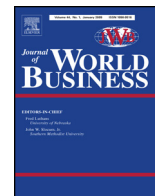




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Exploring the influence of resource environments on absorptive capacity development: The case of emerging market firms

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ABSTRACT

Research recognizes that emerging market firms (EMFs) have relatively underdeveloped absorptive capacity. Yet, scarce attention has been paid to the conditions that constrain or facilitate EMFs' absorptive capacity development. In this article, we explore how differences in home country resource environments influence EMFs' absorptive capacity. We suggest that home country institutions and factor markets influence EMFs' choice among three learning strategies: duplicative imitation, creative imitation, and innovation. Building on the organizational learning perspective, we then explore how learning strategies of EMFs' from different emerging economies influence their preferences with respect to sources of new knowledge, and consequently the implications of these strategic choices for their absorptive capacity.

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1. Introduction

Emerging market firms (EMFs) originate from a set of geographically dispersed countries that have been experiencing rapid economic growth and regulatory changes toward market liberalization (Hoskisson, Eden, Lau, & Wright, 2000). Strategy researchers recognize that today, EMFs occupy key competitive positions in the global economy (Li & Kozhikode, 2008; Wright, Filatotchev, Hoskisson, & Peng, 2005). By the year 2025, EMFs will likely comprise more than 45% of the Fortune Global 500 index (McKinsey & Company, 2013). While the term emerging market firms implies a uniform category of firms, existing research shows that emerging economies vary greatly from one another with respect to their overall progress toward economic development (Hoskisson, Wright, Filatotchev, & Peng, 2013). Accordingly, EMFs are presented with different opportunities and are exposed to diverse challenges in their home country environments. EMFs are latecomers to the global marketplace and in order to achieve competitive advantage, they must not only upgrade existing capabilities through continuous learning, but also develop new

competencies (Keen & Wu, 2011). Yet, little insight has been offered into how EMFs approach this challenge (Malik & Kotabe, 2011).

To address this gap, in this paper we explore how EMFs develop learning strategies influenced by the resource environment in their home country. Specifically, we contend that EMFs shift their attention to differential sources of knowledge and develop their absorptive capacity influenced by the availability, the efficiency, and cost of acquisition of resources from their external environment. Our typology presented in Fig. 1, shows the interrelations among characteristics of emerging market environments, EMFs' learning strategies, sources of new knowledge, and levels of absorptive capacity development.

Several assumptions that we make in this article require elaboration. Foremost, we assume that substantial heterogeneity exists across emerging economies with respect to the stage of their institutional and factor market development (Hoskisson et al., 2000, 2013; Wan & Hoskisson, 2003; Wan, 2005). Second, a firm's learning takes place in and is influenced by "the environment in which the organization is embedded" (Argote & Miron-Spektor, 2011: 1124). Learning allows firms to develop dynamic capabilities (Teece & Pisano, 1994) that help them modify their resource base and adapt to changing environmental conditions (Eisenhardt and Martin, 2000). Absorptive capacity, or the firm's ability to recognize the value of new, external knowledge, assimilate it,

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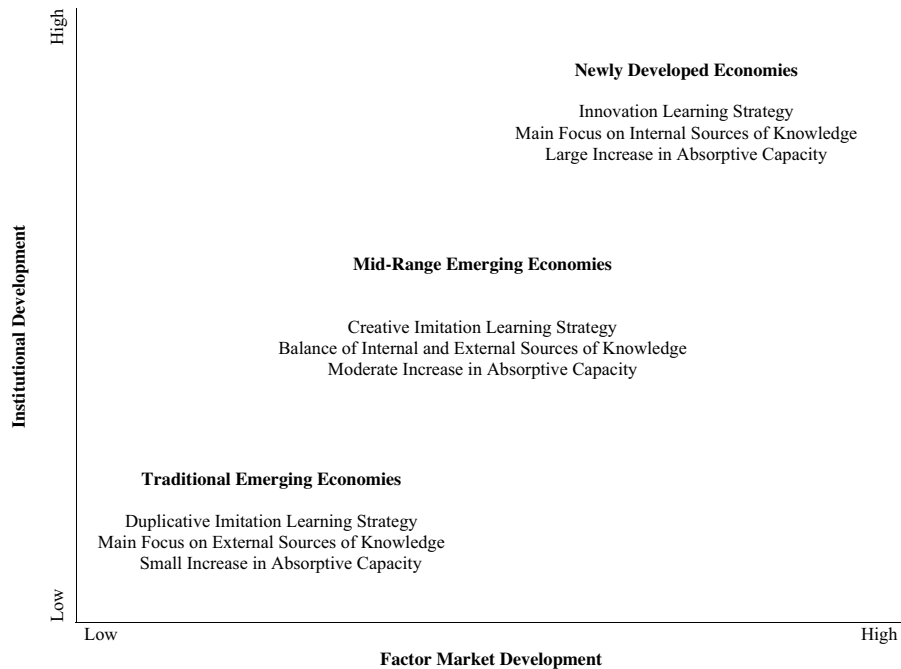


