

From Knowledge Management to Absorptive Capacity:

The ECITON Case on Business Model Innovation

Track: Information Technology Management

Keywords: Absorptive Capacity, Knowledge Management and Business Model Innovation

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Abstract

Absorptive Capacity (AC) is a set of organizational routines and processes to acquire, assimilate, transform, and exploit knowledge to produce an organizational capability. The AC concept stresses the opportunity to capitalize on knowledge management to increase firms' business model innovations, recognizing the value of new opportunity platforms, external and internal information, assimilate it, and apply it to commercial ends.

ECITON GLOBAL is a Mexican company offering virtual and real time solutions for decision making at the point of need, the identification, evolution and transfer of AC into strategic "business models innovations" are a current need to increase innovation outputs.

Keywords: Absorptive Capacity, Knowledge Management and Business Model Innovation

Introduction

In the globalized economy of today, characterized by rapidly changing environment and fierce competition, companies in matured industries and intense competition face challenges that force them to continuously search for dramatic improvements and to develop new critical capabilities that would allow them to create and sustain competitive advantage. However, in order to succeed in an environment where competition becomes increasingly more knowledge-based, to possess superior knowledge resources is not sufficient. The competitiveness of today's organizations lies in the capability to create, integrate, and exploit the knowledge for commercial ends (Powell et al., 1996). Furthermore, firms must develop a thorough understanding not only of their own knowledge, but also the process by which they convert knowledge to capabilities, and the capacity of those capabilities to deliver value for their customers in the form of innovative products and services (Lane and Lubatkin, 1998). This highlights the need for AC, a concept that stresses the importance of the firm's ability to identify, adapt and utilize new sources of knowledge in order to increase the firm's competitiveness.

The notion of AC is defined as "*a set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability*" (Zahra and George, 2002). Applying the context of resource-based view of the firm, the construct of AC, which consists of diverse capabilities, can be the source of the firm's competitive advantage (Barney, 1991).

ECITON GLOBAL when founded in 2004 in Monterrey, Mexico, was initially focused on the retail industry, providing web based information for operation managers on executive dashboards to monitor salesforce performance metrics on real time at

the point of sales. One of the leading retail chains in Mexico was the main client for ECITON, demanding an exclusive service agreement. The situation implied only one way to grow, through the growth of the retail chain. This constraint triggered the need to find an opportunity platform to articulate new business model innovation based on ECITON's capabilities and resources.

Theoretical Framework

Cohen and Levinthal were pioneers of the notion of AC. Cohen and Levinthal (1989) put forward a new notion of AC and defined it as: "*the firm's ability to identify, assimilate, and exploit new knowledge from the environment*". Figure 1 below illustrates the AC conceptual model. The authors proposed that the firm's prior related knowledge is the key antecedent to the development of the firm's AC as it permits the assimilation and exploitation of new knowledge. Additionally, an "interface function" (Cohen and Levinthal, 1989) must first be able to recognize where the knowledge is relevant within the organization in order for the AC process to be set into motion.

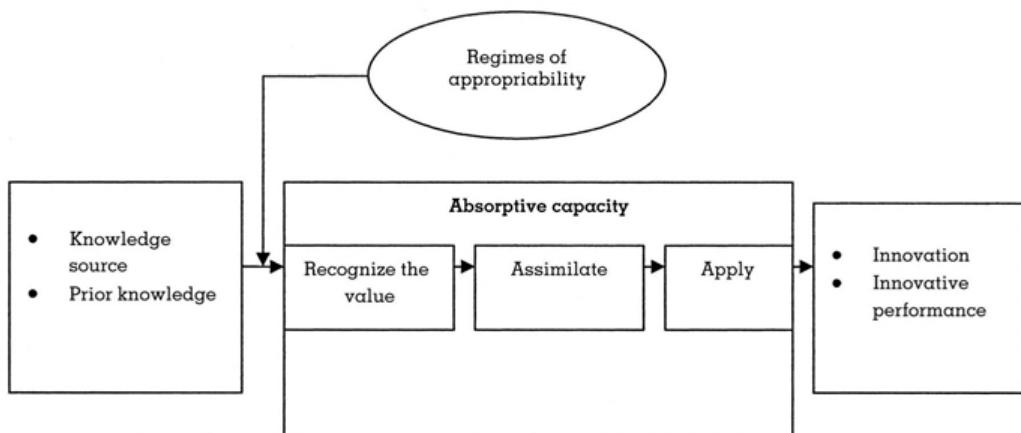


Figure 1. Absorptive Capacity Model by Cohen and Levinthal's work (2002)

The definition of AC by Cohen and Levinthal (1989) suggests that AC is a three-dimensional concept consisting of knowledge identification, assimilation and exploitation.

