

# **Knowledge Acquisition from MNE in International Joint Ventures in China**

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# **Abstract**

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Degree of Master of Philosophy- MPhil

## **Knowledge Acquisition from MNE in International Joint Ventures in China**

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Research on knowledge acquisition in transitional economies has attracted the attention of many scholars of international business. Although previous research has already unearthed some factors influencing knowledge acquisition, the research in transitional economies is not as mature as that in developed economies given the different situation and complex environment in the developing market. The Chinese market is a market deserving of research because of its successful economic development, the relevant international knowledge acquisition issues and its complex social environment. Previous literature lacks deep analysis of Chinese knowledge acquisition from foreign partners. This research tries to fill in the gap by analysing the knowledge acquisition process in depth, in the specific environment of China.

This research analyses the FDI environment in China, and concludes that knowledge acquisition in China remains on a superficial level without an improvement of innovation. In accordance with previous literature, this research combines resource-based view, network view and institutional view together to propose factors influencing the depth of knowledge acquisition in China.

The main contribution of this research is as follows: the first main contribution is that it combines IJV, parents' relationship, MNE network and institutional environment together to find out factors influencing the knowledge acquisition process in China; the second main contribution is that, by proposing key specific factors influencing knowledge acquisition from MNEs, this research argues that knowledge creation within IJV, cultural distance between parents, trust between parents, business ties between top managers in IJV and local firms and political ties between top managers in IJV and governmental officials are the most important factors for IJV's knowledge acquisition from MNEs.

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# **Chapter 1 Introduction**

## **1.1 Introduction**

The structure of this chapter is as follows: to begin with, it introduces the research background by reviewing previous research together with its respective limitations. Based on that, it then proposes research questions. Following this, the chapter demonstrates the importance of this research. Finally, the chapter illustrates the structure of this thesis.

## **1.2 Research background**

How firms achieve and sustain competitive advantage in the market is the essential research question most scholars attempt to answer in international business. Since the 1980s, scholars have started to regard firms as bundles of resources and have begun to work out firms' strategic resources. As knowledge has been broadly agreed upon as the most important resource, acquisition of valuable knowledge has become a critical strategy for firms seeking to gain above-normal profits in the international market (Grant, 1996; Gupta and Govindarajan, 2000; Inkpen, AC. 2000).

Scholars' attention was initially devoted to a single firm, but then extended to the MNE network with the emergence of the globalization of international business. MNE is an organization comprising headquarters and subsidiaries those form an internal network geographically dispersed between different countries (Ghoshal and Bartlett, 1990). The superiority of efficiency of knowledge sharing and acquisition within internal MNE over market transaction is the reason for the existence of MNE (Kogut and Zander, 1992, 1993). Among various entry modes, IJV is one of the most popular forms of cooperation between MNE and local partners and so is suitable for knowledge acquisition between MNE and local



partners (Inkpen and Dinur, 1998; Pan, 1996; Yiu and Makino, 2002). However, cross-border knowledge acquisition remains a tough and complicated process, and scholars have researched the factors influencing the different aspects of IJV acquiring knowledge from MNE.

One stream of literature focuses on factors within IJV influencing knowledge acquisition from MNE. From the knowledge receivers' perspective, learning intent and absorptive capacity could have a positive influence on the knowledge acquisition process (Lyles and Salk, 1996; Simonin, 2004). However, the research ignores joint activities between foreign and local partners within IJV, which are critical for upgrading knowledge not only on an individual level but also an organizational level, despite the existence of several articles (Evangelista & Hau, 2009). Besides this, the size, age and power control of IJV may also influence the knowledge acquisition process, although previous research has not achieved convergence on the conclusion (Simonin, 2004; Tsang, 2004; Gupta and Govindarajan, 2000; Lane and Lubatkin, 1998; Lyles and Salk, 1996).

Another stream of literature examines the influence of parents' relationships on knowledge acquisition. Some scholars examine compatible relationships between parents or support from MNEs which could promote the knowledge acquisition process, especially when knowledge receivers are lacking absorptive capacity; others examine conflicts between parents, such as cultural distance and organizational conflict, which could inhibit the knowledge acquisition process between cooperative partners (Hau and Evangelista, 2007; Park, Giroud and Glaister, 2009). Parents with good quality relationships are willing to provide support for knowledge acquisition. On the contrary, conflicts originating from cultural distance and language misunderstanding will inhibit the parents' sense of satisfaction surrounding the cooperation. It is difficult to acquire knowledge with a sticky quality across borders because of the conflicts between parents. For example, when knowledge with a sticky quality is transferred from parents to IJV

in the Chinese market, conflicts among parents due to differing evaluations on firms' achievements could result in the dismissal of IJV. However, under different circumstances, the issue of which kinds of parent relationships have influence on knowledge acquisition is still vague and should be examined carefully.

Another line of literature tries to pinpoint the influence on knowledge acquisition from the perspective of the MNE network. As IJV is a subsidiary of MNE, scholars frequently underline the dyadic relationship between parents and IJV. Therefore there has been research conducted into the relationship between headquarters and subsidiaries, which influences knowledge acquisition within MNE. In this sense, MNE is regarded as a network of relationships, and the extent to which IJV is embedded in the MNE network is also considered. Subsidiaries are controlled by headquarters and are also related to other subsidiaries. This stream of research is still developed and it is necessary to examine factors influencing knowledge acquisition from the perspective of the MNE network in specific environments, such as in China.

Another stream of literature underlines the influence of institutional environment on IJV's knowledge acquisition. Subsidiaries of MNE are dispersed in different countries with a heterogeneous local market. The difference is especially large between the developed and developing market. In developed countries, firms can operate on the grounds of shaped market mechanism, which has common rules and regulations among the developed market without the intervention of government. However, the environment of developing markets is dynamic and different from that in MNE's home countries. The infancy of market mechanisms means that information and critical resources are not easy to access. Furthermore, in the transitional market, the government still has great influence over planning, implementing and changing market policies. For example, IJV has been adopted as the most popular MNE entry mode in China not only because MNE needs

local channels to complement the shortage of market mechanism and adapt to institutional environment such as culture, economy and politics in host countries, but also because it is an entry mode stimulated by Chinese government. As the local environment participates in the whole MNE network linkage, according to some scholars, social context could have an influence on knowledge acquisition (Lu, Tsang and Peng, 2008). By establishing IJV that is related to customers, suppliers and competitors, MNE could build relationships with local partners to gain market knowledge. Furthermore, IJV's local business network could have an influence on IJV's knowledge acquisition behavior. On the other hand, there is also a non-business relationship between IJV and knowledge sources such as universities, research institutions and governmental office. These non-business relationships could bring specialized, leading-edge knowledge to IJV, which broaden the scope and also strengthen the depth of knowledge in IJV to help promote performance and innovation. For example, in developing countries where government has power over the behavior of a firm, IJV's relationship with central and local government has influence over IJV acquiring knowledge and resources from local market. However, there is limited research on whether the relationship between IJV and institutional environment could have a direct influence on IJV's knowledge acquisition from MNE, hence it will be explored further in this dissertation.

### **1.3 Research questions**

Based on previous research and its limitations, this study will aim to answer the following questions:

**What kinds of factors, especially in the Chinese market, influence IJVs' knowledge acquisition?**

This question will be divided into several sub-questions:

- 1- In the Chinese market, what kinds of factors **within IJVs** influence IJVs' knowledge acquisition from MNEs?
- 2- In the Chinese market, what kinds of factors **related to parents' relationships** influence IJVs' knowledge acquisition from MNEs?
- 3- In the Chinese market, what kinds of factors **related to the network of MNE** influence IJVs' knowledge acquisition from MNEs?
- 4- In the Chinese market, what kinds of factors **related to institutional environment** influence IJVs' knowledge acquisition from MNEs?

## **1.4 Importance of this research**

Knowledge is a critical resource within the modern business world that firms use to sustain competitive advantages (Inkpen, 1998). As no firm can obtain all valuable knowledge internally, acquiring valuable knowledge from external sources has become the most important means of updating a firm's knowledge. As a result, scholars have researched the question of a firm's knowledge acquisition from the perspectives of a firm's characteristics, network characteristics and institutional environment. However, the knowledge acquisition process is complicated and different in geographically dispersed environments, so the systematic process of knowledge acquisition under specific environments still needs to be researched (Kogut and Zander, 1993; Ghoshal and Bartlett, 1990).

The Chinese market has attracted a large proportion of FDI since the government opened the market in the 1980s. However, as a socialist country experiencing the transition from planned economy to market economy, the Chinese market is both imperfect and rapidly changing. Moreover, the institutional environment is very different from that in developed countries. In this case, it is valuable to research knowledge acquisition under these specific conditions in order to clarify the knowledge acquisition process in China and generalize conclusions in the cases

of similar environments in transitional economies. As IJV is the most popular entry mode encouraged by the Chinese government and adopted by MNEs, and seeing as it is also a platform for knowledge transfer and acquisition by combining foreign and local partners in IJV, it is valuable for this research to unearth the factors influencing IJV's knowledge acquisition from MNE in China.

## **1.5 Structure of dissertation**

The dissertation is structured as follows:

The first chapter introduces previous research on IJV knowledge acquisition and limitations, then introduces research questions, and details the importance of this research and research contribution.

The second chapter gives the research philosophy that could be regarded as theory guidance for methodology. Then it provides the research method applied in this research.

The third chapter elaborates upon the theories those provide background to this thesis in the order of resource-based view, network view and institutional view. It then combines these theories with an application of these theories in this research.

The fourth chapter provides an introduction to the business environment of China. It introduces the history of FDI in China, the importance of FDI for the Chinese economy and the development of local business environments after the importing of FDI to China.

The fifth chapter draws conclusions on the groups of factors influencing IJV knowledge acquisition, especially in the Chinese market. Each group of factors

are divided into three sections: the first section briefly discusses the general factors which could be applied in different environment; the second section is about factors specifically important in transitional economies; the third section focuses on the specific factors applied in the Chinese market.

The sixth chapter analyses the conclusions of this research. By discussing previous literature related to IJV knowledge acquisition, particularly in the Chinese market, a conclusion regarding the factors influencing IJV knowledge acquisition in the Chinese market could clearly be reached. The future direction based on this research, the implication of this research in the practical business world and the limitations of this research will also be listed.

# Chapter 2 Research design

## 2.1 Introduction

By putting forward propositions of key factors, this research answers a number of research questions in order to achieve the research objective, namely, to pinpoint key factors influencing IJV's knowledge acquisition from MNEs. The methodology used to achieve this objective includes analysis and comparison based on second-hand data. This chapter begins by introducing research philosophy that provides general thinking guidance on methodology. Then it explains how data is collected and analyzed. Finally, the chapter reaches a conclusion regarding this research design.

## 2.2 Research philosophy

Philosophy is emerging as a means of providing general ways for researchers to reproduce existing knowledge, whereas methodology is an integrated system of principles used to approve such knowledge (Alexander, 1983). From a philosophical perspective, methodology could be regarded as a system of assumptions and a guideline of human activity, and choosing different methodologies can lead to opposite research directions (Carlsson, 2005). In social science, social system is an opening system and social structures do not exist independently of human activities. According to Bhaskar (1989), Archer and Bhaskar *et al.*(1998), facts in social science can be explained by human behavior in groups, and the human behavior in groups can be generalized to certain patterns. Robson (2002) and Bryman (2001) have made statements on the critical realism view of science. According to their statements, 1. All science foundation can be questioned, and so all 'facts' are disputable. Knowledge is a product embedded in society and historical process. 2. Science is used to invent theories those can explain the real world, and theories should be examined with

rational criteria. 3. The real world is very complex and it can be stratified into different layers. In social reality, the layers include individual, group and institutional, and societal levels. 4. The generalization of explanation of events is not absolutely true but applied under certain conditions. In this way, even if events cannot be predicted accurately, they can still be explained.

This research falls in social science that is an opening system. The goal of this research is to find underlying causal powers those could generalize patterns of observed events and could be categorized into different groups. Generalized statements in social science are disputable as social mechanisms are influenced by human behavior, so the process of this methodology is conducted through the induction process that can be used to generalize statements by analyzing specific human behavior in China and comparing previous statements in similar environments.

### **2.3 Explanation of data collection**

The objective of this research is to clarify, under a Chinese-specific environment, what kinds of factors have an important influence on knowledge acquisition. In order to answer research questions to achieve research objective, this research applies second-hand data as the data collection method. In order to identify Chinese specific environments, historical data relating to Chinese economic development could be used. Among which, data related to international knowledge acquisition in terms of FDI is most valuable. Governmental data sources such as National Bureau of Statistics of China has comprehensive and comparably reliable data. In social science, the data can provide a general guidance for further data analysis. In order to better clarify the underlying implication of FDI knowledge acquisition, second-hand data can be obtained from previous literature. And so this research studies historical research data of international knowledge acquisition in China.



The next step is an in-depth review of previous literature on important factors influencing knowledge acquisition. There is mature research and rich literature on knowledge acquisition in developed economies. Although this research can borrow some ideas from it, the social mechanism that suits developed economies does not suit China; as previously stated, the generalized statements are only applied under certain conditions. Thus, this research will borrow more ideas from literature in transitional economies those have environments more similar to that of China.

## **2.4 Explanation of data analysis**

After data is collected, the next step is to analyze it in order to generalize relevant statements. By using the second-hand FDI data from the National Bureau of Statistics of China, this research could justify that the international knowledge acquisition in China is superficial without any real improvement on innovative capability. In the analysis process, data is grouped into different patterns, and each pattern can reflect one aspect of international knowledge acquisition issues in China. For example, the low FDI distribution in high knowledge-intensive industries implies that there are low chances for local partners to acquire frontier knowledge from foreign partners. Following this, previous literature on international knowledge acquisition is analyzed. As developed economies have different operative environments, the statements cannot be directly applied to China, aside from very general ones those could be applied under almost every condition. By locating literature in transitional economies, this research can find out some statements suitable to be used under Chinese environment, given that specific environment in China is considered. Then, the analysis on previous literature with similar conditions can be used to generalize conclusions in China.

Therefore, the process of methodology is ordered as follows: firstly, collecting relevant Chinese FDI data, previous relevant literature on knowledge acquisition, mainly focusing on that in transitional economies. Secondly, analyzing collected data, categorizing the data into patterns in order to formulate propositions. These propositions could guide further research action. In this way, the methodology used in this research could identify several key factors influencing knowledge acquisition in IJVs in China, and so could be sufficient to solve the research objective.

# **Chapter 3 theoretical background and key concepts**

## **3.1 Introduction**

As mentioned above, the main aim of this research is to distinguish the key factors influencing IJV knowledge acquisition from MNE in the Chinese market. As this research is based on the perspective of knowledge acquisition, knowledge acquisition is the guidance for the choice of theoretical views. According to previous literature, there are different groups of factors influencing knowledge acquisition. Then considering both previous literature and the complex institutional environment in China, there are generally four groups of factors influencing knowledge acquisition in China. In order to better understand these groups of factors, resource-based view, network view and institutional view could be chosen to provide theoretical background of the phenomenon of knowledge acquisition. So this chapter will start with introducing the development of theoretical views. And then it combines theoretical views with this research separately.

This chapter is organized as follows: Firstly, it introduces resources-based views and its development. Then by introducing key concepts-knowledge, knowledge acquisition and IJV, it narrows down the scope of this research and introduces factors related to RBV in this research. Secondly, it introduces the development of network view and application of network view in this research. Thirdly, it introduces the development and combines institutional view with this research by figuring out the influence of institutional factors on knowledge acquisition. At last, it provides a conclusion that combines the theoretical views, key concepts and related influencing factors in the research framework in this chapter.

## **3.2 Resource-based view**

### **3.2.1 Introduction of resource-based view**

This section begins by proposing that resource-based view is an independent theory and seeks to prove this by comparing it with other theories. Then, it introduces the development of the view; namely, dynamic capabilities and knowledge-based view respectively. Finally, it combines resource-based view and its development with this research.

Since the 1970s, scholars in international business have started to focus on foreign direct investment, multinationals and strategic alliance research on a firm level. In order to understand the sources of competitive advantage of a firm in the market, a large (and still expanding) amount literature has been published based on different theories. Among these theories, resource-based view (RBV) has been popular and widely used to analyse firms' competitive advantage.

Resource-based view is based on the assumption that a firm is comprised of a bundle of valuable resources. Among which, the strategic resources owned by firms are the origins of firm's sustained competitive advantage. A firm with competitive advantage indicates that the firm could outperform in the industry when competing with both current and potential competitors. "Sustained" means that, in a stable environment, a firm still has competitive advantage when the current and potential competitors imitate the firm's strategic resources. Strategic resources are valuable, rare, imperfectly imitable, and not substitutable resources (Barney, 1991). By exploring the strategic resources, a lot of essential assets within a firm such as physical capital resources, human capital resources, organizational capabilities and knowledge could be linked to the firm's strategy and performance. Thus, the RBV theory provides insights on issues surrounding

the origins of competitive advantage at the firm's level (Wernerfelt, 1984; Barney, 1986, 1991). In other words, based on RBV, firm's superior performance is originating from its own assets. Strategic resource is a construct with extensive components. In order to better clarify the concepts of strategic resources, two theories based on RBV are developed. One of them is dynamic capabilities view, and another is knowledge-based view.

Dynamic capabilities view is the evolution of resource-based view. Different from RBV assuming market is stable, dynamic capabilities view assumes that the market is highly changeable and unpredictable (Teece et al, 1997; Priem and Butler, 2001; Eisenhardt and Martin, 2000; Fiol, 2001). Based on that assumption on market, dynamic capabilities view clarifies the definition of the strategic resource and makes it more realistic and empirical. Firstly, it adds the dimension of time as one factor influencing sources of competitive advantage. Secondly, it decomposes the definition of resource into resources and capabilities. Resources are limited to those could be transferred and traded by the firm, and capabilities is defined as a firm's capability to integrate and apply the specific resources owned by the firm (Spender & Grant, 1996; Eisenhardt & Martin, 2000; Barney et al., 2001). Then, Eisenhardt and Martin (2000) further developed the concept of dynamic capabilities by defining it as a set of specific and identifiable processes. This more accurate definition makes it feasible to research sources of a firm's competitive advantage in terms of dynamic capabilities. For example, in moderately dynamic markets, a firm's advanced dynamic capabilities are a stable process and can be easily predicted. But in high-velocity markets, they are a fragile process that is hard to predict (Eisenhardt and Martin, 2000). In this line, in fast changing environments such as transitional market, the long-term competitive advantage originates not directly from dynamic capabilities but from the capabilities of resource configuration, including create, integrate, recombine and release resources. And different levels of these capabilities will lead to different effect on the depth of knowledge acquisition. In this way, based on this

stream of RBV, the extent of IJV's absorptive capability can lead to different depth of knowledge acquisition, and so regarded as factor in RBV group.

Another view narrowing down the concepts of strategic resources is knowledge-based view. Knowledge-based view is based on the assumption that knowledge is the most important resource in the firm for generating competitive advantage (Grant, 1996, 1997; Kogut and Zander, 1993, 1996). It regards knowledge as a critical resource and knowledge with characteristics of heterogeneity and immobility as the cause of sustainable competitive advantage (Lyles and Salk, 1996; Grant, 1996; Tsai, 2001). Knowledge-based view is not a new and independent theory but a specific research area originating from resource-based view (Spender & Grant 1996; Grant, 1997; Eisenhardt and Santos, 2002). According to focus on knowledge research, knowledge-based view contributes to RBV a clear definition of resources and a feasible empirical examination on RBV.

Based on a knowledge-based view, a firm is regarded as an organization integrating individual knowledge and transforms it into competitive advantage by coordination mechanism (Grant, 1996). The roles of individual knowledge and knowledge creation are emphasized in this process. In this way, knowledge creation within IJV is an important factor generating new knowledge for strategic resources.

