THE IMPACT OF TRUST ON KNOWLEDGE TRANSFER IN INTERNATIONAL BUSINESS SYSTEMS

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Abstract: *Over the last decade, international business alliances have emerged as one of the most important strategies for firms to expand in international markets. In addition, knowledge transfer has been determined as one of the key factors that lead to the creation of sustainable competitive advantage for firms and to the success of learning alliances. Furthermore, trust enhances the effectiveness of this process. The growing volume of published research in recent years has indubitably revealed the significant role of trust on knowledge transfer in International Business (IB) Systems and in particular in International Strategic Alliances (ISAs) and International Joint Ventures (IJVs). This paper consists of an in depth review of the most recent literature about the impact of trust on transfer of various types of knowledge in IB Systems with reference to the relevant theoretical models and the applications in the international context. The first section contains the theoretical background of the concept of trust, the different types of knowledge and the process of knowledge transfer. The main section refers to a few contemporary and distinguished scientific articles about the impact of trust as a determinant factor of knowledge transfer from the most recent international literature. The conclusions of the literature review and testable propositions related to the creation of trust among IJV partners and their impact on knowledge transfer are presented at the final section of the paper.*

Keywords: *Trust, knowledge transfer, international business (IB) systems, international strategic alliances (ISAs), international joint ventures (IJVs)*

JEL Classification Codes: M16

1. INTRODUCTION

In recent years international strategic alliances (ISAs) have swept powerfully onto the global business landscape. As economies become more globalized, more and more firms are participating in foreign markets. Cross border alliances and particularly International Joint Ventures (IJVs) have become one of the most common means of international expansion because they enable firms to compete in complex environments (Ernst & Halevy, 2004). Strategic alliances are enduring interfirm cooperative agreements or linkages created by two or more autonomous organizations for sharing equity, resources, know-how, expertise or technology to accomplish mutually beneficial objectives (Yoshino & Rangan, 1995). The formation of strategic alliances is considered a significant strategy for achieving global competitiveness in many industries (Gulati et al., 2000). An alliance is considered international when at least one of the partner – firms originates from a country different than the one that the alliance determines as a target market (Hajidimitriou, 2003). Moreover, in the last decades, IJVs have become a favoured form of international collaboration (Anvy & Anderson, 2008) and the establishment of IJVs has become a major strategy for firms entering international markets (Duan, 2007; Meschi & Riccio, 2008; Le & Jorma, 2009). An international joint venture (IJV) is a separate legal organization that represents the joint equity holdings of two or more partners, in which the headquarters of at least one partner is located outside the country of the venture operation (Chung & Beamish, 2012).

The increasing number of international publications in recent years has indisputably revealed the importance of trust and knowledge transfer in the field of International Business (IB) Systems. In our previous work we examined the significant role of the constructs of trust and knowledge transfer respectively (Hajidimitriou & Sklavounos, 2006, 2007, 2008; Hajidimitriou & Rotsios, 2009; Sklavounos & Hajidimitriou, 2011). In this paper we will attempt to highlight the knowledge transfer process and trust and their relation in the context of ISAs and IJVs. We first present a brief theoretical background of the two notions under research. Then, we propose a number of testable propositions related to the creation of trust among IJV partners and their impact on knowledge transfer will be for further research.

2. THEORETICAL BACKGROUND OF KNOWLEDGE AND KNOWLEDGE TRANSFER

2.1 Knowledge of the firm

Today, organizational knowledge is regarded as the basis for the firms' sustainable competitive advantage, due to the turbulence and uncertainty of the global business environment (Van Wijk et al., 2008). The availability of physical resources to practically all firms, resulted to a greater need for intangible resources, which are more complicated and difficult to copy and imitate; the result was a shift to knowledge based resources. Knowledge constitutes an important factor in the companies' attempt to preserve their valuable culture, to learn new things, to solve new problems and create competitive advantages and new situations in the present and in the future (Liao et al., 2010).

As Anh et al. (2006) indicate, Davenport and Prusak (1998, p5) give a complete definition of knowledge. According to the two researchers, *"Knowledge is a fluid mix of framed experience, values, contextual information and expert insight that provides a framework for evaluating and incorporating new experiences and information. It originates and is applied in the minds of the knowers. In organizations, it often becomes embedded not only in documents and repositories but also in organizational routines, processes, practices and norms."*

Gao et al. (2008) indicate that the two most common types of knowledge, defined in the literature, are tacit and explicit knowledge and Polanyi (1969) was the first to make this distinction.

