

**ABSORPTIVE CAPACITY AND SUSTAINABLE
COMPETITION: CASE STUDY OF A
LOGISTIC COMPANY
IN VIETNAM**

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**A Thesis Submitted to Asia e University in
Fulfilment of the Requirements for the
Degree of Doctor of Philosophy**

January 2021

ABSTRACT

Absorptive Capacity is a popular concept that has been studied as the key source of sustainable competitive advantage of firms. Scholarly works on this issue are diverse and employs multitude of approaches and theories. However, despite many studies carried out, controversies remained with regards to issues related to the focus, factors contributing and diverging views on how Absorptive Capacity as a social construct is related to competitive advantage.

This study was conducted to probe deeper into how Absorptive Capacity contributes to sustainability of firm's competitive advantage. It was carried out as a case study to address a growing concern that past studies had failed to provide a collective understanding and a unified operationalization of the concept of Absorptive Capacity, implying that the construct might have been reified and taken for granted. In addition, there were growing calls for more research on Absorptive Capacity to be conducted in its natural setting to gain greater insights of real life complexity and that issues related to Absorptive Capacity development can be captured and understood. Data was collected through interviews, observations of events and social practices of organizational members and analysis of both historical and current documents. Theoretically, the study adopted strategic management viewpoints and the Resource Based View and Dynamic Capability View provided the theoretical frameworks for analysis. The focus was on building a theory based on the complexity of Absorptive Capacity in real-life setting.

The principle finding of this study is that Absorptive Capacity contributes to building of organizational resilience. The Company profited from external information by correctly identify, acquire, process and assimilated into its existing knowledge stock before being exploited for commercial gains. Second, the study found that Absorptive Capacity is a two-stage sequential process. The first is context dependent whilst the second was problem dependent. However, rather than both being linear, the first stage was more cyclical. Third, the transition from the knowledge updates to exploitation was not immediate. The time taken for relevant external information to be captured and assimilated into the firm's knowledge reservoir is contingent upon its knowledge management structure and the timing gap between the making of decisions to actual implementation depended more on its management and decision making structures. Four, six factors were found to contribute to the development of Absorptive Capacity. Finally, this study suggests a new improved model of Absorptive Capacity development to extend the intellectual discourse on this topic.

APPROVAL PAGE

I certify that I have supervised /read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, as a thesis for the fulfilment of the requirements for the degree of Doctor of Philosophy.

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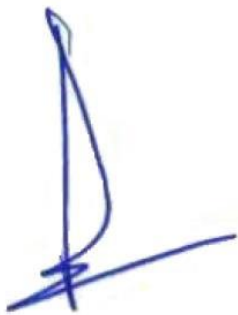
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DECLARATION

I hereby declare that the thesis submitted in the fulfilment of PhD degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in the whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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A handwritten signature in blue ink, consisting of a vertical line that curves to the right at the top, followed by a horizontal line that crosses the vertical one near the bottom.

Signature of Candidate

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ACKNOWLEDGEMENT

Specially Dedicated to

My wife Le Phuong Lan

My sons BIM and BI

My daughter CHIP

Life is a journey. The last six years has been a special one

... fulfilling and enriching

Special thanks to

Prof Nguyen Manh Quan, my supervisor
... who has been very patient guiding me over the years.

... and others who had contributed in making this study possible.

TABLE OF CONTENTS

	Page
ABSTRACT	ii
APPROVAL	iii
DECLARATION	iv
ACKNOWLEDGMENTS	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	xi
LIST OF FIGURES	xii
LIST OF ABBREVIATIONS	xiii
CHAPTER 1: INTRODUCTION	1
1.1 Introduction	1
1.2 Statement of problems	3
1.3 The purpose of research	5
1.4 Justifications	9
1.5 Organization of the thesis	14
CHAPTER 2: LITERATURE REVIEW	17
2.1 Introduction	17
2.2 Competitive advantage	19
2.3 Absorptive Capacity – the concept	23
2.4 Absorptive Capacity and competitive advantage	29
2.5 Past Studies of AC	31
2.5.1 Operationalization of the concept	31
2.5.2 Issues addressed	38
2.5.3 Theoretical framework	44
2.6 Discussions	66
2.7 Summary	72
CHAPTER 3: RESEARCH METHOD	75
3.1 Introduction	75
3.2 The purpose of research	76
3.3 Concept definitions	78