Dynamic capabilities view and knowledge-based view are substitutable and complemented (Makadok, 2001). RBV are their theoretical background, and they enhance the RBV theory from an empirical perspective by providing more accurate definition of strategic resources. As RBV is vague, in order to better clarify and define the strategic resources, it is rational to limit strategic resources to knowledge perspective and consider the concepts of knowledge from different dimensions.

### **3.2.2 Definition of key concepts in this study**

According to previous discussion, resource-based view is chosen as a theoretical view as it could provide the theoretical background for the importance of knowledge, its characteristics and the related influencing factors on knowledge acquisition (Wernerfelt, 1984; Barney, 1991; Barney, 2001).

RBV regards firm-level strategic resources as the origins of competitive advantage. Furthermore, according to knowledge-based view developed from RBV, knowledge is the most important strategic resources. And according to dynamic capabilities view developed from RBV, the firm should develop strategic resources all the time in order to suit the change in the market and maintain competitive advantage.

This stream of RBV emphasizes firm-level strategic resources, in other words, knowledge existed in the firm as origins of competitive advantage. Based on this stream of RBV view, it is important for the firm to improve firm's valuable knowledge to achieve sustainable competitiveness. And so figuring out factors influencing the process of knowledge acquisition is critical and valuable. In this research, knowledge creation within IJV could reflect the new knowledge accumulated and created by firm's employees (Nonaka, 1994; Nonaka and Toyama, 2003). Learning intent and absorptive capability could reflect to what extent firms could nurtures a good environment to promote the depth of knowledge acquisition from knowledge senders (Hamel, 1991; Tsang, 2002; Simonin, 2004). Then considering the firm is in the form of IJV, IJV's autonomy is another factor that should be considered in the process of knowledge acquisition.

Then, in order to narrow down the concept of strategic resources, the definition of key concepts in this research should be carefully defined.

### **3.2.2.1 Knowledge**

RBV provides the theoretical background for application of knowledge in this research. According to the stream of RBV in previous section, knowledge could be regarded as strategic resource that generates firm's competitive advantage in the market. Furthermore, in order to maintain the competitive advantage, a firm needs to update valuable knowledge. As knowledge is comprised of various dimensions with different effect on knowledge acquisition, it is necessary to narrow down the scope of knowledge to define it. Knowledge can be classified in terms of characteristics, types, industries, etc. By providing analysis in each classification, and combining them together, it could better clarify what kind of knowledge is regarded as the strategic resources valuable in this research.

#### **3.2.2.1.1 Characteristics of knowledge**

Characteristics of knowledge can reflect different extent of difficulties on knowledge acquisition. According to previous research, the mostly researched attributes of knowledge are tacitness and complexity those could inhibit smooth knowledge acquisition (Simonin, 1999a, 1999b, 2004; Pak, Y.S. and Park, Y.R. 2004). By clarifying tacitness and complexity, it is possible to provide the scope of knowledge in the next step.

Complexity refers to the amount of information required to characterize an item of knowledge. Following this sense, knowledge with complexity embraces multiple procedures involving people from different business units (Simonin, 1999). In this way, from one hand, it is time-consuming and difficult for knowledge receivers to acquire knowledge with complexity in depth. From another hand, knowledge senders would not like to provide personnel and resources to help receivers to learn effectively because of the highly cost. For this reason, the willingness of MNEs to transfer knowledge with a high complexity is low (Kogut and Zander, 1993). Tacitness reflects the extent of



difficulty to articulate and codify knowledge in a given domain (Minbaeva, 2007). Knowledge with tacitness is ambiguous and embedded in social context. In contrast, explicit knowledge such as technical patent could be codified into manuals and documents, so the original information could more easily be acquired.

### **3.2.2.1.2 Concept of knowledge and the relationship between knowledge and theoretical views**

The importance of knowledge and its value in the firms is confirmed by RBV. RBV provides the theoretical background on the importance of knowledge and the influence of its characteristics on knowledge acquisition and from what aspect the knowledge could be researched as strategic resources generating firm's competitive advantage. The research on knowledge and knowledge related issues are based on the value of knowledge. Based on RBV, in international business literature, knowledge which is valuable, rare, inimitable, and non-substitutable could be strategic resources and grant a firm sustainable competitive advantage (Barney, 1991; Grant, 1996; Kogut and Zander, 1992; Gupta and Govindarajan, 2000; Inkpen, 2000). By introducing the characteristics of knowledge, knowledge with tacitness and complexity is valuable and difficult to be imitated. By limiting the knowledge to this scope, the definition of knowledge could be narrowed down and applicable in empirical research.

Knowledge with tacitness and complexity is the strategic resources. Based on the stream theory of RBV- RBV, dynamic capabilities view, knowledge-based view, firms need to update knowledge to maintain competitive advantage. There are two ways for firms to update knowledge. One way is to create new knowledge in the firm by employees, and another way is to acquire knowledge from outside. Knowledge creation within IJVs is the method used for firms to get new knowledge from inside. However, knowledge creation costs time and money,

especially when the firm is in transitional economies without advanced technology. So acquiring knowledge from outside is inevitable. Network could provide firms access to new knowledge outside the firm. Network view provides theoretical background on the importance of network for firms acquiring knowledge from outside. Furthermore, as institutional environment could have influence on firm's behaviour especially in transitional economies, institutional view is chosen as another theoretical background for institutional factors' influence on firm's knowledge acquisition. RBV, network view and institutional view together form theoretical background for the process of knowledge acquisition.

After demonstrating the classifications of knowledge and its application in this research, the next step is to narrow down the scope of knowledge and provide a clear definition of it. Each type of knowledge can be a combination of tacitness and complexity, drop into different industries. In order to satisfy the demand on strategic resources and suit Chinese market in this research, the concept of knowledge is regarded as firm-level knowledge that includes both existing knowledge in the firm and potential knowledge which could be acquired from network relationships. Moreover, this knowledge is limited in high-tech service sectors, mid-tech and high-tech manufacturing industries, where knowledge has characteristics of tacitness and complexity (Figure 3.1).

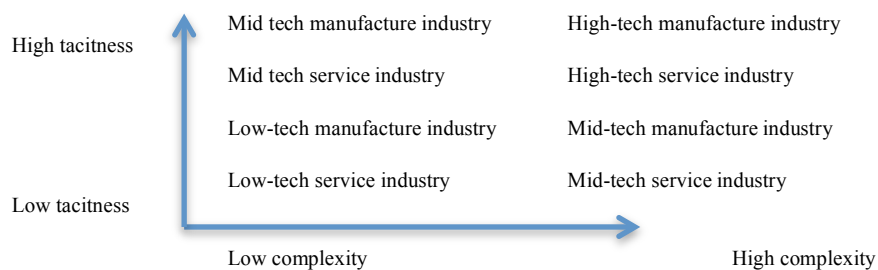


FIGURE 3.1 INDUSTRIES DIVIDED BY KNOWLEDGE CHARACTERISTICS

### **3.2.2.2 Knowledge acquisition**

After giving definition of knowledge, the next step is to clarify the knowledge acquisition process in this research. Based on the stream of RBV, knowledge acquisition is necessary because it is an important step to update knowledge to sustain competitive advantage.

In order to better define knowledge acquisition, the next parts will compare knowledge acquisition and knowledge transfer. As knowledge acquisition is a one-way transfer process, comparing research on knowledge transfer and knowledge acquisition can better define the scope of knowledge acquisition. Then, the following part will demonstrate the combination between knowledge acquisition and theoretical views.

#### **3.2.2.2.1 Relationship between knowledge transfer and knowledge acquisition**

Knowledge transfer and knowledge acquisition are two related but at the same time differing concepts. A firm is usually embedded in a network where it can both transfer knowledge to another firm and acquire knowledge from the same firm (Zhao, et al, 2005). The concept of knowledge transfer originates from the knowledge sender's perspective, so knowledge transfer of a firm shows this firm to be the knowledge source, while the concept of knowledge acquisition originates from the knowledge receiver's perspective and knowledge acquisition of a firm shows this firm to be the knowledge receiver. Knowledge acquires could acquire knowledge through different channels, among which, knowledge transfer is one of the important channels for knowledge acquirers. Through knowledge transfer, the firm could acquire knowledge that can improve its performance (Park, et al, 2009). However, knowledge acquires also have other

channels to acquire knowledge, such as knowledge creation by R&D, learning by doing and so on.

In this research, the research aim is from local employees' perspective to explain the phenomenon of IJV's knowledge acquisition. Furthermore, in China, local employees in IJV are mainly playing the role of receivers acquiring knowledge from foreign partners. So by considering the perspective of this research, although knowledge transfer is an important way for IJV acquiring knowledge, in order to better clarify the research aim, the following parts will only focus on knowledge acquisition.

#### **3.2.2.2.2 Definition of knowledge acquisition**

Knowledge acquisition process is dynamic and relevant with different factors under different situations.

Knowledge acquisition can be defined as 'the process by which knowledge is obtained' (Huber, 1991). Anh et al (2006) further define knowledge acquisition as the process by which new knowledge is obtained, and 'new knowledge' only means new to the organization, not newly created knowledge. And knowledge acquisition can directly benefit from social capital (Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998).

From a performance perspective, according to Phan and Peridis (2000), knowledge acquisition refers to changes of behaviour when performing tasks or changes that may improve the firm's performance of its tasks. Osland and Yaprak (1995) regard knowledge acquisition as the factor that could result in performance change.

In transitional economies, it is important for IJV to acquire advanced knowledge from developed foreign parents. And because of the complexity of the local environment, it is important for IJV to acquire new developed local knowledge from the local market. So by combining these perspectives, knowledge acquisition in this research can be defined as the process by which local employees in IJV obtains valuable knowledge from foreign partners that could strengthen a firm's performance.

The sources of acquired knowledge include both intra-firm knowledge and external firm knowledge. Intra-firm patterns of knowledge that could be acquired constitute knowledge created within firms encompassing both exploited existing knowledge and newly explored knowledge. Investment in R&D, human capital, training etc. within a firm can promote the increase of new internal knowledge that could be acquired.

External patterns of knowledge that could be acquired constitute knowledge originating from external organizations that build certain relationships with receivers. Within MNE network, firms such as subsidiaries can acquire knowledge from headquarters and other sister subsidiaries. In host countries, firms such as IJV can acquire knowledge from local parents, and other local partners such as suppliers, customers, research institutions etc. can also become knowledge sources.

#### **3.2.2.2.3 Linkage between knowledge acquisition and theoretical views**

With knowledge as strategic resources, firms not only need to maintain existing knowledge, but also need to acquire potentially valuable knowledge. Existing organizational knowledge is the basis for a firm to accomplish procedures and finish tasks. Moreover, it is always necessary for a firm to acquire potential knowledge in order to complement its store of existing knowledge and sustain

competitive advantage in a dynamic market in which new products and services are frequently created to replace old ones. There are two ways for potential knowledge to be acquired by a firm. The first involves gaining potential knowledge by an intra-firm mechanism such as accumulating existing knowledge, learning by doing and exploration of existing knowledge (March, 1991). Nevertheless, it is impossible for a firm to acquire all its important resources by using an intra-firm mechanism especially for firms in developing countries. So the second channel is to acquire knowledge from external sources. The globalization of the market urge firms to acquire new knowledge externally based on network relationships such as interpersonal relationships, inter-firm relationships and social networks.

Based on the previous discussion and RBV, knowledge applied in this research falls in high-tech service sectors, mid-tech and high-tech manufacturing industries. As a result, the knowledge acquisition is a process through which knowledge receivers acquire knowledge tacit and complex from knowledge senders in order to promote competitive advantage. By differentiating the difference between knowledge transfer and knowledge acquisition, it is clear that knowledge receivers are main role in the knowledge acquisition process to gain strategic knowledge. As the acquisition process has to be taken place with people contact and communication, the network of relationship is relevant with the success of knowledge acquisition, and so the knowledge acquisition process is related with network view. As the specific social context has impact on knowledge acquisition process, the institutional view should also be applied in this process.

### **3.2.2.3 Definition of IJV**

After defining knowledge and knowledge acquisition, it is still necessary to clarify the definition of IJV. As this unit involves the analysis of knowledge

acquisition, it is important to define here the form of the firm – in this research, IJV.

Joint venture is a separate entity created and jointly owned by two or more legally separate firms to pursue shared goals (Al-Khalifa and Peterson, 1999). A joint venture may be termed International (IJV) when at least one of the parents is placed in another country (Geringer and Hebert, 1989).

By pouring valuable resources into the newly created firm, both partners can benefit from the entity according to the achievement of strategic objectives and the acquisition of knowledge from IJV. Furthermore, IJV itself is a combinative enterprise that can exploit resources and knowledge originating from both partners. As an ideal platform that promotes knowledge acquisition among partners, IJV also successfully connects the MNE network with the local network. IJV is a subsidiary of MNE headquarters that crosses national boundaries and encounters complicated competitors in various markets (Kogut and Zander, 1992, 1993). Within MNE network, IJV has chances to exchange knowledge with headquarters and other sister subsidiaries. In the local market, IJV is also related to local parents and so it is possible for IJV to acquire knowledge from local parents. As business relationships are built between IJV and other local firms, IJV can also exchange knowledge with its local parent, suppliers, customers and competitors. IJV could also exchange knowledge with non-business relationships such as from universities, research institutions and governmental offices. By joining these networks, it is possible that knowledge from firms in one network is accessible to firms in the other network (Frost, 2001).

To summarise, this research will argue that, as IJV is a platform through which to acquire advanced knowledge from foreign firms, IJV is regarded as a combination firm between foreign firms from developed countries and local parents.

By defining the concepts of these main concepts in this research, the research scope could be narrowed down, and it is more clear what kind of knowledge is going to be researched in what kind of environment.

### **3.2.3 Opportunism and RBV**

In the process of knowledge acquisition, it is necessary to consider the opportunism. Opportunism refers to cooperative partners' opportunistic behavior which could do harm to partners (Luo, 2007; Roy and Oliver, 2009). With regard to knowledge acquisition, as core knowledge is strategic resources deciding firm's competitive advantage, the concern on opportunism can impede the process of knowledge acquisition. As discussed before, knowledge with tacitness and complexity is more likely to be strategic resources of the firm and difficult to be imitated. From knowledge acquirers' aspect, although this kind of knowledge cost time and effort to acquire, once they acquire it from partners, it is more valuable than the explicit knowledge and also difficult to be acquired by other firm's opportunistic behaviour. In this sense, knowledge acquirers are more willing to acquire tacit and complex knowledge from partners.

### **3.2.4 Group of factors related to RBV**

According to the previous analysis, the stream of RBV provides theoretical background for the first group of factors including learning intent, absorptive capacity, IJV's autonomy and knowledge creation within IJV.

By combing the stream of IJV and the concept of knowledge, valuable knowledge should be updated to maintain firm's competitive advantage. Creating knowledge within IJV by firm's employees is one way to update knowledge. Knowledge creation within IJV implies whether there are chances for local employees to participate in creative work together with foreign employees. It is a good channel for both local and foreign employees not only exchange resources,



but also apply absorbed knowledge and improve creativity capacity. In this way, knowledge creation within IJV can reflect the depth of knowledge acquired by local employees (Tian, 2007; Sun and Du, 2010).

By combining the stream of RBV with the concept of IJV, it is clear that IJV is closely related to parents and so firm's behaviour is inevitably influenced by them. IJV's autonomy could be used to clarify the relationship between IJV and its parents in the process of knowledge acquisition. IJV's autonomy implies that to what extent the IJV is independent on strategic decisions without parents' intervention (Sumelius and Sarala, 2008). If IJV owns the power to arrange resources within the firm, the knowledge could be transferred better and acquired deeper by local employees.

By combining the stream of RBV, the concept of knowledge and knowledge acquisition, acquiring knowledge from outside is an important channel for firm to update knowledge and so maintain competitive advantage. Local employees' learning intent and absorptive capacity are influencing factors that can bring into different levels of depth of acquired knowledge from foreign employees. So they are classified as group of factors related to RBV.

### **3.3 Network view**

For firms in developing countries without advanced technology, creating cutting-edge knowledge by themselves is not only expensive, but also impossible to realize. Instead, learning from advanced firms is feasible for them to catch up with successful firms. In the process of acquiring knowledge from outsiders, based on network view, network with other firms and institutions could provide the firms channels to contact and acquire advanced knowledge.

This part begins by adding dimensions of networks into knowledge acquisition research. It introduces structural and relational dimensions of social relations that could generate social capital, which in turn could assist or inhibit knowledge acquisition in the network. Then it links network view to this research by demonstrating that IJV's parents' relationship, MNE internal network and local network all have influence on IJV's knowledge acquisition process.

### **3.3.1 Development of network view**

In knowledge acquisition research, scholars have paid attention to searching sources of competitive advantage from external firm sources in terms of industry (Porter, 1981) and from internal firm sources in terms of RBV. These theories are based on the assumption that the firm's action is impersonal and only economic in the market (Uzzi, 1997). Nonetheless, scholars have gradually discovered that firms with networks of relationships can have opportunities to gain higher benefits than firms those only maintain arm's length market relations (Uzzi, 1996; Gulati, 1998; Gulati et al, 2002). For example, Gulati (1998, 1999) extended previous research by proposing that firms in alliance are embedded in networks of relationships, and that social networks are important for a firm's behaviour and performance. In this way, not only the firm's own resources, but also the network of relationships can bring benefits to firms and so generate competitive advantage.

In fact, there are three dimensions of relationships of networks: arm's length market relations, hierarchical relations and social relations (Uzzi, 1996; Adler and Kwon, 2002). Market relations originate from market transaction of goods and services. Hierarchical relations refer to exchange of resources originating from subordinate's obedience to authority. Social relations originate from participants' exchange of resources and goodwill cultivated by cooperation. Compared with market relations, social relations can decrease transaction cost

and increase exchange of resources. Compared with hierarchical relations those are maintained by formal mechanism, social relations are maintained by informal mechanism.

Scholars already have consensus on the fact that social relations in the network can generate social capital. Social capital is the sum that actual and potential resources firms' actors can gain from networks of social relationships (Burt, 1992, 1997; Lin, 1999). Nonetheless, they have diverged opinion on what aspects of social relations are sources of social capital (Zukin & DiMaggio, 1990; Gulati, 1998).

One stream of literature focuses on structural perspectives of social relations (Baker, 1990; Burt, 1992; Adler and Kwon 2002). According to this research stream, social capital originates from a formal structure of relationship networks. The characteristics of structure itself, such as network density and structural holes, could have an influence on a firm's behaviour and performance (Uzzi, 1997; Gulati, 1998, 1999; Nahapiet and Ghoshal, 1998; Burt, 1992).

Another stream of literature focuses on social capital and relational perspectives; in other words, the content of those ties, such as shared values and norms embodied in social networks. Dyer and Singh (1998) applied relational view in the research by proposing that a firm's critical resources can span firm boundaries and be embedded in inter-firm business networks. A firm's business network is a network of long-term relationships among firms which could promote firms to exchange and share resources such as information, technology and markets under cooperative objectives (Gulati, 1998; Tsang, 1998).

In transitional environment, formal control is not enough for smooth business operation because of heritage of previous governmental control on planned economy and lack of detailed business laws (Peng and Luo, 2000; Kotabe et al,

2011). In this case, informal control in the form of social capital should be considered as a source of outperformance.

So in this research, network of relationships focuses on the informal relations among actors. Depending on firm's network, employees could access other firm's knowledge and have chances to acquire it.

### **3.3.2 Combine network view with this study**

According to network view, the network of relationships between partners can provide firm access to new knowledge. Furthermore, the network view found out that the network of relationships can not only provide access to new knowledge, but also promote knowledge exchange in the network, as the good relationship could promote mutual contact and communication on knowledge between knowledge senders and acquirers (Powell et al., 1996; Nahapiet and Ghoshal, 1998; Inkpen and Tsang, 2005).

