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Tian, AY, Ahammad, MF orcid.org/0000-0003-0271-2223, Tarba, SY et al. (3 more authors) (2021) Investigating employee and organizational performance in a cross-border acquisition—A case of withdrawal behavior. *Human Resource Management*, 60 (5). pp. 753-769. ISSN 0090-4848

<https://doi.org/10.1002/hrm.22058>

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Investigating Employee and Organizational Performance in a Cross-Border Acquisition - A Case of Withdrawal Behavior

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Note: This is a post-review, pre-print accepted version, please cite:

Tian, A. Y., Ahammad, M.F., Tarba, S.Y., Pereira, V., Arslan, A., & Khan, Z. (2021). Investigating Employee and Organizational Performance in a Cross-Border Acquisition - A Case of Withdrawal Behavior. ***Human Resource Management***, in press.

Abstract

Over the last two decades, performance management systems (PMSs) have been the focus of increasing attention. However, scant research has examined the link between individual- and organizational-level performance in the context of cross-border mergers and acquisitions (M&As). Employee withdrawal adversely affects organizations, and has thus been associated with negative consequences for organizations and regarded as a counterproductive work behavior. Our article presents an empirical investigation of determinants and consequences of employee withdrawal, and its impact on willingness to share tacit knowledge, knowledge transfer, and cross-border acquisition performance in the context of Chinese acquisitions in the UK. Based on a cross-sectional survey of 103 employees of an UK subsidiary and Chinese acquiring firm, we found that trust in the acquiring firm significantly reduces acquired firm employee withdrawal behaviors. Moreover, our findings indicate that employee withdrawal behaviors negatively impact employee willingness to share tacit knowledge. The findings further confirm that such willingness positively influences knowledge transfer, which, in turn, has a positive effect on cross border acquisition performance. Our paper contributes to the PMS literature by enhancing the understanding of the process through which HRM systems affect outcomes at different levels of analysis in the context of the cross-border acquisitions.

Keywords: Employee withdrawal; trust, communication, tacit knowledge, knowledge transfer, cross border acquisition; performance; emerging market multinational enterprises.

Investigating Employee and Organizational Performance in Cross-Border Acquisitions – A Case of Withdrawal Behaviors

Introduction

Over the last two decades, performance management systems (PMSs) have received increasing attention (e.g., Cappelli & Tavis, 2016). The need for performance management will remain as long as individual employees are carrying out some type of work in an organization (e.g., Varma, Budhwar, & DeNisi, 2008). In general, individual performance has been assumed to impact the performance of an organization (DeNisi & Smith, 2014). However, scant research has examined the link between individual- and organizational-level performance (e.g., DeNisi & Murphy, 2017). In this context, DeNisi and Smith (2014) called for research focusing on a better understanding of how organizations might implement systems aimed at improving both those kinds of performance.

Despite the growing body of research on performance management systems conducted over the last 30 years, many important unanswered questions remain in regard to their effectiveness and impact on both research and practice (Schleicher, Baumann, Sullivan, & Yim, 2019; Schleicher *et al.*, 2018). Most of the extant meta-analyses performed on the relationship between human resource management (HRM) practices and organizational performance have yielded mixed results, further fueling the theoretical debate among HRM scholars (Tzabbar, Tzafrir, & Baruch, 2017). In addition, extant studies conducted on developed markets' firms cannot be generalizable in the context of emerging market firms, given these firms are relatively at the early stage of internationalization.

Performance management and measurement are important for firms pursuing both domestic and cross-border mergers and acquisitions (M&As). Some prior studies made use of performance measures such as intermediate goal achievement (e.g., Cording *et al.*, 2008), the effectiveness of post-acquisition integration (e.g., Weber, Tarba, & Rozen Bachar, 2011; Weber, Tarba, & Reichel, 2011), short-term stock market-based event studies (Cording *et al.*, 2008; Datta, 1991) or others based upon long-term stock market-based performance or accounting (Meglio & Risberg, 2011). While prior studies on M&A performance have made significant progress, some research gaps still remain. For instance, employee withdrawal is a predominantly

serious problem in acquisitions (e.g., Fried *et al.*, 1996). However, we still have limited understanding of how employee withdrawal influences the post-acquisition process in regard to, for example, knowledge transfer and the performance of the merged organization. Moreover, stock market-based event studies and accounting measures are not suited to measure post-acquisition performance (Meglio & Risberg, 2011). First, the risk of ignoring the important effects on M&A performance of factors such as employee withdrawal and knowledge transfer is rather high. Second, measuring performance using stock market data drawn five or 10 years after an acquisition is not appropriate, as the stock price may not reflect post-acquisition issues such as employee withdrawal behaviors. Therefore, further studies are needed to explore the impact of employee withdrawal on post-acquisition processes such as knowledge transfer and M&A performance.

Employee withdrawal behaviors, which adversely affect organizations (Llies *et al.*, 2012), involve “*different distancing behaviors and cognitions, ranging from intentions to quit to more subtle psychological neglect such as not fully concentrating on work*” (Kiefer, 2005, p. 882). In this context, Zimmerman *et al.* (2012) referred to employee tardiness, absenteeism, and turnover intentions as withdrawal behaviors, as each of them represents a form of substantial removal or withdrawal from the workplace. Withdrawal behaviors are triggered by organizational changes—enacted as a result of an acquisition—that are perceived as threats to job security, identity, and status (Cartwright & Cooper, 1993; Kiefer, 2005). Thus, employee withdrawal has been associated with negative consequences for organizations, and is therefore regarded as a type of counterproductive work behavior (Carpenter & Berry, 2017).

Employee reactions to acquisitions include lack of motivation, resistance to change (Bouwen & Overlaet, 2001; King *et al.*, 2020), social conflict (Sarala, 2010; Vaara *et al.*, 2012), and turnover (Ahammad *et al.*, 2012; Degbey, Rodgers, Kromah & Weber, 2020; Ranft & Lord, 2002). Target firm members struggle to maintain their identity in the wake of acquisitions (e.g., Terry & Callan, 1998) and are also more often subject to major personnel changes (Hambrick & Cannella, 1993; Ranft & Lord, 2002); they therefore commonly react more negatively to them than their acquiring firm counterparts. While prior researchers have examined the role played by employee withdrawal in organizational change (e.g., Fugate *et al.*, 2012), few have investigated the determinants of employee withdrawal in the context of cross-border acquisitions. In addition, limited research has explored the consequences of the withdrawal of acquired firm employees on

their willingness to share and transfer tacit knowledge and on cross-border acquisition performance.

The aim of our study was to investigate the determinants of acquired firm employee withdrawal and the consequences of such withdrawal on their willingness to share tacit knowledge, knowledge transfer, and cross-border acquisition performance. Specifically, its objectives were: a) to explore the determinants of employee withdrawal as a counterproductive behavior in cross border acquisitions; b) to investigate the relationships between employee withdrawal, willingness to share tacit knowledge, knowledge transfer, and cross border acquisition performance.

