different countries into one competitive market, where the borders of the countries have diminished greatly. This globalization brings companies opportunities to make a greater impact on this bigger stage but also makes the competition fiercer than ever. To face the competition, companies have many ways to strengthen their core competencies and grow their business. Under the pressure of speeding competition, organic growth sometimes is thought to be over time-consuming in growing firm's core competencies (Bresman, Birkinshaw & Nobel, 1999). Among the different choices, many companies decide to reinforce their capabilities and build a new set of valuable capabilities through mergers and acquisitions (Ranft and Lord, 2002). Such mergers and acquisitions (M&As) have helped organizations gain and sustain competitive advantages by acquiring valuable knowledge in a relatively short time period (Kanter, 2009).

In a knowledge-based economy, knowledge, of course, is considered to be the most fundamental resource that companies could utilize to create core sustainable competitive advantages (Ożgo & Brewster, 2015). Conner and Prahalad (1996, p.477) indicated that 'the central theme emerging in strategic management resource-based literature is that privately held knowledge is a basic source of advantage in competition.' Actually, when M&As are being processed in a cross-border context, they provide companies with even greater opportunities to strengthen their core competencies because they have immediate access to knowledge from various geographic, sociocultural and institutional contexts that other domestic competitors do not (Ożgo & Brewster, 2015).

Much research has been done to support the argument that knowledge transfer is one of the most significant determinants of value creation for the potential of M&As to materialize (Capron, 1996). Scholars have also pointed out that successful knowledge transfer creates even higher value if it is within a cross-border context because it offers companies the access to different business perspectives (Bartlett & Ghoshal, 1989; Hedland, 1986; Solvell & Zander, 1995). It has been commonly accepted that the multinational corporations gain competitive advantages if they have the ability to develop their knowledge internally and successfully transfer the knowledge within different organizational units (Minbaeva, 2008). In order to maximize the value creation in a cross-border M&A process, it is important to make sure that knowledge could be transferred from one unit to another across the organization (Ożgo & Brewster, 2015).

Empirical studies and numerous case studies have pointed out that knowledge management and HRM are linked both on an individual level and an organizational level. For example, research showed that HRM practices, such as compensation practices and performance assessment systems, are positively related to knowledge transferring within organizations (Lane & Lubatkin, 1998). Minbaeva (2008) conducted a study showing that HRM practices could influence knowledge transfer by affecting the motivation of knowledge receivers. Research also suggested that HRM practices are of great significance for helping companies to obtain valuable knowledge during the M&A process (Yamao, Cieri, & Hutchings, 2009).

Although there is some literature on how HRM practices and knowledge transfer are related to each other, as well as the role of knowledge transfer in cross-border M&As, little attention has been given to linking these three things together. With the increasing trend of international M&As, it is necessary for us to further investigate this topic. Thus, this paper links HRM practices, cross-border M&As, and knowledge transfer together, aiming to identify what HRM practices are suggested to be used in cross-border M&As and in which combination they can best facilitate knowledge transfer.

With this purpose, I will examine and evaluate the literature with the goal of answering the following research questions:

1. What are some of the key determinates of knowledge transfer?

2. What is the relationship between knowledge transfer and the role of HRM practices in M&As?
3. How does cross-border context influence the relationship between knowledge transfer and the role of HRM practices?
4. What HRM practices would have a positive impact on key determinants and facilitate knowledge transfer in cross-border M&As?

Knowledge transfer and its determinants

To understand knowledge transfer and its process, it is necessary for us to first have a clear idea about the definition of knowledge itself. Knowledge is an abstract concept that scholars have defined variously over the past few decades. To sum up the definitions from different scholars, knowledge is the information, beliefs, judgments, principals, experiences, and procedures that guide people to solve problems, to make decisions, and to communicate with others in order to take effective actions (Anand & Singh, 2011). Alavi and Leidner (2001) indicated that knowledge could be viewed from five perspectives: (a) a state of mind, (b) an object, (c) a process, (d) a condition of having access to information, or (e) a capability. When knowledge is viewed from different perspectives, its management should also have different foci and approaches. Another important point is that scholars pointed out that knowledge not only resides in individuals but also originates in individuals (Bender & Fish, 2000; Grant, 1996). This means that people's knowledge is affected by their own experiences, values, and beliefs. Even when two people receive the same information at the same time, the knowledge they perceived and learned could be very different (Bender & Fish, 2000). From these arguments, it could be concluded that knowledge, by its nature, is a complicated concept instead of a straightforward one.

Much research is being conducted to examine the taxonomy of knowledge because of a basic premise in this field, which is that the characteristics of the knowledge itself greatly impact the extent to which it is transferred within a corporation (Castro & Neira 2007). Scholars have suggested different ways to classify knowledge according to its characteristics. For example, Winter (1998) categorized knowledge into four continuums: tacit or articulable, observable or not observable, complex or simple, dependent or independent. To elaborate a little bit on these concepts, the tacit-articulated continuum was first proposed by Polanyi (1966). He defined explicit knowledge as the knowledge that could be expressed in systematic language, and is formal and clear. For example, an employee handbook contains explicit knowledge about how employees should deal with things such as contracts, holidays, and benefits or how to use certain machines. For employees, this kind of knowledge is easy to understand and learn. In most cases, reading the handbook is enough for employees to learn the information.

As for tacit knowledge, this is the knowledge that is hard to express in language and to present to others in a formal manner. As Polanyi (1966, p4) explained, " we can know more than we can tell". The knowledge one can easily communicate and transfer to others is only a very limited part of one's total knowledge. The remaining part, however important to the business, could hardly be taught to others in a direct way. Tacit knowledge is also strongly linked to and affected by specific context (Polanyi, 1966). Taking a salesperson as an example, how a salesperson could successfully sell his products to potential customers could be hard to teach. Even the top sales performers could hardly guarantee that they could clearly explain all their tips and approaches to others. Even if they could explain it, it could be hard for the new salesperson to actually gain the capacity because which approach to use greatly depends on what kind of customers you meet and their reactions. Therefore, fully gaining this kind of knowledge requires more experience than just simple lectures.

