Effective Knowledge Transfer and Knowledge Acquisition in International Joint Ventures

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Abstract
The importance of international joint ventures (IJVs), as business arrangements for firms to expand their international activities and enter foreign markets has increased the last years. In today's competitive markets the use of complementary resources in collaborative agreements, is for many enterprises the only means to expand internationally and gain global competitiveness. For many of these firms the importance of knowledge has increased and so has the relevant research and literature. Knowledge is regarded by many as a key competitive factor that contributes to the success of IJVs. It is widely accepted that the reasons for IJV failure are often knowledge related, a fact that underlines the importance of knowledge and knowledge transfer in the success of IJVs. An organization's effective learning process depends on a number of parameters related to the external and internal environment. These parameters, that facilitate the firm's ability to acquire, absorb and use knowledge efficiently, such as the trust between partners, the education level, the cultural distance, the access to knowledge, the prior international experience and the managerial commitment, will be described and explored. Furthermore, the ways to transfer knowledge and the contextual factors affecting this process are discussed. The objectives of the paper are, first, to present and analyze the process of knowledge transfer and the effective learning process in IJVs, and, second, to present a number of hypotheses on the contextual factors that have an impact on knowledge transfer in IJVs where at least one of the parent firms is Greek. These hypotheses will be tested empirically at a later stage.

Keywords: Organizational Learning, Knowledge Transfer, International Joint Ventures (IJVs)

Introduction

In recent years firms around the world are trying to expand internationally through collaborative agreements. Among the many different entry strategies, the popularity and importance of International Joint Ventures (IJVs) has increased substantially. The current very competitive environment has resulted in many forms of business collaborative arrangements intended to access knowledge, skills and resources that could not be produced internally by organizations in a timely and cost effective manner (Narula and Duysters, 2004). Cross border alliances and particularly IJVs have become one of the most common means of international expansion because they enable firms to compete in complex environments (Ernst and

Halevy, 2004; Briscoe and Schuler, 2004). Many researchers view IJVs as vehicles for knowledge transfer to local firms, enabling them to improve their performance and increase their efficiency and their effectiveness (Lane et al., 2001; Lyles and Salk, 2006).

Kogut (1988) suggests that IJV formation objectives can be classified in three general categories: knowledge acquisition, transaction costs reduction and strategic behavior. Furthermore, many researches agree that one of the main motives for IJV creation is knowledge sharing and transfer (Foss and Pedersen, 2002; Reid, Bussier and Greenway, 2001; Child and Faulkner, 1998; Shenkar and Li, 1999). Often the local partner contributes knowledge related to government regulations and market structure and distribution, whereas the foreign partner contributes formal knowledge, managerial know-how and technology (Park et al., 2008). More specifically, IJVs established in transition economies provide foreign partners easy access to market and local networks, which in turn contribute capital, know-how about the manufacturing, marketing and managerial competencies in the IJV (Griffith et al., 2001). Many researchers agree that successful knowledge transfer between partners is a key to IJV success (Inkpen and Beamish, 1997; Lyles and Salk, 1996; Steensma and Lyles, 2000).

Knowledge, learning and their impact on organizations became very popular topics among researchers in the 1990’s when the importance of human capital for the creation of competitive advantage started to increase (Nevis et al., 1995; Nordstrom and Ridderstrale, 2000). Research on the subject includes, but is not limited to the definition and description of the two types of knowledge, tacit and articulated (Hedlund, 1994), the learning process (Starbuck, 1992), the knowledge acquisition and the creation of value from useful knowledge (Brown and Duguit, 1991). In all cases, what is of main interest for researchers is the creation of new knowledge which is beneficial for firms, since it enables them to more accurately predict changes and opportunities in the business environment and to better determine appropriate strategies and tactical actions to face new challenges. Without knowledge, firms are less capable of making sound business decisions and exploit attractive and new opportunities (Cohen and Levithal, 1990).

Process of knowledge transfer

Knowledge transfer defined

The transition from the industrial age, when capital was the most important resource, to an era in which knowledge plays the most significant role has important implications for firms. One of the assumptions today is that learning and knowledge-based resources are the attributes that lead to a competitive advantage (Teece, 1998). Knowledge is presented as the most valuable resource and its transferability within and between firms has been determined as a key success factor (Grant, 1996) or as a critical strategic resource (Doz, 1996; Inkpen and Li, 1999). If this approach is accepted, then the critical question arising is how can firms broaden their knowledge resources? More specifically, how can they acquire and transfer outside knowledge and utilize the useful knowledge either at a personal or at an organizational level (Daft and Weick, 1984)? The extent to which companies will benefit from their new international relationships depends greatly on their ability to transfer knowledge.

