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Abstract

Since the opening of the Central, Eastern and South Eastern European (CESEE) banking market, foreign banks, have started to invest in the financial sector of emerging economies. Economic research highlights that foreign banks have brought advanced technology, improved management expertise, upgraded risk management techniques and generally more efficient and competitive banking practices into CESEE countries (Clarke, Cull, Peria and Sànchez, 2002; Eller, Haiss and Steiner, 2006). However, there is hardly evidence about how this large-scale knowledge transfer has been achieved and what knowledge has actually been transferred. This paper intends to fill this gap. Two in-depth case studies of bank acquisitions by Austrian banks in CESEE give insight into the methods and content of knowledge transfer within the post-acquisition integration. A questionnaire sent out to CESEE subsidiaries of Austrian banks additionally provides information on the topic. The results show that knowledge transfer mainly occurs in international teams and during international meetings, trainings and development programs and that it is supported by information and communication technologies. Results further show that the content, methods and magnitude of knowledge transfer efforts change along the stages of post-acquisition integration.

JEL-Classification: *G15, G21, G43, M12, M16, M53*

Keywords: *emerging economies, foreign banks, knowledge-transfer, financial markets*

1. Introduction

Since the opening of the Central, Eastern and South Eastern European (CESEE) banking market in the late 1980's, more and more European banks have sought to extend their business to this region. High growth perspectives, risk diversification and the wish to increase competitiveness and gain market share have been the main motives to enter the CESEE banking market. Those banks geographically close to the respective CESEE countries account for the highest share in foreign bank claims on the host countries. Austria is the most prominent creditor to CESEE, followed by France, Germany, Italy and Greece as well as Sweden and Belgium for the Baltic countries (Maechler and Ong, 2009; Arvai, Driessen and Ötker-Robe, 2009). Allowing for the augmented financial interlinkages within Europe, there is a lot of literature focusing on the effects of foreign ownership in local banking systems on host countries (Clarke et al., 2001; 2002; Goldberg, 2004; Eller et al., 2006; Moshirian, 2006). Financial Sector Foreign Direct Investment (FSFDI) in emerging market economies is considered to strengthen institutional development and contribute to higher regulatory standards and more transparency (Goldberg, 2004). Empirical research shows that in developing countries foreign owned banks are more efficient than their domestic competitors (Demirgüc-Kunt and Huiziga, 2000). Increased competition through foreign bank entry and knowledge spillovers to domestic banks lead to improvements of financial risk management, stimulation of innovation and higher financial sector efficiency (x-efficiency) (Eller et al., 2006). FDI positively affects the knowledge base of an economy by transferring technology, management expertise as well as product and process oriented knowledge (Biegelbauer, Griebler and Leuthold, 2001; Djankov and Hoekman, 2001).

The existing literature does however not reveal much about how this large-scale knowledge transfer from foreign banks to the emerging market host countries occurs. Previous research on knowledge transfer in banking has mainly focused on knowledge sharing between banks within one country (Cantoni, 2001; Chatzoglou and Vraimaki, 2009; Hafizi and Nor, 2006). Cross-border knowledge transfer between parent banks and their host country subsidiaries has only been analysed by Dobric and Haiss (2009). Therefore, this paper aims at investigating how foreign banks manage the knowledge transfer to their subsidiaries in emerging economies. Since the entry mode of foreign banks into CESE has shifted from greenfield investments towards mergers and acquisitions during the past decade, the focus of this paper lies on knowledge transfer within the post-acquisition integration. Tow in-depth case studies of bank acquisitions in CESEE by Austrian banking groups explain knowledge transfer in banking within its real life context. Semi structured interviews with representatives of the parent bank and the acquired subsidiaries were conducted in order to give insight to knowledge transfer during the integration of a new CESEE subsidiary. Further empirical evidence on the content and methods of knowledge transfer to CESEE countries comes from a questionnaire survey submitted to Austrian banks' subsidiaries in the region. An important condition for the participation in the survey was that the subsidiaries have not been newly established but taken over by the group. Respondents had the possibility to either answer the questionnaire online via a survey platform or to send the filled in document via email. Results show that knowledge transfer mainly occurs in international teams and during international meetings, trainings and development programs and that it is supported by information and communication technologies. Results further show that the content, methods and magnitude of knowledge transfer efforts change along the stages of post-acquisition integration.

2. Theoretical Background

a. The role of Knowledge in International Banking Theories

Knowledge plays an important role for the internationalization of banks and the ability to compete successfully on foreign financial markets. At the initial position domestic banks have substantial advantages compared to their foreign competitors due to their information about local markets and customer requirements (Steiner, Haiss and Eller, 2008). In order to overcome this information disadvantage and to compete with domestic banks effectively foreign banks need to possess ownership advantages in the form of knowledge-based assets. In times of a more dynamic economic environment intangible knowledge-based resources are the main factors to produce superior financial performance and create a competitive advantage (Miller and Shamsie, 1996). For multinational banks important ownership advantages include intangible resources such as technological expertise, reputation, resource management, risk management, innovation (Mehra, 1996), product differentiation, organizational skills, experience in international operations and expertise in servicing different customer types (Williams, 1997). When banks dispose of important ownership advantages they choose direct presence at the foreign market over cross-border lending, licensing or contracting with another bank and hence internalize market imperfections. Via direct investments multinational banks internalize transaction costs since knowledge can be transferred from the parent to any other unit within the organization at low marginal costs (Williams, 1997). FDI in the financial sector entails either a de novo operation of introducing a new bank subsidiary in the host country or the acquisition of a controlling interest in an already existing bank (Goldberg, 2007). The site of the offshore expansion is determined by location advantages with regards to size, development and efficiency. Emerging market economies generally show higher GDP growth rates (Focarelli and Pozzolo, 2000), lower levels of financial intermediation (Steiner et al. 2008) and less efficient banking markets. Other location specific opportunities in emerging market economies arise from the liberalization of financial sectors and the privatization of state-owned banks. The international transfer of knowledge is however only profitable if efficient organizational modes can be discovered to conduct and protect the transfer at low costs (Teece, 1981). An efficient knowledge management and transfer throughout the organization can be a source of sustainable competitive advantage for international banks on foreign financial markets. In order to create a sustained competitive advantage, resources need to be deployed in suitable combinations, which enable the bank to implement strategies that improve its efficiency (Black and Boal, 1994). Information and communication technologies for instance do not create sustained performance advantages since they are freely available at the market to all banks, unless they are combined with complementary human and business resources such as an open and flexible organizational structure, strategic integration and open communications (Powell and Dent-Micallef, 1997).

