



EXPERTISE IN TECHNOLOGY AND ECONOMICS

*Applying Absorptive Capacity Construct to
Customer-related Knowledge Processing*

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Structure of the presentation

- Background and purpose of the paper
- Literature review on absorptive capacity
- A conceptual framework of customer-related absorptive capacity
- Conclusions

Why to study customer-related knowledge processing?

- Customer knowledge emphasized as an important resource in the development of long-term customer relationships and as a source of competitive advantage.
- Management of customer relationships increasingly becoming a multi-functional activity, which easily leads to dispersion of customer-related knowledge within supplier organizations and thus, to heterogeneous selling approaches across markets.
- It is suggested e.g. by Campbell (2003) that many firms lack true customer knowledge competence and yet, there is only a sparse amount of research on *how firms actually learn to know their customers organization-wide*.
- The linkage between customer knowledge processing and customer relationship performance lacks empirical evidence.

The aim of the paper

- The aim of the paper is to examine *how absorptive capacity construct, and more precisely; its four dimensions; acquisition, assimilation, transformation and exploitation of knowledge, can be used to study organization-wide learning about specific customers.*

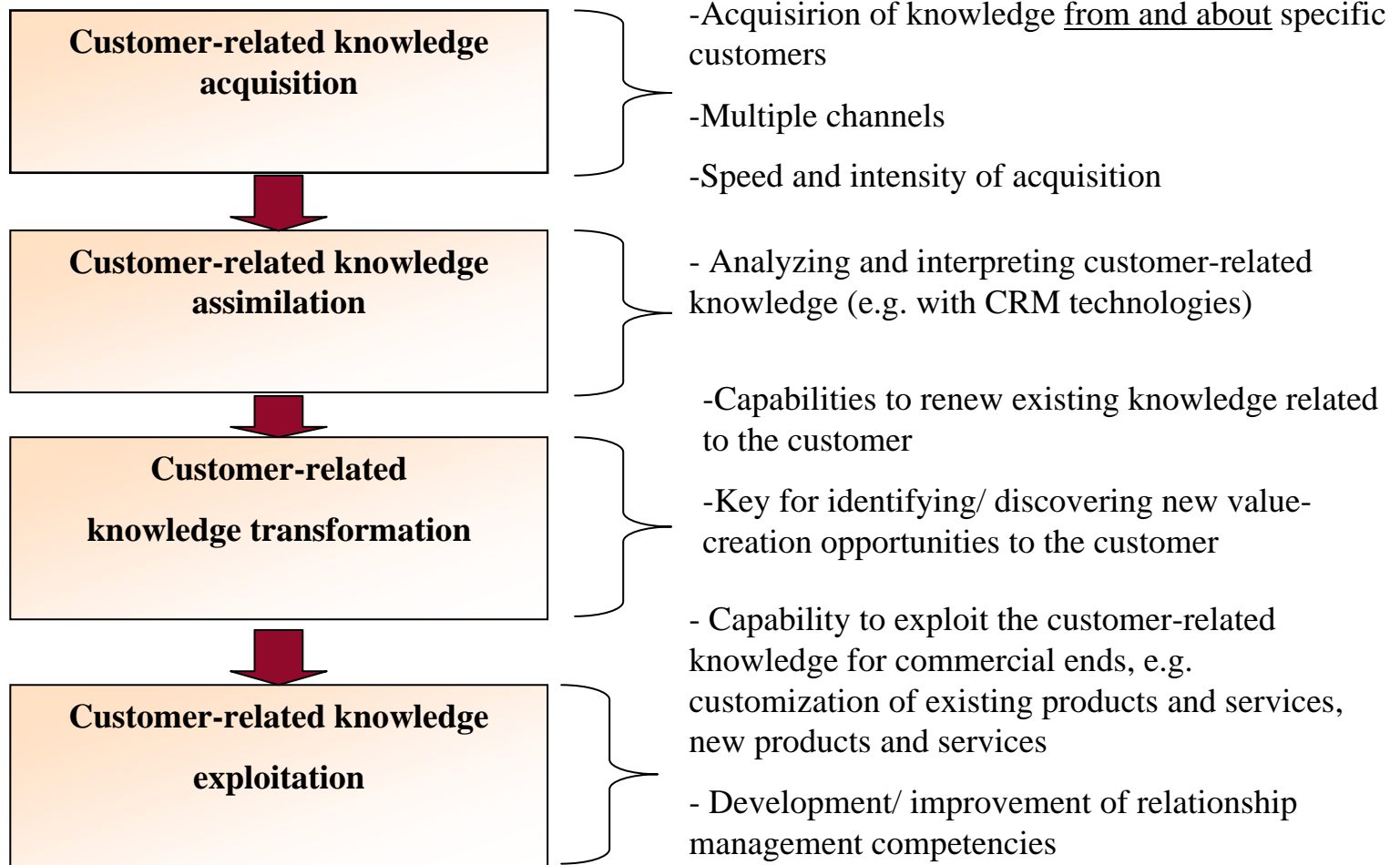
Absorptive capacity

- A path-dependent construct, which builds on the prior knowledge base and intensity of effort, and determines the ability of a firm to acquire new knowledge.
- The concept was originally defined by Cohen and Levinthal (1990) as the '*ability of a firm to recognize, assimilate and apply external knowledge to commercial ends*'.
- Later re-conceptualized by Zahra and George (2002) as a four-dimensional concept consisting of acquisition, assimilation, transformation and exploitation of knowledge.
 - A difference between "*realized absorptive capacity*" and "*potential absorptive capacity*".

