

## The Role of Target Firm Power in M&A Knowledge Transfer

By: Paulina Juuni, [Riikka M. Sarala](#), and Shlomo Y. Tarba

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### **Abstract:**

This study examines the role of target firm power in mergers and acquisitions (M&As). We investigate the effects of the position, referent and expert bases of power of the target firm on reverse knowledge transfer. We test our hypotheses on a sample of 123 responses from 106 domestic and foreign acquisitions conducted by Finnish companies. We find that a moderate level of target firm power supports reverse knowledge transfer. Also, we show that referent and expert bases of power are particularly important in explaining the overall degree of target firm power. This study contributes to the M&A literature by elaborating on the role of target firm power.

**Keywords:** Finland | mergers and acquisitions | target firm power

### **Article:**

Mergers and acquisitions (M&As) have significantly increased during the past two decades (e.g., King et al. 2004; Gomes et al. 2011; Deloitte 2014). Nevertheless, research on M&As suggests that failure rates are often surprisingly high (Cartwright and Schoenberg 2006). To explain success and failure in M&As, scholars have increasingly pointed to the importance of understanding the post-acquisition integration process. The M&A literature has uncovered several factors that play an important role during this process, such as integration strategy (Bresman, Birkinshaw, and Nobel 1999), communication (Bastien 1987; Schweiger and DeNisi 1991), implementation speed (Inkpen, Sundaram, and Rockwood 2000), leadership (Nemanich and Vera 2009) and management of cultural differences (e.g., Sarala and Vaara 2010). A recent review of the M&A literature is offered by Gomes et al. (2011).

However, the role of target firm power in M&As remains relatively unexplored. Although socio-cultural M&A studies have highlighted the importance of target firm power in general (Vaara 2001; Steensma and Van Milligen 2003; Riad 2005), our understanding of the

antecedents and outcomes of target firm power in M&As remains incomplete. This is surprising because the degree of target firm power is likely to influence the development of the relationship between the acquiring and target firms, which, in turn, determines key M&A outcomes (Hambrick and Cannella 1993; Vaara, Tienari, and Björkman 2003).

Applying the definition of power (Hickson et al. 1971) to the M&A context, we define target firm power as the relative influence of the target firm on decisions or actions related to the integration process. Power is a relative concept that is determined by the partners of the power relationships and is influenced by the degree to which each partner depends on the other (Emerson 1962; Hickson et al. 1971). Accordingly, target firm power can be measured relative to the acquirer and ranges from low (the target firm has a high level of power and the acquirer has a low level) to high (the acquiring firm has a high level of power and the target has a low level).

Regarding the outcomes of target firm power in M&As, and drawing on the knowledge-based view, we suggest that it is particularly important to examine how target firm power influences knowledge transfer. Because knowledge is an important strategic firm resource (Grant 1996), reverse knowledge transfer—transferring the target’s valuable knowledge to the acquiring firm—is one of the main M&A objectives (Ranft and Lord 2000, 2002). Nevertheless, the role of target firm power as a determinant of reverse knowledge transfer has not been studied. Our article, therefore, contributes to the M&A integration literature by studying the nature of the relationship between target firm power and reverse knowledge transfer.

Concerning the antecedents of target firm power in M&As, and in line with the power perspective on organizational theory (e.g., French and Raven 1960), we propose that position, referent, and expert bases of power are important antecedents of target firm power. This power framework has rarely been applied to the M&A context (for a notable exception, see Steensma and Van Milligen 2003), which allows us to contribute to the understanding of power antecedents in M&As. Although the framework of French and Raven (1960) was originally developed to explain power at the individual level, we maintain that it can be applied to the firm level in the M&A context, when power is understood as the collective influence of the acquiring vs. target firm members in the operational and integration process decisions following an M&A. Accordingly, we propose that in M&A there are specific factors that act as collective power bases for the target vs. acquiring firm members by increasing their position, referent, and expert bases of power.

Hence, our aim is to examine the role of target firm power in M&As. Building primarily on the knowledge-based view, we first examine the influence of target firm power on an important, yet under-researched M&A outcome, namely, reverse knowledge transfer. Then, building on the organizational power literature, we study the impact of power antecedents (position, referent, and expert bases of power) on target firm power. We empirically test our model in the context of domestic and foreign M&As conducted by Finnish firms. The study contributes to the growing body of literature on M&A integration by elaborating on the antecedents and consequences of target firm power in M&As.

The rest of the article is structured as follows. First, we provide a description of the theory and hypotheses. Then, we present the methods and the main results, followed by a discussion of the findings of the study, its limitations, and implications.