Scholars link theories of social capital with IJVs (Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1997; Kostova and Roth, 2003). IJV is a subsidiary in MNE that including headquarters and subsidiaries located in geographically dispersed countries. In this way, IJVs are embedded in different networks including the MNE network of long-term relationships and local networks of business relationships. Within the networks, as the relationships between actors develop, intense interaction among them decreases "stickiness" of knowledge. Thus, by exploiting social capital in the networks, acquisition of knowledge can be promoted (Kogut and Zander, 1996). As a result, network could bring firm competitive advantage in the market (Spender and Grant, 1996; Nahapiet and Ghoshal, 1998).

### **3.3.3 Opportunism and network view**

Based on network view, the concern on opportunism could be mitigated by high trust between parents. When parents trust each other, it means that they believe cooperative partners will not harm the benefits of cooperation and both partners are willing to build long-term relationships. In this way, knowledge acquirers have less motivation and intention to do harm on knowledge senders. And knowledge senders would like to share more knowledge with cooperative partners in the network. From knowledge acquirers' aspect, factors those could cultivate good relationship between partners in the network are useful for decreasing the opportunism and so promote knowledge acquisition (Tsang, 2004; Park, 2007; Evangelista and Hau, 2009). For example, trust between parents, support from foreign parents, embeddedness between IJV and MNE network and local network, these factors could enhance the interaction between partners and so decrease the opportunism and promote knowledge acquisition.

### **3.3.4 Group of factors related to network view**

Classified by the close relations with IJV, there are 3 networks - IJV parents' network, MNE network and local network. In each network of relationships, based on network view, there are group of factors those relates to the process of knowledge acquisition and the relations will be demonstrated in the following parts.

IJV parents' network is one main network IJV is embedded in. IJV is directly linked with both local and foreign parents. Although local and foreign parents establish IJV and formulate its strategic goals together, they are separate firms with diverse business benefits. In local market, one main concern on the cooperation is opportunistic behaviour. In transitional economies, as the law is still not complete, intellectual property right could not be protected well and it is

possible that cooperative partners will become competitors in the future (Fan, et al., 2007; Peng and Luo, 2000). In this way, foreign partners especially those from developed countries with cut-edge technology have to protect themselves from opportunistic behaviour of local partners (Gulati, 1995; Zhao, Anand, and Mitchell, 2005). As a result, the concern on opportunism will avoid foreign parent to transfer knowledge to local partners. So if both partners could trust each other, local partners could acquire technology in good quality.

However, the concern on opportunistic behaviour of cooperative partners could be mitigated when parents could build good relationships. Good parents' relationships could bring valuable cooperation between parents on knowledge exchange and result in better quality of knowledge acquisition (Hau and Evangelista, 2007; Park, Giroud and Glaister, 2009).

Articulated goals can reflect the good relationships in IJV parents' network. When parents define IJV's goals in a clear way, they can together formulate distinct steps to chase. The distinct step on IJV's goals could provide guidance on formulating explicit policies on knowledge acquisition. For example, foreign parents could define what kind of knowledge could be transferred and what kind of punishment should be carried out when knowledge is leaked out. In this way, the concern on opportunism could be mitigated and foreign parents will be willing to transfer knowledge to local partners. Then, in this cooperative process, positive contact and communication could facilitate knowledge exchange (Nahapiet and Ghoshal, 1998). Cultural distance reflects the obstruction of understanding and communication between parents. With far cultural distance, parents are difficult to understand each other in a right way even if they are willing to build good relations. As a result, misunderstanding could enlarge foreign parents' concern on opportunism and impede good relationship and smooth knowledge exchange between parents (Lyles and Salk, 1996; Simonin, 1999). Trust between parents can reflect to what extent parents have faith in each

other's behaviour including knowledge spillover. With high trust, it means that knowledge senders in the network believe that knowledge acquirers will not harm their benefits on knowledge. In this way, foreign parents' concern on local partners' opportunistic behaviour decreases and they would like to transfer more knowledge to local partners. Parents in the network could build good relationship with each other. And with the high trust and good relationships between parents in the network, the process of knowledge acquisition could be promoted (Park, 2007).

Support from foreign parent includes 4 sub-factors: active managerial involvement from foreign parents, participation of expatriates, and training of local staff from foreign parents. Support from foreign parent reflects that to what extent foreign parents would like to provide support for local employees on knowledge acquisition (Lyles and Salk, 1996; Anh et al, 2006; Park et al. 2007). Knowledge acquirers especially those in transitional economies are lack of advanced knowledge storage and so do not have enough capability to acquire cutting-edge knowledge by their own. By providing support on local partners' knowledge acquisition, foreign parents could choose what kind of knowledge is suitable to be acquired, and the process of knowledge acquisition could be better controlled. By controlling the knowledge acquisition process, foreign parents' concerns on opportunism could be mitigated. In the parents' network, depending on foreign parent's support, local employees could have chances to figure out what kind of knowledge is critical in the business market and the method to acquire it. So these supports in the network can directly strengthen the depth of tacit and complex knowledge acquired by local employees.

MNE network is another main network IJV embedded in. As a subsidiary relates to headquarters and other subsidiaries in MNE network, IJV could rely on the network to access knowledge (Andersson et al, 1996). There are two factors reflecting relationships in the network and so are regarded as influencing factors

on knowledge acquisition-IJV-HQ embeddedness and IJV-sister subsidiary embeddedness. Embeddedness reflects to what extent IJV is closely related with other members in MNE. High embeddedness means that IJV's business is closely related and highly influenced by MNE network, and long-term relationship between parents will be maintained. So local partners have less intent to harm the relationship in the process of knowledge acquisition in order to achieve the IJV's business aim. In this way, MNEs have less concern on local partners' opportunistic behaviour and would like to transfer knowledge to local partners. Headquarters are knowledge centres in the network and so have rich resources. High IJV-HQ embeddedness means that IJV can have chance to acquire these resources. With regard to IJV-sister subsidiary embeddedness, other subsidiaries could have their own advantage on knowledge resources. And with high IJV-sister subsidiary embeddedness, IJV could acquire diverse knowledge from the network. So based on network view, IJV-HQ embeddedness and IJV-sister subsidiary embeddedness are classified as group of factors influencing IJV's knowledge acquisition related to MNE network.

Local network is another main network the IJV embedded in. In transitional economies, interpersonal relationship is very important to build and maintain good relationship and acquire resources in the network (Peng and Luo,2002; Luo, 2003 and Kotabe et al. 2011). In this way, interpersonal relationship is a critical dimension to measure the relationships in local network. Business ties between top managers in IJV and local firms reflect interpersonal relationship in the local business network. When foreign parents are highly involved in this network, they can have more chances to understand local partners and get acquaintance with local market, and then the interpersonal relationship could strengthen their trust on local partners and share knowledge in the network. So their knowledge could become resources in the network, and the good interpersonal relationship can lead to smooth knowledge exchange. Political ties between top managers in IJV and government officials reflect interpersonal relationship in local political



network. As the law in transitional economies is not complete, governmental officials have rights to interpret vague items and changes on policies and have important influence on firms' behaviour. In local political network, governmental officials could share information and foreign parents could share advanced knowledge. Governmental officials could provide foreign parents the chances to get information on policies. By acquiring resources from governmental officials, foreign parents can better understand policies, enhance trust in government and decrease the concerns on opportunism in local market. In this way, foreign parents are willing to share advanced knowledge in the network and knowledge acquisition in this network is promoted. So business ties and political ties are classified as factors related to local network based on network view.

### **3.4 Institutional view**

RBV provides theoretical background for the importance of knowledge and the influence of its characteristics on the process of knowledge acquisition. Network view complements RBV by providing theoretical background for firms acquiring knowledge from external networks. However, Firms' behaviour, including knowledge acquisition, is inevitably influenced by external environment. Institutional view, from theoretical perspective, provides insights on the influence of external environment on knowledge acquisition. In this way, institutional view complements RBV and network view, and these three views together form the theoretical background in this research.

This section begins by demonstrating that a firm's behaviour is not always economically optimized but sometimes has to surrender to institutional environment, especially in transitional economies. Then it combines an institutional view with this research by adding specific institutional factors in China as influencing factors of IJV's knowledge acquisition process.

### **3.4.1 Development of institutional view**

Institutional view is a complement to RBV and network view in the knowledge acquisition research. The stream of RBV provides theoretical support on the importance of knowledge as strategic resources to generate sustainable competitive advantage. And network view provides the theoretical dimension on network by demonstrating that network could be key channel for firm to gain valuable knowledge. Institutional view adds the dimension of external environment to theoretical foundation of knowledge acquisition. It is prosperously applied in transitional economies where scholars discovered that firms are not operating under a perfect market system, but rather could be influenced by institutional environment.

The assumption of institutional view is that firms are under social influence and pressure to adapt practices to external environment. In each social context, there are particular norms, values and cognition that will constrain individuals to maximize economic behaviour. In other words, the human behaviour of a selection of valuable resources does not constitute economic optimization because it is affected by personal norms, habits, and customs. And there is motivation for firms to conform to rules and customs in social context in order to promote the quality of the operative environment and gain competitive advantage in the local market (Bjorkman et al, 2007; Oliver, 1997).

According to Dunning and Lundan (2008), institutional elements include individual, organizational, and inter-organizational level factors. Individual level factors involve managers' norms, habits, and so on. Firm level factors include corporate culture, shared vision and political process to manage organizational structure. Inter-firm level factors include governmental rules and regulations, social norms and standards.

The influence of these institutional elements in 3 levels on firm's behaviour can be different as each firm with specific knowledge and capabilities have distinctive interaction with the environment (Henisz and Delios, 2002). In this way, it is important for firms to cultivate and exploit their knowledge and capabilities to manage various institutional factors in the local market to make it beneficial for competitive advantage.

### **3.4.2 Combine institutional view with this study**

According to institutional view, market is not all the same and perfect as that in America. Actually, countries even some developed ones have different institutional environments from that in America and the institutional environment could have different influences on firm's behaviour (Peng, Wang and Jiang, 2008). With regard to transitional economies where formal institution has not been developed well, informal institution plays an important role in firm's business operation and behaviour including knowledge acquisition (Oliver, 1997; Peng and Delios, 2006; Cantwell et al, 2010). In order to suit the institutional environment in transitional economies, both foreign and local employees in IJV should have chances to cooperate and get acquaintance with local context. In the cooperation process of knowledge acquisition, local employees not only explore new knowledge from foreign partners, but also exploit new emerged knowledge in local market together with foreign employees. On the other side, foreign employees acquire knowledge such as social culture, social norms and social relationships in local market by cooperating with local employees. In this sense, institutional environment has influence on IJV's behaviour related to knowledge acquisition, and the related factors are classified as group of factors based on institutional view.

### **3.4.3 Opportunism and institutional view**

Based on institutional view, opportunism in transitional economies should be considered carefully in the process of knowledge acquisition as where the laws on intellectual property rights have not been completely established yet and not been executed well yet (Peng and Luo, 2000; Fan, et al., 2007; Kotabe et al, 2011). Because of the imperfection of the law, firms in transitional economies do not conform to protective rules on the knowledge. Under this kind of environment without enough trust to each other, firms do not will to share knowledge in the network and firms' intention to acquire tacit and complex knowledge and create new knowledge is decreased (Park, 2007; Evangelista and Hau, 2009). As although it costs a lot time and money to acquire and create new knowledge, the advanced knowledge could not be protected well and so could not last long as competitive advantage in the market, competitors could imitate the knowledge in low cost and short time without enough protection of property rights. In this way in the long term, the opportunistic behaviour on knowledge will impede knowledge development in the whole industry. So under this kind of institutional environment, opportunism impedes the knowledge acquisition.

In order to classify the institutional environment in this research to clarify institutional factors influencing knowledge acquisition, the following part will firstly introduce institutional environment in transitional economies from two important dimensions: governmental policies and local competition. And then based on these dimensions of external environment, the influencing factors are found out.

### **3.4.4 Knowledge acquisition in different dimensions of external environment**

Institutional view proposes that external environment can influence firms' behaviour, including knowledge acquisition. Based on previous research in

transitional economies, there are mainly two dimensions of external environment those are mostly related to knowledge acquisition: governmental policies and local competition.

The first dimension related to knowledge acquisition is governmental policies. In the globalization process, MNEs confront various governmental policies in each host countries. In order to better analyse the influence of governmental policies on knowledge acquisition, this research will divide governmental policies into two parts: governmental policies in manufacturing and service industries.

#### **3.4.4.1 Governmental policies for IJVs in service and manufacturing sectors**

In this research, manufacturing industries are narrowed into mid-tech and high-tech manufacturing industries, and service industries are narrowed into high-tech service sectors. Manufacturing and service industries have different characteristics those deserve separate research to help explain the knowledge acquisition phenomenon in both industries (Habib and Victor, 1991; Ekeledo and Sivakumar, 1998; Lane, et al. 2001; Park, et al. 2008; Anh et al., 2006).

In manufacturing industries, MNEs have already become international and accumulated experience for a while. In transitional economies, in order to attract FDI, host countries such as China adjust policies to provide MNEs a relatively beneficial environment. And the core knowledge is usually in the form of technology that could be protected by intellectual property laws. However, as intellectual property laws in China is neither complete nor executed well, furthermore, previous mechanism in planned market economy is still interacting with mechanism in free market economy, the market is inevitable influenced by governmental policies. As a result, the influence of governmental policy on knowledge acquisition should be considered from institutional aspect.

Compared with manufacturing MNEs, services MNEs are latecomers to the global market. The first reason is that production and consumption is inseparable in service industries (Bharadwaj et al., 1993; Rugman and Verbeke, 2008; Miozzo and Yamin, 2011). The second reason is that the corresponding governmental policies especially those in transitional economies have not been open enough to adapt to the operation of service IJVs. The third reason is that the core knowledge in service industries is usually in the form of intangible technology that is difficult to be documented and protected by intellectual property laws. In this case, if knowledge senders are not willing to share knowledge with receivers in order to avoid knowledge spillover, it is difficult for local partners to acquire it.

Because of these causes, in order to acquire knowledge from foreign partners, there should be intensive interaction between both partners from service IJVs. As governmental policies in transitional economies restrict free operation of service IJVs, firm's behaviour of acquiring knowledge is sensitive to external environment. And it is necessary for service firms to cooperate with governmental policies in host countries. (Muller and Doloreux, 2007; Grandinette, 2011; Toivonen, 2007).

The previous sections demonstrate the different characteristics of knowledge and the corresponding governmental policies between manufacturing and service industries in transitional economies and take China as an example. By focusing on each industry, it is more empirical to find out governmental policies are around the knowledge acquisition process. The demonstration provides an explanation on the influence of governmental policies on both manufacturing and service industries. After the analysis, it is clear that although characteristics of knowledge and the related governmental policies in both manufacturing and service industries have differences, influence of governmental policies on the process of knowledge acquisition exist in both industries, just in different extent.

According to institutional view, governmental policies can be proposed one dimension of factors influencing knowledge acquisition from institutional aspect.

#### **3.4.4.2 Local competition for IJVs with origins of different countries**

Aside from the dimension of governmental policies, another important dimension of the context of IJV is the local competition. In order to clarify the influence of local competition on IJVs' knowledge acquisition, the following sections will divide local competition into two parts: developing-developing joined IJVs' local competition and developed-developing joined IJVs' local competition.

IJVs are combined by at least two firms from different countries. There are developed-developed joined IJVs, developing-developing joined IJVs and developed-developing joined IJVs. As the host country in this research is developing country, only the types with partners from developed-developing countries and developing-developing countries can apply in this research.

As information and computer technology (ICT) is spread across the world, it is more convenient for both services and manufacturing MNEs to enlarge the market from developed countries to transitional economies. Parent firms from different types of countries face different local competition in transitional economies, and the local competition is related to knowledge acquisition that will be clarified in the following parts.

For firms from developed countries, they master advanced technology and are familiar with free market without governmental intervention. However, the previous experience on IJVs in another developed country could not directly apply in transitional economies (Barkema et al., 1997). In transitional economies, the local market is not arranged in a suitable structure and market-oriented, and

MNEs need to face strong governmental intervention on IJVs' behavior (Luo, 2006).

Moreover, there is also a huge knowledge gap between partners from both countries including technology, managerial and marketing knowledge. Knowledge development in developed and developing countries is imbalanced, and so there is a huge knowledge gap between firms from developed and developing countries. Local firms can learn new knowledge from MNEs to fill in knowledge gap. However, when the knowledge gap is too huge, the local firms lack enough absorptive capacity to recognize and acquire valuable knowledge and so reduce the effectiveness of strategic alliance (Lyles and Salk, 1996; Lane, et al, 2001).

When facing fierce competition in local market, in order to promote advanced knowledge acquired by local partners in order to win, it is necessary for MNEs getting familiar with social context, interacting with governmental officials and cooperative partners (Zhao, et al, 2005).

For parent firms from other developing countries, although they lack rich international experience and professional knowledge, as they are mainly from Asian area and have cultural similarity with China, they are familiar with regulations to cooperate with government and other institutions. By building personal relationships in local market, they could better transfer knowledge to local partners and so compete with firms from developed countries and other competitors.

For local knowledge acquires, when both partners are from developing countries, the knowledge gap between partners is not as vast as that in partners from developed and developing countries. So it is possible that local partners will have



enough absorptive capacity to learn from foreign partners and gain complementary resources and knowledge.

As a result, considering the social context in transitional economies, it is necessary for parent firms from developing countries maintaining intense personal ties with related actors to promote knowledge acquisition.

### **3.4.5 Group of factors related to institutional view**

The previous sections discuss the influence of social context on knowledge acquisition for developed-developing IJVs and developing-developing IJVs respectively. Based on the governmental limitation and local competition demonstrated in host countries, in order to better acquire the knowledge in transitional economies, institutional factors should be carefully examined in this research.

In China, informal relationships are important complements for formal relationships in the process of knowledge acquisition. In order to mitigate the influence of social context on firm's behaviour, based on institutional view, interpersonal relationships are chosen as important group of factors used to cope with the influence of governmental limitation and local competition. Interpersonal relationships are particularly important influencing factors in terms of business ties and political ties.

Business ties focus on the ties between top managers in IJV and local firms. Business ties could strengthen relationships between IJVs and local partners. Political ties focus on ties between top managers in IJV and governmental officials. Political ties could strengthen relationships between IJVs and governmental officials. By strengthening the relationships between IJVs and external environment, firm's behaviour in terms of knowledge acquisition could

be better managed in transitional economies. And so business ties and political ties are classified as group of factors related to local network based on institutional view.

### **3.5 Combine resource-based view, network view and institutional view with this study**

As discussed before, these three views are all applied on explaining the phenomenon that IJV try to acquire knowledge to outperform in the market by figuring out factors critical in this process. RBV is the basic theoretical background in this study, and network view and institutional view enlarge the scope of RBV. These three views together provide theoretical background for a full picture of groups of influencing factors in the process of knowledge acquisition. The full picture, as a framework of this research, links IJV's knowledge acquisition, theoretical view and the groups of influencing factors together to guide this research. And the framework is illustrated in figure 3.2 that demonstrates the relationships among IJV's knowledge acquisition from MNE, the influencing factors on the process of knowledge acquisition and relevant theoretical views.