According to Argote and Ingram (2000), "Knowledge transfer in organizations is the process through which one unit (e.g. group, department or division) is affected by the experience of the other". Knowledge transfer occurs at different levels, such as individual, group, product line or at a departmental level in IJVs (Linda and Paul, 2000). Empirical evidence has shown that companies able to transfer knowledge efficiently from one unit to another have increased possibilities for success compared to the ones that are less capable and experienced in knowledge transfer (Argote and Ingram, 2000).

The concept of knowledge transfer is difficult to capture, since there are no clear boundaries between knowledge transfer and the creation of new knowledge (Sahal, 1981). It can be determined as the first phase of the knowledge acquisition process: transfer, transformation and harvesting (Do, 2007). Knowledge transfer implies successful knowledge transfer (Bresman et al., 1999) and in the IJV context it can be measured by the change in knowledge or change in performance (Linda and Paul, 2000). In order for knowledge transfer to be considered successful and to add value it has to result in accumulation of new knowledge (Zander, 1991). Successful knowledge acquisition however does not always result to increased performance, since the knowledge transferred cannot easily fit the local environment (Lane et al., 2001).

Although organizations can benefit by transferring knowledge from one unit to the other, successful knowledge transfer can be difficult to achieve (Argote, 1999). As Szulanski (1996) argues, individuals unaware of why some processes and functions are especially efficient will not be able to transfer successfully their knowledge to others. Knowledge is often embedded in the processes, routines, values and norms of an organization. It is a complicated process and the differences between partners make it more complicated. More difficulties will arise when individuals for different reasons are not willing to share the knowledge and information they possess (Stasser and Titus, 1987).

The establishment of an IJV facilitates knowledge transfer through the creation of a stable and long term relationship between partners, which allows the development of trust (Beamish and Banks, (1987). IJVs in developing countries are not a race contest as Hamel (1991) suggests, but collaborative agreements that can lead to a competitive advantage through the combination of their resources for the creation, storage and application of knowledge (Grant and Baden-Fuller, 1995). In some cases, the partners' main objective is to gain knowledge, whereas in other cases they follow a more passive approach to knowledge acquisition (Inkpen, 2000). According to Lane and Lubatkin (1998), the foreign parent-joint venture relationship can be viewed as a teacher-student relationship. Knowledge transfer depends to a great extend on the foreign partner's willingness to share knowledge. The greater the foreign partner's willingness is to provide support in the form of managerial, marketing and technology resources, the greater the chances for the IJV to learn and internalize this knowledge (Hamel, 1991; Steensma and Lyles, 2000).

Researchers have developed and proposed different knowledge acquisition patterns between partner firms. According to Inkpen (2000), "learning is initiated when partners interact with their environment and are exposed to various sources of information". He presented the following knowledge acquisition framework (Figure 1). It introduced among others, factors such as the level of trust between partners, their prior relationships and their experience with alliances, the knowledge accessibility and relatedness and the relationship and knowledge characteristics. He suggested that if partners want to learn from each other they should interact and that, unless there is knowledge exchange, knowledge acquisition cannot occur. The knowledge exchanged varies from very simple information to more important "strategic" information exchange.

