A Principal-Agent Explanation for Technology Transfer

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ABSTRACT
Technology licensing and transfer is subject to problems of asymmetric information including moral hazard. This study explores the effects of informal governance, knowledge tacitness, and organizational receptivity on the preference of variable royalty scheme in the context of technology licensing. Drawing on the classic principal-agent model, we assume that the variable royalty scheme is a process-based contract where the licensee is the principal and the licensor is the agent. The results show that informal governance facilitating goal alignment is positively associated with the variable royalty scheme (i.e. the process-based contract). Organizational receptivity promotes the legitimacy to imposing routines, evaluating the technology, and forming expectation, and is positively associated with the variable royalty scheme. Knowledge tacitness is negatively associated with the variable royalty payment, which implies less transfer programmability moves payment from variable royalties to a fixed fee. Our arguments are significantly different from classic principal-agent relationship that does not involve the dimension of licensee transfer and monitoring capacity.

Keywords: international technology transfer, principal-agent relationship, organizational receptivity, kn...