

The role of strategic flexibility and potential absorptive capacity Business model innovation

Abstract

The purpose of the extant study was to examine the mediating role of strategic flexibility in the relationship between potential absorptive capacity and business model innovation. This was applied research in terms of objective, a descriptive study in terms of type, and a survey in terms of method. The statistical population of the study comprised auto parts manufacturing companies and assemblies of Iran Khodro Company. According to published statistics, about 500 companies supply auto parts and assemblies required for Iran Khodro Co. Morgan & Krejcie table was used in this research to calculate the sample size (n=229). A convenience random sampling was used due to limited society. Respondents who answered the items about strategic flexibility and potential absorptive capacity comprised strategy managers, and engineering managers of the studied company answered the items about business innovation. The standard questionnaire designed by Miroshnichenko et al. (2020) was used on a 7-point Likert scale to gather data. Data analysis was done using structural equation modeling (SEM) of partial least squares (PLS). The results indicated a positive and significant relationship between potential absorptive capacity (PAC) and business model innovation (BMI). There was also a positive and significant association between PAC strategic flexibility index (SFI). On the other hand, there was a positive and significant relationship between SFI and BMI. Furthermore, SFI mediated the relationship between PAC and BMI.

Keywords: *Strategic Flexibility (SFI), Potential Absorptive Capacity (PAC), Business Model Innovation (MBI), Iran Khodro Company*

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Introduction

Business model innovation through potential absorptive capacity is a modern strategic approach to today's businesses (Bashir & Farooq, 2019). In the opinion of researchers. PAC can contribute to BMI by improving SFI (Chaudhary, 2019). Those corporations that work in a highly dynamic environment must absorb, convert, and use the new knowledge and perform its flexibility to achieve their goals. This allows companies to develop their competitive advantage through business model innovation (Miroshnichenko et al., 2020).

Researchers assume that the most important empowering factors for innovation are rooted in extra-organizational knowledge (Miroshnichenko et al., 2020). They believe that enterprises can improve other empowering factors of business model innovation, such as strategic flexibility if they can absorb and apply extra-organizational knowledge (Hock-Doepgen et al., 2020). Strategic flexibility focuses on the flexible use of resources and reconfiguration of procedures, which reflect the dynamic capability. Strategic flexibility is taken into account as a key determinant for competitive advantage in turbulent markets. Results of previous studies show that strategic flexibility can positively affect the development of the new product, exploratory innovation, and innovation capabilities. Considering the current studies, the extant research argues that strategic flexibility is the crucial driver of BMI.

Understanding this topic can be a beneficial guideline for enterprises working in competitive high-tech industries, such as the car industry. Although Iran launched its car industry 40

years ago and has experienced a growth rate over recent years, this country has not achieved a great position in foreign markets. On contrary, supportive and monopolist conditions have made this industry vulnerable, so this industry will face challenges in keeping and maintaining its domestic market contribution if the monopoly is removed and import is liberalized. In comparison, the car industry of South Korea has been established almost at the same time it occurred in Iran, while this industry now competes with major European, American, and Japanese carmakers. South Korea's car industry aims to get into international markets. It is essential to evaluate the strategic potential of the car industry for keeping the domestic market and entering other markets and prepare this industry for competition in the world arena based on a realistic strategy. These measures must be taken due to futurism, understanding the market globalization process, and intensified competition in this global, concentrated, and capital-based industry, which has a considerable capacity surplus. Such measures must be taken to prevent any adverse occurrence in the future and provide the field for opportunities that may appear in the car industry which has become a key and relatively leading industry over recent years.

Considering the nature and size of the car industry, this is a transnational industry whose input and output cannot remain within national borders. This industry has such a high expansion, financial circulation, and value-added with a considerable impact on political, social, and economic issues that there is no community free of its effects. The importance of the car industry requires adopting accurate strategies to

improve the executive models of this industry. Current studies have identified many variables affecting the innovative performance of manufacturing enterprises. The extant study first suggests the unique variables, such as PAC for improvement of enterprises' innovation performance. Second, it argues that PAC does not have a direct impact on the innovation of manufacturing companies considering the mediating role of other variables, such as potential absorptive capacity and strategic flexibility. Thirdly, this paper proposes a new solution for the improvement of innovative performance of manufacturing companies, especially car industries through PAC and SFI. Therefore, the results of the extant present paper can be useful and vital for manufacturing industries, particularly car industries.

