

# Chapter 4

## Examining Tacit Knowledge Acquisition and Opportunity Recognition in International Buyer–Supplier Collaborations

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### ABSTRACT

*The purpose of this chapter is to provide initial understanding of how tacit knowledge and potential business opportunities can be generated in international buyer-supplier collaboration. Working jointly with a foreign buyer allows Malaysian manufacturing suppliers to upgrade their capabilities and competitive advantage 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 suppliers are open to such opportunities to acquire tacit knowledge since absorbing newly transferred knowledge and skills evidently requires several learning processes and relationship development. The impact of accumulating the knowledge, expertise and experience gained from the relationship with a foreign buyer will subsequently lead to the acquisition of tacit knowledge and recognition of new opportunities by the Malaysian manufacturing suppliers.*

### INTRODUCTION

The impact of globalization in the new global economic system has created various opportunities and challenges for companies and countries. To some extent, this phenomenon has caused

spectacular changes in business activities and strategies around the globe. For instance, traditionally companies have produced and sold their products locally. However, as local markets are saturated and resources become scarce, slimmer market share and insufficient supply have

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forced some companies to opt for alternative business strategies to secure their longevity. In some instances, companies have responded by extending their businesses to other countries and exploring new sources overseas. Seeking out new markets and resources across national boundaries is considered a typical way of dealing with the limited local demand and supply (Kotabe & Murray, 1990). In addition, in response to the stiff competition that has driven down production costs and boosted competitiveness, international companies are also spreading their procurement activities across geographical boundaries, in an effort to hire top quality suppliers and reduce their production expenditure (Bryce & Useem, 1998; Kaufman, Wood, & Theyel, 2000; Mol, Pauwels, Matthyssens, & Quintens, 2004). This particular business tactic is known as international outsourcing, which is referred to as international buyer-supplier collaborations in this paper, is a well-known and growing strategic approach in international business. Besides providing strategic and operational advantages to the buying firms, this type of non-equity collaboration also provides the local suppliers with economic benefits and significant opportunities. From a supplier's perspective, the partnership gives the supplier access to its foreign buyer's resources, expertise and business networks. This access is granted to the supplier given that it needs certain important information from the buyer in order to execute the outsourcing contract effectively. As a result, the supplier not only fulfils its transaction obligation, but at the same time can exploit the accessibility to gain new knowledge and technology for its future improvement (Bhatt, 2000). Since knowledge, and particularly tacit knowledge, has been recognized as a firm's most substantial source of competitiveness (Grant, 1996; I. Nonaka, Toyama, & Nagata, 2000), it can be postulated that the acquisition of new and important knowledge from external sources is critical for a supplier aiming to compete in a turbulent business environment.

This is especially true in the current era of intense global competition, rapid technological change and fast-paced information technology development, where only competent and proactive suppliers will survive and prosper. The experience of working with foreign buyers is seen as a precious opportunity for local companies to obtain the tacit elements of valuable knowledge and use them to enhance their capabilities and overall business performance.

The decision to focus on tacit knowledge acquisition in particular, was motivated by the lack of exposure on the interorganizational learning of this specific type of knowledge, especially in the context of international business and buyer-supplier relationships. Since little is known about learning tacit knowledge in international business collaborations, this chapter aims to investigate how local suppliers acquire tacit knowledge and detect potential opportunities from their foreign buyers. In this case, there is a need for the local manufacturing suppliers to gain tacit knowledge from the international buyer-supplier collaborations since it is a critical part of suppliers to fulfil the buyers' expectations and requirements. There are situations where the foreign buyers must provide the suppliers with practical guidance and technical training so that the components or final products will turn out as expected. In fact, foreign buyers with superior manufacturing capabilities can be a source of improved competency for local manufacturing suppliers. This is particularly true 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. The acquisition of tacit knowledge by the suppliers will be more effective when the foreign buyers help the suppliers by showing them how product quality and production processes can be improved.

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