

Exploring the Moderating Impact of Absorptive Capacity on Strategic Thinking, Innovative Behavior, and Entrepreneurial Orientation at the Organizational Level of Analysis

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This research theoretically explores the extant strategic and entrepreneurial literatures and presents a theoretical model purporting the moderating role of absorptive capacity (ACAP) at the organizational level of entrepreneurial orientation (EO). Strategic thinking and innovative behavior (IB) influence at the firm level has not been examined with a moderating influence. In a practical sense, this research presents opportunities to conceptualize ACAP on firm-level potential and realized capabilities. This research develops a theoretical model that provides new testable linkages between constructs that have gone untested in strategic and entrepreneurial literature. It is proposed that ACAP moderates the relationship between strategic thinking and IB, producing a potentially stronger and significant impact on firm-level EO, thereby creating firm-level climates that cultivate strategic behaviors. This exploratory research and theoretical model provide three proposals for future exploration and research consideration.

INTRODUCTION

Small and large enterprises create and often survive constant environmental change through structural reengineering due to insidious and/or known competitive forces that exist in the business landscape. These insidious external forces pressure firms by the rapid speed in which they need to bear products to market, fast-moving market responses needed to internally develop comparative advantages through new knowledge acquisitions, and the capitalization of the external knowledge base needed to enhance strategic positioning. These activities are not isolated to the individual employee. Rather, it is the entrepreneurial spirit executed internally, which Galunic and Rodan (1998), who echoed Schumpeter, emphasized: “The entrepreneur did not have to be a single individual but rather that the ‘entrepreneurial function’ was a social and co-operative process” (p. 3).

Acquiring a new knowledge base externally and assimilating it internally hinges on existing processes and knowledge, so that managers and employees can embed it into the organizational structure for further commercialization. This has implications on the firm-level entrepreneurial orientation (EO) mechanisms, which ought not to be viewed axiomatically. The current research examines the extant literature to determine how absorptive capacity (ACAP), as a moderator, influences the relationship between strategic thinking and innovative behavior (IB) on firm-level EO. This research develops a theoretical model based on the knowledge-based view theory of the firm. Thus, the central question that prompts this research follows: Can externally acquired knowledge, when acquired by firm members and fused with internal knowledge, be strategically and innovatively assimilated, exploited, and commercialized, and does it increase or decrease firm-level EO? EO has been tested with IB (Gross & Cabanda, 2016) and is related

to strategic thinking (Gross, 2016b; Jelenc & Pisapia, 2015) at the individual level, but it has not been tested at the firm level.

Previous studies that are related to the knowledge-based view theory have not emphasized the role and importance of the cognitive factors and the requisite combination of value-added activities for firm-level strategy. Barney, Wright, and Ketchen (2001) went further by asking whether entrepreneurial firms were equipped with personnel who had strategic cognitive abilities used to assist in the identification and exploitation of market opportunities. The idea is to explicate the role of external knowledge and its purpose in continuous learning as a catalyst in entrepreneurial behaviors used to better spot emerging opportunities (Barney et al., 2001) and to develop the capability to harness knowledge spillovers that drive IB across industries (Malmberg & Maskell, 2002). Moreover, Malmberg and Maskell (2002) expressed, “A local industrial structure with many firms competing in the same industry or collaborating across related industries tends to trigger processes which create not only dynamism and flexibility in general, but also learning and innovation” (p. 433).

The external environment is the ecosystem in which competitors vie for market share to enhance product and service positioning through the acquisition and assimilation of new knowledge. The intent of the current theoretical research is to explore these relationships that might exist between strategic thinking, IB, and EO when moderated by ACAP, while controlling for firm size, employee experience, and industry type, as knowledge is acquired from the external pockets of knowledge. This research is a salient addition to theory as there is scarce literature that focuses on the moderating effects of ACAP in the small business context (Birdi, Leach, & Magadley, 2016), such as employee outbound activities pertaining to firm efficiency (Hughes & Wareham, 2010) and the process of IB based on the internalization of external knowledge, both of which are critical to theory development. To reinforce the saliency of this juncture, Easterby-Smith, Graça, Antonacopoulou, and Ferdinand (2008)—along with Jansen, Van den Bosch, and Volberda (2005)—said, “Few studies have examined the internal processes of absorptive capacity” (p. 484). Henceforth, the practical and theoretical implications that motivate this research are modelled showing how the strategic behaviors evoke firm performance and influence firm strategy and competitive advantages.