Literature Review

Strategic Flexibility

Strategic flexibility supports the adaptive use of resources and reconfiguration of processes. It is capable of showing impulse response to environmental changes. Flexibility allocates the resources to the development, production, sale, and distribution of products flexibly, and supports the modular and flexible design of products, production of a wide range of products, different products line marketing, and redefinition or production strategies. Flexibility is defined as an index linking system to its surrounding environment to absorb uncertainty, dynamism degree of system, and ability to change. Moreover, strategic flexibility is defined as an enterprise's potential to change its position or replace the current strategies of the company. Jansen, Van Den Bosch, & Volberda. (2005) argue that strategic flexibility is the most important feature companies need for the assessment of the competitive landscape. They also define it as the ability of the enterprise to predict and adopt changes in the environment rapidly to obtain a competitive advantage Flexible strategy means the firm's potential for rebuilding itself internally and creating communications with the external environment. According to this definition, strategic flexibility is a notion consisting of internal and external situations. Therefore, companies that look for strategic flexibility must address factors related to the organizational environment. The researchers have conceptualized strategic flexibility in different ways. The term "flexibility" or "capability of doing anything other than what was intended originally" (Evans, 1991) is conceptualized as the operational or strategic nature (Johnson et al., 2003), while operational flexibility means the capability to cope with short-term volatilities indicating the organization's response to common changes in the atmosphere (Johnson et al., 2003). Strategic flexibility is taken into account as the highest-level flexibility, which is considered particularly "when an organization faces some strange changes with considerable

consequences and require an instant reaction." SFI is defined as a combination of flexible resources and coordination. Although resource flexibility allows multiple-use and existing resources transfer, flexible coordination looks for optimal reconfiguration of resources portfolio to reduce implementation cost. As a dynamic capability of the organization, strategic flexibility indicates the enterprise' capability of organizing resources efficiently. SFI is one of the dynamic capacities of the organization.

Potential Absorptive Capacity

PAC includes Knowledge acquisition (the ability of a firm to identify and obtain knowledge generated outside the organization that is vital for the organization's operations), absorption (routines and processes that allow a company to analyze, process, and understand the information obtained from external resources). Zahra and George explain that PAC makes a firm ready for external knowledge acquisition and absorption, but does not guarantee its exploitation. Exploitation requires the realized capacity. Assimilation is another dimension of this construct, which means the firm's capacity for external knowledge absorption. Moreover, this capacity is defined as processes and procedures that allow analyzing, process, interpreting, understanding, internalizing, and classifying the new acquired knowledge or information. The dimension "transformation" is the third dimension of absorptive capacity, which encompasses the firm's capacity to develop and modify the internal procedures facilitating to transform and assimilation of the previous knowledge with the newly adopted and acquired knowledge. Transformation can be done by adding or removing knowledge, and or by interpreting and assimilating the existing knowledge in an innovative method. Finally, application or exploitation is the fourth dimension of absorptive capacity, which is referred to as the organizational capacity based on the procedures enabling a firm to add the acquired, assimilated, and transformed knowledge to its operations and procedures. It is used to modify, complement, expand, and use procedures, processes, competencies, and available knowledge but also to create operations, competencies, procedures, products, and new organizational forms. The first two dimensions are called potential absorptive capacity, while the second category is named realized absorptive capacity. Zahra and George (2002) concluded that those firms that had R&D cooperation and market-based interactions in R&D have more ability in terms of the first dimension (PAC). They also showed that absorptive capacity is a conditions-dependent phenomenon, and those firms that have been involved in R&D activities during the past, have higher absorptive capacity. The higher the PAC of firms, the more their share of new or improved products in the market (Tribo & Fosfuri, 2008).

Business Model Innovation

Successful business model innovations will be in the right position one month after the launch and create capital return within six months. BMI deals with two barriers. First, exaggeration of a process that may cause the creation or maintenance of shortcomings and inefficiency in other activities and processes. Second, an obsolete business model may be inefficient despite the presence of better performance. Although business model studies in the management field have existed for a long time, business model innovation entered the academic discussions of management just about ten years ago (Schaltger et al., 2011). BMI is defined as replacing and changing the business model. When a firm pursues a permanent process for the development and creation of information and BMI, it will achieve a sustainable business model innovation.