The second continuum of knowledge is divided into two categories: observable knowledge and non-observable knowledge. Observability of knowledge refers to the degree to which others can easily imitate it (Zander & Kogut, 1995). For example, it might be easy for companies to copy certain products from one competitor. However, imitating how the competitor processes their manufacturing and how they strategically manage their employees could be much more difficult. The third continuum of knowledge is whether it is simple or complex. Scholars believed that complex knowledge is the structural understanding of the relationship between facts and the rules of how things work. This is different from the simple knowledge that is merely static facts (Le Heron, & Sligo, 2005).

Finally, the last continuum is dependent vs. independent. The dependency of knowledge refers to the degree to which it is dependent on the experience of people or context to be effective (Zander & Kogut, 1995). To sum up, these four perspectives of knowledge show the following characteristics of knowledge: tacitness, observability, complexity and dependency. Another classification method is simply putting knowledge into *knowing how* with tacit knowledge and *knowing about* with explicit knowledge that covers facts and theories (Grant, 1996). Some of these concepts will be further discussed in later sections.

In addition to discussing the nature of knowledge, there is also a body of literature that pays attention to the transfer process. As Szulanski (1996) defined it, the process of knowledge transfer refers to 'dyadic exchanges of organizational knowledge between a source and a recipient unit' (p.28). He also emphasized that the word 'transfer' is being used instead of 'diffusion', because it is not a gradual process of dissemination, but rather a distinct experience that varies depending on the different characteristics of the people involved. In Szulanski's theory, there are four different stages of knowledge transfer: initiation, implementation, ramp-up, and integration. This includes not only the decision to transfer and the actual knowledge flow, but also the utilization stage of the transferred knowledge. Indeed, whether the transferred knowledge could be effectively utilized for commercial ends is considered to be a critical issue in the process (Minbaeva, Pedersen, Björkman, Fey & Park, 2003).

Knowledge transfer is a complicated process, however. It is not random that some organizations are performing better in knowledge sharing than others. To facilitate knowledge flow, organizations have been trying different mechanisms (Ożgo & Brewster, 2015). To determine rules about how things work, research is being done to identify the factors that could positively influence knowledge transfer.

Knowledge characteristics

There is a fair amount of literature focusing on examining the various characteristics of knowledge and using them as one of the indicators of knowledge management efficiency (Ożgo & Brewster, 2015). In the study of knowledge transfer, most of the focus has been put on the tacit vs. explicit knowledge continuum (Ożgo & Brewster, 2015). Zander (1991) pointed out that the tacit-articulated (explicit) continuum has greater impact than other continuums on the knowledge transfer process. Other scholars such as Szulanski (1996) have also had consistent findings that support the notion that the tacitness of knowledge would greatly determine the smoothness of the knowledge transfer.

Tacit knowledge is usually hard to articulate, ambiguous and complex. However, it is very important to corporations. Tacit knowledge is distinct from explicit knowledge and it is hard to formulate into sentences and mathematical equations (Chuang, Jackson & Jiang, 2016). In most cases, tacit knowledge is difficult to teach directly; it is ambiguous and not easily written down on paper for direct sharing. Instead, it could be accumulated by individuals observing, imitating, and interacting with other group members who possess such tacit knowledge (Nonaka & Takeuchi, 1995).

Tacit knowledge can be further categorized into two types: cognitive knowledge and technical knowledge. Cognitive knowledge refers to one's mental models of schemata and paradigm, meaning the way they behave in and react to a specific context (Nonaka, 1994). For example, when someone walks into a meeting room, the way he greets the people around him and even the way he asks a question could be a cognitive element of tacit knowledge. When one processes such mental models, one knows how to adjust behavior according to different contexts and act appropriately. Technical knowledge refers to more specific know-how, approaches, and skills that could be applied to different circumstances. For example, when a surgeon is performing an operation, what he decides to do to the patient's body and how he reacts when an emergency occurs could be viewed as the technical element of tacit knowledge. From the example, we could easily see that tacit knowledge is strongly connected to personal experience and values. Therefore, scholars believe that the tacitness of knowledge is a great hindrance for knowledge transfer.

Tacit knowledge, by its nature, is more challenging for a learner to identify and master. Even with the same motivation, people who possess such tacit knowledge could find it harder to explain and teach others about the tacit knowledge, as compared to explicit knowledge. At the same time, the learner could also find it hard to fully understand and obtain such knowledge. We could imagine that a sales manager is training a group of new sales professionals. Those without any sales experience might hardly catch on to the core of the sales skills. In this process, both the sales manager and the new salesperson are more likely to struggle and eventually give up on the knowledge sharing activity. This results in the failure of knowledge transfer (Hansen, Mors & Løvås, 2005).

Knowledge transfer is a complicated process not only because different kinds of knowledge have various characteristics, but also because of how the knowledge resides in individuals and in the way that each organization member interacts with others (Minbaeva et al., 2003; Castro & Neira, 2007). Socially complex knowledge is a concept that represents the latter kind of knowledge that resides only in the way that people interact with each other (Castro & Neira, 2007). In their empirical research Castro and Neira (2007) determined that social complexity of knowledge is also significantly related to knowledge transfer in M&As. However, there is little research about socially complex knowledge and we expect more studies will be conducted in this area.

Absorptive capacity

Among various studies, one of the most accepted determinates of knowledge transfer is the absorptive capacity of receiving units. Absorptive capacity is defined as the collective ability of a firm to learn from new information, to share it within the organization, and to utilize it to make a profit (Cohen & Levinthal, 1990). To view this concept in a dynamic way, scholars determined that there are four dimensions of absorptive capacity: (a) acquisition (a firm's ability to acquire external knowledge), (b) assimilation (a firm's ability to understand and process the newly acquired knowledge), (c) transformation (a firm's ability to refine its management practices to foster to merge the new knowledge with prior knowledge base), and (d) exploitation (a firm's ability to substantially utilize the newly acquired knowledge for commercial ends)(Zahra & George, 2002).