Strategic behaviors (i.e., strategic thinking and IB) remain the peripheral areas of strategy making. That is, small and large enterprises develop products on a smaller scale when compared to large corporations and find themselves directly linked to the end customer; therefore, owner decision making and customer heterogeneity require efficient strategic-thinking capabilities, IB, and an entrepreneurial spirit to drive performance and to increase market share (Ebben & Johnson, 2005). Accordingly, IB is an individual capability that manifests itself within the organization and is used as a competitive mechanism when cultivated by leadership (Gross, 2016a). IB manifests when a new product or internal practice is adopted without word-of-mouth benefit (Burns, 1987, 2007). For example, adopting new products and services based on shareholders’ and competitors’ experience and knowledge does not necessarily constitute that one’s IB has been deployed. Nor would it suggest that strategic thinking was employed. The mere process of adopting a product or service does not establish a culture of innovation (Burns, 2007).

Stock, Greis, and Fischer (2001) agreed, “Empirical research that specifically examines the relationship between absorptive capacity and product development is limited and provides little direct guidance for the specific relationships” (p. 80). With the ever-rising need for business enterprises to innovate rapidly and incrementally at the firm level, there is a resurgence of research needed specifying the antecedents of IB and determinates when influenced by ACAP. The current research emphasizes the internal manifestation of strategic thinking and the requisite external knowledge needed to fulfill interrelated firm processes based on the moderating role of ACAP. At the crux of ACAP are the two dimensions—potential capabilities and realized capabilities—that are noticeably the most critical due to their ethos of innovation (Cohen & Levinthal, 1990). However, there is a strong consensus as to the ethos of IB (Burns, 2007; De Jong & Den Hartog, 2007; Gross, 2016a; Kleysen & Street, 2001; Roehrich, 2004; West & Farr, 1989) as the action taken by individuals, groups, and or teams for the generation and application of ideas toward a new product, service, or process that results in a novel discovery at any

stage of the firm. What is absent in the IB literature is an examination explaining the underlying forces that allow employees to initiate IB based on external knowledge; this area is still unclear, segmented, and incomplete (Birdi et al., 2016). To add, strategic thinking is an individual mode of thinking that converges internal and external realities and directly and indirectly supports a firm's processes, products, services, and situational contexts. Jelenc, Pisapia, and Ivanusic (2015) explained, "Whenever unexpected events and/or research findings happen, people see it either because of the supremacy of strategic thinking or its lack of" (p. 7).

In the proceeding sections, this theoretical development creates a clearer understanding of the possible role of ACAP's moderating effect on employee EO; this notion reinforces the position held by Hughes and Wareham (2010) who considered ACAP akin to the outside-in process, where knowledge acquired externally should be relevant and applicable to the current position strategy related to internal capabilities. Knowledge acquisition occurs inside and outside of the business landscape; although internal management ethos normally disallows fungible knowledge that could disrupt previously formulated direction. When knowledge is acquired, decisions should be made as to how and where it will fit along the linkages of internal processes. Further, employees' outcomes, once triggered by knowledge acquired externally and assimilated internally, might have considerable impacts on upper-echelon strategic consideration, if management has an ethos of EO. Simply put, when managers receive newly acquired knowledge from the external environment, how does ACAP moderate the relationship between strategic behaviors and EO? In past studies, EO employed hierarchical regression analysis and controlled for size of firm, employees' experience, and industry types (Calantone, Schmidt, & Di Benedetto, 1997; Droge & Calantone, 1996; Stock et al., 2001; Tsai, 2001). The controlled variables could have strong spurious effects, because each individual and organization has various degrees of differentiation in strategic direction, allocation of resources, and knowledge-based resources.

For example, where and how the knowledge is obtained and in which method it is absorbed into the network causes paucity; however, it is important to understand that despite the size of the firm and one's experience, most businesses are not innovating in isolation but are building networks of shared knowledge across many business landscapes. The current research is unlike other studies that have focused on the type of knowledge imported into the enterprise (Vega-Jurado, Gutiérrez-Gracia, & Fernández-de-Lucio, 2009) or the strategies that are used to acquire new knowledge imported into the enterprise (Cassiman & Veugelers, 2006); rather, this research explores how knowledge is used based on two explanatory factors and the moderating role of ACAP and its effect on firm-level entrepreneurial risks, innovativeness, and proactiveness.

The current study presents three research propositions:

- P¹: Strategic thinking has a positive relationship with EO when moderated by ACAP.
- P²: IB has a positive relationship with EO when moderated by ACAP.
- P³: Strategic thinking and IB are positively related to EO.

REVIEW OF THE LITERATURE

This review of the literature attempts to provide a stream of research using an exploratory methodology using keywords that are germane to the research agenda and framework. The end product of this review is to assist in the development of theory, and the capital rests on the ability to frame and model the theoretical basis of the purported variables and the moderating effects of ACAP.