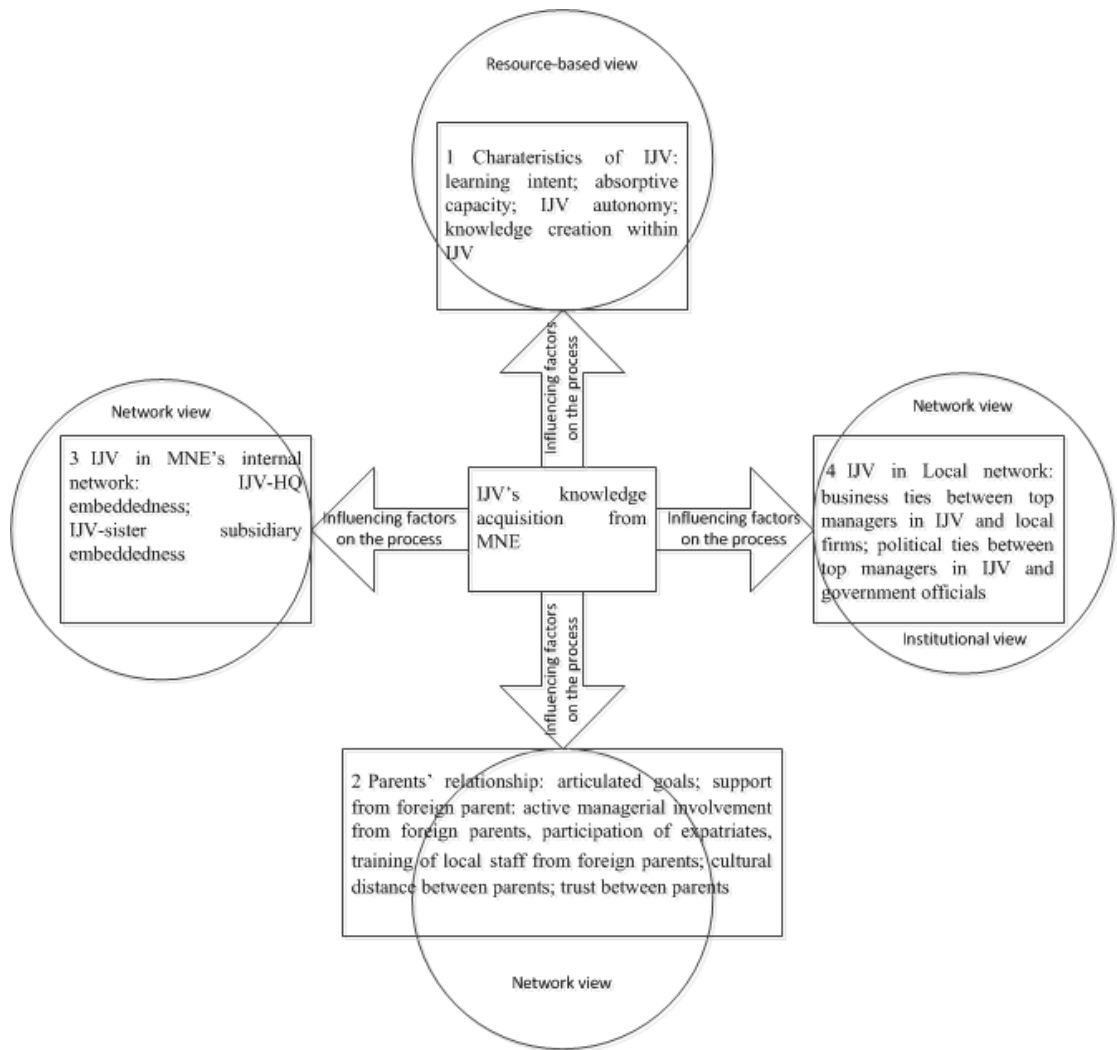


FIGURE 3.2 LINKAGE BETWEEN THEORIES AND GROUPS OF FACTORS

The framework demonstrates the logic in this research. In this research, the phenomenon of IJV's knowledge acquisition is the origin and guidance. In order to figure out the process of IJV's knowledge acquisition, there is plenty of previous literature finding out factors promoting or inhibiting IJV acquiring knowledge from foreign partners. Generally speaking, these factors could be classified into 4 groups as described in figure 3.2. And there are 3 main views that could be used as theoretical background supporting the explanation of this phenomenon. Here in this framework, these 3 main views complement each other to provide the theoretical background for the 4 groups of factors. RBV provides theoretical support for the first group of factors. Network view provides

support for the second, third and fourth groups of factors. And institutional view provides support for the fourth group of factors.

So the whole framework follows this logic: The research begins with analysing the phenomenon of IJV's knowledge acquisition from foreign partners, then the analysis focuses on finding out key factors influencing the process of IJV's knowledge acquisition as these factors are critical for generating strategic knowledge based on RBV. And these factors are classified into 4 groups based on previous literature.

The direction of the group of arrows is from IJV's knowledge acquisition to the 4 groups of influencing factors. This direction implies that IJV's knowledge acquisition is the origin of this framework. Then based on this phenomenon, factors in this framework are found out, as these factors are critical for this phenomenon to generate competitive advantage in the market. All arrows in this group have the same mean, however they direct to different groups of influencing factors. These factors are classified into 4 groups because in this way they can better clarify the process of knowledge acquisition and then the research can be guided to the next step. After that, in order to explain these factors from theoretical perspective, the 3 main theories are found out. These theories provide theoretical support to the groups of factors separately. Here in the first group, the circle means that in order to explain the factors related to characteristics of IJV, RBV is used as theoretical background. The second circle means that in order to explain factors related to parents' relationship, network view is used as theoretical background. The third circle means that in order to explain factors related to MNE network, network view is used as theoretical background. The fourth circle means that in order to explain factors related to local network, both network view and institutional view together are used as theoretical background.

To conclude, RBV is the basic view for the framework built in this research, the factors are found as critical ones because they can influence knowledge acquisition that could further improve the level of firm's knowledge to generate competitive advantage. And the group of factors including learning intent, absorptive capacity, IJV's autonomy and knowledge creation within IJV are classified as group based on RBV.

Network view enlarges the scope of RBV by declaring that IJV's knowledge acquisition could benefit from network of relationships and so adding groups of factors related to network into the framework. As IJV is embedded in network of parents, MNE and local network, the factors relating to network of relationships influencing IJV's knowledge acquisition are classified as groups based on network view.

Institutional view focuses on the institutional environment in China in this research. Considering the importance of interpersonal relationship and intervention of government on business in China, business ties and political ties are classified as group of factors based on institutional view.

To conclude, the logic of the framework are as follows: it begins with the phenomenon of IJV's knowledge acquisition, then in order to explain the phenomenon, different groups of factors in previous literature are added into the framework, and then in order to clarify the theoretical background of these factors, 3 theoretical views are found out in this research.

### **3.6 Conclusion**

This chapter firstly introduces RBV, network view and institutional view applied in this research as theoretical views. Based on RBV, knowledge is regarded as strategic resources within firm, and the characteristics of IJV within the firms

that could influence knowledge acquisition. Based on network view, network of relationships is also a kind of resource. And so the factors that influence the parents' relationship, relationship between MNE network and IJV, and relationship between IJV and local network could generate competitive advantage based on network view. Based on institutional view, local environment has influence on knowledge acquisition. And so the factors that are parts of local context influencing knowledge acquisition could generate competitive advantage based on institutional view.

These descriptions around IJV's knowledge acquisition process in different research levels provide a picture on the important factors influencing knowledge acquisition process based on RBV, network view and institutional view. By clarifying the context around IJV from firm's level, industrial level and national level, it is clearer that based on RBV, characteristics of IJV which reflect internal firm resources are one group of influencing factors on knowledge acquisition. Based on network view, parents' relationships, relationship between MNE network and IJV, relationship between local network and IJV which reflect firm's relationship with relevant partners outside the firm are another group of influencing factors on knowledge acquisition. Based on institutional view, relationship between partners' managers, relationship between firm's managers and governmental officials that reflect the relationship between firms and social context are another group of factors influencing knowledge acquisition.

# **Chapter 4 FDI in China and its importance for IJVs' knowledge acquisition**

## **4.1 Introduction**

According to resource-based view, advanced knowledge is a critical resource for succeeding in the international business world. In order to become more involved in the world economy, the Chinese government encourages cross-border knowledge acquisition China from foreign economies.

Knowledge acquisition is a complex process with acquired knowledge on different levels. Generally speaking, local partners' knowledge acquisition can be divided into 3 levels: Knowledge assimilation, knowledge digestion and knowledge innovation (Bell, 1984; Bell and Pavitt, 1997; Viotti, 2002; Sun and Du, 2010). Knowledge assimilation is the absorption of product/process existing knowledge, such as technology, skills, and other knowledge required for the process of production. This kind of process is called “doing-based learning” by Bell (1984). It is a passive type of learning process, without incremental innovation and it can only be used to improve production capability (Bell and Pavitt, 1997).

Knowledge digestion refers to the mastering of product/process assimilated knowledge. It is used to cultivate improvement capacity for upgrading product/process knowledge such as product design, performance features and process technology (Bell and Pavitt, 1997; Viotti, 2002). It is a “non-doing-based learning” process, as referred to by Bell (Bell, 1984). Unlike knowledge assimilation, it starts an active learning process.

Knowledge innovation is the creation of new knowledge based on mastered knowledge background (Viotti, 2002). Creation of new knowledge – in other words, innovation – means major changes in the design and core features of products and production processes (Bell and Pavitt, 1997; Viotti, 2002; Sun and Du, 2010). Knowledge innovation is an active learning process and it exists on a deep level of knowledge acquisition.

I shall explain in greater detail the situation of China's knowledge acquisition in the following sections, paying close attention to its depth:

To acquire knowledge from the international market, purchase of equipment, technology licensing (patent license, know-how license and trademark license), technical consultation and FDI can be applied. The purchase of equipment improved the level of industrialization at the beginning of open policy, at a time when China was void of basic infrastructure (Cai and Xu, 2004). However, it costs a lot of capital, and results in a technology dependence on foreign equipment. Following the purchase of equipment is technology licensing, which is a better method for gaining valuable technology in a direct way. Licensing is an efficient way of transferring technology, especially in high-tech and service industries, and the origins of licensing can be flexible from not only big enterprises but also medium and small ones (Cai and Xu, 2005; Saggi, 1999, 2002; Mattoo et al., 2004). Nevertheless, because of political divergence between China and developed economies, governments in developed countries such as USA formulate prohibitions on certain types of high-tech knowledge exporting to China (Yu, 2000). Technical consultation is adopted when Chinese firms lack the capability to accomplish tasks with specialized knowledge. By depending on technical consultation, Chinese firms can only improve productivity, not specialized knowledge.



Compared with other types of knowledge acquisition, FDI is the most important source of advanced knowledge from foreign countries in China. More FDI flows into China means that it is more possible for foreign invested enterprises to invest more capital in the introduction of technology. China has been the largest FDI recipient and fastest growing economy in developing countries (Sun and Du, 2010). This phenomenon draws the attention of many scholars to China's FDI development, economic growth and relevant issues such as knowledge acquisition between foreign and local firms. According to previous research, some scholars propose that FDI is the main source for providing capital investment and advanced knowledge to the Chinese market and therefore promoting economic development. Other scholars have different opinions and argue that the importance of FDI for Chinese knowledge development is not as important as expected, and FDI even could have negative effects on the Chinese industrialization process (Zhang and Du, 2005; Li and Zhou, 2008). Although China has been successful in attracting rich FDI, leading national economic growth, improving productivity and the national technology level by assimilating and digesting advanced knowledge, the FDI and national economic growth do not directly transfer to local employees' innovative capability in China (Zhang and Du, 2005; Gu, Zhang and Kang, 2006; Li and Zhou, 2008). From a national perspective, the reason can be attributed to the fact that the comparative government policy cannot meet the rapid development of high technology in the world. From an industrial perspective, the reason is that the structure of FDI is not rational enough to generate innovation capability. From a firm's perspective, the local partners' dependence on foreign technology prohibits human capital's independent innovative capability in China. As a result, the effect of knowledge acquisition, especially on high-tech industries and firms' innovative capability, is not as great as may be assumed.

This chapter will explore the background of FDI development and the overview of the local firms' knowledge acquisition situation in China by demonstrating

FDI policy development, inward trend of FDI, sources of FDI countries, distribution of FDI in different industries and relevant effects on IJV knowledge acquisition in China.

## **4.2 Development of FDI in China and knowledge acquisition**

### **4.2.1 Development of FDI policy, capital trend and knowledge acquisition in China**

Before 1979, Chinese government adopted planned economy that forbade free exchange of commodities within and outside of China. However, the lack of connection with the rest of world became one of the main reasons for China's disastrous economy. In order to advance the whole economic level and comprehensive national strength, since 1979, Deng Xiaoping tried to introduce an open door policy in the form of implementing economic reform and liberalizing the Chinese market in order to learn advanced technology and management skills from the international market (Dees, 1998; Tuan and Ng, 2003). Within the open door policy, FDI policy constitutes its most critical part, because it brings capital investment and advanced knowledge to the Chinese market with a small amount of cost. Along with the development of policy on FDI, inflows of FDI into China and the economic environment also change.

In 1979, the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures was issued, following with the “Regulations of the People’s Republic of China on Special Economic Zones in Guangdong Province” (Chunlai, 1997). Although too general, the law is the first step for legal establishment of FDI entities in the form of equity joint venture in China and provides the fundamental guideline for relational business operations. According to this law and the following implementing regulations, FDI was allowed in

China's Four Special Economic Zones (SEZs) and coastal areas, and entry mode was limited to equity joint ventures, whilst industries are limited to real estate and national resources extraction (Chunlai, 1997; Dees, 1998).

From then on, there are four periods of FDI development: From 1979-1983, from 1984-1990, from 1991-2001, and from 2002 to present.

From 1979-1983: According to data from National Bureau of Statistics of China (National Bureau of Statistics of China), from 1979 to 1983, China's inward FDI increased very slowly, from \$0.5 billion in 1979 to \$1.5 billion in 1983, as figure 4.1 indicates (Whalley and Xin, 2010; National Bureau of Statistics of China). The reason was that foreign investors were suspicious of the market. Then there were following implementing regulations that were proposed to complement the law in order to give details of legal operative activities of joint ventures, and so enhance the stability of investment environment and the confidence of foreign investors. For example, in 1983, Chinese government issued the "Implementing Regulations for the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment" that provides details on all aspects of joint venture operations (Huang and Tang, 2012).

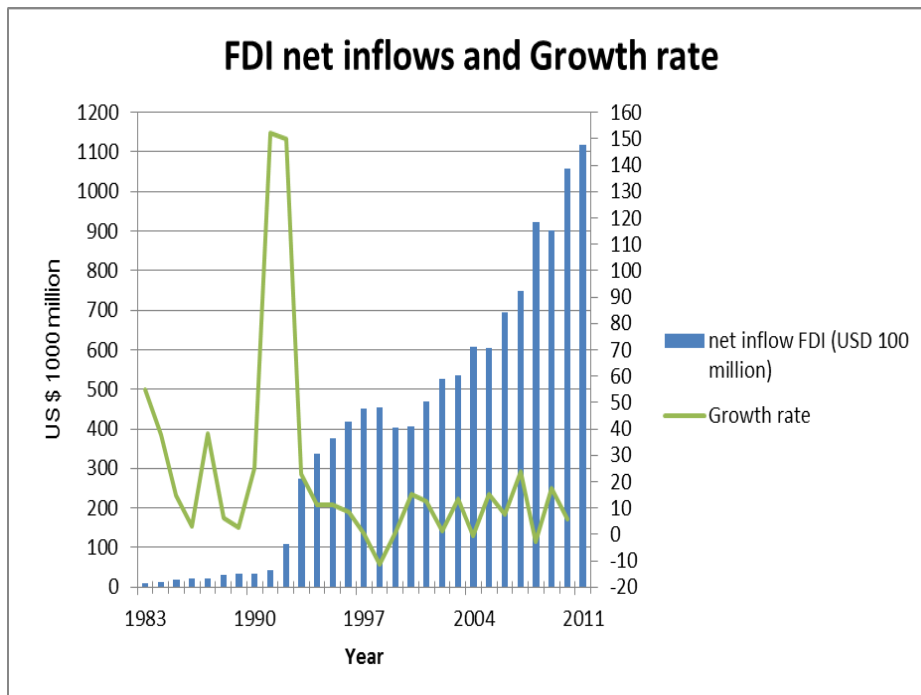


FIGURE 4.1 FDI NET INFLOWS AND GROWTH RATE

Sources: National Bureau of Statistics of China (NBSC)

From 1984 to 1991: Inward FDI started to speed up as new foreign investment law was adopted in order to stimulate the flow of more foreign investment into China. In 1985, annual FDI inflows were less than US \$2 billion (National Bureau of Statistics of China). The low amount of FDI inflows was the result of restrictions on laws and regulations and the lack of integral legal framework. As foreign invested enterprises were still not protected enough, they were suspicious of the long-term operation in China and so invested limited amount of capital. Foreign investors were not satisfied with the investment environment and the Chinese government was not satisfied with capital and advanced technology acquisition. This dissatisfaction on relevant policies urged the government to improve laws and regulations. In 1986, the Chinese government issued two important legal documents. One document was “The Law of the People’s Republic of China on Enterprises Operated Exclusively with Foreign Capital”, and the other was the “Provisions of the State Council of the People’s Republic of China for the Encouragement of the Foreign Investment” (Dees, 1998). The

adoption of these Foreign Enterprises Laws and following implementation regulations were issued for legal protection of foreign investment enterprises, offering incentive FDI policies, developing national economy and introducing advanced technology into the Chinese market.

From 1991-2001: From the beginning of 1990s, in order to speed up the inflows of FDI to attract more FDI, the Chinese government further formulated and amended laws and regulations such as the Amendments to the Equity Joint Venture Law and the Wholly Foreign Owned Enterprise Implementing Rules aiming to form a more integral legal framework (Dees, 1998; Whalley and Xin, 2010). The liberalization on central and local governmental policies provided a series of favorable policies such as tax reduction and supporting implementing regulations those created a better environment for foreign invested enterprises. As figure 4.2 indicates, FDI inflows into China increased gradually in terms of value and reached \$4.4 billion in 1991. And inward FDI account for 1.2% of GDP in 1991.

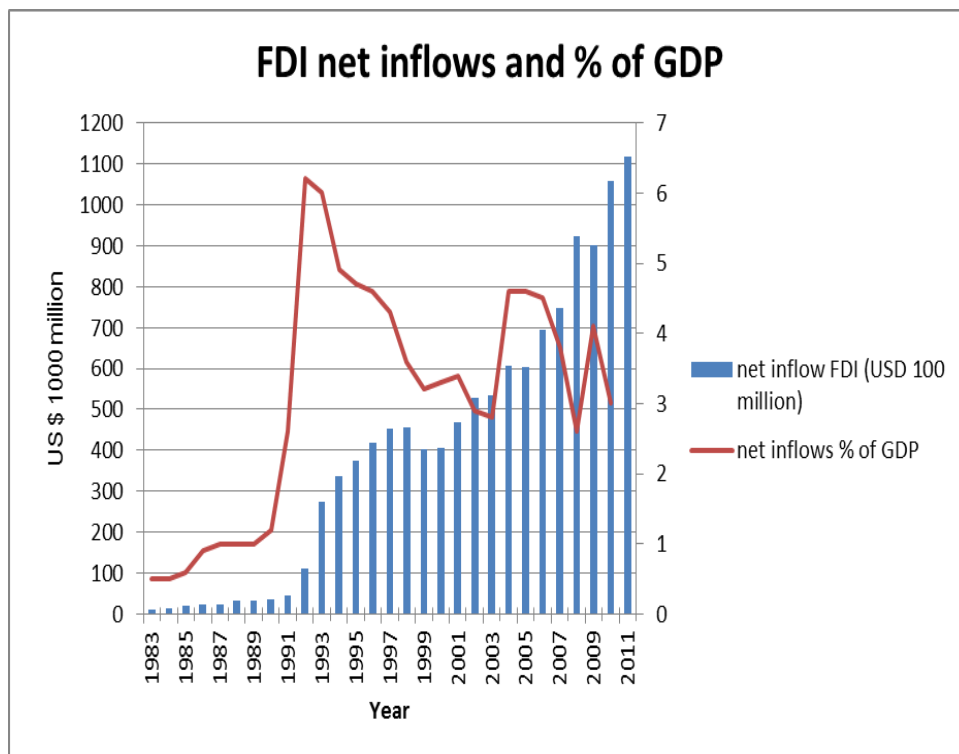


FIGURE 4.2 FDI NET INFLOWS AND % OF GDP

Sources: National Bureau of Statistics of China

Since 1992, as Chinese government guaranteed the stability of openness policy and market-oriented reform, FDI started to expand at high speed in China (Dees, 1998; Whalley and Xin, 2010). In 1992 and 1993, FDI inflows increased dramatically to US\$11 billion and US\$28 billion separately (National Bureau of Statistics of China). By 1997, FDI inflows in China reached US\$45 billion. In the late of 1999 and 2000 the FDI inflows decrease slightly for these two years as a result of Asia's financial crisis of 1997-98.