A review of the literature on AC made by Zahra and George in 2002 finds that the AC construct needs greater clarity in order to be operationalized. Based on the review performed they prepared the following definition of AC: "...*a set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability*" (Zahra and George, 2002). Figure 2 shows their re-conceptualized model of firms' Absorptive Capacity.

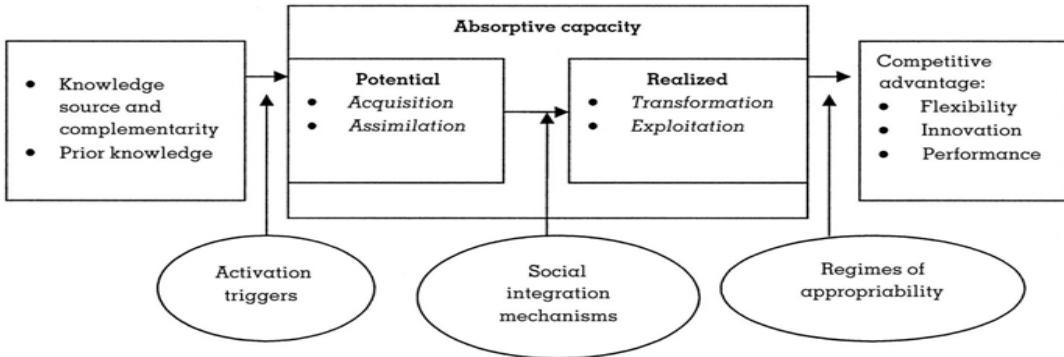


Figure 2. A Model of Absorptive Capacity by Zahra and George (2002)

Zahra and George (2002) proposed four instead of three basic dimensions of AC: acquisition, assimilation, transformation and exploitation. “Acquisition refers to a firm’s capability to identify and acquire externally generated knowledge that is critical to its operations.” “Assimilation refers to the firm’s routines and processes that allow it to analyze, process, interpret, and understand the information obtained from external sources. “Transformation denotes a firm’s capability to develop and refine the routines that facilitate combining existing knowledge and assimilated knowledge.” “Exploitation as an organizational capability is based on the routines that allow firms to refine, extend, and leverage existing competencies or to create new ones by incorporating acquired and transformed knowledge into its operations.”

In 2007 Todorova and Durisin claimed that the distinction between potential and realized AC used by Zahra and George did not hold, but instead they proposed the term efficiency of AC. Furthermore, they added what Zahra and George failed to incorporate, the research done on learning and innovation. Instead, they put forward a new model building on both the studies done by Cohen and Levinthal (1990) and Zahra and George (2002).

As Figure 3 shows, the most significant changes are the flows between variables. It is argued that power relationships affect both the valuing and exploitation of new knowledge; that social integration mechanisms affect all dimensions of AC, and not, as suggested by Zahra and George, only between potential and realized AC; and that feedback links should follow cyclical patterns instead of static relationships in order to make the model more dynamic (Todorova and Durisin, 2007).

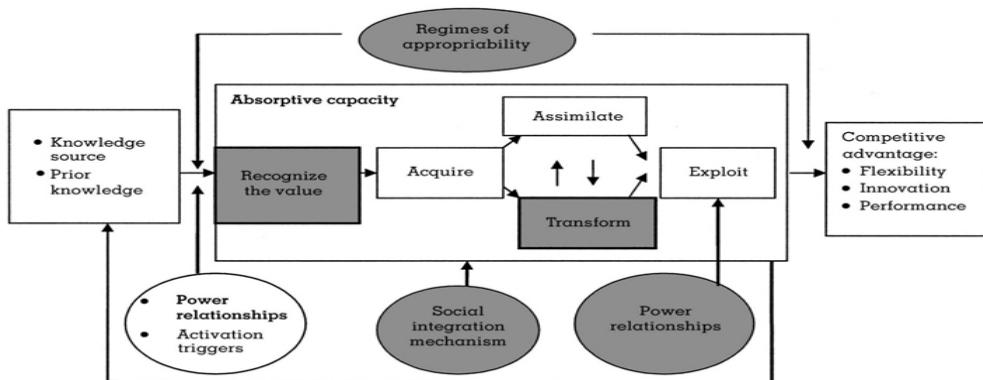


Figure 3. A Refined Model of AC by Todorova and Durisin (2007)

Research Model

The AC Research Model in Figure 4 is an integrated model proposed by the author and based on the work of Cohen and Levinthal (1990), Zahra and George (2002) and Todorova and Durisin (2007). Absorptive Capacity is required to reach synergies during the deployment of business model innovations from knowledge management in order to sustain a leading position in terms of flexibility, innovation and business performance.