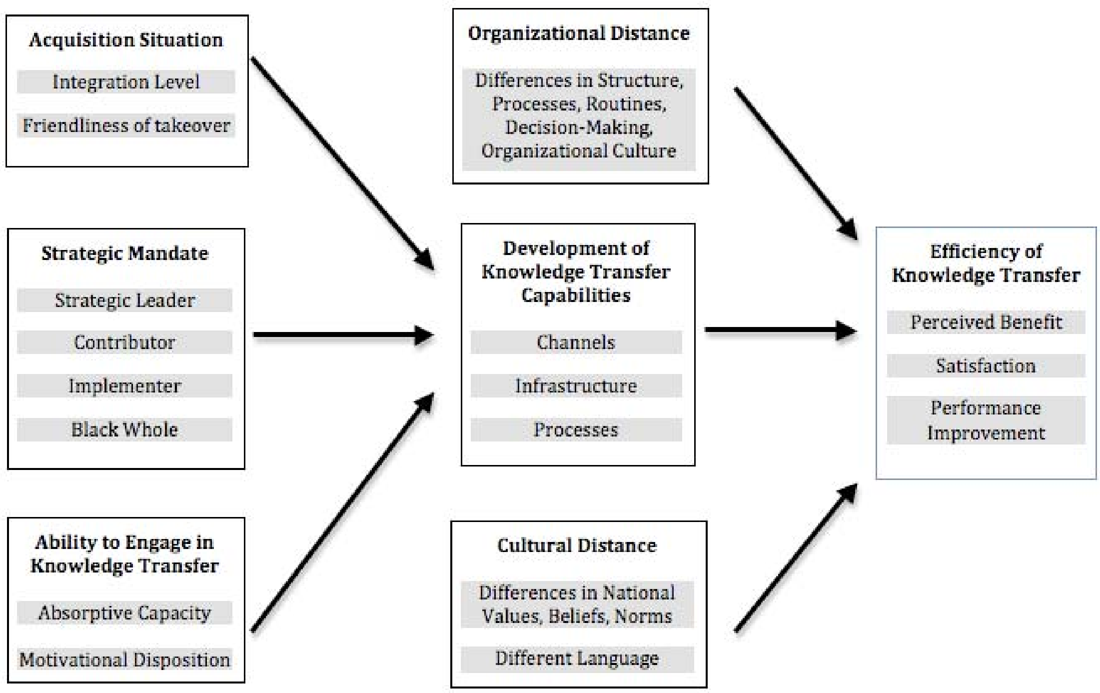
H1: Foreign banks have a competitive advantage compared to their host country competitors in emerging markets as a result of an effective knowledge transfer.

b. Knowledge transfer in bank internationalization via foreign direct investment

Knowledge transfer within a business organization can simply be defined as the movement of knowledge from one point of the organization to another (Cantoni, 2001). This very basic definition can however be deceiving as it does not advert to neither the importance of knowledge transfer for a company's competitiveness nor to its complexity. While the importance of knowledge and its effective management have constantly been emphasized in the literature as a source of competitive advantage (Riesenberger, 1998; Alvai and Leidner, 1999; Lubit, 2001), less attention has been dedicated to the potential of intracorporate transfer of knowledge between organizational units located in different economic, social, and cultural environments (Gupta and Govindarajan, 2000; Buckley and Carter, 1999). Schlegelmilch and Chini (2002) point out the ability to exploit locally created knowledge worldwide as a key competitive advantage of multinational corporations. They developed a conceptual model of knowledge transfer between marketing functions within multinational enterprises to shed light on the complex issue of intraorganizational knowledge sharing. As regards knowledge transfer within banks little research has been done so far. The existing contributions mainly focus on knowledge management and transfer between national business units (Cantoni, 2001; Chatzoglou and Vraimaki, 2009; Hafizi and Nor, 2006).

Accounting for the lack of research done in the field of knowledge sharing in international banking, the conceptual framework of Schlegelmilch and Chini (2002) is modified in order to develop an explanatory model of knowledge transfer within multinational financial institutions during the particular time of post-acquisition integration. The basic model of Schlegelmilch and Chini (2002) intends to explain what influences the effectiveness and benefit of knowledge transfer and how the actual process occurs. They suggest that the strategic mandate of the subsidiary as well as its ability to engage in knowledge transfer have an effect on the development of knowledge transfer capabilities in terms of transmission channels, infrastructure and processes. In order to allow for the particular situation of knowledge transfer within the post-acquisition integration two M&A variables, namely friendliness of takeover and integration level (Birkinshaw, Bresman and Hakanson, 2000), are included in the model. Besides the organizational and cultural distance of the respective subsidiary primarily the developed knowledge transfer capabilities influence the effectiveness of the knowledge transfer. For a general overview figure 2.1 shows the construct forming the proposed model of knowledge transfer.

Figure 2.1 – Model of Knowledge Transfer (Schlegelmilch and Chini, 2002)



Source: (Schlegelmilch and Chini, 2002)

From a network perspective the multinational enterprise is considered to be an interorganizational network consisting of headquarters and various national subsidiaries that differ in geographic location and business positioning but are characterized by interunit linkages (Ghoshal and Barlett, 1990). Subsidiaries within this complex network have different strategic roles. Roth and Morrison (1992) state that the strategic roles of subsidiaries vary in accordance with the differences in the external environment they operate in as well as their internal capabilities. Barlett and Ghoshal (1986) determine four categories of subsidiaries' strategic roles. The strategic leader represents a competent subsidiary operating in a strategically important market. The role of a contributor subsidiary consists of providing valuable expertise and knowledge to the entire company network as it disposes of group-relevant internal capabilities even though it operates on a strategically rather unimportant market. The opposite strategic position takes the implementer subsidiary, which captures economies of scale by servicing certain markets. The black whole Barlett and Ghoshal (1986) describe as a subsidiary which has an unacceptable strategic position that needs to be changed for instance through the promotion of organizational learning or the development of strategic alliances.