If we define a business model as an answer to three questions "what to produce; for whom to produce, how to create money through value creation," the success key in BMI is creating a proper link between these three components in a way these any change in these three dimensions affects each other. In this case, capabilities and relationships between the firm's components will create and enhance the value proposition, performance profitability, and competitive advantage. Jonsson (2010) used a mixed approach and defined the BMI key in selecting constructive elements of the business model and creating a link between four parts of the value suggested for the customer, profitability formula, key processes, and key resources. BMI can be performed at different levels. Micheal and Coles (2003) introduced four degrees of a business model:

- Modifying, adjusting, and adapting the business model;
- Adopting the business model;
- Improving, and complementing the business model;
- Redesigning the business model.

Micheal and Coles consider the following options as useful cases for BMI: executive managers must present an unchangeable prospect about how to estimate customer needs and stakeholders' demands to adopt change in the business model. Being specialized and skilled in another specification for being innovative. Managers must match their business model with irresistible forces through flexible ways. Managers should create some processes to improve business model innovation.

Giesen, Berman, Bell, and Blitz (2007) introduced a BMI model. They studied 35 leading companies in the world that are successful innovators of business models and could classify innovation models into three categories of industry model, revenue model, and enterprise model (Giesen, Berman, Bell,

and Blitz, 2007). The industry model addresses the "industry value chain" innovation. This practice is done through a horizontal movement towards new industries, redefinition of current industries by deleting intermediaries and making a direct relationship with customers, and finally discovering new industries, and new sectors of the industry. The revenue model examined the innovation in pricing methods and how to create a revenue through reconfiguration of the proposed value. The enterprise model creates innovation in the enterprise structure and the role of the organization in the value change. This model covers the change in the area of communications and the form's borders. All new business models are manifested as changes applied to the public value chain of the business. It is possible to make innovation in the business model's components. It is possible to find choices after identifying the scopes related to strategic decision-making and their available options. In this way, the whole system can be tested and analyzed to ensure implicit causality relationships are logical and choices have supportive and internal consistency. The business model is a conceptual model. The primary goal of a conceptual model is to identify analysis dimensions of the business model and detect the main elements of each dimension for each level. Therefore, a conceptual modeling process presents an image of a business model. Conceptualization is a model of business reality and logic that describe the metamodel or reference model in a specific industry allowing for explaining numerous business models. BM modeling that illustrates the business logic helps enterprises to develop business landscape and strategy, redesign and align business operations, share business knowledge and its vision, and ensure adoption of business decisions through stakeholders' commitment to made decisions (Persson & Sterna, 2002). The business model of an organization is never complemented as a process of making strategic decisions, so business models must be tested and evaluated permanently and repetitively. Hence, regular evaluation of the business model is a basis for constant improvement of the business model stimulating serious and innovative changes in the model.

The relationship between PAC and SFI

Innovator enterprises must improve a set of organizational capabilities to provide a possible scenario, including improvement of vital resources identification, acquiring them, efficient use of capabilities, and capability of identifying options. These capabilities help enterprises to meet the increasing needs of customers and match their practices with the last trends and demands in the market. Moreover, these capabilities help enterprises during intense economic shocks (Makkonen et al., 2014). With the enterprise's capability of identifying changes in the environment, PAC facilitates the effective use of required capabilities and contributes to the

renovation of the knowledge base and skills and more flexible application of resources and capabilities. Several researchers have expressed that realized absorptive capacity can enhance the competitive advantage through flexibility (Volberda et al., 2010). The continuous acquisition and full understanding of the external knowledge arising from the firm's PAC is a vital prerequisite for flexibility. Those enterprises that have fully advanced capabilities for acquiring and understanding knowledge can identify trends and opportunities, so can reconfigure their basic resources' flexibility. In other words, just those firms that have a strong capability of acquisition and understanding the external knowledge possibly have high-level SFI, which allows them to respond to business risks and opportunities instantly and properly.

