

BEYOND BORDERS AND BARRIERS

**A QUALITATIVE STUDY OF FOREIGN DIRECT INVESTMENT AND ITS EFFECT ON
KNOWLEDGE TRANSFER IN RWANDA**

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Beyond Borders and Barriers

Abstract: Foreign direct investment has been considered to provide an avenue for knowledge transfer between investors and entrepreneurs. However, few studies have investigated what capacities influence the quality of cross-border knowledge transfer. Through a qualitative study and the use of absorptive capacity theory, with an emphasis on social integration mechanisms, this thesis aims to explain how different absorptive capacities affect cross-border knowledge transfer between foreign investors and local firms. To answer the research question, 18 semi-structured interviews were conducted during a field study in Kigali, Rwanda. The authors used an abductive approach in order to extract eight key capacities that affect the quality of cross-border knowledge transfer. These capacities and their interconnectedness is subsequently unfolded with the use of absorptive capacity theory and social integration mechanisms. To better analyze the findings, the authors made a theoretical contribution of a novel conceptualization of social integration mechanisms, using social capital theory as a proxy. The findings reveal that in order for cross-border knowledge transfer to take place, eight key capacities are needed. Furthermore, it was found that social integration mechanisms influence each absorptive capacity directly, as well as the relationship between potential and realized absorptive capacity. Last, the knowledge transfer parties need to align and complement their respective capacities in order to attain valuable knowledge transfer and ultimately gain competitive advantage.

Keywords: Knowledge Transfer, Absorptive Capacity, Social Integration Mechanisms, Foreign Direct Investment, Developing Country

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Definitions

Concept	Definition
Foreign Direct Investment (FDI)	Foreign direct investment (FDI) is an ownership stake in a foreign company or project made by an investor, company, or government from another country (Investopedia, 2023).
Knowledge Transfer	The process through which one unit learns indirectly or vicariously from the experience of another unit (Argote, 2022).
Absorptive Capacity	The ability to recognize new knowledge, assimilate it and apply it to commercial end (Cohen & Levinthal, 1990).
Developing country	A low-income country with an economy that is largely based on agriculture, which may be going through a demographic transition, is often in the process of industrialization, and usually has few resources to spare to solve its own socio-economic and environmental problems (Oxford Reference, n.d).
Least Developed Countries	Least developed countries are low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets (United Nations, n.d.)
Sustainable Development Goals	The Sustainable Development Goals, also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity (UNDP, n.d.)

Abbreviations

Word	Abbreviation
Foreign Direct Investment	FDI
Absorptive Capacity	ACAP
Potential Capacity	PACAP
Realized Capacity	RACAP
Social Integration Mechanisms	SIM

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1. Introduction

The following section aims to introduce the empirical setting of the study, the research area and the research question from which the analysis will be based on.

1.1 Background

Sustainable Development Goal 17, “Partnership for the goals”, emphasizes the necessity of international investments facilitating knowledge transfer and collaboration to ensure sustainable development, particularly in developing countries. (The Global Goals, n.d.). Hence, foreign direct investment (FDI) assumes a pivotal role in reaching the Global Goals by creating avenues for knowledge transfer between the investor and the host economy.

FDI provides capital and job opportunities to host countries (Osano & Koine, 2015), while it is ultimately the knowledge transfer enabled through FDI that results in sustained growth and development (Chen & Dahlman; Osano & Koine). This echoes the knowledge based view, which considers knowledge a critical resource and foundation for competitive advantage and business performance (Volberda et al., 2010). Further, FDI has had significant influence on developing countries in terms of knowledge upgrading, increased exports (Bhaumik et al., 2018), and improved global competitiveness (Moses, 2017).

While there exists extensive research on the topic of knowledge transfer, there has been a recent call for further research on inter-organizational and cross-border knowledge transfer between foreign enterprises and small local firms (Rammal et al., 2023). This area of research is deemed important due to the influence of knowledge transfer on economic growth (European Commission., n.d.) and sustainable development (The Global Goals, n.d.).

Hence, this thesis aims to study FDI’s effect on knowledge transfer in Kigali, Rwanda, contributing to the calls for research. The country is currently listed as a least developed country (United Nations, 2023), however Rwanda has experienced rapid growth over the past decades and is currently the second fastest growing economy in Africa with an average growth of 7,5% since 2007 (Rwanda Development Board, 2022). Part of the economic growth can be ascribed to the rising inflow of FDI, which amounted to \$399 million in 2022, or 3% of GDP (World Bank Open Data, n.d.-a; World Bank Open Data, n.d.-b). The notable increase of FDI in Rwanda, coupled with Rwanda being ranked first among twelve low-income countries in the 2023 Global Innovation Index (WIPO, 2023), sparks curiosity about the extent to which these investments facilitate the transfer and creation of knowledge within the country.

Thus, this thesis will investigate under which circumstances FDI results in effective knowledge transfer and the underlying reasons for instances in which the transmission of knowledge is unattained. To accomplish this, the study will explore the relationship between investors and local firms in Kigali to identify the capacities required for successful knowledge transfer.

1.2 Prior Research and Knowledge Gap

Research on knowledge transfer in organizations has grown remarkably over the past twenty years, due to its implications on organizational competitive advantage and navigating contemporary challenges (Argote et al., 2022). Knowledge transfer is considered to contribute to organizational performance, however the quality of knowledge transfer differs between organizations (Argote & Ingram, 2000).

A suitable absorptive capacity of the recipient organization has been proven to facilitate cross-border knowledge transfer (Bhagat et al., 2002; Bhaumik et al., 2018; Grandinetti, 2016). According to research, absorptive capacity is strengthened through internal knowledge development initiatives and active participation in networks (Bhaumik et al., 2018). Grandinetti (2016) further suggests that socio-cultural elements are critical subcomponents of absorptive capacity, however these elements can be moderated by social integration mechanisms (Björkman, 2007).

Moreover, some literature argue that there are barriers hampering knowledge transfer, for example lacking communication, group learning or trust (Sunnemark et al., 2023). There is also evidence of foreign investors not responding to local needs, which leads to missed knowledge transfer opportunities (Hain & Jurowetzki, 2018; Perez-Aleman & Feretti, 2022).

The authors found several relevant calls for research. First, as previously stated, Rammal et al. (2023) expressed a call for further research on inter-organizational and cross-border knowledge transfer between foreign enterprises and small local firms. Second, Hughes et al. (2014) requested more research on young entrepreneurial firms and the relationship between absorptive capacity, social factors and knowledge creation. Thirdly, literature on absorptive capacity is criticized for overlooking organizational benefits from knowledge obtained from external partners like investors, with the suggestion that knowledge transfer between parties can be facilitated by social integration mechanisms (von Briel et al., 2018).

1.3 Purpose and Research Question

The Rwandan government considers skills development as critical for enabling economic transformation and development. Further, they state that adopting international best practices is key to upskilling the workforce (Rwanda Development Board, 2019). In academic literature, FDI is considered to enable knowledge transfer under certain conditions (Bhaumik et al., 2018). Thus, the authors aim to gain understanding of how knowledge is transferred between foreign investors and local firms and to what extent the transfer is effective in development of new capabilities. More specifically, what capacities are needed in order to enable successful cross-border knowledge transfer.

The research question is:

How do different absorptive capacities affect cross-border knowledge transfer between foreign investors and local firms?

1.4 Main Focus and Delimitation

The focus of the thesis is to study foreign investment in local firms in Rwanda to understand what capacities influence knowledge transfer between foreign investors and local firms. The study is geographically limited to Kigali, Rwanda, which has had a high degree of foreign investment, and strong economic surge during the past two decades (World Bank Open Data, n.d.-a; World Bank Open Data, n.d.-b; Rwanda Development Board, 2022). Moreover, the study is limited to actors connected to Startups Kigali (pseudonym), a tech incubation hub for Rwandan entrepreneurs. Knowledge transfer can be studied on multiple levels, however this study will focus on the inter-organizational level of knowledge transfer, while still utilizing literature from various empirical levels.

Chapter conclusion: This thesis will examine the knowledge transfer relationship between local firms and foreign investors in Rwanda. Further examination of existing literature is needed and will follow in the subsequent section.

2. Literature Review

The following section will delve into relevant literature on the research focus. It will first explore the impact of foreign direct investment on capability building in developing countries. Second, it will discuss literature on knowledge transfer, followed by an examination of challenges in cross-border knowledge transfer. Finally, the literature on absorptive capacity related to knowledge transfer will be presented. This will offer insights into the empirical context of the study and identify relevant authors for discussing the empirical findings.

2.1 Foreign Direct Investments

FDI has been found to positively affect business creation (Kim and Li, 2014), and economic growth (European Commission., n.d.) in developing countries, primarily through its positive effect on knowledge development and through being the main source of advanced knowledge (Borensztein et al. 1998). Furthermore, FDI has complementary effects with human capital (i.e education, knowledge and skills), and only increases productivity if the host country has a minimum level of human capital (Borensztein et al. 1998). However, once transferred, firms in emerging markets replicate existing knowledge, rather than use it as a base for generating new knowledge and innovations (Vujanović et al., 2022).

2.2 Knowledge Transfer

Argote et al. (2022) defines knowledge transfer as *the process through which one unit learns indirectly or vicariously from the experience of another unit*. Knowledge sharing and technology transfer are related to knowledge transfer, and are considered subsets of knowledge transfer (Tangaraja et al. 2016; Gopalakrishnan & Santoro, 2004). For the sake of consistency, this paper will use the term *knowledge transfer*.

The success or failure to transfer knowledge can be attributed to various phenomena. For example, it has been found that firms need a certain stock of existing knowledge to acquire new knowledge and improve organizational performance (Vujanović et al., 2022; Hughes et al., 2014). Moreover, entrepreneurial firms that lack prior knowledge tend to accept information without deconstructing it, resulting in an inability to use the knowledge appropriately (Hughes et al., 2014). Moreover, trust and good relationships are considered to facilitate knowledge transfer (Sunnemark et al., 2023), while lack of common objectives, prevalent power structures, and mistrust decrease willingness to transfer knowledge (Yih-Tong Sun & Scott, 2005; Sunnemark et al., 2023). Research also found that ambiguous communication hindered understanding between knowledge transfer parties, diminishing

knowledge transfer ability (Sunnemark et al., 2023). Moreover, if the transferring party perceives a lacking knowledge of the receiver, the transfer may be impeded (Yih-Tong Sun & Scott, 2005; Perri and Peruffo, 2016). Furthermore, certain types of knowledge tend to be culturally and socially embedded, making it tacit and difficult to transfer. This issue is particularly prevalent in cross-border knowledge transfer where there are large cultural barriers (Bhagat et al., 2002).