Explicit knowledge is the formal, systemic and transparent knowledge (Lei et al., 1997) that can be documented and recorded easily and is embedded in formal and standardized procedures (Martin & Solomon, 2003a). For the above reasons, it can be disseminated and transferred relatively easily with systematic and standardized procedures (Nonaka & Takeuchi, 1995). As an example, one can state the standards and specifications of a product, a scientific formula or a software program. Explicit knowledge can be codified and included in manuals, databases and procedures. Its acquisition is relatively easy and its practical implications can be observed in the short run (Polanyi, 1966). Because of its objective nature, explicit knowledge is easier to transfer and disseminate. The measurement of explicit knowledge is relatively easy and is based on quantitative measurements, such as the increase of production and productivity, the reduction of production costs and the increase of the return of investments (Nonaka, 1987).

Tacit knowledge is more complicated and challenging to explain and define since, as Polanyi (1969) stated, individuals often know more than what they can explain. Kogut and Zander (1992), paraphrasing Polanyi (1966), argued that organizations know more than what their contracts state. They argue that, contrary to organizational learning, the amount of explicit knowledge companies posses can be observed in the "operating rules, manufacturing technologies and customer data banks". Tacit knowledge however is embedded in the actions and activities of the individuals, and its dissemination requires more time and active involvement from the "teacher's" part (Lei et al., 1997). Tacit knowledge consists of techniques and informal practices which determine the "know how". It is obtained by experience and has a cognitive dimension. Tacit knowledge has a personal quality and it consists of the models of behavior, the beliefs and the perspectives with which individuals analyze situations. These parameters are integrated in the actions which most of the times are taken for granted and are very difficult to adjust (Kogut & Zander, 1992). According to Polanyi (1966), tacit knowledge is more valuable than the implicit for firms, although there are different opinions and findings on the subject. As Hau and Evangelista (2007) note, tacit knowledge is often "non-verbalized or even non verbalizable" and cannot be documented or recorded in formulas or data bases.

2.2 Knowledge transfer in IJVs.

The concept of knowledge transfer is not easily defined since there is no clear distinction between knowledge transfer and the creation of new knowledge (Sahal, 1981). According to Easterby-Smith et al. (2008), knowledge transfer can be defied as the "process during which, one organization learns from the experience of the other". Beamish and Berdrow (2003) define knowledge transfer as the "migration" of knowledge from one partner to the other, either directly or indirectly through the IJV. They have concluded that often, even in cases in which learning is not a primary factor for IJV formation, knowledge is created and transferred in the IJV system. In order to be considered successful, knowledge transfer needs to add value to the firm and lead to the accumulation of new knowledge (Zander, 1992). Park et al. (2011) suggest that collaboration between the parties is required for successful knowledge transfer.

The participation in IJVs is considered to be one of the most effective means for firms to acquire new tacit knowledge and "know how" which is embedded in the organizations (Kandemir & Hult, 2005). The IJVs' ability to take advantage of their international relations depends on their effectiveness to learn. Despite the benefits of successful knowledge transfer, effective knowledge transfer is not easily achieved (Argote, 1999). Empirical evidence shows that companies that can transfer knowledge effectively have a greater chance to succeed than the less effective and experienced ones (Argote, 1999). Szulanski (1996) argues that individuals with no clear understanding of the reasons why some processes are particularly effective, will not succeed in transferring their knowledge to others. Nonaka and Takeuchi (1995) argue that often the transfer of tacit and explicit knowledge takes place at the same time. However, as Hau and Evangelista (2007) suggest, the transfer of the two types should be examined separately, since the factors that affect the transfer of tacit knowledge might not have an impact on the transfer of implicit knowledge and "vise versa".

As the same authors indicate, the acquisition of both types of knowledge has not yet been researched in depth (Cavusgil et al., 2003). One of the most frequently investigated factors that facilitate knowledge transfer in IJVs is the level of trust between partners, which will be analyzed in the following section.

3. THEORETICAL BACKGROUND OF TRUST

Trust is a highly abstract and multidimensional concept that has been adopted from many different scientific disciplines like Psychology (Rousseau, 1995), Sociology (Fukuyama, 1995), Social Psychology (Sorrentino et al., 1995), Neurobiology (Kosfeld et al., 2005), Economics (Williamson, 1993), Marketing (Castaldo, 2003), Strategic Management (Barney and Hansen, 1994), Organizational Behaviour (Zaheer et al., 1998) and last but not least International Business (Inkpen & Currall, 1997). Each discipline has approached the concept with a different theoretical background which led to diverse conceptualizations that put the emphasis on different trustworthy components. Thus, comparison of the different propositions and outcomes is difficult (Endrissat & Kühlmann, 2003).