Later, Lane et al. (2006) further defined absorptive capacity as an evolving concept that can be captured by three learning processes: (a) exploratory learning for recognizing and understanding external valuable knowledge, (b) transformative learning for assimilating valuable knowledge, and (c) exploitative learning for using assimilated knowledge to create new knowledge and commercial output. With higher absorptive capacity, corporations have a better ability to transfer knowledge within the company and utilize it in real work applications. Although absorptive capacity was first defined as a firm's collective abilities, which represents a firm level construct, later scholars argued that it should be treated as a dyad-level construct (Lane & Lubatkin, 1998). The underlying logic is that a firm's absorptive capacity resides in its employees' cognition, motivation, and actions. Thus, the foundation of absorptive capacity is rooted in individuals (Van , Jansen & Lyles, 2008). Therefore, when analyzing absorptive capacity, it is critical to start with individuals first.

Minbaeva et al. (2003) further conceptualized absorptive capacity to be comprised of an employee's ability and motivation. In her research, she asserted the idea that absorptive capacity consists of two elements. The first element is prior knowledge, which could be represented by the employee's ability, educational background, and acquired job-related skills. The second element is the intensity of effort, which could be represented by employee's motivation level, according to cognitive process theories (Vroom, 1964). With this conceptualization, many scholars now are analyzing absorptive capacity through the angle of an employee's ability and motivation. It is believed that organizations could promote their absorptive capacity by enhancing an employee's ability and motivation.

M&As and knowledge transfer

Definition and motivation of M&A

Before we discuss the knowledge transfer process in M&As, we should have a clear understanding of the concepts and procedures involved in M&As. In a broad sense, an M&A could refer to a fair amount of organization activities depending on its different objectives. For example, the objectives of M&A activities include strategic expansion, corporate restructuring, corporate control, and changes in ownership structure (Wübben, 2007). There are two kinds of strategic expansion: strategic cooperation, which refers to joint venture and strategic alliance, and business combinations, which refers to mergers and acquisitions. In this paper, the word 'M&A' is defined in a narrow sense, which only refers to mergers and acquisitions with the objective of strategic expansion.

M&As is obviously a word that constitutes of two activities: mergers and acquisitions. Although in most cases, mergers and acquisitions are always mentioned together, as if they share the same definition, they are indeed distinct concepts. As Scott (2003, p25) defined, merger refers to 'a combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a considerably different organization after the merger, it retains its original identity'. In other words, a merger usually involves two companies who decide to join their business together. These two companies treat each other as peers and strategic partners. Usually, two companies merge their separate businesses through the exchange of shares (Sherman, 2010). After the merger, these two companies could become one surviving entity or a new legal entity. Acquisition, however, refers to 'the purchase of an asset such as a plant, a division, or even an entire company' (Scott, 2003,p25). More specifically, in an acquisition, there is typically a buyer and a seller. The buyer company purchases the assets or shares of the seller company (Sherman, 2010).

The motivation in mergers and acquisitions are also different. According to Scott's (2003) summary, the objectives of a merger are as the following:

- To restructure the value chain of the industry,
- To create greater competitive advantages by economies of scale and scope
- To optimize the technology process
- To expand its scale of product line

Since a merger does not involve a buyer or a seller, the objectives of the activity are two-way and mutual-beneficial (Sherman, 2010).

The motivation of acquisitions should be examined separately from the buyer side and the seller side. For the seller side, the motivation includes the following:

- To retire or to exit the business
- Inability to survive industry competition
- To receive capital for growth
- To strengthen its distribution system
- To advertise its business

For the buyer side, the motivation includes the following:

- To grow its business
- To reduce the number of competitors

- To diverse its product line or geographic markets
- To obtain particular talents
- To access new technologies

Although mergers and acquisitions are distinct concepts, they do have much in common. Therefore, when scholars research on mergers and acquisitions, they usually examine these two concepts together. According to prior literature, the theories of why M&A happens are categorized into the following groups: (1) operation synergy, (2) financial synergy, (3) diversification, (4) strategic realignment, (5) managerial pride, (6) buying undervalued assets, (7) agency problems, (8) tax consideration, (9) market power, and (10) misevaluation (DePamphilis, 2009).

Hostile versus friendly acquisition

In M&A activities, there are two main approaches to processing deals: a friendly approach and a hostile approach. A friendly acquisition means that both two companies involved in the deal perform due diligence and negotiate freely with each other (Miller, 2011). Usually, the negotiation involves topics such as purchasing price, and short-term and long-term business strategy. It also requires companies to decide who will run the key executive positions (DePamphilis, 2009). A hostile acquisition means that the buyer company does not negotiate with the target company on price or other terms but adopts aggressive tactics, which include the tender offer, the bear hug, and the proxy contest (Miller, 2011). A 'tender' occurs when the buyer company directly reaches to their shareholders with an offer to purchase their shares without negotiating with the board of target's company. A 'bear hug' occurs when the buyer company directly sends a letter to the target company's board with a proposal and a price to buy the company's share in it. Although the letter might not explicitly request a rapid decision, it usually involves public announcement, which puts great pressure on the target company. It signals that the buyer company is ready to approach the shareholders directly (DePamphilis, 2009). Therefore, a bear hug is considered an aggressive approach. The 'proxy contest' can be used by shareholders to eliminate takeover defense from company management team without owning 50.1% of shares. Usually, to achieve their goal of acquiring the target, the buyer company would persuade the target's shareholders to vote out the company management (DePamphilis, 2009).

In some cases, the boundaries between these two approaches are not clear. For example, even in a friendly takeover, where both parties are willing to negotiate with due diligence, the process could be interrupted by hostile takeover attempts. In other cases, an acquisition can begin as a hostile takeover and end with a signed agreement, becoming more of a friendly takeover in the end (Miller, 2011). Overall, friendly acquisitions are more common, and hostile acquisitions are relatively rare in the market (DePamphilis, 2009).