3.4	Research approach	83
3.5	Research frameworks	86
3.5.1	Concept and context of AC	86
3.5.2	Theoretical framework	86
3.5.3	Roles of logistics	87
3.5.4	AC as organizational capabilities and processes	88
3.5.5	Innovations as products of organizational learning	89
3.5.6	Knowledge as an important organizational strategic asset	89
3.5.7	AC as the conduit to sustain competitive advantages	90
3.6	Research design and strategy	91
3.6.1	Activities carried out	91
3.6.2	Data analysis	98
3.6.3	Theory development	100
3.6.4	Data reliability and validity checks	100
3.7	Summary	103
 CHAPTER 4: THE RESEARCH SETTING		 105
4.1	Introduction	105
4.2	The Vietnam socio-economic scenario	107
4.2.1	Historical background	107
4.2.2	Economic developments	116
4.3	The place of research	134
4.3.1	Phu Thai Holding Company Ltd. (PTH)	135
4.3.2	Phu Thai Company Ltd. (PTG)	139
4.3.3	Divestment of PTG shares to Berli Jucker & Co. Ltd.	150
4.3.4	Financial performance	154
4.4	Discussions	158
4.5	Summary	165
 CHAPTER 5: RESEARCH FINDINGS		 169
5.1	Introduction	169
5.2	Strategies to sustain competitive advantage	171
5.3	The nature of Absorptive Capacity	175
5.3.1	Sustainable competitive advantage	176
5.3.2	Absorptive Capacity	177
5.3.2.1	Conceptually related to roles and responsibilities	178
5.3.2.2	AC is unstructured and not discreet	180
5.3.2.3	AC is a two-stage process	182

5.4	The Contributions of AC in sustaining competitive advantage	185
5.4.1	Quick identification of problems, opportunities and providing the mechanism to look for alternative solutions	186
5.4.2	Speeding up problems identification	188
5.4.3	Provides the pressure to produce results and urgency to solve problems	190
5.4.4	Enabling development of trusts and confidence of partners and markets	190
5.5	Processes and dynamics of AC development	192
5.5.1	At the operational level	192
5.5.2	At the tactical level	194
5.5.3	At the strategic level	196
5.6	Factors contributing to AC development	203
5.6.1	Levels and quality of prior knowledge	203
5.6.2	Staff skills and expertise	204
5.6.3	Operational decision making structure	205
5.6.4	Organizational culture	207
5.6.5	Information technology	208
5.6.6	Leaderships	209
5.7	Discussions	211
5.8	Summary	219
 CHAPTER 6: CONCLUSIONS AND DISCUSSIONS		 222
6.1	Introduction	222
6.2	The Research – A recapitulation	223
6.2.1	The context of research	223
6.2.2	Strategy and competitive advantage	228
6.2.3	Dynamic capabilities and AC	231
6.3	Conclusions	235
6.4	Discussions	236
6.4.1	Nature of AC	236
6.4.1.1	AC is purposive and accumulative	236
6.4.1.2	AC is multi-dimensional and multiple level construct	237
6.4.1.3	Development and usefulness of AC is contingent upon prior knowledge.	243
6.4.2	The process of AC development	244
6.4.2.1	AC development is a two-stage process	245
6.4.2.2	AC process is activated by a response or an action trigger	253
6.4.2.3	AC process is facilitated by management systems and structures	254

6.4.3	Dynamics of AC development	256
6.4.4	Factors contributing to AC development	259
6.5	Implications of and for research	268
6.5.1	On developing the concept of AC	268
6.5.2	On theories to study AC	272
6.5.3	On contributions to practice	276
6.6	Limitations	277
6.7	Recommendations for further studies	278
 REFERENCES		 281
APPENDICES		299

LIST OF TABLES

Table 4.1	Vietnam GDP Growth Rate (%)	116
Table 4.2	Number of Establishments at 1/7/2002 and 1/7/2007	120
Table 4.3	FDI Inflows into the Vietnam Economy: 1995-2016 (USD million)	123
Table 4.4	Retail Sales Value (in billion VND)	128
Table 4.5	Volume and Share (in tons) of Transport Modes	131
Table 4.6	Major Product Brands Distributed by PTG in Vietnam	141
Table 4.7	The Growth of PTG's Distribution and Retail Networks in Vietnam	142
Table 4.8	Phu Thai Group - Sales Growth by Principal Supplier Distribution Business : 1993 -2017 (in VND)	154
Table 4.9	Phu Thai Group Sales and Financial Positions: 1993 -2017 (in VND)	155
Table 4.10	Phu Thai Group Financial Statements For the Year Ending 31 December 2017 (in VND)	156