Conceptually and methodologically, trust is a complex subject area. As a result of this complexity, numerous definitions of trust have been proposed in the literature "*resulting in a confusing potpourri of definitions applied to a host of units and levels of analysis*" (Shapiro, 1987). According to Sabel (1993), "*trust is the mutual confidence that no party to an exchange will exploit another's vulnerabilities*". Lewicki and Wiethoff (2000) describe trust as "*an individual's belief in, and willingness to act on the basis of, the words, actions, and decisions of another*". Because IJVs often involve complex interpersonal, intergroup and interfirm dynamics, it is particularly important to apply a multilevel approach to IJV trust research (Luo, 2008; Ren et al., 2009). Extensive research of international literature reveals that trust has two primary dimensions: interpersonal and inter - organizational or inter – firm trust. Currall and Inkpen (2001) were able to identify within the existent literature wrongful attributions such as "*trust at the individual level was taken to be isomorphic with the inter-firm trust*".

Sako (1992) and Boersma et al. (2003) make a clear distinction between three different dimensions of trust in inter - firm relationships: contractual – based or promissory – based trust, which is defined as "*an expectation that a party can be relied upon to carry out a verbal or written promise*", competence – based trust, which refers to "*an expectation that a party will perform its role competently*" and goodwill – based trust, which is "*a less self - interested, non egotistic form of trust*".

Dissecting trust into its individual components is useful, because such analysis permits a deeper understanding of its distinct, interrelated elements. Ultimately, however, trust is a complex integration of the psychological, sociological and economic dimensions into an irreducible whole experience (Hajidimitriou & Sklavounos, 2006). As Parkhe (1998) clearly notes, "*trust in an alliance partner is the overall outcome not of the summation of component parts, but of a holistic assessment of the past, present and future of the relationship with that partner*".

4. THE ROLE OF TRUST ON KNOWLEDGE TRANSFER

Becerra et al. (2008) indicate that researchers in the past have reported on the positive role trust plays on knowledge transfer in organizations, specially for the transfer of tacit knowledge (Hansen, 1999). Trust facilitates knowledge transfer since it increases the partners' willingness to assist each other to understand external knowledge (Lane et al., 2001). According to Dhanaraj et al. (2004), a feeling of trust can develop due to the partner's status without the presence of strong social ties and common systems and procedures. The level of trust between partners also varies from case to case. Park (2008) also concluded that trust has a strong impact on knowledge acquisition, since it facilitates the exchange of information and resources and leads to common problem solving.

The impact of trust on processes, as a social control mechanism and on the decrease of risks, is essential (Lane et al., 2001). As Boersma et al. (2003) suggest, the development of trust in a relationship is a "sequential" process. For this reason, when trust is examined, it is very important to consider the time factor, since the relationship between partners develops and changes over time (Ren et al., 2009). According to researchers, prior close relationships between partners foster the development of a feeling of comfort and trust over time (Kale et al., 2000). In addition, trust has an impact on the way partners work together in the IJV (Dyer & Singh, 1998; Inkpen & Curral, 2004).

As a result, trust determines the degree of knowledge transfer and the efficiency and effectiveness of the process, since it decreases the perceived risk of opportunistic behaviour from the partners. Li (2005), in his study of Western MNCs in China, found trust to be the most important factor for the management of knowledge transfer. According to Park et al. (2011), the role of trust in IJVs is "paramount", since it has an impact on the opportunistic behaviour that is common in IJVs.

Trust plays an important role mostly in the transfer of tacit knowledge (Dhanaraj et al., 2004). Similarly, Beccera et al. (2008) suggest that trust is more important for the transfer of tacit knowledge than the transfer of explicit knowledge. Surprisingly, however, in their research on Norwegian IJVs they found that, "*transfer of explicit knowledge requires greater willingness to take risks*", than the transfer of tacit knowledge. A possible explanation, as they note, is that since explicit knowledge can be easily identified and has a more immediate and direct impact on processes and performance, managers feel they need to protect more explicit than tacit knowledge. However, even if most researchers agree that trust facilitates knowledge transfer, some have concluded that a high degree of trust might suspend knowledge transfer, since it might lead to "*collective blindness*" (Yli-Renko et al., 2001). It is also important to note that others failed to show a significant relationship between trust, knowledge transfer and IJV performance (Sarkar et al., 2001; Curral & Inpken, 2002).