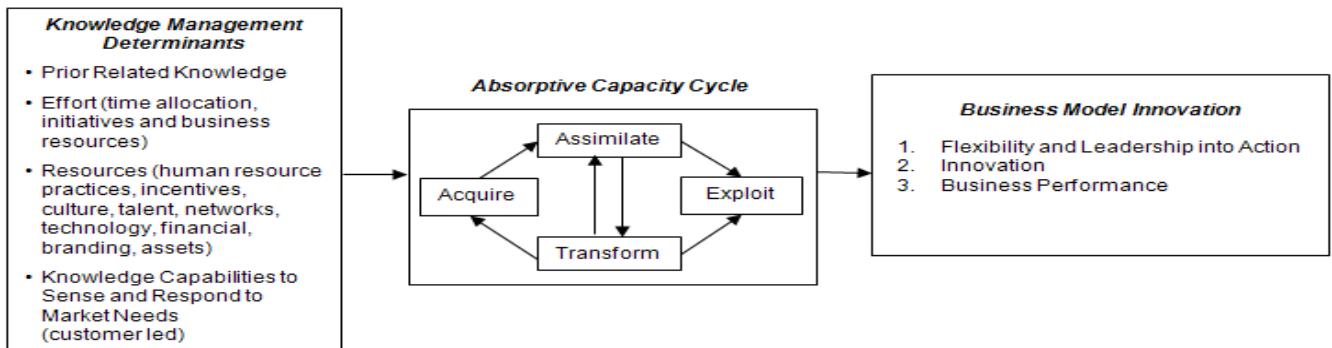


Figure 4. Absorptive Capacity Research Model (Author, 2009)

Constructs for the AC Research Model.

Knowledge Management involves creating, securing, coordinating, combining, retrieving and distributing knowledge (Lin et al., 2006). It incorporates four main categories: (1) Prior related knowledge; (2) Effort; (3) Resources; and (4) Knowledge Capabilities to sense and respond to market needs (2005).

Prior related knowledge

Prior knowledge could be a set of learning skills, prior learning experience, problem-solving skills and other capabilities. Likewise, Zahra and George's model suggested that past experience influenced the development of its AC. According to Minbaeva et al. (2003), prior related knowledge referred to employees' ability, their educational background and acquired job-related skills.

Effort

Minbaeva et al. (2003) defined the organization's innovation effort as the 'organizational aspiration' and expressed it as employees' motivation in terms of time allocation, initiatives and business resources. They argued that motivated employees want to contribute to organizational effectiveness.

Resources

It includes Human, Technology, Economic and Intangible Resources. According to Daghfous (2004), human resource management practices affecting the firm's AC included interdisciplinary workgroups, quality circles, systems for the collection of employee proposals, job rotation, empowerment, integration of functions and performance-related pay. It has furthermore been argued that firm should invest in building human capital by hiring highly educated employees since they are said to be the main contributors to the generation of the firm's stock of knowledge (Mangematin and Nesta, 1999; Vinding, 2000).

The role of financial investment, particularly in R&D and technology is expected to increase a firm's stock of knowledge and employees' skills (communication, collaboration, coordination) what in turn enlarged the organization's knowledge base.

Knowledge Capabilities to Sense-and-Respond to Market Needs.

Companies are shifting from traditional make-and-sell strategies to sense-and-respond strategies where they "continuously discover what each customer needs, sometimes even anticipating unspecified needs, and then quickly fulfilling those needs with customized products and services. An organization's customer response capability, its competence in serving customer needs through effective and quick actions, is increasingly critical for sustained success.

Absorptive Capacity Cycle is a set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability (Zahra & George, 2002).

Acquisition.

Acquisition refers to a firm's capability to identify and acquire externally generated knowledge that is critical to its operations (Zahra & George, 2002).

Assimilation.

Assimilation refers to the firm's routines and processes that allow it to analyze, process, interpret, and understand the information obtained from external sources (Zahra & George, 2002).

Transformation.

Transformation denotes a firm's capability to develop and refine the routines that facilitate combining existing knowledge and assimilated knowledge (Zahra & George, 2002).

Exploitation

Exploitation as an organizational capability is based on the routines that allow firms to refine, extend, and leverage existing competencies or to create new ones by incorporating acquired and transformed knowledge into its operations (Zahra & George, 2002).