2.3 Cross-Border and Cross-Cultural Knowledge Transfer

Cross-border knowledge transfer may be inhibited by dissimilar knowledge bases or lacking government policies (Reagans & McEvily, 2003; Volberda et al., 2010; Osabutey et al. 2014). However, positive synergies appear when the knowledge transfer includes parties with complementary, rather than similar capabilities (Björkman et al., 2007; Makkonen et al. 2018). Additionally, the capabilities that a firm inhabits are largely influenced by their national environment (Björkman et al., 2007). Research indicates that differences in language, business culture and institutional systems may hamper cross-border knowledge transfer (Makkonen et al., 2018), while transfer between culturally compatible actors is more efficient (Weidenfeld et al., 2016; Qi et al., 2021). In short, there needs to be a certain cultural similarity, while the capabilities should be related, although not too similar, for effective cross-border knowledge transfer (Makkonen et al., 2018).

Local entrepreneurs with international experience possess advantages in international connections, knowledge, and a unique cultural position bridging international and local contexts. Additionally, these entrepreneurs positively contribute through knowledge spillover, i.e externalities of knowledge transfer, to other local entrepreneurs (Estrin et al., 2018). These findings aligned with those of Barner-Rasmussen et al. (2014), which indicated that language and cultural skills are positively associated with ability to perform boundary spanning functions (e.g facilitating cross-border collaboration in multinational enterprises). Related to this, there have been indications of individuals re-migrating, who facilitate cross-border knowledge transfer through social proximity (i.e socio-cultural similarity, shared norms and educational background), bridging institutional distance between the two countries (Verfürth, 2022).

2.4 Absorptive Capacity and Knowledge Transfer

Knowledge transfer can be studied through a variety of different frameworks, one of the most commonly used being absorptive capacity (Asrar-ul-Haq and Anwar, 2016; Røvik, 2023), a model introduced by Cohen and Levinthal (1990), who defined absorptive capacity *as the ability to recognize new knowledge, assimilate it and apply it to commercial end*. The model was thereafter

reconceptualized by Zahra and George (2002), as a dynamic four-dimensional model with a moderating role of social integration mechanisms.

In a review on FDI and knowledge spillover, absorptive capacity is considered necessary to absorb knowledge from the investors. Furthermore, the absorptive capacity can be influenced both by factors within individual firms and institutional factors such as the education system and cultural environment (Perri & Peruffo, 2016). However, social integration mechanisms have the ability to moderate and reduce the negative effects of cultural differences connected to potential absorptive capacity (Björkman, 2007).

It has been suggested that relationships characterized by weak social ties facilitate discovery of new information by connecting a broad range of actors. However, strong social ties are preferred for absorption of complex knowledge (Todorova & Durisin, 2007). Moreover, research suggests many potential external knowledge sources, however, the most important for developing innovation capabilities being external organizations (von Briel et al., 2018). Furthermore, while social integration may strengthen the relationship between firms, it can lead to knowledge surplus, resulting in decreased performance. Moreover, knowledge obtained through strong integration is causally ambiguous, and may not always be useful (Hughes et al., 2014).

Chapter conclusion: Drawing on the existing literature, foreign direct investment contributes to knowledge transfer in developing countries, however there are obstacles hindering capability building. Moreover, absorptive capacity and social integration mechanisms appear to have a substantial effect on knowledge transfer. Thus, these concepts will be further investigated in the following chapter.

3. Theoretical Framework

The following section introduces the theoretical frame used to analyze the data and respond to the research question. First, the theory of absorptive capacity and its effect on knowledge transfer is presented. Second, social integration mechanisms and its impact on absorptive capacity is investigated.

3.1 Absorptive capacity

Inspired by previous research (Bhagat et al., 2002; Bhaumik et al., 2018; Grandinetti, 2016), absorptive capacity (ACAP) theory deems appropriate for studying cross-border knowledge transfer. The theory of ACAP was first conceptualized by Cohen and Levinthal (1990) who concluded that the firm's ACAP relied heavily on its pre-existing related knowledge. The theory was further reconceptualized by Zahra and George (2002), who emphasized its dynamic nature, and linked it to a set of organizational routines and strategic processes that can enhance ACAP. Moreover, they introduced a model with four dimensions of ACAP, grouped into two components: potential capacity (PACAP), which includes the dimensions of acquisition and assimilation, and realized capacity (RACAP), comprising the dimensions of transformation and exploitation (see Table 1). Additionally they introduced the concept of social integration mechanisms, which would affect the relationship between PACAP and RACAP (Zahra & George, 2002). This study primarily adopts Zahra and George's (2002) conceptualization due to its focus on dynamic capabilities, which is deemed important in cross-border knowledge transfer.

PACAP represents a firm's ability to evaluate and obtain external knowledge, while RACAP is its capacity to utilize the acquired knowledge. PACAP and RACAP coexist and are complementary, however, they have separate roles in contributing to competitive advantage (Zahra & George, 2002). For example, PACAP affects competitive advantage through increase of resources and capabilities, while RACAP affects competitive advantage through expansion of products and processes. While RACAP drives innovation, PACAP is necessary for obtaining and assimilating knowledge, thus ensuring sustainable business innovation (Camisón & Forés, 2010). A well-functioning PACAP does not guarantee efficient RACAP, in practice this could lead to the firm acquiring competitive knowledge but being unable to exploit it for improved organizational performance (Zahra & George, 2002). Research further suggests that PACAP is positively influenced by organizational mechanisms related to coordination capabilities, such as cross-functional interfaces, while RAPAC is mainly associated with organizational mechanisms connected to socialization capabilities, such as connectedness (Jansen et al. 2005).

As previously stated, ACAP is made up of four sub-dimensions (see Table 1). Acquisition relates to the capability to identify and value new external knowledge (Zahra & George, 2002), as well as seeking out and acquiring knowledge, resulting in a deeper and broader knowledge base (Sancho-Zamora et al., 2021). Assimilation pertains to procedures within a company that enable analysis, handling, interpretation, and comprehension of externally acquired knowledge (Zahra & George, 2002). It involves incorporating knowledge into existing routines and integrating it into the organizational structure (Sancho-Zamora et al., 2021). Transformation is the internalization of new external information, and signifies the capacity to cultivate and enhance procedures that help integrate pre-existing knowledge with the new knowledge (Zahra & George, 2002). It creates new perspectives on how to improve existing products or processes, or competitively enter new markets (Sancho-Zamora et al., 2021). Finally, the exploitation capability relates to routines enabling companies to improve, expand, and capitalize on existing competencies, or generate new ones, resulting in enhanced business performance (Zahra and George, 2002).

Table 1: Dimensions of Absorptive Capacity

Components	Dimensions	Components	Themes
Potential Capacity	Acquisition	Prior investments	Risk tolerance, CEO support, Education, R&D investment
		Prior knowledge	Knowledge repositories, Knowledge intensity, Experience of R&D investment, Last employee diploma
		Commitment to gather knowledge	Intensity, Observation, Speed
		Direction	Knowledge catalyst
	Assimilation	Understanding	Interpretation, Comprehension, Formalisation
Realized Capacity	Transformation	Internalisation	Recodification, Questionning, Adaptability
	Exploitation	Use Implementation	Harvesting resources, Core competencies

Source: Zahra and George (2002)

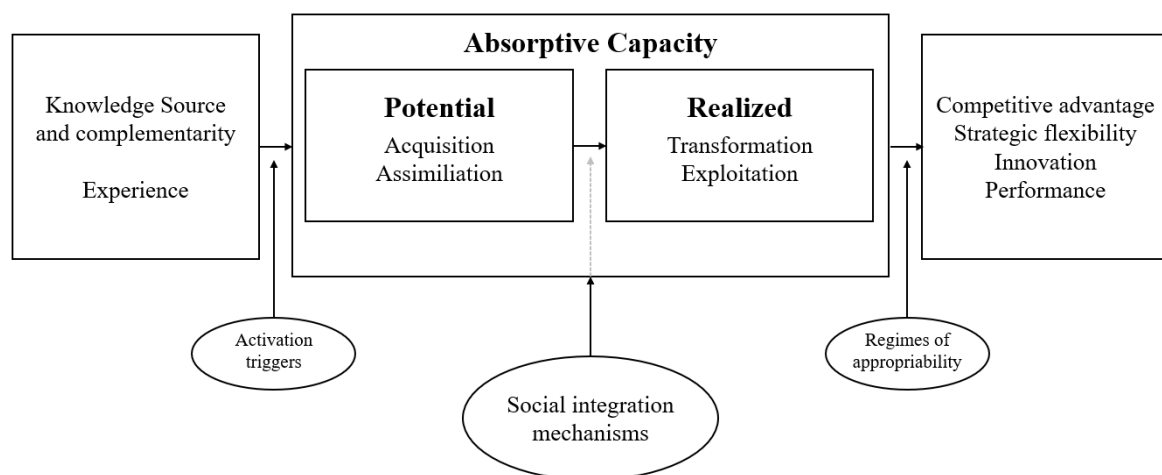
3.1.1 Social Integration Mechanisms

Zahra and George (2002) conceptualized the ACAP model as dynamic, connecting antecedents, moderators, and outcomes (see Figure 1). The model emphasizes external knowledge sources as critical antecedents of ACAP, and competitive advantage as an outcome (Zahra & George, 2002).

The model introduces the concept of Social Integration Mechanisms (SIM), which are processes and mechanisms that stimulate social integration between organizations, facilitating transfer and

exploitation of knowledge (von Briel et al., 2018; Zahra & George, 2002). However, structural, relational, and cognitive barriers can also hamper knowledge transfer (Zahra & George, 2002). In the conceptualization by Zahra and George (2002), SIM is described as mechanisms moderating the relationship between PACAP and RACAP, indicated by the gray arrow in Figure 1. However, Todorova and Durisin (2007) argue that SIM not only moderates PACAP to RAPAC, but also directly affects all four dimensions, indicated by the black arrow in Figure 1, and confirmed by later research (von Briel et al., 2018; Armstrong & Lengnick-Hall, 2013; Vega-Jurado et al., 2008). The authors will thus adopt the approach of SIM moderating the gap between PACAP and RACAP, and affecting all four dimensions, since this conceptualization is in line with the empirical findings.