Nielsen and Nielsen (2009) draw upon social capital theory (Nahapiet & Ghoshal, 1998) in arguing that trust, not only directly facilitates learning, but also conditions the effect of knowledge tacitness on performance (innovative outcomes). Similar to Simonin (1999), Nielsen and Nielsen (2009) focus on knowledge tacitness as a key attribute that influences both the access to – and application of – relevant external knowledge. In addition, consistent with the relational view of competitive advantage (Dyer & Singh, 1998), Nielsen and Nielsen (2009) focus on how trust affects the firm's ability to acquire new knowledge and apply it for innovative purposes (Nahapiet & Ghoshal, 1998; Steensma et al., 2005). Relational capital is likely to affect conditions for the transfer of knowledge (Dyer & Singh, 1998). As such, it serves as a coordinating mechanism that ensures repeated intense interaction conducive to knowledge transfer. Trust is a particularly important aspect of relational quality in alliances because it facilitates social interaction, increases transparency, and reduces transaction costs and uncertainty. Nielsen and Nielsen (2009) contend that the ability of a firm to absorb external knowledge from its alliance partner depends on the quality of the relationship in terms of the level of trust between parties. Trust functions as an ongoing social control mechanism and a risk reduction device (Gulati, 1995). It influences both the extent of knowledge exchanged in ISAs (Inkpen, 1997) and the efficiency with which it is exchanged (Parkhe, 1998).

Das and Teng (1998) suggest that trust and control are complementary and that control may foster trust. Because contracts narrow the domain and severity of risk to which an exchange is exposed (Poppo & Zenger, 2002), contracts with implicit and explicit rules establish a formal basis of assurance for mutual trust and provide an institutional basis for future cooperation. With such formal assurance, parties are more likely to transfer tacit knowledge. By establishing safe boundaries for knowledge flows, contracts, in conjunction with trust, promote greater acquisition of tacit knowledge than trust alone. Because localized, tacit knowledge disappears when specific persons change jobs, formal operating procedures are necessary to preserve and improve the efficient use of resources. These operational routines complement the social mechanism of trust by creating a structure for coordination, facilitating processes, and establishing safe boundaries for knowledge flows (Li et al., 2010).

One important contingency, which has largely been overlooked in the alliance literature, is the interaction of trust with the characteristics of knowledge. To the extent that explicit and tacit knowledge are inherently different and are shared through different verbal and social processes, they may likely be associated with different levels of trust (Becerra et al., 2008). Trust acts as a governance mechanism of embedded relationships in facilitating tacit knowledge utilization (Uzzi, 1996). Nielsen and Nielsen (2009) propose and test an integrated framework in which tacitness and trust are key mechanisms that mediate the relationships between partner characteristics and alliance outcomes. In addition, consistent with the extant alliance learning literature, they find trust to be significantly associated with knowledge transfer and learning (Muthusamy & White, 2005).

The formation of an alliance is based on the acknowledgement that an alliance partner possesses the useful knowledge, experience, and capabilities. The trustworthy behaviors of a partner are a precondition for an enriched, meaningful, and continued exchange of knowledge between alliance managers. Trust can enhance openness and accessibility toward each other in an alliance. Such openness motivates the partners to be much more transparent, increases the scope of the relationship, and enhances mutual knowledge transfer between firms in the alliance (Muthusamy & White, 2005). There are several reports which suggest that there is a positive relationship between trust and partners' collaborative behaviors in the form of self-disclosures, information exchange, and cooperative problem-solving (Lazaric, 1998). For instance, Zaheer and Venkatraman (1995) found that trust increased the scope of joint planning and action by partners in strategic alliances. Through relational processes, partners learn about each other's competency and develop confidence in one another (Muthusamy & White, 2005).

The results of Muthusamy and White (2005) indicate that relational social exchanges between partners have strong influence on the extent of interfirm learning accomplished in a strategic alliance. Their results indicate that trust in the partner's abilities (ability-based trust) is positively linked to new knowledge, skills and competencies gained through the alliance. The study of Muthusamy and White (2005) also conjectures that partner trustworthiness is central to smooth functioning of the alliance. Without exhibiting social competency in terms of integrity and goodwill, it would be difficult for the partners to have meaningful and productive exchanges of information, knowledge and skills.

