



Corporate culture and absorptive capacity: The moderating role of national culture dimensions on innovation management



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ABSTRACT

Firms have to strive for innovation constantly in order to gain and retain a competitive advantage, which renders absorptive capacity (ACAP) – a firm's ability to absorb and apply external knowledge – highly relevant. Based on data obtained from 592 CEOs and managers of firms in Austria, Brazil, Germany, India, Singapore, and the United States, we show how ACAP can be fostered in an international context. We analyze how corporate culture affects potential as well as realized ACAP and how national culture dimensions moderate these relationships in a fit-as-moderation model. We reveal that the adhocracy culture supports potential and realized ACAP, whereas the market and hierarchy cultures hinder both potential and realized ACAP. Moreover, the relationship between corporate culture and potential ACAP is stable across national culture dimensions, whereas selected national and corporate cultures are more effective in fostering realized ACAP. These results open up opportunities for researchers and support firms in their attempts to foster their firms' knowledge management processes.

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1. Introduction

In current times of higher innovation speed, increased competition, and radical technological changes (Morris, Kuratko, & Covin, 2008), innovation is becoming an increasingly important factor for firm success (Rosenbusch, Brinckmann, & Bausch, 2011). Firms have to acquire and process new information constantly and exploit this knowledge in the innovation process in order to be competitive in the marketplace (Hitt, 1998). They hence have to ensure that knowledge management processes are sufficiently supported and fostered within their organizations.

The concept of *absorptive capacity* (ACAP), referring to a firm's ability to acquire, analyze, and utilize external knowledge (Cohen & Levinthal, 1990), captures these knowledge management processes. ACAP has been shown to support innovation processes and has therefore received much recognition in management research over the past twenty years (Lewin, Massini, & Peeters, 2011). Various researchers have studied the concept as independent variable, thereby proving its positive impact on innovation (Cockburn & Henderson, 1998), interorganizational knowledge transfer (Lane & Lubatkin, 1998), and overall performance across national borders

(Tsai, 2001). Studies on ACAP as dependent variable are more scarce and largely focus on knowledge-based antecedents (e.g., Lenox & King, 2004). Particularly intraorganizational antecedents, such as corporate culture, have been largely neglected to date (Volberda, Foss, & Lyles, 2010). This is surprising as it is widely known that corporate culture influences individuals' behavior in organizations (Deshpandé & Webster Jr., 1989).

When studying the effect of corporate culture on ACAP, however, an overarching cultural impact should not be neglected: national culture strongly influences the way people think, feel, and act (Kluckhohn, 1951). National culture has been proven to have an impact on the effectiveness of organizational value systems (Hofstede, 1985). Hence, the question arises how corporate and national culture interact in affecting ACAP. National culture shall therefore also be included in the present study. By including national culture dimensions, we also respond to research calling for cross-cultural studies on ACAP (Flatten, Greve et al., 2011). Thereby, the present study is of a comparative nature by focusing on a comparison of national cultural settings of domestic firms.

The aim of the present paper is to present a comparative study on the relationship between corporate culture and absorptive capacity in different national culture settings. More concretely, we examine domestic firms from different national culture settings and the fit among the constructs of corporate culture, national culture, and potential as well as realized ACAP. This study strives to expand extant research by answering the following research

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questions: (1) How do different types of corporate culture influence potential and realized ACAP? (2) How do national culture dimensions influence the relationship between corporate culture and potential and realized ACAP? By responding to these questions with data from 592 CEOs and managers of firms based in six countries, we advance research in two ways. First, we further assess primary influences on potential and realized ACAP and show through which mechanisms organizations can develop their potential and realized ACAP (Volberda et al., 2010). Potential ACAP reflects the capability to explore external relevant information whereas realized ACAP helps to exploit the gathered external information and the realization of commercial gains (Zahra & George, 2002). The decomposition of ACAP into the two dimensions of potential and realized ACAP allows for a more fine-grained capturing of the phenomenon and interpretation of our results. Specifically, we reveal how corporate culture affects a firm's potential and realized ACAP (Flatten, Greve et al., 2011). Second, the study emphasizes the environmental contingencies of potential and realized ACAP by uncovering the influence of national culture dimensions in a fit-as-moderation model (Brettel, Greve, & Flatten, 2011).

Furthermore, the study has significant managerial relevance as it shows which type of corporate culture companies should foster to support knowledge management processes in their organizations. Additionally, the study acknowledges the challenges firms encounter with increasing multiculturalism (Schoemaker, 2008) by providing an understanding of how national culture affects their strive for knowledge exploration and exploitation.

