

# **EFFECT OF KNOWLEDGE UTILIZATION ON ENTREPRENEURIAL FIRM PERFORMANCE: A CRITICAL ANALYSES OF MERGERS AND ACQUISITIONS AS ENABLERS OF ENTREPRENEURIAL FIRMS' COMPETITIVENESS**

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## **Abstract**

*“Mergers and acquisitions are the key to an organization's strategic development of knowledge. The foregoing is a critical evaluation of the above statement using desk research to gather academic literature and current business examples on the topic. The paper critically evaluates the effect of knowledge utilization on entrepreneurial firm performance. It is organized under the sub headings of: importance of entrepreneurial organizations, organization's strategic planning, Mergers and acquisitions as strategies for organizational competitiveness, Knowledge acquisition through mergers and acquisitions, knowledge utilization as a driving tool for competitive advantage, critical analysis and conclusions and recommendations. From the analyses, it is clear that Mergers and acquisition arrangements are used for Knowledge acquisition and utilization as well as for creating and securing of new markets. Reduction of cost pressures and utilisation of economies of scale emerged as some of the other importance of mergers and acquisitions. The paper concludes that organisational knowledge is a strategic capability which if well managed would lead to “innovative products or processes, organisational profitability and competitiveness”; and recommends a balanced utilisation of the knowledge systems' key resources (people, processes and technology) for effectiveness*

**Key Terms:** Acquisition, Entrepreneurial firms, Innovation, Mergers

## Introduction

Hisrich (1990) defined an entrepreneurial firm as an undertaking, business or organization that demonstrates initiative and creative thinking, is able to organize social and economic capital to turn resources and situations to practical account for business purposes, and whose ownership is ready to accept risks and failure. An acquisition occurs when one larger organization pays money to buy another (often smaller) organization with the aim of owning the smaller organization (Henry, 2011). In so doing, the larger organizations is able to fast track entering into new markets as well as expand the range of its products. Examples of such arrangements were Asda with WalMart, and Kraft with Cadbury

Innovation refers to any good, service, or idea that is perceived by someone as new regardless of whether it has a history with someone else (Kotler, 2011). Innovations are geared towards delighting clients and improving organizational performance (Kotler & Armstrong, 2012). Innovations involve development of new products or production processes to improve operations (Lawrence, 2010). On the other hand, Knowledge has been described as the “awareness, consciousness or familiarity gained by experience or learning” (Johnson and Scholes, 2002). According to Organisation for Economic Cooperation and Development, OECD (2018), economic growth of a nation is dependent on the quality, quantity and accessibility of the information available, rather than the means of production” (OECD, 2018)

According to Henry (2011), a merger “occurs when two organizations” voluntarily come together to use their “combined resources” for business purposes. These arrangements are usually driven by financial pressure and survival for synergistic benefits. In so doing, they make use of economies of scale which are very effective in penetrating the market and for business expansion, increased sales and profits as well as for reduction on overall costs. This arrangement normally results to “shared resources, knowledge and core competencies” and help in “meeting global customer needs” (Henry 2011). Examples of global mergers are Daimler and Chrysler.

After introducing the key terms to be used, the paper now looks at the importance of entrepreneurial organizations globally

## Importance of entrepreneurial organizations

According to kihonge (2014) entrepreneurial firms “play a significant role in the development and growth of various economies”. They act as “engine of economic growth” and “catalysts for socio-economic transformation of any country” (kihonge, 2014) Entrepreneurial firms “*represent the pathway to achievement of national economic growth, employment creation and poverty reduction at low investment costs as well as development of entrepreneurial capabilities including indigenous technology*” (Guday et al., 2011). Benefits of the vibrant entrepreneurial firms include “*access to infrastructural facilities occasioned by existence of the firms in the vicinity, stimulation of economic activities such as suppliers of various items and distributive trades for items produced or needed by firms*” (Guday et al., 2011; Lacka, I., 2017). According to Kiraka (2013), the impact of entrepreneurial firms is higher in unindustrialized markets. These firms hold the ultimate potential of encouraging economic growth, private enterprise and employment (OECD, 2018). Kenyan entrepreneurial firms are stated to have added 50% of all new jobs created (Bowen, morara and Mureithi 2009) while in Uganda, these firms contribute 75% of the nation's GDP.