Our study contributes to the performance management literature in several ways. The different approaches taken to employee involvement have been rather underplayed in the HRM–performance research stream, which has primarily concentrated on elucidating the positive relationship between HRM and performance and, albeit only recently, on unlocking the mechanisms that explain this correlation (Wood, 2020). Our study’s contribution to the existing literature is in line with the call, made by of Peccei & Van De Voorde (2019), to adopt a multilevel perspective suited to enhance both strategic and employee-centered HRM research by improving our understanding of the processes through which HRM systems affect outcomes at different levels of analysis in the context of cross-border acquisitions. Lastly, given that emerging market firms are aggressively expanding into foreign markets by acquiring assets, thus our study is one of the first one to examine employee withdrawal behavior and performance consequences in the special case of emerging market firm.

Conceptual Framework and Hypotheses

Employee withdrawal and trust

The relationship between acquired firm employee withdrawal and trust in the acquiring firm could be explained by the theory of reasoned action (Ajzen & Fishbein, 1980), wherein behaviors are viewed as a function of one's intentions, which, in turn, are determined by individual differences and contextual factors (Miller & Grush, 1988). The extant literature has suggested that the turbulence created by the announcement of an acquisition sets up a breeding ground for distrust as a result of the situation being unpredictable and easy to misinterpret, and of people feeling vulnerable (Stahl & Sitkin, 2005). The social networks and mutual understanding

established through years of working together are sometimes destroyed in an instant. With a new organization, a new top management team, and a new superior, there is initially little trust, and the acquired firm employees are left wondering what the next wave of changes will bring and whether they will be negatively affected by them (Chua *et al.*, 2005).

As trust has been identified as a linchpin for divergent areas—such as HRM, organizational change, and interorganizational partnerships—a multilevel and multidisciplinary perspective can promote a better investigation of it (Connelly *et al.*, 2018; Fulmer, & Gelfand, 2012). In the context of cross-border acquisitions, acquired firm employees tend to avoid or mitigate any perceived workplace threats, and their motivations are often manifested as intentions and actual behaviors (Bazel-Shoham, Lee, Rivera, & Shoham, 2020; Cooke, Wood, Wang, & Li, 2020; Dao, Bauer, Strobl, Matzler, & Eulerich, 2016). Therefore, trust takes on a crucial role throughout the M&A process (Lipponen *et al.*, 2020; Stahl *et al.*, 2012).

Behavioral withdrawal is a matter of degree, with voluntary turnover representing its most extreme manifestation and absenteeism can be less dramatic one, and both serving the same purpose of mitigating any perceived threats (e.g., Sagie *et al.*, 2002). For instance, building on social exchange theory, Kaltiainen *et al.* (2017) examined M&As as sources of major organizational change and found that cognitive trust has a positive impact on subsequent employee perceptions of merger process justice. The afore-mentioned finding is supported by protection motivation research, which shows that perceived threats predict intentions to withdraw from situations and to avoid the sources of such threats (e.g., Eppright *et al.*, 2002).

Accordingly, a lack of trust in the acquiring firm could be expected to accentuate acquired firm employee intentions to withdraw, which represent both cognitive and behavioral signals of their desire to avoid, remove, or mitigate their threatening job situation. Conversely, a greater level of trust in the acquiring firm could reduce the possibility of acquired firm employee withdrawal. Based on the above argument, we hypothesized that:

H1. Trust in the acquiring firm has a negative impact on acquired firm employee withdrawal.

----Please insert Figure 1 about here----

Employee withdrawal and communication

Communication has been generally perceived as a critical component of the M&A process (Bastien, 1987; DeNisi, & Shin, 2005), and its crucial role as a factor impacting M&A success has been highlighted in the prior literature (Gomes *et al.*, 2013; Napier *et al.*, 1992). Furthermore, Budhwar *et al.*'s (2009) in-depth exploration of HRM factors in several cases of M&A in the context of the Indian pharmaceutical industry revealed that an absence of clear communication is associated with lower employee involvement and thus may eventually lead to M&A failure. This conclusion was reinforced by Marmenout (2011), who indicated that, after the announcement of the M&A deal, 'collective rumination'—defined as the repetitive and passive discussion of organizational problems and their negative consequences among groups of peers—lowers employee involvement and morale and thus eventually has a detrimental effect on post-merger performance.

Based on the responses given by 225 managers of four banks involved in two merger deals in India, Bhal *et al.* (2009) found that leader communication mediates the relationship between leader-member exchange (LMX) and employee cognitive reactions. In this vein, clear and effective communication throughout the M&A process has been found to yield enhanced employee commitment (e.g., Angwin *et al.*, 2016). At the same time, it should be noted that, during post-acquisition integration, communication is important in achieving what, in the literature, has been referred to as a 'common ground' (e.g., Dao *et al.*, 2016), which has further been linked to the emergence of the shared interests that strengthen cooperation at the organizational level (Cooke *et al.*, 2020; Dao & Strobl, 2019). Moreover, such shared interests and the emergence of a common ground are expected to reduce acquired firm employee bias in regard to the acquirer, resulting in such employees providing some degree of cooperation during the integration process (Sarala *et al.*, 2019). It has further been argued that, in humans, the social comparison process is based on self-evaluation in comparison to others (e.g., Dao *et al.*, 2016). Hence, in the case of M&As, if the acquired firm employees are the targets of clear communication conveying perceptions of them being of equal standing to their acquiring firm counterparts, their self-evaluation will be positive, which will potentially reduce any withdrawal behaviors on their part. Based on the above arguments, we hypothesized that:

H2. During the post-acquisition integration phase, communication has a negative impact on acquired firm employee withdrawal.

Employee withdrawal, communication, and trust

In the acquisitions of entrepreneurial firms, any trust asymmetries have been found to emerge, persist, and influence the incumbent partners, eliciting, among others, tendencies to behave deceptively and to guard against deception (Graebner, 2009). Stahl *et al.* (2011) showed that several post-merger integration process variables, such as speed of integration and communication quality, are major factors influencing the level of trust between the amalgamating entities. Recently, utilizing a grounded theory model in order to explore the contextual characteristics of Chinese M&As in Germany, which required the development of trust, Sachsenmaier and Guo (2019) revealed that mutual understanding, reliability, familiarity, and emotional bonding are vital for effective communication between partners to take place and for trust between them to subsequently develop. Moreover, during a merger, effective communication is vital to enhance employee trust and well-being (Vosse & Aliyu, 2018). Communication is likely to strengthen the trust and social ties between the acquisition partners (Bresman *et al.*, 1999) and to increase familiarity and trust (Birkinshaw *et al.*, 2000); we therefore assumed that it moderates the relationship between trust and employee withdrawal. The argument in favor of this moderating relationship is further supported by the findings of prior studies, wherein it has been argued that, in the specific context of M&As, acquired firm employees are particularly sensitive to perceptions of justice during the post-integration process (Khan *et al.*, 2020). Frequent and clear communication can alleviate many of the concerns of these employees, making them feel that they are being treated fairly and justly by the acquiring firm (e.g., Mohammad *et al.*, 2019). This feeling, alongside the development of a common ground, is expected to further strengthen their trust in the acquiring firm and reduce any withdrawal behaviors. Finally, the importance of process in value creation was highlighted in a recent study focusing on Chinese M&As in Europe (Ai & Tan, 2020). We build on this finding and stress the moderating role played by communication during the post-M&A integration process. Based on this discussion, we hypothesized that:

H3. Integration process communication moderates the relationship between trust and employee withdrawal. Specifically, the impact of higher trust on reducing acquired firm employee withdrawal will be greater in the presence of consistent integration process communication.