## **THEORETICAL FRAMEWORK**

### **Target Firm Power in M&A Integration**

Research on organizational power began to emerge in the early 1960s (French and Raven 1960; Emerson 1962), but the concept of power received little attention in M&A studies until the 1990s. The first M&A studies on power examined power as a non-legitimate acquisition motive to enhance managers' personal power (Seth 1990; Trautwein 1990). From the target firm's perspective, researchers have argued that target firm executives are more likely to resist M&A integration, if it reduces their personal power, namely, their relative standing (Hambrick and Cannella 1993; Very et al. 1997; Lubatkin, Schweiger, and Weber 1999). More recent studies have focused on linking power to political behavior and have mainly highlighted the negative effects of political behavior on acquisition outcomes (Vaara 2001; Riad 2005; Vaara and Monin 2010). To add to this emerging literature on power in M&As, we construct and offer a model of the outcomes and antecedents of target firm power.

### **Reverse Knowledge Transfer and Target Firm Power**

Knowledge transfer is defined as the use of the sending firm's knowledge by the receiving firm (Minbaeva et al. 2003). We apply the term "reverse knowledge transfer" (Yang, Mudambi, and Meyer 2008) to the M&A context in referring to the specific type of knowledge transfer in which the target firm is the knowledge sender and the acquiring firm is the knowledge receiver. Reverse knowledge transfer is an important value creation mechanism in M&As (Ranft and Lord 2000, 2002).

Determinants of M&A knowledge transfer include sender and receiver characteristics, such as motivation to share and absorb knowledge (Empson 2001; Junni 2011), knowledge characteristics (Zou and Ghauri 2008; Junni and Sarala 2011), cultural differences (Vaara et al. 2012), and M&A integration (Westphal and Shaw 2005; Junni and Sarala 2011). Other determinants of M&A knowledge transfer relate to the quality of the relationship between the merging firms. For instance, lack of a social community (Bresman, Birkinshaw, and Nobel 1999) and low levels of cultural integration between the merging firms (Junni and Sarala 2011) may hinder knowledge transfer.

However, the role of target firm power in M&A knowledge transfer remains relatively unexplored (Vaara, Tienari and Björkman 2003; Junni, Sarala, and Vaara 2012), especially with respect to reverse knowledge transfer. In the following paragraphs, we propose competing hypotheses for the effect of target firm power on reverse knowledge transfer. First, we propose that target firm power is inversely related to the level of reverse knowledge transfer. It is likely to be easier for the acquirer to compel a target to engage in knowledge transfer, if the target has a low level of power. Even if the target firm is reluctant to part with its knowledge, it may be compelled to do so because it is more dependent on the acquirer than the acquirer is on it

(Emerson 1962; Hickson et al. 1971). In line with this, studies in the MNC context have found that headquarters are better able to control less powerful subsidiaries (Mudambi and Navarra 2004). Also, in the M&A context, Puranam and Srikanth (2007) have shown that the absorption of the target firm by the acquirer, which we argue is only possible when the target firm has a weak power position, supports exploitation of the target firm's knowledge by the acquirer. Furthermore, a target with a low level of power may seek to share its knowledge with the acquiring firm in an attempt to legitimize its knowledge base in the eyes of the acquirer (Ambos et al. 2009). Thus, we present the following hypothesis:

*Hypothesis 1a: The greater the level of target firm power, the lower the degree of reverse knowledge transfer.*

Alternatively, target firm power could enhance knowledge transfer from the target firm to the acquirer. If target firm members are able to retain or even increase their power as a result of an acquisition, the management team of the target firm is more likely to stay in leading positions; this may consequently result in a greater willingness on the part of target firm members to collaborate with the acquiring firm (Krishnan and Park 2003; Stahl et al. 2011). In addition, retention of the top management and key employees of the target firm is likely to preserve the target firm knowledge base and increase the potential for knowledge transfer (Ranft and Lord 2000). Such positive personnel outcomes resulting from increased target firm power have been linked to increased knowledge transfer in M&As (Ranft and Lord 2000; Empson 2001; Junni 2011). Our argument is in line with the findings of Westphal and Shaw (2005). The authors showed that the degree of normative integration—which implied a loss of target firm power—had a negative effect on M&A knowledge transfer. Hence, we propose the following hypothesis:

*Hypothesis 1b: The greater the level of target firm power, the higher the degree of reverse knowledge transfer.*