## Statement of the problem

It is widely published that entrepreneurial firms are important in development and growth of various world economies. It is also in the limelight of many that there is the ever increasing mergers and acquisitions of entrepreneurial firms the world over.

Development in ICT and governments' endeavour to provide the ever needed information on markets and other strategic issues for entrepreneurial firms performance is also expected to give assurance of entrepreneurial firms survival and growth. However, despite all these, studies show that majority (over 70%) of entrepreneurial firms do not live to enjoy their third birthday. Even those who remain are maimed with myriads of problems ranging from financing to marketing to human resources

## Research objectives

This study investigated the Effect of Knowledge utilization on Entrepreneurial Firms' Performance. Its specific objectives were: i. To find out how mergers and acquisitions enhance knowledge acquisition by entrepreneurial firms and ii. To investigate how knowledge acquired enhance entrepreneurial firms' competitiveness

## **Justification**

Findings from the study are expected to aid the government in formulating good policies to assist in knowledge acquisition, assist practicing entrepreneurs to perfect their business operations and to enable academicians and researchers to find new knowledge to rely on while conducting further research on the SME sector

## **Theoretical orientation and informing literature review**

Strategic planning has been defined as the “process of analyzing both the internal and external environment” of the organization in order to “identify and implement a strategy that can lead to a sustainable competitive advantage” (Jurevicius O., 2013). However, according to Slyke V. et al (2018), Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. A strategic plan deal on the whole business as opposed to isolated business units and the planning process consists of three steps (situation analysis, objective formulation, and implementation with continuous evaluation (Slyke V. et al (2018))). Typically, strategic planning process is the analysis of the current situation followed by defining the future state, then developing objectives and strategies to achieve the vision, and finally implementation and assessment of the plan (Virtual Strategist, 2012). The entire process consists of between seven and 30 steps depending on the Organization's culture, its leadership style and the experience the firm has in creating successful strategies (Virtual Strategist, 2012).

## **Need for strategic planning for entrepreneurial firms**

It is expected that entrepreneurial firm managers would prepare their own strategic plan. Developing these plans should help the manager and his team have a recap of where they are, where they want to go, and finally how they should reach there. In absence of a plan, there is generally no direction or priority of activities. According to Public Management Review (2018), strategic plan is very vital for managers when leading an organization during these times of increasingly volatility, uncertainty, complexity, and ambiguity business environment (Slyke, 2018), and equally important is building collaborative relationships (strategic alliance, mergers and acquisitions). According to Morrison (1998), “the process of entrepreneurship is much more holistic and dynamic in nature”, and, involves continuously scanning the environment to be abreast with the current information (knowledge). Thus, “at the heart of entrepreneurs is persistent search for opportunities and their efforts to marshal resources needed to realize their goals” (Morrison 1998); and which calls for continuous strategic planning.

Having looked at the need for strategic planning for entrepreneurial firms, the paper now analyses how mergers and acquisitions assist entrepreneurial firms acquire strategic competitiveness

## **Mergers and acquisitions as strategies for organizational competitiveness**

According to Johnson, Scholes and Whittington (2008), “A strategic collaboration is where two or more organisations share resources and activities in order to pursue a strategy in realisation that resources are more easily available through co-operation than individual ownership”. Alliances based on knowledge sharing are often more sustainable than those based only on physical product. The exchange of knowledge and information is often central to success. Twarowska K. and Kąkol M. (2013) observed that “Companies engage in strategic collaborations for growth or to access to new markets, which in turn help in diversification and business expansion”

Strategic collaborations in form of mergers and acquisitions have had a period of slowdown in the 90's but have been rising in the recent past, with a number of industry sectors consolidating around key players such as the supermarket industry, automotive and the banking sector. They have been shaped by peaks and troughs influenced by external factors like deregulation of industries, liberalization of economies such as in Eastern Europe, economic slowdown like it has happened in the banking sector as well as the growing economies such as those of China and India among others (Dolphin R.,2003)

Once in the new market, companies in the Mergers and acquisition arrangements are able to benefit from access to lower costs and more plentiful resources (including labour, capital and knowledge), access to larger, richer, more sophisticated markets, exploiting the advantages they already have in their home markets (e.g. Economies of Scale) as well as developing new assets from foreign locations.

