

THE MEDIATING EFFECT OF ENDOGENOUS CREATIVITY ON KNOWLEDGE EXPLOITATION AND FIRM PERFORMANCE IN AN EMERGING ECONOMY

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ABSTRACT

The emerging economies are key factors in the future growth of world trade and the maintenance of global financial stability. Little is known about the way in which firms in emerging economies strategically manage the learning – creativity process to develop competitive advantage in both domestic and global markets. We extend the literature on learning and human capital by positing a model and examining 1) the mediating role of higher-order human capital in the relationship between learning facilitation and knowledge exploitation (KE); and 2) the mediating role of endogenous creativity in the KE – firm performance relationship. Qualitative method based on the sample in China's firms was adopted and the results indicate that all the hypothesized relationships are supported.

Keywords: Structural Equation Modeling, Organizational Learning, Knowledge-Based View, Human/Knowledge Capital, Endogenous Creativity

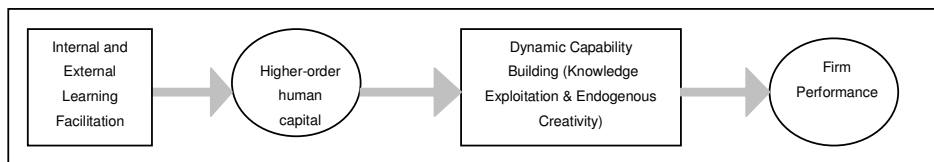
INTRODUCTION

Despite the turbulence of their fast-changing environments, firms in emerging economies such as China and India have emerged, grown and even dominated in some markets. However, research on how these latecomer firms strategically manage the learning – creativity process to develop competitive advantage in both domestic and global markets is limited (Bruton, Dess, & Janney, 2007; Lu, Tsang, & Peng, 2008).

Recent advances in understanding exploitive learning for high firm performance have been informed by human capital theory, which places emphasis on the role of employees' quality in firm learning and performance (Pueyo & Sanso, 2005). However, few studies have specifically explored how higher-order human capital (HOHC), defined as an employee's capabilities, creativity with sufficient knowledge base, firm-specific experiences, and expertise is fostered, and the role it plays in emerging economies. In addition, although social capital has been linked to knowledge sharing (e.g., Nahapiet & Ghoshal, 1998; Rastogi, 2000; Tsai, 2001), there is no empirical study that specifically examines the facilitative role that unit social interactions and trust in peers play in the exploitation – endogenous creativity process, especially in the context of emerging economies (Bruton et al., 2007).

Henceforth, to bridge these research gaps, our study seeks to understand how HOHC with specific learning facilitation and KE contribute to a firm's endogenous creativity in emerging economies. Specifically, we develop a model and examine 1) the extent to which learning facilitation leads to the development of HOHC, which in turn effectively contributes to a firm's KE; and 2) the endogenous creativity as a mediator of the KE – firm performance relationship. The nomological framework for this research study is presented in Figure 1. We choose Chinese firms as the research setting for our study because China is currently the largest emerging economy.

FIGURE 1The Nomological Framework



Our study attempts to make several contributions to the extant literature. First, by exploring the mediating effect of HOHC, we extend the learning literature concerning the role played by firm learning facilitation in increasing the context-specific capacities of employees that enable them to contribute to KE effectively. Second, our study extends creativity literature by establishing the importance of the relationships among learning facilitation, HOHC, KE, and endogenous creativity from an enhancement perspective (Bowman & Swart, 2007). Our latecomer catch-up model includes a set of antecedents, which reflect particular characteristics of creative social environments and processes for endogenous creativity in emerging economies.

THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

Theoretical Background

Drawn upon extant literature (Pueyo & Sanso, 2005; Youndt & Snell, 2004), high-order human capital (HOHC) in this study is defined as above. Grounded within extant literature, learning facilitation in this study refers to learning activities that aim to increase employees' capacities to absorb and integrate up-front knowledge, including participation in industry-specific seminars and symposia, industrial community gatherings, interactions with stakeholders, and formal and informal programs of self-capacity development (Soosay, 2005). Following previous research, particularly that of March (1991) and Nonaka (1994), we refer to knowledge exploitation (KE) as a learning process that is made up of intertwined activities, including sharing and refining existing knowledge into new knowledge, and codifying and converting new knowledge for more effective applications (Tsai & Li, 2007).

Previous studies propose (March, 1991; Miller et al., 2006) and empirically find (Atuahene-Gima & Murray, 2007) that an appropriate balance between exploration and exploitation is a crucial factor in a firm's long-term development of competitive advantage. However, given the limit of higher-order resources, firms in emerging economies tend to choose exploitation to implement a low-cost competitive strategy in the first phase of catch-up (Dixon et al., 2007; Li et al., 2010). Chinese firms in the automobile industry, for example, successfully competed with multinational companies through innovative architecture modification in the domestic market (Wang, 2008).

Learning facilitation and HOHC. Both human capital theory (Grant, 1996) and competency-based learning theory (Jones et al., 2002) support the cross-level linkage between learning facilitation and individual HOHC. Employees must possess information and skills across a diverse and multi-faceted business to be able to contribute to the firm's KE process. The learning facilitation activities improve the quality of human capital talent by encouraging employees 1) to establish deliberate associations between past actions, current personal experience, industrial applications, and future situations (Agarwal & Selen, 2009); 2) to search information in depth and breadth from internal and external sources for new products (Katila & Ahuja, 2002); 3) to develop competencies for double-loop learning (Argyris & Schon, 1978); and 4) to associate creation and amendment to routines (Agarwal & Selen, 2009). The articulation of these embedded experiences and intelligence will be translated into higher-order creative skills and dynamic capabilities (Zollo & Winter, 2002). Both internal and external learning facilitation activities also enhance employees' industry-related vision and their critical thinking skills (García-Morales et al., 2007).

HOHC and KE. The relationship between HOHC and KE is underpinned by the double-loop learning theory, which supports the individual's ability to view and modify what they previously learnt in single-loop learning. Consequently, this ability to question and expand previous knowledge leads to individual knowledge exploration and exploitation as a second-order learning mechanism (Argyris & Schon, 1978). KE requires the abilities of summarizing, communicating, creating, and integrating ideas. Employees' capabilities, to a large extent, determine whether the relevant experiences can be refined to generate new knowledge effectively in a double-loop learning process. Context-specific HOHC possesses sufficient and relevant knowledge to share, and also arms individuals with strong capabilities to extract and synthesize meaningful new knowledge from previous experiences (Hirst et al., 2009).

We argue that context-genetic human capital (i.e., work for living) alone cannot account for effective KE and that the context-specific HOHC (i.e., work for self-actualization) plays a critical role in KE (Agarwal & Selen, 2009; Van de Ven, 2004). More recently, researchers have begun to pay attention to the relationships between

employees' capacities and firm knowledge practices (Kjargaard & Kautz, 2008). The empirical evidence indicates that the failure of many knowledge management projects is accounted for by employees' lacking sufficient relevant knowledge, making incorrect assumptions about what knowledge is required for the firm's competitive advantage, or possessing limited abilities to convert knowledge shared from others into meaningful outcomes (Smith, McKeen, & Singh, 2006).

It is clear that productive KE cannot take place without HOHC (Hirst et al., 2009). The firm's capacity to recognize and enhance its employees' aptitude for exploitation is vital to KE (Cohen & Levinthal, 1990). Based on the foregoing theoretical discussion, we hypothesize the following:

Hypothesis 1a: Higher-order human capital mediates the relationship between internal organizational learning facilitation and knowledge exploitation in the latecomer firms in an emerging economy.

Hypothesis 1b: Higher-order human capital mediates the relationship between external organizational learning facilitation and knowledge exploitation in the latecomer firms in an emerging economy.

