

# Gaining Tacit Knowledge from Foreign Buyers: The Role of Prior Knowledge, Business Relatedness and Interactive Involvement

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**Abstract** - As competition has become increasingly knowledge-based, firms must double their efforts to increase their competitiveness by integrating the existing knowledge with new and updated knowledge resources, which maybe acquired through various approaches. One of the most popular strategies for knowledge acquisition is through strategic alliance, which can take the form of international outsourcing or another contractual agreement. As a result of the rising trend of international outsourcing and strategic value of tacit knowledge, this paper aims to provide a conceptual perspective on the importance of prior knowledge, business relatedness and interactive involvement in the acquisition of tacit knowledge from the international suppliers' point of view.

**Keywords** - Business relatedness, interactive involvement, absorptive capacity, tacit knowledge acquisition, international outsourcing

## 1. Introduction

International outsourcing initiatives provide opportunities for suppliers to obtain new, dissimilar and complementary resources. For instance, valuable tacit knowledge and skills can be accessed and acquired practically in this buyer-supplier relationship. Through collaborative linkages, suppliers are able to take advantage of the entire learning and interaction processes since the outputs can be internalized to add value. To stay competitive in a rapidly cultivated and advanced international business environment, firms such as suppliers will seek resources and knowledge from partners in interfirm business collaborations and utilize them to enhance their organizational capabilities [59]. Clearly, suppliers can gain strategic benefits, especially through obtaining

intangible resources that are unavailable internally, while fulfilling outsourcing contracts and working together with their foreign buyers.

The main reason to focus on tacit knowledge acquisition in particular, was driven by the lack of discussion on the interorganizational learning of this specific type of knowledge, especially in the context of international business and buyer-supplier relationships. Additionally, there is a need for international suppliers to gain tacit knowledge from their international outsourcing relationship because they can apply the newly learned knowledge to fulfill the foreign buyers' expectations and requirements. In some cases, the buyers offer the suppliers advice and technical training so that the components or final products will turn out as expected. As a matter of fact, foreign buyers with greater skills and expertise can help local suppliers to improve their competencies. There are times when foreign companies transfer tacit knowledge to and share inputs with their suppliers in the form of production, technology or ideas that will help them to produce better quality products.

## 2. Literature Review

The outsourcing strategy has received attention from companies and researchers [18,36,66] because many people believe the strategy to be the trend of the future and that it has a positive impact on a company's profits. According to [36], it was estimated that every Fortune 500 company had considered outsourcing at one point or another throughout the decade and 20 percent of them had entered into a contract by the end of the decade. This trend is now poised to move onto the international platform as many are recognizing the advantages of location economies, which arise from performing a value-creating activity in the optimal location, wherever in the world that might be [22]. This means that locating a value-creating

activity in the optimal location for a particular business activity can lower the cost of value creation and help a company to achieve a low-cost position.

### **2.1 International outsourcing strategy**

In response to the stiff competition that has driven down production costs and boosted competitiveness, international companies are spreading their procurement activities across geographical boundaries, in an effort to hire top quality suppliers and reduce their production expenditure [6,29,47]. This particular business tactic, which is known as international outsourcing, is a well-known and growing strategic approach in international business. It has long been adopted by many multinationals, including IBM, Samsung and Honda, as a means of cost reduction [12,42] and in response to competitive pressures [20]. A classic example of international outsourcing can be seen in the case of Mattel, based in the United States of America (USA). Its first Barbie dolls, which debuted in 1959, were initially manufactured in Japan [3].

For all these reasons, international outsourcing has also received significant interest from business press and academic researchers over the last few years [13,28,40,48,66]. Their work mainly explores the trends in international outsourcing, the reasons for pursuing the strategy, its pros and cons and also its impact on a company's performance. This shows that various issues in international outsourcing from the perspective of the foreign buyers have been investigated. Since the supplier's view, including their view on knowledge acquisition, typically receives less attention from researchers, [49] suggests that business relationships and knowledge flow between suppliers in 'less-favored regions' and their foreign buyers should be explored. Despite its potential strategic and financial impact, international outsourcing remains a somewhat neglected phenomenon in the empirical purchasing and supply chain literature [57] and has often been considered an off-center topic in the international business literature [7,51]. On top of that, there are hardly any works that discuss the strategic issues of international outsourcing and interorganizational learning.