Having analysed how mergers and acquisitions act as entrepreneurial firm's competitive strategy, we now look at how the collaboration assist in knowledge acquisition

### Knowledge acquisition through mergers and acquisitions

Knowledge acquisition among mergers and acquisitions may be summarised in the words of Etienne Wenger (2006) as *'Communities of practice are groups of people who share a concern or a passion for something they do and who interact regularly to learn how to do it better.'* (2006). From this, we can deduce that Knowledge can be acquired by collaborating organizations through interactions, formally or informally.

Nevis et al (1995) observed that knowledge is crucial in the entire organisation and identified three stage organisational competences as Knowledge Acquisition which consists of development of insights and skills by individuals, Knowledge Sharing which may be a social process or formal procedure and Knowledge Utilisation which is the integration of learning to make it available to new situations. According to Nevis, these organisational competences “form a framework for defining intellectual organisational capital”, and “consists of human capital (skills of individuals and groups), structural capital which is the value of systems and intellectual property, and customer capital which is the value of external relationships” (Nevis et al., 1995).

David L, (2014) defined socialisation as the “process of sharing experience between individuals and allowing them to acquire tacit knowledge from others without a formal system or use of language,” such as in apprenticeship. According to David (2014), externalisation is seen as the “process of articulating tacit knowledge into explicit concepts through metaphor, analogy, model building and other such methods (David L, 2014). When these two methods are combined, they form a “knowledge system” which links separate bodies of knowledge. On the other hand, Davenport et al (1998) summarised the three approaches to organisational knowledge management as the creation of knowledge repositories(central information resources), improvement of knowledge access and enhancement of the knowledge environment through provision of incentives to use and share knowledge (often underpinned by strong norms of behaviour and organisational culture)

Having analysed how the collaboration assist in knowledge acquisition, the paper looks at how knowledge utilization act as a driving tool for competitive advantage of entrepreneurial firms.

### knowledge utilization as a driving tool for competitive advantage

Johnson and Scholes (2002) defines Knowledge as the “awareness, consciousness or familiarity gained by experience or learning”. According to Organisation for Economic Cooperation and Development, (OECD) , economic growth of a nation is dependent on the quality, quantity and accessibility of the information available, rather than the means of production” (OECD, 2018); which serves true for organisational profitability and competitiveness. Henry (2011) identified two types of knowledge as explicit knowledge and tacit knowledge. According to Henry, explicit knowledge is revealed through communication and easily transferred while Tacit Knowledge can be hard to structure. He therefore concludes that tacit knowledge can be difficult to capture and difficult to manage (Henry, 2011). Nonaka and Takeuchi (1995) on the other hand observed that “explicit knowledge is codified, and that it is transmitted through formal systematic language” while “tacit knowledge is personal, context specific and therefore hard to formalise and communicate”. The two finally agrees that “knowledge is key to sustainable competitive advantage and that knowledge which is tacit and embedded in the routines and culture of an organisation is difficult to imitate; and that sustainable competitive advantage is more achievable where organisations are adept at knowledge creation” . The following table shows the ways in which knowledge can be shared.

**Knowledge Creation**

	<i>Tacit</i>	<i>Explicit</i>
<i>Tacit</i>	<i>Socialisation</i>	<i>Externalisation</i>
<i>Explicit</i>	<i>Internalisation</i>	<i>Combination</i>

Nonaka & Takeuchi (1995)

Where organizations face similar problems frequently, they may use Knowledge codification to assemble its employees on temporary bases to look into problems affecting them in order to arrive at their solutions. Solutions generated from these circumstances will then be documented for archiving purposes (for knowledge creation). The Crucial Characteristics of these meetings will be in form of the domain, which is the identity defined by a shared domain of interest, the community or organisations which bring out the joint activities and discussions, developing relationships to help learn from others and the practice there in, formal or informal.