Business Model Innovation represents “paradigm shifts” that characterize not transformation at the level of business processes and process workflows, but radical rethinking of the business as well as the dividing lines between organizations and industries Malhotra (2000).

Flexibility.

Refers to the firm’s ability to access new knowledge and reconfigure existing knowledge (Van den Bosch et al., 1999). It implies a willingness to adapt on the part of the organization to respond and anticipate to changing circumstances.

Innovation.

Innovation is a continuous learning process (Metcalfe & Ramlogan, 2007) in which firms learn, design, develop and implement knowledge in the form of a process, product, service or technology to articulate a value proposition for a given customer to create value (economic, pragmatic, sustainable).

Performance.

Business Performance is related to value, as an economic concept, measured by what a buyer will pay for a product or service. (Chesbrough and Rosenbloom, 2002).

Research Propositions in relation to Knowledge Management (KM), Absorptive Capacity (AC) and Business Model Innovation (BMI):

- The firms’ level of absorptive capacity in relation to knowledge management will influence business model innovation through enhanced flexibility, innovation and business performance.

Method

The general purpose of this paper was to explore the topic of AC and its association with KM and BMI through established literature and in the context of ECITON Case Study. As defined by Cooper and Schindler (2006) **explorative** studies tend “*toward loose structures with the objective of discovering future tasks*“. An explorative study is relevant when researchers *pretend to develop concepts more clearly, establish priorities, develop operational definitions, and improve the final research*

design" (Cooper and Schindler, 2006). In this way, this paper provides the basis for the following "formal" study of AC in KM and BMI.

This paper included a **case study**, which means that it was a context specific study that sought to investigate a previously established pattern (derived from theory) in relation to that of an empirical example, providing generalizable results (Yin, 1984; Flyvbjerg, 2006).

In this paper the combination of purposive and convenience sampling was utilized in order to choose respondents. This was mainly due the need to select participants with unique experience or from within a specific field of expertise.

The sample size was relatively small as only 15 in-depth interviews were included in the study. However, the selected executives were very knowledgeable within their areas, as well as on overall issues concerning ECITON' strategy. It was therefore still possible to cover all aspects of the research model.

For each interview a set of open-ended questions were designed in order to have evidence and to understand the nature, the triggers, the stakeholders, the negotiations and commitments, the actions and the lessons learned for each dimension of the research model. The interviews provided valuable information for every construct in the model. Attention was paid to the fact that the questions were formulated in a clear and precise manner in order to reduce the risk of misunderstandings and enhance the speed of the interviews. Furthermore, the fellow research participants were used to ensure that the order of questions was logical and that the language used was comprehensible (All the interviews were in English and for each question back translation was used as a formal procedure to double check consistency).

Respondents were provided with a list of questions, prior the interview. This allowed the respondents to prepare themselves for the interview, to consider the requested information beforehand and eventually, to prepare some additional supporting material. This was seen as advantageous in terms of effectiveness and speed of the whole interview process. The interviews were held privately with each respondent in a closed meeting room at ECITON headquarters, and were approximately 1-1½ hours in duration. All interviews were documented using audio recorder, and following the interviews, these audio recordings were transcribed. To make sense of the data collected, color codes were assigned to paragraphs according to which themes, determinants or variables were being discussed in order to identify commonalities, provide a better overview and make the subsequent analysis of findings easier (see Table 1).

Table 1. Research Design Taxonomy (author, 2012 based on Cooper & Schindler, 2006)

Category	Options		
	Exploratory	Formal	
Degree of crystallization of research question			
Purpose of study	Descriptive	Causal	Action
Sample/topical scope	Statistical study/Extensive	Case study/Intensive	
Primary data collection	Qualitative	Quantitative	
Time horizon	Cross-sectional study	Longitudinal study	

The ECITON Case

A study by Datamonitor (2012) estimated that the global retailing industry is forecast to have by 2015, a market value of \$13,215 billion, and an increase of 25.5% since 2010, with total revenues of \$10,550 billion USD. Food and grocery is the largest segment of the global retailing industry, accounting for 63% of the industry's total value. Regarding the market rivalry, the global retailing industry is heavily fragmented despite the presence of large, international incumbents.

Indeed, the retail industry represents one of the largest industries worldwide. For example, in the United States, it is the second largest industry in terms of both the number of establishments and the number of employees, with \$3.8 trillion in sales annually and 11.7% of US employment (Datamonitor, 2012).