Mediating effect of endogenous creativity on KE and firm performance

Creativity has been examined primarily at the individual level (Amabile, 1997) and at the group level (Maddux & Galinsky, 2009), but only limited research has investigated creativity at the organizational level (Agarwal & Selen, 2009; Phan et al., 2010). It has been studied from a variety of perspectives in extant literature, including cognitive decision-making, individual learning, and personality theories (Hirst et al., 2009). Our study attempts to fill the gap and draw upon the performance perspective to investigate the mediating effect of organizational endogenous creativity between KE and firm performance.

The link between knowledge creation and its implementation has been largely ignored by previous studies in the learning literature (Mehta, 2007; Smith et al., 2006). Following a knowledge creativity-action-outcome model proposed by Smith et al. (2006), we analyze the action role of endogenous creativity in mediating KE and performance link.

The direct effect of KE on firm performance. Informed by exploitation learning theory, previous studies have provided empirical evidence that firms can achieve higher performance (Miller et al., 2006), better competitive positions (Adenfelt & Lagerström, 2006), and higher endogenous innovation (Li et al., 2010), when employees 1) exploit their existing knowledge; 2) access and share past learning and experiences; and 3) re-assess and re-design past and current designs. In emerging economies, economies of scale in knowledge use and economies of scope in knowledge accumulation have a significant impact on the outcomes of business operation (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). Accordingly, Hitt and colleagues (2004) argue that firms in emerging economies will first cull their internal knowledge basis to respond quickly to fleeting opportunities.

The effect of KE on as the mediator of endogenous creativity. According to the knowledge-based view, KE is an important source of endogenous creativity (Tsai & Li, 2007). Endogenous creativity involves creative processes arising from the inner articulation of a given knowledge convergence system. Although the boundaries of such a system are open to exogenous resources, the aspects of endogenous processes are mainly assimilated, based on existing experiences (Antonelli, 2009). The intentional and contextual resource provided by KE is necessary because it allows firms to dig deeper into the analysis of characteristics of the new applications. KE results in the combination of existing and newly acquired creative ideas. It enhances the capacity of units to make novel linkages between inside experiences and outside expectations (Dooley, 2005).

The effect of endogenous creativity on firm performance. The rationale for the expected positive effect is that endogenous creativity results in product and service differentiation and process efficiency, which are important determinants of a firm's performance (Tsai & Li, 2007). Endogenous creativity as a collective cognitive process discovers new patterns from familiar ideas, routines and mental models (Amabile, 1997; Phan et al., 2010). It thus leads to a firm's higher performance based on production of novel and useful ideas concerning virtually all aspects of the formation and operation of an organization, including products, services, work processes, management methods and business models (Phan et al., 2010).

Specifically, firms in emerging economies like China and India adopt various strategies of endogenous creativity for efficiency-effective driven performance (Dixon et al., 2007; Li & Kozhikode, 2008). By creating what customers want and need, successful firms in emerging economies, such as Chinese television

manufacturer TCL, appliance-maker Haier, and Chinese-language Internet search provider Baidu, build brands that appeal to consumers under a relatively low cost business model (Stafford, 1998). Summarizing all of the above, we hypothesize the following:

Hypothesis 2: Endogenous creativity mediates the relationship between knowledge exploitation and firm performance in an emerging economy.

METHOD

Sample and Data Collection

Data were collected using a highly structured and pretested questionnaire. As suggested by Hoskisson and colleagues (2000), collaboration with local researchers is a key means of obtaining reliable and valid data in an emerging economy, and face-to-face interviews are desirable because they increase response rates and generate more valid information. Through these efforts, we obtained a total of 186 completed surveys.

Examining the demographics of the sampling frame, our sample was diverse with a broad representation of various industry types, 56.5% of the sample was from service industries including finance, electricity & transport, and the remaining 43.5% was from the manufacturing sector.