According to (Henry, 2011) organisational knowledge consists of market insights which is the greatest value that a customer puts into an organisation; competitive intelligence which gauges new entrants or substitute products in relation to company products; technological expertise which has been known to lead to innovative products or processes and knowledge of available resources as deduced from political, economic, scientific and technological (PEST) factors. Organisational knowledge is a strategic capability which has to be managed well for effective utilization. It is an “intangible organisational resource” whose management depend on the assumption that “knowledge like any other asset can be stored, measured, and moved around in an organisation” (Empson, 2000). According to Peter Drucker, organisational knowledge is “Related to *Intellectual Capital* which is an intangible resource that may underpin the competitiveness of an organization in a knowledge based economy”. (Drucker, 1969).

Having looked at knowledge utilization by Mergers and acquisitions, the paper now critics the findings in relation to various scholars and the writer's personal views

## Methodology

The paper is a critical evaluation of the Effect of Knowledge utilization as enablers of entrepreneurial firms' competitiveness. It uses desk research to gather academic literature and current business examples on the topic. Desk research, also known as secondary research is a common approach to a systematic investigation in which the researcher depends solely on existing data in the course of the research process. This research design involves organizing, collating and analyzing these data samples for valid research conclusions.

## Critical Analyses

Mergers and Acquisitions have been popular in that “they create and secure new markets, reduce cost pressures and create higher economies of scale” (Mische, 2001). According to Mische, (2001), these arrangements are known to “collapse and compress supply chains, create global organizational integration, facilitate access to resources and competences, avail common equity shares on publicly traded stock exchanges as well as open corporate governance of boards of directors” (Mische, 2001). However, these are not the only arrangements which can assist organisations to achieve these goals, and there are many others which a company can equally choose from. According to Terpstra V. and Sarathy R. (2001), there are two types of collaborations which are classified as “*either non-equity mode and which include export, mergers and other contractual agreements or the equity mode, which includes joint venture, acquisitions and wholly owned subsidiaries*”. Zeroing in on mergers and acquisitions fall short of the entire collaborations

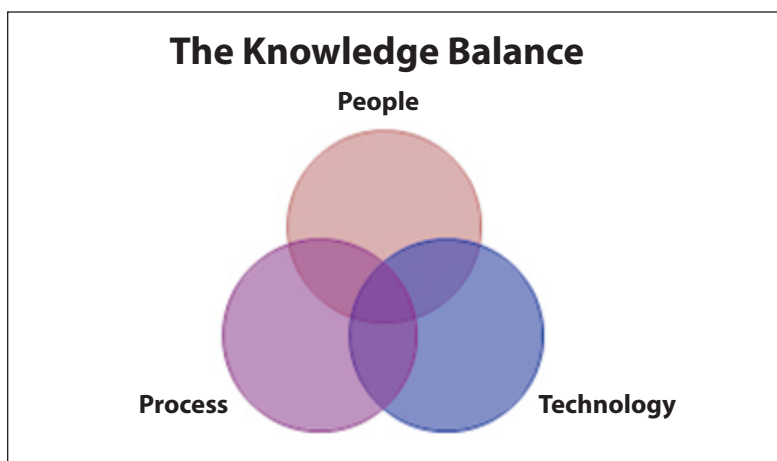
While deciding on whether to form a merger or an acquisition, the company should look at and develop its strategies based on corporate purpose and aspirations eg. to maintain “a global leadership positions” (New York, 2019), and its strategies should be directed at protecting and building corporate image, market penetration, market development as well as product diversification instead of blindly going to mergers or acquisitions.

Henry, (2011) warns that success of mergers and acquisitions has depended mainly on retaining the key managers or resources in the acquired company (Henry, 2011). For a company that is intending to form mergers and acquisitions, it should assess its resources and gauge whether it will be able to retain its human resource in the long run.