During the last 30 years, the retail industry has passed through many transformations. For example, traditional cornerstones have evolved because of a variety of grocery store alternatives such as (click, click-and-brick and brick-and-mortar) supermarkets, hypermarkets, discount stores, etc. (Geuens et al., 2003). In addition, this industry is facing similar trends to those affecting other sectors, for instance, the globalization of markets, aggressive competition, increasing cost pressures, and the rise of customized demand with high product variance.

Nonetheless, the industry also faces specific challenges such as management of the short shelflife of grocery goods, strict traceability requirements, and the need for temperature control in the retail supply chain (Karkkainen, 2003). Retailers must also deal with a growing number of stock keeping units (SKUs). For instance, in a typical food store in Mexico, the number of SKUs has risen from nearly 6000 in the 1960s to almost 40,000 today. As a result, the number of daily sales transactions has exploded. Therefore, capturing sales information using manual methods has become almost obsolete because of inventory inaccuracies and because manual capture of sales information increases transaction costs (Romo, 2012).

Furthermore, this retail and salesforce processing involves numerous human interventions at different levels such as order taking, data entry, processing of the order, invoicing, and forwarding (Romo, 2012)

Company Profile

ECITON is an international company with offices in Mexico (main) and the US. The company has been in business since 2004. The company owns an innovative methodology and tools for commercial process at the point of sales, and on-time inventory administration services.

In 2004, ECITON established a key partnership with SORIANA, the 2nd largest retail chain in Mexico (Romo, 2012), delivering retail solutions in over 240 stores, with over 2100 providers, in 80 cities across Mexico.

ECITON Mission is to become a partner assisting retail stores, by maximizing revenues through the improvement of the management process on the sales floor, in real-time with continuos monitoring of the shelves, salesforce and the on-time inventory, and timely generation of appropriate and immediate solutions.

ECITON Organizational Structure has eight main business processes: Strategic Planning, Human Resources, Innovation and Information Technology, Operations, Finance and Comptrollership, and Commercial (see Figure 5).



Figure 5. ECITON Organizational Structure

Propositions regarding Knowledge Management, Absorptive Capacity and Business Model Innovation.

Determinants of Knowledge Management that will influence significantly the absorptive capacity cycle in innovative firms (see Table 3)

Table 2. ECITON Retail Knowledge Management Determinants (Author, 2012)

Knowledge Management determinants	Influencing variables	ECITON Retail
Prior related knowledge	<ul style="list-style-type: none"> • prior learning experience • problem-solving skills • employees' abilities • diversity/similarity of knowledge • breadth and depth of knowledge 	<ul style="list-style-type: none"> • Retail experience in Mexico producing and distributing dairy products (milk, juice, yoghurt, cream) • Logistics, Warehousing, Distribution Routes • Negotiation skills in purchasing and selling offerings in retail chains
Effort	<ul style="list-style-type: none"> • intensity of effort • employee motivation • speed • direction • proactive/reactive 	<ul style="list-style-type: none"> • Certification: Personal Software Process (PSP) and Team Software Process (TSP) to provide a defined operational process framework designed to help teams of managers and engineers organize projects and produce software products • Proactive and continuous training based on workshops: innovation, service management, negotiation and commercial skills • Incentives based on project performance
Resources	<ul style="list-style-type: none"> • investment • nature of knowledge 	<ul style="list-style-type: none"> • Investment on: human capital, state of the art technology for mobile communication, collaboration and coordination of business processes • Capital efficiency and low cost structures
Knowledge Capabilities to Sense and Respond to Market Needs (customer led orientation)	<ul style="list-style-type: none"> • support learning & skill development • employee motivation • empowerment • remuneration policies • recruitment • trust building 	<ul style="list-style-type: none"> • Customer relationship on value dimensions • Innovation observatory targeting new value engines and opportunity platforms

The maturity in the Absorptive Capacity Cycle will influence the capability for innovative firms to shift paradigms in business model innovations (see Table 3).

Table 3. ECITON Retail Absorptive Capacity Cycle (Author, 2012)

