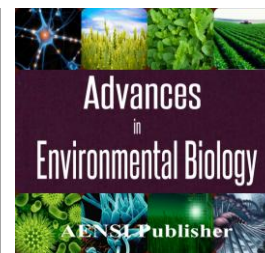




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## Relational Capital and Tacit Knowledge Acquisition in International Outsourcing Relationships

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### ABSTRACT

The acquisition of tacit knowledge through business relationships with foreign buyers is deemed important in helping local supplier firms improve their competitiveness. As the suppliers engage in international outsourcing, they can use the opportunity of collaborating with their foreign buyers to develop relational capital and exploit this advantage to obtain tacit knowledge that is new and valuable to them. This allows the suppliers to access not only tacit knowledge but other idiosyncratic resources belonging to their foreign buyers. Employing a sample of 122 Malaysian manufacturing suppliers involved in international outsourcing, this study empirically investigates the implications of relational capital on the acquisition of tacit knowledge in international outsourcing relationships. The results provide evidence that partner interaction and cultural sensitivity dimensions of relational capital are indeed facilitated the acquisition of tacit knowledge, but that no support is found for trust dimension of relational capital. Further, the results also indicate that the tacit knowledge acquired from foreign buyers associates with Malaysian suppliers' capability enhancement.

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## INTRODUCTION

The importance of tacit knowledge to a firm's competitive edge has received an increasing amount of attention in recent years. One of the reasons behind this reality is that tacit knowledge has been acknowledged as a firm's valuable resource that is difficult for competitors to replicate, and has thus been recognized as a means of creating and sustaining competitive advantage [4,7]. Due to this fact, there is a great urgency for a firm to accumulate a stock of tacit knowledge, either internally or externally. Although both approaches are essential in generating and expanding a firm's knowledge, the gathering of tacit knowledge through relationships with business partners is deemed a substantial part of a firm's competitiveness as it allows the firm to gain easy access to the partner's operational and managerial strategies. In the context of international outsourcing, while fulfilling their contract obligations, suppliers could exploit this business relationship by learning the foreign buyers' tacit knowledge and valuable competencies. This acquisition can be seen as necessary, especially when the suppliers must obtain the tacit elements of new know-how or technology from the outsourcing relationship in order to show their commitment to meet or exceed the foreign clients' expectations.

There are also situations where the buyer voluntarily helps the supplier by sharing tacit knowledge and specific technical expertise in order to gain benefits such as higher product quality, lower production costs and improved performance. The supplier's learning process and the foreign buyer's willingness to transfer tacit knowledge must definitely be accompanied by the establishment of relational capital built on a foundation of trust and interaction [13,17]. The central idea of this relational concept in knowledge management is that a close relationship between partnering firms acts as a channel for knowledge exchange and acquisition [60,77]. It is also argued that relational capital is essential in the acquisition of tacit knowledge [13] and know-how that is difficult to codify [33]. This is mainly associated with the fact that tacit knowledge has personal and intuitive qualities [61], and is embedded in organizational routines and processes. Thus, the acquisition of this complex knowledge can be enhanced by engaging both partners in socialization and action learning events [36]. According to Becerra *et al.* [6], the acquisition of tacit knowledge is likely to take place in the presence of a close relationship between partners. This then draws attention to the way relational capital enhances the

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acquisition of tacit knowledge in interfirm relationships. Since tacit knowledge is experience-based and action-oriented [41], it can be effectively acquired through social embeddedness and the partners' involvement in various interactive learning activities, such as knowledge sharing and joint problem-solving [73]. Thus, the focus of this paper is to analyze the relationship factors that influence the acquisition of tacit knowledge from international outsourcing relationships.