Knowledge-Based View of the Firm

Strategy development preceded by an active thrust of strategic ideas are transmuted into tangible artifacts created using capabilities based on individual competencies of knowledge-based internal networks; this is known as the knowledge-based view of the firm (Sveiby, 2001). This view of the firm is important because it explains how knowledge is generated, transferred, improved, and extended in the development of individual competence, ideas, and relationships and doubles as a managerial feedback

mechanism (Allee, 2000). As knowledge is used internally and transferred through the apparatuses of the internal structure, it grows and expands and becomes a utility; conversely, when knowledge is stagnant, it depreciates and loses value (Sveiby, 2001). Each time knowledge is transferred between individuals, it replicates (Nonaka & Takeuchi, 1995) and is converted and then ameliorates individuals, work groups, and work teams and enhances the general climate of the organization. Knowledge that is transferred within the structure of the firm is intangible, inimitable, and a competitive resource (Grant, 1996; Sveiby, 2001). As such, knowledge is not only a competitive resource but it equips individuals to pursue strategic action in the most opportune time. As the business landscape changes, it adds to the level and sophistication of firm predictability. Knowledge is viewed as intangible and as an enabling support apparatus that convoys externally into the internal structure of the firm (Sveiby, 2001). To date, no study has addressed the role of strategic thinking and IB as convertible acts of external knowledge that guide strategic action. Most, if not all, external knowledge rests in four major pockets (Sveiby, 2001), as show in Figure 1.

FIGURE 1
THE EXTERNAL POCKETS OF KNOWLEDGE

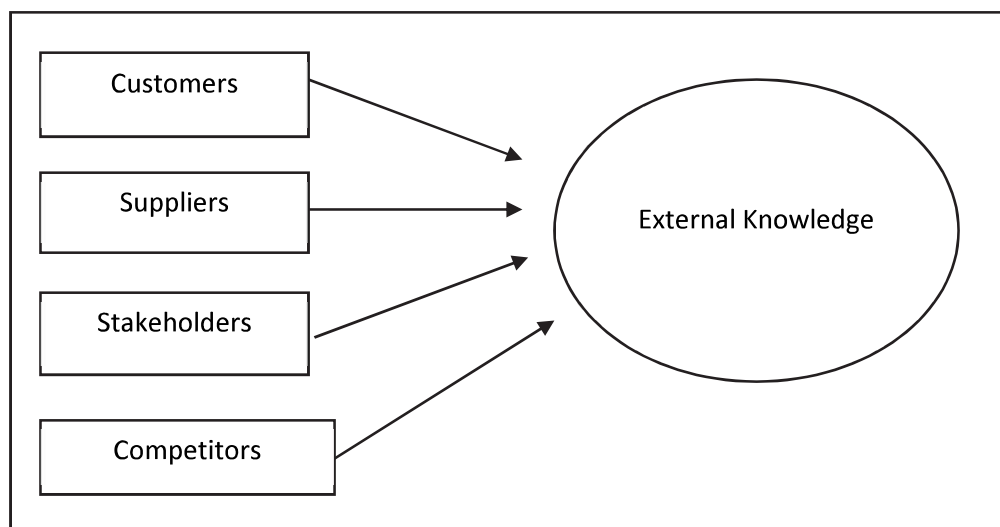


Figure 1 represents the pockets of external knowledge—pockets where knowledge is captured and acquired by firm members and management. The benefit of these pockets is that they strengthen the links related to the knowledge-based view of the firm. The two types of knowledge under this theory are categorized as procedural and technological (Grant, 1996). Both knowledge types provide firms with tremendous strategic advantages—higher level of predictability of landscape changes, tactical actions, market updates, and new technologies.

The resource-based view of the firm had its start in the early 1990s where much of the literature was focused on the development of resources and the change of firm capabilities over time. The knowledge-based view of the firm considers knowledge acquisition, transfer, and spillovers (Malmberg & Maskell, 2002) and knowledge integration across the firm’s landscape (Eisenhardt & Santos, 2002), which is unlike the resource-based view of the firm. Eisenhardt and Santos (2002) maintained that the intangible and heterogeneous nature of “knowledge-based thinking is enormously important for understanding a number of central topics in strategy, including acquisitions, alliances, and strategic choice” (p. 2). Conversely, but not dissimilarly, the resource-based view purports that a firm’s competitive advantage is based on its resources and capabilities that are valuable and inimitable, both tangible and intangible (Barney et al., 2001).