In the above hypotheses, we framed target firm power as having either a negative or positive effect on reverse knowledge transfer in M&As. However, it can also be argued that the relationship is more complex. It is plausible that the effect of target firm power on reverse knowledge transfer is positive at first, as described in hypothesis 1b, because of decreased negative employee reactions and preservation of the target firm's knowledge base owing to the retention of some power by the target firm. However, as depicted in hypothesis 1a, the effect could be negative at high levels of target firm power. A very powerful target firm could be able to protect its knowledge base without experiencing "retaliation" by the acquirer; this would, however, reduce opportunities for interaction and collaboration and, thereby, hinder reverse knowledge transfer (Ranft and Lord 2000; Schweizer 2005). Thus, it could be argued that, in fact, the relationship between target firm power and reverse knowledge transfer is curvilinear (inverted U-curve); target firm power increases knowledge transfer until the target firm becomes so powerful that it begins to resist the acquirer's efforts to access its knowledge. Thus, we suggest the following hypothesis:

*Hypothesis 1c: The level of the target firm power has an inverted curvilinear relationship with reverse knowledge transfer.*

## Antecedents of Target Firm Power

In their seminal work, French and Raven (1960) described five main bases of power: reward, coercive, legitimate, referent, and expert. Reward-based power relates to the ability to control the allocation of rewards, coercion-based power refers to the capacity to threaten with punishments (Bell and Hughes-Jones 2008), and legitimacy-based power refers to the perceived right to enforce rules and to demand that others behave in a certain way (Karkouljian and Osman 2007). Although French and Raven (1960) treat the reward, coercive, and legitimate bases of power as distinct, other researchers have argued that they overlap. Bell and Hughes-Jones (2008) argue that reward and coercive bases of power are highly inter-related. Furthermore, Karkouljian and Osman (2007) maintain that reward, coercion, and legitimate bases of power should be considered “position-based power,” because they are all derived from holding a position of authority in an organization. Accordingly, we understand “position-based power” to consist of reward, coercion, and legitimate bases of power. Although the theory of power bases was initially developed to explain an individual’s power in an organization, we maintain that in M&A there are specific factors that act as collective power bases for the target versus the acquiring firm members.

We propose that position-based power is an important antecedent of target firm power. In M&As, position-based power relates to the formal positions of the acquirer and target. The acquirer automatically has a higher level of position-based power because the acquirer gains a controlling stake in the target firm (Steensma and Van Milligen 2003). A high level of equity ownership may give the acquirer more control over rewards and coercion mechanisms and it may also give the acquirer more legitimacy to act in an autocratic manner, which weakens the target firm’s power position relative to that of the acquirer. In contrast, if the acquirer has only a small majority holding, it may have to involve the target more in decision-making. Hence we propose the following hypothesis:

*Hypothesis 2: The greater the acquiring firm’s position-based power by virtue of a higher level of acquiring firm equity ownership, the lower the level of target firm power.*

In contrast to position-based power, referent and expert bases of power relate to attributes of the power holders (Karkouljian and Osman 2007). Referent-based power is derived from the extent to which one person or unit positively identifies with another (Bell and Hughes-Jones 2008). Thus referent-based power in M&As concerns the relative identification of the acquiring and target firm members. While identification may have several potential antecedents, in line with acculturation theory, we suggest that the attractiveness of the partner firm’s culture is a key determinant of positive identification (Nahavandi and Malekzadeh 1988; Sarala 2010). If employees are attracted to the organizational culture of the partner firm—i.e., they appreciate the partner firm’s beliefs, values, norms, and employee behaviors—positive identification with the partner firm is more likely (Nahavandi and Malekzadeh 1988; Harding and Rouse 2007). This increases the partner’s referent-based power.

We propose that the target firm’s referent-based power is greatest when the target’s positive identification with the acquiring firm is lower than the acquiring firm’s positive identification with the target firm. In this situation, the target will be unwilling to comply with the requests of

what it sees as an acquirer with a less “attractive” culture of lower prestige (Nahavandi and Malekzadeh 1988). At the same time, the acquirer will be less forceful about introducing changes in the target firm and more willing to allow the target more influence, perhaps even adopting some of the target firm’s practices, because the target possesses a more “attractive” culture (Harding and Rouse 2007)<sup>1</sup> Thus, we suggest that the target firm’s referent-based power will result in a higher level of power for the target firm and present the following hypothesis:

*Hypothesis 3: The greater the target firm’s referent-based power—in terms of a high relative identification with the target firm—the greater the level of the target firm’s power.*

Finally, we focus on examining the effect of expert-based power on the overall level of target firm power. Expert-based power is derived from possessing valuable knowledge on which others depend (Bell and Hughes-Jones 2008). Based on strategic contingency theory (Hickson et al. 1971), previous research suggests that expert-based power is a function of three specific knowledge characteristics, namely, criticality, non-substitutability, and centrality (Wong, Ho, and Lee 2008). Criticality implies that the focal unit’s knowledge is important to the success of other units (Medcof 2001; Wong, Ho, and Lee 2008). Non-substitutability indicates that the unit’s knowledge is difficult to replace with the knowledge of other units (Lachman 1989; Wong, Ho, and Lee 2008). Centrality of knowledge means that other units rely on the knowledge of the focal unit in their operations (Astley and Zajac 1990; Wong, Ho, and Lee 2008).

