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Managerial ties, knowledge acquisition, realized absorptive capacity and new product market performance of emerging multinational companies: A case of China

Masaaki Kotabe [a,*], Crystal Xiangwen Jiang [b], Janet Y. Murray [c]

[a] Temple University, The Fox School of Business, 349 Speakman Hall (006-00), Philadelphia, PA 19122, USA
[b] Bryant University, College of Business, 1150 Douglas Pike, Rhode Island, RI 02917, USA
[c] Department of Marketing, SSB 458, University of Missouri-St. Louis, One University Boulevard, St. Louis, MO 63121-4499, USA

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ABSTRACT

Many firms rely on external sources to acquire knowledge that is critical for enhancing new product market performance. Using a sample of 121 emerging multinational corporations (EMNCs) from China, we explore the effects of managerial ties with government officials and foreign MNC partners on knowledge acquisition and investigate how the acquired knowledge affects firms' new product market performance. Our results indicate that knowledge acquisition could only enhance new product market performance with the presence of realized absorptive capacity. Our study suggests that managers' decisions on knowledge acquisition from external sources may not increase firms' new product market performance. Instead, managerial prowess in integrating and transforming knowledge becomes paramount in enhancing new product market performance.

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1. Introduction

In recent years, multinational companies from emerging economies (EMNCs) have become major players in world business (Mathews, 2002, 2006). As latecomers to the world economy, EMNCs differ from their counterparts in developed countries in terms of size, management know-how, and other firm-specific intangible assets (e.g., Deng, 2004; Malik & Kotabe, 2009). Emerging markets are countries that experience a rapid pace of economic development (Arnold & Quelch, 1998), due to their transition toward market-based systems, both economically and politically (Luo & Tan, 1998). In order to survive and grow in a highly competitive environment and to adapt to the transition of institutional environment, EMNCs are paying more attention to innovation activities in enhancing their market positioning, organizational renewal and transformation during their catching up with the resource-rich multinational companies (MNCs) from developed countries (Li & Kozhikode, 2008).

New product development (NPD) is a powerful source of competitive advantage. It contributes to organizational renewal, growth, and competitiveness (e.g., Fang, 2008; Kristensson, Gustafsson, & Archer, 2004). The innovation activities of EMNCs are not necessarily ground breaking; instead, they develop new products from an emulation or imitation perspective (Li & Kozhikode, 2008; Malik & Kotabe, 2009). In our study, we define new product market performance as high-performance new products in the firm's major product line that achieve sales growth and profit objectives (Barczak, Hultink, & Sultan, 2008; Lanctot & Swan, 2000).

A substantial body of literature supports that firms and their managers rely on both internal and external sources of knowledge to enhance their new product market performance, especially when they suffer from resource deficiency (e.g., Dieleman & Sachs, 2008; Ganesan, Malter, & Rindfleisch, 2005). To compensate for EMNCs' lack of internal resources that are critical for their global competition and to mitigate intense competition and accelerate their development process, acquiring external knowledge has increasingly become a managerial priority (Li & Kozhikode, 2008; Peng & Luo, 2000). Managers of EMNCs have to find appropriate sources to acquire knowledge in order to survive the increased competitive intensity. Managers' strategic decisions affect their firm's competitive advantage, and in many instances, its survivability in light of the unpredictable business environments (Bourgeois & Eisenhardt, 1988).

Researchers have argued that external knowledge can be acquired through developing key business relationships (Dieleman & Sachs, 2008; Yli-Renko, Autio, & Sapienza, 2001). Indeed, due to the institutional voids and political and cultural heritage, EMNCs are found to rely on managerial ties to acquire critical knowledge

* Corresponding author.
E-mail addresses: mkotabe@temple.edu (M. Kotabe), cjiang1@bryant.edu (C.X. Jiang), murrayjan@umsl.edu (J.Y. Murray).

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(Khanna & Palepu, 2000; Peng, 2003; Peng & Luo, 2000). Specifically, they form political ties with government officials and business ties with foreign MNCs from developed nations to gain access to advanced knowledge (Peng & Luo, 2000). Earlier studies supported that emerging country governments are closely involved in helping local firms with financing, information, and even technology through institutional mechanisms and regulatory regimes, especially during their initial stages of catching up (e.g., Kim, 1997; Li & Atuahene-Gima, 2002). In addition, as active recipients of foreign investment from developed countries, emerging economies also benefit from the technology transfer from foreign MNCs as cooperating partners (e.g., Buckley, Clegg, & Wang, 2002; Buckley, Wang, & Clegg, 2007; Wei & Liu, 2006).