Absorptive Capacity Function	Influencing variables	ECITON RETAIL
Acquisition	<ul style="list-style-type: none"> • prior investments • prior knowledge • intensity • speed • direction • inward vs. outward looking • efficiency • scope • exploration • exploitation 	<ul style="list-style-type: none"> • Exploration of Customer Relationship Management Solutions for Retail • Venture capital • Mobile technology • Real time solutions • One-page reporting
Assimilation	<ul style="list-style-type: none"> • understanding • efficiency • scope • flexibility 	<ul style="list-style-type: none"> • Real time monitoring and reporting on the point of sales • Understanding problems of inventory inaccuracy, backlog for out of stock products, unsellable products, missing products, inventory tracking, and layout of products on shelves • Understanding problems of salesforce management on real time (assistance, punctuality, uniform, scripts for promotions, pricing)
Transformation	<ul style="list-style-type: none"> • internalization • conversion • efficiency • scope • flexibility 	<ul style="list-style-type: none"> • ECITON developed ECITON RETAIL, a methodology, web based and mobile software tool, that allows the reduction of the out of stock products, and also solves complex problems in the sales floor, all or this in real time • The solutions includes server communication, smartphone devices for the salesforce and web base platforms on real time for decision making
Exploitation	<ul style="list-style-type: none"> • use • implementation • efficiency • scope 	<ul style="list-style-type: none"> • For the retail decision makers and all their suppliers to visualize, control and supervise the status of the shelves and the performance of the salesforce • Executive reporting with dashboards, alarms and statistics of performance metrics • Interactive communication with the operation (retail, supplier, salesforce, and ECITON)

Absorptive Capacity will have a positive influence in Business Model Innovation (Business Performance, Innovation and Flexibility and Leadership in Action (see Table 4).

Table 4. ECITON Retail Business Case (Author, 2012)

Industry	<ul style="list-style-type: none"> Economical development for regional and national Retail. Competitive prices, Transparency. Competitive jobs. 	<ul style="list-style-type: none"> World-class Retail practices with extended production value chains. Technological changes in the development and evolution of Retail. Development of competencies for the future. 	<ul style="list-style-type: none"> Dynamic technology and information cycles. Replacement of HW. Certification and licensing for SW.
Business	<ul style="list-style-type: none"> Productivity for personnel, shelf allocation, on time replenishment by SKUs, waste reduction, and alerts for out of stock merchandise. Price labeling, monitoring of promotions and of the application of commercial strategies. Collateral business models within PromoNet Retail (SORIANA's Interface) Realtime Retail information for decision making and remote immediate interaction 	<ul style="list-style-type: none"> Trained and certified suppliers and external sales force. Standardization of practices for One Page reports and scorecards displays, the internal and external personnel in shelf management, customer contact, data collection survey, image, store appearance. Service level agreements. 	<ul style="list-style-type: none"> Certification in the use and development of TSP y PSP for Project De. ECITON and SORIANA's image of innovation and leadership. A culture of quality, productivity and service. TMT commitment to invest in research, development and high technology business models. An assessment of management and the continuous replenishment chain.
Personnel	<ul style="list-style-type: none"> Time management based on the daily activities programmed by ECITON. The multipoint online and real time platform reduces commuting between places and office space. Incentives, promotions and compensations based on performance. 	<ul style="list-style-type: none"> Continuous on-the-job training. Service standardization based on punctuality, shelf management, incident and problem management, customer contact, interviews and surveys. Opportunities in time to create value in several domains. Provides spaces for creativity. 	<ul style="list-style-type: none"> Certification and re-accreditation in the use and development of SW. Continuous training in Retail service management, HW, SW, Internet and communication technologies. Ad-hoc speech expression, language ontology and conversational competences for service management.
	Business Performance	Innovation	Flexibility and Leadership in Action

ECITON Retail initiated and continues growing in the operations within SORIANA (TMT, 2012), becoming one of its main clients. The contract with this company is made with an exclusive clause, in which Eciton is committed to deliver its retail solution only with SORIANA.

The decision to accept the exclusivity clause was challenging, measuring the success and growth of Eciton Retail on the success and growth of the contracting company. This exclusivity clause signed with SORIANA motivated ECITON Retail to look for other sectors and industries in which to transfer and apply the capabilities and business model (see Table 5).

Table 5. ECITON Business Model Innovation (Author, 2012)

	ECITON RETAIL	ECITON BITÁCORA	ECITON ORBE
Business Model Innovation	 <p>Desarrollo para grandes empresas del retail en tiempo real</p> <p>Value Proposition: is a virtual dashboard on real time at the point of sales to support</p>	 <p>Soluciones para Distribuidores en tiempo real</p> <p>Value Proposition: is a mobile, web based route assistant with a complete monitoring and reporting</p>	 <p>Soluciones para el campo en tiempo real</p> <p>Value Proposition: is an electronic, mobile, webbase agriculture assistant with a complete monitoring and reporting</p>

	inventory, salesforce monitoring and executive decision making	system operating on real time, designed for businesses dedicated to the sale and distribution of products and services.	system operating on real time, designed for agricultural organizations, from outdoors, greenhouse to packing of products.
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The overall proposition was that the **firm's level of absorptive capacity in relation to knowledge management would positively influence business model innovation through enhanced flexibility, innovation and business performance.**

This proposition was then divided into three constructs of business model innovation, in the form of flexibility, innovation, and business performance (see Table 6). The paper based its analysis on the fact that this business model innovation would be obtainable, if absorptive capacity was strong and the company capitalized from knowledge management.

