Executive summary

Gaining access to externally created knowledge is often the driving force behind mergers and acquisitions (M&A). Despite the knowledge acquisition and learning opportunities that M&A provide, leveraging the benefits is often difficult to achieve due to organizational misfit and resulting challenges in the integration process. While the importance of embedding learning activities into post-acquisition is widely known, the flipside of learning – namely unlearning – is often neglected.

In this article, we spotlight the role of unlearning activities to reconcile organizational misfit during post-acquisition integration. We suggest three organizational misfit dimensions, which potentially impede M&A success. Furthermore, we suggest that post-acquisition integration is more than simply transferring knowledge from the acquired to the acquiring firm; it also involves the substitution and deletion of established but obsolete knowledge - that is, unlearning - to pave the way for new learning, to reconcile misfit during integration and, ultimately, to make M&A a success.
M&A are often pursued for knowledge acquisition purposes. However, the full benefits of M&A may not be realized due to organizational misfit.

**M&A failure due to organizational misfit and failure of post-acquisition integration**

Mergers and acquisitions (M&A) are important ways for firms to diversify and achieve inorganic growth. M&A may be pursued for a variety of reasons, for example, to expand into new geographies, to increase the scale of companies' operations or to gain access to knowledge that has been developed externally. An extended knowledge base can lead to significant advantages over competitors and increase speed to market.

The pharmaceutical industry provides good examples of M&A undertaken to access knowledge. With patents expiring and development costs soaring, many companies focus on acquiring external knowledge. In 2009, several large-scale transactions took place: Pfizer acquired Wyeth and Merck merged with Schering-Plough. Existing patents and R&D knowledge were important factors motivating those transactions.

Despite the learning opportunities that M&A provide, 50%-80% of companies report that performance falls short of original goals. One reason for this failure is organizational misfit, which influences the ease with which two organizations can be assimilated after an acquisition. While misfit can be assessed along a number of dimensions, differences in management styles and organizational systems have been specifically identified as hampering post-acquisition performance. Although previous research revealed important insights into the impact of various aspects of misfit on post-acquisition performance, to date, no systematic classification of misfit exists. We believe that an integrated framework is necessary for those ideas to be applied in post-acquisition integration.

While an analysis of organizational misfit prior to M&A is important, M&A success stems primarily from how the post-acquisition integration process is managed. A common reason for the under-performance of M&A integrations is that the management’s approach is often somewhat naïve, treating the transfer of knowledge from one organization to another as an automatic, effortless process and neglecting to consider how to dispose of old information – that is, to unlearn. Research, however, indicates that management needs to build into integration processes actions to deliberately substitute and delete established but obsolete knowledge in order to move forward successfully. Unlearning can free up limited capacities and pave the way for new learning.

We believe a systematic classification of organizational misfit needs to be developed. This will allow companies to track misfit and devise strategies to address this misalignment. Given this classification, we believe it is important to highlight the largely neglected potentials of unlearning during post-acquisition integration. Considering both these aspects will ultimately contribute to making M&A a success.

**Three levels of organizational misfit**

Organizational misfit can hamper post-acquisition success. When such a misalignment does exist, the first question companies need to ask is: what exactly does not fit? Organizational memory is a notion that is helpful in providing a sound answer.

Organizational memory is the place where knowledge about the business, its operations and its history is stored. It can be considered an organizational knowledge retention device. Organizational misfit occurs if areas of organizational memory differ between the acquiring and the acquired company – implying differences in knowledge.

Organizational memory manifests in three distinct levels (see Table 1):

- **The artifact level** embodies the results of prior learning. Most of its elements are of a physical nature, such as the features of products (product design, materials and packaging). Logos, for example, are part of this memory level as they convey knowledge about a company's identity and strategy. The layout of an office floor, too, is part of this memory level as it incorporates knowledge about the intensity and type of employee interaction that best allows the company to achieve its objectives.

- **The behavioral level** of organizational memory relates to learning from experience. It includes concepts such as formal and informal behavioral routines, procedures and scripts. For example, a company’s innovation

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1 Nonaka, 1991
3 We use organizational misfit instead of fit, as people are more receptive to differences than to similarities.
4 Datta, 1991
6 Moorman & Miner, 1997
process belongs to this memory level because it embodies knowledge about how the company’s innovation potential can be achieved. Similarly, a company’s strategy development process is considered behavior level memory as it comprises knowledge about how to use team members’ experience, knowledge and creativity in strategy development.

- The cultural level of organizational memory includes company beliefs, knowledge, frames of reference, models, values and norms. They embody knowledge about what makes the organization’s daily operations successful in the long term. For example, a company may embed theory about customer orientation in training programs as it is believed to be crucial for a superior customer experience and, ultimately, competitive success.