No doubt international outsourcing initiatives provide opportunities for suppliers to obtain new, dissimilar and complementary resources. For instance, valuable tacit knowledge and skills can be accessed and acquired practically in this buyer-supplier relationship. Through collaborative linkages, suppliers are able to take advantage of the entire learning and interaction processes since the outputs can be internalized to add value. To stay

competitive in a rapidly cultivated and advanced international business environment, firms such as suppliers will seek resources and knowledge from partners in interfirm business collaborations [59] and utilize them to enhance their organizational capabilities. Clearly, suppliers can gain strategic benefits, especially through obtaining intangible resources that are unavailable internally, while fulfilling outsourcing contracts and working together with their foreign buyers.

### **2.2 Tacit knowledge acquisition**

Knowledge acquisition involves complicated processes. It constitutes a difficult and subtle process, often coupled with significant dissatisfaction between partners [41]. [10] points out that knowledge acquisition is fairly complex because it is not only a matter of the knowledge itself, the transfer is also influenced by differences in culture and social systems. In addition to this, knowledge acquirers (local suppliers) from developing countries usually have less experience in learning new information [23]. Thus, knowledge transferors (foreign companies), normally from developed countries, often need to support the developing country's acquirers by offering active managerial involvement [39], human resource transfer [26], training [35] and in-depth transparency [17].

From the knowledge management and learning perspective, knowledge is commonly classified into tacit and explicit elements [4,52]. Tacit knowledge is intuitive, unarticulated [8,33,58] and abstract [11]. As a result of complicated qualities, tacit knowledge is hard to codify [21,30], document [61] and share [26,52]. Its vague and intense characteristics could be the reasons why researchers are less interested to empirically explore tacit knowledge and its implications on firm strategic direction. Instead, studies on tacit knowledge commonly depend on conceptual and descriptive analyses [8]. In contrast to tacit knowledge, explicit knowledge is a form of knowledge that can be articulated [53], drawn and written down [14,56]. As a result of its unambiguous features, this type of knowledge is easier to learn or transfer [19], compared with tacit knowledge.

### **2.3 Knowledge-based view (KBV)**

The knowledge-based view, which deals with knowledge characteristics and knowledge integration, has been applied extensively to the study of organizations [5,24,43,65]. The argument of the KBV is that knowledge is an important resource for a firm's strategic growth and competitiveness [2,15]. It also recognizes that a firm's knowledge contributes to its value-adding and strategic

directions [16]. Based on this view, as knowledge especially its tacit part is a critical source of a firm's competitive advantage [67], a distinctive ability to acquire, assimilate and apply the knowledge is essential, both in the sense and in improving a firm's efficiency and competitive advantage [63]. For this reason, it is vital for a firm to put extra effort into accumulating its knowledge stock, particularly the tacit elements, in order to increase its overall performance.

## 2.4 The Concept of Absorptive Capacity

Acquiring knowledge from an alliance partner can be challenging, especially if the partner comes from another country with cultural and organizational differences. However, the need to stay ahead of competitors makes it crucial for a firm to continuously improve its product, and this can be done through knowledge acquisition. Besides a partner's openness and willingness to share valuable knowledge, a firm's ability to identify and utilize knowledge also affects its efficiency in acquiring new knowledge from its collaborative partner. In short, it involves the firm's and its employees' absorptive capacity, a term pioneered by [9]. According to these authors, absorptive capacity can be thought of as the firm's ability to recognize the value of new and external knowledge, and assimilate and commercialize it for end products. This definition has been cited by many organizational learning researchers, including [39,34,63].

Based on this concept, a firm is capable of exploiting the new external knowledge for the purpose of gaining a competitive advantage if it has the capacity to absorb the knowledge in the first place. Nevertheless, a firm will struggle to recognize and value important external knowledge if it lacks absorptive capacity. In this case, even if the firm has access to new knowledge, it may not have the ability to realize this and absorb the knowledge [64]. Even within firms, a lack of absorptive capacity is found to be a major impediment to internal knowledge transfer [62]. Without absorptive capacity, knowledge is difficult to be acquired or transferred within a firm [64].