Strategic Flexibility and Business Model Innovation

Strategic flexibility highlights the flexibility reallocation and reconfiguration of resources, processes, and strategies to overcome external changes. Strategic flexibility is defined as the key determinant of competitive advantage in turbulent markets. SFI describes the response view of the enterprise in reacting to environmental changes and expresses the response view of the enterprise's capability for modeling, forming, or changing the environment (Brozovic, 2018). Some studies indicate that those organizations that are flexible in case of strategy are popular due to their capabilities of identifying the new technological knowledge, understanding it fully, and using it for their products or services interfaces, which lead to modular operational systems. On contrary, the other studies consider SFI as the BMI's outcome. This study reviews those researches that consider flexibility as an introduction to business model innovation (Clauss et al., 2019). BMI looks for the informed renovation of business principles of the enterprise without confining its innovation area to single products or services. The enterprises involved in BMI face challenges in developing new business ideas, rearranging and using resources and capabilities to promote a new value, integrating all business model factors, external environment, and interfaces with customers and partners. Such comprehensive change requires high SFI levels, such as the dynamic capability to cope with environmental change with reallocation and reconfiguration of resources, processes, and strategies of the enterprise. The idea that introducing strategic flexibility as a key driver of various innovations has received considerable attention. Those companies that are strategically flexible in the home appliances industry develop various vacuum cleaners, washing machines, freezers, and refrigerators by integrating and adapting key elements in different combinations. Other studies show that strategic flexibility also supports the development of new products (Kandemir & Acur, 2012), fundamental innovation, innovation performance, and

different types of exploratory (popular outcomes of potential and realized absorptive capacity) (Zahra & George, 2002).

Method

The extant study was applied in terms of objective, a descriptive study in terms of type, and a survey in terms of method. Statistical society of this study comprised auto parts manufacturing companies and assemblies of Iran Khodro company. According to published statistics, about 500 companies supply auto parts and assemblies required for Iran Khodro Co. Morgan & Krejcie table was used in this research to calculate the sample size (n=229). Simple random sampling was used due to limited society. Respondents who answered the items about constructs of strategic flexibility, potential, and realized absorptive capacity comprised strategy managers, and engineering managers of the studied company answered the items about business innovation. The standard questionnaire designed by Miroshnichenko et al. (2020) was used on a 7-point Likert scale to gather data. Divergent validity was used for calculations. (Table 1)

Table 1. Divergent validity matrix based on Fornell-Lacker method

	BMI	PAC	SFI
BMI	0.78102		
PAC	0.42356	0.71783	
SFI	0.396789	0.403974	0.74334

The following methods were used to assess the reliability of the measurement tool.(Table 2)

Table 2. Cronbach's alpha and compositional reliability

Construct	Cronbach's alpha	Compositional reliability
BMI	0.90955	0.92590
PAC	0.76592	0.84246
SFI	0.83822	0.88128

Findings

According to Table 4, PAC had a positive relationship with SFI. The obtained results indicated that PAC had a positive and significant association with SFI ($\beta=0.8154$; $t:45.7131$).

Table 3. The relationship between PAC and SFI

	Standard path coefficient	Standard error	Significance of standard coefficients

PAC → SFI	0.8157	0.0178	45.7131
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According to **Table 4**, PAC had a positive relationship with BMI. The obtained results indicated that PAC had a positive and significant association with BMI ($\beta=0.3821$; $t:4.4236$).

Table 4. The relationship between PAC and BMI

	Standard path coefficient	Standard error	Significance of standard coefficients
PAC → BMI	0.3821	0.0864	4.4236

The results showed that SFI could mediate the relationship between PAC and BMI. Baron and Kenny's criteria were used to determine the mediating role of SFI in the relationship between PAC and BMI.

The obtained results indicated that:

- A) There was a positive and significant relationship between PAC and BMI.
- B) There was a positive and significant relationship between PAC and SFI.
- C) There was a positive and significant relationship between SFI and BMI. (**Figure 1&2**)

When SFI was introduced to the relationship between PAC and BMI, the standard path coefficient reached from 0.8483 to

0.4587 (reduction); this indicated that 45.96% of the association between PAC and BMI was realized through SFI and 54.07% was obtained from the direct relationship between PAC and BMI (see Table 5). Sobel test was used to examine the significance of the mediating effect of the mediation variable. As can be seen, this value is greater than 1.96 indicating the significant effect of the mediation variable in the relationship between PAC and BMI.