Figure 1: A model of Absorptive Capacity

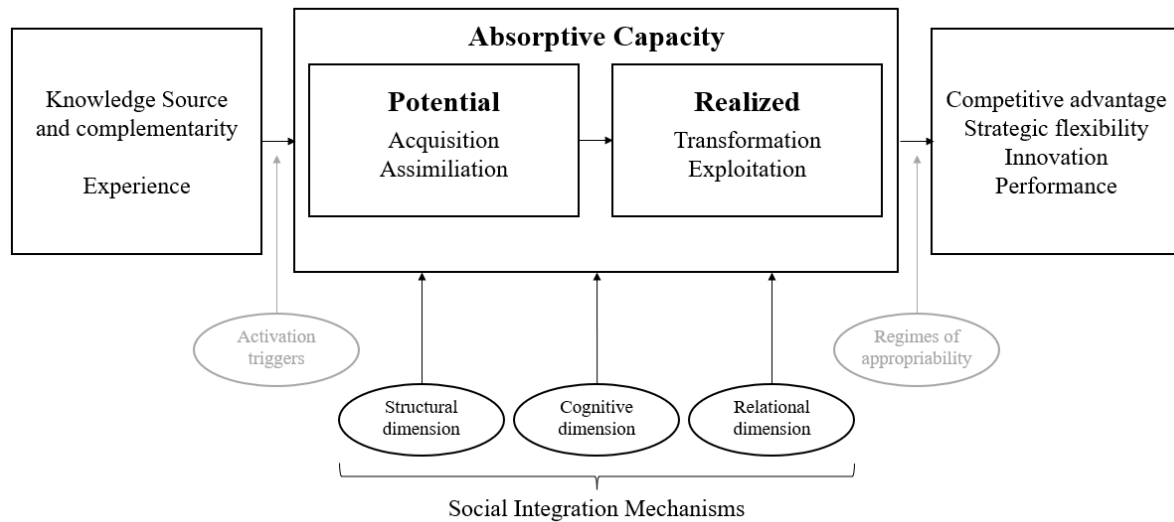


Source: Zahra and George (2002); Todorova and Durisin (2007)

3.1.2 Social Capital as a Proxy for Social Integration Mechanisms

While SIM is a complex concept, there is no consensus regarding the underlying dimensions of SIM, or their effect on the different stages of ACAP (von Briel et al., 2018; Armstrong & Lengnick-Hall, 2013). However, one of the key influences in the conceptualization of SIM was the structural, relational and cognitive barriers described by social capital researchers Nahapiet and Ghoshal (1998). SIM was thus partly derived from the conceptualization of the social capital theory (Zahra & George, 2002). Upon initial analysis of the data, socio-cultural elements were observed to play a central role in the transfer, thus it was deemed appropriate to utilize the social capital dimensions as a proxy for SIM (see Figure 2).

Figure 2: The Absorptive Capacity Model and the Dimensions of Social Integration Mechanisms



Source: Zahra and George (2002); Todorova and Durisin (2007); Nahapiet and Ghoshal (1998); Helgegren and Viktorsson (2023)

3.2 The Dimensions of Social Integration Mechanisms

Nahapiet and Ghoshal's (1998) conceptualization of social capital views knowledge as socially embedded and part of complex social processes, and comprises three interrelated dimensions: the relational, structural, and cognitive dimensions. These dimensions will be used as a proxy for SIM in ACAP theory.

The structural dimension of SIM encompasses the arrangement of connections among network actors and consists of mechanisms such as network ties, network configuration, and appropriable organizations (see Table 2). Strong relationships between the network actors have a positive effect on the motivation to exchange knowledge (Nahapiet & Ghoshal, 1998). Building on existing theory, Burt (2004) introduced the concept of structural holes, which are gaps between network clusters that can be exploited to access new information and resources. He argued that individuals or organizations that bridge structural holes have a competitive advantage, as they have unique access to diverse information and resources (Burt, 2004). Further, researchers identify background and knowledge heterogeneity as mediating between structural holes and innovation, thus the intended effect of gaining access to new information through structural holes becomes insignificant when there is a high degree of heterogeneity among the knowledge transfer parties (Zheng, 2010).

The cognitive dimension emphasizes that a shared cognitive framework between the actors facilitates meaningful communication, subsequently enabling knowledge transfer. A shared cognitive framework is constructed through developing shared language, vocabulary and narratives, (see Table 2) (Nahapiet

& Ghoshal, 1998). In a reconceptualization, Inkpen and Tsang (2005), highlighted the importance of shared goals and shared culture within the cognitive dimension. Shared goals are related to the members' level of shared understanding of the organizational objectives, while shared culture refers to behavioral norms influencing relationships. Cultural barriers arise when one party pushes their own methods and practices (Inkpen & Tsang, 2005). This is particularly important in cross-border knowledge transfer as comprehending and adapting to the local culture is essential to ensure that the knowledge transfer is not impeded by cultural conflicts (Bhagat et al., 2002).

The relational dimension of SIM has a particular influence on three of the conditions for knowledge transfer: access to knowledge, anticipation of value, and motivation to engage in knowledge creation. The relational dimension is constructed of four sub-dimensions: trust, norms, obligation and identification (see Table 2) (Nahapiet & Ghoshal, 1998). A strong relational dimension allows for open transfer of knowledge between parties without concerns for opportunistic behavior from the other parties (Bharati & Chaudhury, 2018).

Table 2: The Dimensions of Social Integration Mechanisms

Dimensions	Sub Dimensions	Explanation
Structural Dimension	Network ties	Strong social ties are assumed to provide access to resources and create opportunities for knowledge transfer.
	Network Configuration	Relates to the linkages among network members. Factors such as hierarchy, density and connectivity affect knowledge transfer.
	Appropriable organizations	Appropriable organizations can provide opportunities beyond the intended purpose, such as network ties, resources, or access to knowledge. Some organizations may also inhibit knowledge transfer due to organizational routines.
Cognitive Dimension	Shared codes and language	Shared language between parties facilitates the ability to access information. Linguistic codes establish a framework for observing and interpreting our surroundings. Thus, shared language and codes create shared conceptual frameworks which facilitates knowledge transfer and improves ability to combine information.
	Shared narratives	Shared narratives, such as shared stories and metaphors, facilitate the creation and exchange of meaning, and enable a common understanding and perception of events, thus facilitating transfer of tacit knowledge.
Relational Dimension	Trust	Trust has a critical effect on the actor's willingness to transfer knowledge and cooperate.
	Norms	Norms can be described as a degree of consensus in the social system, and shared norms of collaboration are foundational for enabling knowledge transfer.

	Obligations	Aligned obligations and expectations have a positive effect on cooperation and the access for parties to exchange and combine knowledge.
	Identification	Group identification positively influences the motivation to combine and exchange knowledge by enhancing concern for collective processes and outcomes.

Source: Nahapiet and Ghoshal (1998)

3.3 Theory Summary

The thesis will use the ACAP model, with a reconceptualized version of SIM (see Figure 2), as the theoretical framework to analyze capacities influencing knowledge transfer between investors and local firms. In the model, SIM is expected to have a direct effect on both PACAP and RACAP, and a moderating effect between them. Thus, the ACAP of the recipient firm, combined with its SIM, affects the quality of the knowledge transferred. If the firm has high ACAP and high SIM, it will result in high quality of knowledge transferred, which is expected to contribute to increased organizational performance and create a competitive advantage according to the model (see Figure 2).

3.4 Theory Discussion

As previously stated, the ACAP model established by Zahra and George (2002) partially derived the concept of SIM from social capital theory as described by Nahapiet and Ghoshal (1998). However, the refined model (see Figure 2), is to the authors knowledge a novel conceptualization of SIM, constructed by the authors. When investigating cross-border knowledge transfer, the social and cultural aspects of SIM were deemed important. The refined model was thus constructed to better capture and analyze the data.

While the refined model expands possibilities to investigate the capacities enabling knowledge transfer, there are limitations to the theory. First, it is a novel conceptualization of SIM which could lead to a lack of support for the empirical validity of the model. Second, the model primarily investigates informal SIM, and might neglect valuable insights regarding formal SIM.

Chapter conclusion: This section has presented the absorptive capacity model, within which social integration mechanisms have been reconceptualized, using social capital theory as a proxy. In the following section, the research approach will be presented.

4. Methodology

The following section explains the methodological decisions that have shaped the design and outcome of the study, aiming to provide context and bring authenticity.

4.1 Research Stance

4.1.1 Research Paradigm

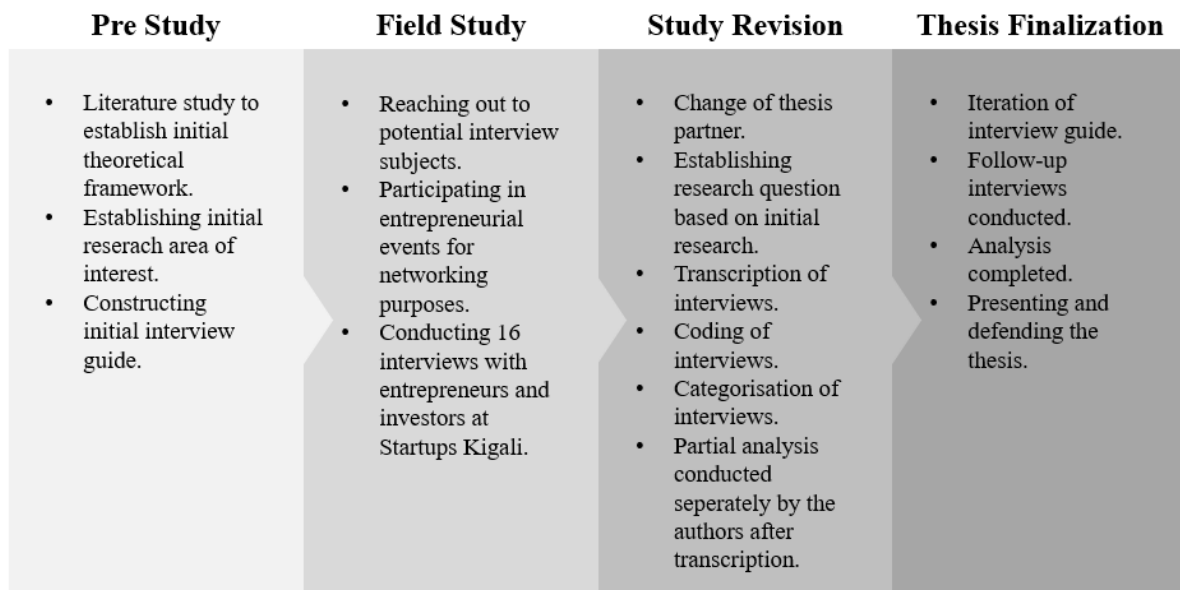
This study adopts an interpretivist ontological perspective, which emphasizes how individual circumstances and backgrounds influence the creation of different social realities. The purpose of interpretivist research is to create nuanced interpretations and understanding of social realities through the perspectives of different groups (Saunders et al. 2019). The diverse sample, encompassing various professional and cultural backgrounds, warrants an interpretivist perspective to add nuance to the analysis.

