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# Managing absorptive capacity stocks to improve performance: Empirical evidence from the turbulent environment of Israeli hospitals

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## KEYWORDS

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**Summary** The current paper focuses on the management of external knowledge as a central mechanism when organizations face threats from turbulent environments. Based on absorptive capacity (ACAP) theory, we emphasize ACAP's separation into potential and realized knowledge and suggest that each should be associated with three-dimensional stocks and distinguish between managing knowledge stocks and knowledge flows. Data from 522 managers from 12 Israeli hospitals support the theoretical model. Organizations that manage both potential and realized ACAP stocks achieve better performance in a turbulent environment. The paper explores the practical and theoretical contributions of the new suggested framework by linking environmental competitiveness, ACAP stocks, and performance.

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## 1. Introduction

The turbulent environments in which many organizations operate these days create a need to develop an organizational process for external knowledge management (Easter-

by-Smith and Lyles, 2005; Harrington et al., 2005). Since developing internal knowledge is limited in scope and can lead to myopic behavior, organizations actively seek and acquire external knowledge. In this regard, absorptive capacity (ACAP) theory provides a framework that focuses on "...the organization's ability to recognize new external knowledge, assimilate it, and apply it to commercial ends" (Cohen and Levinthal, 1990, p. 122; see Table 1 for definitions and summary of key concepts). Applications of the theory have advanced management research on important topics such as organizational learning (Lane and Lubatkin, 1998; Lane et al., 2001) and innovation (Tsai, 2001).

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**Table 1** Definitions of key concepts

Construct	Definition	Source
Absorptive capacity (ACAP)	The organization's ability to recognize new external knowledge, assimilate it, and apply it to commercial ends. While originally defined in terms of ability, capability, or competence (Cohen and Levinthal, 1990, p. 122; Zahra and George, 2002; Jansen et al., 2006), we use ACAP to denote the historical cumulative <i>stock (volume)</i> of an ACAP (such as cumulative R&D ACAP – how much the firm has invested in R&D in the past)	Cohen and Levinthal (1990; p. 122)
Four capabilities of ACAP	Four distinct but complementary capabilities that compose a firm's ACAP: acquisition, assimilation, transformation, and exploitation.	Zahra and George, 2002, p. 189; Jansen et al. (2006)
Two facets of ACAP	Potential/realized capacities are two ACAP components; Acquisition/assimilation capabilities are potential capacity dimensions/transformation and exploitation are realized capacity dimensions.	Zahra and George (2002, p. 190)
Asset flow and asset stock	Strategic asset stocks are accumulated by choosing appropriate time paths of flows over a period of time...while flows can be adjusted instantaneously, stocks cannot (bathtub metaphor)	Dierickx and Cool (1989, p. 1506)
Competitive configuration	Three-dimensional in terms of <i>internal</i> resources, <i>external</i> positioning, and <i>temporal</i> perspectives.	Based on Fiegenbaum et al. (1996)
Stock of capabilities	A three-dimensional construct to describe the three-dimensional configuration to manage ACAP capabilities in a competitive manner	Based on Fiegenbaum et al. (1996)
Competitive ACAP	The alignment of potential and realized ACAP capabilities with the organizational vision (internal dimension) to assist in positioning the organization vis-à-vis its customers, stockholders, and competitors (external dimension) while taking into account past accomplishments and future intentions (temporal dimension)	A synthesized conceptualization of the sources cited above; new in this paper

However, ACAP theory has minimally addressed the competitive management of knowledge stocks and its impact on performance. The current study attempts to fill this gap by extending the theory. As an example, Citibank (now Citigroup) decided during the early 2000s not to emulate competitors' best practices. Instead, it maintained a continuous connection with the market and customers therein and developed a thorough understanding of its rivals. Thus, it created new knowledge for future use based on its accumulated unique and hard-to-copy assets, knowledge, and capabilities (Miller et al., 2002). Over time, the firm developed a set of marketing, sales, and operational capabilities aligned with its vision to answer customers' needs. Later, Citibank successfully leveraged these absorptive capabilities (know how) across markets.

We extend the current theory in two ways. First, we treat the term "capacity" differently than former studies. We argue that existing approaches should be extended to include aspects of volume of stocks. Associating potential and realized absorptive knowledge with their volumes enables a distinction between asset stocks and flows (Dierickx and Cool, 1989), which was not clear in previous ACAP studies. As such, treating ACAPs as stocks makes it possible to study configurations of ACAPs' stocks. Second, we emphasize that

ACAPs' stocks should be managed in competitive terms. Based on the strategy literature, we then suggest that the competitive configuration includes internal resources, external positioning, and time perspectives (Fiegenbaum et al., 1996).

Following these extensions, we explore three questions about managing ACAP stocks in a competitive strategy framework. (1) How does environmental competitiveness affect potential and realized ACAP stocks? (2) How does potential ACAP stock affect realized ACAP stock? and (3) How do environmental competitiveness and ACAP stocks affect performance? Data from the Israeli hospital industry, which faced major environmental competitive changes, is used to answer these questions.

## 2. Theory development

### 2.1. Absorptive capacity stocks

Absorptive capacity (ACAP; Cohen and Levinthal, 1990) has become a central concept in explaining how organizations learn from their environment. Originally, ACAP was defined as a three-stage process (identification, assimilation, and

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