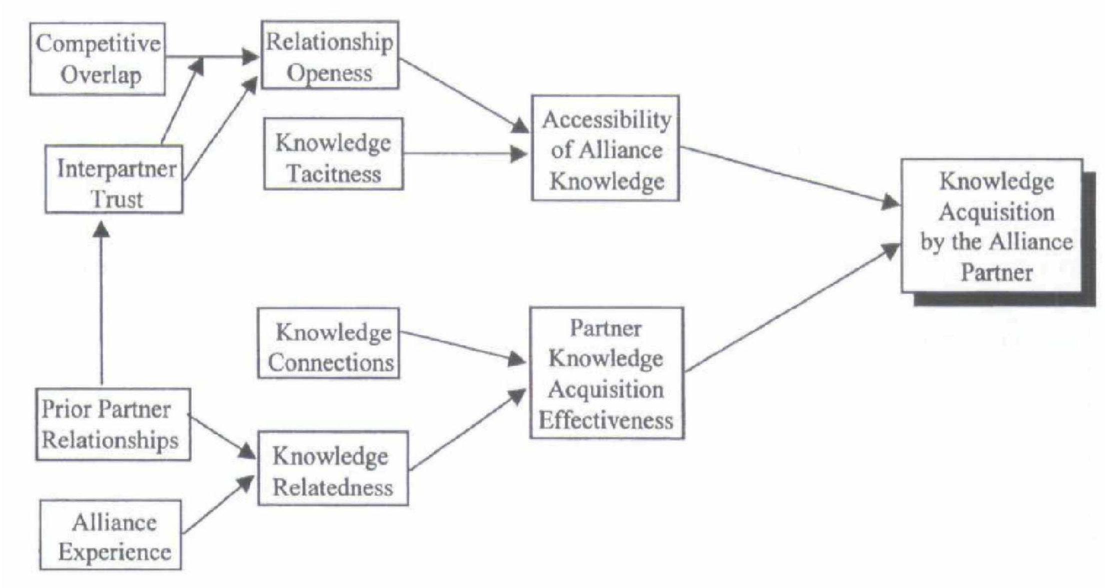

Figure 1: Knowledge acquisition framework
Source: Inkpen, 2000.

Knowledge transfer unlike information transfer is a complicated process and depends on how easily it can be transferred, interpreted and absorbed (Hamel et al., 1989). In the IJV context, knowledge acquisition can be examined from three different perspectives:

A: Acquisition of knowledge useful for the design and organization of other alliances (Lyles, 1998). This knowledge can be used for managing future alliances.
B: There are firms that seek access to knowledge and skills without the intention to use them in their own processes. Partner learning is important in cases in which firms want to combine their knowledge and skills in some form of cooperation (Doz and Hamel, 1998).
C: The knowledge created by an alliance can be used by the partners for the creation of managerial strategy of firms unrelated to the alliance. This knowledge can be used by one partner independently from the other (Khanna et al., 1998) and it is defined as "alliance knowledge" (Inkpen, 2000).

"Alliance knowledge" is related to the partner's skills and knowledge and differs from the second type of knowledge because it is important for the partners even outside the alliance. This useful knowledge can be transferred into the alliance from a partner, or can be created independently from the alliance, through relations with clients, competitors and other firms. Hamilton (1995) describes the case of

Sony, which has a large number of alliances with telecommunication and technological firms in order to create new relationships with clients.

IJVs are often regarded as unstable business arrangements, with a high degree of uncertainty; knowledge transfer and acquisition can play a critical role (positive or negative) to their stability. Instability in IJVs can result from a change in the knowledge balance between partners (Inkpen and Beamish, 1997). Furthermore, foreign partners do not always enter the alliance with specific knowledge acquisition plans. Access to knowledge originating in the local country however is an important motivating factor for them to choose to form an IJV compared to direct investment in the local country. Knowledge acquisition related to local conditions by the foreign partner is a key resource of the local partner and is an important bargaining tool since foreign partners depended on local partners knowledge (Yan and Gray, 1994).

Factors affecting knowledge transfer

There are many challenges involved with the knowledge transfer process, which is influenced by several different parameters. A number of factors that contribute to the creation of a favorable environment and have a positive impact on knowledge transfer have been identified and examined by researchers. These factors can be classified as **a)** knowledge related (type, characteristics and attributes of knowledge) and **b)** context related (organizational and environmental aspects). One of the objectives of this paper is to present and analyze some of the most frequently contextual factors that affect knowledge transfer mentioned in the literature.

It has been shown that in cases of equity IJVs, where a new independent firm is established, knowledge transfer takes place within the organization more effectively compared with other types of agreements, such as licensing (Mowery et al., 1996). Kogut (1988) also reported similar findings and argues that JVs are used for the transfer of organizationally embedded knowledge, which cannot be formalized and codified. Similarly, Uzzi (1996) has concluded that more tacit knowledge is transferred thought a network of firms than across independent firms.

Motive also affects knowledge transfer. The more value partners see in knowledge acquisition, the greater their drive will be to learn and they will seek to acquire this useful knowledge more aggressively (Inkpen, 2000). In some cases the alliance formation can lead to a positive experience where all partners gain knowledge through their collaboration. Other times, however, the dominant partner is the one that learns faster (Hamel, 1991). Often, when there is high knowledge overlap, partners are very reluctant to share their knowledge, worrying that this knowledge my lead to the creation of a new competitor (Inkpen, 1998).