Applied to the M&A context, expert-based power relates to differences in the perceived value of the knowledge bases of the acquirer and target regarding criticality, non-substitutability, and centrality. When the target firm possesses knowledge that is more critical for the success of the acquiring firm, that cannot easily be replaced compared to the acquirer’s knowledge, and that is more central to basic workflow processes in the acquiring firm than vice versa, the acquirer is likely to be more dependent on the target firm. This dependency increases the target firm’s power relative to the acquirer (Belaya and Hanf 2009; Chen, Chen, and Ku 2012).

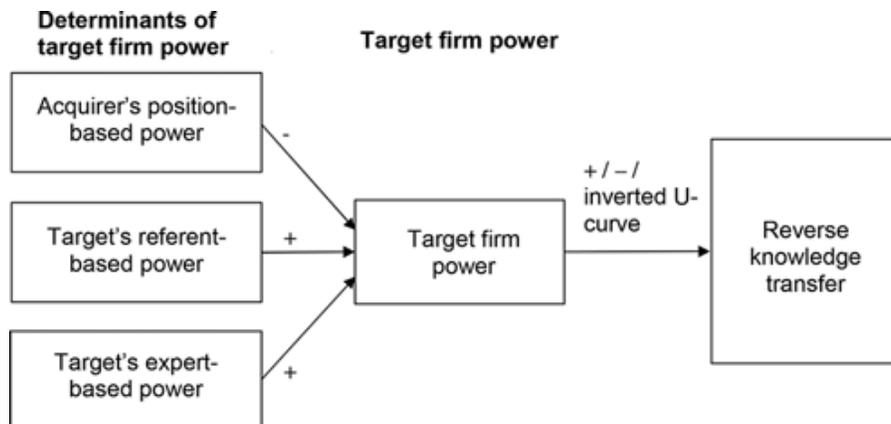
Expert-based power may be especially important in the M&A context. It has been argued that expert-based power is crucial for a unit that lacks position-based power (Ibarra 1993). This is the case for the target firm, which by definition has less position-based power than the acquiring firm because the acquirer controls a majority stock holding. Also, a common motive for M&As is the access they provide to rare and valuable knowledge from the target firm (Björkman, Stahl, and Vaara 2007), which suggests that target firms potentially have a high level of expert-based power. Accordingly, we put forward the following hypothesis:

*Hypothesis 4: The greater the target firm’s expert-based power—in terms of the relative criticality, non-substitutability, and centrality of the acquiring and target firm’s knowledge—the higher the level of the target firm’s power.*

The theoretical model is summarized in Figure 1.

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<sup>1</sup> According to Harding and Rouse (2007), cultural attractiveness impacts which firm will be the ‘cultural acquirer’ and lead the integration of the organizations’ cultures.



**Figure 1.** Theoretical framework.

## METHODS

### Data Collection

We conducted a survey to collect quantitative data to test the proposed framework. We collected data on acquisitions conducted by Finnish companies in 2006–2010. We used the Finnish business magazine *Talouselämä* to identify the acquisitions, i.e., cases in which one firm (the acquirer) had taken a controlling interest (over 50%) of another firm (the target). We first sent e-mails to acquiring firm CEOs asking them to name respondents who played a key role in the integration process. Following this stage, we e-mailed a cover letter and a link to the survey to the identified respondents and asked them to complete the survey online. The respondents were CEOs, other high-level managers and board members. The response rate was 18 percent. To address common method variance, in line with Podsakoff et al. (2003), the survey was confidential and based on pre-validated measures.

The data contained 123 responses from 106 acquisitions with 69 domestic and 37 international acquisitions<sup>2</sup>. Single responses accounted for 93 of these and multiple responses for 19; 87 responses were from the acquiring firm and 36 responses from the target. We averaged the scores of multiple respondents after assuring inter-rater agreement in terms of significant intra-class correlation coefficients (Lubatkin, Schweiger, and Weber 1999). Two cases were deleted due to a lack of inter-rater agreement.

