



# Knowledge transfer capacity of multinational enterprises and technology acquisition in international joint ventures

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## ABSTRACT

This paper examines the impacts of the knowledge transfer capacity of multinational enterprises (MNEs) on the extent to which international joint ventures (IJVs) acquire technology. Although MNEs' capability to transfer knowledge is a key catalyst for IJVs to learn new information, extant literature currently sheds light on only student's absorptive capacity and neglects teacher's fundamental ability. Of course, there is no doubt that knowledge acquisition is not only determined by knowledge transfer capacity but also highly influenced by absorptive capacity. However, what we suggest here is that knowledge transfer capacity should not be omitted in the discussion of knowledge transfer. We design a series of propositions to test positive relationships between the capability of foreign firms and IJVs' technology acquisition. Using a sample of IJVs in Korea, the paper contributes to the literature by confirming that IJVs' learning also significantly depends on some key factors associated with foreign parents' capabilities. Based on the results, this study also provides some useful implications for MNEs which intend to establish IJVs in foreign markets.

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## 1. Introduction

As global competition continues to intensify, knowledge is increasingly becoming the crucial strategic resource which helps to win against other competitors in today's struggle for success (Lyles & Salk, 1996). The reason why knowledge is often referred to as critical for organisational success is based on its fundamental characteristics. The inflow of new knowledge that has not been internally available commonly promotes organisational renewal and strengthens sustainable competitive advantage (Inkpen, 1998). Due to this, a number of international business scholars (e.g., Hamel, 1991; Lane & Lubatkin, 1998; Lane, Salk, & Lyles, 2001; Lyles & Salk, 1996) have perceived the acquisition of new sophisticated knowledge as the shortcut leading to the creation of sustainable competitive advantages.

How then do firms acquire knowledge-based capabilities from other firms? Although there may be various ways to gain new knowledge, the establishment of international joint ventures (IJVs) is seen as one of the most efficient means to learn or absorb technology and tacit know-how that is organisationally embedded (Kandemir & Hult, 2004). From a knowledge acquisition standpoint, the key forte of the IJVs is especially to access each other's complementary capabilities between the parent organisations, which have different national origins, and thus internationally transfer critical skills or capabilities.

Given the importance that firms place on forming IJVs to exploit learning opportunities, various factors that might affect the knowledge acquisition in IJVs have been examined (Anh, Baughn, Hang, & Neupert, 2006; Lane et al., 2001; Lyles & Salk,

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1996; Park, Giroud, Mirza, & Whitelock, 2008). Through these empirical studies, researchers suggest that IJVs' absorptive capacity is a critical factor impacting on the process of knowledge acquisition (Cohen & Levinthal, 1990). According to their explanation, absorptive capacity is a prerequisite for organisational learning in the sense that it refers to internal resources that strengthen a firm's ability to understand, assimilate new knowledge and apply it to commercial ends. Thus, the acquisition of new knowledge is the product of organisational capabilities that enable a firm to promptly recognise and adequately digest external sources of new inflowing knowledge that replaces or amends existing information.

Another key concept, equally important with absorptive capacity and varyingly illustrated by extant empirics, is relational capital such as control, trust and cultural distance. This is because the maximisation of this absorptive capacity is often accomplished by relational capital promoting a favourable learning environment within an organisational context. In other words, it is important to understand that although IJVs are effective platforms for knowledge acquisition, giving firms access to the skills and competencies of their partners, the increase of their absorptive capacity is not likely to occur without appropriate control by parents (Makhija & Ganesh, 1997), trust between parents (Norman, 2004) and cultural compatibility with knowledge transferors (Simonin, 1999).

Despite the logical view that absorptive capacity is the basis for learning capabilities and although firms often emphasise the significant associations between relational capital and knowledge acquisition, we suggest that IJVs hardly learn even explicit technology in the case where knowledge transferors do not have sufficient knowledge transfer capacity. That is, knowledge acquisition in IJVs is a difficult, frustrating and often misunderstood process when both absorptive capacity and relational capital are not in harmony with a teacher's knowledge transfer capacity. Although it is a strategically important notion that is worth examining, extant literature currently sheds light on only student's absorptive capacity and neglects teacher's fundamental ability by attributing knowledge acquirers' failure to their own lack of learning capability. Two notable exceptions that have attempted to propose key factors affecting organisational knowledge transfer capacity are studies by Garud and Nayyar (1994) and Martin and Salomon (2003). However, the definition of knowledge transfer capacity suggested by Garud and Nayyar (1994, p. 365) is different from common knowledge in that they interpret it as ability to maintain internally developed technology over time. In addition, although Martin and Salomon (2003) test a multi-dimensional knowledge transfer capacity, their model could only capture a part of the constructs by focusing on entry mode rather than learning in organisations.

To date, knowledge transfer capacity of multinational enterprises (MNEs) has received little attention in the international business area despite its playing a pivotal role in initiating knowledge acquisition in IJVs. In this regard, the essential purpose of this paper is to determine key components within MNEs' capability to transfer technology (i.e., its main objective is to introduce the concept of knowledge transfer capacity and confirm its substantial importance for the discussion of IJV knowledge acquisition). By adding the foreign firm's knowledge transfer capacity as an additional explanatory factor, the contribution of this paper is to complete a clear picture showing knowledge acquisition in IJVs. To meet the research objective, the paper's point of departure is a brief review of the research on knowledge acquisition in IJVs. We then extract key elements in order to develop specific hypotheses on how the knowledge transfer capacity of foreign firms impacts on technology acquisition in IJVs. A series of regressions confirm that technology acquisition in IJVs is significantly dependent upon foreign parents' behaviour. Finally, suggestions for future research are proposed and the paper concludes with implications for MNEs which intend to establish IJVs in foreign markets.

## 2. Knowledge acquisition in IJVs

Two components are often referred to as key determinants affecting IJV knowledge acquisition: absorptive capacity and relational capital furthering an effective learning environment. Because IJV success is closely associated with learning and knowledge acquisition, both foreign and local parents are urged to create a favourable environment conducive to knowledge acquisition (Norman, 2004). In addition, organisational learning scholars (e.g., Cohen & Levinthal, 1990; Lyles & Salk, 1996) emphasise that knowledge acquisition is not feasible without the ability of IJVs to acquire new knowledge, which is connected to a firm's absorptive ability. This section explains how strongly knowledge acquisition can be influenced by absorptive capacity and learning environment.

### 2.1. Absorptive capacity

Absorptive capacity has received a lot of attention from the research community as the most significant determinant of organisational learning. Due to its importance, there have been many attempts to define it. For example, Zahra and George (2002, p. 186) define it as a set of organisational routines and processes by which firms acquire, assimilate, transform and exploit knowledge to produce a dynamic organisational capability. In contrast, it has also been defined by Kim (1998) as the combination of prior knowledge base and intensity of effort. However, probably the most widely cited is the definition suggested by Cohen and Levinthal (1990), who initially coined the concept: "the ability to recognize the value of new external information, assimilate it and apply it to commercial ends" (p. 128). That is, if we apply absorptive capacity to knowledge acquisition in IJVs, it refers to the ability of the firm to recognise the value of new parent knowledge and may involve a sense-making process whereby the IJVs link the new knowledge to existing knowledge and a diffusion activity to generate new knowledge from it (Lane et al., 2001). Thus, the greater the absorptive capacity of the IJV, the more knowledge it can acquire from parent firms.

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