The degree of knowledge inflows into a subsidiary and its ability to engage in knowledge transfer strongly depend on the absorptive capacity and motivational disposition of the respective unit. Cohen and Levinthal (1990) define absorptive capacity as the ability to value, assimilate, and apply new external knowledge. They emphasize two main enablers for absorptive capacity. First a firm must dispose of some basic prior related knowledge to be able to understand the new knowledge, evaluate its importance and successfully exploit it. Second the diversity of background of the sending and receiving unit provides a good basis for learning as new associations and linkages can be made. Another important factor that determines the ability to engage in knowledge transfer is the motivational disposition of the subsidiary to acquire and/or share knowledge. On the individual employee level the use of stimulative HRM practices such as promotion, performance-based compensation, internal transfer, orientation programs, job design and flexible working practices foster the motivation to learn and absorb new knowledge (Minbaeva, 2007). On the subsidiary level a sufficient compensation system for subsidiary top managers that rewards engagement in knowledge sharing can be implemented.

According to Birkinshaw et al. (2000) knowledge transfer within the post-acquisition integration is influenced by the intended level of integration as well as the friendliness of takeover. Empirical evidence from Zollo and Singh (2004) who investigated M&A activities in the U.S. banking industry shows that a higher degree of integration of the acquired bank within the acquirer enhances the economic performance of the acquisition. A high level of integration involves extensive sharing of all types of resources including financial, physical, human and knowledge based resources and leads to the adoption of the acquiring bank’s procedures, systems and organizational culture by the new subsidiary. A friendly takeover approach is considered to positively influence the post-acquisition integration success since friendliness generates perceptions of goodwill and trust, which in turn results in an enhanced quality of interpersonal relationships, communication and collaboration between acquiring and target unit employees and managers (Stahl, Chua and Pablo, 2003).

In their model Schlegelmilch and Chini (2002) suggest a certain organizational architecture consisting of channels, infrastructure and processes to support a free flow of knowledge and consequently enable an effective knowledge transfer within a multinational organization. First, transmission channels enable the communication of knowledge through formal and informal mechanisms within the organization. Gupta and Govindarajan (2000) identify liaison positions, task forces, permanent committees and meetings as the main formal integrative mechanisms for the communication of multiple units of an organization. The information and knowledge exchanged through formal mechanisms form a basis for further communication between subsidiaries, peer subsidiaries and headquarters and support the creation of corporate socialization mechanisms (Ghoshal, Korine, Suzlanski, 1994). Interpersonal familiarity, personal affinity and trust among employees from different subsidiaries increase the openness of communication and thus the richness of transmission channels (Gupta and Govindarajan, 2000; Tsai and Ghoshal, 1998).

As regards the second element of the above mentioned organizational architecture for the development of knowledge transfer capabilities, Schlegelmilch and Chini (2002) consider the technological infrastructure with its information and communication systems as crucial for the exploitation of knowledge-based resources embedded in the network units. According to Gold, Malhotra and Segars (2001) the technological infrastructure for knowledge management includes business intelligence, distributed learning, knowledge discovery, knowledge mapping, opportunity generation and security. Knowledge process capabilities, the third element of the organizational architecture for knowledge transfer in the model of Schlegelmilch and Chini (2002), comprise four modes of conversion between tacit and explicit knowledge: socialization, externalization, internalization and combination (Nonaka, 1994). First, socialization refers to the conversion of individual tacit knowledge into group tacit knowledge through interaction, imitation, observation and actual practice. Combination and exchange of explicit knowledge can lead to new explicit knowledge when a reconfiguration of existing information occurs. Finally, externalization and internalization relate to the conversion of tacit and explicit knowledge capturing the idea that both types of knowledge are complementary. While externalization stands for the conversion of tacit knowledge into explicit knowledge, internalization presents the opposite conversion from explicit into tacit. In the proposed model of knowledge transfer the development of knowledge transfer capabilities is influenced by the subsidiary's strategic mandate, its ability to engage in knowledge transfer and the acquisition situation in terms of takeover friendliness and integration level.

H2: The development of knowledge transfer capabilities in terms of channels, infrastructure and processes during the post-acquisition integration is influenced by

a) *the subsidiary's strategic position*
b) *its ability to engage in knowledge transfer and*
c) *the acquisition situation.*

According to Schlegelmilch and Chini (2002) the effectiveness of knowledge transfer depends on the perceived benefit and the overall satisfaction with knowledge management. Knowledge transfer is considered to be effective if it generates benefits for the recipient subsidiary and is useful to improve its' operations (Chini and Ambos, 2005). Besides the developed knowledge transfer capabilities organizational and cultural distance are further factors that determine the effectiveness of knowledge transfer (Schlegelmilch and Chini, 2002). "Distance" refers to the degree of disparity between the organizational units engaged in knowledge transfer. Darr and Kurtzberg (2000) emphasize that a context of understanding needs to be created in order to successfully transfer knowledge within a multinational. It can generally be assumed that a higher degree of similarity between the sending and receiving unit leads to a better understanding, less uncertainty problems and hence more efficient interaction and communication. Organizational distance particularly refers to the differences between organizational units in terms of structure, processes, business practices, approaches towards decision-making and organizational culture. Cultural distance points to the degree to which norms and values of different company units vary because of their separate national characteristics (Haghirian, 2003). Cross-country differences can be reflected in human resource practices, organizational behavior (Ford and Chan, 2003) and leadership and distribution of power and authority (Kostova, 1999).

H3: The effectiveness of knowledge transfer is influenced by

a) *the development of knowledge transfer capabilities and*
b) *the organizational distance and*
c) *cultural distance*

between the parent and the subsidiary.