2. Theoretical background

2.1. Absorptive capacity

Absorptive capacity (ACAP) is defined as “the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends” (Cohen & Levinthal, 1990, 128). ACAP is conceptually strongly related to a number of different research streams of which the most prominent are dynamic capabilities (Zahra & George, 2002), innovation (Cohen & Levinthal, 1990), and learning (Lane & Lubatkin, 1998). We view ACAP as a “dynamic capability pertaining to knowledge creation and utilization” (Zahra & George, 2002, 185).

Since its inception over twenty years ago, the concept of ACAP has received significant attention (Park, 2011) and has undergone a number of reviews and extensions (Lewin et al., 2011; Todorova & Durisin, 2007; Zahra & George, 2002). We follow Zahra and George (2002) in their reconceptualization of ACAP as a four-step process since their model has been confirmed by multiple empirical studies (Brettel et al., 2011; Flatten, Greve et al., 2011; Jansen, van den Bosch, & Volberda, 2005). The first process step, acquisition, consists of identifying and taking in potentially relevant knowledge (Zahra & George, 2002). The second step, assimilation, covers the analysis and interpretation of the newly acquired knowledge (Zahra & George, 2002). This new knowledge is then combined with the existing knowledge in the third process step, transformation (Flatten, Greve et al., 2011; Zahra & George, 2002), in which organizational processes are updated according to the new knowledge (Zahra & George, 2002). The final process step, exploitation, consists of the commercial usage of the new knowledge (Cohen & Levinthal, 1989).

Based on those four dimensions, Zahra and George (2002) split the general concept of ACAP into two subdimensions: potential and realized ACAP. The first two dimensions, acquisition and assimilation, constitute potential ACAP—a capability that helps companies to explore external relevant information (Zahra & George, 2002). The latter two dimensions, namely transformation

and exploitation, compose realized ACAP. This capability reflects the exploitation of the already gathered external relevant information and, based on that, the realization of commercial gains (Zahra & George, 2002). Regarding their organizational outcomes, realized ACAP facilitates, e.g., the development of new products or the translation of knowledge into processes (Flatten, Greve et al., 2011). Therefore, it is expected to directly improve firm performance (Grant, 1996). In contrast, potential ACAP is rather considered an ability to create an organizational memory and thus is not necessarily directly connected to firm performance (Zahra & George, 2002). Even though potential ACAP and realized ACAP are established and employed distinctively, they both have to exist in a company to achieve optimal organizational results (Zahra & George, 2002).

As already pointed out, potential and realized ACAP are two distinguished dimensions with complementary roles. Hence, the dimensions contribute toward firm performance in different ways. Most scholars argue that profits are typically generated through realized ACAP (Grant, 1996) in terms of product and process innovations (Zahra & George, 2002), whereas potential ACAP is able to affect firm performance in a more elusive manner. Potential ACAP is composed of the cumulated knowledge of all organizational members and thus has strong similarities to the construct of organizational memory (Flatten, Engelen et al., 2011). A study of Moorman and Miner (1997) validated that organizational memory is closely related to firm performance. Moreover, as Zahra and George (2002) state, it enables firms to cultivate a certain level of organizational flexibility, which in turn enables them to respond to strategic opportunities (Raff, 2000) and eventually helps them sustain superior performance (Ferrier, Smith, & Grimm, 1999). Additionally, this capability enables companies to overcome competence traps and hence reduces the risk of potential sunk costs investments (Zahra & George, 2002).

Even if each dimension has an individual importance for the firm, research indicates that firms benefit even more from a parallel implementation of both dimensions since pieces of knowledge that have already been absorbed migrate between the assimilation and transformation stages before they can be exploited (Todorova & Durisin, 2007). However, regarded as mutually independent, each dimension of ACAP has particular shortcomings which can only be overcome by the complementary use of all process dimensions (Todorova & Durisin, 2007). If a firm, e.g., only focuses on the dimension of realized ACAP, it may achieve short-term profits through new products and innovations, but it will not develop a new and innovative knowledge base (Ahuja & Lampert, 2001). Such a knowledge base, however, would be necessary for the firm to be able to recognize strategically important opportunities (Raff, 2000) and to secure a first-mover advantage in the market (Ferrier et al., 1999).

Firms should therefore support all aspects of ACAP by promoting the right intraorganizational values and behaviors. Corporate culture is believed to be a lever by which firms can foster ACAP (Volberda et al., 2010) as cultural values are known to affect knowledge management processes (Zhao & Anand, 2009) and innovation (Tellis, Prabhu, & Chandy, 2009). Yet, by employing simplified constructs (Khoja & Maranville, 2010) or focusing on a single industry (Harrington & Guimaraes, 2005), researchers to date fall short of assessing the role of corporate culture in managing ACAP, which is why further studies on this relationship are called for (Flatten, Greve et al., 2011).

2.2. Corporate culture

Corporate culture is defined as “the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them norms for behavior in the organization”

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