Table 5. The mediating role of SFI in the relationship between PAC and BMI

	PAC -> BMI	PAC -> SFI	SFI -> BMI	PAC -> BMI mediated by SFI		
				PAC -> BMI	PAC -> SFI	SFI -> BMI
Beta	0.8483	0.8157	0.8505	0.4587	0.8154	0.4754
SE	0.0153	0.0178	0.0164	0.0553	0.0184	0.0574
t-value	56.6105	45.7612	51.8073	8.3006	45.3941	8.3342

Type of mediation: Partial
Sobel Z value: 34.34 significance at $p < 0.000$

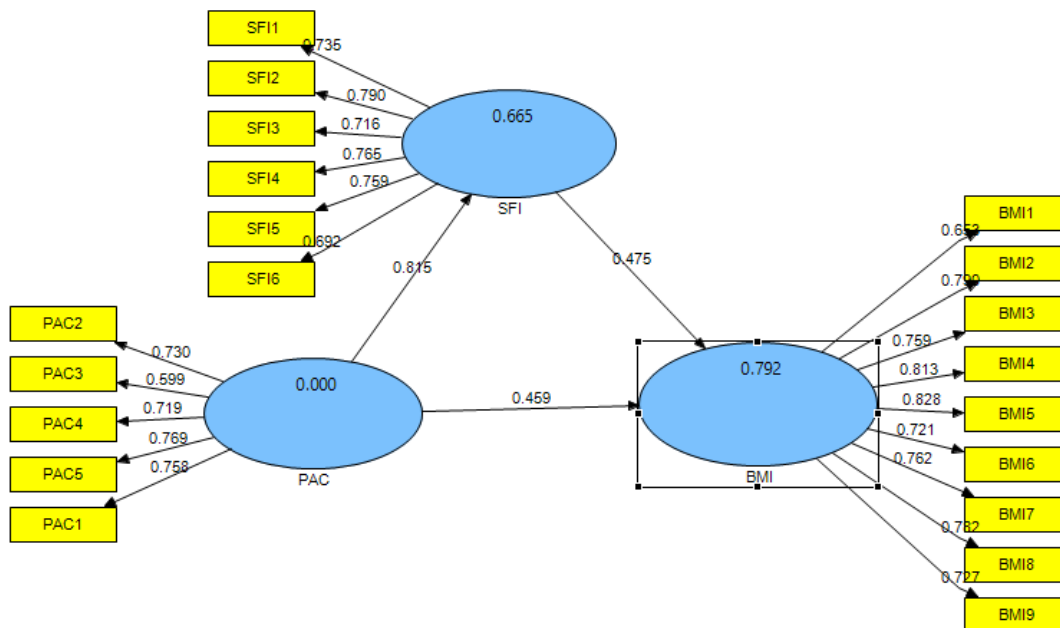


Figure 1. Graphic model of standard path coefficient of the mediating role of SFI in the relationship between PAC and BMI