Commitment is also a significant determinant of successful knowledge transfer. The commitment of all partners is important for the IJV to accomplish its goals and retain its stability (Lin and Germain, 1999). The foreign partner’s commitment is closely associated with its willingness to invest resources in the relationship. These resources are often not limited to assets, but can include training and support in order to make the transfer of knowledge a success.

Characteristics of the task and procedures were also found to have an impact on knowledge transfer. The more similar the elements of the tasks the greater the chances for transfer (Thornidike, 1996). In accordance with this, Darr and Kurtzberg (2000) also concluded that the degree of task similarity increases the chances of successful knowledge transfer at an organizational level.

Hauke (2006) argues that among the factors that affect knowledge transfer, organizational culture is a critical one. It can play an important role in the achievement of the firm’s international success and has a positive influence since it stimulates communication and cooperation between employees and partners. The degree of similarity between organizational cultures also affects knowledge transfer; the greater the cultural alignment between the alliance and the partner managers, the higher the chances of effective learning transfer and learning (Inkpen, 1998). On the contrary, cultural distance and differences in organizational cultures might have a negative impact on knowledge transfer and reduce the competitive advantage of firms.

The nature of social ties also affects knowledge transfer. Hansen (1999) suggests that weak ties (infrequent and distant relationships) between units facilitate knowledge search in other units. When, knowledge is simple and can be codified, “weak ties” will result to a reduction of the required time to accomplish a project. When, however, knowledge cannot be codified, “strong ties” will allow for continuous interaction, promote knowledge acquisition and are expected to decrease project completion times. Furthermore, social ties allow for better opportunities to share knowledge and experiences, to develop trust and cooperation (Granovetter, 1985). Indicators of the nature of social ties between foreign and local partners are the level of emotional support, the managerial expertise and the time devoted to the partnership (Uzzi, 1996; Kale et al., 2000; Uzzi and Lancaster, 2003).

In most instances, the foreign partner contributes managerial and technological know-how in addition to capital resources to the IJV. How close the relationship between the partners and the IJV is, varies from case to case; some foreign partners choose to have a “loose relationship” with the IJV and limit their contribution to few resources. Communication in these cases is limited and is conducted mostly through formal channels. In other instances partners have a closer and more active relationship; communication is less formal and takes place whenever there is a need. This close relationship through personal contact or teleconferencing leads to a “level of comfort between the parties” (Dhanaraj et al., 2004).

Personal contacts and face-to-face communication are important and well suited in order to identify and understand the knowledge to be transferred (Argote, 1999). Inkpen (1998) identifies four managerial practices that facilitate learning in alliances and parent firms: **a)** personnel exchanges, **b)** technology transfer, **c)** alliance and parent interactions (tours, visits of facilities), and d) links between the alliance members’ strategies.

Bresman et al. (1999) examined and proposed the following framework for knowledge transfer (technological know-how) in Swedish international alliances. He has concluded that communication, visits and meetings played an important role in the knowledge transfer process. He also found that as time from the acquisition passes by, the type of knowledge transferred changes. At the early stages of the alliance formation, the knowledge transferred is less complicated compared with the knowledge transferred at later stages. His findings also suggest that the size of the unit affects positively knowledge transfer, since larger firms have more resources to contribute to the alliance (and thus more individuals will be involved with the process).

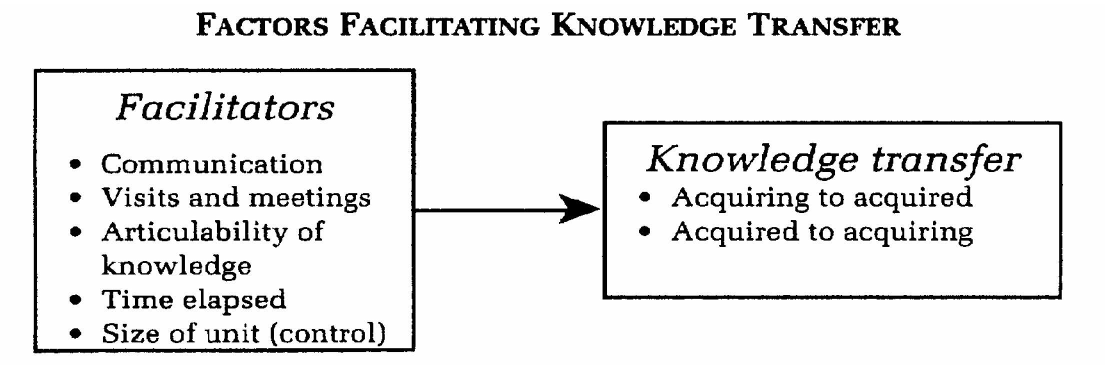

Figure 2: Model of factors affecting knowledge transfer.
Source: Bresman et al., 1999.