### Measures

#### Reverse Knowledge Transfer

In line with Capron (1999), we measured the extent to which the target firm's knowledge had been used in the acquiring firm in six functional areas: (1) general management expertise; (2) product innovation capabilities; (3) know-how in manufacturing processes; (4) sales and

<sup>2</sup> The geographic distribution of the targets was as follows: Australia (1 acquisition), Belarus (1), Canada (2), Denmark (2), Estonia (1), France (2), Germany (2), the UK (1), Italy (2), Latvia (2), Lithuania (3), the Netherlands (1), Norway (2), Poland (4), Russia (1), Spain (1), Sweden (5), and the USA (2).

marketing expertise; (5) supplier relations; and (6) distribution and logistics expertise. The scale for each question ranged from 1 = “not at all” to 7 = “very much.” Cronbach’s alpha was 0.83.

### Target Firm Power

Adapting the measure of Wong, Ho, and Lee (2008) to the M&A context, we measured target firm power by asking the respondents to determine the extent to which the acquiring firm can influence the target firm’s operations (1 = “not at all” to 7 = “very much”) and the extent to which the target firm can influence the acquiring firm’s operations (1 = “not at all” to 7 = “very much”). We subtracted the acquiring firm’s influence from the target firm’s influence to obtain a measure of the target firm’s relative influence. We also asked respondents, first, whether organizational changes had been based on the acquiring or target firm’s practices (1 = “acquiring company practices” to 7 = “target company practices”) and, second, whether the acquiring or target firm had dominated integration decisions (1 = “the acquirer dominated” to 7 = “the target dominated”)<sup>3</sup>. We averaged these three measures to create a construct of target firm power. Cronbach’s alpha was 0.61.

### Position-Based Power of the Acquirer

We measured the acquiring firm’s degree of ownership in the target firm. Because our sample included only majority-owned acquisitions, the measure ranged from 51–100%.

### Referent-Based Power of the Target

As argued above, referent-based power concerns the extent of positive identification with the partner firm. Drawing on acculturation theory, we maintain that the attractiveness of the partner firm’s culture is at the center of positive identification with the partner firm (Nahavandi and Malekzadeh 1988; Sarala 2010). Using the measure of Schweiger and Goulet (2005), we asked the respondents to indicate the extent to which the personnel of the acquiring firm think the target’s culture has valuable aspects, and that there are parts of the target company’s culture that they like and would enjoy working with (items 1 and 2). We also asked the same questions concerning the target’s view of the acquiring firm’s culture (items 3 and 4). The scale for each question ranged from 1 = “not at all” to 7 = “very much.” We subtracted the attractiveness of the target firm as perceived by the acquirer (items 1 and 2) from the attractiveness of the acquiring firm as perceived by the target (items 3 and 4), to obtain a measure of the target’s referent-based power. Cronbach’s alpha was 0.78.

### Expert-Based Power of the Target

Following Wong, Ho, and Lee (2008), we measured expert-based power based on knowledge criticality, non-substitutability, and centrality. Concerning criticality, we measured the amount of knowledge that the acquiring firm had in the same functional areas as in the knowledge transfer measure. The scale ranged from 1 = “not at all” to 7 = “very much.” We weighted the criticality of the acquirer’s knowledge with the extent to which the target firm regarded the knowledge in

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<sup>3</sup> We conducted t-tests to compare the answers of the acquiring and target firms concerning the degree of target firm power. The t-tests did not show any significant differences.

each functional area as important. We also measured the amount of knowledge that the target firm had in the same functional areas and weighted the criticality of the knowledge based on the extent to which the acquirer regarded knowledge in these areas as important. To obtain a measure of the target's relative knowledge criticality, we subtracted the criticality of the acquirer's knowledge from the criticality of the target's knowledge.

Non-substitutability of knowledge was measured by first asking whether the acquirer had the knowledge or expertise to take over the target's work (1 = "strongly disagree" to 7 = "strongly agree") and second, whether the target had the knowledge or expertise to take over the acquirer's work (1 = "strongly disagree" to 7 = "strongly agree"). To create a measure of the relative non-substitutability of the target's knowledge, we subtracted the acquirer's ability to take over the target's work from the target's ability to take over the acquirer's work.

