

Study: Retaining talent is paramount for successful firm acquisitions

March 5 2018

A recent UT Dallas study found that when acquiring firms avoid the exodus of scientists from the target firms, their likelihood of creating highly impactful knowledge increases.

Acquisitions are common business transactions, especially in technology firms, where they are a quick way to acquire new technology or people. Large technology firms may acquire dozens of smaller companies every year.

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Dr. H. Dennis Park of the Naveen Jindal School of Management is an author of the study, which was published in the *Journal of Management Studies*.

"Many technology firms acquire another firm, not only to get the assets from that firm, but to get the technology that they have developed and to acquire the talent that they have—the people who invented the technology," said Park, associate professor of organizations, strategy and international management. "To develop new technology from scratch is prohibitive for most firms, so when they need to catch up with new technology, the quickest thing they think of is to acquire a small firm and integrate them."

However, many [acquisitions](#) end as failures. Most scholars agree that about 70 to 80 percent of acquisitions end up destroying value, Park said.

Park and his co-authors set out to determine what type of technology and what type of people need to be brought together to make an acquisition successful.

The researchers explored how the retention of target firm scientists and acquired knowledge characteristics affected new knowledge creation outcomes for the acquiring firms. Using a sample of more than 111,000 patents following 301 high-tech acquisitions from 1990-2000, they examined if the firms filed new patents, created breakthrough knowledge and retained engineers.

The study looked at two different types of knowledge: tacit and explicit. Park said that while tacit knowledge is not easily explained, like how to ride a bike, explicit knowledge can be codified, such as how to develop a chemical component for a drug.

The study found that when tacit knowledge is acquired, it is difficult to absorb the knowledge without the people who invented it.

"There's no manual on how to develop the technology, and even if the acquiring firm has the technology and can use the technology, they're not going to be able to use it to develop subsequent technology," Park said.

As a result, retaining target scientists is particularly important when the knowledge is very complex, but less so when the knowledge is similar to that of the existing knowledge of the acquiring firm.

"If you have redundancy in the [knowledge](#), you're going to have a lot of politics between the target firm and the acquiring firm," Park said,

leading to "not-invented-here" syndrome, a term referring to the common occurrence of acquiring-firm scientists refusing to use or build upon technologies developed elsewhere.

Many times after an acquisition, the target firm engineers leave the company. One way for acquiring firms to alleviate this problem is to have the engineers sign a contract that prohibits them from quitting soon after the acquisition.

It's essential for high-tech [firms](#) to remember that even if they are acquiring another company because of its technology, they have to remember the importance of its people, Park said.

"Technology doesn't typically stand on its own," he said. "Most technologies out there have to be brought in together with the people who invented the technology. The companies have to retain those engineers. At the end of the day, [technology](#) and people have to go together."

More information: Haemin Dennis Park et al. The Impact of Knowledge Worker Mobility through an Acquisition on Breakthrough Knowledge, *Journal of Management Studies* (2017). [DOI: 10.1111/joms.12320](#)

Provided by University of Texas at Dallas

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