Inspired by the fact that Malaysia is among the world's most attractive outsourcing locations, this study also sets out to investigate whether the Malaysian suppliers benefit from such international business relationships and what they gain, besides monetary returns, from producing or assembling products for their foreign buyers. Questions such as these led to an article entitled 'Routes to Technological Learning and Development: An Assessment of Malaysia's Innovation Policy and Performance' by Tidd and Brocklehurst [70], which includes a brief discussion of Malaysia's industrialization, technological development and manufacturing industry. In response to the government's call to action, the country is moving speedily toward becoming a high value-added, high technology and more knowledge-based economy [51]. What caught the attention was the issue of whether the government's industrialization efforts are promoting the transfer of technology and market know-how from foreign to local companies. Apparently, only a limited number of Malaysian manufacturing suppliers have adjusted and progressed quite well by staying in line with the country's desire to increase the competitiveness of its manufacturing industry. Despite government efforts and the presence of intermediary support organizations, Malaysian manufacturers have largely failed to make the transition to the higher value-added activities of research and development (R&D) and design [53]. Even though a handful of firms have made the transition, acquiring tacit knowledge through international outsourcing collaborations is still a challenge for local manufacturing suppliers. As such, one of the main motivations for conducting this study is to find out whether the Malaysian manufacturing suppliers gain new tacit knowledge from this business relationship while working to fulfil their foreign buyers' expectations. Moreover, in order to provide evidence about the Malaysian suppliers' competitiveness, it is crucial to investigate whether the new tacit knowledge learned through the outsourcing relationships significantly enhances their capabilities.

In the remainder of this paper, we highlight the importance of relational capital and its dimensions and their potential values in increasing the ability of local supplier firms to effectively obtain important tacit knowledge from foreign buyers. This is followed by a discussion of tacit knowledge acquisition in the enhancement of Malaysian suppliers' capability within the context of international outsourcing. Subsequently, we review hypothesis development and research methodology applied in this study. In the next section, we report the results and findings of the empirical tests. Finally, we discuss the research implications of the study along with its limitation and directions for future research.

## *2. Theoretical Background and Hypotheses:*

International outsourcing has been mentioned as an important strategy for international companies wishing to obtain and increase their competitive advantage [56]. The trend has increasingly developed and emerged [55] in various industries, including sportswear, footwear, cellular phones, automobiles, clothing, computers and furniture, to name only a few. The reason behind such activity is that, in order to compete globally, firms have to put more focus on efficiency and cost savings. Therefore, as firms seek to enhance their competitive positions in an increasingly global marketplace, they are realizing that they can cut costs, maintain quality and increase efficiency by relying more on outside suppliers for activities viewed as supplementary to their core business [66]. As such, foreign buyers will most likely choose external suppliers that can meet their cost, profit and efficiency requirements. From the suppliers' perspective, international outsourcing provides a means for them to compete with other suppliers, leading to higher levels of efficiency [55]. Additionally, through such business relationships, local suppliers have the opportunity to gain access to the new technology and best practices of their foreign buyers [57], particularly valuable in the case of buyers with superior capabilities. The significance of a supplier tapping new resources and acquiring critical knowledge is apparent, given the pressure on them to add value to the buyer-supplier relationship, as well as to meet or exceed the foreign buyer's expectations. Working jointly with a foreign buyer allows a supplier to upgrade its capabilities and competencies as the buyer will often provide assistance in various forms ranging from setting up quality standard for product and delivery, to providing technical support and training, to assisting with innovation and finally to helping the supplier detect future business opportunities through the buyer's networks. This can only be achieved when the supplier is open to such opportunities to acquire tacit knowledge since absorbing newly transferred knowledge and skills evidently requires several learning processes. The impact of accumulating the knowledge, expertise and experience gained from the relationship with a foreign buyer will subsequently lead to the enhancement of the supplier's efficiency.

The resource-based view (RBV) of the firm [75] emphasizes the ability of a firm to create a competitive advantage through its resources, competencies and capabilities [68], such as its technology, assets, skills, manufacturing processes and knowledge. Barney [5] specifies that a firm can sustain its competitive advantage if

it possesses rare, valuable, difficult-to-imitate and non-substitutable resources. These features match the importance of tacit knowledge, which has been argued to be an exclusive resource, critical to firm competitiveness [24,27,58], hence explaining the strategic connection between this sticky knowledge and the RBV. In the context of knowledge-based view (KBV), tacit knowledge is a firm's intangible know-how and skill that is classified as knowledge-based resources that are not easily imitable. Others cannot easily copy or imitate these resources, because they are vague and ambiguous. As a firm gains experience and tacit knowledge, it gains better insights into how to apply or make use of newly acquired explicit knowledge [20]. In effect, tacit knowledge can enhance the understanding of explicit routines and other explicit know-how acquired from the foreign partner [17]. From the KBV's perspective, Nahapiet and Ghoshal [60] argue that relational aspects could facilitate knowledge acquisition and exploitation by satisfying the necessary conditions for the creation of value through the combination and exchange of intellectual resources in the organization.

