

## Abstract

This paper investigates the market for knowledge by theoretically identifying the costs associated with transferring knowledge between two firms. An argument is put forward that inter-organisational knowledge transfer involves cognitive and incentive related costs. Determinants of knowledge transfer costs should be found in the *institutional arrangement* and *institutional environment* of a knowledge transfer. Cognitive costs arise if the firms' *knowledge transfer abilities*, that is, their absorptive and transmissive capacities, are low. Incentive related costs arise because of determinants in the institutional arrangement and environment, but are also outcomes of firms' different ways of solving cognitive problems. Understanding and trust is crucial for successful knowledge transfer relations. Firms can seek to promote understanding and trust in their institutional arrangement, whereas they have little influence on the environment.