From 2001-present: Then, after China joined the WTO in 2001, inward FDI grew continually and the annual growth rate increased again to over 10%, and in 2011, they reached US\$112 billion and account for 3% of GDP (National Bureau of Statistics of China).

According to a review of the history of FDI inflows in China, it can be seen that “open door policies” in China has changed gradually to suit the international business world and the Chinese government has made great progress with regards to policy on FDI policy reform. The progress on FDI policies successfully acquired rich capital from foreign countries, and the increase on FDI improves the level of knowledge in business industries in China. At the beginning of ‘open policy’, China was short of capital, physical assets and human capital, and there was a huge knowledge gap between china and foreign countries in business industries. Increase of FDI in China brings capital for the Chinese government to complement the absence of domestic capital, purchase equipment and technology from foreign countries to exploit natural resources, and gain advanced technology and industrial modern management methods (Chunlai, 1997).

As demonstrated before, FDI flows into China mainly in the form of foreign invested enterprises. Foreign invested enterprises contribute substantially to Chinese economic growth, while they only employ a small workforce (Whalley

and Xin, 2010). Along with the development of FDI policy in China, the form of foreign invested enterprises also changes (Dees, 1998; Huang and Tang, 2012). Among forms of FDI, joint venture has been developing for a long time, as the government formulates incentive policies for the establishment of joint venture between local and foreign firms to exchange market for technology. At the beginning of ‘open policy’, as the Chinese government was suspicious about wholly foreign owned ventures from both ideological and political viewpoints, the equity joint venture was the only form permitted to enter the Chinese market. Even if wholly foreign owned ventures were legal in China from 1986, equity joint venture was still the main entry mode in China among different entry forms before 2000, as demonstrated in figure 4.3. After China entered WTO, despite the ratio of FDI in equity joint venture decreased from more than 50% to less than 20%, the total amount of FDI in equity joint ventures still reached 325 US \$ billion in 2010. Joint venture promotes firms’ productivity and facilitates local partners’ knowledge assimilation and digestion. By acquiring assistance from foreign enterprises, productivity has been improved.

#### **4.2.2 Governmental policy and knowledge acquisition development**

Although China has made impressive progress in technology after 1979 in general technological level in basic industries, Chinese government and indigenous firms are not satisfied with the progress of technology (Bell and Pavitt, 1997; Sun, 2003; Sun and Du, 2010). As demonstrated before, there are three steps in the knowledge acquisition process: knowledge assimilation, knowledge digestion and knowledge innovation. Based on empirical research, it is difficult for economies those are late in industrialization to become technological frontier economies, especially when high technology is developing globally at such great speed. Although transitional economies have made great progress on productivity, their progress lacks innovation.

China uses policies to encourage FDI for knowledge acquisition. Although China has achieved much in the knowledge assimilation process, has promote production capability and made good progress in the knowledge digestion process, it has not made effective progress in the knowledge innovation process and the promotion of innovation capability. Its success in the fields of knowledge assimilation and digestion greatly promote productivity in China, but the lack of a knowledge innovation process results in China being unable to catch up with technological frontier countries.

A relevant governmental policy for knowledge development is technology expenditure. Technology expenditure – namely the cost of the introduction of technology, national expenditure on R&D and the relations between them – has an important influence on knowledge development. The cost of the introduction of technology provides chances for enterprises to assimilate and digest advanced knowledge, and the R&D expenditure is a key channel for cultivating innovative capability.

With regard to R&D, low investment in R&D is one factor that inhibits innovation of new technology (Viotti, 2002). The share of R&D in GDP in China was 1.49% in 2007. It means that investment in R&D in China should be increased in order to provide creative technology.

In China, from 1979-2007, capital of introduction on technology was 261.19 billion dollars in total over 28 years (National Bureau of Statistics of China). Among this amount, capital of introduction on technology from 2001-2007 reached 120.31 billion dollars and accounted for 46.1% (China Trade in Service). Capital on introduction of technology from foreign invested enterprises was 63.3 billion dollars, accounting for 52.6% in whole technology introduction cost (China Trade in Services). Among the technology introduction, the ratio of capital on technology introduction on FDI from 2003 to 2007 was around 15%.

China is trapped in the period in which only productivity is improving. The government is trying to change the situation by increasing investment in R&D to cultivate innovative capabilities. Before 2001, capital of introduction of



technology was higher than R&D expenditure (National Bureau of Statistics of China). Since then, R&D expenditure has increased and has now become more than the expenditure of introduction of technology. This trend means that independent innovation capabilities are paid attention to.

By demonstrating the history of incentive policies on knowledge development, it is clear that China achieve little in the depth of knowledge acquisition. Chinese firms begin with imitation of production from developed countries. However, the passive pattern of learning is not upgrading after mastering product/process knowledge, and it means the domestic firms in China do not partake in active learning for knowledge digestion and knowledge innovation. The reason could be attributed to the fact that FDI generates local firms' dependence on technology, and so inhibiting them to further explore the knowledge they have absorbed.

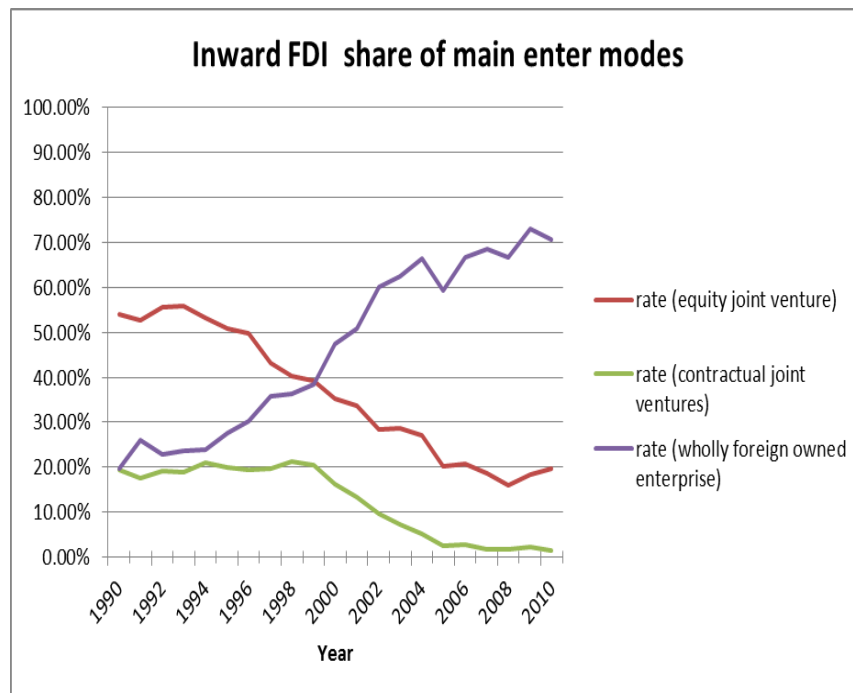


FIGURE 4.3 INWARD FDI SHARE OF MAIN ENTER MODES

Sources: National Bureau of Statistics of China

### **4.2.3 Country of FDI origin and knowledge acquisition**

The FDI are primarily from two groups of country sources: one group includes Hong Kong, Macao, Taiwan, and other developing countries in south-eastern Asia; the other group includes developed countries including United States, European countries and Japan (Wang et al., 2012).

According to Fung and Lau (2003), inward FDI from these areas can be categorized into import and export group. An export group is usually vertical FDI that aims to take advantage of financial incentives, low cost of labor and natural resources for exporting. Export-oriented FDI are mainly from South-Eastern Asian economies (Whalley and Xin, 2010). Among those Asian neighbors, FDI from Hong Kong, Macao, and Taiwan accounts for 66% of total FDI inflows on average from 1979 to 1992, and 55% on average from 1993 to 2001. Although Hong Kong flows into China in large amounts, the FDI inflows from Hong Kong involve round-trips that indicate FDI originating from mainland China and returning to inland China through Hong Kong for tax reduction (Graham & Wada, 2001; Dees, 1998). Xiao (2004) even estimated that China's overall round-trip FDI ratio is likely to be 40%. An import group is usually horizontal FDI that imports product from foreign countries to the Chinese internal market. Import-oriented FDI are mainly from developed countries. For example, Japanese invested enterprises sold about 45% of products in the Chinese internal market and US invested enterprises sold more than 80% of their products in China in 2002.

FDI contributes to Chinese economy both from export and import perspectives. Export-oriented FDI takes advantage of low labor cost in China but at the same time provides technology, skills, jobs and capital for the Chinese market. Import-oriented FDI provided products and services to the Chinese local market that can promote knowledge spillover in China and so promote the advancement

of local firms. Attraction of FDI provides local firms accessibility to the international market so they can accumulate the capital, international experience, technology and managerial skills required to compete in the international market.

According to figure 4.4, before 2002, FDI mainly originated from Asian neighbors because of the geographical proximity and cultural similarity. Since China entered WTO, there has been a substantial decrease of FDI on round tripping and an increase of FDI originating from diverse countries. As indicated by figure 4.4, more countries from American and European increased FDI inflows in China, and as figure 4.5 indicates, the proportion of Hong Kong, Macao and Taiwan in total inward FDI has declined to around 40% (Chunlai, 1997; Dees, 1998).

As demonstrated before, FDI originating from Asian neighbors mainly focuses on labor-intensive industries that are low technology industries and so can only transfer limited advanced technology into China (Dees, 1998; Sun and Du, 2010; National Bureau of Statistics of China). Furthermore, FDI from overseas China including Hong Kong, Macao and Taiwan accounts for a large percentage of the whole FDI (Chunlai, 1997). The large amount of round-tripping FDI from Hong Kong and Macao means that this part of FDI originates from inland China and so has little effect on foreign capital accumulation, not to mention the effect of knowledge transfer to inland China. FDI from Taiwan falls in low-technology industries aiming at exploiting low cost labor in China. In contrast, FDI originating from US, European countries and Japan could provide more advanced technology to the Chinese market. The first reason is that enterprises from these developed countries mastered high technology and so Chinese partners have more chances to access advanced knowledge. The second reason is that these enterprises are import-oriented and so there is a close connection between foreign enterprises and the local market; this connection is beneficial to Chinese partners for it allows them to communicate with and learn from foreign

partners. The third reason is that, as high technology industries, enterprises from these developed economies establish R&D centers in China such as Microsoft, IBM, and so on. These R&D centers can transfer more advanced knowledge to China.

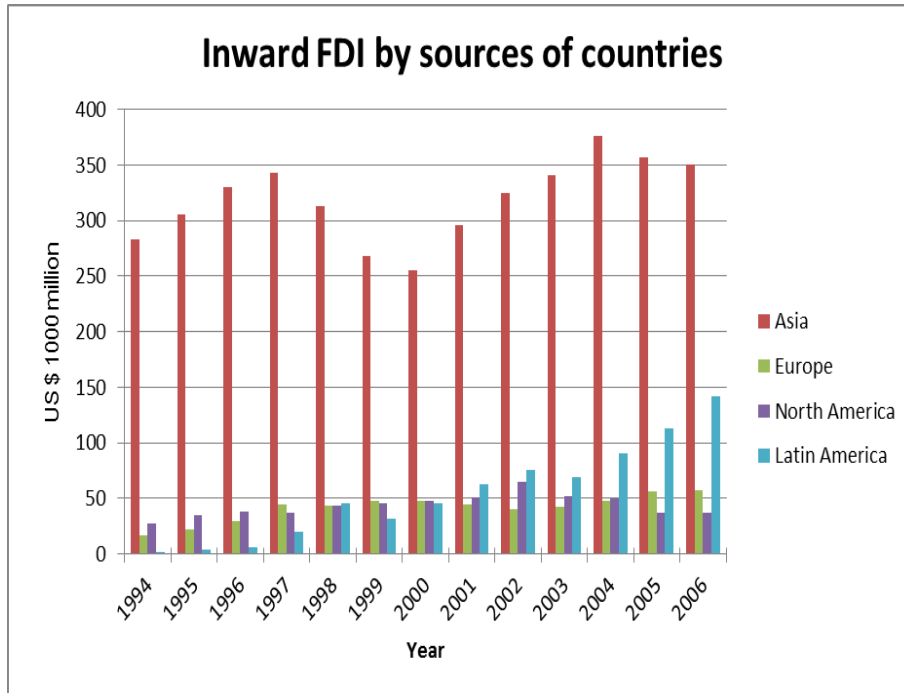


FIGURE 4.4 INWARD FDI BY SOURCES OF COUNTRIES

Sources: National Bureau of Statistics of China

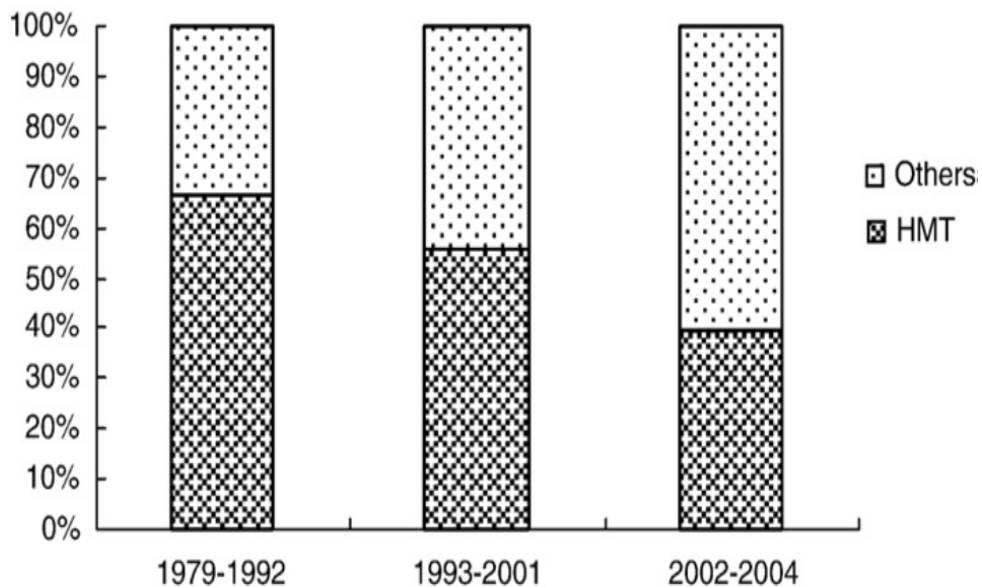


FIGURE 4.5 INWARD FDI SHARE OF HMT

Sources: National Bureau of Statistics of China

#### **4.2.4 FDI industry distribution and knowledge acquisition**

With regard to industrial categories, FDI inflows between the manufacture and service industries are unbalanced. At the beginning of ‘opening door policy’, there are only few FDI falling into service industries. After 1992, some service industries, such as telecommunication, banking, finance and retail trade, were opened to FDI (Wang et al., 2012). Since 1997, the proportion of FDI on service sectors started to increase steadily. Before China entered into WTO in 2001, as indicated in figure 4.6, Manufacturing and Real Estate sectors attracted a large amount of FDI, and less than 60% of inward FDI fell into the manufacturing sector. FDI inflows within service industry are also unbalanced. There were higher shares of FDI in real estates, basic infrastructures and other low knowledge-intensive industries. But the shares of FDI in high knowledge-intensive industries such as finance, insurance, and information industries were much lower than the global average, and even lower than in other developing countries (Wang et al., 2012).

After China joined WTO, fierce competition from developed countries pressured the government into improving the economic environment to attract more FDI in service sectors, and so restrictions on the service industry are relaxed. Then there has been a steady increase on service sector and change on structure of FDI service. For example, FDI inflows in real estate sector decreased gradually, and finance and insurance sectors increased from 0.2% in 2000 to 8.8% in 2010. And the development on information and computer technology in international market also promotes the globalization of the service sector and thus more FDI inflows into the service sector (Wang et al., 2012).

FDI contributes greatly to the development of manufacturing industries in China. For the service industries in the Chinese market, FDI could provide capital for knowledge development in service industries. But service industries lack experience and advanced knowledge from FDI (Whalley and Xin, 2010; Chunlai, 1997; Dees, 1998) although they have become the most attractive sector to foreign investment. The reason is that FDI policies on China's service industries just opened for a short time, and only low knowledge-intensive service industries developed sufficiently prior to the 'openness' of the policy. Thus, there is still a long way to go for high knowledge-intensive services in China. Unlike knowledge acquisition in manufacturing industries that has enjoyed long term experience, knowledge acquisition in service, especially for high knowledge-intensive services, is still at its initial stage.

Thus, the distribution of FDI in Chinese industries is not scientific enough to facilitate innovative capabilities in China. Most FDI falls in manufacturing industries, and most of them are still in low-tech, low value-added industries. For those fall in high technology such as information and computer industries, FDI is not an ideal knowledge acquisition method because core technologies are secrets and not shared in the industries.

Service FDI in China has not developed well and an only small proportion of FDI falls inside it. The share of knowledge-intensive service in FDI is an important indication for measuring the involvement of a country within the world's advanced knowledge (Wang et al., 2012). As in developed economies, service industries embody high intensive knowledge and play the major role in national economy. In China, before 2001, most service industries were not open to the international market, and only some low-tech and low value-added industries such as real estate introduced FDI (Chunlai, 1997; Dees, 1998). Since 2001, service FDI has made some progress. Knowledge-intensive service

industries such as finance, software, accounting and consulting companies attract more FDI than before. Therefore, the unbalanced structure of FDI in China is one reason for its lack of innovation capability, and it is useful to attract more FDI in knowledge-intensive service industries.