Knowledge transfer should process more smoothly in friendly acquisitions compared to hostile acquisitions. In hostile acquisitions, the employees in the acquired company could easily feel frustrated and thus become demotivated to cooperate. Lack of motivation is a big barrier for knowledge transfer since motivation is one of the key determinants of absorptive capacity (Minbaeva et al, 2003). However, no literature yet supports the argument that knowledge transfer is easier in friendly acquisitions and more study is needed.

M&A developments and trends

M&A activities have clustered during several periods in the history of the United States. Scholars have defined those periods of time as M&A waves. There have been six M&A waves since the 1980s (DePamphilis, 2009). The length of each M&A wave varies from two years to eight years. The first wave began in 1897 and ended in 1904. M&A activities during this wave mainly focused on horizontal consolidation. A great deal of competitors in the industry of transportation, mining, and primary metals chose to merge with each other to increase market power (Vazirani, 2015). The second wave began in 1916 and ended in 1929. Due to the World War I and the postwar economic boom, a great amount of M&A activities happened during this period. Again, it is focused on horizontal industry consolidation (DePamphilis, 2009). The third wave began in 1965 and ended in 1969, which is also known as the Conglomerate Merger Period. During this wave, M&A activities are deeply influenced by the trend towards diversification. This trend has resulted from the U.S. antitrust law, which is newly established at that time (Vazirani, 2015). Therefore, companies chose to acquire or merge with companies in other industries to diversify its revenue stream.

The Fourth Wave began in 1981 and ended in 1989, which was characterized by co-generic mergers and hostile takeovers. During this wave, many foreign companies began to acquire U.S. companies because U.S. companies possessed advanced technology and also because there were few restrictions on the takeover. The fifth wave began in 1992 and ended in 1999. In this wave, both the volume and the number of M&As reached a new high in the history due to the technology revolution as well as the deregulation. The sixth wave began in 2003 and ended in 2008, which is characterized by globalization and LBO. LBO refers to leveraged buy-outs, which occurs when the buyer company with limited capital foundation borrows money to acquire the target company. Due to low interest rates, LBO became more prevalent than ever during that period. Government support and private equity funds also helped increase the volume of cross-border M&As (Anastasia, 2016).

Although the seventh wave is not defined yet, a great amount of M&A activities was being performed in recent years. In 2015, buyers spent 3.8 trillion dollars on M&As, which was higher than the record set in 2007. This is also the highest amount ever in the history (Manuel, 2016). In addition to this record, cross-border M&A deals' value in the last quarter of 2015 also surpassed the previous record ever on a quarter base ("Megadeals push cross-border M&A," 2016). A market survey conducted in 2015 reveals that executives became more optimistic to M&A activities and 60% of them expected to carry out M&A activities within next 12 months (Manuel, 2016). Therefore, for 2016, the U.S M&A market is expected to remain active. This argument is confirmed by a survey conducted by KPMG and FORTUNE Knowledge Group, which covered over 550 M&A executives. In this survey, 58% of the executives believed that the current strong appetite for M&A could be explained by company's need to strengthen their competitive advantages in the market. 36% of the executives expressed that they wanted to initiate acquisitions in 2016 to expand their customer base ("U.S. executives on M&A," 2015). With this M&As trend, it is even more important for companies to cultivate a knowledge-sharing oriented working environment and be prepared for the knowledge transfer process, which is a significant part of the post-M&A integration.

M&A Transaction procedures

M&A transaction constitutes of many steps and takes a long period of time. There is a general procedure that companies follow to process an M&A deal. However, companies do not necessarily have to follow exactly every step and could adjust the process according to their own situations. The general M&A procedure is as follows (Snow, 2011):

1. Compile a target list: the target list is a list of companies that could be potential buyers, sellers or partners.
2. Contact the target: usually, the executives would be making the contact.
3. Send a "blind teaser": blind teaser usually contains some but not too much information about the company. This allows buyers and seller to know more information about each other and at the same time, maintain confidentiality and anonymity.
4. Sigh a confidentiality agreement: this legal document ensures that the buyer would not disclose seller' private information.

5. Send or review an offering document: the offering document presents all the necessary information about the selling company.
6. Ask for or submit an indication of interest: usually, the buyer would submit a letter to express his interest in continuing the deal.
7. Conduct management meetings: these meetings provide both parties to meet and negotiate the terms and details in the deal.
8. Ask for or submit a letter of intent (LOI): LOI is a formal offer. However, this document is not legally binding.
9. Participate in due diligence: during this process, the buyer would review the seller's records and contracts to ensure information accuracy.
10. Craft a purchase agreement: this is a legally binding agreement that contains all the details of the M&A deal.
11. Attend closing: this is when the buyer and the seller close the deal.
12. Deal with post-closing adjustment and integration: this is the final step of an M&A deal. However, it is also believed to be a very important step, which could directly influence the outcome of an M&A deal.

Measurement of M&A success

An M&A transaction is a complicated and time-consuming process. Therefore, various criteria have been developed to measure the success of an M&A activity. First of all, the concepts of success in M&A involve two perspectives: quantitative success and qualitative success. Quantitative success is relatively objective. It could be measured by the financial statement, capital market, and events data. While qualitative success is fairly subjective because it could only be measured by surveys that are conducted among employees who are involved in the M&A activities. The most common objective for M&A is to create additional value for shareholders. In addition to this, other objectives include to increase job security, compensation and career potentials for employees, to reduce products price, to increase product variety for customers, to secure company branding, and to reduce the risk of bankruptcy in the society (Wübben, 2007). Epstein (2005) suggested that post-M&A integration is a key determinate of M&A success. Companies who cannot handle well with the integration process often destroy the M&A deal. In the integration process, knowledge integration is one of the most fundamental parts, which is why companies should pay great attention to the knowledge transfer process in M&As (Epstein, 2005).