Employee withdrawal and willingness to share tacit knowledge

If organizational members psychologically disengage and withhold their efforts or show active or passive resistance to change (Bouwen & Overlaet, 2001), they are likely to display a reduced willingness to share tacit knowledge, a willingness that has been suggested to play an important role in improving M&A performance and knowledge transfer (e.g., Christofi *et al.*, 2019; Sarala *et al.*, 2016). As its transfer between organizations leads to the development of sustainable competitive advantage (Grant, 1996; Polanyi, 1966), knowledge has emerged as a critical resource, as per the knowledge-based view of the firm (cf. Nonaka & Takeuchi, 1995), and as being of crucial importance in M&As in particular (Ai & Tan, 2020; Zhou, Fey, & Yildiz, 2018). An organization's ability to tap into its employees' tacit knowledge is fundamental to the development of competitive advantage; yet, the effective transfer of such knowledge is difficult to achieve, as it requires close collaboration and socialization mechanisms (Khan *et al.*, 2015; Liu & Meyer, 2018).

Acquisitions can have emotional consequences for employees (e.g., Hassett *et al.*, 2018; Sinkovics *et al.*, 2011; Zagelmeyer *et al.*, 2018), and the extant literature indicates that human resource (HR) practices improve employee emotional resilience in the context of M&As (e.g., Khan *et al.*, 2020). Acquired firm employees might not develop any social interaction with their acquiring firm counterparts due to differences in organizational cultures and leadership styles (Drori *et al.*, 2011; Zhang *et al.*, 2015). In the emerging market acquisitions context, research suggests that leadership plays a vital role in employee psychological safety (e.g., Rao-Nicholson *et al.*, 2016). Engaged employees will be in a better position to share their tacit knowledge during the post-acquisitions stage, as social interaction between employees is fundamental for the successful sharing and transfer of tacit knowledge across organizational boundaries (Hansen, 2002; Khan *et al.*, 2017, 2020). Acquired firm employees might not get the incentives or may face other integration-related emotional challenges, which could lead them to withdraw from the knowledge transfer activities.

Employees may also intentionally hide knowledge from their own co-workers, which may have a negative impact on their willingness to share tacit knowledge with their acquired firm's counterparts. Acquired firm employees may hold negative feelings toward the acquiring firm due to the organizational tension and emotional stress that are linked to acquisitions (Hassett *et al.*, 2018; Sinkovics *et al.*, 2011). Such emotional stress will lead employees to withdraw from the

organization in the form of demotivation, lateness, absenteeism, and high turnover, which will have a negative impact on their willingness to engage in tacit knowledge-sharing activities with their acquiring firm counterparts. Based on this discussion, we proposed that:

H4. Acquired firm employee withdrawal has a negative impact on employee willingness to share tacit knowledge with the acquiring firm.

Willingness to share tacit knowledge and knowledge transfer

Tacit knowledge—which is embedded in practices, routines, values, and norms and is usually intuitive, unarticulated, non-verbalized, and not readily accessible or transferable (e.g., Calipha *et al.*, 2018; McIver *et al.*, 2012)—has been referred to as being more important than its explicit equivalent for the success or failure of M&As (e.g., Ahammad *et al.*, 2016). Employee willingness is closely connected to employee attachment to the organization—i.e., to organizational commitment (Cohen, 2007; Meyer & Allen, 1991). Prior research has also shown that such commitment influences employee willingness to share and receive knowledge, including its tacit form (Rafique *et al.*, 2019; Van Den Hooff & Van Weenen, 2004; Wang & Noe, 2010). It has also been established that acquired firm employee commitment to the acquiring firm is usually low (Schweizer & Patzelt, 2012) and in many cases, elicits withdrawal behaviors (e.g., Chung *et al.*, 2014).

At the same time, the prior literature has also established that employee commitment is not unconditional and is significantly influenced by a sense of belonging to the organization (Davila & Garcia, 2012; Han *et al.*, 2010)—which is challenged in M&As—and also affects employee behaviors, including the willingness to share tacit knowledge.

Bearing in mind the importance of the transfer of tacit knowledge for the success of M&As, we argued that acquiring firms need to take acquired firm employee withdrawal behaviors seriously and enact strategies to counter them. This is important given that the prior literature has established that employee withdrawal behaviors are linked with a lack of interest in both routine and strategic tasks (Aslam *et al.*, 2016; Porter & Steers, 1973) and, in some cases, with resistance (Brett *et al.*, 2016). As a result, acquiring firms could fail to acquire important tacit knowledge, which may play a key role in the success of the integration process. We argue that, in order to overcome this issue, acquiring firms need to adopt established and useful HR practices, such as increased two-way communication (e.g., Zhang & Agarwal, 2009) and

organizational justice (e.g., Melkonian *et al.*, 2011; Stouten & Rousseau, 2018), which can potentially result in the acquired firm employees developing trust in the acquiring firm and the willingness to share tacit knowledge with it. Based on the discussion presented above, we hypothesized that:

H5. Acquired firm employee willingness to share tacit knowledge has a positive impact on the transfer of knowledge toward the acquiring firm.

Willingness to share tacit knowledge and cross-border acquisition performance

Despite the importance of tacit knowledge for acquiring firms and for the success of the knowledge transfer process, its consistent positive influence on M&A performance has not been established. This aspect becomes especially relevant when the acquiring firm is interested in significantly restructuring in order to fully integrate the acquired firm into the new organizational routines. This activity, in most cases, is linked to important HR decisions, including job role changes and the merging of any differing functional routines in order to bring them in line with the overall structure of the acquirer. However, the acquired firm's employees' willingness to share their tacit knowledge may be considered a boon by the acquiring firm's managers as they may be motivated to continue with some existing processes and strategies in order to minimize disruption during the post-integration period (e.g., Brueller *et al.*, 2018; Galpin, 2014). In this specific context, the extant literature has shown that, if required, some changes are not undertaken too quickly in M&As, with a degree of inertia appearing in organizational routines and processes (Hwang *et al.*, 2015). This inertia tends to negatively influence organizational performance (e.g., Castellaneta *et al.*, 2017).