### 2.1 Tacit knowledge acquisition:

The selection of tacit knowledge as an exclusive highlight in this study is based on the premise that learning this type of knowledge is much more complicated than that of explicit knowledge. Thus, it has more potential than explicit knowledge in terms of giving the firm a competitive advantage [13]. Its acquisition and application have not only been recognized as essential in strengthening a firm's competitive advantage [29,61], but also in enhancing its capabilities [52]. Specifically, tacit knowledge is defined as knowledge that is non-verbalizable, intuitive and unarticulated. In contrast to explicit knowledge, which can be learned through formulae, textbooks or technical documents [44], tacit knowledge can only be learned through observation, work experience and learning-by-doing. For a better understanding, Koskinen and Vanharanta [36] simplify the idea of tacit knowledge as being practical know-how. Some examples of tacit knowledge include intuition, rule-of-thumb, gut feeling and personal and organizational skills [26].

Zahra *et al.* [78] indicate that tacit knowledge is more valuable to firms that can develop the capability to transfer, acquire and integrate these resources. Since it is difficult to identify and interpret a firm's tacit knowledge, it has more potential than explicit knowledge in terms of giving the firm a competitive advantage [13]. When firms develop capabilities through knowledge acquisition, they create strategic knowledge-based assets that cannot be imitated quickly. The learning and improvement not only involves organizational processes but also cover products, technology, systems and other aspects of the business [67]. The organizational structure and culture need to be established so as to facilitate learning and absorptive capacity among employees. Successful knowledge acquisition is also vital for firms in terms of improving product quality, increasing production speed and carrying out new product development. This further explains why knowledge is credited as being one of the most critical resources that can help a firm to gain strategic position when competing internationally [24]. In addition, it has been argued that a firm can potentially increase its competitiveness if it has the ability to effectively embrace knowledge transfer or acquisition and then exploit the knowledge it has obtained in strategic ways [24,34].

### 2.2 Relational capital:

Relational capital is gaining attention as a concept that serves as an agent for enriching inter-firm relationships. This concept focuses on the basis of relationship formed between partners, which can be achieved through the interpersonal involvement of individuals engaged in the inter-firm collaboration. In their study on knowledge acquisition in IJV, Tsang *et al.* [71] generally define relational capital as a relationship that has been developed through a history of interactions. However, for the purpose of this study, relational capital is viewed as a relationship that is positively developed through relationship embeddedness between international outsourcing suppliers and their foreign buyers. In their short case study about leveraging tacit knowledge acquisition, Collins and Hitt [13] confirm that relational capital facilitates the transfer of tacit knowledge among strategic partners. In line with the important role relational capital plays in tacit knowledge acquisition, Lam [41] shares the same view that, in order to fully realize the full potential of tacit knowledge, a firm must encourage participating individuals or managers to become directly involved and cooperate closely with the collaborative partners. In an international business environment, most of the time, it is only through close relationships, interactions and a friendly environment that trust and commitment can be developed. According to Inkpen and Dinur [29], individuals are the most important medium for transferring tacit knowledge. In fact, the more tacit is the knowledge, the more the participation of individuals is needed. Therefore, the success of transferring or acquiring tacit knowledge is highly associated with individuals' deep involvement in the relationships between the transferor and acquirer. Yin and Bao [76], who conducted a study about the acquisition of tacit knowledge in China, prove that individual embeddedness is highly significant in determining the success of knowledge acquisition because it facilitates the richness of inter-firm relationships. A number of researchers have argued that the relational capital developed between partners can serve as a platform, providing greater opportunities to enter new networks and business relationships with other companies [3]. Collins and Hitt [13] carry out a case

study of Viewpointe Archive, a company that provides archive and retrieval services for financial institutions. They find that this company makes use of the relational capital developed through its business relationships to leverage tacit knowledge so as to serve customers and uncover new opportunities. Given the importance of relational capital to business collaborations, the current study focuses on trust, interaction and cultural sensitivity as the main relationship determinants of tacit knowledge acquisition and capability enhancement in international outsourcing relationships.