Integration process of M&A and knowledge transfer

Among the different steps in the M&A process, the one that is most related to knowledge transfer is the integration process. This is the time that employees in both companies start to establish relationship and work with each other. Scholars have observed different aspects of the integration process of knowledge transfer in M&As. Among the various factors, the relationships between the two parties involved in M&A process are considered to have a significant impact on knowledge transfer. The relations include many dimensions, such as the identification with each other, tie strength, distance, shared vision, and trust (Van Wijk and Jansen, 2008). Researchers found that trust, which refers to the firm belief that the other party is reliable and capable of taking responsibility, is especially critical to knowledge transfer (Inkpen & Tsang, 2005). It is not difficult to see why trust plays such an important role. With stronger trust, employees in one party are more willing to teach, discuss and share their core technology or skills with employees in the other party. When there is a high degree of trust, the process is smoother because people do not need to worry about potential problems. In addition to trust, shared vision is also believed to be helpful in knowledge transfer. When employees share the same vision, they have a deeper understanding of the benefits they could receive from learning each other's knowledge

(Nahapiet & Ghoshal, 1998). In other words, shared vision could potentially increase employees' motivation to be actively engaged in the knowledge transfer process.

To create a high trust environment and increase employee's shared vision, frequent communication is fundamental. In line with this perspective, Minbaeva et al. (2003) confirmed that internal communication could positively influence employees' motivation and thus, in turn, positively influence the knowledge transfer process. In their empirical research, they gathered data from 62 subsidiaries in Finland, 100 subsidiaries in Russia and 79 subsidiaries in the U.S.A for a total of 241 participating subsidiaries. The results showed that internal communication is a significant determinant of employees' motivation. Other scholars such as Castro and Neira (2007) demonstrated that rich communication, such as personal meetings involving face-to-face contact, could directly impact knowledge transfer in the M&As integration process in a positive way (see also: Bresman et al., 2010).

Another indicator that has received attention is the retention rate of valuable employees during the M&A integration process. Valuable employee refers to those in whom the core knowledge is rooted (Castro & Neira, 2007). However, the findings in this area are mixed. Ranft and Lord (2000) argued that the retention of valuable employees is one of the key determinants of knowledge transfer in M&As process. In contrast, Castro and Neira (2007) found that there is no significant relationship between the retention of key personnel and knowledge transfer.

The role of HRM practices and knowledge transfer

It is believed that knowledge transfer within multinational corporations could be facilitated by various organizational practices (Persson, 2006). In particular, recent studies have shown that there is a positive relationship between HRM practices and knowledge transfer process (Ożgo & Brewster, 2015). In Pucik's (1988) article, he indicated that organizational learning is a process embedded in its employees, whose capabilities are closely linked to HRM practices. He also emphasized that one of the key tasks of the HR function should be to support organizational learning in international cooperative ventures through HRM system and practices. Tsang (1999), in his research, examined how specific HRM practices such as selection and training could influence the knowledge transfer within corporation in a cross-border context.

As for the theoretical explanation of why and how HRM practices are influencing the knowledge transfer outcomes, Minbaeva et al. (2003) indicated that HRM practices such as training, merit-based promotion, performance-based compensation and internal communication, could positively influence knowledge transfer by enhancing the organization's absorptive capacity. In their research, they broke down absorptive capacity into two sublevel concepts of employees' ability and motivation. By influencing these two variables, HRM practices are able to have a positive impact on knowledge transfer.

More specifically, HRM practices that are designed to enhance employees' ability to learn and share knowledge could potentially increase their ability to acquire and utilize new knowledge during the M&A process (Ożgo & Brewster, 2015). For example, various training programs could be helpful in assimilating knowledge and maximizing its utility. Meanwhile, when employees' personal goals and the organizational strategic goal of knowledge management are closely aligned through an incentive program or compensation plan, employees would have stronger motivation and be more willing to overcome the obstacles in the knowledge transfer process (Ożgo & Brewster, 2015). This might explain why enhancing employees' ability and motivation could promote knowledge transfer. However, Minbaeva also found that the effects of employees' ability and motivation are not significant separately while the interaction effect of these two variables is found to be significant. This finding means that either only enhancing motivation or only enhancing ability is not enough for promoting knowledge transfer. Only when employees' motivation and employees' ability are being enhanced at the same time, could knowledge transfer be promoted as an organization desires.

In addition to absorptive capacity, Chuang et al. (2016) also suggested that HRM practices could help create a better environment for communication. In an organization, HRM practices play a fundamental role in building an internal communication platform and creating communication opportunities. For example, corporations could enhance internal communication by providing communication training programs, designing more international assignments, and creating global teams. All these HRM practices could provide employees' with more chances to get to know each other, to communicate, and to share knowledge. Furthermore, it can also help build trust between employees by letting them work together towards a common goal. As we discussed above, rich communication could lead to better knowledge transfer. Therefore, we might conclude that HRM practices could also influence knowledge transfer by building a high trust environment and by fostering internal communication among employees.

The influence of cross-border context on knowledge transfer and HRM practices

Many articles have indicated how cross-cultural difference could influence HRM practices and its influence on effective knowledge transfer. To examine its influence, it is necessary for us to first understand different culture characteristics. According to Hofstede's (2001) theory on culture characteristics, countries value behaviors in different ways. His theory summarized six cultural dimensions that greatly guide people's values and behavior: (a) power distance index, (b) individualism vs. collectivism, (c) masculinity vs. femininity, (d) uncertainty avoidance index, (e) long-term orientation vs. short-term orientation, and (f) indulgence vs. restraint. The dimension of power distance refers to the degree to which people on the lower level of the power hierarchy accept and expect that power is distributed unequally in society or within organizations. The higher the power distance, the more that people grow accustomed to and accept the unequal distribution of power. The second dimension involves the concepts of individualism and collectivism. Individualism is defined as the preference to concentrate on one's own interests and pursuits. In countries with high individualism, people tend to only take care of themselves and immediate family. In contrast, collectivism refers to the degree to which people tend to take care of all the members within a group and pay more attention to group interest than to personal interest.