On the contrary, other researchers have concluded that a close relationship between partners does not have an impact on the IJV’s knowledge transfer and absorptive capacity (Lane and Lubatkin, 1998; Kale et al., 2000).

Trust between partners also influences knowledge transfer. Uzzi (1997) defined trust as the “the belief that an exchange partner would not act in self-interest at another’s expense”. In addition, trust implies that partners will not take advantage of each other’s weaknesses (Steensma and Lyles, 2000). Trust plays an important role in alliance creation, since a contract will not cover the differences and disagreements that may arise. In addition, it allows access to resources and often results to common problem solving. It also determines the degree to which knowledge exchange between partners takes place, the efficiency and the effectiveness of this exchange.

Furthermore, trust leads to a common understanding of the partners’ and the IJV’s managerial staff (Dyer and Noboeka, 2000). Trust between partners influences positively the level of knowledge sharing and the IJV’s performance (Curral and Inkpen 2002; Boersma et al., 2003). When a relationship characterized by trust has been established, it is easier for each member of the alliance to concentrate on the essential tasks, and not worry about the aims and actions of the other members. Common values and systems increase the degree of embeddedness between the partners and the IJV. Trust between partners can exist because of foreign partner’s reputation, the presence of social ties and common systems. There are cases however, where an IJV implements the foreign partner’s philosophy and values without the presence of mutual trust and social ties between partners. Based on the above we propose:

Hypothesis 1: As the level of trust between the Greek and non-Greek IJV partners increases so does knowledge transfer.

Equity ownership (control) also affects knowledge transfer. Control is defined as the “ability to influence systems, methods and decisions” (Pak and Park, 2004). It is expected that when each party shares equally the ownership of the IJV, they will both contribute resources and knowledge and will utilize them effectively. Empirical results however, regarding the effect of IJV equity on knowledge transfer have been mixed. Killing (1983) makes a distinction between the “dominant partner” and the “shared management” IJVs. He argues that a 50/50 equity sharing between partners might create problems especially when cultural differences exist and no partner has the control. Thus, dominant partner IJVs would be expected to be more successful than the equally shared equity ones, since coordination among partners can be very challenging. Dominant partner IJVs can reduce the risk associated with coordination. A study of Korean IJVs by Pak and Park (2004, however, did not show any statistical significance or positive relation between equity structure and knowledge transfer.

On the contrary, shared management IJVs studied by Salk (1992) were found to affect knowledge transfer from both partners positively. In accordance, Lyles and Salk (1996) argue that equal ownership of an IJV would result to the best learning outcome for all members of the alliance. In their study on Hungarian IJVs they have found that to a certain extend, knowledge acquisition is affected by ownership type and that equal ownership results to the best condition for learning. Furthermore, their results indicate that when the local partner has the control of the IJV, then a lack of knowledge acquisition and transfer may result. They conclude that the absence of a dominant partner often leads to increased communication and interaction between partners in order to resolve problems. Thus we hypothesize that:

Hypothesis 2: The equally shared ownership (50/50) will lead to more knowledge transfer to the local partner compared to other forms of equity structure in IJVs between Greek and non-Greek partners.

Prior experience also plays an important role in knowledge transfer. Experience can be defined as the firm’s prior collaboration with a local firm before the current partnership (Pak and Park, 2004). According to Barkema et al., (1997) the capacity to collaborate with others can be learned from previous experience in IJVs. Companies with IJV experience have a better understanding of the learning opportunities (Inkpen, 1995) and are expected to benefit more in regards to learning, since there is a greater possibility that incoming knowledge will be in a familiar form (Simonin, 1999). Powel et al. (1996, p. 120.) argue that “prior knowledge facilitates the utilization of other knowledge. What can be learned is crucially affected by what is already known”. Similarly Inkpen (1998) suggests that firms with prior collaborative experience are more likely to value the learning opportunities arising from the new alliance formation. Furthermore, as firms start collaborating they develop experience in the management of alliances and a reputation as partners.