Previous application areas of absorptive capacity

- Absorptive capacity has been studied from several different perspectives, for example:
 - Intra-organizational knowledge transfer in MNC's (e.g. Gupta & Govindarajan 2000; Minbaeva 2005)
 - Learning in inter-organizational joint-ventures (e.g. Lane and Lubatkin 1998; Lyles and Salk 1996)
 - Transfer of technology (e.g. Kedia & Bhagat 1998; Bertman & Chang 2002)
 - International expansion of the firm (e.g. Hyuk Rhee 2005)
 - New product development (e.g. Stock, Greis & Fischer 2001)
 - Customer relationship management (e.g. Chen & Yuan-Ze 2004)
- So far very little attempts to operationalize the constructs, and thus, rigorous empirical studies remain limited.

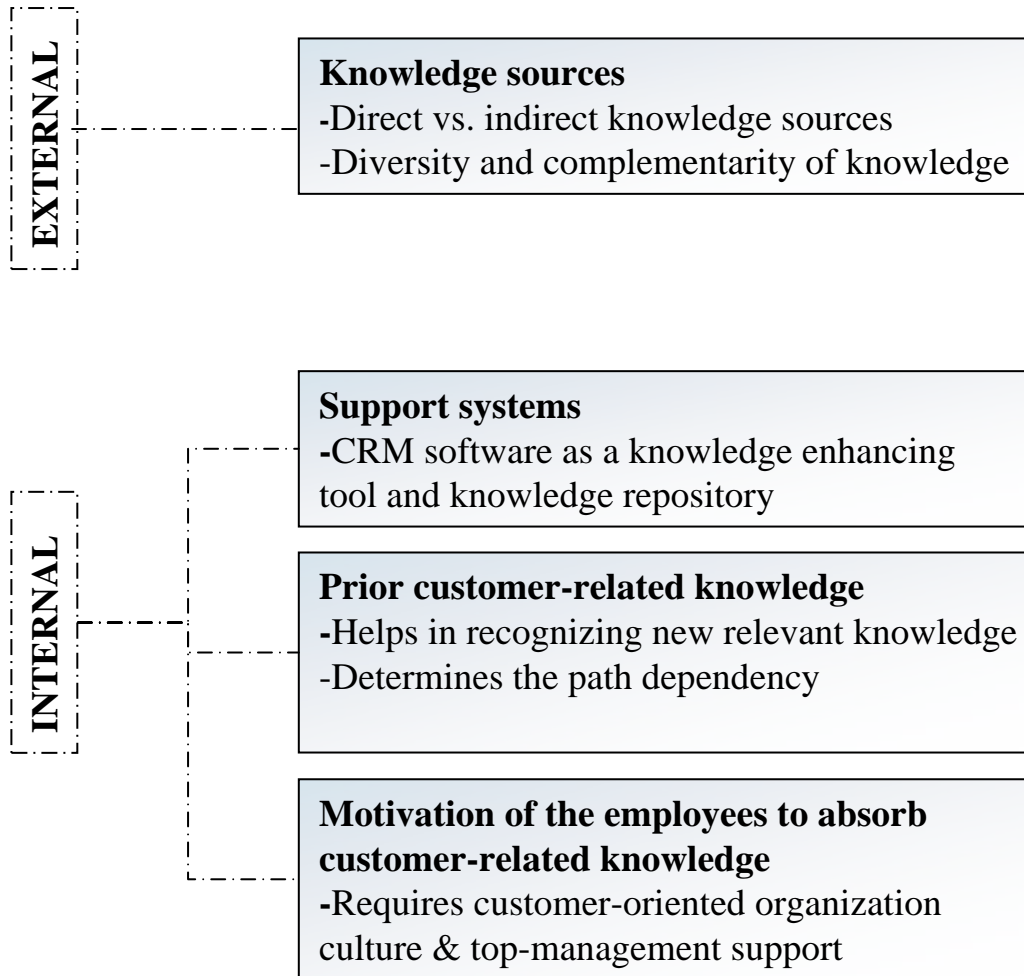
The main dimensions of absorptive capacity at the customer level