Regarding knowledge centrality, we first asked the following questions: (1) how much do members of the acquiring company have to rely on the target to obtain the information and knowledge needed to do their work (1 = "not at all" to 7 = "to a great extent"); and (2) to what extent do employees in the acquiring company rely on knowledge and information from the target to do their work (1 = "not at all" to 7 = "to a great extent"). We asked the same questions concerning the extent to which target firm members rely on the acquiring firm to do their work. To obtain a measure for the relative centrality of the target's knowledge, we subtracted the extent to which the target relies on the acquiring firm from the extent to which the acquirer relies on the target firm. Finally, we averaged the items that measured the target firm's relative knowledge criticality, non-substitutability, and centrality. Cronbach's alpha was 0.77.

## **Control Variables**

### Elapsed Time

We included the control variable "elapsed time" because it can impact M&A knowledge transfer (Bresman, Birkinshaw and Nobel 1999). In our sample, the number of years that had passed since the acquisitions ranged from 1 to 4 years.

### Target Firm Size

The size of the target firm may influence its power (Ranft and Lord 2002; Stahl et al. 2011) and knowledge transfer in M&As (Bresman, Birkinshaw and Nobel 1999). Hence, we controlled for the target firm's size by measuring its net sales.

### Industry

Knowledge transfer between firms in the service industry has been described as particularly challenging because of the close link between professional's knowledge and their "market value" (Empson 2001). Hence, we controlled for whether an acquisition was conducted in the service industry (coded as 1) or another industry (coded as 0). In addition, acquisitions of high-tech firms, such as IT firms, are often motivated by accessing unique and valuable knowledge from

the target firm (Ranft and Lord 2002). Hence, we also controlled for whether the acquisition was conducted in the IT industry (coded as 1) or another industry (coded as 0).

### National Cultural Differences

National cultural differences are likely to influence M&A integration (Brock 2005). We controlled for this by including the variance adjusted sum of national cultural differences between the acquirer's home country (which was Finland in all cases) and the target firm's home country. In line with Vaara et al. (2012), our measure was based on the nine dimensions of GLOBE practices scores (House et al. 2004) that we used to calculate the index of aggregate national cultural differences (Kogut and Singh 1988):

$$CD_j = \sum_{i=1}^9 \{(I_{ij} - I_{if})^2\}$$

where

$CD_j$ : the cultural difference for the  $j$ :th country

$I_{ij}$ : Globe score for  $i$ :th cultural dimension and  $j$ :th country

$F$ : indicates Finland.

### Acquisition Rationale

Related acquisitions are more likely to result in a higher level of knowledge transfer (Haspeslagh and Jemison 1991). We asked the respondents to evaluate the importance of expansion into a related business as an acquisition aim on a scale from 1 = not important to 7 = very important.

## FINDINGS

The descriptive statistics and correlations for the variables are reported in Table 1. We tested hypotheses 1a-1c by building a regression model with reverse knowledge transfer as the dependent variable. In the baseline model, acquisition rationale was positively related to reverse knowledge transfer ( $\beta = 0.220, p < 0.01$ ) (see Baseline model in Table 2). When we added the independent variable target firm power, the fit of the model improved ( $\Delta R^2 = 0.066, p < 0.01$ ). The resulting model was significant at the  $p < 0.01$  level ( $F = 3.067$ ) (see Linear model in Table 2). Adding a quadratic term of target firm power further improved the model ( $\Delta R^2 = 0.058, p < 0.01$ ) and resulted in a model significant at the  $p < 0.01$  level ( $F = 3.763$ ) (see Curvilinear model in Table 2). The negative quadratic term ( $\beta = -0.286, p < 0.01$ ) indicated a negative curvilinear relationship between target firm power and reverse knowledge transfer, supporting hypothesis 1c. Because the curvilinear model fit the data better than the linear one, the alternative hypotheses 1a and 1b were rejected.

We tested hypotheses 2, 3, and 4 by building another regression model in which target firm power was the dependent variable. None of the control variables in the baseline model were significant (see Baseline model in Table 3). When we added the independent variables that measured position, referent, and expert bases of power to the baseline model, the explanatory power of the model improved ( $\Delta R^2 = 0.129, p < 0.01$ ) and the model was significant at the  $p < 0.05$  level ( $F = 2.16$ ) (see Linear model in Table 3). In this model, hypothesis 2—

proposing that the position-based power of the acquiring firm is related to the power of the target firm—was not supported. However, we found support for hypotheses 3 and 4: the referent and expert bases of power of the target firm were both positively related to the target firm’s power ( $\beta = 0.179, p < 0.05$  and  $\beta = 0.319, p < 0.05$ ).