With the interpretivist paradigm in mind, the study adopts a qualitative design, to capture nuanced answers and different interpretations of reality on both sides of the studied relationship. Furthermore, an abductive approach was adopted, consisting of developing theory in tandem with the interview and analysis process.

4.1.2 Research Design

The research question was formulated using the emerging technique, i.e allowing the research focus to emerge while engaging with the study environment (Saunders et al. 2019). Furthermore, the study adopted a cross-sectional approach, and was conducted during a two month field study in Kigali, Rwanda, with Startups Kigali as a base, followed by more specified follow-up interviews a few months later. With the abductive approach in mind, the data was transcribed and coded after collection, and based on the observed patterns and themes the theory was decided. Subsequent follow-up interviews were held, after which the theory was further modified (see Figure 3).

Figure 3: Research Design



4.2 Data Collection

4.2.1 Sample

The data consist of 18 interviews in total, 16 initial interviews and two follow-up interviews. The sampling was made with the intention of obtaining diverse data, in terms of experience and roles. Hence, both local entrepreneurs and foreign investors based in Rwanda, and a few individuals with inter-cultural backgrounds, were interviewed. The sample contains individuals from various sectors, and emphasizes gender diversity (see Appendix A). The diverse sample allowed for nuance and reduced skewed narratives. This permitted broad selection criteria, requiring interviewees with experience in local entrepreneurship, involvement in raising foreign capital, or experience as foreign investors in Rwanda. The initial interviews were arranged through cold calling approximately 40 organizations found either online or in person at Startups Kigali (see Appendix B). Subsequently utilizing snowball sampling, each interviewee was asked if they had any recommendations for more interviewees.

To gather more data related to the narrowed down research focus, the authors conducted second-round interviews by contacting five of the initial interview subjects, of which two agreed to a second interview. The authors selected interviewees who had previously provided the most insightful answers related to the new research focus. This allowed for follow-up questions and testing if previous answers still held true. After the follow-up interviews, the data was deemed saturated, i.e further interviews would contribute little additional insight (Bryman & Bell, 2011). The individuals who

conducted a follow-up interview are marked with an asterisk in Table 3. For further explanation of the interview codes, refer to Appendix A.

Table 3: Interview Table

Code name	Investor/Entrepreneur	Industry	International experience
1RE β	Entrepreneur	HR	Yes
2FI β	Investor	Philanthropy	Yes
3FE β	Entrepreneur	Construction	Yes
4RE	Entrepreneur	Marketing	No
5RE	Entrepreneur	Textile	No
6FE β *	Entrepreneur	Healthcare	Yes
7FI β	Investor	Multiple	Yes
8RE	Entrepreneur	Tech	No
9RE	Entrepreneur	Health-tech	No
10RE	Entrepreneur	Food	No
11RE	Entrepreneur	Agriculture	No
12FI β *	Investor	Impact investment	Yes
13RG β	Government	Public sector	Yes
14RE	Entrepreneur	Sportsbetting	No
15RI β	Investor	VC firm	Yes
16RE	Entrepreneur	Non-profit, strategy and communication	No

4.2.2 Interview Design

After an initial literature review, an interview guide (see Appendix C) was created to explore the initial interests of knowledge transfer, investor-investee relationships, CSR, and formal reporting. Initial interviews highlighted knowledge transfer, leading to a refined research focus. Upon revising the research focus, a new interview guide (see Appendix C), specifically targeting knowledge transfer was designed for follow-up interviews (see Figure 3). Employing a qualitative approach with semi-structured interviews, interviewees were encouraged to freely express their experiences and interpretations, creating an opportunity to ask follow-up and clarifying questions. The authors asked

broad questions initially, subsequently narrowing down on the areas of interest, as well as omitting leading questions to avoid bias in the data.

4.2.3 Interview Setting

The study was conducted as a Minor Field Study in Rwanda, which allowed for interviews on site with investors and local firms at Startups Kigali. 15 of the interviews were conducted in person, and three online. The emphasis on having in-person interviews allowed for greater ability to see the respondents reactions and adjust the interaction accordingly, encouraging trust and open discussion, leading to richer and less biased data (Saunders et al. 2019).

Fifteen interviews were conducted with both researchers present, which allowed for higher reliability and more perspectives in the interpretation process. The interviews were recorded with permission from the interviewees. All interviews were conducted in English as it was the shared language for the interviewers and the interviewees.

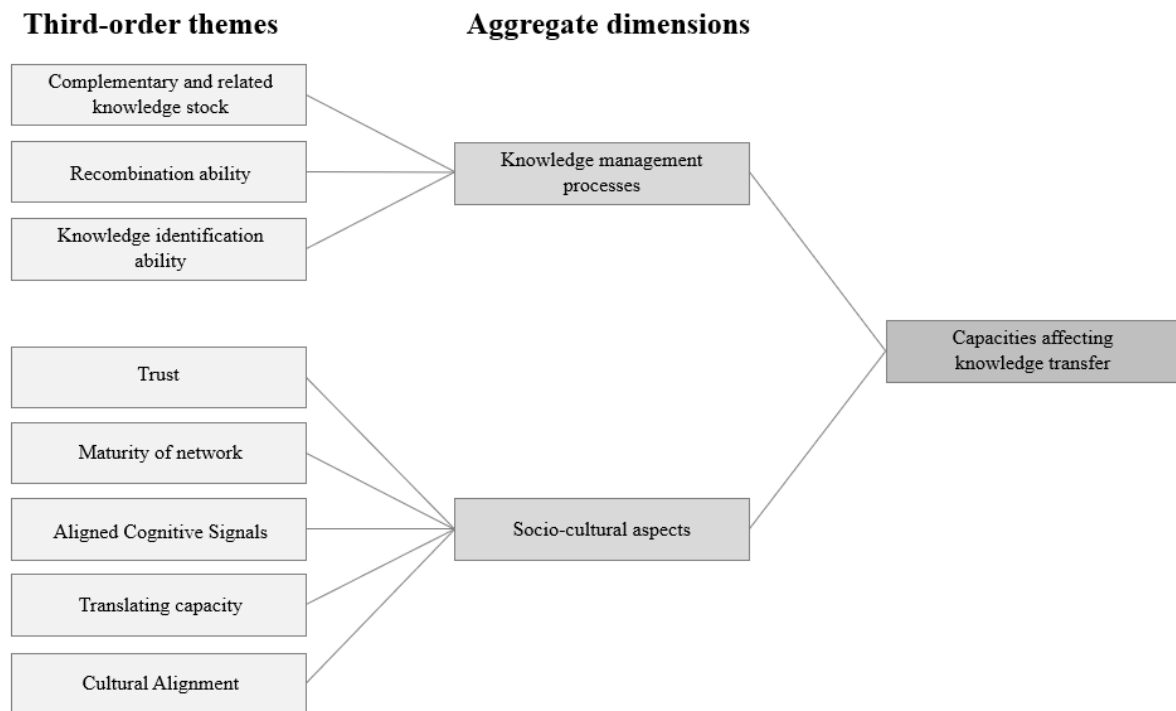
4.2.4 Interview Transcription

All interviews were transcribed using a transcription tool, subsequently both authors corrected errors and added context separately, using the recordings. The interviews were transcribed word by word to maintain the original meaning of the statements. For example, anytime something needed to be clarified both the original and the clarifying statement were transcribed.

4.2.5 Semantic Categorization

To analyze the empirical data, the authors used semantic categorization. The initial coding of the interviews produced 173 first-order themes (see Appendix D). These were divided into 29 second-order themes which were derived to eight third-order themes, identified as eight capacities affecting cross-border knowledge transfer. Last, these eight capacities provided the foundation for the theoretical framework used to analyze the data, in accordance with the abductive approach. The aggregate dimension of knowledge management processes primarily corresponds to the absorptive capacities and the dimension of socio-cultural aspects to social integration mechanisms, although it is important to note that the themes and dimensions are interconnected, which will be further analyzed in section 6.2.

Figure 4: Overview of Coded Empirical Findings



4.3 Ethical Considerations and Implications

To ensure the safety of interviewees, the four areas of ethical principles, i.e minimized harm to participants, informed consent, respect of privacy and avoiding deception (Bryman & Bell, 2011), were incorporated throughout the study. For example, the in-person interviews allowed for better ability to understand how the study was perceived, and whether it caused discomfort for the participants. In addition to explaining the purpose of the thesis before the interview, the authors started each interview with an introduction to the study and invited the interviewees to ask any questions or comment on the work throughout the process (see Appendix C), which helped avoid deception and ensure informed consent. Subsequently, they were informed of the data protection applicable and their right to at any point withdraw consent during the production of the thesis, and were asked to fill in a consent form in accordance with GDPR. Furthermore, the interviews have been anonymized and material which might be traced back to the participants has been excluded, as not to risk their privacy.

4.4 Method Criticism

The interpretivist paradigm is subjective and emphasizes empathy and ability of the researchers to understand the interviewees' interpretations of reality (Saunders et al. 2019). With the cross-cultural nature of the study in mind, there might be limitations to the author's ability to understand cultural

nuances in the responses. Furthermore, the subjective approach may reduce transferability, as it depends on the unique perceptions of individuals, despite detailed research descriptions.

Moreover, the authors recognize the risk of bias of snowball sampling, since respondents may recommend interviewees similar to themselves, which can skew the data (Saunders et al. 2019). However, due to time constraints and a limited network, snowball sampling was deemed appropriate to access individuals aligning with the selection criteria.

During interviews, the issue of cultural differences in norms and communication styles emerged, highlighting how Rwandans tend to be conflict averse and avoid expressing negative sentiments around foreigners. As foreigners and strangers to the interviewees, the authors acknowledge the possibility of omitted or contorted information in the interviews. Moreover, the authors recognize possible communication barriers when conducting interviews in a second language.

Chapter conclusion: In this chapter, the research approach has been explained and the semantic categorisation of the empirical findings have been presented. Thus, the following section will display the empirical findings according to the semantic categorisation and through the lens of absorptive capacity and social integration mechanisms.