It should be further noted that, in cross-border M&As, acquired firm tacit knowledge is embedded in a very different context (e.g., Sheng, 2019). The viability and use of this contextually embedded knowledge by acquiring firms varies as, in different cases, they associate different goals and expectations with the acquired firm's tacit knowledge. Hence, it has also been argued that greater the tacit knowledge, the greater the additional cost linked to its acquisition (e.g., Martin & Salomon, 2003). Some other studies have highlighted the differences in the institutional logics (i.e., practices, beliefs, and values) of MNE subsidiaries, which make the tacit knowledge's viability different for different stakeholders (e.g., Gilmore *et al.*, 2018; Hilmersson & Jansson, 2012). We argued that, in the case of cross-border M&As, the acquired firms'

employee's strategic logic associated with tacit knowledge may not match the acquiring firm's needs. As a result and despite any partial positive effects, the willingness to share tacit knowledge can potentially have an overall negative influence on M&A performance. Based on this discussion, we hypothesized that:

H6. Acquired firm employee willingness to share tacit knowledge has a negative impact on M&A performance.

Knowledge transfer and cross-border acquisition performance

Knowledge transfer is important for the development of competitive advantage in organizations (e.g., Argote & Ingram, 2000). Through M&As, acquiring firms can tap into the knowledge of their targets and develop unique capabilities that would otherwise be precluded to them (Sarala *et al.*, 2016). Knowledge transfer can result in greater levels of synergy in acquisitions (Junni & Sarala, 2011). As per the knowledge-based view of the firm, the transfer of knowledge can enhance firm performance, as knowledge-based resources are difficult to imitate for rival firms (e.g., Grant, 1996; Zollo & Singh, 2004). It is in this context that the role of knowledge has been documented as being critical for a firm's combinative capabilities (e.g., Kogut & Zander, 1992). The extant literature documents that tacit knowledge, which is difficult to replicate and imitate for competitors, enhances a firm's performance (Junni & Sarala, 2012; Nonaka & Takeuchi, 1995). Tacit knowledge is difficult to codify, and its effective transfer requires close interactions between employees and socialization mechanisms (e.g., Khan *et al.*, 2017). The merging firms may thus have to develop and promote close interaction and socialization mechanisms, which, in turn, will improve acquisition performance. The extant studies highlight that one of the central motivations behind acquisitions is gaining access to the tacit knowledge held by target firms (Björkman *et al.*, 2007; Zou & Ghauri, 2008). Existing studies in the context of acquisitions suggest that knowledge transfer has a positive impact on acquisition performance (e.g., Ahammad *et al.*, 2016; Sarala *et al.*, 2016). Based on this discussion, we proposed that:

H7. Knowledge transfer has a positive impact on M&A performance.

From the discussion presented above, it is clear that employee willingness to share tacit knowledge is associated with both knowledge transfer and M&A performance. Henceforth, we

will continue the discussion and try to build the case for a moderating relationship between these variables. Specifically, we will argue that, when employee willingness to share tacit knowledge is high, the overall impact of knowledge transfer on M&A performance is also high. This argument is grounded in theory and prior research because the sharing and successful transfer of tacit knowledge has been referred to as an important precursor for the success of knowledge transfer in M&As (Ahammad *et al.*, 2016; Sarala *et al.*, 2016). It was also argued earlier that the successful transfer of tacit knowledge from the acquired to the acquiring firm also signals the former's employees' trust of the latter and less or no resistance on their part to any structural changes being proposed and/or undertaken.

In this context, it is important to mention that prior studies have referred to the acquired firm's employees' resistance as one of the major impediments to better M&A performance (e.g., Pablo & Javidan, 2009; Risberg *et al.*, 2015). When the acquired firm's employees are willing to share their tacit knowledge, a major challenge faced by HR management in the post-acquisition stage is addressed. It is further important to mention that successful knowledge transfer has been highlighted as a key challenge faced by EMNEs, including Chinese MNEs, in regard to their operations, and particularly to any M&As they undertake (Ai & Tan, 2020; Khan *et al.*, 2019). In this context, scholars have suggested that EMNEs should adopt positive leadership and HRM practices, which may reduce any resistance and motivate the acquired firm's employees to assist in the transfer of capabilities, wherein the sharing of tacit knowledge is of paramount importance (e.g., Ai & Tan, 2020; Cooke *et al.*, 2020). Hence, it is logical to expect that employee willingness to share tacit knowledge will potentially strengthen the positive relationship between knowledge transfer and M&A performance. Based on this discussion, we hypothesized that:

H8. Acquired firm employee willingness to share tacit knowledge moderates the relationship between knowledge transfer and M&A performance. Specifically, the positive impact of knowledge transfer on M&A performance is greater in the presence of greater acquired firm employee willingness to share tacit knowledge.

Research Methodology

Research context

Most extant M&A theories developed over the past 100 years have been aimed at understanding firms from developed countries (Cooke & Huang, 2011; Zhu & Zhu, 2016). China has been recognized as a powerhouse in relation to engaging in M&As in global markets and presents evidence suited to the understanding of hitherto unexplored practices (Li *et al.*, 2019; Oliveira & Rottig, 2018). This research context is suited to provide a specific perspective of M&As from emerging to developed economies. During the 2007-2008 financial crisis, a Chinese State-Owned firm acquired a UK semiconductor one. Over the past ten years, resources and information have been exchanged between these firms. In this research, we focus on the acquired firm's employees' withdrawal behaviors and willingness to share tacit knowledge that affect knowledge transfer and M&A performance in an international context.

Research project design

As the data on employee withdrawal behaviors and willingness to share tacit knowledge during the post-acquisition stage were not publicly available, this study adopted a cross-sectional research design in order to collect information related to the acquisition of our sample UK firm. We opted for a structured questionnaire survey in order to collect primary data from the employees and managers of both the acquired and acquiring firms.

We designed a ten-page survey that tapped into three major dimensions: the pre- and post-acquisition phases and acquisition performance. Our intention was to measure the levels of employee withdrawal behaviors and willingness of sharing tacit knowledge affecting knowledge transfer and, subsequently, M&A performance by means of a Likert Scale. We collected our survey data in two phases between 2017 and 2018.

During Phase I, which began in August 2017, we first contacted the acquired firm's HR office to explain the study's nature and expected benefits, and warranted for its confidentiality. The HR personnel helped us by asking the employees whether they would be willing to cooperate. We then sent those who responded positively an online survey link; specifically, our UK respondents included managerial board members and engineers locally employed by the acquired firm and on transfer from the acquiring one. We managed to contact around 40 employees to reemphasize the nature of the study and to ensure them about the confidentiality of

their data. These contacts played an important role in helping increase the response rate. We also used email, Wechat, and phone calls to regularly promote the survey. Out of 350 employees who had received the survey questionnaire, we collected 71 responses over four months.