Research, however, of Multinational Corporations (MNCs) in the Korean context, has shown a negative relationship between knowledge transfer and prior experience. The findings imply that when MNCs gain collaborative experience with Korean partners, they become more reluctant to transfer knowledge to the local partner. An explanation could be that firms with prior experience have less need for local support, a fact that could increase their bargaining power (Pak and Park, 2004). Based on these findings, we propose the following hypothesis:

Hypothesis 3: If a partner has former experience in IJV formation and management (alliance management), more knowledge will be transferred to the current partner in IJVs between Greek and non- Greek partners.

Prior relationship between the partners also facilitates knowledge transfer since it leads to the creation of trust. According to Inkpen (1998) two types of knowledge should be considered "knowledge of the partner and knowledge about alliance management". The relationship between the IJV's partners, can be characterized and evaluated based on a) the strength of their social ties, b) the level of trust between them, and c) the degree to which they share processes and values (Kale et al., 2000; Cohen and Prusak, 2001). Similarly, Heide and Miner (1992) argue that when firms have collaborated in the past, they will have a better understanding of each other's capabilities and knowledge resources because a relationship building, which facilitates knowledge transfer has already occurred. Similar findings by Inkpen (2000) suggest that previous collaboration ties between the partners are positively associated with knowledge transfer. Thus, we propose that:

Hypotheses 4: The more extensive the firms prior collaboration and relationship, the more likely that successful knowledge transfer will result in IJVs between Greek and non- Greek partners.

Conclusion and objectives for further research

IJVs are collaborative agreements in which firms contribute knowledge and other resources hoping to gain more than what they have contributed. As companies continue their effort to build on competitive advantage, the importance of knowledge as the most important resource continues to grow. Successful knowledge transfer between the partners and the IJV contributes to a great extend to the success and to the performance improvement of the new firm. This paper presented and analyzed the process of knowledge transfer and some of the major contextual parameters that affect this process.

The first section presented the process of knowledge transfer, which is a rather complicated process since the outcome cannot be easily defined and measured. In the second part, some of the most important factors that affect the transfer of knowledge, as identified in the international literature, were analyzed and discussed. The focus of the paper was to discuss the contextual (environmental/firm) related factors and not the types and characteristics of knowledge transfer, an issue that should be also considered and explored, since it affects the process as well.

The review of the literature presented in this paper underlines the need for further research on the issue of knowledge transfer in IJVs. We intend to study it in IJVs where at least one of the partners is a Greek firm, a case that to the best of our knowledge has not been researched until now. This paper sets the ground for this research. More specifically, we intent to investigate the parameters that facilitate knowledge transfer within international alliances with at least one Greek partner. Our main research topic will be to identify the relationship between knowledge transfer and the factors that affect this transfer. In order to better comprehend these factors and their importance, we have developed for examination four hypotheses based on relevant literature. Our research will focus on the level of trust between partners and its impact on knowledge transfer. We argue that as the level of trust among partners increases so does the quantity of knowledge transferred. The type of ownership and its effect on knowledge transfer will also be examined. Empirical research on the issue has produced mixed results: some findings indicate that the absence of a dominant partner will negatively affect knowledge, whereas other researchers argue that the presence of a dominant partner will result to more efficient problem solving processes. We propose that "equal ownership" IJVs will lead to more knowledge transfer than in other forms of equity. The partners' prior alliance experience and its effect on knowledge transfer will also be examined. We propose that since learning is a cumulative process, prior experience in alliances will allow partners to better understand each other's strengths and weaknesses and will enable them to more accurately determine learning opportunities and will enhance knowledge transfer. Finally, the impact of prior relationships between the partners will be explored. We propose that prior ties between partners provide them with a better understanding of each other's characteristics and learning opportunities and positively affect the transfer of knowledge.

The validity of the above hypotheses will be examined and the importance and the degree to which the above factors affect the knowledge transfer process will be determined. A questionnaire will be designed and sent to the managers of firms that have formed IJVs in which at least one the partners is Greek. The questions will determine the parameters that affect knowledge transfer. The results will be analyzed statistically and the findings will be discussed and presented in a way that will contribute to the subject of knowledge transfer in the Greek context in which knowledge transfer in IJVs has not been researched.

The creation of IJVs does not by itself ensure learning and knowledge transfer; managers need to take measures to make this happen. In order to do so the understanding of the parameters affecting knowledge transfer and their impact is crucial. The findings of this research will become a valuable tool with many practical implications for managers involved in the formation and management of IJVs.

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