5. Empirical Results

The following section presents the empirical findings which are structured in accordance with the theoretical framework of absorptive capacity and social integration mechanisms, and the third-order themes from the semantic categorization.

5.1 Absorptive Capacity

5.1.1 Potential Capacity

Knowledge Identification Ability

Six of the local interviewees view their investors as a knowledge source from which they can acquire necessary knowledge when it comes to business development.

*I just have my (foreign) mentor [...], he helps me with how to have a good business model, marketing strategy, and business plan. **9RE***

The idea of foreign investors as a source of knowledge is also shared by the government, who create initiatives such as Workforce Training Initiative (pseudonym), to incentivize the acquisition of foreign knowledge by local firms and individuals.

*Before the (textile) company started there were no (textile) companies, but now we have different local textile companies, and most of them have been trained by that company. The government has provided an incentive on vocational training which supports companies to train employees so that they can have hands-on experience, and (we) fund up to 70% of the costs of training. **13RGβ***

Lack of necessary initial skills on the local side was mentioned in eleven interviews. It is considered a problem in terms of attracting investment, as entrepreneurs are perceived to lack sufficient experience.

*The education system is quite far behind neighboring countries. This is why we train everyone (our employees) from scratch. **7FIB***

Complementary and Related Knowledge Stock

10 interviewees explicitly raised the issue that certain knowledge is more Western or Rwanda specific, and not always applicable in a different setting.

Investors give me the advice that they think suits best, but it's not always appropriate. The only challenge that I face when working with foreign investors is the lack of understanding of the local context. 11RE

There are however six instances where foreigners are described as aware of their lacking local knowledge, which is considered a step towards increasing collective knowledge.

A lot of our foreign investors know that they don't know about the local context. [...] I appreciate their (investors) knowledge and that they are aware that they don't know what they don't know. 3FEβ

5.1.2 Realized Capacity

Recombination Ability

In relation to the issue of applicability of foreign knowledge, four interviewees preferred if foreigners acquire local knowledge and combine it with their existing knowledge, transforming it into locally applicable knowledge.

What you should be doing (as an investor) is asking how they're doing things, and then connect how they're doing things and how you do things in other countries. 16RE

One investor emphasized timing of training, that is, training firms before investing to avert risk and prepare entrepreneurs for investment. The interviewees believed it led to sufficient business knowledge of the entrepreneurs, and combined foreign and business knowledge before they invested.

*We are doing training before rather than after we invest in someone. We also talk about product/market fit, because at an earlier stage they are not necessarily at their final product yet. (...) Sometimes they (companies) come up with an idea and chase the market to find their right customers, while the ideal way to do it is to discover a problem and then come up with a solution that you deliver to the market. 12FIβ**

Furthermore, entrepreneurs that successfully obtained foreign capital focused on improving capabilities, by attempting to develop external knowledge further.

There's a two way street. Can we use the technology that is available elsewhere, but also proactively develop it on ground as well? 5RE

Lastly, certain interventions to increase the knowledge stock were deemed successful beyond the boundaries of the initial venture or project.

They've (investors) benefited from the program (Workforce Training Initiative). They (investors) have trained locals to have the knowledge (production skills within the textile industry), and after the training, some of them were hired by the company (that trained them). Others created their own jobs by founding new companies, or by finding another employer.

13RGβ

5.2 Social Integration Mechanisms

5.2.1 Structural Dimension

Maturity of Network

Five of the interviewees found the existing network for entrepreneurs underdeveloped and less accessible than in developed countries.

The Rwandan market is fragmented and small [...] the ecosystems will sort of develop over time. **15RIβ**

5.2.2 Cognitive Dimension

Aligned Cognitive Signals

In seven interviews, the diverse cultural backgrounds of investors and entrepreneurs were described as hampering knowledge transfer, particularly due to their linguistic codes.

I'd say each culture has its own expectation of what you mean if you leave something ambiguous. **6FEβ***

In addition to cultural linguistic barriers, six interviewees emphasized the importance of adopting a corporate language, a skill which some local entrepreneurs lacked.

There are really intelligent young Rwandans, but they lack that "know how" of how to express themselves (to investors) and how to move between international and local contexts.
1REβ

Translating Capacity

Using the same communication style created a sense of commonality. According to interviewees, this could for example be developed through having an international background or being well traveled.

*When you're doing business there needs to be a level of familiarity with them, and I think when being in an international context with international investors there is a certain type of communication style which makes them feel familiar and feel comfortable [...]. You only really develop that from being in an international environment. **6FEß***

In order to overcome potential communication barriers in cross-cultural contexts, some of the interviewees believed awareness of how their communication is received and a willingness to change was critical.

*You have to be aware that others' way of communicating is having an effect on you and that you may find it strange, but how you're doing things is equally strange to them. I think a willingness to change our communication style needs to be there as well. **6FEß****

Furthermore, from seven interviews, it became clear that certain individuals had hybrid experience (e.g. foreigner with lengthy local experience, or local with foreign experience). These individuals were described as being able to translate between local and foreign environments and knowledge.

*Our founder and I have been abroad for a long time, so there is an understanding of both cultures, and there is a way that we can translate our story in a way that resonates with investors that come from a different context. **7FIß***

To align language and behavior between cultures, two of the interviewees shared that they had implemented cultural onboarding to prevent misunderstandings. This approach seemed to yield sustainable results.

*When we joined the company, we were onboarded, not only in technology but also in the culture and traditions of the company. **8RE***

*What we ended up doing was hiring a consultant to come in and retrain our team on language, expectation setting, timeline management etc. We realized that it was a function of repetition. By the end of the project, we saw a complete transformation of the internal lingo, [...] and now it seems to be self-sustaining. **6FEß****

5.2.3 Relational Dimension

Trust

Trust was brought up in six interviews as a determining factor for enabling a good investor-entrepreneur relationship, enabling problem solving and knowledge combination.

But it (investor/entrepreneur relationship) is primarily built on trust and faith in our ability to come up with their greatest solution. 6REβ

There were descriptions of lacking trust, where foreigners felt like they were deceived by local institutions. As illustrated below, one of the issues behind the mistrust could be derived from asymmetric access to certain information.

I think that Rwanda is one of the hardest markets to operate in as a foreigner, because as a foreigner you're never really told the truth or the full story. I tell investors that are interested in coming here to not believe anything that the government tells them. Their job is to sell you something that may or may not exist. There are a lot of opportunities here, but you have to find it yourself, it's not what they tell you. 7FIβ

Cultural Alignment

Moreover, there are cultural skills that play into the output of the relationships. One interviewee for example found that their international experience was beneficial in managing corporate relationships, since they were able to better adhere to the behavioral norms of the investors.

(Because of international experience) it is easier to understand what they (investors) want, for example taking a partner out to dinner. There are situations where soft skills end up being needed in every day-to-day business activities. 1REβ

Potential issues arise from diverse norms in terms of communication patterns in six interviews, due to cultural differences. For example, the Rwandan culture was described as more conflict averse than the culture of the investors, which led to communication problems, and inhibited knowledge transfer.

I've noticed that there is always a cultural barrier when working with foreigners, [...] not in terms of speaking English, but in communication style. For example, in Rwanda when we are communicating and the tension is rising, we will just go quiet [...] and that is one kind of communication barrier. 8RE

Other central issues concern the value of knowledge and recognition of knowledge gaps. Five interviews describe situations where foreigners disregard local knowledge, and value knowledge from their own country and experience higher than the local. The different knowledge bases can decrease the sense of identification between locals and foreigners and thus decrease the motivation of exchanging and combining knowledge, ultimately hindering knowledge transfer.

*There is really a lot of superiority when it comes to that (knowledge transfer). Because investors are coming from a developed country to Rwanda with a lot of money, so they think that they know best. **16RE***

Lastly, in the situations where local and foreign knowledge are combined, it is considered effective knowledge transfer relationships, where capabilities are increased for both entrepreneurs and investors.

*It's a two way street. We transfer knowledge in terms of operating in Africa and what that entails, and they (investors) transfer knowledge in terms of overall business management, growing a business etc. **1REβ***

Chapter conclusion: In the empirical findings, eight key capacities have been presented within the theoretical framework. These capacities will be further analyzed in the analysis section.

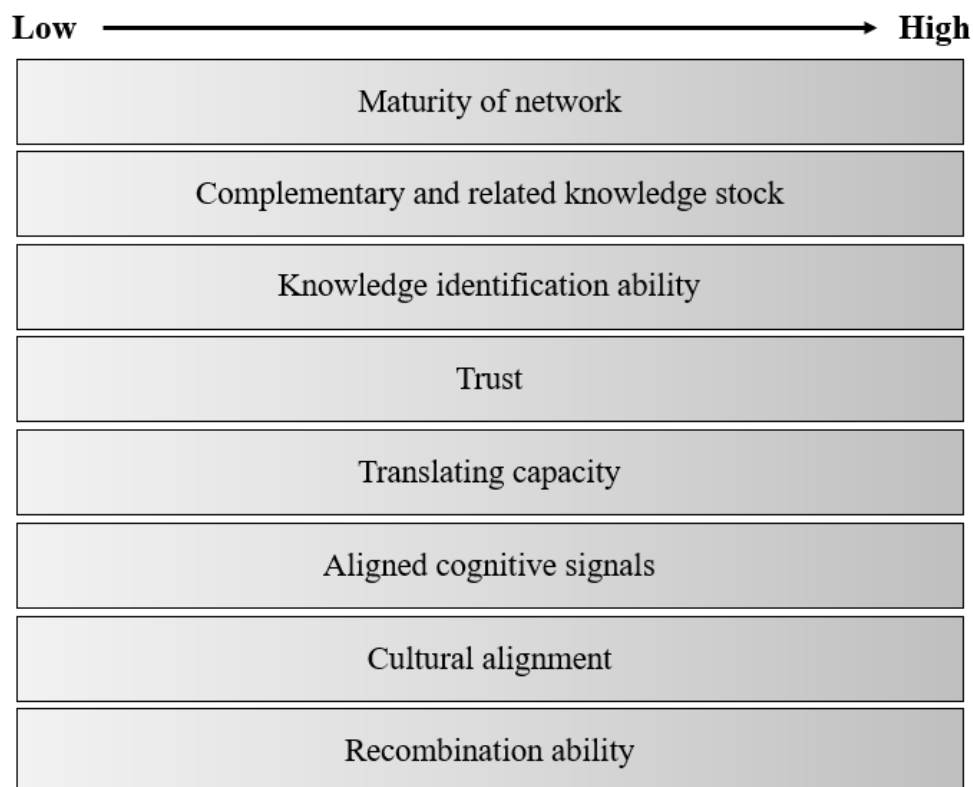
6. Analysis

In the following section, the empirical findings will be studied through a two-level analysis. First, the observed capacities will be presented. Second, the underlying dynamics and how the capacities interact will be studied.