In the third dimension, masculinity shows the extent to which people care about material rewards, assertiveness and success. In contrast, femininity represents caring about development, cooperation, modesty and quality. The fourth dimension is uncertainty avoidance, which represents how people tend to avoid ambiguity and how they tend to feel uncomfortable about it. In the fifth dimension, short-term orientation represents societies that prefer to remain traditional and are usually skeptical toward changes. Long-term orientation, on the other hand, represents societies that are more open to changes to prepare for the future. Finally, for the last dimension, the societies with a high score in indulgence tend to encourage humans' natural drive for enjoying life. Conversely, societies with a high score in restraint tend to suppress the natural drive to have fun through social norms (Hofstede, 2001).

Among these dimensions, scholars found that collectivism might influence knowledge transfer activities among employees (Peltokorpi, 2006). In countries with more collectivism, activities involving knowledge sharing are widely accepted and considered to be social norm. In contrast, in countries that favor individualism, people might be more reluctant to share their knowledge or resources with others. Another mixed influence that institutional collectivism might have on knowledge transfer is that it could reduce employees' motivation to share knowledge if the knowledge recipients are not considered as a part of their collective group (Peltokorpi, 2006). Taking Japan as an example, it is a country known for its high collectivism, which means that employees in organizations are very loyal to the overall group and treat in-group members very well. However, if an American company acquires a Japanese company, the employees sent from the American company might be seen as outsiders who are not part of the in-group. Due to the high collectivism, Japanese employees might feel uncomfortable and reluctant to share resources with the American expatriates. This boundary could then become a barrier the knowledge transfer process.

Peltokorpi (2014) argued that power distance, the extent to which people are adherent to levels within a hierarchy, is another cultural characteristic that could affect the process of knowledge transfer. He explained that employees in countries with high power distance would feel more uncomfortable sharing knowledge because of fear and embarrassment. Taking China as an example, it could be considered impolite and disrespectful for inferior employees to teach someone who is on a higher-level position. Even when a higher-level manager asks his subordinate to teach the knowledge and skills, the subordinate might feel very uncomfortable and try his best to avoid it. Under this circumstance, it is very hard for the knowledge transfer process to be effective.

Cultural difference not only influences employees' value towards knowledge sharing behaviors, it also influences how HRM practices are perceived and accepted by employees. For example, Lunnan and Traavik (2009) found that the perception of fairness of a standardized performance appraisal tool is related to the cultural dimension of survival vs. self-expression. Survival vs. self-expression is a cultural dimension that was created by Inglehart and Baker (2000) in The World Value Survey. It measures trust, tolerance, subjective well-being, and self-expression, which is a concept similar to individualism and collectivism. Lunnan and Traavik (2009) analyzed data from The World Value Survey and their own data from 80 management respondents from three different countries. Their findings showed that respondents from countries that scored higher on the survival end of the scale (collectivism) were more likely to perceive the HRM practices as fair. Their research also found that people who scored higher on the power distance scale had higher perceptions of fairness toward HRM practices.

With different perceptions of employees, the effectiveness of those HRM practices designed to facilitate knowledge transfer could vary greatly (Caligiuri, 2014). It is not difficult to see why low perceived fairness could undermine the effectiveness of HRM practices. When employees believe that management practices are unfair, they tend to lose their motivation to follow the HRM practices and to work hard for their organization. After all, no matter how hard they work, they would not be treated fairly on getting promotions or a salary increase. Even worse, some employees might consider resigning from the organization when they feel they could have better development opportunities elsewhere. From here, we could see how low perceived fairness could negatively influence the knowledge management in organizations.

In a cross-border context, culture is not the only factor that might impact knowledge transfer. Another significant factor is country-level institutional differences. Country-level institutional differences reflect the fact that the legal and regulation systems, labor markets, unionization, and educational systems vary greatly from country to country. For instance, the labor law in the U.S posts strict regulation on compensation while the labor laws in China have relatively loose laws on compensation. While unions enjoy relatively high power in western countries, they have little power in eastern countries. These differences could become barriers in knowledge transfer. For example, some HRM knowledge that is developed in unionized environment might not work well in a non-unionized company. Therefore, this valuable HRM knowledge could not be utilized, which leads to failure of knowledge transfer. These differences in institutional factors would affect an organization's knowledge management both directly and indirectly (Begin, 1992). Not surprisingly, scholars have found that companies that adopt universal HRM policy, while allowing cultural variation in practices, performed the best in the knowledge transfer process (Bonache, Trullen & Sanchez, 2012).

Although many scholars have indicated that culture difference could be a significant barrier in cross-border knowledge transfer, research in this area has shown mixed results (Peltokorpi, 2014; Caligiuri, 2014; Minbaeva et al., 2003). For example, Parkhe's (1993) research showed evidence that nationality and cultural differences negatively influence an organization's ability to benefit from knowledge sharing in the case of joint ventures. However, Vaara et al. (2012) suggested that national cultural differences are less of a barrier to knowledge transfer in international acquisitions, as is usually assumed. Indeed, his findings showed that cultural differences are, unexpectedly, positively related to knowledge transfer. This means that cultural difference could actually foster the knowledge transfer process because the greater the difference, the more valuable the knowledge that could be transferred between each of the parties. Ahammad et al. (2016) examined this point by testing the relationship between national cultural differences, organizational cultural differences, and knowledge transfer in cross-border acquisitions. He found that while organizational cultural differences are significantly related to knowledge transfer, national cultural differences actually had no significant effect on knowledge transfer.

The contradicting results might be explained by the fact that cultural differences could have multiple layers of effects on knowledge transfer. On one hand, cultural differences could undermine the absorptive ability of organizations, because a lower degree of commonality makes it more difficult to acquire and assimilate capabilities in the other party (Cohen & Levinthal, 1990;Lane & Lubatkin, 1998; Vaara, Sarala, Stahl & Björkman, 2012). As a consequence, knowledge transfer could be hindered because absorptive capacity is a key determinate of knowledge transfer. On the other hand, some scholars have asserted that greater cultural distance might also promote knowledge transfer. They argued that the distance makes it more likely for the involved parties to have significantly different capabilities from each other. The greater the difference, the more valuable the knowledge they could learn from each other to create value (Morosini, Shane & Singh, 1998).