The second central question companies need to ask is: how will organizational misfit harm the post-acquisition performance? Generally, if acquiring companies approach acquisitions as learning opportunities, the capacity to learn is influenced by a set of factors: the transferability and receptivity of the knowledge, the organization’s ability to understand and absorb the acquired knowledge, and how this knowledge is incorporated into previous experiences that shape the current knowledge base.\(^7\) If the established knowledge structures are not compatible with new, to-be-acquired knowledge, they can hinder learning processes and negatively impact post-acquisition performance. For example, a company may acquire another business to utilize its innovation processes but discover that differences in the hiring and engineering processes - that is, organizational misfit - may prevent a successful process transfer.

### Table 1. Three levels of organizational memory

<table>
<thead>
<tr>
<th>Organizational memory</th>
<th>Artifact level</th>
<th>Behavioral level</th>
<th>Cultural level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manifests in</td>
<td>Tooling, programming, assembly line layout, organizational structure and ecology, features of products and product lines</td>
<td>Formal and informal behavioral routines, procedures and scripts</td>
<td>Organizational beliefs, knowledge, frames of reference, models, values and norms</td>
</tr>
</tbody>
</table>

Source: Moorman & Miner 1997

### Table 2. Types of organizational misfit

<table>
<thead>
<tr>
<th>Type of misfit</th>
<th>Artifact level misfit</th>
<th>Behavioral level misfit</th>
<th>Cultural level misfit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>Differences in organizational artifacts</td>
<td>Differences in formal and informal behavioral routines, procedures and scripts</td>
<td>Differences in organizational beliefs, knowledge, frames of reference, models, values and norms</td>
</tr>
<tr>
<td>Examples</td>
<td>Different company names and logos, differences in office floor layouts, product design and corporate design (visual identity)</td>
<td>Different innovation/product development processes, strategy development processes, recruiting processes and organization of the manufacturing processes</td>
<td>Different assumptions about management styles (including the management’s attitude towards risk taking, its preferred control mechanisms and communication patterns) and employee motivation, different assumptions about the hierarchical structures and the distribution of control and responsibilities, differing collective attitudes towards customers and suppliers</td>
</tr>
</tbody>
</table>

Source: Authors’ research

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\(^7\) Child, 2001; Cohen & Levinthal, 1990
We define unlearning as the purposeful elimination of established organizational knowledge from organizational memory to enable new knowledge to be acquired and implemented to build a sustainable competitive advantage. Unlearning can liberate companies from knowledge that hinders the absorption of new knowledge.

The role of learning and unlearning in reconciling organizational misfit

The next question to be asked is: when engaging in M&A, how can companies overcome organizational misfit to realize the acquisition’s learning potential? We suggest that companies need to engage in unlearning during post-acquisition integration. We define unlearning as the purposeful elimination of established organizational knowledge from organizational memory in order to enable new knowledge to be acquired and implemented to build a sustainable competitive advantage. Unlearning can liberate companies from knowledge that hinders the absorption of new knowledge.

More specifically, we suggest that, depending on the level of organizational misfit addressed, there are different forms of unlearning. Moreover, we suggest that the importance of unlearning activities depends on the level of misfit. In the case of artifact misfit, unlearning can be undertaken by changing the company name or product features, such as design, logos, material or packaging. We suggest that unlearning in these areas can be enforced far more easily than unlearning of behaviors, habits and beliefs.

In the case of behavioral misfit, unlearning can take place by specifying outdated routines and procedures, conducting workshops that clarify why these have become outdated and monitoring behavior in order to ensure that outdated routines and procedures are no longer followed.

The behavioral elements of organizational memory are usually more deeply rooted than artifact elements and therefore harder to eliminate. As a result, deliberate unlearning to address the behavioral dimension of misfit can be important to the success or failure of a post-acquisition integration.

In the case of cultural misfit, unlearning can, for example, be undertaken by initiating workshops and organizing employee exchanges to overcome cultural differences. The cultural aspects of organizational memory are tightly woven into the organizational fabric. Companies attempting to reconcile misfit on the cultural level should therefore expect to encounter strong barriers. Established belief structures may create a state of inertia that hinders progress. We suggest that the elimination of beliefs is even harder than the elimination of behavioral elements and that cultural unlearning is critical to post-M&A performance.