### 2.3 Partner trust:

Trust is conceptualized based on the work of Doney and Cannon [18]. It is termed as the degree to which buyers and suppliers perceive each other as credible and benevolent. When firms have the intention to transfer or acquire tacit knowledge, trust is argued to be one of the factors that must be presented during the exchange process. Collins and Hitt [13] also assert that trust is crucial for tacit knowledge transfer. They highlight this further by saying that a firm can exploit the relational capital built through trusting relationships to acquire tacit knowledge from their partners. Once the tacit knowledge has been successfully acquired, the firm is then a step ahead of its competitors because tacit knowledge is recognized as a source of competitiveness. Indeed, if the partners trust one another, tacit knowledge can be acquired easily and speedily [17]. Without doubt, trust is central to the exchange of tacit knowledge between partners [1]. Several interorganizational studies have investigated the influence of trust on knowledge acquisition, and many have verified the idea that trust is a vital predictor of learning from one's partners. For example, the studies of Dhanaraj *et al.* [17] and Becerra *et al.* [6] substantiate the previous arguments that tacit knowledge acquisition is in fact influenced by the development of trust between the partners involved in the transfer and learning process. Since their research looked at the impact of trust on the acquisition of tacit and explicit knowledge, it is interesting to note that they found trust to be related to the transfer and acquisition of the former type. In contrast, in their studies on knowledge acquisition in IJVs, Lyles *et al.* [49] and Lane *et al.* [42] empirically prove that trust is not significant in determining the acquisition of tacit knowledge from IJV partners. It should be emphasized, though, that none of these studies examine the effect of trust exclusively on tacit knowledge.

Moreover, trust could result in the sharing of important updates [18,54], particularly tacit inputs, essential for improving manufacturing processes, technological capabilities, product development and business growth. Other opportunities will also be given to a trusted partner, such as providing access to existing business networks [33] and potential new markets [47]. From the perspective of international outsourcing relationship, the suppliers will likely focus on the most fundamental aspects of the new and valuable tacit knowledge acquired during the learning process and exploit this knowledge in the most efficient way, leading to the discovery of greater opportunities and development. Based on these arguments the following hypothesis emerges, linking trust with tacit knowledge acquisition:

**H1:** Trust between the Malaysian suppliers and their foreign buyers is predicted to be related with the acquisition of tacit knowledge by the suppliers.

### 2.4 Partner interaction:

Similarly to trust, interaction is also a key factor in knowledge transfer and learning [29]. The two are interconnected in improving relational capital's effect on tacit knowledge acquisition. As Gulati [25] and Kostova and Roth [37] argue, repeated interaction contributes to the development of trust between partners because as time passes, the individuals involved in the partnership will learn about and better understand each other. Collins and Hitt [13] support this notion, indicating that regular interaction between partners is a significant criterion of trust-based relationships. In fact, they even claim that successful tacit knowledge acquisition requires a firm to engage in interpersonal interactions. On the same wave length, Eng [19] concurs that physical and face-to-face interactions will ease the process of sharing tacit knowledge between partners. Therefore, firms that have the intention to acquire tacit knowledge should encourage their representatives to form personal relationships with their counterparts [13].