Knowledge acquisition is considered a necessary but insufficient condition for organizational learning to take place (Aguilera, 2007; Argote & Ingram, 2000). Although knowledge acquisition is important for EMNCs to catch up in the international environment, they need to possess organizational capabilities to deploy resources (Dierickx & Cool, 1989; Makadok, 2001; Teece, Pisano, & Shuen, 1997). From an organizational learning perspective, firms need to possess a considerable level of realized absorptive capacity to capitalize on knowledge acquisition from external sources to facilitate organizational learning (Argote, 1999). Realized absorptive capacity is defined as a firm's ability to exploit externally generated knowledge, to transform and commercially apply knowledge that creates firm value (Zahra & George, 2002). Managers' decisions to acquire knowledge from external sources may not necessarily increase a firms' new product market performance. Instead, managerial prowess in integrating and transforming knowledge becomes paramount in enhancing new product market performance (Araujo, Dubois, & Gadde, 2003; Ettlie & Subramaniam, 2004).

Our study focuses on the effect of managerial ties on firms' knowledge acquisition. Further, we investigate how acquired knowledge by managers could be exploited and transformed to improve firms' new product market performance. Although firms can acquire knowledge about firm strategy, administrative practices, and technologies, among others, we focus on product and process knowledge that are essential to firms' operations and decisions (Kotabe, Srinivasan, & Aulakh, 2002) and new product market performance (Nonaka & Takeuchi, 1996). Product knowledge refers to the information content on products, and process knowledge refers to production processes (De Boer, Van Den Bosch, & Volberda, 1999).

Our study makes several contributions to the literature. First, little is known on how EMNCs attain valuable resources that are valuable, rare, inimitable, and non-substitutable (VRIN) during their process of catching up with their counterparts (Li & Kozhikode, 2008). We examine how EMNCs' managers acquire knowledge from external sources that are VRIN, and are essential for their competitive advantage. Second, despite extensive discussions on the impact of managers' relation-specific assets on their knowledge acquisition and exploitation, little is known about the impact of knowledge acquisition through managerial ties on a firm's new product market performance. Third, we examine knowledge acquisition, exploitation, and transformation simultaneously, whereas prior studies have tended to examine them separately (Yli-Renko et al., 2001). Fourth, we operationalize and validate the measure of realized absorptive capacity in capturing knowledge exploitation and transformation, which is still embryonic, yet essential to understanding its impact on new product market performance (Murray & Chao, 2005).

In this study, we developed an integrative model with which to examine how managers acquire knowledge through managerial ties that may affect new product market performance. In addition to taking social capital and knowledge-based view assumed linkages, we provide an enriched theoretical explanation that integrates social capital, knowledge-based view, and organizational learning perspectives. We assert that realized absorptive capacity moderates knowledge acquisition and new product market performance. The conceptual model is presented in Fig. 1.

The rest of the paper is organized as follows. First, we review the literature and develop hypotheses. We then describe the methodology, data and variables. This is followed by a discussion of the empirical results. Finally, we conclude with a summary and discuss theoretical and managerial implications.

2. Theoretical foundations and hypotheses development

2.1. Managerial ties and knowledge acquisition

Based on social network theory, economic actions are deeply embedded in networks of interpersonal relations, and social capital influences interactions and shapes economic actions (Granovetter, 1985; Tsai & Ghoshal, 1998; Uzzi, 1997). Many scholars have stressed the importance of establishing inter-organizational collaborations with external partners, and have argued that boundary spanning activities are essential to successful knowledge flows, which subsequently affect a firm's innovation success (e.g., Dyer & Singh, 1998; Kale, Dyer, & Singh, 2002; Sivadas & Dwyer, 2000). Effective knowledge acquisition depends on the degree of closeness between partners (Granovetter, 1973; Krackhardt, 1992). It is critical for managers to develop managerial ties with partners to foster interactions beyond organizational boundaries

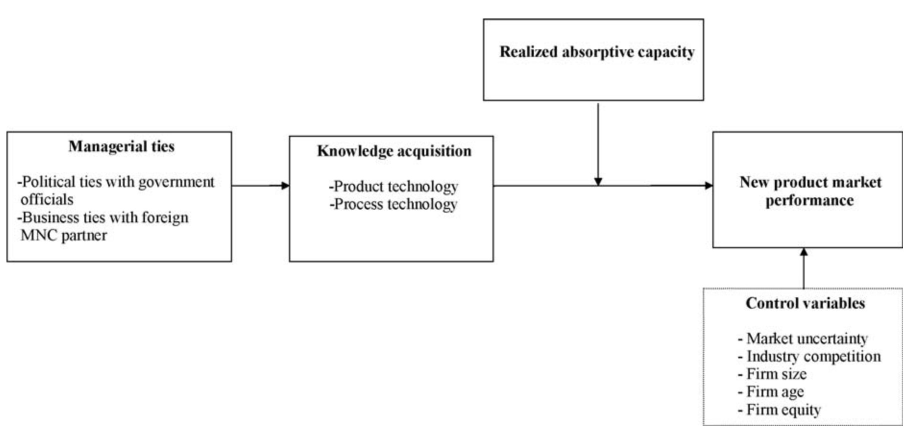

Fig. 1. A theoretical model of managerial ties, knowledge acquisition, realized absorptive capacity and new product market performance of emerging multinational companies.