Inevitably, there are some important interdependencies. First, misfit on one level of organizational memory can amplify misfit on another level. For example, differences in beliefs about how a company’s innovation potential can be unlocked may well lead to differences in the way responsibilities and resources are distributed along the innovation process and in R&D structure. Second, unlearning activities aimed at a specific organizational memory level can trigger,

<table>
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<th>Unlearning on</th>
<th>Artifact level</th>
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<th>Cultural level</th>
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</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>Reconciliation of artifact level misfit</td>
<td>Reconciliation of behavioral level misfit</td>
<td>Reconciliation of cultural level misfit</td>
</tr>
<tr>
<td>Examples</td>
<td>Discarding a company logo, changing the office floor layout, discarding the “old” visual identity</td>
<td>Abandoning specific (elements of) manufacturing processes, recruiting procedures and innovation processes</td>
<td>Sensitizing to and adjusting assumptions regarding employee motivation and associated management styles, analyzing the assumptions beyond and changing the hierarchical structures and the distribution of responsibilities</td>
</tr>
</tbody>
</table>

Source: Authors’ research
or support, unlearning at another level. For example, the removal or change of a logo, primarily aimed at the artifact level, may well induce employees to rethink their value systems and therefore support unlearning on the cultural level.

**Methodology**

To evaluate these conceptual ideas empirically, we undertook a large-scale survey in Germany. The M&A DATABASE of the University of St. Gallen was used to identify M&A transactions. We included those transactions that involved German companies, had a closing date between January 2005 and October 2008 and involved an equity exchange greater than 50%. The final sample contained 485 firms with 766 potential respondents.

Data was gathered through a questionnaire. We investigated three main constructs: post-acquisition performance, organizational misfit as well as learning and unlearning activities. In addition, we included questions pertaining to control variables that, in earlier studies, had been found to have an impact on post-acquisition performance. For example, we collected information on the duration of the integration, the degree of integration and the size of the acquired company compared with that of the acquiring company.

Whenever possible, we relied on measures used in previous studies. We measured post-acquisition performance on a multiple-item scale. The items pertained to financial constructs, and the participants were asked to rate the importance of each item as well as its performance.

To measure organizational fit, we used two multiple-item scales: one focused on the behavioral level, while the other covered the belief level of organizational misfit. We asked the participants to rate the extent of the differences between the companies on all levels of misfit. We developed a multiple-item measure for learning and unlearning activities based on previous conceptual and empirical studies. The respondents were asked to indicate the intensity of learning and unlearning activities. All items were rated on a seven-point Likert scale. A value of seven corresponded to the following: high performance, high misfit and high learning/unlearning intensity.

After collecting and preparing the data, we analyzed successful and unsuccessful M&A to determine the role that organizational misfit and unlearning had played. In order to do so, we split the sample at the financial performance median.

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9 The M&A DATABASE was used in previous studies to identify M&A transactions, e.g., Homburg & Bucerius, 2005, 2006

10 Datta, 1991

11 Weber, 1996

12 Chatterjee, Lubatkin, Schweiger & Weber, 1992

13 We did not include a question on artifact misfit. Firstly, in line with Moorman & Miner, 1997, we assumed that physical artifacts largely mirror the information already stored in behavioural routines and collective beliefs. Consequently, a measure of artifact misfit is unlikely to identify significant aspects of organizational misfit that are not already included in routine and belief level misfit. Secondly, in line with Datta, 1991, we assumed that any artifact level misfit can be quickly reconciled. Differences in physical artifacts are not a significant hindrance to integration (Datta, 1991).

14 The analysis results of the other performance measures corroborated the results reported here.
Results
Our survey results support that organizational misfit and unlearning activities during post-acquisition integration play an important role in M&A success. With behavioral misfit averaging 4.28 and cultural misfit scoring 3.81 on a scale with a maximum value of 7, the evaluated acquisitions show a considerable degree of organizational misfit (see Figure 1).

Dividing the sample into high- and low-performing M&A demonstrated that cultural misfit was of particular importance. Those transactions considered successful had a lower cultural misfit prior to the acquisition (3.53) than those rated less successful (4.12). The data suggests that cultural misfit in particular hinders the absorption of new knowledge and may reduce post-acquisition performance. Successful M&A had a higher behavioral level misfit (4.41) than unsuccessful ones (4.14). While this finding is surprising at first glance, it supports the argument that behavioral misfit has a less harmful impact on post-acquisition performance than cultural misfit.

A considerable degree of organizational misfit means that effort is required during the integration process to reconcile the misfit. Consequently, the probability of M&A success depends on how the post-acquisition integration is managed.

In successful M&A, the companies engaged in learning and unlearning activities to a greater extent than in less successful M&A (see Figure 2). Successful M&A

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15 The difference is significant at the level \( p < 0.1 \).
16 Notably, this difference is not significantly different from zero.
Nevertheless, learning is not enough. Successful M&A average a higher score for unlearning activities (4.02) than less successful ones (3.49). The deliberate substitution and/or deletion of out-of-date knowledge is important. Such unlearning activities during post-acquisition integration free up organizational memory, thereby increase the acquiring company’s capacity to absorb new information and therefore have a positive impact on post-acquisition performance.