Larson [43] and Nahapiet and Ghoshal [60] describe interaction as the extent of social relationships between the firm and the customer. However, in the current study, interaction is defined as behavioural actions and social relationships between a supplier and its foreign buyer. If this interaction increases, the intensity, frequency and breadth of information exchanged will also increase [77]. Through interactions, partners can access not only the explicit side of knowledge, but its tacit dimension too [34]. Interactions between a supplier and its foreign buyer provide a favourable environment in which to nurture the partner relationship, which is an imperative element of the discovery of potential opportunities [64,77]. When the supplier and its foreign buyer frequently interact with each other, either in a social or organizational context, the sharing of valuable new knowledge and information about new processes and technology may take place. This exchange will subsequently lead to the supplier's identification of various possible opportunities, such as obtaining new skills and finding ways to reduce production costs or enhance manufacturing processes. Considering the importance of interaction for acquiring

tacit knowledge and recognizing potential opportunities provided through international outsourcing relationships, the following hypothesis is formulated:

**H2:** Interaction between the Malaysian suppliers and their foreign buyers will have a positive effect on the suppliers' learning of the tacit knowledge.

#### 2.4 Cultural sensitivity:

Drawing from the definitions of cultural sensitivity by Johnson *et al.* [74] and LaBahn and Harich [39], cultural sensitivity is defined as a supplier's awareness of differences between its own and its foreign buyer's national business cultures and its ability to approach, adapt to and manage these differences. From the context of international business collaborations, cultural differences or cultural distance between partners from different countries have been viewed as obstacles to collaborative commitment and knowledge flow [65]. This view is also supported by knowledge management scholars [49,59], who state that cultural misunderstandings and differences can create difficulties in learning and knowledge transfer. In a cross-border scenario concerning alliance learning between Singapore and China [29], the transfer of knowledge, particularly tacit knowledge, from the Singaporean expatriates to the Chinese managers encounters difficulties due to the cultural distance between the two parties. The finding of this case study indicates that when a supplier misunderstands or is reluctant to recognize the cultural differences between it and a partner, the acquisition of tacit knowledge could be slower and much more challenging. Thus, a supplier should make an effort to be more culturally sensitive and adapt to its foreign buyer's business culture in order to fully capture this valuable knowledge.

Cultural sensitivity will also promote trust, respect and understanding [40] required for the development of buyer-supplier relational capital, which should be established in order to successfully acquire valuable tacit knowledge from a foreign buyer. In their study of 97 dyads of US and Japanese electronics firms, Voss *et al.* [74] find that cultural sensitivity is a significant predictor of the exchange of high-quality information between the US and Japanese partners. They describe such information as important information that is fundamental to competitive advantage, interfirm relationships and goal execution in dynamic markets. These descriptions fit the role of tacit knowledge as a strategic resource that facilitates the development of a firm's ability and core competencies. Consistent with these explanations, it can be emphasized that high-quality information is mostly composed of tacit knowledge components, which implies that cultural sensitivity is also expected to positively affect the supplier's tacit knowledge acquisition in an international outsourcing relationship. Based on all discussions about the effects of cultural sensitivity on a supplier's tacit knowledge acquisition and capability enhancement, the following hypothesis is proposed:

**H3:** The greater is the Malaysian suppliers' sensitivity to their foreign buyers' business cultures, the more tacit knowledge they will acquire through their international outsourcing relationships.

#### 2.5 Supplier's tacit knowledge and capability enhancement:

Capability enhancement is described as the supplier's ability to effectively integrate internal and external knowledge and competencies in order to grow and survive, while also keeping pace with the changing business environment [23,24]. By exploiting knowledge and skills in an efficient way, a firm's capabilities can be upgraded and used to increase overall organizational performance. Collins and Hitt [13] observe that a firm that possesses capabilities that differentiate it from its competitors, in terms of providing better value, is expected to have the potential to create increased competitiveness. They further argue that a firm is in a better position compared to its rivals if it has the capability to acquire tacit knowledge from its partner and then disperse that sticky knowledge internally. Through the acquired tacit knowledge, a supplier firm can improve its value creation and efficiency by enhancing its capability to innovate and respond to changing customer needs [72], increase organizational learning and product development [14] and finally utilize manufacturing flexibilities and short development cycles [24]. All of these abilities can be enhanced through the internal application and sharing of the tacit knowledge obtained from an international outsourcing relationship.