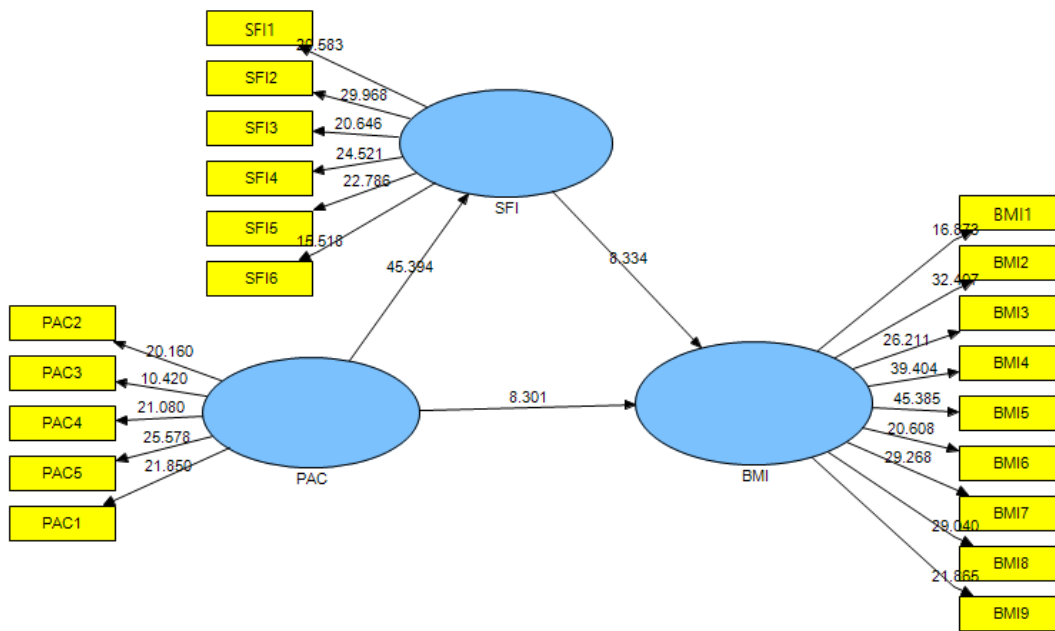


Figure 2. Graphic model of standard path coefficient's significance of the mediating role of SFI in the relationship between PAC and BMI

Conclusion

The extant study was conducted to examine the mediating role of SFI in the relationship between PAC and MBI. According to the results, PAC had a positive relationship with SFI. The results also showed that PAC had a positive and significant association with SFI ($\beta=0.8154$; $t:45.7131$). In other words, organizations' capability of exploiting potential knowledge flow (that is called the capacity) affects strategic flexibility. PAC can influence the value proposed to the customer, attention to creating new markets, entering the new markets, and using modern competition opportunities. It can be explained that innovative performance resulting from this capacity increases attention to customers and creates more value for them. On the other hand, new markets receive more attention and exploitation, and modern competition opportunities and breakdown of monopoly markets get more focus. These results were in line with findings obtained by Pabarjay Zanjani (2009), Hoseinzadeh Shahri and Shahini (2018), and Mahmoodbeigi and Hosseini (2010), Khan and Naeem (2018), Nim Cova et al. (2016), Sushun et al. (2016). The results showed a positive relationship between SFI and BMI. The obtained findings indicated a positive and significant association between SFI and BMI ($\beta=0.3821$; $t:4.4236$). This study reviewed those researches that considered flexibility as an introduction to business model innovation. BMI looks for the informed renovation of business principles of the enterprise without confining its innovation area to single products or services. The enterprises involved in BMI face challenges in developing new business ideas, rearranging and using

resources and capabilities to promote a new value, integrating all business model factors, external environment, and interfaces with customers and partners. Such comprehensive change requires high SFI levels, such as the dynamic capability to cope with environmental change with reallocation and reconfiguration of resources, processes, and strategies of the enterprise. The idea that introduces strategic flexibility as a key driver of various innovations has received considerable support. Other studies show that strategic flexibility also supports the development of the new product, fundamental innovation, innovation performance, and different types of exploratory. These results are matched with findings obtained by Tavakoli Khabbaz and Gholinezhad (2018), Sahebdel et al. (2017), Doroodi and babaie (2016), and Khan and Naeem (2018), Nim Cova et al. (2016), Sushun et al. (2016).

According to the obtained results, SFI could mediate the relationship between PAC and BMI. Baron and Kenny's criteria were used to determine the mediating role of SFI in the relationship between PAC and BMI. The obtained results indicated that there was a positive and significant relationship between PAC and BMI, a positive and significant relationship between PAC and SFI, and a positive and significant relationship between SFI and BMI. When SFI was introduced to the relationship between PAC and BMI, the standard path coefficient reached from 0.8483 to 0.4587 (reduction); this indicated that 45.96% of the association between PAC and BMI was realized through SFI, and 54.07% was obtained from the direct relationship between PAC and BMI. Sobel test was used to examine the significance of the mediating effect of the mediation variable. As can be seen, this value is greater than

1.96 indicating the significant effect of the mediation variable in the relationship between PAC and BMI. This result was consistent with previous studies conducted by Miroshnichenko et al. (2020).

The results suggest revising the methods for using organizational resources to support products, setting flexible sectoral and organizational strategies based on the environmental changes, and flexibility in competitive actions in organization markets, particularly in delivery, price, and production capacity. It is also suggested to revise products' sale strategies in enterprise markets, and access to flexible resources to achieve more ability for resources rearrangement.

Acknowledgments

None.

Conflict of interest

None.

Financial support

None.

Ethics statement

None

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