For example, when a European company acquired an Indian technology company, they could not only acquire the technology knowledge, but they could also seize the opportunity to learn how Indian people manage and motivate their employees to work productively. The European company could then transfer some of the effective management practices that they learned from the Indian company to its headquarters, which at the same time promotes knowledge transfer. In this way, cultural distance could have a positive impact on knowledge transfer in cross-border M&As. These two contradicting effects that cultural differences have on knowledge transfer might be balanced out by each other and thus no significant relationship between cultural difference and knowledge transfer could be found. However, there is little literature supporting this argument, so future research in this area is needed.

HRM Practices fostering knowledge transfer in cross-border M&As

Ability-enhancing HRM practices

Staffing practices. As we discussed before, ability is one of the key components that constitute an individual's absorptive capacity (Minbaeva et al., 2003). Therefore, enhancing an individual's ability could potentially promote an organization's overall absorptive ability, which is fundamental to knowledge transfer in cross-border M&As. Since many individual characteristics cannot be easily modified by HRM practices, it is critical that the staffing practices be designed to evaluate candidates' ability to learn and share knowledge in the first place. The staffing practices should aid the organization in finding and attracting those candidates who possess knowledge-oriented attributes (Caligiuri, 2014). Furthermore, Prieto (2012) also pointed out that teamwork skills and adaptation skills are also important for continuous learning. They enable one to work effectively with people coming from different organizations, which promote the knowledge transfer process. Therefore, the selection criteria to test these skills should be developed and applied into staffing practices to facilitate the knowledge transfer. When staffing practices are designed in this way, corporations can attract and hire candidates who will thrive the intensive learning environment in the M&A process.

Expatriate selection practices. Expatriate staffing practices are an area that deserves extra attention from the management team. In cross-border M&As, it is common for headquarters to send expatriates over to the acquired subsidiaries, in order to facilitate the integration process. Expatriates play a crucial role in the knowledge transfer process, since one of their most important responsibilities is to transfer essential knowledge from headquarters to the new subsidiary. They also function as a main outlet of headquarters' knowledge to the subsidiary. Thus, the recruiting practices for expatriates are fairly significant.

The HRM practices designed to facilitate knowledge transfer should ensure that the employees selected as expatriates are familiar with core knowledge, and they should not be new staff (Winter, 1995). In addition to this qualification, staffing practices should also be developed to test a candidate's language skills, past work experience in the assigned country, and personality, which are proven to be important to success of international assignment. Among these qualifications, past work experience in the assigned country is especially important. Since a fair amount of organizational knowledge and technologies are interdependent with the social context, a good cultural sense could make the process more effective. Past experience in the assigned country would the best way to obtain such cultural sense (Westney, 1991). HRM practices that are able to select candidates with such qualifications should greatly promote the knowledge transfer process.

Training practices. Minbaeva et al. (2003) proved that training has a significant relationship with an individual's ability. Thus, it is crucial for employees to receive training that could improve their competencies for knowledge sharing. Chuang et al. (2016) suggested that traditional training focusing on static knowledge might not be sufficient for employees to successfully face a dynamic learning environment. He indicated that training programs could help individuals to develop and update 'technical and interpersonal know-how to facilitate learning on an as-needed, just-in-time basis' (Chuang et al, 2016, p529). Therefore, specific training programs designed for this goal might be necessary in order to facilitate knowledge transfer.

In addition to general training programs that are delivered to all employees, specific pre-assignment training programs for international assignees are also very essential to knowledge transfer. As previously discussed, international assignees play a fundamental role in knowledge transfer in a cross-border context. It is essential for companies to prepare international assignees for cross-border tasks. Research has proven that training is an important knowledge acquisition mechanism in international joint ventures. Specifically, it mentions that the training provided by the parent company is necessary for knowledge transfer (Lyles & Salk, 2007). Therefore, the parent company must take active responsibility in delivering knowledge fostering training programs. The case of Renault and Nissan would be a good example. Renault is a French multinational automobile manufacturer and Nissan is a Japanese company. These two companies merged in 1999. During this international merger, both parties paid much attention to cross-training, and each company appointed culture ambassador, in order to foster the knowledge transfer. This merger turned out to be very successful, despite the significant cultural differences between the French company and the Japanese company (Appelbaum, Roberts & Shapiro, 2013).

Motivation enhancing HRM practices

Compensation and performance management practices. Research has shown that merit-based promotion and performance-based compensation are highly significant determinants of an individual's motivation to engage in knowledge sharing activities (Minbaeva et al., 2003). Therefore it is argued that linking compensation and incentive programs to an organization's knowledge goal could potentially help the organization to achieve this goal. When employees realize that knowledge sharing is critical to their own career success, they would be more motivated to actively participate in it. Moreover, appropriate performance management practices could help define the organization's goal for the employees. Knowing about the goal, employees would have a deeper understanding of how they should work to achieve it. During performance assessment, employees can receive feedback from the organization and then know whether they should adjust their working methods or behaviors. The understanding of the goal and the feedback should further develop employees' motivation, because it enables them to know how to improve themselves to reach the next level.

Besides this, the organization should align an employees' personal goal with the organization's goal, by basing compensation on group performance and rewarding knowledge-sharing behavior. These compensation practices should be able to facilitate the knowledge flow, by promoting employees' motivation in a numbers of ways (Ożgo & Brewster, 2015). Firstly, basing compensation on group performance could prevent blind competition between employees. The reward system that is based on group performance could encourage cooperation among teams and foster their communication and knowledge sharing. Secondly, in many cases, employees are not willing to engage in knowledge sharing activities, because there are numerous other tasks they could do, that seem to be more productive and related to their career success. When the opportunity cost of knowledge sharing is so high, most employees are demotivated to do it (Husted & Michailova, 2002). However, if knowledge-sharing activities are integrated into the performance appraisal and compensation systems, those activities could directly bring benefits to those employees who perform very well in knowledge sharing. In this way, the opportunity cost of knowledge sharing would be lower and employees would be encouraged to actively take the responsibility (Cabrera & Cabrera, 2005).