Proposition1. Absorptive capacity and knowledge management will positively influence flexibility

Proposition2. Absorptive capacity and knowledge management will positively influence innovation

Proposition3. Absorptive capacity and knowledge management will positively influence business performance

Table 6. ECITON Research Proposits (Author, 2012)

BUSINESS MODEL INNOVATIONS			
	ECITON RETAIL	ECITON BITÁCORA	ECITON ORBE
Knowledge Management Determinants	<ul style="list-style-type: none"> • Previous experience, focus on CRM and ITC technologies, talent, venture capital and customer led orientation 	<ul style="list-style-type: none"> • Experience at the point of need, from retail to logistics, distribution and route management 	<ul style="list-style-type: none"> • Experience at the point of need, from retail to agriculture
Absorptive Capacity Cycle	<ul style="list-style-type: none"> • Acquire: dairy distribution experience • Assimilate: common opportunity areas in the retail industry • Exploit: business model innovation based on customer relationship management • Transform: be on the point of sales for decision making 	<ul style="list-style-type: none"> • Acquire: virtual dashboard on real time • Assimilate: common opportunity areas in the logistics and distribution sectors • Exploit: business model innovation based on customer relationship management • Transform: be on the point of delivery supporting route tracking for decision making 	<ul style="list-style-type: none"> • Acquire: virtual dashboard on real time • Assimilate: common opportunity areas in the agriculture technology based industry • Exploit: business model innovation based on customer relationship management • Transform: be on the point of need: the field, personnel, machinery, diseases, nutrients, weather conditions, harvested crops, picking, selecting, warehouse, maintenance, surveillance using mobile smartphones and GPRS, Scanners, GPS, and ITC technologies.
PROPOSITION 1: Absorptive Capacity and Knowledge Management will positively influence Flexibility	<ul style="list-style-type: none"> • Executive Information and virtual dashboards on real time to monitor and interact for decision making. • Reports on the field anytime, anyplace, anywhere 	<ul style="list-style-type: none"> • Executive Information and virtual dashboards on real time to monitor and interact for decision making. • Reports on the field anytime, anyplace, anywhere on real time 	<ul style="list-style-type: none"> • Executive Information and virtual dashboards on real time to monitor and interact for decision making. • Reports on the field anytime, anyplace, anywhere
PROPOSITION 2: Absorptive Capacity and Knowledge Management will positively influence Innovation	<ul style="list-style-type: none"> • Value for the retail chains providing Mobility on Smartphones, scans, GPS, and apps to access the web platform on real time 	<ul style="list-style-type: none"> • Value for the logistics and distribution sector, providing Mobility on Smartphones, scans, GPS, and apps to access the web platform on real time 	<ul style="list-style-type: none"> • Value for the agricultural organizations, providing Mobility on Smartphones, scans, GPS, and apps to access the web platform on real time
PROPOSITION 3: Absorptive Capacity and Knowledge Management will positively influence Business Performance	<ul style="list-style-type: none"> • Chain branding, store's image, customer satisfaction, supplier satisfaction, sales maximization • Process efficiencies along resource allocation (salesforce, ITC, customer service) 	<ul style="list-style-type: none"> • Integrated value chains with routes 100% covered in logistics and distribution, chain branding, store's image, customer satisfaction, supplier satisfaction, sales maximization • Process efficiencies along resource allocation (people, routes, ITC, trucks, 	<ul style="list-style-type: none"> • Process efficiencies along resource allocation (people, machinery, and technology, budgets) • Operation Excellence on procurement, finance, human resources, infrastructure, outbound and inbound logistics • Bioagriculture and

		customer service)	biotechnology observatory as opportunity platform for innovation
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Conclusions

This paper studied the concept of absorptive capacity as the organizational capability to acquire, assimilate, transform and exploit new knowledge from KM practices. Particular focus was on absorptive capacity in relation to KM.

The analytical part of this paper presented a case study of ECITON, a leader in CRM mobile solutions on real time. To fulfill the research objective, the research question asked was where, what and how ECITON could improve its AC in relation to KM in order to improve its Business Model Innovation.

A comprehensive research model was developed, identifying constructs, determinants and their degree of influence. The research methodology used semi-structured interviews with respondents from ECITON to integrate the case study in order to illustrate dominant strategies and AC strategies to build a sustainable business model innovation in terms of flexibility, innovation, and business performance.