Strategic Thinking

Strategic thinking, as a mode of thinking in developing and executing plans, has seen many focal transmutations in its theoretical development. Its conception started in the 1960s with a focus on strategic planning, moved in the 1970s to management, and currently is focused on strategic thinking (Norzailan, Yusof, & Othman, 2016), which are the cognitive-orientated aspects of strategy. Liedtka (1998) pointed out five salient competencies for strategic thinking capability: systems perspective, intent-focused, intelligent opportunism, thinking in time, and hypothesis-driven. These competences are internally activated before and during strategic planning. To acquire the competencies, one must shift one's knowledge base, habits, and thinking paradigm that align with real time, maneuver to capture critical striking opportunity, and assess potential problem analysis.

To this point, Hargadon (2002) asked, "Why is it so difficult for organizations to learn from their experiences and why it is so difficult for them to forget these lessons when forced with a changed environment" (p. 42). The strategic thinking mindset influences one's abilities, perceptions, and capabilities in creating new opportunity but should not be viewed as thinking in isolation (Alsaaty, 2007). This mindset is not limited to upper-echelon decision makers; rather, strategic thinking is a cognitive mode that should permeate through all levels of the organization collaboratively, simultaneously, and expeditiously before Murphy's Law takes effect.

Strategic thinking is, however, a critical element in the process of strategizing, where one possesses knowledge, make decisions within the firm based on competitive positioning, and creates sustainable advantages on an ongoing basis. Strategic thinking is a cognitive process (Calabrese & Costa, 2015; Mintzberg, 1978) that materializes through the multiple layers of the planning cycle and can be put into real-time action and drive employees' behaviors (Pandza, 2011) to reach strategic goals. In application, strategic thinkers logically use information (internal or external), select the appropriate pieces of the information, reinterpret the information, make sense of the related and unrelated events of the situation, and link the information to internal challenges or opportunities that lead to major initiatives. The objective of strategic thinkers is to see beyond the assumptions, examine the underpinnings of an issue, challenge, and seize opportunity (Pisapia, Pang, Hee, Lin, & Morris, 2009). With the objective of strategic thinking in mind, firms are not created equally in terms of resources and or capabilities of employees and managers alike. That is why the ongoing acquisition of new knowledge and strategic direction in the minds of management can be antithetical to the old paradigm of firm strategy, where managers tenaciously cling to conventional strategy in the face of challenge and adversary.

Strategic thinking, sometimes referred to as unconventional thinking, has been positively linked to managers' ability to meet new and unforeseen challenges with greater effectiveness, rather than the use of patterned responses to new and or unforeseen challenges (McKenzie, Woolf, van Winkelen, & Morgan, 2009). Ackoff (1999) surveyed managers who purported to situationally frame past experiences and context without cognitive flexibility (Spiro, Vispoel, Schmitz, Samarapungavan, & Boerger, 1987) when it came to issues and problems with incomplete or contradictory interpretations. Given these points, McKenzie et al. (2009) purported that nonstrategic thinkers typically pursue conventional responses in the face of challenge; the CEO respondents agreed they used conventional thinking, which ignored contradictory information, passing the problem along, seeking excessive clarity on issues, and making quick solutions by eliminating contradictory information. Contrary to McKenzie et al.'s (2009) study, Moon (2013) collected data from 217 firms. Respondents were top and middle managers and front-line employees. Moon showed that strategic thinking was positively and significantly related to management's attitude toward risk-seeking behaviors but negatively related to the formalization of the decision-making process. Moon also showed that strategic thinking was positively related to increased profit, sales revenue, and the active pursuit of market share. Strategic thinking positively correlated with executives' openness to experience, accumulated work experience, and cognitive ability, according to Dragoni, Oh, Vankatwyk, and Tesluck (2011), but negatively correlated with years of experience. In hierarchal regression results, after controlling for gender, ethnicity, years of experience, and time in a lead role, Dragoni et al. reported cognitive ability to be strongly related to strategic thinking. These findings are

significant as they additionally highlight how the associated levels of responsibility held by managers aid their ability to think strategically.