Instrument Measures

All the measures in the questionnaire were professionally translated with the recommended back-translation procedure (Brislin, 1970; Hoskisson et al., 2000) to ensure conceptual equivalence. The questionnaire was pretested on a convenience sample of Chinese managers. On the basis of the responses received, we revised a small number of questionnaire items to enhance clarity in expression. Unless specially indicated, we measured all the measurement items using a 5-point Likert scale (1 = “strongly disagree”, 5 = “strongly agree”). Research constructs were measured using existing instruments in the relevant literature. Due to space limitation, the detailed items of the eight measures shown in Table 1 are not presented in this paper.

Although we focus on examining the relationships among the eight constructs, two control variables were included in our empirical analysis in order to provide a stronger test of our theoretical framework. The two control variables were firm size measured by the number of employees and firm history measured by the number of years that the firm is in operation.

TABLE 1
Means, Standard Deviations, and Intercorrelations of Constructs (n = 186)

Construct	Alpha	CR	AVE	HSV	Mean	StdDev	ILF	ELF	HHC	USI	TIP	KE	EC
ILF: Internal Learning Facilitation	0.85	0.90	0.69	0.44	3.22	0.92	1.00						
ELF: External Learning Facilitation	0.70	0.82	0.61	0.44	3.06	0.80	0.66	1.00					
HHC: High-Order Human Capital	0.80	0.87	0.63	0.40	3.30	0.70	0.54	0.44	1.00				
USI: Unit Social Interactions	0.81	0.84	0.58	0.14	3.20	0.75	0.31	0.38	0.35	1.00			
TIP: Trust in Peers	0.91	0.94	0.74	0.36	3.32	0.79	0.54	0.56	0.60	0.30	1.00		
KE: Knowledge Exploration	0.87	0.90	0.50	0.31	3.53	0.77	0.55	0.54	0.46	0.19	0.53	1.00	
EC: Endogenous Creativity	0.90	0.93	0.72	0.40	2.99	0.91	0.61	0.51	0.63	0.29	0.54	0.56	1.00
FP: Firm Performance	0.87	0.90	0.65	0.34	3.34	0.84	0.52	0.39	0.48	0.24	0.48	0.40	0.40

RESULTS

Results of the Measurement Model

Table 1 also presents the scale means, standard deviations, and inter-correlations of the eight constructs. In addition, the CR column in Table 1 refers to the construct reliability values, which are similar to the Cronbach alpha values and the same cut-off value of 0.7 can be used to evaluate the reliability of a multi-item measure. The AVE column refers to the average variance extracted and they can be used to assess convergent and discriminant validity of the measures (Hair et al., 2006). Specifically, convergent validity is established when AVE is larger than 0.50 and discriminant validity is established when AVE is larger than the highest shared variance (HSV), which is equal to the highest squared correlation between the construct and the other constructs. It can be seen from Table 1 that the eight measures used in this study had CR scores well above the cut-off value of 0.7, AVE scores of at least 0.5 and larger than their corresponding HSV scores. Therefore, these results suggest that all the eight measures exhibited acceptable psychometric properties.

Results of the Structural Model

Since the structural model involves two direct effects (H1a & H1b), three mediation effects (H1a, H1a, & H2), we need to use a structural equation modeling approach that takes measurement errors into account (Bagozzi et al., 1991; Hair et al., 2006). The path diagram for the main effects structural model. The two direct effects refer to the path from Internal Learning Facilitation (ILF) to KE (H1a) and the path from External Learning Facilitation (ELF) to KE (H1b). H1a pertains to the mediation effect of HOHC on the relationship between ILF and KE. Similarly, H1a relates to the mediation effect of HOHC on the relationship between ELF and KE. The mediation effect of endogenous creativity (EC) on the relationship between KE and firm performance as hypothesized in H2 is depicted by the following two paths: from KE to EC and from EC to Firm Performance.