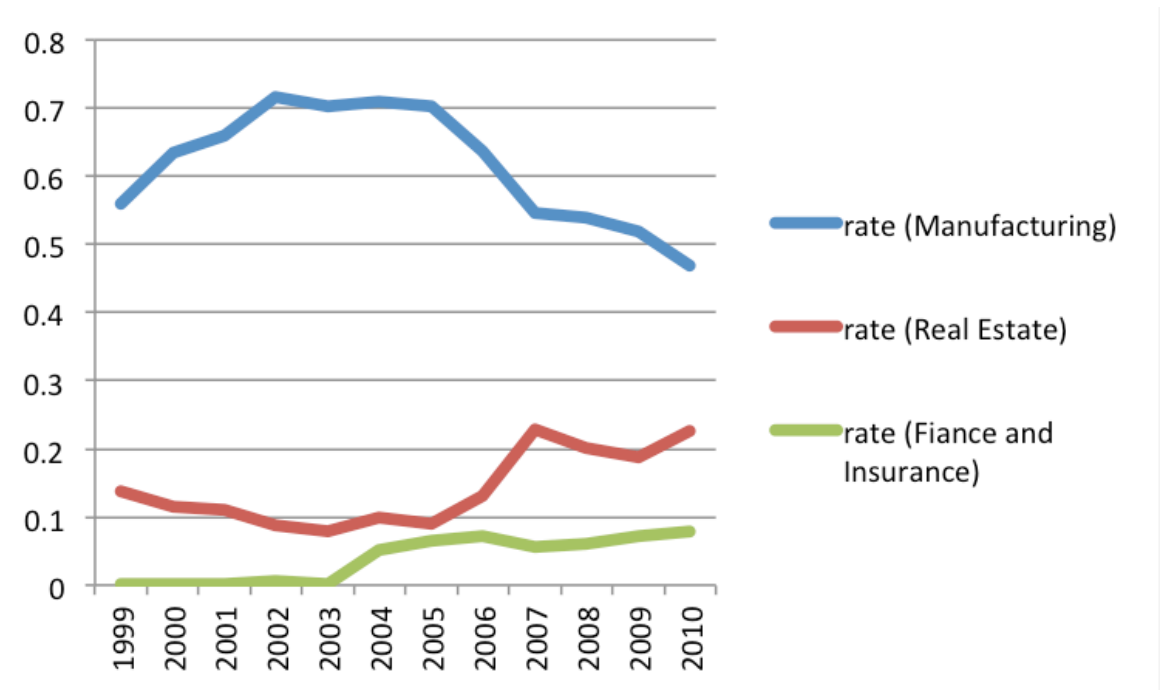


FIGURE 4.6 INWARD FDI DISTRIBUTION OF INDUSTRIAL SECTORS

Sources: National Bureau of Statistics of China

## 4.3 Importance of FDI for knowledge acquisition in China

### 4.3.1 Importance of government policies on knowledge acquisition in China

Government policies in China encourage the introduction of advanced technology from developed economies, mainly in the form of FDI. The Chinese government attracts FDI to flow into China by providing openness policies, cost

advantages and domestic market size to foreign countries (Dees, 1998). The aim of attracting FDI is developing national economy, upgrading the industrial and technology level to build modern business industries.

There is a consensus of opinion that China has attracted rich capital from foreign countries and that the inward FDI contributes greatly to China's entire economy (Whalley and Xin, 2009). At the end of 2010, China had attracted 1108 US \$ billion in FDI in total. The rich foreign capitals from FDI filled shortages of financial resources in China. With rich capitals, government could invest in exploiting national resources such as petroleum, and in other economic areas purchase technology and upgrade basic infrastructures in China. Inward FDI also contributes to China's GDP growth. As indicated in figure 4.2, by utilizing FDI, since the mid-1980s, Chinese registered GDP has been growing around 9.3% annually on average. In 1983, FDI accounted for only 0.3% of GDP; after China entered WTO, the percentage increased to 3%. FIE accounts for a large portion of the Chinese economy with high labor productivity. In 2004, FIE shares reached over 20% in China's economy (National Bureau of Statistics of China). Having said this, employment of FIE only accounts for a small share in total employment, with only around 3% of the national labor force.

Besides encouraging FDI, government policies further encourage FDI entering China and transferring technology in the form of joint venture but not wholly owned subsidiaries. The privilege policies on knowledge development can also influence the cost of technology introduction as well as the national expenditure on R&D.

Sometimes cross-border knowledge acquisition is limited by relevant policies due to ideological reasons. There are government policies from home countries prohibiting certain types of high-tech knowledge being transferred to China.



Moreover, there are also government policies in China prohibiting involvement of foreign enterprises in certain industries.

#### **4.3.2 Importance of MNEs for knowledge acquisition in China**

After government policies have guided knowledge acquisition to certain industries using certain kinds of acquisition method, it is MNEs who act as knowledge senders and decide which kinds of knowledge to transfer to the local market and to what extent. For example, according to the contract signed at the establishment of joint venture, MNEs transfer technology to local partners (Jindra et al., 2009). However, if the joint venture develops to be an important unit in internal MNE, the headquarters may be willing to transfer more advanced knowledge for the joint venture to succeed in the market.

When MNEs do not trust joint ventures, they make rigid regulations to inhibit knowledge spillover from IJVs to local firms (Inkpen, 1998; 2000). Furthermore, in order to control IJVs and maintain competitive advantages in markets, foreign partners are not willing to transfer core patents and advanced technology to IJVs (Chang et al., 2009). From local partners aspect, although they gain some advanced technology from foreign partners, the dependence on foreign partners inhibit local partners' ability for independent innovation and continuous progress on learning. Nonetheless, foreign partners are willing to transfer managerial knowledge to Chinese partners those are also important for international business. The transfer process, however, is not a smooth one. One reason is that there are cultural differences between cooperative firms; another reason is that many local managers with engineering backgrounds do not pay much attention to managerial knowledge. The wholly owned subsidiaries are totally owned by foreign partners and so there is a trust between headquarters and subsidiaries; therefore, advanced technology could be transferred to wholly owned subsidiaries. However, due to ideological reasons, wholly owned subsidiaries have not been developed for the

long term, and knowledge spillover effect has not been obvious until rich human capital in wholly owned subsidiaries jumped to local firms with innovative capability.

### **4.3.3 Knowledge acquisition process and the result**

The knowledge acquisition process is difficult and costly on time. In addition to this, the tacit knowledge embedded in the MNEs environment is more difficult to be acquired by local partners (Inkpen and Dinur, 1998). The success of acquiring tacit knowledge is dependent upon the characteristics of both participants. Government policies can be helpful in the knowledge acquisition process. For example, when policies provide more funds to educational institutions, there will be more human capital with specialized knowledge and better absorptive capacity (Lu, Tsang and Peng, 2008; Kotabe et al., 2011).

The knowledge acquisition process, mainly in the form of FDI in China, is not a successful means by which to lead China towards a technology frontier economy, and even hinders the development of innovation capabilities in China. For example, the motor vehicle industry is almost the earliest industry to adopt international joint venture in order to introduce advanced technology. Some scholars have proved that knowledge acquisition is a failure and local partners have lost market and innovation capabilities (Li and Zhou, 2008; Sun and Du, 2010).

## **4.4 Conclusion to this chapter**

Based on the proceeding analysis, FDI in China only result in the improvement of productivity capability, not innovation capability, so the result of knowledge acquisition does not achieve the aim of Chinese open policy. Therefore, it is necessary to find out causal factors influencing knowledge acquisition from MNEs in joint venture. By doing so, enterprises can adjust their behavior to

better acquire knowledge, and the Chinese government can make rational policies to improve the development of national innovation capabilities in the knowledge acquisition process in China.

# **Chapter 5 Factors influencing knowledge acquisition**

## **5.1 Introduction of framework**

By introducing FDI, Chinese firms improve technology levels in terms of productivity. However, the required depth of knowledge is not reached, as national innovation capability is not improved. It means that there are problems with the effectiveness of knowledge acquisition in the method of FDI. Thus, it is important to clarify this process in order to find out which factors have an influence on the FDI knowledge acquisition process. Based on this, it is possible that the required depth of knowledge acquisition could be facilitated.

This research will focus on manufacturing and service industries with medium and high levels of knowledge. In China, the main imported knowledge is advanced technology, managerial and marketing knowledge. These types of knowledge are important for China to industrialize and cultivate innovative capabilities in order to catch up with technology frontier economies. The tacitness and complexity of knowledge has been discovered by previous research to have a negative relationship with knowledge acquisition. This research will uncover factors influencing IJV's knowledge acquisition from MNEs in groups of nature of IJV, relationships between IJV's parents, relationships between IJV and MNEs and relationships between IJV and the local environment, by combining resource-based view, network view and institutional view.

This chapter will be demonstrated in the order of nature of IJV, relationships between IJV's parents, relationships between IJV and MNEs and relationships between IJV and local environment. Each group of factors will be further divided into general influencing factors, specific influencing factors in transitional

economies and specific influencing factors in China. The general influencing factors are factors those can be applied in both developed and developing economies; it is only the extent of the effect that may vary depending on empirical situations. The specific influencing factors in transitional economies are especially important in transitional economies where the environment is different from other developed economies. The specific influencing factors in China are those factors which are especially important in China due to Chinese specific environments such as culture, political policies and so on.

For the group regarding the nature of IJV, learning intent is the general influencing factor, absorptive capacity and IJV autonomy are specific influencing factors in transitional economies, and in-house knowledge creation is a specific influencing factor in China. For the group of relationships between IJV's parents, articulated goals are general influencing factors, support from foreign parents including active managerial involvement from foreign parents, participation of expatriates, and training of local staff from foreign parents are specific influencing factors in transitional economies, and cultural distance and trust between parents are specific influencing factors in China. For relationships between IJV and MNEs, IJV-HQs embeddedness and IJV-sister subsidiaries embeddedness are specific influencing factors in transitional economies. For relationships between IJV and the local environment, business ties between IJV and local firms and political ties between IJV and governmental officials are specific influencing factors in China.

The proposition framework is demonstrated below:

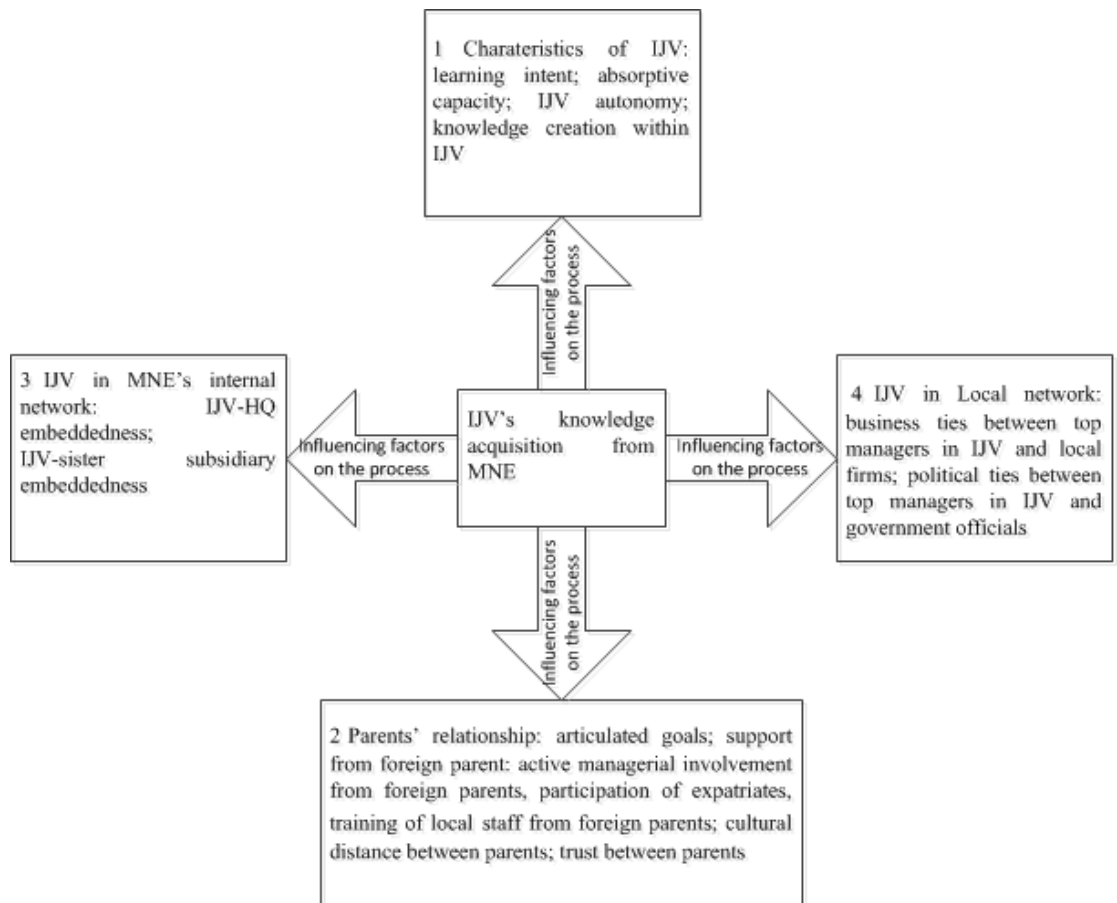


FIGURE 5.1 PROPOSITION FRAMEWORK 1

## **5.2 Nature of IJV**

### **5.2.1 General influencing factors**

#### **5.2.1.1 Learning intent**

Learning intent is the motivation to acquire a partner's knowledge (Pucik, 1988; Hamel, 1991). Learning process consists of different levels, such as individual and firm learning levels. Motivation to learn is critical on both levels (Simonin, 2004). By relying on learning motivation, IJV will acquire different levels of knowledge from their partners. The knowledge gap between MNEs and local partners is not an easy one to fill. If IJV doesn't have enough motivation to learn from a foreign parent, the knowledge acquisition process will not be effective and acquired knowledge will be less than if IJV has more motivation to learn from foreign parent.

On an individual level, when local staff in IJVs get supportive resources from managers and are encouraged to acquire new knowledge, they would like to actively participate in the learning process. They spend time reading and understanding documents and procedures, take formal meetings with expatriates seriously, maintain intense interaction and communication with these expatriates in order to better imitate and understand their behavior. Because of local partners' effort, they could gain new knowledge from MNEs quickly and effectively.

On a firm level, by forming international strategic alliances, firms could gain access to knowledge in order to gain competitive advantage. Some firms aim at acquiring valuable knowledge to spread and deepen their knowledge base. However, there are also some firms aiming at accessing knowledge from partners as substitutes they don't have and so there is no motivation for them to acquire knowledge partners (Hamel, 1991; Inkpen, 1998a, b, 2000). In this way, if a local

firm doesn't have enough motivation to learn from MNEs, the knowledge acquisition process will not be effective even if the valuable knowledge is accessible; moreover, firms will not regard resources embedded in MNE as valuable resources they need to acquire, neither will they waste effort on learning. Only when local firms have clear intentions to acquire knowledge from knowledge senders, the local partners in IJV can absorb knowledge when they gain access to that knowledge. Thus in the MNE network, although valuable resources are already embedded and can be accessible, the IJV should have the learning intent to exert effort learning new knowledge.

Tsang (2002) suggested that although learning intent is not necessary for certain types of knowledge such as experiential knowledge, the presence of learning intent could enhance learning effectiveness. Hau *et al.* (2007) find positive linkage between the learning intent of local partners and the acquisition of both explicit and tacit marketing knowledge. In the transitional economy, learning intent could facilitate local partners' acquisition of knowledge from foreign partners (Lyles and Salk, 2007; Park et al, 2007; Hau and Evangelista, 2007). So it is rational to propose that learning intent of IJV has a positive relationship with knowledge acquisition (Simonin, 2004; Tsang, 2002; Hau *et al.*, 2007).

**Proposition 1:** Learning intent has a positive influence on IJV's knowledge acquisition from MNEs.

## **5.2.2 Specific influencing factors in transitional economies**

### **5.2.2.1 Absorptive capacity**

Absorptive capacity refers to 'the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends' (Cohen and Levinthal, 1990). They regard absorptive capacity as path-dependent and based



on existing knowledge. Existing knowledge includes the educational background of staff, mastered skills and working experience. Absorptive capacity is important for IJV learning (Lane *et al.* 2001), and especially in the knowledge acquisition process from developed to developing economies, whether knowledge could be acquired effectively is heavily dependent on the knowledge receivers' absorptive capacities.

Generally speaking, when cooperative firms have relevant existing knowledge, it is easier for them to understand the know-how and behavior originating from the knowledge. Based on this, receivers can learn more knowledge in a shorter time. If a firm has an extensive knowledge base, it is more likely that valuable knowledge from partners will be recognized and absorbed. However, in developing economies, relevant knowledge is not enough to reflect the firm's capability to learn due to the knowledge gap between developing and developed economies and the complicated environment in developing economies.

The knowledge gap between developed and developing economies is larger than that between developed economies. In a horizontal alliance between partners in the same industry from developed countries such as Japan, Europe and US, the knowledge gap between knowledge senders and receivers is small. With a similar knowledge background and learning capability, they could work together and learn from each other effectively. However, if partners are from developed and developing countries, even in the same industry, the knowledge gap will be large and local staff's level of absorptive capacity is different. Previous scholars conducted empirical examinations and discovered that, when local staff lack sufficient absorptive capacity, without enough support from knowledge senders and motivation of local staff to overcome obstacles in the learning process, new knowledge could not be acquired by receivers (Lyles and Salk, 1996; Anh *et al.*, 2006; Park *et al.* 2007). In this sense, absorptive capacity is more important in developing economies for IJVs' knowledge acquisition from foreign partners.

In transitional economies, the complicated environment makes the absorptive capacity more important. For example, MNEs with rich international experience in terms of cooperation with other developed economies can easily possess the knowledge of how to build suitable cooperative environments that would be beneficial for knowledge sharing between firms. However, when they enter transitional economies, the experience is not effective because of cultural distance, language barriers and the complicated operative environment. In China, the partners from state-owned enterprises are resistant to abandon old routines and in this way they could not acquire external knowledge from foreign partners (Tsang, 2008). However, if they have previous cooperative experience with developed economies, it is likely that they will become more open-minded and their ability to learn is cultivated. In this way, knowledge acquisition can be promoted (Park et al., 2009; Simonin, 1999). So unlike many employees in knowledge-intensive industries in developed economies with rich experience and qualifications, employees in transitional economies always lack stocks of knowledge and chances to make contact with top projects, and their knowledge level is distributed diversely. In this way, the levels of absorptive capacity of employees are important in transitional economies to decide the depth of knowledge acquisition.

**Proposition 2:** In transitional economies, local partners' absorptive capacity has a positive influence on IJV's knowledge acquisition from MNEs.

#### **5.2.2.2 IJV autonomy**

IJV autonomy can be defined as a subsidiary's decision-making autonomy in terms of strategy, and it reflects the relationship between IJV and MNE network (Sumelius and Sarala, 2008). As MNE's one subsidiary, IJV's decision, behavior and operational process are interfered with headquarters (Chang &

Taylor, 1999; Egelhoff, 1984; Andersson et al., 2005). Some scholars argue that direct control hampers knowledge development in a subsidiary, because decision-makers in headquarters are far from the local market, and so they cannot immediately understand the local demand and adopt a suitable policy. On the other hand, an IJV that has decision-making autonomy can adopt a flexible method more easily to acquire knowledge based on its characteristics. When IJV has more autonomy, the headquarters will lose some of its control and IJV can decide by itself what kind of knowledge is valuable and choose strategies to acquire this knowledge (Andersson et al, 2001). In transitional economies, the complicated environment means that time effort is necessary to overcome obstacles in terms of culture, language, relevant policies etc. Hence, foreign partners in IJV can understand the environment and may cultivate good relationships with local partners, but staff in headquarters cannot. When limitations from headquarters are fewer, both foreign and local partners together in IJV are granted more freedom to arrange what kind of knowledge to exchange and using what methods, based on the firm's demand. In this way, knowledge could be acquired with greater width and depth.

**Proposition 3:** In transitional economies, IJV autonomy has a positive influence on IJV's knowledge acquisition from MNEs.

### **5.2.3 Specific influencing factors in China**

#### **5.2.3.1 In-house knowledge creation**

Firms from developing economies hope that knowledge level could be promoted by introducing foreign enterprises to invest in IJVs for knowledge acquisition. However, it seems that FDI does not work well in the most important step of knowledge acquisition: knowledge creation. If the key technology is mainly from headquarters but not created within IJV, the dependence of IJV on MNEs is

strengthened and the local partners innovative capabilities are set back. In order to promote independent innovative capabilities within IJV for local partners, it is important to establish R&D centres in high-tech industries, because within these centres local partners can undertake creative teamwork with foreign partners and increase their learning. In this way, the knowledge acquisition from foreign partners can venture deeper from productivity promotion to innovative promotion.

In China, Tian (2007) examined the FDI's effect on the technological improvement of domestic firms, and concluded that the result of FDI's knowledge acquisition is limited. In order to upgrade knowledge acquisition to a deeper level, in-house R&D has been the principle method used, because knowledge receivers have the chance to undertake creative work with foreign partners and then acquire more tacit and core knowledge (Sun and Du, 2010).