Innovative Behavior

IB is known to increase performance and sustainability, engage employees' competitiveness, and propel organizational success (Amabile, 1988; Carmeli, Meitar, & Weisberg, 2006; Scott & Bruce, 1994). In a landmark study, Scott and Bruce (1994) viewed IB as an individual process, because it is individuals who "develop, carry, react and modify ideas leading to action involving the actionable ideas" (p. 580). The construct of IB has two different definitions. Kleysen and Street (2001) defined IB to involve "all individual actions directed at the generation, introduction and or application of beneficial novelty at any organizational level" (p. 285). De Jong and Den Hartog (2007) defined IB as "directed towards the initiation and application of new and useful ideas, processes, products, or procedures" (p. 43). IB is a driver that enhances many of the firm's growth, revenue, and product outcomes, largely based on its four dimensions: idea exploration, idea generation, idea championing, and idea implementation (De Jong & Den Hartog, 2010; Scott & Bruce, 1994; West & Farr, 1989). Organizational management that receives external knowledge and assimilates it toward innovative ends is vital to employee IB and capabilities (Cohen & Levinthal, 1990). Stenholm (2011) examined the role of IB on firm growth intentions in small businesses. The data were analyzed with hierarchical regression analysis, while size, age, and industry (Almus & Nerlinger, 1999; Cliff, 1998; Delmar & Wiklund, 2008; Stenholm, 2011) were controlled—a method consistent with others. Stenholm found that IB was associated with firm growth efforts as IB affects growth and has demands on internal capabilities needed to employ scarce resources to bring innovation to fruition. In the same vein, IB was also positively linked with external work contacts and employee innovative output, based on a study that sampled 94 firms and 703 workers (De Jong & Den Hartog, 2008). Further, organizational climate and IB were positively related, based on data collected from 39 upper-level managers and 105 front-line managers. The analysis reported climate as significantly related to innovate behavior and having a strong relationship with EO (Kang, Matusik, Kim, & Phillips, 2016).

In a seminal study, Scott and Bruce (1994) examined the effects of IB on employee perceptions of the organizational climate fueled by innovation. Their model consisted of four levels of analysis: individual, leader, work group, and climate. In the underpinning of their multilayered model, Scott and Bruce purported that climate, the employee psychological perception of appropriate behaviors, leadership support for innovation, manager expectations, and systematic problem solving were all positively related to individual IB. With very few studies that have tested the manifest and latent effects of IB in the context of business, Xerri and Brunetto (2011) focused on how knowledge transfer manifests within organizations and influences IB. The view of IB was such that it increases and grows stronger when knowledge is shared equitably between firm members. Xerri and Brunetto viewed these capabilities from the inside out through the internalization of rewarding and supporting mechanisms provided to employees as cultural and structural apparatuses to cultivate IB. Social capital, trust, relational strength, and culture positively impacted employee IB.

Absorptive Capacity

There has been a tremendous amount of foci in literature on the use and implementation of knowledge using firm capabilities directed at the acquisition of new knowledge that accelerates intrafirm advances, expeditiously acquiring knowledge to propel the implementation of new knowledge, and developing fast-track methodologies from conception to the production of products and services. However, sparse literature has provided insight into the moderating role of ACAP. There has been little theoretical rejuvenation of ACAP in terms of its relationship between IB and employee strategic thinking and its impact on organization-level EO and strategy. Stock et al. (2001) explained, "A potentially relevant construct that has received comparatively little attention with respect to product development is absorptive capacity" (p. 78).

ACAP is an interorganizational phenomenon that includes developing processes for new products, generating ideas, and exploiting them into products or services that will outperform competitors in the marketplace (Cohen & Levinthal, 1990; Jansen et al., 2005; Sciascia, D'oria, Bruni, & Larrañeta, 2014; Zahra & George, 2002), serve to increase firm-level problem-solving skills (Kim, 1998), and engage involuntary knowledge spillovers (Gulati, 1998). ACAP consists of four dimensions: acquisition, assimilation, transformation, and exploitation (Zahra & George, 2002). Newly acquired knowledge and employee performance due to high levels of ACAP is related to new product development. Cohen and Levinthal (1990) indicated that ACAP is associated with various levels of employee performance. The ease in which employees learn from external sources enhances internal capabilities—both realized and potential.

In line with Cohen and Levinthal (1990), Tsai (2001) proposed that organizational units can transfer knowledge across several units to increase innovation and organizational performance, looking from the inside out perspective. Tsai collected data from 24 businesses and 36 business units that showed a significant and positive effect on business unit invention and performance abilities. Tsai suggested that units with higher levels of ACAP are associated with higher levels of performance and innovation. That is, the more work units transfer knowledge, the higher the success rates of assimilating the newly learned knowledge toward speed to market, performance of business units, and commercialization of products (Tsai, 2001).

Although the acquisition of external information is fundamental to learning and knowledge sharing between management and employees, transformation and exploitation is vital to this process and plays the role of integrating existing knowledge and the newly acquired external information. The transformational stage of the absorptive process serves to break down the interfirm silos, producing gains in productivity and transmitting the entrepreneurial spirit. There could exist a potential disconnect between the newly acquired information and internal capabilities, creating a mismatch that disrupts the internal structural balance. Scaringella, Miles, and Truong (2017) maintained that when this internal balance is disrupted, management can find techniques where both innovation and new information can realign. Further, the exploitation of the new information, enmeshed in the absorptive process, has strong basis in firm-level EO. This phase is the culmination of efforts that lead to the commercialization of products and services.