TABLE 2 Estimates for the Hypothesized Paths in the Main Effects Structural Model

Hypothesized Path	Relevant Hypothesis	Standardized Estimate	T-Value	Hypothesis Supported?
(03) Internal Learning Facilitation → HOHC	H1a	0.4426	5.09	YES
(04) External Learning Facilitation → HOHC	H1b	0.1455	2.15	YES
(05) Higher-Order Human Capital → Knowledge Exploitation	H1a & H1b	0.1217	2.03	YES
(08) Knowledge Exploitation → Endogenous Creativity	H2	0.5590	10.11	YES
(09) Endogenous Creativity → Firm Performance	H2	0.5178	7.55	YES
(10) Knowledge Exploitation → Firm Performance	H2	0.1154	1.41	YES

DISCUSSION AND CONCLUSIONS

Theoretical implications

Our study makes a significant contribution on several fronts. We made a contribution to human capital literature by establishing the mediating effect of HOHC on the learning facilitation and KE link in an emerging economy. The findings indicate that internal and external learning activities positively increase HOHC which, in turn, effectively contributes to KE. To be engaged in KE processes, employees must possess context-specific creative capability to refine and apply knowledge, and improve routines. Competency-oriented and self awareness-oriented learning fit the low-cost, efficient strategy criteria, enabling latecomer firms to catch up with their counterparts in developed-countries (Li & Kozhikode, 2008; Li et al., 2010).

Previous studies link human capital with organizational performance directly without integrating the contextual factors (e.g., Youndt & Snell, 2004). The findings of our study may explain why the significant mediating effect of human capital on organizational performance is not found in these previous studies, if KE and endogenous creativity are not included in the path analysis. This is a significant addition to the knowledge base of human capital literature.

Finally, the contribution of this study relates to the significant mediating effect of endogenous creativity, defined as an action role in the knowledge-action-outcome model, on the relationship between KE and firm performance in emerging economy firms. The findings explain an important aspect of the latecomer catch-up model and suggest that endogenous creativity is an effective strategy that firms in such economies can adopt, when operating with limited higher-order resources.

Managerial Implications

Given the limitations of no substantial experience in R&D, no core knowledge, and lack of adoption of new technology for initiating and keeping pace with innovation in developed countries, firms in China were reported to generate limited outcomes out of innovation projects, even though substantial financial resources were distributed to some firms (Cao et al., 2009).

The findings of our study suggest that when adopting endogenous creativity as a competitive strategy, latecomer firms need to follow the learning-HOHC-endogenous creativity process in a structured manner with rationalized steps. First, they should initially invest and design the learning activities which guide employees to develop competencies in searching and accumulating the firm's existing experiences and information. Second, they should consciously act on the new ideas generated by KE and make strategic efforts to turn them into tangible outcomes in the form of new improvements, new features of existing products, and new services.

Limitations and Future Research

While our study represents one of only a handful of empirical studies that explore and test the linkages among key variables of the latecomer catch-up model, a number of limitations of this study provide opportunities for further research. First, organizational intelligence is not included in our study, although its association with human capital and organizational creativity is discussed in previous studies (e.g., Youndt & Snell, 2004). Future research may enhance the model and provide a more comprehensive picture of the learning factors influencing firm endogenous creativity.

Second, although the mediating effect of HOHC on learning facilitation and KE is examined, the way in which the specific practices of HRM play a role in developing HOHC is not investigated in our current study. Future research may examine the effect of comprehensive aspects of HRM on HOHC in order to develop a better understanding of ways to advance and inculcate HOHC in these firms.

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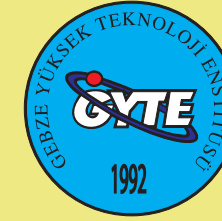


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PREFACE

Dear Colleagues and Guests,

Welcome to the Seventh International Strategic Management Conference in Paris, France. On behalf of the organizing Committee, I would like to extend my heartfelt greetings to all of you and wish you a successful meeting that yields many productive academic collaborations and reinforces the already established ties, as with past meetings of our conference.