In the case of international outsourcing suppliers, in order to recognize, assimilate and exploit the new and critical external tacit knowledge, such firms should have the capacity to absorb what they hear, see and learn while working with foreign buyers. Undoubtedly, the supplier's absorptive capacity to acquire tacit knowledge in an international outsourcing relationship will be more effective if it already possesses a related knowledge base and is involved in a similar business to their foreign buyer. Given the above arguments, the three elements of

absorptive capacity – prior related knowledge, business relatedness and interactive involvement – are expected to influence the suppliers' tacit knowledge acquisition from their foreign buyers.

### 2.4.1 Prior knowledge

In several knowledge management articles, prior knowledge is variously referred to as supplier's prior knowledge [1,9,34], employees' ability to learn [63] and employees' ability [37,45]. From the viewpoint of [9], prior knowledge includes various related knowledge domains, basic skills and problem-solving methods, prior learning experience and learning skills, and a shared language. They even claim that prior related knowledge is important for a partner to fully acknowledge the value of newly acquired knowledge. In line with this assertion, [59, p.20] argue that 'knowledge facilitates the use of other knowledge. What can be learned is crucially affected by what is already known'. This statement implies that new knowledge can easily be identified and absorbed if a learner is equipped with a knowledge base, related skills and the experience necessary for an effective knowledge acquisition. Therefore, prior related knowledge is critical to a firm as it helps in recognizing and assimilating the valuable new knowledge and exploiting it for the firm's commercial advantage.

According to [30], prior knowledge mainly consists of a stock of tacit knowledge that resides in employees' memories. Therefore, it is expected that new tacit knowledge can easily be identified and absorbed if a supplier, through its employees, possesses sufficient prior related knowledge that is largely based on tacit elements. An employee's work experience, skills and know-how could be related to their ability to detect the new external tacit knowledge required for them to increase their work performance and the firm's capabilities. As pointed out by [9], accumulated prior knowledge influences an employee's ability to store newly acquired knowledge and its ability to retrieve and apply it at the organizational level.

[34] argue that prior knowledge is significant to a firm's ability to understand and value the new knowledge gained. In addition, common prior knowledge within an organization can facilitate the learning of new knowledge, particularly tacit knowledge [54]. The rationale behind these arguments is that an individual will learn more efficiently if the new knowledge being acquired is related to what he already knows [35]. As highlighted by [9], both human and organizational features are important elements of organizational absorptive capacity. Following this

argument, [45] point out that a firm's absorptive capacity is built on its employees' competencies. They argue that employees' prior knowledge is one of the critical factors for a firm to fully absorb and exploit new external knowledge.

#### 2.4.2 *Business relatedness*

In their research on R&D in joint ventures, [60, p.8] refer to business relatedness as 'the extent to which the parent companies in a joint venture are in a similar businesses'. Applying this definition to international outsourcing research, the present study defines business relatedness as the extent to which suppliers and their foreign buyers are engaged in similar businesses. If a supplier and its foreign buyer work in similar businesses, they will be familiar with each other's business environments. [9] contend that prior experience and knowledge familiarity will increase a firm's level of knowledge acquisition from its partner. As a result, knowledge misappropriation can be reduced [60] because the supplier and its foreign partner readily understand each other due to commonalities and familiarity they both share.

Some researchers acknowledge that business relatedness may influence a firm's effectiveness in acquiring new knowledge from a business partner [34,44], thus affecting the alliance performance [38]. The reason for this is that business relatedness between supplier and foreign buyer facilitates the supplier's absorptive capacity. It is also claimed that the relatedness of two partners provides them with prior knowledge and information about the industry, products and customers that are relevant to both of them [63]. [35], who study absorptive capacity in international joint ventures (IJV), suggest and finally prove that relatedness is one of the more important factor contributing to understanding external new knowledge [9]. They further argue that relatedness indicates the similarity of business objectives and strategic sources between a foreign parent and its IJV.