For example, in the automobile industry, IJV between local and foreign partners has been established for a long time. However, local partners' innovative capabilities in the IJV have not been cultivated. They only promote skills in the assembly of automobile parts. If there are more R&D centres in automobile IJVs, local partners can participate in the more creative process and understand how to manufacture the entire automobile using advanced technology, and so substantially promote competitive advantage in the international business world (Li and Zhou, 2008).

**Proposition 4:** In China, the in-house knowledge creation has a positive influence on IJV's knowledge acquisition from MNEs.

## **5.3 Relationships between IJV's parents**

Parents' relationships have an important influence on IJV. Previous research has found that if parents have a good relationship in terms of mutual trust, and communicate with each other intensively, MNE wishes to transfer more knowledge to IJV (Park, 2007). In the same vein, parents' relational embeddedness reflects the relationship between parents; the higher relational embeddedness, the more interaction and closeness between parents. (Andersson and Forsgren 1996; Andersson et al., 2005). Strong relationships between parents can provide benefits to knowledge receivers in many areas, such as promote better understanding and trust between IJV and MNE, and so promote IJV knowledge acquisition from MNE.

### **5.3.1 General influencing factors**

#### **5.3.1.1 Articulated goals**

Articulated goals can facilitate knowledge acquisition in IJVs by focusing members upon the same vision or mission (Senge, 1997; Evangelista and Hau, 2009). Under shared values and similar objectives, the mutual understanding among members in IJVs could be promoted (Nahapiet and Ghoshal, 1998), which in turn would enhance the effectiveness of knowledge exchange. Articulated goals can also provide guidelines for individual and collective actions and outcomes, so the emphasis on articulated goals in IJVs would facilitate knowledge acquisition by local partners (Lyles and Salk, 1996).

**Proposition 5:** articulated goals has a positive influence on IJV's knowledge acquisition from MNEs

### **5.3.2 Specific influencing factors in transitional economies**

Support from foreign parents is necessary especially when knowledge receivers lack sufficient learning capability to acquire new knowledge from partners. Differing extents of learning capability needs different levels of support resources. In IJVs joined by partners in similar industries from developed countries – for example, NUMMI established by General Motors (GM) and Toyota – the systematical learning system from GM is important for acquiring knowledge from Toyota under the condition that Toyota is open in various levels of knowledge. However, in IJVs created by partners from developed and developing countries, the large knowledge gap means that local staff do not have the ability to learn advanced technology, managerial and marketing knowledge independently, and the support from knowledge senders is very important.

Lyles and Salk (1996) asserted that active managerial involvement of foreign parents and training of local staff in Hungarian contributes to local partners acquiring knowledge from foreign partners. Park et al (2007) also discovered that in Korea, the active managerial involvement has a strong positive influence on knowledge acquisition, because if foreign parents actively participate in managerial issues, they can influence the IJV's operation process and make the IJV suit the modern management ideas and behaviors. In this way, foreign parents are able to pool tacit knowledge into IJVs and gradually translate it into an explicit one. In China, the industries in this research fall in the medium and high knowledge intensive industries. In this way, active managerial involvement is also important given the Chinese firms' bureaucratism and inertia to accepting new ideas originating from the previous planned market. By introducing modern management methods into IJVs, the firm can become flexible and local partners can gain more knowledge.

The participation of expatriates could help IJVs acquire knowledge. Hau and Evangelista (2007) noted that in Vietnam, partner assistance mainly includes expatriates' participation in the aiding of local partners, and it has a positive influence on marketing knowledge. In case studies in China, Tsang (2001) contends that the quantity and quality of expatriate managers assigned to subsidiaries and the overseas training of a local workforce can help local partners learn new knowledge. As face-to-face meetings are important for Chinese partners to understand foreign partners' knowledge by observing their behavior, and if there are more high quality expatriate managers, Chinese partners have more chance to make contact with them and gain positive influence; in this way, the knowledge acquisition process can be smoother (Steensma and Lyles, 2000; Gupta and Govindarajan, 2000).

The training of local staff could enhance knowledge acquisition, as local partners with inadequate knowledge should get specialized training to quickly upgrade their knowledge. Furthermore, training can form an environment facilitating learning amongst local partners, especially when the local staff are involved in overseas training where they can immerse themselves into the environment in order to better understand the underlying meaning of a foreign partner's culture. Thus they can better understand knowledge embedded in that environment.

This previous research in developing and transitional economies with similar environments to China can provide bases for building similar statements on knowledge acquisition. China as a transitional economy is experiencing a transition from planned economy to market economy. The planned economy makes China lag behind not only in technology but also in business thinking. Support from foreign partners can not only provide material resources and advanced technology, but also modern business thinking methods such as modern management and marketing knowledge which can help transitional economies to suit the demands of modern corporations in the international

business world. Therefore, active managerial involvement, participation of expatriates and training of local staff from foreign parents can support local partners and help them to acquire knowledge from foreign parents.

**Proposition 6:** In transitional economies, active managerial involvement from foreign parents has a positive influence on IJV's knowledge acquisition from MNEs.

**Proposition 7:** In transitional economies, participation of expatriates has a positive influence on IJV's knowledge acquisition from MNEs.

**Proposition 8:** In transitional economies, training of local staff from foreign parents has a positive influence on IJV's knowledge acquisition from MNEs.

### **5.3.3 Specific influencing factors in China**

#### **5.3.3.1 Cultural distance between local and foreign partners**

Inter-partners' cultural distance includes differences of culture on a national level (language barriers) and on a corporation level that could influence knowledge acquisition (Lyles and Salk, 1996; Simonin, 1999; Simonin, 2004).

Parents of IJV are distinct firms from different countries. As an individual's personal value and vision is deeply embedded in the context of national culture, partners from different cultures have different understanding and judgement regarding the same issue. Furthermore, the personal behaviour based on national culture could be misunderstood and so intensify conflicts between partners in IJVs. Foreign parents in Chinese IJVs are mainly from Asian, American and European economies. Most foreign partners from Asian economies are in Confucian cultural circles. The similar cultural background ensures some



common values between these partners in the cooperative process. Even so, the extent and level of dimensions of culture could be different (Hofstede, 1991). Partners from US and European economies have different cultural background to China and so the cultural distance is larger than that in Asian economies. For example, American culture is characterized as low in power distance and high in individualism, whereas Chinese culture is high in power distance and collectivism (Hofstede, 1991; Zhang and Begley, 2011). 'Low in power distance' means that Americans emphasize horizontal interpersonal relationships; in contrast, the Chinese emphasize vertical interpersonal relationships. With regard to American individualism, they pay close attention to personal value; however, Chinese collectivist culture pays greater importance to the value of family and clan than personal value. So they would be willing to share knowledge within a group, but keep secrets with outsider group members to preserve the group's benefits.

Differences in national culture also inhibit smooth communication between partners, even if both partners have intentions to transfer knowledge. When partners are from a different cultural background and use different mother tongues, the communication process is very difficult. Firstly, language barriers inhibit partners understanding of each other in verbal communication. Secondly, partners have different norms, values and behaviour models, so they would not understand each other in non-verbal communication. Even within an area of similar cultural background, the different language decreases the speed and effectiveness of knowledge acquisition.

Corporation cultural distance has a negative influence on knowledge acquisition. Under different corporation cultural environments, firms have distinctive shared value, vision and management styles. As a result, conflicts and misunderstandings are generated in the interaction and communication process between partners. So the divergence originating from cultural difference in the

knowledge acquisition process inhibits local staff understanding and acquiring new knowledge (Park, 2009; Liu and Vince, 1999; Qin et al., 2008; Chen and Lovvorn, 2011; Lyles and Salk, 2006).

Previous literature examined and testified the influence of cultural distance on knowledge acquisition. Cho and Lee (2004) examine knowledge sharing between subsidiaries in Korean and other organizations in MNEs without distinguishing national and corporate culture. They found out that cultural similarity contributes to MNEs' intra-network knowledge sharing. In the same vein, Lee and Chen (2012) discovered that filling the gap between philosophy and value could facilitate tacit knowledge acquisition. Lyles and Salk (1996) concluded that in Hungary, cultural distance has a negative influence on knowledge acquisition from foreign partners but only for IJVs with equally shared ownership. Hau and Evangelista (2007) found out that cultural distance has a moderate negative effect on tacit marketing knowledge but no influence on explicit knowledge.

However, in Anh et al.'s (2006) research, in Vietnam, cultural distance has no significant influence on IJVs' knowledge acquisition from foreign parents. The reason could be as follows: Firstly, cultural distance in this research mixes national culture distance, language difference and corporation level culture difference together as measurements. Secondly, investigated IJVs have been established for a long time; so cultural distance has been diminished over this lengthy period, as has cooperation between partners. Simonin (1999) examined national cultural distance and organizational cultural distance separately in US based strategic alliance in high-technology industries. The research did not find a significant influence of cultural distance on knowledge acquisition. The reason maybe that the acquired knowledge is codified technology, and so it could be acquired through documents.

Based on previous research in similar environments, it is reasonable to conclude that cultural distance has an influence on knowledge acquisition between transitional economies and developed economies. In the case of China, in order to achieve the aim of catching up with technological frontier countries, foreign partners from developed economies are more important cooperative partners. These economies are mainly from the US, Western Europe and Japan. As demonstrated before, the US and Western Europe have different cultural backgrounds to China. Japan is an Asian country within the Confucian cultural circle. Considering culture in China, although China has a long history of Confucian culture, the Cultural Revolution in China interrupts the continuity of Confucian culture in China. At the same time, Marxist theory contributes to the combination of Chinese culture. Interrupted Confucian culture and Marxist theory together form the modern Chinese cultural background. So Chinese culture is not only different from the culture of western countries, but it is also different from that of Japan. In this way, the cultural issues in China are complex and develop in directions that are difficult to predict. Although traditional culture still has an internal influence in China, the extent of this influence is hard to judge. Thus for foreign countries, Chinese culture can seem mysterious and difficult to understand, and it is difficult to acquire tacit knowledge which is usually embedded in both national and corporate culture.

With regards to corporation culture, there are many state-owned enterprises in China cooperating with foreign partners. The culture in state-owned enterprises has specific characteristics such as bureaucratism, and people from state-owned enterprises possess the inertia to change old ideas. This kind of corporate culture inhibits local partners' ability to actively understand and acquire knowledge from foreign partners with a modern corporate culture.

To sum up, the cultural distance includes national cultural distance, language difference and corporate cultural distance. Moreover, the cultural distance

between local partners and foreign partners in joint venture in China has a negative influence on tacit knowledge acquisition.

**Proposition 9:** In China, cultural distance between IJV's parents has a negative influence on IJV's knowledge acquisition from MNEs.

### **5.3.3.2 Trust between parents**

Trust is necessary for the exchange of information between partners. Trust between partners reflects mutual benefits and can be maintained without taking advantage of opportunism. Without a trusting environment, partners will not open their knowledge to each other, as they are afraid that after acquiring valuable knowledge, their partner's opportunistic behaviour will erode firms' competitive advantages. By cultivating trust between sender and receiver, the knowledge exchange and sharing can be promoted as the risk of knowledge spillover is alleviated. In a trusting environment, partners are more likely to believe each other, and are therefore more willing to expose their knowledge. Furthermore, besides providing documents on explicit knowledge, it is important for knowledge senders to be in contact with receivers to better transfer tacit knowledge. When partners trust each other, they are willing to interact with each other, discuss problems openly and explain underlying knowledge (Park et al, 2007; Evangelista and Hau, 2009). Thus, local partners could acquire new knowledge from foreign partners based on their mutual trust.

Trust has been examined as important factor, and the trust between IJV and MNE has a positive influence on IJV knowledge acquisition (Lane et al, 2001; Park, 2007).

In the case of China, trust exists among internal group members; members are willing to share information, communicate, understand and do business with

each other (Michailova and Hutchings, 2006). However, trust between strangers outside of the group is difficult to establish. Besides that, Chinese society is still in the transition process from rule by man to rule by law, and human control is applied as a supplement to the law (Peng and Heath, 1996; Peng, Wang and Jiang, 2008). As human behavior is hard to judge, trust between strangers is hard to build. The Chinese lay great importance on personal relations, prolonged face-to-face contact can turn strangers into familiars, and in this way strengthen the bond of trust between people. This in turn will facilitate knowledge sharing and understanding between them. So for IJV in China, the notion of trust has great importance in the knowledge acquisition process.

**Proposition 10:** In China, trust between IJV's parents has a positive influence on IJV's knowledge acquisition from MNEs.

## **5.4 Relationships between IJV and MNEs**

### **5.4.1 Specific influencing factors in transitional economies**

Previous research on knowledge acquisition emphasizes relational capital aspects in terms of relational embeddedness (Dhanaraj et al, 2004; Yli-tenkari et al, 2001; Tsang et al, 2004; Wu and Liu, 2009). Tacit knowledge, which is usually embedded in individuals and organizations, is difficult to acquire except when there is high embeddedness in the relationships between sender and receiver organizations. This is because it means high interaction and cooperation between "students" and "teachers" in a similar environment. And so in the case of IJV acquiring knowledge from MNEs, the more embedded the relationships between IJVs and headquarters (HQs), the more knowledge could be acquired by IJV. Furthermore, the more embedded the relationships between IJVs and sister subsidiaries, the more knowledge could be acquired by IJV. Embeddedness can be defined as "closeness in a relationship, and reflects the intensity of

information exchange and the extent to which resources between the parties are adapted to each other.” The stronger the embeddedness, the more difficult it is for counterparts to change partners and the more resources can be exchanged between partners (Andersson, et al, 2001). IJV-headquarter and IJV-sister subsidiary business embeddedness can reflect relationships between IJV and MNE, such as individual interaction and intensity. The deeper IJV is embedded in an IJV-headquarters relationship, the more knowledge and information will be exchanged between firms. This is also the case with IJV-sister subsidiary business embeddedness.

Headquarters can implement strategy to integrate subsidiaries, promoting knowledge acquisition within MNE, so knowledge acquisition between headquarters and IJV could be well managed if they have a close relationship. However, MNE’s global integration strategy may conflict with localization of subsidiaries. In transitional economies, because of the history of previous planned economies, intervention from government still exists. For example, 3G services for smart phones were first launched in developed economies; however, the introduction and application of 3G in transitional economies was much later. In China, the government has influence over the delay of 3G launch in the interest of protecting domestic firms. These kinds of issues in transitional economies make the operation environment complex and not as standard and simple as that in developed economies equipped with advanced information and computation systems. In this way, in order to mitigate conflict between headquarters’ integration strategy and IJV’s localization situation, it is important for headquarters and IJVs to adapt each other to suit the transitional market and at the same time achieve the strategic objective of both firms. The high embeddedness of headquarters and IJV in transitional economies can promote headquarters' understanding of what kind of knowledge is necessary to transfer to IJVs, to promote IJVs value of the acquired knowledge, and to better understand and acquire this knowledge to gain competitive advantage in the local market.

With regards to the embeddedness between IJV and sister subsidiaries, compared with knowledge acquired from MNE, which is located in developed countries, the other sister subsidiaries located nearer the IJV may have a similar environment, cultural circle, customer demand and knowledge. Thus, IJV could acquire knowledge from other sister subsidiaries located in close geographical proximity and embedded in similar transitional economics. In Asian areas, compared with knowledge acquired from western countries, knowledge acquired from sister subsidiaries located in Asia – sharing Confucian culture – can be easily acquired by IJVs, because knowledge senders and receivers share a mutual understanding.

**Proposition 11:** In transitional economies, IJV-HQs embeddedness has a positive influence on IJV's knowledge acquisition from MNEs.

**Proposition 12:** In transitional economies, IJV-sister subsidiaries embeddedness has a positive influence on IJV's knowledge acquisition from MNEs.

## **5.5 Relationships between IJV and local environment**

### **5.5.1 Specific influencing factors in China**

#### **5.5.1.1 Business ties between IJV and local firms**

Foreign invested enterprises have a different involvement with the Chinese market. For example, between import-oriented FDI and export-oriented FDI, import-oriented FDI is mainly from developed economies and imported products embody advanced technology into Chinese market. Imported-oriented FDI is more possible to embed in the local environment. For those IJVs embedded in the Chinese market, the different extents of local embeddedness have different effects on IJV's knowledge acquisition from MNEs.

External business embeddedness refers to interdependence and adaption to external business ties (suppliers, customers etc) (Andersson et al, 2001; Bjorkman, et al., 2004). A high degree of local embeddedness means that the IJV is deeply embedded in external business ties. With intensive interaction between local firms and institutions, it is easier for IJVs to search for and acquire useful knowledge to adapt and succeed in the local market. The success of operations in the local market could lead to the subsidiary becoming more important in MNEs, as it could bring benefits to headquarters and other subsidiaries. As a result, the subsidiary with more importance within MNEs could have more chances to request advanced knowledge from MNEs.

In order to build good relationships with the local environment, social interaction between IJV and local suppliers, customers, etc. should be prioritised. In transitional economies, personal relations have an influence on business operation. In previous research, Evangelista and Hau (2009) and Anh et al (2006) testified that close personal relationships between partners facilitate local partners' knowledge acquisition. In the same vein, in China, Peng and Luo (2002), Luo (2003) and Kotabe et al. (2011) emphasized the importance of personal relationships between managers in the knowledge acquisition process.

Personal relations have more influence on business operation, specifically in China, than that in other transitional economies, not to mention developed economies. Firstly, the *guanxi* (interpersonal connections) is a core concept in Chinese culture, business rules are not as important as personal relations. Good personal relations between top managers in each firm could strengthen relations between firms. In situations where cooperative firms maintain close relationships with each other, they would like to share feelings, emotions, social concerns, collaborative experiences, and mental models (Cavusgil et al., 2003). Secondly, although all transitional economies have a history of society rule by man, unlike



most other countries which change from socialism to capitalism, China remains a socialist society but with economy reform. Because of its history, top managers in companies, especially those in state-owned enterprises, have close relationships with government and possess important resources. In this way, close personal relations between top managers in IJVs and local firms could help top foreign managers gradually understand the underlying values behind Chinese culture, provide benefits to IJV and mitigate misunderstandings between partners. As a result, foreign partners are willing to spend more time and effort to transfer knowledge in detail. And so local partners could have more chances to observe and imitate foreign partners' behaviour. Thus it is reasonable to conclude that the positive influence of personal relationships on knowledge acquisition is important in Confucianism based countries those do not have advanced knowledge.

**Proposition 13:** In China, top managers' ties between IJV and local firms have a positive influence on IJV's knowledge acquisition from MNEs.

#### **5.5.1.2 Political ties between IJV and governmental officials**

When IJV is in developed countries, the market is mature enough for operation and the influence from government is very limited. Governmental rules and regulations are stable and open to the public. However, in transitional economics, the governmental policies have an important influence on firm's behaviour. In China, government policies' incentive on FDI resulting in knowledge acquisition is mainly achieved in the form of IJVs. Furthermore, privilege policies on certain industries could promote more investment in these industries. Government policies include both central government and local government. As the policies are still not stable and may change now and then, and the explanation of policies may be different within local governments, so it is necessary to build personal relationships with officers in central and local governments in order to participate

in the amendment process of policy and obtain political capital from this network of relationships (Peng and Luo, 2000; Kotabe, et al, 2011).

Hence, government has influence over business activities according to governmental limitation and intervention from central and local governments (Fan, et al., 2007; Peng and Luo, 2000). Previous research on political capital points to the fact that top managers' personal connection with political leaders and official organizations can bring firm resources and provide various channels of knowledge, so political ties can facilitate for firms the ability to succeed in the local market (Kotabe et al, 2011). In addition to providing resources, government can also support IJVs in the building of R&D centres and other activities beneficial for knowledge acquisition. In fact, the influence of political ties on knowledge acquisition is more important in China than that in other transitional economies. China has been experiencing rapid economic development in the past several decades; the success of open policy provides government strength and confidence in economic control. The economic reform continues, and relevant policies are still changing. So with the government's support, it is more possible for IJVs to acquire more advanced knowledge from MNEs and even promote innovative capabilities. In this case, it is necessary for IJVs to build political ties and benefit from the relationships. Political ties reflect the personal relationships between top managers in IJVs and central and local governmental officials. By building political ties, it is more possible for IJVs to accumulate more knowledge from MNEs.