**Table 1.** Descriptive Statistics and Correlations

Constructs	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1. Elapsed time	2.39	1.2	1											
2. Target firm size	31.06	76.35	0.02	1										
3. Service industry	0.48	0.50	0.16†	-0.05	1									
4. IT industry	0.07	0.25	0.02	0.05	0.28**	1								
5. National cultural differences	0.90	1.80	0.08	0.19†	-0.05	0.07	1							
6. Acquisition rationale	4.64	2.30	-0.16	-0.13	-0.11	0.12	-0.10	1						
7. Acquiring firm position based power	93.68	13.93	0.04	-0.03	-0.21*	-0.04	0.07	-0.04	1					
8. Target firm referent based power	-0.24	1.45	0.01	0.22*	-0.02	-0.17	-0.00	0.09	-0.02	1				
9. Target firm expert based power	-0.35	1.17	0.11	0.16	0.12	-0.11	-0.02	0.07	0.24*	0.33**	1			
10. Target firm power	-6.07	0.75	-0.13	0.06	-0.06	0.08	-0.09	0.12	0.15	0.27**	0.29**	1		
11. Quadratic term of target firm power	0.56	0.65	-0.02	-0.02	-0.19†	0.01	0.07	-0.16	-0.01	-0.51***	-0.22*	-0.02	1	
12. Reverse knowledge transfer	3.76	1.34	-0.15	0.09	-0.07	-0.05	-0.07	0.29**	0.18†	0.15	0.33**	0.30**	-0.28**	1

Pearson’s bivariate correlations with standardized variables, Spearman’s rho for the “Service industry” and “IT industry” variables.

†  $p < 0.1$ , \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ .

**Table 2.** Regression Analysis 1

Variables	Hypotheses	Baseline model				Linear model				Curvilinear model			
		Beta	t	Sig.	VIF	Beta	t	Sig.	VIF	Beta	t	Sig.	VIF
Elapsed time		-0.07	-0.97	0.33	1.05	-0.05	-0.70	0.49	1.06	-0.05	-0.76	0.45	1.06
Target firm size		0.10	1.34	0.18	1.07	0.08	1.16	0.25	1.08	0.07	0.98	0.33	1.08
Service industry		0.00	0.00	1.00	1.15	0.02	0.12	0.90	1.15	-0.08	-0.57	0.57	1.23
IT industry		-0.22	-0.75	0.46	1.12	-0.27	-0.96	0.34	1.12	-0.21	-0.76	0.45	1.13
National cultural differences		-0.06	-0.54	0.59	1.05	-0.03	-0.33	0.75	1.06	-0.20	-0.19	0.85	1.06
Acquisition rationale		0.22**	2.97	0.00	1.08	0.20**	2.83	0.01	1.09	0.17*	2.32	0.02	1.13
Target firm power	H1a: (-) H1b: (+)					0.26**	2.78	0.01	1.04	0.25**	2.82	0.01	1.05
Target firm power	H1c: (∩)									-0.29**	-2.69	0.01	1.11
* Target firm power													
R <sup>2</sup>		0.12				0.18				0.14			
Adjusted R <sup>2</sup>		0.06				0.12				0.18			
R <sup>2</sup> change		0.12				0.07				0.06			
F		2.15				3.07**				3.76**			

All two-tailed tests.  $N = 104$ , missing values were replaced with mean values. Data in the table represent standardized beta coefficients.

Dependent variable: Reverse knowledge transfer.

†  $p < 0.1$ , \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ .

**Table 3.** Regression Analysis 2

Variables	Hypotheses	Baseline model				Linear model			
		Beta	t	Sig.	VIF	Beta	t	Sig.	VIF
Elapsed time		-0.08	-1.08	0.29	1.05	-0.10	-1.44	0.15	1.06
Target firm size		0.06	0.81	0.42	1.07	-0.01	-0.07	0.94	1.17
Service industry		-0.07	-0.44	0.66	1.15	-0.14	-0.92	0.36	1.23
IT industry		0.21	0.68	0.50	1.12	0.39	1.30	0.20	1.16
National cultural differences		-0.09	-0.81	0.42	1.05	-0.08	-0.75	0.45	1.06
Acquisition rationale		0.07	0.83	0.41	1.08	0.02	0.30	0.77	1.12
Acquiring firm position-based power	H2: (-)					0.07	0.93	0.36	1.09
Target firm referent-based power	H3: (+)					0.18*	2.05	0.04	1.18
Target firm expert-based power	H4: (+)					0.32*	2.20	0.03	1.24
R <sup>2</sup>		0.04				0.17			
Adjusted R <sup>2</sup>		-0.02				0.09			
R <sup>2</sup> change		0.04				0.13			
F		0.72				2.16*			

All two-tailed tests.  $N = 104$ , missing values were replaced with mean values. Data in the table represent standardized beta coefficients.