Zahra and George (2002) argued that ACAP has unrealized and realized dimensions that are vital to intrafirm knowledge spillovers (Savin & Egbetokun, 2012). These dimensions are dynamic capabilities that often are potential, but due to high costs of in-house research and development, much of knowledge sharing and learning has been virtually eliminated or unrealized; moreover, overall what remains explicit in firm knowledge acquisition and assimilation to exploitation is that firms often need information that lies outside their core competence (Savin & Egbetokun, 2012). Therefore, the underpinning of ACAP, the explication of its dimensions, is critical to understanding both realized and potential fusion of external knowledge, because higher ACAP means increased outputs and performance.

Potential and Realized Absorptive Capacity

ACAP has been assigned to various unit of analysis such as countries, organizations, and intraorganizational divisions (Zahra & George, 2002). ACAP has been viewed through several theoretical lenses including inward knowledge transfer, organizational learning, strategic management, innovation, and organizations as learning systems (Zahra & George, 2002) to name a few. These past lenses did not consider the affect employee behaviors might have on potential and realized capabilities and its relationship with employee entrepreneurial behaviors.

Potential ACAP (PACAP) and realized ACAP (RACAP) were conceptually developed by Cohen and Levinthal (1990) who described the two dimensions of ACAP as encapsulating how managers internalize and acquire external information and how managers leverage useful information from the external landscape to commercialize realized products or services. Knowledge acquired externally is not altogether useful in and of itself but adds to the capital needed to infuse the institutional memory for future organizational development. But, the mere fact that organizations are receptive to acquiring external

knowledge is ideal for internal transformational processes related to the interfirm value-adding process linkages. Another aspect of these dimensions is that management values external knowledge because it adds to the human capital needed to assimilate and materialize the commercialization of outputs. Therefore, both realized and potential ACAP are not mutually exclusive, as they are both performance enhancers and should be cultivated by structure and leadership.

ACAP's four dimensions are categorized as *potential* and *realized*. Potential capabilities refer to the *acquisition* and *assimilation* of newly acquired external knowledge. Acquisition refers to how firms identify and acquire external knowledge that is particularly vital to its operations. Assimilation is the firm's routines and processes used to analyze, interpret, and reinterpret information. Realized ACAP consists of *transformation* and *exploitation*. Transformation refers to the refinement process once new external knowledge has been collected and identified. At this stage, the information is internally coded and converted to a body of knowledge in which the organization's ecosystem absorbs knowledge into the needed gaps located within the system. Exploitation is the application of the knowledge and the process orientation that is embedded into the firm's structure to allow for refinement. What is important in this dimension is the procedure, structure, processes, and realization of product and services and the ability to sustain these realized activities over time.

Entrepreneurial Orientation

Rauch, Wiklund, Lumpkin, and Frese (2009) defined *entrepreneurial orientation* as "the strategy making processes that provide organizations with a basis for entrepreneurial decisions and actions" (p. 3). A similar, yet alternative definition of EO by Stam and Elfring (2008) is "the processes, structures, and behaviors of firms that are characterized by innovativeness, proactiveness, and risk taking" (p. 98; Covin & Slevin, 1989; Miller, 1983). The domains of EO are innovativeness, proactiveness, and risk taking (Rauch et al. 2009). Innovativeness refers to the ethos in which a firm cultivates, supports, and drives creative ideas that can result in new products, services, and processes; proactiveness refers to the alertness and awareness of future needs, opportunities, or issues that could serve to beat competitors to the market; and risk taking involves management allocation of resources into ventures in the face of uncertainty (Brettel, Chomik, & Flatten, 2015; Miller, 1983; Rauch et al., 2009).

At the individual level, EO is best described as one who breaks away from existing routines (Kirzner, 1999) and disrupts existing structures and markets as a disequilibrating force (Schumpeter, 1950). However, Schumpeter (1950) attributed higher status to the behaviors of the entrepreneurially oriented and suggested that this type of firm-level ethos inoculates members with abilities that lead markets with capabilities not imitable by competitors; therefore, these entrepreneurially oriented firms that are proactive and take risk often have advantages that can creatively disrupt existing markets. Simply, EO comprises organizational processes, methods, practices, and decision-making methodologies not only at the individual level (Jelenc, Pisapia, et al., 2015) but also at the firm level of analysis (Lumpkin & Dess, 1996; Miller, 1983). EO might increase in intensity if influenced by innovative action where provided the necessary faculties needed to commercialize new developments (Wales, Parida, & Patel, 2013), transfer knowledge (Chen & Huang, 2009; Tsai, 2001) to enhance learning capabilities to sustain competitive advantages, and harness employee IB.