Although a performance system that is aligned with the knowledge goal is critical, it must be noted that research has shown that employees are less willing to participate in knowledge sharing if they are in a performance management system that judges their behavior all the time (Cabrera & Cabrera, 2005). When designing and implementing, organizations therefore should ensure that the system creates a relatively non-judgmental and developmental environment.

In addition, the perceived fairness of the performance assessment and compensation system is also critical to the effectiveness of those practices (Allen et al., 2003). As discussed before, perceived fairness is strongly related to levels of trust and employees' morale. There is a high possibility that employees would actively take on knowledge sharing responsibilities if they perceived that they worked in a fair and trusting environment. Therefore, HRM practices that increase perceived fairness should also be adopted.

Communication enhancing HRM practices

Job design. Communication frequency has been proven to be significantly related to knowledge transfer in cross-border M&As (Minbaeva, 2003; Castro & Neira 2007; Bresman et al., 2010). It is suggested that organizations should provide employees with more opportunities to collaborate with other units. The organizations should also provide exposure to new knowledge and tasks, which could then promote organizational learning and increase knowledge flows (Ożgo & Brewster, 2015). Zahra and George (2002) argued that job design could facilitate knowledge transfer by increasing global teams and international assignments. This gives employees more opportunity to communicate with each other and to share knowledge. Kang et al. (2003) also suggested that cross-functional teams could help employees to cooperate with each other and foster knowledge sharing activities among different groups. This practice would in turn improve the effectiveness of knowledge integration between different subsidiaries. The effectiveness of this team-oriented structure would be greater when coupled with a reward system that is based on team performance (Cabrera & Cabrera, 2005). Moreover, research also showed that HRM practices affecting extrinsic motivation, such as job design, are positively related to knowledge transfer, although the relationship is not significant (Minbaeva, 2008) Nevertheless, organizations could also pay attention to job design and make job contents more motivated for employees.

Other mechanisms. Knowledge exchange events and social events could also provide employees with more opportunities to communicate with other units. For example, formalized orientation and socialization is believed to be helpful in increasing interactions among employees. These activities not only aid employees in building mutual trust, but also they also lead to shared norms and values (Kang, et al., 2003). The implementation of such mechanisms should be able to create a sharing-oriented environment that fosters knowledge transfer.

Research trends and suggestions

Current studies have identified and examined the key determinates of knowledge transfer. The one that raises most attention is absorptive capacity. Scholars have shown how HRM practices are related to the knowledge transfer process, by linking HRM practices to absorptive capacity. More specifically, Minbaeva (2003) examined the relationship between HRM practices and employees' ability and motivation, which together constitute absorptive capacity. However, most of the research did not choose a specific time period to focus on. There is little research examining the relationship between HRM practices and absorptive capacity within the integration-intensive time period in cross-border M&As. Typically, the first several months or years of an M&A process are integration-intensive because there are many knowledge transferring needs. The HRM practices in this short time period might have different influences to knowledge transfer compared to those performed during the general time period. Therefore, more research is needed, to examine the relationship between HRM and knowledge transfer within this specific integration-intensive time period.

Secondly, scholars believe that a cross-border context could negatively influence knowledge transfer. However, research on how national cultural difference influences knowledge transfer shows mixed results. This may be due to the fact that cultural differences could have effects on multiple layers of knowledge transfer. Furthermore, cross-border context also means that different institutional factors, such as the legal system and unionization, could also impact the effectiveness of the HRM practices designed to foster knowledge transfer. The multiple effects could potentially be balanced out by each other. That could be a possible explanation for the mixed results on this topic. However, no literature was found to support this argument. To examine this question, future researchers may need to control variables in their study, in order to determine if the negative effects are indeed balanced out by the positive, or if there is perhaps another explanation.

Conclusion

In this paper, I examined the relationship between HRM practices, cross-border M&A, and knowledge transfer. By reviewing and summarizing prior literature, I was able to answer the four questions proposed.

The key determinates of knowledge transfer are knowledge characteristics, absorptive capacity and the relationship among employees during M&A integration. Based on prior research, knowledge characteristic, such as tacitness, is proved to be negatively related to knowledge transfer. Absorptive capacity is another key determinate of knowledge transfer. Minbaeva et al. (2003) further conceptualized absorptive capacity to be comprised of an employee's ability and motivation. By analyzing employees' ability and motivation level, scholars are able to measure the absorptive capacity of the receiving units. Scholars also found that the relationship among employees is positively related to knowledge transfer in the M&A integration process. By fostering a good working relationship, frequent communication among employees are proved to be helpful for improving the effectiveness of knowledge transfer in M&As.

This paper also examined the relationship between HRM practices in M&As and knowledge transfer. Based on prior literature, HRM practices could foster knowledge transfer in M&A by enhancing employee's ability and motivation. HRM practices could also be designed to foster communication and provide more opportunities for employees to build a positive relationship with each other. This also promotes the effectiveness of knowledge transfer.

When summarizing the research on cross-border M&As, mix results are found on how cross-border contexts impact knowledge transfer. Some scholars believed a cross-border context would negatively influence the effectiveness of knowledge transfer. While other scholars argued that there was no significant relationship between cultural distance and knowledge transfer. More research is needed to examine this question.

In the last section of this paper, some specific HRM practices that could foster knowledge transfer in a cross-border M&A are summarized. These HRM practices are categorized into three groups: ability enhancing HRM practices, motivation enhancing HRM practices, and communication enhancing practices. We hope this summary could help scholars in their future research on the relationship between HRM practices and knowledge transfer in cross-border M&As.

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