Dependent variable: Target firm power.

†  $p < 0.1$ , \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ .

## DISCUSSION

Our aim was to examine the role of target firm power in M&As. To do this, we first investigated the effect of target firm power on reverse knowledge transfer, which is a crucial but under-explored M&A outcome. Then, we examined the antecedents of target firm power (position, referent, and expert bases of power). We empirically tested our model in the context of domestic and foreign acquisitions conducted by Finnish firms.

Target firm power had a positive effect on reverse knowledge transfer, but only up to a certain point. At high levels of target firm power, the effect on reverse knowledge transfer was increasingly negative. This corresponded to an inverted U-curve relationship between target firm power and reverse knowledge transfer, suggesting that a moderate level of target firm power resulted in the highest level of reverse knowledge transfer. Although previous studies have not examined the effect of target firm power on reverse knowledge transfer, these findings may shed light on the mixed findings concerning the protection of the target firm's knowledge base, which can be a result of high target firm power; it can both enhance reverse knowledge transfer, e.g., by increasing the retention of key employees (Ranft and Lord 2000, 2002) and limiting opportunities for interaction (Schweizer 2005) and thereby reducing reverse knowledge transfer.

We used French and Raven's (1960) framework and its modifications in more recent studies (Karkouljian and Osman, 2007; Bell and Hughes-Jones 2008) to select the antecedents of target firm power. There was no significant relationship between the degree of acquiring firm majority ownership and target firm power. This implies that the acquirer did not gain a further power advantage by complete or close to complete ownership. With respect to referent-based power, we argued on the basis of acculturation theory that the attractiveness of the partner firm's culture is

at the center of positive identification with the partner firm (Nahavandi and Malekzadeh 1988; Sarala 2010). Accordingly, we found that when the target firm's referent-based power was great—that is, when the target firm's culture was perceived as more attractive by the acquirer than vice versa—the power of the target firm increased. We therefore concluded that referent-based power is a key antecedent of target firm power. Finally, we examined the impact of expert-based power on target firm power. The results showed that the target's expert-based power was positively associated with its total level of firm power. Our findings regarding expert-based power are in line with strategic contingency theory, according to which unique knowledge and capabilities can provide units with greater power (Belaya and Hanf 2009; Wong, Ho, and Lee 2008; Chen, Chen, and Ku 2012).

The study reconciles the seemingly conflicting arguments related to power and knowledge transfer in prior M&A research. Some M&A researchers have argued that stripping too much power from the target firm can destroy the target's knowledge base and, hence, limit reverse knowledge transfer (Westphal and Shaw 2005), whereas other M&A scholars have maintained that bestowing the target firm with too much power or autonomy can impede reverse knowledge transfer by limiting interaction between the merging firms (Ranft and Lord 2000). We show that there is a positive relationship between target firm power and reverse knowledge transfer when target firm power is at low to moderate levels. However, at high levels of target firm power, the relationship becomes negative. This results in an overall reverse U-curve relationship between target firm power and reverse knowledge transfer. Referent and expert bases of power were found to be particularly important in determining the target's overall power.

Our study is not free of limitations. First, we used cross-sectional data, which limits our ability to infer causality. Longitudinal studies are needed to verify the direction of causality in the relationships that we proposed. Second, in line with prior M&A knowledge transfer studies (Capron 1999; Vaara et al. 2012), we focused on the perceptions of top level managers. However, top managers' perceptions may differ from those of lower-level organizational members. In fact, operational managers may be more knowledgeable about the day-to-day running of operations. Hence, we encourage researchers to include respondents from several organizational levels in future studies. Third, many of our respondents were from the acquiring firm. Although our inter-rater reliability tests for multiple response cases did not indicate consistent differences between the acquiring and target firm responses, we cannot completely exclude the possibility of such differences. We recommend the use of matched respondents from the acquiring and the target firms in future studies. Finally, mediating and moderating effects of power require exploration in future studies.

Acquiring firm managers should be aware that target firm power can be beneficial to reverse knowledge transfer—but only to a certain extent. An overly powerful target firm is likely to resist transferring its knowledge. To facilitate reverse knowledge transfer, a moderate level of target firm power is likely to be the most beneficial. Also, acquiring firm managers should understand that referent and expert bases of power are important in determining target firm power. In other words, majority ownership does not necessarily guarantee power for the acquirer. Understanding these aspects of power differences can help acquirers anticipate problems and opportunities for reverse knowledge transfer and plan the M&A integration process accordingly.

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