According to Angwin (2007), merges and acquisitions are induced by three key factors as: economic, summarized in terms of economies of scale, bargaining power of the organizations involved and the applicability and efficiency of the supply chain; financial which consists of asset stripping, improvement of shareholder's wealth; and Strategic importance which involves elimination of competition, improvement of diversity of business and entry into the industry. If these factors are not important in the organization's current scenario, then mergers and acquisitions may not be 'lucrative'.

For both mergers and acquisitions to be successful, Angwin (2007) suggests that a lot of investment is involved. This implies that a company with cash flow problems or those in their early stages of establishment would be signing their bankruptcy certificate if they dare enter into these arrangements

Other studies (Bowen, M.,2009; Beck J., 2005 &Ovidijus j., 2013) suggest that Mergers and acquisitions do not offer guarantee for strategic development. Their financial results are normally negative and their human aspect of merging is easily overlooked (Angwin ,2007). Finally, for effectiveness in the utilisation of knowledge, there should be a balance between people, process and technology as seen in the following diagram; and many a times is when human aspect is ignored or overlooked (Angwin ,2007).



*Adapted from Callison & Parcell, 2004*

### Summary of the findings

The paper has discussed the importance of Mergers and acquisitions as strategies for organizational competitiveness and demonstrated how these arrangements are used for Knowledge acquisition and utilization. Creation and securing of new markets, reduction of cost pressures and utilisation of economies of scale emerged as some of the importance of mergers and acquisitions.

However, the study disagrees with the statement that “Mergers and acquisitions are the key to an organization's strategic development of knowledge”. This is because there are many other business arrangements such as licensing, subcontracting, and joint ventures which are equally capable of driving organizations to their strategic development of knowledge; and which are not reflected in the statement. This makes the statement not conclusive. Likewise, there are other considerations that an organization needs to consider before going for mergers or acquisitions such as cash flow issues and organizational corporate purpose and aspirations.

Concerning knowledge acquisition for business through mergers and acquisitions, socialisation and externalisation were seen as some of the ways of knowledge acquisition. The three stages of organisational competences were also identified as Knowledge Acquisition, Knowledge Sharing and Knowledge Utilisation; and importance of knowledge acquisition to drive organizations towards achieving their goals was equally demonstrated by the phrase “organisational profitability and competitiveness dependents on the quality, quantity and accessibility of the information available, rather than the means of production”. This statement was further qualified by a number of statements, among them: “Knowledge is key to sustainable competitive advantage”; and “organisation's competitive advantage is more achievable where organisations are adept at knowledge creation”, and “Where organizations face similar problems frequently, they may use Knowledge codification to bring people together on ad hoc bases to discuss problems and find solutions”. Finally, organisational knowledge was seen as a strategic capability which if well managed would lead to “innovative products or processes” (Jurevicius o., 2013), organisational profitability and competitiveness. In a nut shell, paper found out that Mergers and acquisition arrangements are used for Knowledge acquisition through interactions, formally or informally. They also help in collapsing and compressing supply chains, which are the source of monopolies and cartels that thrive from inadequate knowledge and information.

Knowledge acquired on the other hand assists in creating global organizational integration, facilitating access to resources and competences, creating and securing of new markets, Reduction of cost pressures and utilisation of

economies of scale. It also helps in protecting and building corporate image, market penetration, market development as well as product diversification which are all necessary for Entrepreneurial firms' competitiveness

## Conclusions

The paper concludes that “Knowledge is key to sustainable competitive advantage”; It is an organisation's strategic capability which if well managed would lead to access to lower costs and more plentiful resources, innovative products or processes, organisational profitability and competitiveness”. This organisation's competitive advantage is more achievable where organisations are adept at knowledge creation”. If well managed by entrepreneurial firms, Knowledge utilisation would lead to “innovative products or processes”, “organisational profitability” and “competitiveness”

## Recommendations

The study recommends that a balanced utilisation of the knowledge systems' key resources (people, processes and technology) for effectiveness should be adopted by entrepreneurial firms

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