6.1 Observation: Identifying Key Capacities in Knowledge Transfer

The identified capacities present barriers or enablers to the transfer of knowledge, depending on the degree to which they are present. These capacities are summarized in Figure 5.

Figure 5: Capacities Enabling Knowledge Transfer



Source: Hellegren and Viktorsson (2023)

Knowledge identification ability, exemplified by 9RE and 13RGβ, is the ability to recognize a need or opportunity for new knowledge. This capacity initiates knowledge transfer, serving as the precursor to acquiring new knowledge. *Complementary and related knowledge stock* enable understanding of new knowledge, and the ability to transfer appropriate knowledge, as illustrated by 11RE and 3FEβ.

Recombination ability concerns the capacity of combining existing and acquired knowledge, for better applicability in the local environment and a potential competitive advantage of new knowledge, as

illustrated by 5RE and 16RE. *Trust* was brought up by 6RE β , as foundational for the knowledge transfer relationship, although lack of trust, exemplified by 7FI β , could arise due to asymmetric knowledge resources and sources of information. 15RI β raised the issue of *maturity of network*, where the under-developed networks led to lower access to knowledge. Moreover, *aligned cognitive signals* were emphasized, 1RE β and 6FE β * suggested that using the same linguistic codes is an important determinant to attracting investment and exchange knowledge. Related to aligning cognitive signals, combined local and international experience could bridge culturally determined communication gaps, and a *translating capacity* was identified. This capacity could stem from international experience, as mentioned by 7FI β and 6FE β , or cultural onboarding, as reported by 8RE and 6FE β *. Finally, *cultural alignment* was identified to facilitate knowledge transfer as it fosters mutual understanding through shared norms, as exemplified by 8RE and 1RE β .

Answer to research question part one: There are eight key capacities, as seen in Figure 5, that affect cross-border knowledge transfer.

Although this provides a surface level answer to the research question, the capacities and their influence can be further understood through the lens of absorptive capacity and social integration mechanisms, which will be analyzed in the following section.

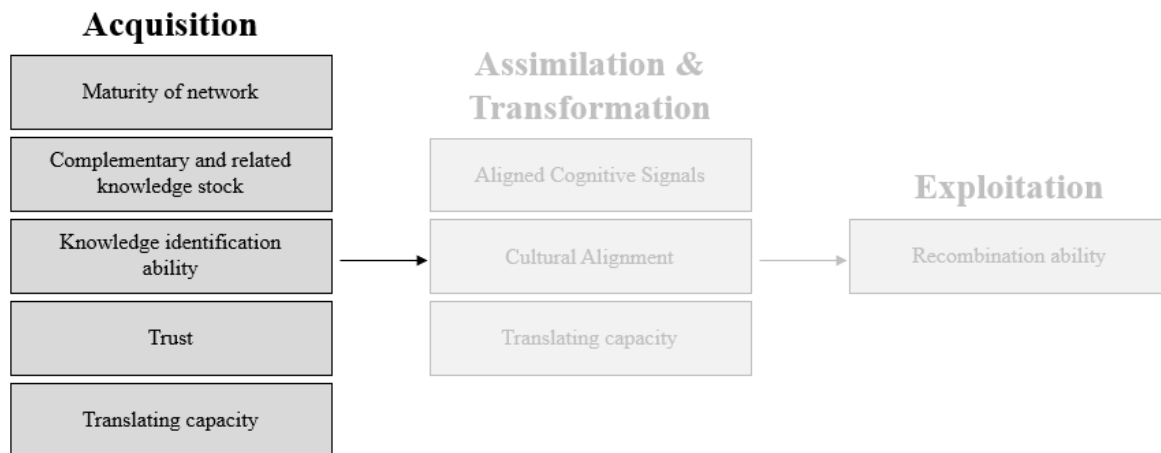
6.2 Process: Understanding the Dynamics of Knowledge Transfer Capacities

Studying the empirical data, the eight key capacities were more or less prevalent in different stages of the knowledge transfer process. Thus, this section is divided into three different stages: acquisition, assimilation and transformation, and exploitation, where the different capacities and their interconnectedness will be explained.

6.2.1 Acquisition Challenges: Knowledge Stock and Social Integration Mechanisms

The first section will focus on maturity of network, complementary and related knowledge stock, knowledge identification ability, trust and translating capacity, which are primarily connected to the acquisition stage of absorptive capacity (see Figure 6).

Figure 6: Key Capacities in the Acquisition Stage



On the local side, institutional factors affect *related knowledge stock*, particularly in terms of education, which does not align with foreign expectations. Prior knowledge is the foundation of absorptive capacity (Cohen & Levinthal, 1990), thus perceived lack of prior knowledge stock creates a poor impression on foreign investors which may prevent the acquisition of knowledge. It further leads to lowered assimilation and recodification abilities, as the deconstruction and reconstruction of complex knowledge is inhibited (Hughes et al., 2014). This echoes Perri and Peruffo (2016), who indicated that absorptive capacity may be influenced by institutional factors, such as education, and not just organizational level factors.

However, locals demonstrated the ability to recognize lack of knowledge and the value of external foreign knowledge, i.e. *knowledge identification ability*, as illustrated by 11RE. This is according to ACAP theory, a cornerstone of acquiring knowledge (Zahra & George, 2002). However, issues in acquiring knowledge arose due to low *network maturity*, characterized by low density and loose ties, which are considered structural holes according to Burt (2004). The ability to utilize structural holes to access diverse knowledge sources is low, with the exception of actors with translating capacity. This creates a low access to knowledge, as noticed by 6FEβ*, which prevents broadening of the knowledge base (Sancho-Zamora et al., 2021). Hence, even though knowledge identification ability is high, the underdeveloped social integration mechanisms in the form of networks diminishes the ability to acquire knowledge.

Furthermore, the *complementary knowledge stock* of investors is limited in terms of local market knowledge. Some interviewees assigned this to a perceived knowledge superiority of the investors. Power structures have previously been identified as a potential barrier to knowledge transfer barriers (Yih-Tong Sun & Scott, 2005; Sunnemark et al., 2023), and knowledge superiority could play into this dynamic. In terms of social integration, this issue could be explained as the investors having low identification (Nahapiet & Ghoshal, 1998) with local entrepreneurs, thus devaluing their knowledge.

Furthermore, hierarchies within network configuration (Nahapiet & Ghoshal, 1998), may inhibit knowledge transfer. The investors hold the equity, which creates network hierarchies. According to theory, this can reduce knowledge transfer ability, as pushing one's own methods increases cultural barriers (Inkpen & Tsang, 2005). Thus, the low identification on the investor side with local entrepreneurs, and the perceived superiority of foreign knowledge combined with network hierarchies, creates a reduced ability to bridge cultural barriers in the transfer process.

Business terminology is a precursor to knowledge transfer, illustrated by 1RE β and 6FE β^* . For example, lacking business terminology was deemed disadvantageous when communicating with foreigners, which affected investments and quality of transferred knowledge due to perceived lack of capabilities. This shows how a low degree of shared language impedes knowledge acquisition abilities, as indicated by Nahapiet and Ghoshal (1998). A *translating capacity* could help facilitate knowledge transfer. For example, international experience helped bridge communication barriers and access external knowledge. Thus, to acquire knowledge, intercultural experience influencing codes and language was crucial. This is in line with Zheng (2010), who determined that knowledge background mediates structural holes. In this study, individuals with inter-cultural backgrounds are able to reach across networks.

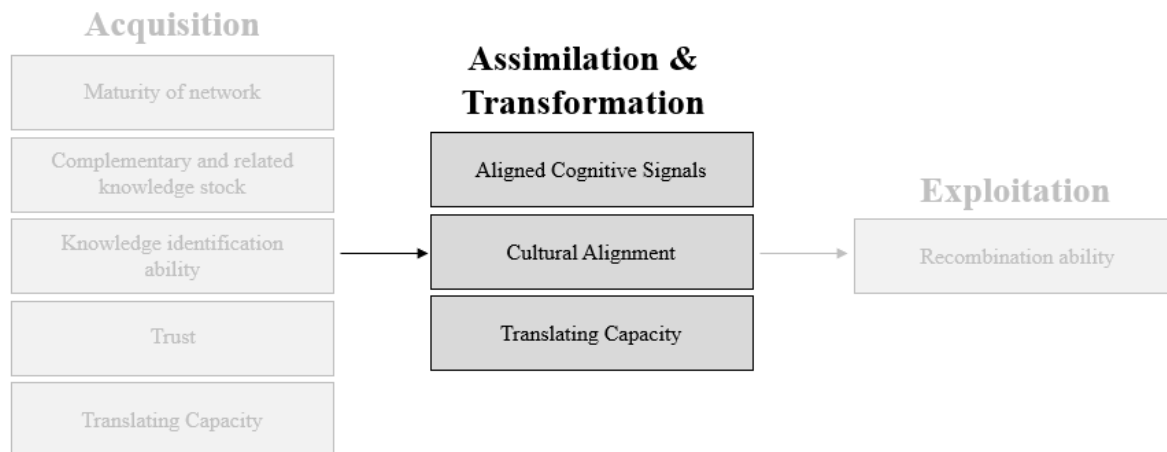
Low *trust* obstructed knowledge acquisition, exemplified by 7FI β 's experience where distrust in the government led to hesitation in establishing a relationship and questioning information legitimacy, aligning with Bharati and Chaudhury's (2018) findings linking opportunistic behaviors to a weak relational dimension. High trust was described by 6RE β as a foundation for good relationships and facilitating recombination. This is aligned with Nahapiet and Ghoshal's (1998) observation that trust affects willingness to transfer and collaborate.

Sub-conclusion: The findings indicate that although the acquisition capacity is present in local firms, its effects are diminished by underdeveloped social integration mechanisms, particularly network, identification and shared languages. However, actors with translating capacity appear to be less affected by the underdeveloped mechanisms.

6.2.2 Assimilation and Transformation Obstacles: Social Integration Mechanisms Take the Shape of Cultural Differences

The second section will focus on aligned cognitive signals, cultural alignment and translating capacity, which are primarily connected to the assimilation and transformation stage of absorptive capacity (see Figure 7).