The research of Subramaniam and Venkatraman [69] has empirically proven that the transfer and deployment of tacit overseas knowledge positively contributes to the enhancement of transnational new product development capabilities. The significant relationship between tacit knowledge acquisition and capability enhancement can also be observed in a study conducted by Cavusgil *et al.* [10], who found support for the importance of tacit knowledge in enhancing firm capability. Specifically, their results indicate that the tacit knowledge transferred can actually enhance a firm's innovation capability. The implication for this study is that an ambitious supplier, aiming to stay competitive in the international outsourcing arena, should acquire more tacit knowledge from their foreign buyer and exploit this valuable knowledge so as to enhance its overall capabilities and reputation. In line with this view, the relationship between the supplier's tacit knowledge acquisition and its capability enhancement is hypothesized as follows:

**H4:** Tacit knowledge acquisition from international outsourcing relationships is positively related to the Malaysian suppliers' capability enhancement.

### 3. Methodology:

The hypotheses were tested using survey data from local manufacturing firms in Malaysia. A comprehensive list of manufacturing firms can be found in an official and authoritative directory published in 2008 by the Federation of Malaysian Manufacturers (FMM). Four major manufacturing industries, such as electrics and electrical, chemicals and petroleum and machinery and equipment, were identified as making significant contributions to the country's industrialization and economic growth. Besides, these industries are most suitable and related to this study as they have to constantly catch up with the latest updated knowledge, skills and new technology. Three criteria were used to narrow down the list of Malaysian manufacturing suppliers selected as respondents in this study: (1) Malaysian companies engaging in export activities; (2) involved in either one of the selected industries; and (3) manufacture or assemble finished products or components for foreign buyers. 535 firms were identified matching the selection criteria. For each of the firms surveyed, a questionnaire was mailed directly to the CEOs or presidents, as well as engineers, managers or executives, in areas like production, operations, marketing, R&D, procurement and general management. They were deemed to be competent and knowledgeable about the issue of tacit knowledge acquisition during their companies' business partnerships with international clients. In total, 132 questionnaires were returned and the final number of usable questionnaires was 122, representing a response rate of 22.8 percent.

The survey items were measured by a 7-point Likert scale and were all based on previous studies in the relevant literature, with some modifications to fit the current research setting. To analyze the data, partial least square (PLS) was used, which is particularly realistic for the current study due to small sample size and missing values. In addition, PLS is a rigorous technique that does not make normality assumptions about the data distribution [9,12,21]. This means that the data do not necessarily have to follow a multivariate normal distribution, as required by covariance-based SEM [11] and traditional multiple regression. In PLS, the reliability of all measurement items is explored through the evaluation of their individual factor loadings Hulland [28]. Following the mainstream view of Birkinshaw *et al.* [8], out of 33 items, three with individual item loadings less than 0.7 were dropped from their respective constructs. Convergent validity is employed to verify whether each item is highly correlated to the construct it is intended to theoretically measure [22]. This can be determined by assessing the composite reliability [11,21], computed using PLS, which is similar to the standard Cronbach's alpha [21]. All the composite reliability values exceed 0.8, while Cronbach's alpha scores report a minimum loading of 0.894. These values are well above the reliability threshold of 0.7 proposed by Nunnally [63]. In terms of discriminant validity, the result shows that the AVE values are much higher than the correlations among the constructs, which implies that the measurement model is satisfactory.