The EO literature has purported that firms with high levels of EO experience higher levels of performance (Wang & Zang, 2005; Wiklund, 1999). Because of EO's vitality to performance, managers cultivate an ethos of EO at the firm level to drive strategy (Miller, 1983). As such, EO is one of the most dynamic constructs in the business strategy literature (Brettel et al., 2015). The dynamism of EO is at the foundation of entrepreneurship and entrepreneurial strategy in that EO has been related to leaders' decision making and aligned with strategy execution (Brettel et al., 2015), which is particularly important in the business context because many small and large businesses are in constant survival mode (Zahra, Sapienza, & Davidsson, 2006). However, Zahra, Sapienza, et al. (2006) said scant literature has explained the process by which business capabilities are created, cultivated, and implemented, considering the scarcity of resources and knowledge expertise. This lack of knowledge resource can be a hindrance to

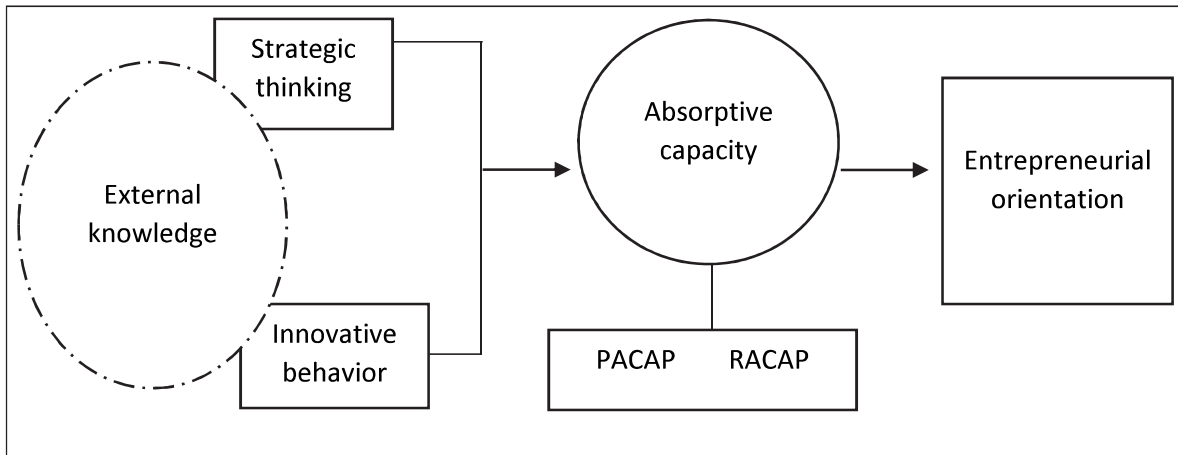
competitive positioning in hostile environments and can pose serious threats to firm-level employee risk taking and proactive propensity and employee psychological risk (Covin & Slevin, 1989).

Leading managers seek to acquire new knowledge in order to expand on their competitive advantages and to secure their strategic positioning in their respective markets. Wales, Parida, and Patel (2013) examined the moderating role of EO on ACAP related to small business performance measures (i.e., sales growth, operating profit, and return-on-assets growth). Wales et al. suggested that EO highly influences financial returns, which justifies a strong preexisting relationship, but the measures are dependent on the level of the EO ethos within the management echelon. That is, EO creates an opportunity to make process gains and could translate to financial returns based on firm-level EO.

Theoretical Model

Brown, Davidsson, and Wiklund (2001) and Shane (2000) expressed the need for future research to implement individual-level factors and variables that could be tested against different types of knowledge attainment strategies. As presented in Figure 2, the missing link is provided between strategic thinking and IB individual factors on firm-level EO and the moderating role of ACAP as a determinate of the strength between the relationship of the variables of risk taking, innovativeness, and proactiveness. Figure 2 shows the process in which external knowledge enters through the firm at the individual level (e.g., management), where management deciphers the knowledge and transforms it with ACAP—realized and potential. This process moderates the strength of firm-level EO

**FIGURE 2
THE MODERATING ROLE OF ACAP AND STRATEGIC BEHAVIORS**



Managers’ and employees’ ability to analyze new knowledge from external sources, assimilate and transform the information, and exploit it commercially is the utility of ACAP. What is easily inferred from the theoretical model is that strategic thinking does have significant influence on employee behaviors, because, by its very nature, strategic-thinking managers can see beyond the basic assumptions and generalities of the firm’s current market position; they can reframe issues from a systems perspective while using previous experiences to find new directions that will develop organically to simultaneously compete on the business landscape.