Knowledge transfer between organizational units includes three main elements: information technology, human resources and the knowledge within the organization itself embedded in policies, processes, goals and strategies (Lamb, 2001). To guarantee an effective knowledge transfer within the company network the transfer methods and practices need to be adjusted to the type of knowledge transferred and to contextual influences. While explicit knowledge can be shared and transferred through hard data, manuals, codified procedures or organizational principles, tacit knowledge or know-how can only be revealed through its application (Bonache and Brewster, 2001). Transferring highly tacit knowledge in the form of expertise, skills or lessons learned from past success or failure (Kulkarni and Freeze, 2005) from one organizational unit to another can best be accomplished through human resource measures such as the use of expatriates and international assignments.

c. Managing knowledge transfer along the stages of M&A integration in the banking industry

As stated by Rumyantseva, Gurgul and Enkel (2002) M&As are likely to have the highest potential for knowledge integration and creation of new capabilities since for all levels of FDI it shows the highest degree of commitment. By combining firms with different skills, expertise and knowledge bases, acquisitions create a unique learning opportunity (Salama, Holland and Vinten, 2003). Generally the M&A process can be divided into three stages: pre-acquisition, acquisition and post-acquisition. In the pre-acquisition phase the decision for an M&A is made and proper partner companies are selected. A successful collaboration throughout the whole post-acquisition integration process strongly depends on the pioneered situation during the pre-acquisition and acquisition phase. The identification of possible target units, the strategy formulation as well as a self due diligence and partner screening serve the purpose of a first evaluation of strategic, organizational and cultural fit. Referring to

Birkinshaw et al. (2000) acquisition motives, intended level of integration and friendliness of takeover are important starting conditions that strongly affect the M&A performance. While the first stage is mainly preparatory, the acquisition phase involves the due diligence, negotiations and finally the actual conclusion of the purchase.

In the post-acquisition phase the actual integration of the target company in terms of strategy, organization, personnel and culture takes place. This stage is crucial to the success of the M&A because value creation mainly takes place after the acquisition (Birkinshaw et al., 2000). Bresman, Birkinshaw and Nobel (1999) particularly emphasize the importance of knowledge transfer for the creation of value in international M&As. In their studies they find that knowledge transfer patterns change with the time elapsed after the acquisition. During earlier stages of integration knowledge transfer is mainly imposed from the acquirer to the acquired organization, while in later post-acquisition integration stages knowledge transfer becomes rather multidirectional. Early stage transfers consist very much of explicit and articulated knowledge such as project management systems and patented technologies. Rumyantseva et al. (2002) state that in the early post-acquisition phase the transfer of explicit knowledge through blueprints, manuals or other information systems strongly prevails and occurs rather unidirectional from the acquiring to the acquired unit.

H4: The methods and contents of knowledge transfer change along the stages of post-acquisition integration.

3. Empirical Research

a. Evidence of Austrian Banks in CESEE

The structure of CESEE banking markets has changed substantially since the late 1980's mainly due to financial deregulation, market liberalization, technological progress, bank privatizations and improvements of banking regulations and supervision. Along with these financial sector reforms, European banking integration has gained momentum, in terms of both cross-border flows and cross-border mergers of significant size (Dermine, 2006). The consolidation of financial service firms across national borders may partly be a result of the international consolidation and globalization of markets, since the international transfer of securities, goods, and services has created demand for currency, deposit, loan, and other services provided by international financial institutions (Berger, Demsetz and Strahan, 1999). In the European Union the liberation of capital movements, the introduction of the Euro currency and the accession of several Eastern and South Eastern European states especially drove European banking integration (Dermine, 2006). By now, more than 70 percent of the CESEE banking market is controlled by Western European banking groups (Breyer, 2004).

The growing capital market, geographical proximity and historical relations make the Eastern European banking market attractive for FDI by Austrian banks. Austrian banks strengthened their position over the years via M&A activities or by establishing new branches or subsidiaries. By now, they are market leader in the region, holding for more than 50 % of the market share in some countries (OENB, 2008). Already in the middle of the 80ies, Austrian banks decided to expand to the Central and Eastern European neighbor countries to provide their services to big industrial clients that moved to the region (Boss, Krenn, Puhr and Schwaiger, 2007). In this early expansion wave many banks decided to move East by establishing new banks. In the early 90ies during the privatization wave many foreign banks acquired major shares in former state-owned banks to enhance their strategic position. The most active Austrian banks operating in CESEE countries are Raiffeisen Zentralbank, Erste Bank, Volksbank, Hypo Alpe Adria and on the very top the actually Italian Unicredit Group, which manages its CESEE business via the Vienna based Bank Austria.

As regards Human Resources in CESEE figure 3.1 shows that Raiffeisen International was the major employer in CESEE among all Austrian banks active in the region by the end of 2008 with over 63.000 employees. Raiffeisen International also shows the biggest staff growth having the number of CESEE employees more than tripled between 2003 and 2008. The outstanding rise in 2005 can be attributed to the acquisition of Bank Aval in the Ukraine with more than 16.000 employees (RZB Annual Report, 2005). In the same year, Erste Group also made a major acquisition in Romania. The takeover of BCR with 12.000 employees led to the staff increase in 2006 (Erste Group Annual Report, 2005). The second biggest "Austrian" CESEE employer is UniCredit Bank Austria with 56.718 employees in 2008. Since 2007 Bank Austria has been responsible for UniCredit Group's CEE banking activities, which explains the surge in the number of employees in this year. The number of Volksbank and Hypo Alpe Adria CESEE employees shows a steady increase in resemblance with their organic growth and expansion strategy.

Figure 3.1 – Number of Austrian banks employees in CESEE

BANK	2003	2004	2005	2006	2007	2008
UniCredit Bank Austria	18,249	17,477	19,044	19,875	34,082	56,718
Erste Bank	22,676	21,233	21,393	35,455	36,784	36,370
RZB/RI	17,544	22,707	43,430	51,050	56,246	63,029
Volksbank	2,518	2,995	3,452	4,060	5,367	6,552
Hypo Alpe Adira	n.s.	3,392	3,860	4,390	4,542	5,087