Furthermore, trust establishes a basis of intimacy, predictability and reliability, which leads parties to be more open and receptive to the transfer and acquisition of knowledge (Dyer & Hatch, 2006; Inkpen & Tsang, 2005). When trust exists, the recipient is more likely to be open and receptive to the knowledge offered by another (Inkpen & Tsang, 2005). This intimacy is also associated with frequent communication (Szulanski, 1996) and coordination flexibility, because parties are more willing to respond quickly to interfirm requests (Das & Teng, 1998). A major obstacle to interfirm knowledge transfer is the potential leakage of valuable knowledge (Dyer & Singh, 1998; Inkpen, 2000). Trust helps overcome this obstacle by establishing a level of behavioral predictability and reliability through the accumulation of exchange experiences. Moreover, trust enables greater cooperation between the recipient and the knowledge source by creating the mutual understanding that both parties will consider the interests of the other (Lane et al., 2001). Trust may foster knowledge transfer by establishing idiosyncratic sharing routines to facilitate learning of specified information and know-how (Dyer & Singh, 1998) and increasing the overall level of information exchange between parties (Tsai & Ghosal, 1998).

Li et al. (2010) suggest that trust fosters the acquisition of greater levels of tacit than explicit knowledge. For exchanges characterized by interfirm trust, the adjoining behavioral processes are more akin to those that support the transfer of tacit knowledge than those that enable explicit knowledge transfer. Whereas transferring tacit knowledge across organizational boundaries is generally difficult because of its sticky and hard-to-codify nature, close and intense interactions between exchange partners constitute an effective mechanism to transfer such knowledge. Not only does exposure to the source unit's work environment and socialization process greatly encourage the transfer of tacit knowledge, but the willingness to spend significant time together and maintain stable relationships also facilitates tacit knowledge transfer (Kotabe et al., 2003; Nonaka & Takeuchi, 1995). Li et al. (2010) also predict and empirically show that trust is associated with a greater acquisition of tacit than explicit knowledge. Because trust reduces perceptions of unfair play, such as knowledge leakage and appropriation, and supports close, intimate connections, it is used most effectively to acquire tacit knowledge. These results confirm that trust lies at the heart of tacit knowledge exchange (Adler, 2001).

5. IMPLICATIONS FOR FURTHER RESEARCH

After the theoretical background of the concepts of knowledge transfer and trust and the review of the most recent scientific articles about the impact of trust as a determinant factor of knowledge transfer, and taking under consideration the particularities of the business environment of Eastern Europe countries, we conclude with the following propositions:

P1. The establishment of a proper control mechanism with implicit and explicit rules in an alliance, will result in more trust among partners; as a result there will be a positive impact on knowledge transfer

P2. When knowledge is explicit, trust plays no role in the knowledge transfer

P3. When knowledge is tacit, trust has a positive impact on the knowledge transfer

Our conceptual model about the impact of trust on knowledge transfer in IB systems is portrayed in Figure 1:

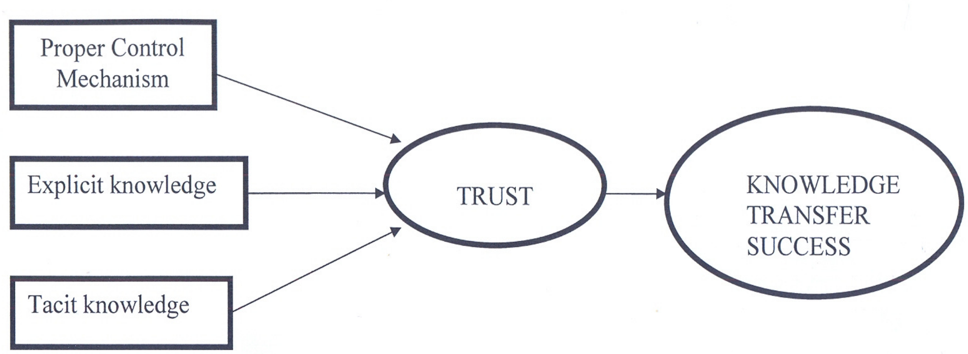

Figure 1. Conceptual Model of the impact of trust on knowledge transfer in IB systems

6. CONCLUSION

The aim of this paper is to present an in depth review of the most recent literature about the impact of trust as a determinant factor of knowledge transfer and to propose a number of propositions for further research. The first section contains the theoretical background of the concept of trust and the process of knowledge transfer. The main section refers to a few contemporary and distinguished scientific articles about the impact of trust as a determinant factor of knowledge transfer from the most recent international literature. The final section of the paper contains the authors' propositions for future research in the South – Eastern European IB systems context. These propositions will be tested empirically as hypotheses during our future research in which we intend to interview Greek managers involved in international strategic alliances. We strongly believe that our findings would constitute a valuable addition in the international literature on the complex concepts of trust and knowledge transfer, and will have practical implications for managers of firms operating in an international environment.

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