IB is the secondary variable in this model, as newly acquired knowledge is approached with the intent to create novel ideas and move them to tangible innovation. This is a substantive aspect directly related to the strength of realized ACAP. IB is part and parcel to the organization’s climate. If there is a perceived view of IB for the sake of innovation, firm members are more apt to support the risk of others and be more willing to disregard the psychological risk of behaving innovatively themselves. A pro-innovative climate (Scott & Bruce, 1994) will positively affect both the risk and gains of employee IB and reduce IB

inertia that is inherent in failed ideas in many business environments (Yuan & Woodman, 2010). This is why IB is included in Figure 2 as a pro-climate factor that is vital to the way external knowledge is inserted into potential and realized capabilities related to increasing EO.

ACAP, as shown in the model as a moderating variable, thereby influences the strength in relationship between strategic thinking, IB, and EO. A high ACAP adds strength to the relationship with EO. Potential and realized ACAP play significant roles in influencing the strength of EO's innovativeness, risk taking, and proactiveness dimensions without signs of diminishing returns over time (Scaringella et al., 2017). Figure 2 agrees with Nickerson and Zenger (2004), who contended, "The state of a firm's knowledge can be advanced by either absorbing existing knowledge external to the firm or by developing new knowledge by first identifying a problem and then discovering a valuable new solution" (p. 2). Based on the theoretical model, the outcome factor is a higher EO and management's ethos at the firm level. This theoretical model presents three propositions for future research:

- P¹: Strategic thinking has a positive relationship with EO when moderated by ACAP.
- P²: IB has a positive relationship with EO when moderated by ACAP.
- P³: Strategic thinking and IB are positively related to EO.

CONCLUSION

This research began with a central question in mind: What is the moderating influence of ACAP between strategic thinking, IB, and EO? This central question was followed with secondary questions related to the role of strategic behaviors (i.e., strategic thinking, IB, and EO) and their place in the knowledge-based view theory. The presented propositions provide new approaches and theoretical linkage concerning ACAP and its moderating relationship between strategic thinking, IB, and EO. The model in Figure 2 adds to the integral role of strategic behaviors' unexamined relationship to entrepreneurial behaviors.

Based on the theoretical analysis and the assessment of the extant literature, before EO can be actualized and realized, external knowledge should first be viewed in terms of firm members' capabilities required to transform and commercialize ideas to final products or services. The theoretical linkages and propositions presented here between knowledge and final product and service development is central to the assertion made by Guerras-Martín, Madhok, and Montoro-Sánchez (2014), which is to analyze employee behaviors through a realistic lens in which strategy is viewed. Although Guerras-Martín et al. were concerned primarily with the resource-based view of the firm, this theoretical development focuses on the knowledge base of the firm and the inclusion of constructs based on how knowledge is transmitted externally and the behaviors of employees to transmute the knowledge to increase EO internally. In this research, EO is the explanatory variable in terms of its position in the view of the firm paradigm. There are a substantial number of indicators to purport a relationship between IB and EO (Gross, 2016a), but there is not enough discussion or empirical evidence of the theoretical links between strategic thinking and IB and their inclusion in the knowledge base of the firm and the potential effects of a moderating relationship on EO. Madhok and Marques (2014) raised concerns regarding a contemporary view of strategic management and how strategy ought to be viewed insofar as the dynamic changes that occur in today's business landscapes.

DISCUSSION AND FUTURE RESEARCH

The theoretical model and propositions assist practitioners and academics alike on the quest to better understand the moderating role of ACAP on strategic behaviors. This research also supports the strategic paradigm shift toward the strategic cognition of employees and managers—how they think strategically and how IB is applied to incoming knowledge and the way in which knowledge is internally transformed into realized capabilities. Additionally, the theoretical results are in line with Vera, Nemanich, Valez-

Castrillon, and Werner (2014) in that external knowledge can help the firm by developing a broader knowledge base, keeping abreast of cutting-edge technologies, and preventing the waste of resources and time-wasting activities. With this in mind, higher levels of EO are not initiated on their own but enlarged when factors such as strategic thinking and IB are woven into the transitional process of knowledge fusion and transmutation of the knowledge at the firm level of analysis. The presented propositions can be tested either qualitatively or quantitatively to compare between industry types, cultures, and small and large organizations.

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