**Proposition 14:** In China, the political ties between IJV and government officials have a positive influence on IJV's knowledge acquisition from MNEs.

## **5.6 Discussion of propositions**

Based on previous literature review and analysis, in-house knowledge creation in IJVs, cultural distance between parents, trust between parents, business ties between IJV and local managers and political ties between IJV managers and governmental officials are particularly relevant and important factors surrounding international knowledge acquisition in China.

The main relevant issues include China lagging behind in technology, the adoption of FDI policy, governmental influence on business operations, the influence of the Cultural Revolution in China, and the importance of personal relations.

Specifically speaking, these factors are important in China for the following reasons:

1. With regard to in-house knowledge creation in IJVs, China is a developing country lagging behind in technology, and the government adopts an encouragement policy for FDI to facilitate international knowledge acquisition. However, according to analysis of relevant historical data, it is found that FDI is not an effective method for deep knowledge acquisition. In order to overcome the dependence on foreign companies, in-house knowledge creation in IJV becomes an important channel as it provides chances for local partners to undertake creative projects with foreign partners. In this way, local partners can acquire deep knowledge and improve innovative capability.

2. With regard to cultural distance between parents, although China is the origin country of Confucian culture, the Cultural Revolution interrupts its continuous development. Instead, Chinese culture is a combination of disrupted Confucian culture and Marxism theory. In this way it is different from other transitional economies, which makes it difficult to judge human behavior in China.

Furthermore, this kind of cultural background can easily generate misunderstanding and conflicts between partners and so influence the effect of knowledge acquisition.

3. With regard to trust, the interruption of heritage of Confucian culture disrupts the old trust system in China, and at the same time, the modern trust system based on a complete law system has not been firmly established. As a result, opportunistic behavior inhibits knowledge sharing between MNEs and IJVs.

4. With regards to business ties and political ties, based on the interruption of traditional Chinese culture, disruption of the trust system, incomplete law system and society still rule by man, personal relations are important in the business operation process in China. As government officials have an influence on the explanation and execution of policies, both business ties with local firms (especially those state-owned enterprises) and political ties with governmental officials have an important influence for IJVs to obtain resources, understand Chinese culture and thus influence knowledge acquisition.

Specific factors in transitional economies include local partners' absorptive capacity, IJV autonomy, active managerial involvement from foreign parents, participation of expatriates, training of local staff from foreign parents, IJV-HQs embeddedness and IJV-sister subsidiaries embeddedness.

1. Generally speaking, employees from transition economies lack stocks of knowledge, and local partners' absorptive capacity is distributed on different levels. Therefore, different levels of local partners' absorptive capacity have important influence on knowledge acquisition. Support from foreign partners is also important in transitional economies. Without foreign partners, support in active managerial involvement, participation of expatriates and training of local

staff, employees do not have enough chances to make contact with modern business methods and acquire valuable knowledge.

2. In transitional economies, if IJV has autonomy, foreign partners in IJVs cultivating good relationships with local partners can decide how to transfer knowledge to local partners, and this provides more opportunities for them to participate in creative projects.

3. IJV-HQs embeddedness and IJV-sister subsidiaries embeddedness are important in transitional economies, as environments in transitional economies are complex, and it is possible for the government to use certain policies to protect domestic industries. In this way, it is necessary for MNEs and IJVs to adapt to each other in order to better understand each other and maintain good relationships to suit local market and better acquire knowledge.

General influencing factors include learning intent and articulated goals. Learning intent is important under most conditions, as without motivation, knowledge acquirers will not spend time and effort on acquiring knowledge. And knowing articulated goals in the IJV could promote both foreign and local partners to aim toward the same objective and carry out better teamwork. In this process, knowledge receivers can acquire valuable knowledge.

## **5.7 Conclusion**

Based on the analysis of the main groups of influencing factors in this research by considering both previous literature and specific environment in China, it can get conclusions that, in order to further acquire knowledge from MNEs in diversity and depth, knowledge acquirers in China should pay more attention on in-house knowledge creation in IJVs, be open-minded to accept and mitigate cultural distance between parents, cultivate trust between parents, build and

maintain business ties with local managers and political ties with governmental officials.

# **Chapter 6 Conclusions**

## **6.1 Introduction**

This chapter starts by discussing the main aspects of the previous chapters. Following this, it reaches the conclusion of this research based on the discussion. It then discusses the contribution of this research, and the implications for management. Finally, it highlights the limitations of this research and points towards directions for future research.

## **6.2 Discussion and conclusion of this research**

### **6.2.1 Discussion of this research**

At the beginning, this research introduces the research background, proposes research questions and outlines the structure of the research. The following chapters then expand the discussion to resolve the research questions. The second chapter is methodology chapter which includes research philosophy and research design. The third chapter introduces the theoretical background including resource-based view, network view and institutional view; they are correlated and could combine with this research. These theories provide the guidance for building a proposition framework in order to achieve the research objective.

Then, the following two chapters, chapter 4 and chapter 5, serve to describe the development of FDI in China, and the previous literature relating to knowledge acquisition in IJV. The description and analysis aim to provide a picture of the local partners' knowledge acquisition in IJVs in China: local partners are not successful in the knowledge acquisition process; in order to acquire knowledge from foreign partners in depth, it must be pinpointed what kinds of factors are

critical in the knowledge acquisition process, and furthermore, which specific factors are important in China.

In chapter 4, based on the history of FDI development and knowledge acquisition after China's open policy, this research uncovers that although China has successfully attracted rich foreign capital, the following knowledge acquisition process and the result of it are not as successful as expected, as local partners only promote productivity and not innovation capabilities, which means that knowledge acquisition exists only on a superficial level. The reasons are as follows:

1. FDI as a knowledge acquisition method easily causes subsidiaries' technology dependence on headquarters, and so subsidiaries lose independent knowledge creation opportunities. For example, in IJVs in the automobile industry in China, local partners have not achieved as expected in terms of knowledge acquisition in order to catch up with the technology level in developed economies.

2. After considering the drawbacks of FDI, there are also problems embedded in Chinese FDI structure that inhibit knowledge acquisition from going deeper. One problem is the distribution of countries of FDI origin. Although the origins of countries become diverse and, since China entered WTO, more are from developed economies, the main source remains the Asian economies those enter China to exploit labor cost advantage in low-tech industries.

3. Another problem is the industrial distribution of FDI. Most FDI flows into manufacturing industries with a low-tech level. In service industries, the high knowledge-intensive industries could be regarded as the indicators of the



knowledge development level of a country, such as information transmission, computer service and software, only account for a small proportion in FDI.

So it is valuable to consider the issues of knowledge acquisition in China from a firm, inter-firm and national level. This research is from the local partners' perspective and tries to uncover ways for them to acquire knowledge in diversity and depth. In chapter 5, by answering the research questions posed at the beginning of this research, these issues could be resolved.

1. For the nature of IJV, the general influencing factor is learning intent. Absorptive capacity and IJV autonomy are specific influencing factors in transitional economies given the background that local staff are lacking advanced technology. In-house knowledge creation is the important influencing factors in China, considering the knowledge acquisition process and results in IJV history. Knowledge creation is critical for providing local staff chances to achieve the next step in knowledge acquisition: innovation.
2. For parents' relationship, articulated goal is the general influencing factor for local partners' knowledge acquisition. The specific influencing factors in transitional economies are the support from foreign parents including active managerial involvement from foreign parents, participation of expatriates and training of local staff from foreign parents. The specific influencing factors in China include the cultural distance between parents and the trust between parents.
3. For the relationship between IJV and MNE network, IJV-Headquarters embeddedness and IJV-subsidiaries embeddedness are specific influencing factors in transitional economies.

4. For the relationship between IJV and institutional environment, business ties between IJV and local firms and political ties between IJV and governmental officials are specific influencing factors in China.

### **6.2.2 Conclusion of this research**

The scope of this research falls into medium and high knowledge-intensive manufacturing and service industries. And resource-based view, network view and institutional view combined together form the theoretical background to this research. According to the analysis of development of FDI in China, the picture of international knowledge acquisition in China is described as a process with great value for Chinese economic development; however, it is not effective in terms of local partners' deep knowledge acquisition. Then according to previous knowledge acquisition literature, given the specific FDI knowledge acquisition development in China, some influencing factors are discovered to be important for improving the depth of Chinese knowledge acquisition. It can be concluded that, in order to further acquire knowledge from MNEs with diversity and depth, knowledge acquirers in China should pay more attention to in-house knowledge creation in IJVs, be open-minded in accepting and mitigating cultural distance between parents, cultivate trust between parents, build and maintain business ties with local managers and political ties with governmental officials.

### **6.3 Discussion of categorization method**

This research categorizes different factors into groups in terms of nature of IJV, parents' relationship, the relationship between IJV and MNE network, and the relationship between IJV and local network. This kind of categorization revolves around IJV – groups are categorized based on their relationship with IJV.

There is also another method to categorize: factors are grouped by characteristics of themselves. In this case, the factors can be categorized into four groups: capability specific factors, business specific factors, cultural specific factors and political specific factors. The framework is demonstrated in figure 6.1.

“Capability specific factors” refers to activities related to the employee and firm’s absorptive capability. Factors include absorptive capacity, in-house knowledge creation and support from foreign partners (active managerial involvement from foreign parents, participation of expatriates, training of local staff from foreign parents). As knowledge receivers in transitional economies lack advanced knowledge and rich experience, they need absorptive capacity to acquire knowledge, in-house knowledge creation to prove that knowledge can be acquired in depth and to generate innovation and support from foreign partners to help them overcome the shortage and acquire new knowledge without enough absorptive capability (Lyles and Salk, 1996; Anh et al, 2006; Park et al. 2007; Sun and Du, 2010; Viotti, 2002 ).

“Business specific factors” refers to factors relevant to business operation. Factors include IJV autonomy, articulated goals, IJV-HQ embeddedness, IJV-sister subsidiaries embeddedness. IJV autonomy reflects to what extent IJV can be independently operated. If IJV has enough independence, partners working in IJV can decide what kind of knowledge is necessary to acquire and via which method, then promote knowledge acquisition (Andersson et al., 2005; Sumelius and Sarala, 2008). Articulated goals reflects IJV’s business operative objective. With the same objective, partners can make a greater effort to share knowledge (Lyles and Salk, 1996; Nahapiet and Ghoshal, 1998). IJV-HQ embeddedness and IJV-sister subsidiaries embeddedness reflect that in the business operative process; how do IJV and HQ adapt to each other and how do IJV and sister subsidiaries adapt to each other? The adaption to each other can

facilitate both partners' requirement to share knowledge (Andersson, et al, 2001; Dhanaraj et al, 2004).

“Cultural specific factors” refers to factors related to corporate and national culture. Factors including learning intent, cultural distance between parents, trust between parents and business ties. Learning intent is related to corporate culture to some extent. If a corporation has cultural background with strong willingness to learn new knowledge, learning intent can be high (Simonin, 2004; Lyles and Salk, 2007). Cultural distance between parents reflects corporate and national cultural distance between parents (Lyles and Salk, 1996; Park, 2009). Trust between parents is also related to culture, as in a culture with a good trust system, trust between parents can be high and so facilitate knowledge sharing (Park et al, 2007; Evangelista and Hau, 2009). Business ties are important as Chinese culture lays great importance on personal relations, and so personal ties between cooperative firms' top managers can facilitate knowledge acquisition (Peng and Luo, 2002; Luo, 2003 and Kotabe et al. 2011).

The final factor is the political specific factor. “Political specific factor” refers to factors relevant to the political situation. The factor is political ties. In China, because of important influence from governments, the political specific factors can influence a firm's behavior and so influence knowledge acquisition (Peng and Luo, 2000; Kotabe, et al, 2011).

These two methods of categorization have their own advantages and disadvantages. The framework demonstrated in figure 5.1 is the method used in this research and it classifies the influencing factors on knowledge acquisition into 4 groups depending on the factors' relationships with IJV. Within the first group, the nature of IJV, factors all directly reflect how do the IJV's own characteristics influencing knowledge acquisition. Factors in other three groups-parents' relationship, MNE network and local network reflect different

networks the IJV is embedded in. Finding out influencing factors in IJV's related networks have advantages on finding out diverse factors in different dimensions of networks. However, this method of categorization may ignore some factors separating from networks.

The framework demonstrated in figure 6.1 is the method of categorization proposed in this paragraph that provides another research direction to find out influencing factors on knowledge acquisition. According to this method, influencing factors are found out not by the networks they are embedded in, but by their own types. In this paragraph, there are 4 types: types of capability, types of business, types of culture and types of politics. The advantage of this method of categorization is that, within each type, it could try to find out diverse factors around the type and so research each type in depth. In this way, more aspects of factors may be revealed and it could select factors those may not exist within IJV's networks. However, the types chosen in the research may not reflect the complete types of factors those influence knowledge acquisition.

Thus these two different methods both have their own advantages and disadvantages. Future research can decide which one to choose based on the research objective. In this research, RBV, network view and institutional view together form the theoretical background, and IJV's related networks could resolve the research questions in this research. As a result, in this research, the first method that categorizing factors into IJV and relevant networks is a better method of discovering complete factors.

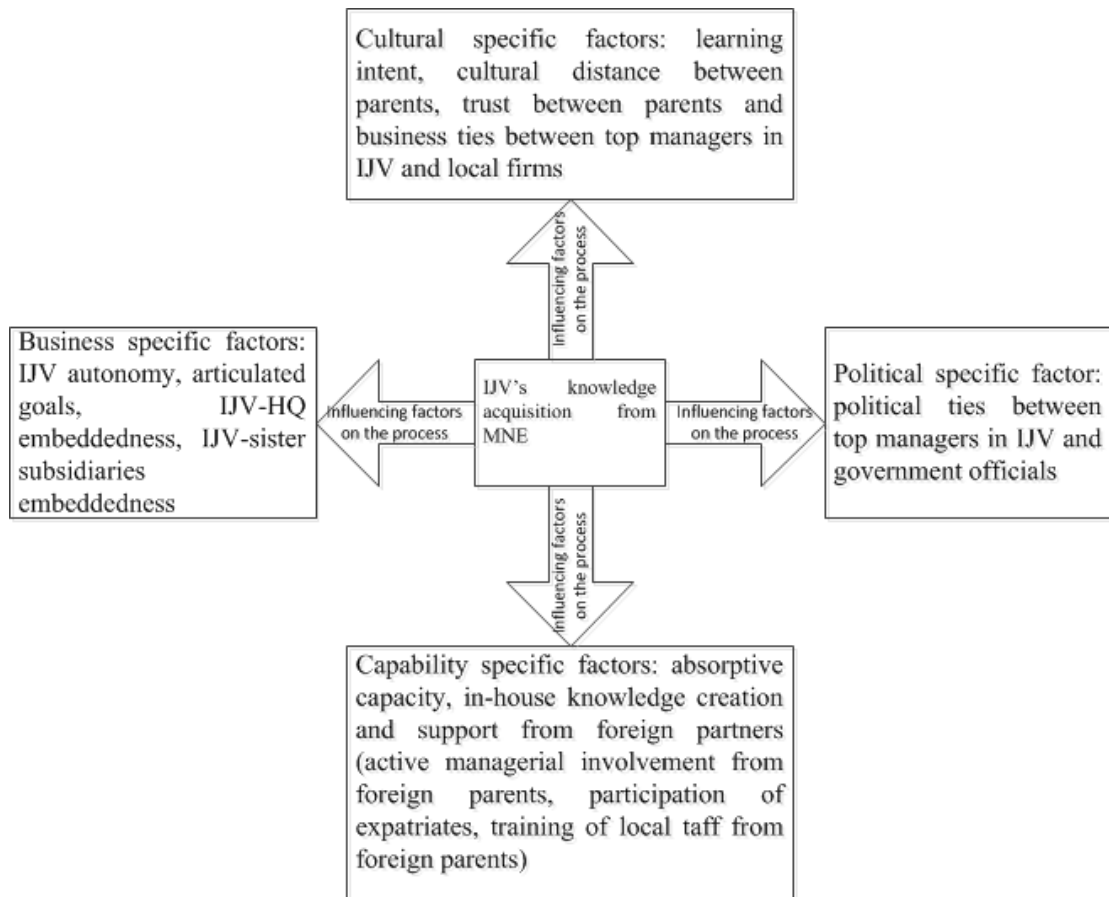


FIGURE 6.1 PROPOSITION FRAMEWORK 2

## 6.4 Contribution of this research

By filling in research gaps in previous literature, this research could contribute to several aspects of knowledge acquisition research.

1. This research builds a framework that connects the resource based, network and institutional view together. Previous literature has already considered knowledge acquisition from IJV's level, parents' relationship and an MNE network level; however, with the external network, in this research, national institutional environment has not been considered to influence IJV's knowledge acquisition from MNEs. Given the specific environment in China, RBV is not

enough to explain the phenomenon of knowledge acquisition; network view should be considered, and as in China, personal relations and policies have an important influence on a firm's behavior. It is rational to add institutional view to build the framework. By combining these factors together, this research provides a way to connect resource based, network and institutional view.

2. Research on knowledge acquisition from the knowledge receivers' perspective already exists, however previous research on knowledge acquisition only superficially demonstrates the general knowledge acquisition used to improve productivity. It is still necessary to go deeper into the knowledge acquisition process, as besides knowledge assimilation, the depth of knowledge acquisition still includes knowledge digestion and knowledge innovation. This research analyses the lack of innovation and knowledge creation of previous knowledge acquisition in China, and emphasizes the importance of deep knowledge acquisition.

3. Previous research merely highlighted the general influencing factors of knowledge acquisition. This research demonstrates the specific factors in China that are most important for deep knowledge acquisition, as the environment of China is not only different from developed countries but also different from other developing capital market economies. It also demonstrates the specific factors in transitional economies. By categorizing the factors into different degrees of importance with regards to local partners' knowledge acquisition in China, this research clearly provides suggestions for local partners to better acquire knowledge from MNEs.

## **6.5 Implications for management**

1. On a firm level, for local partners, they should promote innovation capability by enhancing knowledge creation activities; on an inter-firm level, local partners

should choose foreign partners with diverse sources and choose those with high-tech knowledge from developed economies; on an institutional environment level, managers in IJVs should build good relations with local firms' managers and governmental officials.

2. On a national level, it is the government's responsibility to attract FDI from diverse countries, especially technology frontier countries, encourage FDI flows into medium and high knowledge intensive industries, encourage foreign investors to build R&D centers in IJVs, and provide local partners opportunities to undertake creative work with foreign partners and so master creative knowledge and enhance innovative capabilities. Furthermore, the government should encourage domestic firms' development in order to enhance local competition and so give the local partners more power in IJVs with which to bargain with headquarters for knowledge acquisition.

## **6.6 Limitations and future research directions**

There are limitations to this research. It is important to point out these limitations and develop the research in the future.

1. This research only forms a framework of propositions based on second-hand data and previous knowledge acquisition literature. Although these propositions can be reasonably concluded, they still need empirical research to further examine the results. Future research could use case studies or survey design to test the empirical results.
2. Manufacturing and service industries have different characteristics; however, this research did not separate them. Future research could examine manufacturing and service industries separately and find out whether there are difference between them, and if so to what extent they



are different. This can be achieved by comparing the results between the manufacturing and service industries in the knowledge acquisition process in medium and high knowledge intensive industries.

3. This research is applied to China. Whether these Chinese influencing factors have an effect – and if so, to what extent – on other transitional economies, is not yet known. Future research could also examine the depth of knowledge acquisition in other transitional economies.

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