In international outsourcing, suppliers may also get the opportunity in gaining access to their foreign buyers' resources, expertise and ideas, which may be new to the suppliers yet relevant and valuable for their future development. These external inputs can be combined with the suppliers' existing knowledge and competency to improve their manufacturing efficiency and increase their overall performance. In line with this assertion, [60] reiterate the importance of complementarity, advocating that the acquisition of complementary assets from external sources – especially difficult-to-imitate resources, such as tacit knowledge – can be an instrument of competitive

advantage. A foreign buyer with superior capabilities and advanced technology can be of great help to a supplier who is in critical need of new and improved abilities. Since the supplier and its foreign buyer work interdependently, the supplier should grab the opportunity offered by such synergy to learn the tacit elements of new complementary knowledge and skills through the business partnership.

#### 2.4.3 *Interactive involvement*

Interactive involvement is defined as the knowledge acquisition methods employed by or accessible to a supplier in its effort to gain tacit knowledge from a foreign buyer. To identify and absorb such complicated and abstract knowledge, a supplier needs an appropriate learning approach to facilitate the knowledge acquisition process. In a study on Japanese-North American joint ventures, [26] discovered that the alliance knowledge transfer was carried out through structured meetings between the joint ventures and managers from the parent company. In addition, regular visits were made by the parents and engineers from both sides, who were stationed at each other's facilities.

When both partners work and interact with each other, access to new valuable knowledge becomes openly available, as face-to-face interaction turns out to be one of the facilitators of tacit knowledge acquisition. In fact, [33] emphasizes that direct involvement and close cooperation between alliance partners enables firms to comprehend and acquire each other's tacit knowledge. [46] note that tacit knowledge can be transferred or acquired through organizational routines, in which a firm groups its employees together and transfers the knowledge within the circle of employees. As a result, various activities can be performed to facilitate the flow of this knowledge. This method integrates direct contact and interaction between individuals into the knowledge acquisition process [46].

Many other methods have been suggested as effective means of obtaining valuable sticky knowledge from foreign buyers. However, given that tacit knowledge is subjective, experiential and difficult to transfer [27,55], the supplier must use prior knowledge, skill and experience [31] that is related to the new external tacit knowledge in order to easily identify, assimilate and share it with co-workers. Even more important is that, the acquisition methods must integrate various interactive learning activities, such as partner meetings, the sharing of problem-solving technology and performance feedback [26], as well as on-site visits and training [46]. Using these interactive involvement methods, tacit knowledge

can be obtained by the supplier when the foreign buyer provides product specifications, passes down process technology or demonstrates the technical skills that it expects the outsourcing supplier to use, so as to provide sufficient product quality and cost efficiencies.

### 3. Conclusion

Prior studies have cited absorptive capacity as one of the most influential components of interfirm knowledge, transfer knowledge and knowledge sharing. Having the access and ability to learn a new knowledge from foreign buyers, especially tacit knowledge, would give the manufacturing suppliers an advantage in their attempts to enhance company performance. Since tacit knowledge is highly regarded as a potential source of a sustained competitive advantage, it is important that suppliers demonstrate absorptive capacity, so that they can better capture and exploit the tacit knowledge they learn through international outsourcing collaborations. It is argued that prior knowledge, business relatedness and interactive involvement are among the central elements of absorptive capacity that suppliers need if they are to efficiently acquire tacit knowledge from external sources. In other words, these three constructs are essential to the supplier's absorptive capacity.

Undeniably, the tacit knowledge learning process is a difficult one, compared to the learning of explicit knowledge, as it cannot be learned from books and is sometimes difficult to identify let alone transfer. Nevertheless, it can be acquired even in a contractual-based relationship, under the right conditions. In fact, the findings from the present study empirically demonstrate that several elements of absorptive capacity and relational capital, particularly those that allow interaction and involvement between partners, positively affect the acquisition process.

This paper contributes to the growing literature on the influence of prior knowledge, business relatedness and interactive involvement in the acquisition of tacit knowledge by international suppliers. It also extends both international business and knowledge management literatures by linking tacit knowledge acquisition to absorptive capacity and its components. The establishment of these linkages helps to explain how tacit knowledge is obtained through international business relationships and the effects this acquisition has on suppliers' capabilities and competitiveness. It highlights the need for suppliers to acquire tacit knowledge while carrying out international outsourcing contracts. Thus, this paper aims to set a

foundation for future research on tacit knowledge management in international buyer-supplier relationships.

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