Fig. 1. Typology of learning strategies of emerging market firms (adapted from Hoskisson et al., 2013).

and apply it to commercial ends (Cohen & Levinthal, 1990), has been conceptualized as such a dynamic capability (Zahra & George, 2002). Thus, how costly it is for a firm to develop its absorptive capacity and to what extent that capacity will be deemed valuable subsequently is determined in the context of the firm's environment (Chittoor, Ray, Aulakh, & Sarkar, 2008; Kim, Hoskisson, & Lee, 2015).

With these assumptions acknowledged, our theoretical framework makes several important contributions to strategic management and international business research. First, we extend current understanding of the conditions that facilitate EMFs' learning and associated absorptive capacity. Fig. 1 shows that systematic links exist among EMFs' learning strategies and their surrounding environment. A firm's learning strategy reflects the cumulative set of strategic choices that guide its efforts to acquire and utilize new knowledge (Kim, 1998). Consistent with this definition, we contend that at different stages of home country institutional and factor market development EMFs adopt distinctive learning strategies. Fig. 1 also indicates that each learning strategy is associated with a preference for particular knowledge sources (i.e. internal vs. external). Lastly, we contend that by shaping the learning focus and associated preference for particular knowledge sources, EMFs develop their absorptive capacity. The typology proposed in Fig. 1 is an important first step in integrating and synthesizing the diverse and seemingly fragmented literature on organizational learning in the context of emerging economies and bridging that gap between organizational learning and dynamic capabilities literatures.

Second, we contribute to current thinking on how firms' external resource environment facilitates conditions that influence absorptive capacity development. As resource environmental conditions differ across emerging economies (Hoskisson et al., 2013), it is important to understand how and why institutions and factor markets matter for EMFs' learning and competitive advantage. Herein, we extend the resource environment view (REV) of competitive advantage (Kim & Hoskisson, 2015) and suggest that an important means through which EMFs achieve competitive advantage is by developing their absorptive capacity.

Prominent researchers have called for increased scholarly attention to how a firm's macro environment influences the development of its capabilities (e.g. Meyer, 2007). In this respect, the present article recognizes the co-evolutionary nature of a firm's absorptive capacity and its environment (Van Den Bosch, Volberda, & de Boer, 1999).

Finally, this article extends recent thinking in international business research. Extant research suggests that in comparison to their advanced market counterparts EMFs are deficient in resources and have underdeveloped absorptive capacity (Hitt, Dacin, Levitas, Arregle, & Borza, 2000; Kotabe, Jiang, & Murray, 2014). This is a rather broad generalization with ambiguous practical value in the context of strategic management of firms in rapidly changing environments. We reconsider this generalization in light of current research on emerging economies. As Hoskisson and colleagues suggest "[t]he challenge ahead for strategy researchers is to identify how enterprises in differing emerging economies can overcome external and internal impediments to the design and implementation of successful market-based strategies" (2000: 264). In response to this, our article outlines how home country environments influence EMFs' absorptive capacity by mandating distinct learning strategies and where EMFs search for new knowledge.

In the remainder of the article, we first provide a review of the current literature on EMFs and discuss the heterogeneity of emerging economies as a result of differences in their environmental contexts. Next, we introduce the key dimensions of our typology and develop propositions linking the level of institutional and factor market development to EMFs' learning strategies, sources of new knowledge, and absorptive capacity. Finally, we discuss the implications of our research for theory and practice.

2. Literature review and theory development

Emerging markets are rapidly developing countries, which experience significant changes due to market liberalization and deregulation (Wright et al., 2005). As a result of these changes competition in these economies has intensified considerably, with

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