During Phase II, which ran from February 2018, we reviewed the original questionnaires and translated the questions consistently into Chinese for the benefit of the respondents from the acquiring firm in China. In order to identify a clear structure of samples in the massive Chinese State-Owned acquiring firm, we closely consulted with its Strategy Development department. We then sent an online survey link to the Chinese senior officials who had been involved in the acquisition and/or post-acquisition management. By means of Wechat, phone calls, mobile messages, and emails, we managed to contact 61 out of 100 individuals to explain our research project and to ensure them of confidentiality. Of these, 44 agreed to respond. Due to issues linked to their positions and information disclosure, only 32 questionnaires were returned over six months.

Therefore, a total of 103 questionnaires, which contained sufficient information for our analysis, were returned. Considering the difficulties linked to obtaining responses from the senior officials in the acquiring firm (Cycyota & Harrison, 2006; Harzing, 1997) and the response rates recorded for acquiring firm top managers in other M&A studies, our 22.9% final response rate was regarded as reasonable (for response rates in Asian contexts, see, e.g., Mudambi *et al.*, 2014; for European ones, see, e.g., Melkonian *et al.*, 2011 and Rabbiosi & Santangelo, 2013).

Measurement of variables

The concept of *trust* was developed by Mayer et al. (1995). In our study, trust was measured by means of eight items adopted from Stahl *et al.* (2011) on a scale that ranged from 1 = *strongly disagree*, to 7 = *strongly agree*. Some of the items were: “The management team of the acquiring (Chinese) firm is capable of managing the acquired (UK) firm”; “The management team of the acquiring (Chinese) firm was able to meet the performance expectations of the acquired (UK) firm”; and “The management team of the acquiring (Chinese) firm would go out of its way to make sure the acquired (UK) firm would not be damaged or harmed in this acquisition”.

Employee Withdrawal was measured using five items adopted from Bouwen and Overlaet (2001) and Hambrick and Cannella (1993). The respondents were asked to indicate the level of each

form of emotional reaction they had experienced on a scale ranging from 1 = *not at all* to 7 = *very much*. The items were: a) Lack of motivation toward work, b) Increase in absenteeism, c) Decrease in productivity, d) Resistance to change, and e) Intention to quit the job.

Knowledge Transfer was measured using six items adapted from Capron (1999). Respondents were asked to indicate the extent to which the UK firm's knowledge had actually been transferred to the Chinese firm during the post-acquisition stage on a scale ranging from 1 = *not at all* to 7 = *very much*. The items were: a) General management expertise, b) Product innovation capabilities, c) Know-how in manufacturing processes, d) Sales and Marketing expertise, e) Supplier relations, f) Distribution and Logistics expertise.

Willingness to share tacit knowledge was measured using three items adapted from Choo (2000), Holste, and Fields (2010) and Davenport and Grover (2001). The items were: a) "I would allow employees of the acquiring (Chinese) firm to spend a significant amount of time observing me in order for them to better understand and learn from my work"; b) "I would willingly share with the employees of the acquiring (Chinese) firm rules of thumb, tricks of the trade, and other insights into the work of my office and that of the organization I have learned"; and c) "I would willingly share any new ideas with the employees of the acquiring (Chinese) firm".

Integration process communication was measured using four items adapted from Birkinshaw *et al.*, (2000) and Schweiger and Goulet (2005). The items were: a) "During the post-acquisition phase, a sufficient amount of information was communicated by the acquiring firm to those affected by the acquisition"; b) "During the post-acquisition phase, highly effective information was communicated by the acquiring firm to those affected in the acquired one"; c) "The acquiring and acquired firms communicated about each other's history and the general values and beliefs that defined them"; d) The acquiring and acquired firms communicated over the vision and strategy of the combined entity".

Cross border acquisition performance was measured by applying a subjective and an objective perspective, as used in Uzelac *et al.* (2016). Applying the subjective perspective entailed collecting data on four indicators of perceived success by asking for individual estimations and evaluations. Applying the objective perspective entailed collecting data on the quantitative profitability and key figures achieved. The average performance was then obtained as the mean of the two performance dimensions. The objective perspective included items such as the average Return on investment (ROI), the average Return on Equity (ROE), the average Return on Sales

(ROS), and the average Relative Firm Value. The respondents were asked to indicate how the above issues had changed in the acquired firm after the acquisition on a scale ranging from 1 = *strong negative change* to 4 = *no change*, to 7 = *strong positive change*. The subjective perspective included items such as: “On average, the set goals were reached”, “The transaction was the right entrepreneurial decision”, “The firm is better than before” and “Overall, the transaction was successful”. The respondents were asked to indicate whether they would agree with the above statements about the post-acquisition performance on a scale ranging from 1 = *strongly disagree* to 7 = *strongly agree*.

Addressing survey biases

We tested for non-response bias by comparing early and late respondents along a number of key descriptive variables (Ranft & Lord, 2000). The differences between the two groups were found to be not statistically significant, suggesting that non-response bias was not a major issue. To avoid any common method variance issues and the creation of pseudo relationships between variables by methodological and process artifacts, provisions were made against any consistency and priming effects following the recommendations made by Podsakoff *et al.* (2003). Furthermore, each variable was measured using a large number of items, such as eight items for trust and five for employee withdrawal. Finally, the presence of complex relationships, such as interaction, among dependent and independent variables that were unlikely to be part of the individual rater's cognitive map reduced the chance of common method variance effects (Chang *et al.*, 2010).

Statistical Analysis

We used SmartPLS version 3.0 to examine the statistical relationship between the variables in our conceptual framework (Hair *et al.*, 2012). The sample exceeded the minimum sample size for PLS analysis, ten times the maximum number of paths aiming at six constructs in the outer model for this research. We also conducted a T-test to compare early and late respondents and found no significant differences between the two groups (Armstrong & Overton, 1977).

We chose PLS (Partial Least Square) as a suitable analytic technique for our study for three reasons. First, PLS does not require assumptions about multivariate normality (Fornell & Bookstein, 1982). Second, a number of our variables had multiple indicators, and PLS weights

indicator loadings on constructs in the context of the theoretical model, rather than in isolation (Hulland, 1999). Finally, covariance-based structural equation models require very large samples to achieve good estimates of model parameters. Given our sample size ($n = 103$), the use of an analytical technique that maximized power while permitting the simultaneous estimation of path coefficients (Hulland, 1999) seemed prudent. In addition, PLS-SEM is used in research on M&As (e.g., Homburg & Bucerius, 2005; Tarba, Ahammad, Junni, Stokes, & Morag, 2019; Junni, Sarala, Tarba, & Weber, 2015) and on international marketing (e.g., Hair, Sarstedt, Pieper, & Ringle, 2012; Henseler, Ringle, & Sinkovics, 2009).