Source: Company Webpages, Annual Reports

Bank employees are bearer of knowledge and intellectual capital. Therefore human resource management can be especially important for knowledge transfer in banking. Training and continuing education is key to augment and adapt existing skills to the changes of technology (Bassanini, Booth, Brunello, De Paola and Leuven, 2005). Within the organization of UniCredit Bank Austria HR-experts work together with executive management, training, diversity management and accounting departments in order to ensure successful know-how transfer, exchange of expertise and best practices within the group for the business line on the one hand and competence line on the other hand (UniCredit Bank Austria Annual Report 2007). Within the Raiffeisen group general personnel development measures range from trainings, courses and personal coaching to short training visits abroad and to long-term outward postings to subsidiary banks. Foreign assignments are supposed to facilitate the sharing of banking skills, foster the evolution of productive networks within the group and help developing a shared corporate culture. Raiffeisen also began developing an International Acceleration Pool to foster the deployment of expatriate managers and international careers of motivated employees in all Group units (RZB Annual Report 2007). Erste Bank was first to release a group-wide employee survey in 2007. The outcome of the survey indicated a high satisfaction with the communication and flow of information inside the group, a strong relatedness with the company as well as a high confidence in the group and its organizational structure. In reaction to lower satisfaction levels in some areas Erste Group has planned to elaborate a comprehensible performance management and foster a best-practice oriented culture (Erste Bank Annual Report 2008). Within the Volksbank network the implementation of group wide HR systems such as talent management, executive management as well as compensation and menefit Management support the personnel development and bring HR management across the bank network in line (Volksbank AG Annual Report 2008). Also the Hypo Group Alpe Adria has implemented group wide HR and personnel development measures such as trainings on the job and cross-border workshops that are supposed to foster collaboration and knowledge sharing between the network banks (Hypo Group Alpe Adria Annual Report 2007).

b. Case study results

In order to address the main research question of this paper and to understand the socio-economic phenomena of knowledge transfer in banking within its real life context, two in-depth case studies of prominent bank acquisitions in CESEE by Austrian banks have been conducted. Allowing for the complexity of the research issue, exploring each case's knowledge transfer experiences made during the integration of a newly acquired CESEE subsidiary deepens the insight into the field of knowledge transfer in banking. Two Austrian banks that are very active in the CESEE region were chosen for the case studies. The described results are present know-how transfer methods that have been developed over the ongoing expansion of the banks. The acquisitions under investigation have led to a major increase in market share in the respective host countries. At the time of the acquisitions the foreign banking markets showed relatively low levels of intermediation and both target banks ranked among the biggest players in their countries' financial sector. The name of the banks remain confidential due to data protection. Data for the case studies was collected via semi-structured interviews that were conducted with representatives of both the target and the acquiring bank.

Banks Case Study 1	**Interviewees Case Study 1**
Bank A: One of the top-ranked Austrian banking groups; pursues an active expansion strategy to CESEE since the late 1990ies.	I_A: Integration program manager for the respective acquisition since the second year of the program; head office Vienna.
Bank B: South Eastern European subsidiary of Bank A; top-market player in its home country.	I_B: Expatriate manager for retail banking; coordinator for integration and development program.

When Bank A started to consider extending its market to the SEE country, it began to recruit young professionals out of university or out of other companies and banks in the country. IA referred to trainee programs and job rotation programs, which were set up in Austria for these young professionals. On-site work experience to learn about the structure and business areas, should give them a deeper insight into and understanding of the group's activities. After the closing of the acquisition of Bank B trainees were transferred back to their home country, where they supported the implementation of changes in the course of the integration program. The integration program included more than 40 projects, which were set up to transform Bank B in order to comply with the organizational structure of the group. External support came from consulting companies that had already assisted Bank A with former acquisitions and integrations in other CESEE countries. As IA explained, the project teams and committees not only consisted of people from Bank B and consulting companies, but also of managers from the head office in Austria or from other foreign subsidiaries in the group, depending on where the best expertise for the respective project was located. During the early integration stage information and reports were prepared and reviewed during monthly program review meetings held with the management board. A common platform for communication and the storage of information was set up in form of an e-room. This electronic platform included different rooms for different projects and could be accessed by project managers on the one hand and group managers on the other hand.

Cross-border trainee and staff development programs were set up as group wide HR initiatives that fostered cross unit relationship building and helped participants to gain new experiences and qualifications which they could eventually share in their home countries. Within the post-acquisition integration also mentoring programs were established. Expatriate managers from the group were involved in particular projects to support the project team and guide them in the direction of how the parent would like to transform the organization. IB emphasized that expatriate managers did however not bring finalized solutions to the projects but contributed their knowledge to develop new models suitable for the development of Bank B. Expatriates played a very important role, also from the psychological point of view, as they reported on prior successful integrations and communicated how complex project solutions could look like. Major difficulties that were noted by the interviewees referred to the coordination of the various integration projects, different organizational cultures and the acceptance of change by the employees of the new subsidiary. More than 40 integration and development projects started quite at the same time, most of them being interconnected and dependent on each other's progress, which was very demanding for coordination. A big challenge for Bank A was also to create relatedness and a feeling of belonging to the group among employees, so that they would pass a positive attitude towards the brand also to customers.

When knowledge was transferred by Bank A to the new subsidiary, it also needed to be successfully applied to the local market. IB explained that if the same battery of knowledge was transferred to different subsidiary banks, the process of adaptation and implementation would be different in each economy. IB called it a big advantage if well running group models and group knowledge could be transferred to and implemented by subsidiary banks. At the same time, he also emphasized the importance of considering the diversity in customer needs across countries. At Bank A the top management level decided whether a group solution would be implemented or a new model had to be developed. As for the integration of Bank B many solutions were developed from scratch. With time elapsed after the acquisition and the ongoing progress of integration new best practices evolved from the development program of Bank B and became a benchmark for some areas. IA emphasized that it was an achievement and success for employees in Bank B that they developed best practices together with the group, which then were transferred and applied also to peer banks in the region. In this respect the acquired bank might originally not have served as a knowledge reservoir for Bank A but new knowledge had been build together with Bank B and the whole group learned from the experiences made during the process of integration and development of the new subsidiary bank.

Banks	**Interviewees**
Bank X: One of the top-ranked Austrian banking groups; has started CESEE expansion in the mid 1980ies.	I_X: Head of the learning and development department for CESEE, head office Vienna.
Bank Y: CIS subsidiary of Bank X; top-market player in its home country.	I_Y: Former head of transformation office, project and management division, currently manages local branch network.