Analyzing only those acquisitions with high organizational misfit prior to the integration further corroborates the importance of unlearning activities (see Figure 3). Companies achieving successful M&A despite high cultural misfit engaged more intensively in unlearning activities (3.97) than less successful ones (3.35). This means that, given a high level of cultural misfit, companies were better off, on average, if they pursued unlearning activities. A similar result is obtained with regard to acquisitions with a high level of behavioral misfit. Companies involved in successful M&A seem to have engaged in unlearning much more (4.03) than those involved in less successful acquisitions (3.44). This further strengthens theories about the positive effects of unlearning activities.

Managerial implications

Based on our findings, we suggest that companies engaging in M&A should consider three steps when planning the post-acquisition integration (see Figure 4).

First, they should evaluate the organizational misfit with regard to each of the organizational memory dimensions. In particular, acquiring companies should try to identify misfit on all three dimensions of organizational memory that could potentially impede the integration of the acquired knowledge. For example, if a company wants to acquire an innovation process that is highly dependent on face-to-face communication between the R&D department and the manufacturing department, it should check whether the physical distance between the two departments could potentially impair the process in practice. Furthermore, companies should evaluate whether the entrepreneurial cultures in the two companies complement each other; for example, whether there is the same readiness to take risks. This is a precondition for installing or transferring the innovation process successfully.

Second, companies should prioritize areas of misfit. The two companies to be merged will, of course, differ on all three dimensions of organizational memory to some extent. However, we believe that artifact level misfit has a less severe impact on post-acquisition performance than behavioral level misfit, which, in turn, has...
less harmful implications than cultural level misfit. In terms of the innovation process, this means that, if there is a significant misfit on all three levels of organizational memory, the companies should focus on reconciling the cultural level misfit first. The management of the acquiring company could reconcile the artifact level misfit quickly by relocating one of the departments so that they are closer to each other. However, it could face a greater challenge in overcoming the mindset that has upheld the obsolete innovation process. Simply decreasing the physical distance between the two R&D departments (artifact level) is unlikely to suffice. Instead, the cultural level differences also need to be targeted.

Third, companies should define a tailored program of unlearning and learning activities based on the previous steps’ findings. They should choose the timing of activities carefully – focusing on unlearning before devoting all attention to learning. In particular, companies should take into account the different areas of misfit and the most crucial aspects for the post-M&A integration outcome. Table 4 summarizes a number of unlearning activities that could be considered besides the better-known learning activities that are applied during the integration process.

**Conclusion**

M&A are often pursued for knowledge acquisition purposes. However, the full benefits of M&A may not be realized due to organizational misfit. In particular, conflicting knowledge structures hinder the transfer of knowledge between firms. Previous studies suggest that the probability of M&A success can be significantly improved through systematic planning. Our results imply that, to be meaningful, such planning should include a careful assessment of the existing organizational differences, on all three dimensions. In addition, if the likely impact of organizational factors is considered from the outset of the integration planning, decision-makers will be able to contemplate how the acquisition could be best managed once the transaction has been completed, from a very early stage in the process. For example, in acquisitions with behavioral and cultural level differences, significant unlearning efforts are required to reconcile these differences. It is important to deliberately delete knowledge that impedes further knowledge acquisition.

Our empirical research supports the suggestion that companies involved in successful M&A do engage in unlearning activities. Thus, not forgetting the flipside of the learning coin will pay off!

**Table 4. Selected examples of unlearning activities**

<table>
<thead>
<tr>
<th>Artifact level</th>
<th>Behavioral level</th>
<th>Cultural level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discard manuals and documented plans</td>
<td>Conduct workshops to identify obsolete routines and procedures</td>
<td>Disguise and communicate cultural differences throughout the organization for a deeper mutual understanding</td>
</tr>
<tr>
<td>Discard and substitute product features, such as design, logos, material and packaging</td>
<td>Officially declare specific routines and procedures outdated</td>
<td>Discuss contradictory assumptions regarding employee motivation, management styles, how to value customers, etc.</td>
</tr>
<tr>
<td></td>
<td>Delete obsolete knowledge from information systems</td>
<td>Organize inter-organizational employee transfers and team-building opportunities</td>
</tr>
<tr>
<td></td>
<td>Specify the reasons why certain (elements of) routines and procedures should no longer be used</td>
<td>Conduct culture-focused workshops</td>
</tr>
<tr>
<td></td>
<td>Convince all levels of the organization of the necessity of discarding certain routines and procedures</td>
<td>Develop a different understanding of management styles, employee motivation, the role of customers, etc., and highlight the contrast with established beliefs</td>
</tr>
<tr>
<td></td>
<td>Create incentives for employees to distance themselves from old behaviors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Establish control systems and indicators to supervise the elimination of specific behaviors</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ research
When forgetting is the key