

Effect of Absorptive Capacity on Technological Diversification & Organizational Performance

Presented by : Azhar Qadri
CEO & Founder ISCAR

ISCAR INSTITUTE OF
SUPPLY CHAIN
APPLICATION
AND RESEARCH

ISCEA

International
Supply Chain
Education Alliance

www.iscea-emea.com

SAMSUNG ELECTRONICS

During 2008 recession, only those companies with diversified competences was thrive. Samsung Electronics, the Korean manufacturing giant, is a typical case in the recent decade. Samsung's patent portfolio and performance in the 2000s, based on the first 3 digits of the UPC code, its patent classification increased from about 142 fields in 2001 to 189 fields in 2010; meanwhile its earnings per share accordingly rose from \$15 in 2001 to \$93 in 2010. The variety of products derived from the diversification of technological competencies also helped Samsung remain profitable during the 2008 financial crisis. More recently, according to the Worldwide Intellectual Property Search's (WIPS) investigation, in order to gain footholds in the long-run, Samsung has spread its tentacles into various promising areas, such as solar cell, automobile battery, LED, bio-medicine and medical device.

Samsung Electronics has a total of 335,155 granted patents and 462,601 patent applications distributed into 336,266 patent families.

Technology has been evolving at an ever-greater rate over the last few decades, and technological diversification is widely considered as a vehicle of organizational growth. However, the development of technological diversification may raise the costs of coordination, integration, and communication efforts, and it may also prevent firms from creating the focus needed in any specific technology domain that it required to realize economies of scale.

According to the resource-based view of the firm, successful firms have a greater ability to identify, cultivate, and exploit the core competencies that are the roots of sustainable competitive advantages.

Among the various organizational capabilities, a firm's absorptive capacity is particularly important to the success of technology and knowledge integration. Simply enlarging a firm's technological portfolio does not guarantee superior performance, and that much depends on a firm's ability to identify potentially fruitful technological opportunities, and then to explore and exploit its technological assets.

Technological innovation increasingly plays a central role in modern business environment. Large manufacturing firms with a higher level of technological diversification are more likely to achieve higher corporate performance. In order to survive in an ever-changing environment, smaller firms can leverage technological competences through alliances and informal networks to overcome challenges inherent in obtaining the desired technologies.

Level of absorptive capacity allows these firms to harness the spillovers from pursuing their technological diversification, as well as to help relieve tension from multiple project implementations.

Absorptive capacity cannot only enhance knowledge acquisition and strategic variety, but also may homogenize incoming external knowledge, making it easier to combine with existing knowledge. This also highlights the fact that efforts devoted to exploring external technological knowledge are helpful with regard to developing the potential of a firm's diversified technology pool, and worth continued investment.