Figure 7: Key Capacities in the Assimilation and Transformation Stage



Cultural differences and its effect on the relational and the cognitive dimension in social integration mechanisms was identified as a potential threat to assimilation and transformation of obtained knowledge. For example, 6FE β mentioned how a shared communication style, in the form of common business terminology, creates identifications, thus revealing a barrier for knowledge transfer when there is *low alignment of cognitive signals*. This can be explained by Nahapiet and Ghoshal (1998) as low identification reducing motivation to transfer and combine knowledge. Furthermore, when business terminology, or linguistic codes, are asymmetric between actors, it leads to separated conceptual frameworks (Nahapiet & Ghoshal, 1998), hindering mutual understanding and interpretation of knowledge, finally hampering knowledge transfer.

Translating capacities were often introduced to address communication barriers, exemplified by 7FI β and 1RE β . The translators acted as mediators, interpreting and recodifying information between locals and foreigners. Their dual experiences enabled shared norms, languages and narratives with locals and foreigners, which enhanced relationships and knowledge transfer with both groups (Nahapiet & Ghoshal, 1998). Thus, these individuals occupy structural holes (Burt, 2004), and serve as mediators, embracing knowledge transfer opportunities as they bridge local and foreign groups. This finding adds theoretical nuance, suggesting that SIM not only affect ACAP dimensions but can also enhance or reduce other SIM, specifically bridging the structural dimension through components of the relational and cognitive dimensions.

Moreover, firms with diverse teams, such as 8RE and 6FE β , have benefited from *cultural alignment* interventions, such as cultural onboarding, increasing shared culture within the firm. These interventions primarily affect the components of norms, identification, shared codes and language, and shared narratives in the relational and cognitive dimensions of SIM, and subsequently enhance the assimilation and transformation ability in ACAP, as actors can better understand and relate to each

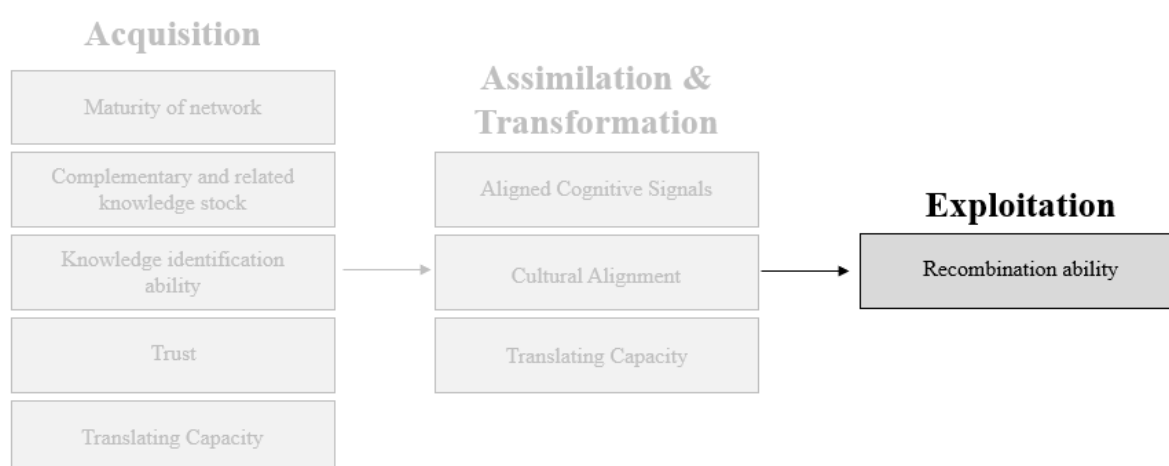
other. The success of such interventions illustrate a necessity of translating capacity to better facilitate knowledge transfer.

Sub-conclusion: Shared communication styles and linguistic codes are capacities needed in the assimilation and transformation stage of absorptive capacity. These capacities can be developed through a translating capacity.

6.2.3 Navigating Knowledge Exploitation: Downstream Barriers Contribute to a Scarcity of Resources for Exploitation

The third section will focus on the recombination ability, which is a capacity primarily connected to the transformation stage of absorptive capacity, however, its effect is primarily seen in the exploitation stage, (see Figure 8).

Figure 8: Key Capacities in the Exploitation Stage



To benefit from asymmetric knowledge stocks, the ability to recombine knowledge is needed, as expressed by 5RE and 16RE. As illustrated by 13RGβ, successfully transferring and exploiting knowledge can produce unexpected benefits beyond initial objectives, identified as an appropriable organization by Nahapiet and Goshal (1998). The Workforce Training Initiative, where firms were offered government subsidized training, had numerous benefits. First, the company could hire the personnel they trained through the program. The program also led to competent workforce available to employers outside of the initial firm. It further led to business creation, due to adoption of new skills, which has long term positive effects on the network and local economy through job creation and growth, confirming the findings of Osano and Koine (2015). It further emphasizes the theoretical sentiment of RACAP driving innovation (Camisón & Forés, 2010). Other than the Workforce Training Initiative, there is disproportionately little data giving detailed accounts on successful

exploitation in this study. This may be related to poor socialization capabilities in RACAP (Jansen et al., 2005) and indicate the severity of downstream barriers.

Sub-conclusion: Combining knowledge can lead to unexpected benefits when exploited, which can be further understood through social integration mechanisms. However, downstream barriers prevent the exploitation of knowledge.

Answer to research question part two: The foreign investors and the local firms need to align their respective capacities, and the capacities need to complement each other.

7. Discussion and Conclusion

In the following section, the research question will be answered and a discussion on the implications of the findings and how they relate to previous studies will be initiated. Moreover, this section presents contributions, implications and limitations of the study.

7.1 Answer to the Research Question

The thesis has investigated the capacities that affect knowledge transfer between local firms and foreign investors in Rwanda. To answer the research question, the authors conducted a two-level analysis in order to deepen the understanding of the capacities and their effect on knowledge transfer. The levels of the analysis were: 1) observed key capacities, 2) the dynamics of the key capacities. By conducting 18 qualitative interviews, studied through the lens of absorptive capacity, the authors aimed to answer the following research question:

How do different absorptive capacities affect cross-border knowledge transfer between foreign investors and local firms?

From interpretation of the empirical data, and by conducting a two-stage analysis, the answer to the research question is summarized to:

The study identifies eight key capacities enabling knowledge transfer, revealing challenges in acquisition due to underdeveloped social integration, emphasizing the impact of cultural differences and language barriers in assimilation and transformation, and highlighting downstream barriers to knowledge exploitation. The respective capacities interact with each other in ways that either enhance or inhibit the collective capacities in each stage of the knowledge transfer. Thus, aligning and complementing capacities between the knowledge transfer parties for effective knowledge transfer is crucial.

7.2 Discussion

The findings of the study contribute to several literature discussions. First, the findings are in line with Grandinetti (2016), suggesting that socio-cultural aspects, such as shared language and norms connect members of the group and offer a competitive advantage through effective absorption. Yet, the results indicate that aligning social and cultural barriers is crucial to even establish knowledge transfer relationships.

Some authors suggest that complementary rather than similar knowledge bases create positive synergies with unexpected outcomes through knowledge transfer (Björkman et al., 2007; Makkonen et al. 2018), which appear to comply with the empirics. At first sight, this appears to contradict other researchers (Reagans & McEvily, 2003; Volberda et al., 2010; Osabutey et al. 2014), suggesting that dissimilar knowledge bases inhibit cross-border knowledge transfer. However, the findings indicate a fine line between similar and complementary knowledge stocks, where assimilation necessitates a similar base, however for knowledge transfer to provide value, the knowledge stocks also need to be complementary.

The difficulty of cross-border knowledge transfer due to social and cultural embeddedness, as suggested by (Bhagat et al., 2002) is largely confirmed by the findings. Moreover, the advantage of international experience emphasizes Estrin's et al. (2018) proposal that entrepreneurs with international experience have advantages of international connection and a unique cultural position. However, Estrin et al. (2018) also mention knowledge spillover from individuals with international experience to local entrepreneurs, however in this study knowledge spillover primarily benefited the translator's team, without providing benefits for external entrepreneurs, which may be explained as unexploited structural holes (Burt, 2004). Moreover, translators' mediating role can be compared with Barner-Rasmussen's et al. (2014) suggestion that individuals with language and cultural skills provide boundary spanning functions, and Verfürth (2022), stating that individuals who re-migrate can bridge cross-border knowledge transfer through social proximity, which is reminiscent of the findings. Having a shared language also reduced ambiguous communication, adding to the findings proposed by Sunnemark et al. (2023).

It was found that despite knowledge identification ability, the underdeveloped networks reduce knowledge access, confirming the findings of Bhaumik et al. (2018), that network involvement positively affects absorptive capacity. Moreover, the study showed that insufficient prior knowledge stock reduced acquisition capacity, which confirms the findings of several researchers (Vujanović et al., 2022; Hughes et al., 2014; Borensztein et al., 1998). In the study, low prior knowledge stock is perceived as having low capacities, which deters investors and inhibits knowledge transfer, as suggested by Yih-Tong Sun and Scott (2005), who found that perceived knowledge of the receptor could affect the type and quality of knowledge transferred. Furthermore, researchers identify institutional systems as influencing cross-border knowledge transfer (Makkonen et al., 2018; Björkman et al., 2007). In the empirics, it is clear that the underdeveloped educational system in Rwanda negatively affects prior knowledge stock, further impeding successful knowledge transfer.

7.3 Contributions

This thesis has identified eight key capacities that affect knowledge transfer between foreign investors and local entrepreneurs in Rwanda, and how these capacities interact.

Further, the study has contributed to theory by testing the use of social capital theory as a proxy for social integration mechanisms. The social dimensions sufficiently provide insights on intangible social aspects of knowledge transfer, which is commonly disregarded in absorptive capacity research. With this conceptualization, the study answered calls for research on the relationship between absorptive capacity, social factors and knowledge creation in small firms (Hughes et al., 2014), inter-organizational cross-border knowledge transfer between foreign firms and small local firms (Rammal et al., 2023), and how social integration mechanisms facilitate absorptive capacity (von Briel et al., 2018).