The integration of Bank Y into the company network of Bank X was a big challenge primarily because of the proportionally much bigger size of the target bank compared to the acquiring group. Transferring knowledge into a huge organization like Bank Y with more than 1000 outlets and over 15,000 employees required very strong mechanisms. As both interviewees mentioned, one of the first steps was bringing in new people. Important key positions were taken over by expatriates from the head office, and consultants and international managers were brought into Bank Y. This means knowledge was not only transferred top down from Vienna to Bank Ys' head office but also horizontally from other CESEE subsidiaries. Issues that influenced the post-acquisition knowledge transfer between Bank X and Bank Y referred to the acceptance of new knowledge by local people. According to I_Y the integration of foreign specialists needed to be supported by a very careful and persistent change management. Expatriates who surrounded themselves with local people rather than just staying in the international community were more successful with transferring their knowledge to the new subsidiary network. Local employees with multicultural experiences should act as translators or interpreters for expatriate managers. They could translate new ideas into a language that is accepted and understood by local people and transfer the knowledge into the acquired organization.

Areas such as risk management, retail banking, sales, project management, HR, controlling and accounting were among the main areas for knowledge transfer. In the field of network management Bank X provided statistical models and analytical tools. Further means of knowledge transfer mentioned by IX referred to the implementation of group standards. Accounting, controlling and risk management standards were for instance transferred via some key projects and shared company policies that set a new approach in the respective areas. For the knowledge transfer between subsidiary managers and leading people in the group communities of practice were established, which helped managers establish new contacts and facilitate communication throughout the whole year. Another common method of knowledge transfer mentioned by the interviewees was employee training. I_X was talking about training efforts on several layers. People from foreign subsidiaries, especially key managers and key specialists came to Vienna for several weeks or months of classroom trainings. The mass of employees was however trained via local training activities. The trainings were organized via regional hubs with about 4 full time or part time trainers. I_Y explained that he participated in an executive training program in Vienna. The training included mostly soft skills knowledge in terms of ethics, working approach and problem solving, which could be especially valuable for home country managers of Bank Y who had never been exposed to a Western training before.

Differences between early and later integration stages mostly referred to the intensity of transformation efforts. I_X found that during the first time after acquisition much more expatriates and consultants were sent to Bank Y while later on the situation approximated the one in other already fully integrated subsidiary banks. The effort Bank X made to transfer new knowledge and expertise moderated and focused more on specific projects as opposed to early days when everything had been on the focus at once. Both interviewees mentioned that later integration stages were much more organized since a basic structure had been set up, key people had been integrated and processes had been standardized. As regards reverse knowledge transfer from Bank Y to the Austrian Bank X, the biggest learning for the acquirer bank was how to deal with large organizations like Bank Y. Bank X gained experience in how careful or how forceful change management had to be in order to transform a big organization as opposed to the integration of smaller target banks where more radical changes were possible. Knowledge transfer was a two way process in the sense that learning took place between individuals and within communities on both sides.

c. Questionnaire survey

In addition to the case studies of bank acquisitions in CESEE countries, an online questionnaire sent out to Austrian banking groups' acquired subsidiaries in the region helps answering the research questions and tests for the hypotheses of the applied model of knowledge transfer. The survey discovers factors influencing the development of knowledge transfer capabilities and the effectiveness of knowledge transfer in banking. Chini (2004) emphasizes the complex requirements of empirical multi-unit MNC research and the lack of objective measures for studies of knowledge flows. When testing for the proposed hypotheses, this paper places an emphasis on a perceptional approach, i.e. most variables of the model are measured via the indicated self-perception of subsidiary employees who participated in the online survey. The target population for the online questionnaire consists of bank employees in CESEE subsidiary banks owned by Austrian financial institutions. Since the focus of the investigation lies on know-how transfer within the post-acquisition integration, an important condition for the participation in the survey is that the subsidiaries have not been newly established but taken over by the group. Respondents had the possibility to either answer the questionnaire online via a survey platform or to send the filled in document via email. In total 24 questionnaires were answered. The invitation letter to participate in the survey as well as the questionnaire itself can be found in the appendix.

After highlighting the role of knowledge in international banking theories the first proposition that is established refers to the competitive advantage of foreign banks in emerging market economies. Foreign banks are assumed to have an advantage compared to their host country competitors in CESEE as a result of an effective knowledge transfer. The first question of the online survey asks what specific knowledge gives foreign owned banks a competitive edge. 19 out of 24 respondents consider foreign owned banks' risk management to be advantageous over home country banks in the emerging markets of CESEE. Respondents also indicate that expatriates most frequently took the function of risk managers. More than half of the answers show that IT and process management, refinancing and reputation are considered as sources of competitive advantage for foreign owned banks. These results support previous literature that suggested prudent foreign owners from mature market economies to frequently have a better credit risk management and FSFDI to lead to improvements in managerial efficiency in terms of input allocation and technology utilization (Eller et al., 2006).

When testing for the content of knowledge transfer it can be found that during the first year after acquisition mostly risk management knowledge is transferred to the new subsidiary. Considering that most respondents also see risk management as a main source of competitive advantage of foreign owned subsidiaries in CESEE, it seems reasonable for the acquirer to start transferring knowledge of this area early after takeover to improve the competitive position. Interestingly the transfer of risk management knowledge clearly rather belongs to the first year after acquisition than to later years. More than half of the respondents experience changes in company values and a transfer of strategic knowledge to happen during the first year after the takeover. During the later stage integration phase respondents mostly experience knowledge transfer to the areas controlling, products as well as practices and procedures.

Not only the content of knowledge transfer in banking is assumed to change over time after the takeover but also the transfer methods. In order to structure the various know-how transfer methods two clusters are built for the analysis of the results: one for HR measures and another one for ICT measures. Answers indicate that international teams and international meetings are most frequently used to transfer knowledge throughout the entire post-acquisition integration. In addition, centralized or on-site trainings were common HR measures in the first year after acquisition. Trainee and development programs, collaborative projects, corporate university and job-rotation are rather applied in later years when the new unit has already reached a certain level of integration into the group. ICT measures that are most frequently used during the early stage integration are reports, emails, manuals and company intranet. Results for ICT measures show a clear distinction between early and later stage integration. While during the first year after acquisition reports, emails, manuals and company intranet receive more than double as many answers as the rest of the knowledge transfer methods, answers for the later takeover phase are more evenly distributed. This clear preference for only a few transfer methods in the early integration stage might prevail by reason of reducing the complexity of the technological infrastructure in the critical first stage of the integration process. Later on a broader range of ICTs and knowledge management systems are used.