## RESULTS AND DISCUSSION

In this study, partner trust was predicted to be positively related to the Malaysian suppliers' acquisition of tacit knowledge through international outsourcing relationships. Hypothesis H1 was formulated based on the contention that trust benefits the development of relational capital in interfirm business relationships [15,33,38] and enables partners to willingly share tacit knowledge [6,29,46]. Based on the PLS results, however, trust turns out to be unrelated to tacit knowledge acquisition by the Malaysian manufacturing suppliers. Despite many arguments to the contrary, the impact of trust on tacit knowledge acquisition is irrelevant in this study. The results shown in Table 1 demonstrate that this factor does not influence the Malaysian suppliers' tacit knowledge acquisition. Although the relationship between trust and tacit knowledge acquisition is found to be positive ( $b=0.082$ ), the result is not significant ( $p=n.s.$ ). Therefore, hypothesis H1 is not supported. This result is consistent with the findings of Lane *et al.* [42] and Lyles *et al.* [49], who stated that trust is not directly associated with the learning process between partners. However, their studies investigated general knowledge acquisition in IJVs, while the current study is centred around tacit knowledge acquisition in contractual international business collaborations. One plausible explanation for the current study's finding that trust does not motivate the learning of tacit knowledge may be that the acquisition of tacit knowledge entails different procedures and courses of action than of explicit knowledge [42]. This is particularly relevant when the learning of this complicated knowledge is taking place in a non-equity agreement, such as an international outsourcing relationship between a buyer and supplier from different countries. According to Das and Teng [16], because the partners are not obliged to provide any equity investment in non-equity forms of business relationships, confidence and trust are likely to be much lower than in equity-based collaborations, which are usually governed by contracts that spell out the expectations of each partner.

Partner interaction, meanwhile, turns out to be one of the most important relational capital predictors in terms of determining the acquisition of tacit knowledge by the Malaysian suppliers. Hypothesis H2 predicts that interaction between the Malaysian suppliers and their foreign buyers will be positively related to the suppliers' tacit knowledge acquisition. Put differently, the more the suppliers interact with their foreign buyers during the outsourcing relationship, the more tacit knowledge of partners' product requirements they could acquire from

them. As can be seen in Table 1, the relationship between partner interaction and tacit knowledge acquisition is clearly positive and significant ( $b=0.383$ ,  $p<0.05$ ). The significant effect of partner interaction on the suppliers' tacit knowledge acquisition is consistent with the findings of previous researches [64,77], showing that interaction between firms is positively associated with knowledge acquisition. Although their studies were more related to general knowledge, the basic idea is still supported in that tacit elements can be found in the composition of general knowledge. The current study's finding is also similar to that of Liu *et al.* [48], who prove in their study of strategic alliances that interaction affects the learning process between Taiwanese IT suppliers and their foreign MNC clients. It also concurs with a case study conducted by Collins and Hitt [13]. In their investigation into relational capital and tacit knowledge transfer, they recognize that partner interaction, which helps to build relational capital, facilitates the process of tacit knowledge transfer between partners.

**Table 4.13:** Path Coefficients and Results of Hypothesis Testing.

Predictors		Prediction	Hypotheses	Sign	Path Coefficient	Sig.
Partner trust	→	Tacit knowledge acquisition	H1	+	0.082	X
Partner interaction	→	Tacit knowledge acquisition	H2	+	0.383	**
Cultural sensitivity	→	Tacit knowledge acquisition	H3	+	0.105	*
Tacit knowledge acquisition	→	Capability enhancement	H4	+	0.595	***

Hypothesis H3 pertains to assessing the significance of the supplier's business-related cultural sensitivity for its tacit knowledge acquisition. The results of the hypothesis testing indicate a positive and statistically significant relationship between the two constructs ( $b=0.105$ ,  $p<0.05$ ). It explains that cultural sensitivity is also found to play a significant role in determining the Malaysian suppliers' acquisition of tacit knowledge through the international outsourcing projects. This proves that the local suppliers have sufficient sensitivity towards their foreign buyers' national business cultures, enabling them to strengthen their relationships with them and further facilitate tacit knowledge acquisition. In other words, the Malaysian suppliers appear to be aware of the differences between their own national business culture and those of their foreign buyers. Furthermore, they are willing to make some adaptations in the way they manage these cultural gaps identified during their outsourcing relationship. As such, the suppliers begin to adjust their ways of doing business so as to stay in line with their foreign partners' national business cultures and environments. Their willingness to adapt to cultural differences helps to reduce cultural conflict and build and improve on relational capital. This relationship factor has been empirically verified as being critical to the learning of tacit knowledge [17] and to interfirm cooperative performance, in terms of strength, stability and knowledge acquisition [44]. This finding is consistent with a related study of Voss *et al.* [74], who state that cultural sensitivity is positively associated with the exchange of high-quality information in cross-border partnerships. They describe how the exchange of such information could encourage partners to strive harder in a dynamic market and thus stay competitive. This explanation matches the description of the role played by tacit knowledge, partly because this sticky knowledge has been consistently emphasized as being a valuable factor in a firm's survival and competitive advantage.