Results

The survey data were screened to check for outliers, out-of-range values, and missing data. We checked the reliability and validity of the variables used in our Partial Least Square – Structural equation model (PLS-SEM) path model. Table 1 reports the Cronbach’s alpha, composite reliability, and average variance extracted (AVE).

“Please insert Table 1 about here”

As Cronbach’s alpha tends to provide a major underestimation of the internal consistency reliability of latent variables in PLS-SEM path models, composite reliability is more appropriate measure (Henseler *et al.*, 2009, p. 299). Using the measure suggested by Fornell and Larcker (1981), we found that all composite reliability values exceeded the minimum threshold of 0.70 (Nunnally & Bernstein, 1994). Fornell and Larcker (1981) recommended using the AVE as a criterion for convergent validity. An AVE value of at least 0.50 suggests adequate convergent validity, meaning that, on average, a latent variable is able to explain more than half of the variance of its indicators (Gotz *et al.*, 2010). Table 1 shows that the AVE values for latent variables were found to be greater than 0.50.

“Please insert Table 2 about here”

Construct validity refers to the extent to which any variation in the endogenous latent variables is accounted for by the constructs. An indicator for construct validity is the R^2 . The R^2 on performance was found to be 0.544, meaning that our model explained approximately 54.4%

of the variance in overall acquisition performance. Please see Table 2 for the R^2 of the path model. In addition, we carried out discriminant validity tests, as reported in Table 3, and checked for collinearity issues, as reported in Table 4. The findings indicate no issues with discriminant validity and collinearity.

“Please insert Table 3 about here”

To test the hypotheses, a structural model was developed and tested using the SmartPLS 3.0 program. The path coefficients were produced using a bootstrapping procedure. SmartPLS 3.0 calculated the path coefficient estimates, with each path corresponding to one hypothesis. Table 5 shows the coefficient and p values for each path. The following section reports the findings for each path.

“Please insert Table 4 about here”

H1 predicted that trust negatively influences acquired firm employee withdrawal. The coefficient for trust was found to be negative and statistically significant ($\beta=-2.228$, $p<0.10$). The findings tend to indicate that a greater degree of trust in acquiring a firm would reduce the extent of acquired firm employee withdrawal from the merged organization. Therefore, we find support for the H1.

“Please insert Table 5 about here”

H2 proposed that integration phase communication negatively influences employee acquired firm withdrawal. The coefficient was found to be positive but statistically significant ($\beta=4.003$, $p<0.01$). This finding contradicts the argument presented in H2 on the basis of prior studies. Therefore, H2 was not supported.

H3 proposed that integration process communication moderates the relationship between trust and acquired firm employee withdrawal. The coefficient was found to be negative and statistically significant ($\beta=2.297$, $p<0.05$). The finding suggests that the influence of trust in reducing the extent of acquired firm employee withdrawal is greater in the presence of higher integration process communication. Thus, H3 was found to be supported.

The coefficient of employee withdrawal was found to be negative and statistically significant ($\beta=-0.737$, $p<0.01$). The findings suggest that the greater the extent of employee

withdrawal, the smaller the extent of employee willingness to share tacit knowledge. Conversely, the smaller the extent of employee withdrawal behavior, the greater the extent of employee willingness to share tacit knowledge. Therefore, the findings support H4.

H5 predicted that acquired firm employee willingness to share tacit knowledge positively influences the transfer of knowledge between the acquired and acquiring firm. The coefficient was positive and statistically significant ($\beta=0.452$, $p<0.01$). The findings support H5 and confirm that employee willingness to share tacit knowledge positively influences the transfer of knowledge.

H6 proposed that acquired firm employee willingness to share tacit knowledge negatively influences cross-border acquisition performance. The coefficient was found to be negative and significant ($\beta=-0.479$, $p<0.01$). The findings suggest that acquired firm employee willingness to share tacit knowledge has a direct but negative impact on cross-border acquisition performance. Thus, hypothesis 6 was found to be supported.

The coefficient for knowledge transfer and cross border acquisition performance was found to be positive and statistically significant ($\beta=0.287$, $p<0.01$). The findings provide strong support for H7 and indicate that the greater the extent of knowledge transfer, the better will be the performance of the cross-border acquisition. Finally, H8 proposed that the association between knowledge transfer and cross border acquisition performance is moderated by acquired firm employee willingness to share tacit knowledge. The coefficient was found to be positive and statistically significant ($\beta=0.206$, $p<0.05$). Thus, H8 was supported.

Discussion

In the context of Chinese cross-border acquisitions, limited research had hitherto examined the determinants of employee withdrawal and its consequences on employee willingness to share tacit knowledge, on knowledge transfer, and on cross-border acquisition performance. Our paper contributes to the performance management literature by unlocking the mechanisms elucidating the linkage between HRM and performance. Specifically, our paper demonstrates that acquired firm employee withdrawal behaviors influence their willingness to transfer tacit knowledge which, in turn, impacts the transfer of knowledge and cross border acquisition performance. Our paper responds to the call, made by Peccei & Van De Voorde (2019), to adopt a multilevel perspective by enhancing our understanding of the processes

through which HRM systems affect outcomes at different levels of analysis in the context of cross-border acquisitions. Our paper examines the determinants of acquired firm employee withdrawal (HRM-related performance measure) and its impact on the willingness to share tacit knowledge, which, in turn, impacts the transfer of knowledge and cross-border acquisition performance (an organizational level performance measure).

Our paper also contributes by examining the impact of trust and communication on acquired firm employee withdrawal during the post-acquisition phase. Our paper also contributes by investigating the role played by acquired firm employee withdrawal on the willingness to share tacit knowledge—an area hitherto underexplored in the prior literature. Moreover, our paper extends the literature on the transfer of knowledge by examining the direct and moderating impact of the willingness to share tacit knowledge on knowledge transfer and cross border acquisition performance. Finally, our paper contributes by examining the relationship between knowledge transfer and cross border acquisition performance in the context of a Chinese acquisition in the UK.

Our findings indicate that acquired firm employee trust in the acquiring firm significantly influences the extent of acquired firm employee withdrawal during the post-acquisition phase. A greater degree of trust in the acquiring firm is a significant determinant of acquired firm employee withdrawal. This finding supports the theory of reasoned action (Ajzen & Fishbein, 1980) and confirms that acquired firm employee withdrawal behavior is greatly influenced by the degree of trust in the acquiring firm. Our findings also provide strong support for the moderating role played by communication in the relationship between trust and acquired firm employee withdrawal. This finding provides new insights into the determinants of acquired firm employee withdrawal and extends the literature on acquired firm employee withdrawal in the context of cross border acquisitions.

Our findings indicate that acquired firm employee withdrawal has a major influence on the willingness to share tacit knowledge, which, in turn, influences the knowledge transfer between the acquired and acquiring firms and cross border acquisition performance. The findings of our paper are consistent with those of Ahammad *et al.* (2016) and Sarala *et al.* (2016), and suggest that knowledge transfer has a positive impact on cross-border acquisition performance.