The Seventh International Strategic Management Conference is organized with the academic and financials collaborations of Beykent University, Gebze Institute of Technology and Çanakkale Onsekiz Mart University of Turkey. This year we have also enjoyed the academic support of Emerald Group Publishing.

As Conference Chairman, I deem it a great pleasure to extend my deep appreciation to my colleagues, Organizing Committee, Advisory Boards and Peer Review Committee and the distinguished Honorary Presidents of our Conference.

This year's conference has received a total 232 papers from 37 different countries. Some of these papers were submitted as full papers from the start. Unfortunately, some of the extend abstracts were not received as full papers by the deadline given for submission of full papers are included. These were selected after careful screening.

I am happy to announce that in this year's conference a much wider geography is represented than in the past. The number countries has increased considerably after the last two years and this indicates that we are reaching an ever wider audience of academicians and participants than before. These 37 countries are: Albania, Australia, Azerbaijan, Belgium, Bosnia and Herzegovina, Canada, China, Finland, France, Greece, Hungary, Indonesia, Iran, Israel, Italy, India, Malaysia, Mexico, Nepal, Kuwait, Kazakhstan, Kyrgyzstan, Latvia, Macedonia, Norway, Romania, Pakistan, Serbia, South Africa, Spain, Taiwan, Thailand, Tunisia, United Kingdom, United States of America, and Turkey. Also, some academicians have been unable to attend the conference due to visa problems which have caused us all much concern. This year our keynote speaker Oskar Kayasan will address you on Investigating Strategies of Recovery from the Recession.

Dear Participants, on behalf of the Strategic Management Team, I would once again like to welcome you to the Seventh International Strategic Management Conference.

*Erol EREN, Ph.D.
Chariman of the Conference
Beykent University*

PREFACE

We are pleased to welcome you to the 7th International Strategic Management Conference in Paris. It is a great pleasure and honor to participate in this joint meeting. This year, the theme is “Investigating Strategies of Recovery from the Recession” , an important topic around which competitive papers and special sessions are presented.

Academicians from different countries submitted original papers for conference presentation and for publication in this edition of Proceedings Book. This year, we are proud to present over 160 papers that reflect scholarly contributions to the theme coming from authors representing 35 countries. All competitive papers have been subject to a peer review. I would like to express our appreciation to the reviewers for reviewing the papers that were submitted to this conference. We also thank to all those who submitted their work to be considered for presentation at the conference.

I would like to thank to the Rectors of Universities for their continuing cooperation. My special thanks go to Orhan Sahin, Rector of Gebze Institute of Technology for his valuable support and encouragement.

Conference organizers, paper contributors, track chair persons, and paper reviewers have all worked extremely hard to develop a high quality conference program and proceedings book. We owe a special gratuity to Professor Erol Eren, Faculty Dean and Chairman of the Conference. He made great effort to organize and perfect all arrangements. Special thanks to him for his leadership and execution of 2011 Conference. I want to extend special appreciation to Mehtap Özşahin for her hard work and commitment to the Conference development.

We hope that you all will enjoy and benefit from the conference and enjoy your stay in this great city, Paris.

*Oya Erdil, Ph.D
Co-Chair of the Conference
Gebze Institute of Technology*

PREFACE

That this conference is being organized seventh time is very meaningful. Because Strategic Management itself required sustainability. This perspective is required for the organization for this conference as well. We had organized its first one in Çanakkale-Turkey, now we are organizing the seventh one in Paris, France.

This means conference has been both institutionalized and internationalized successfully. Variety of participants and ownership of presentations too confirms that the event has been internationalized.

I think that, because of the success of the event, Prof. Dr. Erol Eren has deserved all kinds of praise. I also congratulate Prof. Dr. Erol Eren's team friends including Res. Assist. Dr. Mehtap Özşahin, Assist. Prof. Dr. Erdal Aydın, The Director of Public Relations Meral Aydın.

I wish a successful conference.

*Ali Akdemir, Ph.D.
Co-Chair of the Conference
Çanakkale Onsekiz Mart University*