Hypothesis H4 concerns the effect of tacit knowledge acquisition on the Malaysian supplier's capability enhancement. Specifically, it is hypothesized that there will be a positive link between tacit knowledge acquisition and capability enhancement. The result supports the importance of tacit knowledge acquired to a Malaysian supplier's capability since a positive and strongly significant path relationship is found in the model ( $b=0.595$ ,  $p<0.001$ ). The significant influence of tacit knowledge on the Malaysian suppliers' capabilities is consistent with prior theoretical contentions that the acquisition of tacit knowledge enhances a company's capability [17]. To some extent, the finding is empirically in tune with the findings of previous related empirical studies. For instance, Subramaniam and Venkatraman [69] proved that the transmission of tacit knowledge can enhance the development of new product capabilities, while Cavusgil *et al.* [10] verified that a firm's innovation capability could be improved through the acquisition of tacit knowledge from an outside source. Thus, it appears that the tacit knowledge learned from their foreign buyers may eventually increase the Malaysian suppliers' capability to innovate, develop new products and respond to customer needs or market demands. This is important for Malaysian suppliers hoping to increase their competitiveness and position themselves among other global manufacturing suppliers [2].

#### Conclusions:

From the theoretical perspective, this study extends both international business and knowledge management literatures by linking tacit knowledge acquisition to relational capital and the international supplier's performance outcomes. The establishment of these linkages helps to explain how tacit knowledge is obtained through international business relationships and the effects this acquisition has on Malaysian suppliers' capabilities. Regarding the relational capital determinants of tacit knowledge acquisition in international outsourcing relationships, it was found that of the three relationship factors studied, only interaction and cultural

sensitivity significantly facilitate the suppliers' tacit knowledge acquisition. Trust, widely argued to be critical, turns out to be unimportant in this context. Overall, it is partner interaction that emerges as the most significant aspect of relational capital in terms of aiding tacit knowledge flows. From the Malaysian manufacturing suppliers' point of view, external tacit knowledge is easily obtained through various ways of interaction, such as discussions and exchanging knowledge on how to improve product quality, getting feedback about their outsourcing performance and sharing information on the latest production techniques and technological updates. In general, this study has met its objectives in investigating firstly whether the international outsourcing relationship is accompanied by the acquisition of tacit knowledge by the Malaysian manufacturing suppliers, secondly which key relational capital determinants influence the acquisition of tacit knowledge and thirdly how the newly acquired and applied tacit knowledge affects the local suppliers' capabilities. Another important finding that should be highlighted is that the means of tacit knowledge acquisition items are all greater than the median of the scale. This proves that the Malaysian suppliers do in fact acquire tacit knowledge via international outsourcing relationships

Nevertheless, this study also has a few limitations. Perhaps the greatest drawback concerns the description of tacit knowledge itself. Tacit knowledge is complicated in nature and difficult to identify. What is more, the concept is probably relatively unknown in Malaysia to those outside the academic circle, especially as there is no available direct translation of 'tacit knowledge' in the country's main language. Future research should attempt to provide a clearer explanation of tacit knowledge in the questionnaire in order to reduce misconceptions on the part of the respondents. Another major limitation is that this study examines the acquisition of tacit knowledge from the perspective of just one side of the partnership – the Malaysian manufacturing suppliers. Their points of view might reflect only their own beliefs and judgment, while some of the constructs, such as trust and interaction, should ideally have included the foreign buyers' views as well. There is no way to know whether the foreign buyers actually share the same opinions of the local suppliers. For instance, do partner interaction and cultural sensitivity truly encourage the foreign buyers to pass their tacit knowledge to the Malaysian suppliers? Therefore, future research should make an attempt to investigate this topic at the dyadic level and confirm whether the results are comparable when both the suppliers and buyers are surveyed.

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