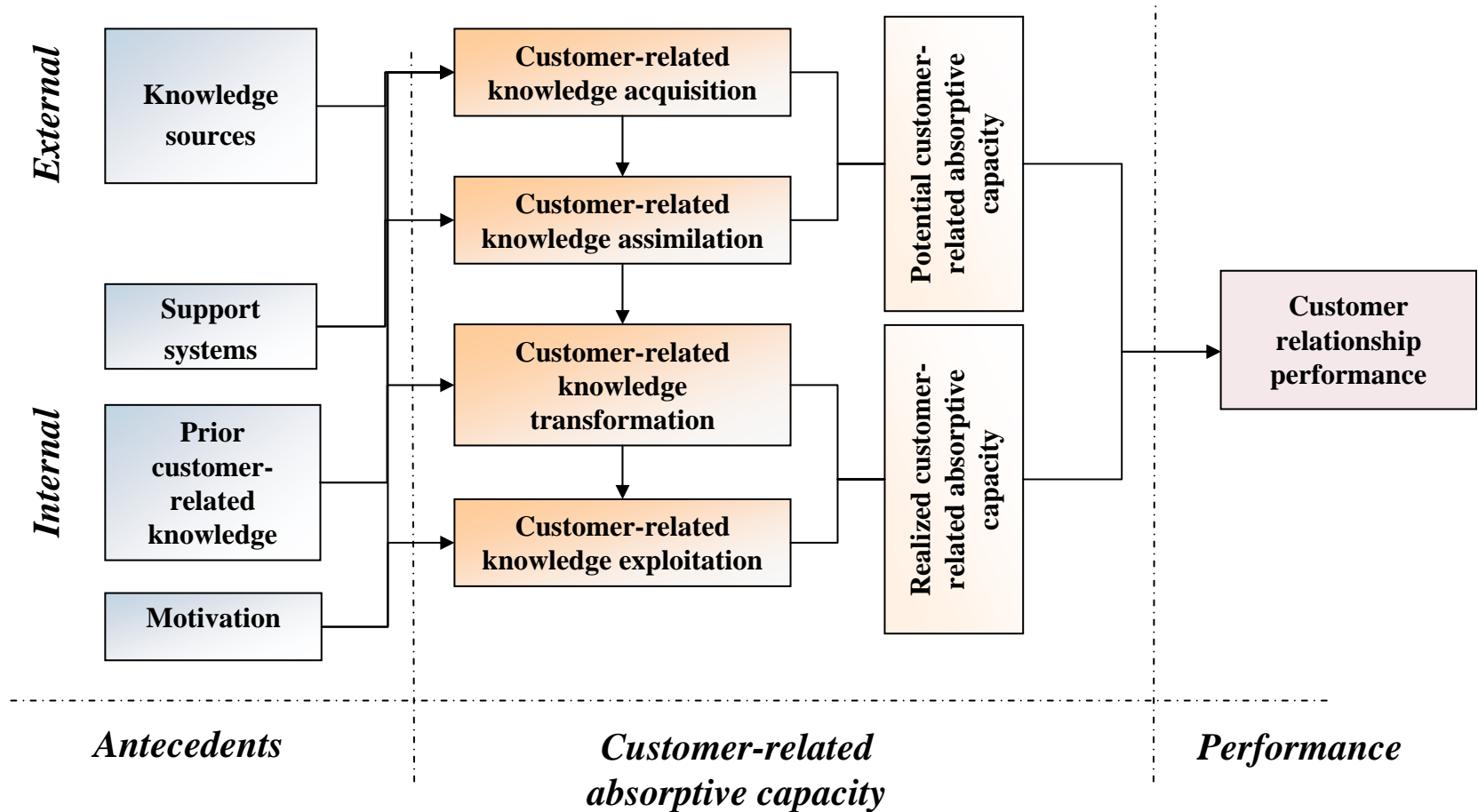
Potential vs. realized customer-related absorptive capacity

- Potential absorptive capacity: acquisition and assimilation of knowledge.
- Realized absorptive capacity: transformation and exploitation of knowledge.
- Both components "*fulfill a necessary but insufficient condition to improve performance*". Realized absorptive capacity however a primary source of performance improvement (e.g. sales increase resulting from value adding product customization).
- When the markets are dynamic and customer-base constantly changing, firms should remain more receptive to diversity of customer-related knowledge sources.

Antecedents to customer-related absorptive capacity



A conceptual framework of antecedents and consequences of customer-related absorptive capacity



Conclusions

- Customer relationship performance (e.g. sales, customer profitability, customer satisfaction) could at least partly be explained by the capabilities of a supplier firm to acquire, assimilate, transform and exploit customer-related knowledge.
- Absorptive capacity can be applied as a theoretical framework for studying organization-wide learning about specific customers, however routines and processes typical for customer relationship management should be taken into consideration when operationalizing the constructs.
- One should pay specific attention to the unit of analysis as an increasing number of firms have customer-based organization structures.
- The difference between "realized absorptive capacity" and "potential absorptive capacity" could explain why some firms outperform their competitors in making use of their customer-related knowledge.

Thank You for Your attention!