Our paper provides two counter-intuitive findings. The first concerns the direct impact of communication on acquired firm employee withdrawal behaviors. Strikingly, we found a

statistically significant but negative relationship between communication and acquired firm employee withdrawal, which contradicted our hypothesis. This could be explained by the fact that the Chinese and UK firms communicated in regard to each other's history and their general values and beliefs, as well as in relation to the vision and strategy of the combined firm, as planned by the Chinese acquiring firm. Such detailed communication had clearly highlighted the organizational and cultural differences between the Chinese and the UK firm. Consequently, the acquired firm employees may have expected possible clashes with the acquirers, which had caused them to be less engaged in supporting the integration process. Thus, the acquired firm employees had been less engaged and motivated once they had learned about the acquiring firm's vision, strategy, and history.

The second counter-intuitive finding is associated with the direct impact of the willingness to share tacit knowledge and cross-border acquisition performance. In Phase I, we had sent questionnaires to the UK based employees, both locally employed and Chinese transferred managerial board members and engineers. There was a large probability of most of the respondents being engineers, as the number of board members in the whole sample/population was quite small. These engineers, both the locals and the transferred ones, were knowledge holders who were engaged in interactive communications to transfer tacit knowledge. They were the respondents best suited to express whether or not there was a willingness to share knowledge. The willingness of engineers to engage and share tacit knowledge does not necessarily have a positive impact on M&A performance due to the presence of other factors.

First, a rather large percentage of local British employees had been working in the acquired company for a long time. For instance, based on the data collected from the company website, we found that the acquired firm's CEO and CFO had been working together for more than 30 years in the same company. This indicated that the acquired firm had been strongly embedded in the autonomy of a local management team. Therefore, when such autonomy had been infringed or at least interrupted by a new management mechanism, the members of the management team had been worried about their job security. This explains why the local management team members' daily practices and responses had not seemed to be very consistent. On one hand, the management team members were showing their willingness to support the transfer of knowledge. On the other, they did not seem to have responded positively when the

acquiring company had offered them an opportunity to invest in further expanding the office buildings in order to accommodate more employees and in upgrading an extant production line.

Secondly, the business reconfiguration that had taken place during the post-acquisition stage had also affected business performance financially. On one hand, the acquiring company had strategically planned for the acquired company to focus on enhancing its research and development center due to the close geographic proximity with the universities and advanced technologies found in developed economies. The research and development center would increase costs, instead of bringing additional income. On the other hand, the acquiring company had also downsized the UK site's manufacturing output, relocating it to China due to cheaper costs. Therefore, this had directly and negatively affected the financial performance of the acquired company.

Conclusions

Our article has presented an empirical investigation of the determinants of acquired firm employee withdrawal and of its consequences on the willingness to share tacit knowledge, on knowledge transfer, and on cross border acquisition performance in the context of a Chinese acquisition in the UK. While acquired firm employee withdrawal has received attention in business management and organizational behavior research, our current understanding of the determinants of acquired firm employee withdrawal in the context of cross border acquisitions is still underexplored. Such oversight is particularly glaring in the context of emerging market firms, given that these firms are aggressively expanding into foreign markets by mostly acquiring developed markets' firms. Therefore, the findings of the extant studies mainly conducted in the context of developed markets' firms cannot be easily generalizable in the context of emerging markets' acquirers. Moreover, we have limited understanding of how and when acquired firm employee withdrawal influences the willingness to share tacit knowledge, knowledge transfer, and the performance of cross border acquisitions. Thus, one of the important contributions of our study lies in its examination of the impact of trust and communication on acquired firm employee withdrawal. Our paper contributes by examining the consequences of acquired firm employee withdrawal on the sharing of tacit knowledge, on knowledge transfer, and on cross-border acquisition performance.

Our findings have important implications for practice. From a management perspective, our study indicates that acquired firm employee withdrawal behaviors are probably better addressed by enhancing trust in the acquiring firm. The management of acquiring firms could engage in several actions aimed at building trust and eliciting the commitment of their acquired firms' employees. Initial staff exchange visits and socialization could play vital role in developing trust. In particular, attempting to improve integration process communication, and providing adequate support for those who could be negatively affected by a takeover could go a long way toward building trust and securing the commitment of the acquired firm's employees. In the context of UK subsidiaries, acquiring firms should take care in dealing with the original acquired firm management teams, who may feel that their managerial autonomy had been disrupted by the acquisition. Unlike floor staff members, they have different concerns about acquisitions, ranging from reduction of power, to loss of control, to diversion of authority. It would be necessary to encourage interactions between the acquired and acquiring firms' staff members, but it would be equally important to ensure that the original management teams were adequately engaged with, from a communication point of view, for support. Our findings also suggest that acquired firm employee willingness to share tacit knowledge is strongly associated with integration process communication. If communication with the subsidiary management team is not adequate, acquired firm employee willingness to share knowledge may be discouraged, and the sharing of knowledge would not go smoothly. Based on this study's findings, we conclude that it is important to try to convince or convert the acquired firm management teams to work as closely as possible with the acquiring firm, rather than leaving them alone to self-manage.

As with any study, our study has limitations, which offer important directions for future research. As its findings are based on a single case study, there are possible concerns regarding their external validity—i.e., their generalizability. This suggests the need to exercise caution in interpreting the case survey findings. Any future research conducted using this methodology should try to increase the number of M&A cases examined to enable comparisons across industries, nations, and other contexts. In addition, the temporal dimension of trust should be explored. Prior research on organizational trust suggests that it changes over time; developing, deteriorating, and sometimes resurfacing in long-standing relationships (Lewicki et al., 2006). A better understanding of trust in acquisitions could possibly be achieved by considering how it is built incrementally and sustained over time. In this case, future researchers could carry out

longitudinal studied aimed at examining the relationship between trust and acquired firm employee withdrawal behaviors, and to capture the dynamics of trust over time. Moreover, future researchers could examine the trust building process in the context of cross border acquisitions carried out by firms from emerging markets. In addition, besides the integration process communication, the relationship between trust and employee withdrawal behavior could be moderated by other factors such as autonomy granted and perceptions of justice. Thus, future researchers should examine the moderating role played by autonomy and justice in explaining the relationship between trust and acquired firm employee withdrawal behaviors. Merging entities bring different types of diversity, thus future studies could pay greater attention to different types of diversity, and how it potentially affects employees' conflict, withdrawal behavior and M&A performance outcomes. Lastly, employees may vary in their responses to foreign-based acquisitions depending on their personalities, beliefs, experiences, and roles in the organization. Future studies could examine whether the extent of trust varies depending on such individual factors.