7.4 Implications

First, there are individual-level implications, such as the link between FDI, knowledge transfer, and job creation, suggesting that successful knowledge transfer creates opportunities for individuals in developing countries. Second, on an organizational level, this study has implications on foreign investors and local entrepreneurs, and their understanding of elements influencing cross-border knowledge transfer between them. This is crucial because of the impact of knowledge transfer on organizational performance. Third, the study has implications on a societal level since FDI is associated with economic growth in developing countries due to knowledge spillover effects. Thus, if the capacities to enable knowledge transfer are better utilized, this can increase the quality of the knowledge transferred between developed and developing countries, thus contributing to economic development on a country level and the Global Goals on a societal level..

Furthermore, the findings can be argued to be transferable. For example, while the key capacities to enable knowledge transfer between foreign investors and local firms in Rwanda were identified, they could possibly apply in other contexts of cross-border knowledge transfer. However, since the study is qualitative, the findings are not generalisable.

7.5 Limitations

The study had some limitations. First, the study consisted of 18 interviews of which two were follow-up interviews. Thus, to enhance reliability and transferability, a larger sample size could have been used. Second, all interviewees were related to Startups Kigali which could have implications on

the data since their experiences may not be representative for all entrepreneurs and investors in Rwanda. Third, the theoretical conceptualization of social integration mechanisms adopts social capital theory by Nahapiet and Ghoshal (1998) as a theoretical proxy, due to lack of well established conceptualizations. This is an under researched definition, and may contain flaws.

7.6 Future Research

The study presents several suggestions for future research. The effect of translating individuals (e.g individuals with international experience), and their mediating effect on cultural and linguistic frictions between foreign investors and local entrepreneurs in cross-border contexts demands further investigation. Moreover, a study investigating cultural onboarding and its effect on cross-border knowledge transfer would be of interest. Last, there are findings suggesting that institutions play an important role in facilitating or hindering knowledge transfer, however, these findings are only briefly touched upon in this study, but could be of relevance for future research.

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Appendices

Appendix A: Interview Sample

Code name	Investor/Entrepreneur	Title	Industry	Gender	Interview form	International experience	Time
1REß	Entrepreneur	Partnership and growth manager	HR	Female	In person	Yes	23:19
2FIß	Investor	Managing director	Philanthropy	Male	In person	Yes	32:41
3FEß	Entrepreneur	Founder	Construction	Male	In person	Yes	30:57
4RE	Entrepreneur	Marketing and communication specialist	Marketing	Female	In person	No	27:21
5RE	Entrepreneur	Founder	Textile	Male	In person		22:20
6FEß*	Entrepreneur	Founder	Healthcare	Male	Digital, Digital*	Yes	34:42, 32:05*
7FIß	Investor	Founder, Angel Investor	Multiple	Female	In person	Yes	43:55
8RE	Entrepreneur	Software Developer	Tech	Male	In person	No	21:43
9RE	Entrepreneur	Founder, Software Developer	Health-tech	Male	In person	No	25:18
10RE	Entrepreneur	Software engineer	Food	Male	In person	No	37:46
11RE	Entrepreneur	Founder	Agriculture	Male	In person	No	60:58
12FIß*	Investor	Senior consultant & Monitoring and Evaluation Lead	Impact investment	Female	In person, Digital*	Yes	32:10, 41:38*
13RGß	Government	Expert on foreign	Public sector	Female	In Person	Yes	23:53

		relations					
14RE	Entrepreneur	Business Manager	Sportsbetting	Male	In person	No	13:24
15RIβ	Investor	Managing Director	VC firm	Male	In person	Yes	16:13
16RE	Entrepreneur	Founder	Non-profit, strategy and communication	Male	In person	No	28:35

Minimum: 13:24

Maximum: 60:58

Average: 30:28

Symbols for Code Names

Symbol	Explanation
R	Rwandan
F	Foreign
E	Entrepreneur
I	Investor
G	Government
β	International Experience
*	Follow-up interview was conducted

Appendix B: Email to Prospective Interview Subjects

First Email to Prospective Interview Subjects

Hi [Name],

We are Linnéa Helgegren and [...], and we are currently writing our bachelor thesis in management and accounting for Stockholm School of Economics. We are studying firms based in Kigali and how foreign investors or partners might affect practices and reporting of corporate social responsibilities

activities. We hope that our study will both contribute to the academic discussion on CSR and FDIs, as well as some insights to practitioners in the industry. In light of this, we are contacting you since you have experience in this area, and we believe that you could provide valuable insights to the study in the form of an expert interviewee.

Based on previous studies, we see that it is unclear whether the impact of foreign investors is positive or not, and also that there is little insight on what practices or interactions facilitate a productive relationship in terms of improving CSR. Hence, we want to study in detail how local firms interact with foreign investors or partners, and if and where you believe those interactions contribute to or inhibit work with CSR, and in what way.

We wish to meet with you for an interview, preferably as soon as possible, to get your view on the topic. The study is of course anonymous, both for you as an individual and the organization you are affiliated with, and will be in line with EUs regulation of GDPR. We are flexible regarding time and place for an interview, but are currently based at Startups Kigali where we can book a meeting room.

We look forward to hearing from you and booking an interview.

Kind regards,

Linnéa Helgegren | linneahelgegren@gmail.com | Whatsapp: +46 70 XXX XX XX

Follow-up Email to Prospective Interview Subjects

Hi [Name],

Hope you've had a nice summer!

I wanted to get back to you regarding our interview, it was really interesting and I'm so grateful that you took the time for it. Me and my new research partner Astrid Viktorsson have started to take the thesis more and more in the direction of knowledge transfer. After working with the material we felt that you had so many interesting insights on that topic, so we are wondering if you would be interested in a second interview where we focus more on that?

The main theme of the interview will be barriers of knowledge transfer between local entrepreneurs and foreign directors, and to discuss issues such as the relationship, communication and knowledge spillover.

If you have an hour free sometime during the next two weeks, it would be really great to set up another interview.

Let me know and we can decide on a time.

Kind regards,

Linnéa Helgegren | linneahelgegren@gmail.com | Whatsapp: +46 70 XXX XX XX

Astrid Viktorsson | astridviktorsson@hotmail.com | Whatsapp: +46 70 XXX XX XX

Appendix C: Interview Guide

Ethical Considerations

1. Voluntary participation is encouraged in this study.
2. Your identity, as well as that of your firm/organization, will remain anonymous.
3. You are free to interrupt and/or leave the interview at any time.
4. With your permission, we would like to record the interview for transcription purposes.
5. We will not disclose the identities of other participants in the study, either to the organization or to fellow participants.

Interview Guide for Initial Interviews

Before interview

- Discuss research subjects and the objectives of the study.
- Explain ethical stance and confirm consent.

Background

- Please introduce yourself and your role
- Could you describe how your company works with sustainability or social impact?

Relationship with shareholders and/or investors

- Describe the relationship with your shareholders and/or investors
- How have shareholders affected your relationship with CSR?
- Do you have any formal or informal reporting to your investors with regards to CSR, and what would that entail?

- How would you describe the transfer of knowledge, information and skills between you and your investors? Do you think the transfer of knowledge goes both ways?
- How does the knowledge transfer take place, is it through formal and/or informal processes?
- Besides providing capital, in what ways do you believe your investors have influenced your company and its operations?

View on shareholders and/or investors

- In general how do you view the foreign investors in Kigali and Rwanda as a whole?
- How are investors affecting the local firms?

Closing questions

- Is there anything you would like to add, ask or comment on?
- Do you know anyone else that you think we should talk to based on the information we are seeking?

Interview Guide for Follow-up Interviews

Before interview

- Clarifying the modification of the research question and the reason for conducting a follow-up interview.
- Explain ethical stance and confirm consent.

Relating back to previous interview (example)

- In the previous interview you state that you receive training from your investors, can you elaborate on what kind of training you receive and what it leads to?
- You also talked a bit about the degree of involvement from your investors, could you elaborate more on what their involvement looks like today and how you prefer to work?

Enabling knowledge transfer

- How do you build a culture of knowledge transfer between you and your investors?
- How do you work to enable two way knowledge transfer between you and your investors and/or other local companies?

Identifying knowledge transferred

- What type of knowledge is transferred from the investors to your firm and from your firm to the investors?
- Do you have any examples of successful or less successful knowledge transfer in your organizations? What would you say made the difference?
- How do you determine if the knowledge transfer is effective or not - is there any type of metric that you use?

Exploring potential barriers/enablers to knowledge transfer

- How do you address cultural differences? How do you work to solve them?

- Are there any know-how or any type of business language that can increase the effectiveness of knowledge sharing?
- Do you think aspects such as gender or group belonging plays into how knowledge is transferred between your firm and the firms you work with?
- Do you think that there are differences between different industries in terms of knowledge transfer?

Closing questions

- Is there anything you would like to add, ask or comment on?

Appendix D: Thematic Analysis, Coding Example

Q: What is your general view on foreign investors in Rwanda and how do you think they affect the local firms?

A: I think there are two things at play. Although I'm based in Rwanda and [...] is a Rwandan company, all of the co-founders are international, citizenship as well as culture wise. I think we've benefited from that in comparison to local Rwandan companies because we have the ability to communicate in a way which is very familiar with international businesses. I know for instance a lot of the local companies struggled to get access to capital because they almost don't speak their language of business that is familiar to investors in the way they communicate the vision of the company, the growth plans, the technology etcetera. We had a lot of exposure and training of practice doing it in international settings to American investors, European (investors) etc, which made it easier for us to get that access to capital and I think had I been a local Rwandan born and raised here then trying to get capital from the international market it would have been very very challenging. because there's that sort of business communication which there's no school or class for, it's just something that you have to pick up through being active and engaging with those stakeholders.

Q: Okay, so what is the issue? Are Rwandans trying to push selling points that are not interesting to foreigners?

A: When you're doing business with anyone there needs to be a level of familiarity with them and I think when (being in) an international context with international investors there is a certain type of communication style which makes them feel familiar and feel comfortable, and that approach is very intangible and almost [...], it's hard to put your finger on it but there is a certain way of communicating and acting and engaging with someone which makes them feel comfortable and it's like oh you know me. You only really get that from being in a very international environment so I'd say it's very similar to someone who is well traveled then meeting someone who's never left their

[home] town. You have ways of communicating when doing business and I think that's one of the under emphasized pieces of being able to get capital.

Codes:

International Experience

Corporate Language

Gaining Experience

Adherence to Cultural Norms

Know-how

9.5.1 Transcription Symbols

Symbol	Explanation
.	End of the sentence.
,	A shorter pause in the sentence.
...	A longer pause in the sentence.
(text)	Added information in a sentence to clarify meaning.
[...]	Omitted words in a sentence.
?	Indicates that a question is posed.