The main findings were organized based on the proposed research model based on the previous work of Cohen & Levinthal (1990), Zahra & George (2002), and Todorova & Durisin (2007), identifying innovation triggers as constraints looking for opportunity platforms and KM to capitalize on ECITON absorptive capacity to shift from retail with a very similar business. It was suggested that deep commitments on the side of the company should be made to promote flexibility, mind-openness and empowerment that would support all dimensions of the absorptive capacity function. Through collaboration and interaction with external knowledge sources such as competitors, universities and research centers, ECITON would increase its capabilities of absorbing new knowledge and best practices. This knowledge could facilitate: Renewal and upgrading of existing capabilities; transaction costs reduction; development of skills and processes to accelerate an innovation idea to the market; flexibility to handle a changing environment; achievement of operating economies and efficiencies essential to the firm; access to new markets and improvement of competitive position. Noteworthy, however, is that these linkages may not produce effective knowledge transfer unless the absorbing company had built a certain level of absorptive capacity (receptiveness and learning spaces) (see Figure 6).

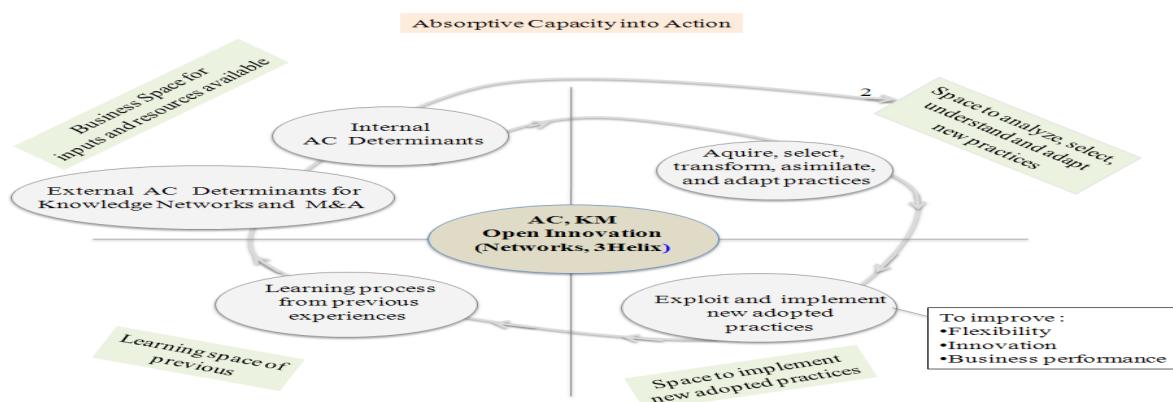


Figure 6. Absorptive Capacity into Action (Author, 2012)

On a theoretical plane, the research has undeniably strengthened and added more insight into the concept of absorptive capacity as such, as well as the association between absorptive capacity with KM and Business Model Innovation. First of all, the identified gap in literature, in terms of empirical examination of these three phenomena combined in one study, was narrowed as this research substantially advanced the body of so far published academic literature on absorptive capacity related to KM and Business Model Innovation. Another theoretical contribution was concerned with the operationalization of the absorptive capacity function and clarifying how it could be utilized in the field of KM and Business Model Innovation. Another contribution in this sense was the developed research model and identified determinants and their influencing variables. Those can be used as an operational framework and tool to explore absorptive capacity, and absorptive capacity related to KM and Business Model Innovation.

It was believed that this model of absorptive capacity increased the speed and effectiveness of Business Model Innovation (BMI), as it aimed at increasing the firm's capability to identify and utilize critical superior knowledge possessed by the innovative company, and ultimately lead to acquire, assimilate, exploit and transform knowledge and prior experience into opportunity platforms for Business Innovation Models, enhancing flexibility, innovation and business performance.

From the managerial contribution point of view, a highly relevant issue for today's heavily knowledge-based competition had been pinpointed. Despite this research being conducted in the context of a single case study, business practitioners in other companies can benefit from this study as well.

Eventually, this framework could be used as a benchmark among companies that regularly engage in KM, AC and BMI.

To sum up, this research had shown that it is of ultimate importance that companies understand the concept of absorptive capacity and even greater contribution were brought to companies relying on growth through KM and on open innovation through capitalize on best practices in the business models. Deploying the case of ECITON, An innovative company known for its innovativeness and openness towards new approaches, should emphasize the urgency and make other companies realize the value of this approach to KM, AC and BMI in today's knowledge driven economy.

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