The adopted model of knowledge transfer (Schlegelmilch and Chini, 2002) suggests a certain organizational architecture consisting of channels, infrastructure and processes to support the free flow of knowledge within a multinational bank. Transmission channels consist of formal and informal mechanisms that enable the communication of knowledge. Formal mechanisms are operationalized in the survey as international teams, collaborative projects, task forces, permanent committees and international meetings and forums. It is assumed that informal mechanisms such as interpersonal relationships, familiarity and trust are developed through these formal mechanisms. The second knowledge transfer capability refers to the organizational infrastructure for the transmission of knowledge. It is operationalized through various knowledge management tools such as business intelligence and decision support systems as well as diverse ICTs including intranet, communication platforms, web-based groupware, virtual communities, e-room, computer-based training, databases and online guides. Knowledge process capabilities are the third element of the organizational architecture for knowledge transfer. They consist of four modes of conversion between tacit and explicit knowledge, namely socialization, externalization, internalization and combination. In order to develop empirical measures for these knowledge conversion processes, they are attributed to certain knowledge transfer methods in accordance with the suggestions of Becerra-Fernandez and Sabherwal (2001). Answers for each knowledge transfer capability are only counted once, i.e. if for instance a questionnaire shows that knowledge is transferred through international teams in both early and later takeover phase then the answer counts for only one developed knowledge transfer capability.

The first variable in the model that is considered to influence the development of transmission channels is the strategic mandate of the acquired subsidiary. Survey participants were asked to rate the importance of the market or environment their subsidiary is operating in and the importance and value of expertise and knowledge coming from their subsidiary to the entire group on a scale from 1 (not important) to 4 (very important). By inserting the answer values in the matrix it can be found that 11 respondents' subsidiaries fall into the implementer category, 10 are strategic leaders and only 3 can be classified as contributors. The model suggests that a better strategic position within the banking group has a positive influence on the development of transmission channels. Results show that a subsidiary's strategic mandate has no significant effect on the number of transmission channels (R^2=0,177) and the knowledge transfer infrastructure (R^2=0,054). As regards process capabilities it can be found that strategic leader subsidiaries on average develop more process capabilities. Implementer subsidiaries do not show higher levels of internalization and combination capabilities and contributor subsidiaries do not develop more externalization and socialization capabilities as opposed to what they are expected. Therefore H2/a) cannot be supported.

The ability to engage in knowledge transfer is rated via the subsidiaries' motivational disposition towards knowledge transfer and their absorptive capacity. In the model this variable is assumed to positively influence the development of knowledge transfer capabilities. Results show that the subsidiary's ability to engage in knowledge transfer has no significant influence on the development of knowledge transfer capabilities in terms of transmission channels (R^2=0,03), knowledge transfer infrastructure (R^2=0,05) or process capabilities. Due to technical problems with the survey platform to which the questionnaire was uploaded, the acquisition situation in terms of integration level and friendliness of takeover can only be evaluated for 14 out of 24 questionnaires. The remaining results indicate a slightly negative however not significant impact of the acquisition situation on the development of knowledge transfer infrastructure (R^2=0,093), no impact on the development of process capabilities (R^2=0,0002) and a positive impact on the development of transmission channels (R^2=0,534). Therefore H2/b) and H2/c) can neither be supported.

The adopted model assumes the effectiveness of knowledge transfer to be influenced by the developed knowledge transfer capabilities and the organizational and cultural distance between parent and subsidiary. Effectiveness is measured via the perceived benefit of knowledge transfer by subsidiary employees. Survey participants were asked to rate the benefits of knowledge transfer from the parent bank to their subsidiary on a scale from 1 (beneficial) to 4 (not beneficial). Over 90 percent of the answers indicated the know-how transfer to be rather beneficial or beneficial for the subsidiary. However none of the tested variables had a significant influence on the perceived effectiveness of knowledge transfer.

4. Conclusion and Discussion

This study analyzes the knowledge transfer from Austrian banking groups to their CESEE subsidiaries within the post-acquisition integration. Results from the case studies and the online questionnaire show that the content, methods and magnitude of knowledge transfer efforts change along the stages of post-acquisition integration. The intensity of transformation and knowledge transfer efforts is the highest during the first year after acquisition. Within this early integration stage expatriate managers from the Austrian head office, peer subsidiaries or consulting companies play an important role. They engage in integration and development projects and take over key positions in order to support the knowledge transfer to the new subsidiary. Information and communication technologies only play a marginal or supporting role. During the early integration phase the complexity of the technological knolwedg transfer infrastructure is rather low and information is exchanged mainly via reports, manuals, e-mailing, the company intranet or an e-room. Banks start using more developed knowledge management technologies only after the target subsidiary reaches a certain level of integration, people are integrated and new processes are standardized.

Other common HR measures refer to international teams, meetings and communities of practice as well as various training efforts on the management and also on the employee level. Main areas of knowledge transfer are risk management, company values, strategic knowledge, practices, controlling and products. Difficulties for the knowledge transfer arise from the coordination of integration projects, different organizational cultures and the acceptance of new knowledge by local people. Overall subsidiary employees perceive the knowledge transfer from the parent bank as very beneficial, independent of the type and number of transfer methods and independent of organizational and cultural differences between parent and subsidiary bank. While the acquired CESEE subsidiaries do originally not serve as knowledge reservoirs for the parent banks, knowledge transfer becomes multidirectional in the sense that new knowledge is created together, new best practices evolve and the whole group is able to learn from experiences made during the integration of the new subsidiary bank.

Implications for bank management are as follows. Perceived benefits of knowledge transfer by new subsidiary banks do not depend on the type and number of transfer methods and neither on organizational and cultural differences between parent and subsidiary bank. Instead the development of personal contacts, good communication and relations of trust via appropriate HR measures during the first year after acquisition are important factors for a successful knowledge transfer and change management throughout the whole integration process. Training efforts and information and communication technologies support the knowledge transfer throughout the whole integration process. Since the number of questionnaire participants was rather limited, further research needs to be done on factors influencing knowledge transfer in banking. In addition, geographical broadening will enable us to show changes in content, methods, intensity and direction of knowledge transfer during post-acquisition integration on a broader scale.