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Figure 1: The conceptual Framework

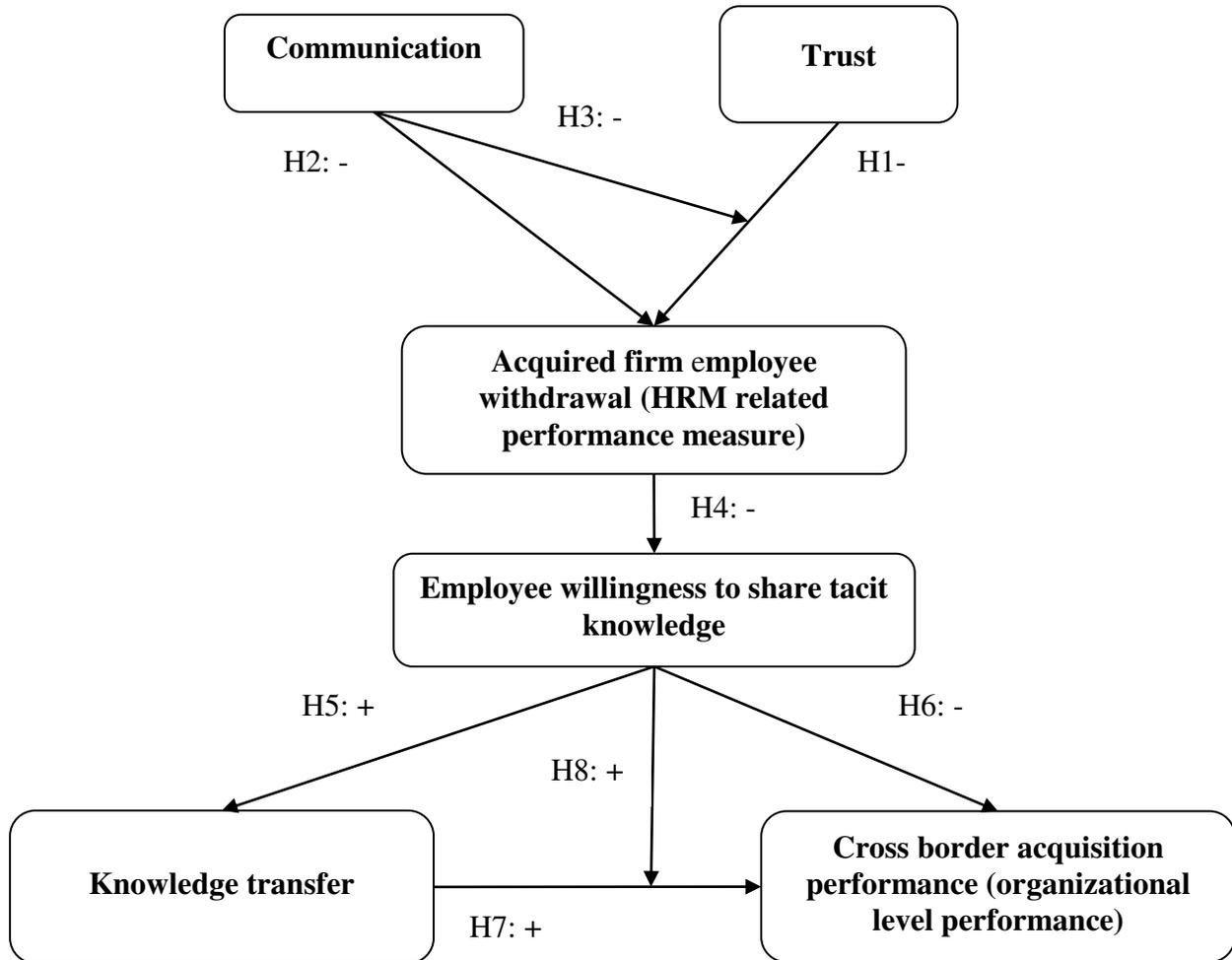


Table 1: Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Employee withdrawal from acquired firm	0.889	0.943	0.923	0.753
Integration Process Communication	0.944	0.951	0.960	0.856
Knowledge Transfer	0.892	0.904	0.917	0.648
Knowledge Transfer x Willingness to share	1.000	1.000	1.000	1.000
M&A Performance	0.929	0.938	0.942	0.701
Trust	0.908	0.867	0.918	0.696
Trust x Communication	1.000	1.000	1.000	1.000
Willingness to share tacit knowledge	0.911	0.915	0.944	0.849

Table 2: R Square

	R Square	R Square Adjusted
Acquired firm employee withdrawal	0.302	0.281
Knowledge Transfer	0.205	0.197
M&A Performance	0.295	0.274
Willingness to share tacit knowledge	0.544	0.539

Table 3: Discriminant Validity - Fornell-Larcker Criterion

	1	2	3	4	5	6	7	8
1. Acquired firm employee withdrawal	0.868							
2. Integration Process Communication	0.440	0.925						
3. Knowledge Transfer	-0.359	0.058	0.805					
4. Knowledge Transfer x Willingness to share	0.188	0.391	0.194	1.000				
5. M&A Performance	0.312	0.774	0.115	0.350	0.837			
6. Trust	0.180	0.729	0.359	0.163	0.630	0.834		
7. Trust x Communication	-0.434	-0.374	0.137	-0.017	-0.341	-0.153	1.000	
8. Willingness to share tacit knowledge	-0.737	-0.401	0.452	-0.139	-0.381	-0.145	0.449	0.922

Table 4: Collinearity Statistics (VIF)

	1	2	3	4	5	6	7	8
1. Employee withdrawal from acquired firm								1.000
2. Integration Process Communication	2.509							
3. Knowledge Transfer					1.373			
4. Knowledge Transfer x Willingness to share					1.113			
5. M&A Performance								
6. Trust	2.210							
7. Trust x Communication	1.205							
8. Willingness to share tacit knowledge			1.000		1.347			

Table 5: Partial Least Square (PLS) Path model

	Coefficient	Standard Deviation	T Statistics	Hypothesis
H1: Trust → Acquired firm employee withdrawal	-0.228	0.130	1.750*	Supported
H2: Communication → Acquired firm employee withdrawal	0.501	0.125	4.003***	Not Supported
H3: Trust x Communication → Acquired firm employee withdrawal	-0.277	0.121	2.297**	Supported
H4: Acquired firm employee withdrawal → Willingness to share tacit knowledge	-0.737	0.052	14.282****	Supported
H5: Willingness to share tacit knowledge → Knowledge Transfer	0.452	0.095	4.765***	Supported
H6: Willingness to share tacit knowledge → M&A Performance	-0.479	0.098	4.880***	Not Supported
H7: Knowledge Transfer → M&A Performance	0.287	0.098	2.945***	Supported
H8: Knowledge Transfer x Willingness to share tacit knowledge → M&A Performance	0.206	0.097	2.115**	Supported

N = 103, p-values for 2-tail test; ****p < 0.01, **p < 0.05, *p < 0.10