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Appendix

<u>Invitation Letter to Participate in the Survey</u>

Dear Madam, dear Sir,

foreign banks made major moves into Central and South Eastern Europe (CESEE). A usual claim is that these engage in technology and know-how transfer. Is that so, in which mode, which knowledge is transferred, and in which direction? Answers to these questions are important to market participants, regulators and policy makers.
I try to solve these issues in my master thesis on "Knowledge Transfer by Foreign Banks to Central and South Eastern Europe" at WU Vienna University of Economics and Business. While there are a lot of articles on foreign direct investment by banks, there is little evidence on know-how transfer.
I kindly ask you to complete a short questionnaire to help fill this gap. Documenting the various banks efforts is an important task. At the following link you will find a short questionnaire that asks a variety of questions on the topic. It will take you about 10 minutes to answer them.

Link: ***http://www.voycer.de/umfrage.html?sid=22454***

What I can offer in return is to send you a summary report of the findings. Just send me an email to Elisabeth.Schellander@gmx.at.
Many thanks in advance for your time and efforts! Responses will be treated anonymously and reported only in aggregate levels. I am sure that the results of the survey will be useful to bank management.
Sincerely,

Elisabeth Schellander

Questionnaire

1) In which of these areas do you think do foreign owned banks have a competitive advantage compared to home country banks in Central and South Eastern Europe?

O Products	O Refinancing
O Risk Management	O Reputation (Trustworthiness & Reliability)
O Rating Systems	O Ability to Provide Loans
O IT & Process Management	O Price
O Client Knowledge	Others please specify:
O Marketing	

2) What knowledge was transferred from the foreign parent bank to your bank?

In the early takeover phase (1st year after the acquisition)	**In the later post-acquisition integration phase?**
O Products	O Products
O Risk Management	O Risk Management
O Rating Systems	O Rating Systems
O IT Knowledge	O IT Knowledge
O Practices & Procedures (Process Management)	O Practices & Procedures (Process Management)
O Marketing	O Marketing
O Pricing	O Pricing
O Reengineering & Restructuring	O Reengineering & Restructuring
O Change Management	O Change Management
O HR Knowledge	O HR Knowledge
O Controlling	O Controlling
O Legal Knowledge	O Legal Knowledge
O Strategic Knowledge (Policies, Goals)	O Strategic Knowledge (Policies, Goals)
O Company Values (Mission, Identity, Corporate Culture)	O Company Values (Mission, Identity, Corporate Culture)
O Language	O Language

3) Which methods of knowledge transfer are/were used during the post-acquisition integration of your subsidiary into the bank group?

In the <u>early</u> takeover phase (1st year after the acquisition)	**In the later post-acquisition integration phase?**
O Intranet	O Intranet
O Communication Platforms	O Communication Platforms
O Web-based Groupware	O Web-based Groupware
O Virtual Communities	O Virtual Communities
O E-Room	O E-Room
O Computer-based Training	O Computer-based Training
O Decision Support Systems	O Decision Support Systems
O Email	O Email
O Business Intelligence	O Business Intelligence
O Databases	O Databases
O Information Repositories	O Information Repositories
O Reports	O Reports
O Manuals	O Manuals
O Online Guides	O Online Guides
O On-site Training	O On-site Training
O Centralised Training	O Centralised Training
O International Teams	O International Teams
O Action Learning Groups	O Action Learning Groups
O Collaborative Projects	O Collaborative Projects
O Task Forces	O Task Forces
O Job Rotation	O Job Rotation
O On-the-job-training	O On-the-job-training
O Permanent Committees	O Permanent Committees
O Trainee/Development Programs	O Trainee/Development Programs
O Mentoring	O Mentoring
O International Meetings & Forums	O International Meetings & Forums
O In-house (Corporate) University	O In-house (Corporate) University

4) Which positions and functions do/did expatriates take?

In the <u>early</u> takeover phase (1st year after the acquisition)	**In the later post-acquisition integration phase?**
O Functional & Technical Experts	O Functional & Technical Experts
O Managers	O Managers
O Team or Individual Assignments	O Team or Individual Assignments
O CEO	O CEO
O Commercial Managers	O Commercial Managers
O Auditors	O Auditors
O Risk Managers	O Risk Managers
O Finance & Controlling	O Finance & Controlling
O IT Experts	O IT Experts
O Supervisors	O Supervisors
O Human Resources Managers	O Human Resources Managers

5) What additional changes of knowledge transfer did you experience with the ongoing process of post-acquisition integration?

Please specify:____

6) How different do you think is your subsidiaries' national culture from the national culture of the Austrian parent bank?

Different ☐ ☐ ☐ ☐ Similar

7) How do you rate the differences between your subsidiary bank and the Austrian parent bank in the following categories:

Structure	Different	☐	☐	☐	☐	Similar
Processes and Practices	Different	☐	☐	☐	☐	Similar
Decision-Making	Different	☐	☐	☐	☐	Similar
Crganizational culture	Different	☐	☐	☐	☐	Similar

8) How do you rate the level of integration of your subsidiary into the group network?

Integrated ☐ ☐ ☐ ☐ Autonomous

9) How do you rate the friendliness of the takeover of your bank by the foreign/Austrian parent bank?

Friendly ☐ ☐ ☐ ☐ Hostile

10) How do you perceive the benefits of knowledge transfer from the Austrian parent bank to your subsidiary?

Beneficial ☐ ☐ ☐ ☐ Not beneficial

11) Please specify your position in the bank

O General management	O Controlling
O Sales Network	O Media & communications
O Human resources	Other please specify:
O Marketing	

12) How do you rate the strategic importance of the market or environment your subsidiary is operating in?

Very important ☐ ☐ ☐ ☐ Not important

13) How do you rate the importance and value of expertise and knowledge from your subsidiary for the entire group?

Very important ☐ ☐ ☐ ☐ Not important

14) How do you rate your subsidiary's ability to process new knowledge and apply it to its own operations?

Very good ☐ ☐ ☐ ☐ Not good

15) How do you rate your subsidiary's motivation to acquire knowledge from the foreign parent bank?

High ☐ ☐ ☐ ☐ Low

Thank you for your time and efforts! Responses will be treated anonymously and reported only in aggregate levels.

I am looking forward to providing you with the results of the survey. Please specify to whom I should send these.