LIST OF FIGURES

Figure 2.1	A Thematic Map of AC Research (1990-2002)	32
Figure 3.1	The Theoretical Framework	87
Figure 3.2	Data Collection Framework	97
Figure 4.1	Vietnam's National Government Budget Deficits From 1989-2011 (in current USD)	114
Figure 4.2	Vietnam GDP Growth Rate (%): 1985-2016	117
Figure 4.3	Vietnam GDP Growth (in trillion VND): 1985-2016	117
Figure 4.4	Contributions of Major Economic Sectors to GDP: 1985-2016 (%)	118
Figure 4.5	Contributions of Major Economic Sectors to GDP: 1985-2016 (in trillion VND at Current Price)	119
Figure 4.6	Contributions by Sectors in Vietnam Economy: 2005-2016	121
Figure 4.7	Investments into the Vietnam Economy: 1995-2016	122
Figure 4.8	FDI Inflows into the Vietnam Economy: 1995-2016	123
Figure 4.9	Growth in Retail Sales Value (In billion VND)	128
Figure 4.10	Phu Thai Holdings Business Structure	137
Figure 4.11	Phu Thai Holdings Major Milestones	138
Figure 4.12	Phu Thai Group's Major Distribution Centers in - Vietnam – as at 31 December, 2017	143
Figure 4.13	Organizational Chart – PTG, 2018	153
Figure 4.14	Mapping of PTG Selected Milestones vs Country Data	159
Figure 4.15	Mapping of PTG Sales Growth to Major Milestones	164
Figure 6.1	Development of Absorptive Capacity Model	271

LIST OF ABBREVIATIONS

AC	Absorptive Capacity
SM	Strategic Management
OL	Organizational Learning
KM	Knowledge Management
RBV	Resource-based View
DCV	Dynamic Capability View
3PL	Third Party Logistics Service Provider
LSPs	Logistics Service Providers
TSLP	Total Services Logistics Provider
PTC	Phu Thai Company Ltd.
PTG	Phu Thai JSC
PTH	Phu Thai Holding Company Ltd
KOWIL	Vietnam Fashion JSC
Greenvet	Green Technology Veterinary JSC
PTCat	Phu Thai Industries Company Ltd
PTBHC	Phu Thai Health & Beauty Care JSC
BJC	Berli Jucker Public Company Limited, Thailand
CEO	Chief Executive Officer
COO	Chief Operating Officer
JSC	Joint Stock Company
GDP	Gross Domestic Product
VLAP	Vietnam Logistics Action Plan
SOE	State Operated Enterprises
VND	Vietnam Dong
USD	United States Dollar

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Businesses are becoming more complex. Globalization is making them more competitive. As such, to survive, firms must be constantly vigilant and adopt actions and strategies that will and can withstand challenges. They must be able to spot dangers, detect threats, identify opportunities and change the way they do things and adopt new strategies to meet changing market conditions. In short, because of the changing nature of business processes and productions, commercial firms must be sensitive to changing market conditions and external business environment. They have to continuously develop their adaptive capabilities to stay competitive and to sustain their competitive advantage.

In academia, much of the work to enlighten the abilities of firms to benefit from exploiting external information to sustain financial performances is found in strategic management, organizational learning and knowledge management literatures, and one of the major concept that emerged as a significant organizational research issue in recent decades is Absorptive Capacity (AC). The concept was introduced by Cohen & Levinthal in 1990 and refers to the ability of a firm to identify, assimilate and exploit external knowledge for commercial gains. However, despite many research findings and papers written on and about AC thus far, little is

known about the real processes of how companies remained competitive, maintained their strategic positions and responded to competition to stay ahead of its competitors.

Lane et al. (2006), reviewed 289 peer-reviewed academic papers (published from 1991-2001) which adopted the concept and found that AC, as an issue for research, was popular due to the overlap of contemporary research areas, mainly strategic management, organizational learning and knowledge management. However, they highlighted two major research concerns. Firstly, despite large volumes of literature on and about AC, they are yet able to provide a collective understanding of concept or conclude what past findings had collectively accomplished. As such, they lamented, AC, as a construct, might have become reified and taken for granted. Secondly, they observed that past researches are largely influenced by the philosophy of positivism, adopting the hypothetico-deductive methodology. AC is viewed as a product of rational decisions to achieve efficiency and effectiveness. As such past studies adopting this approach assumed that AC exists in a vacuum. They applied the laws of the natural sciences. Methodologically, they are technically biased and failed to address the real relationships that AC has with other phenomena in organizational functioning.

As a result, there are growing calls in extant literature for more studies to provide greater insights of AC and adopt a more qualitative approach so that the real-life complexity and problems of AC can be captured. They argued, it is only through studying AC in the context in which it existed will we be able to offer more in-depth explanation of the process through which AC developed and how AC, might, in

itself, creates a context for the organization to react to internal and external stimuli to survive and grow in a competitive operating environment. In short, qualitative methodology has the advantage of allowing us to have deeper understanding how AC came into being, the forces which caused AC to change and developed and the organizational consequences of such changes and developments. As New & Payne (1995) had noted, whilst the hypothetico-deductive approach is capable of having to score high on rigour and cleverness, this traditional method of doing research scores low on connection to 'real' problems.

This research was motivated, conceptualized, planned and carried out with the above in mind.

1.2 Statement of problem and research questions

AC is the concept introduced by Cohen & Levinthal in 1989. It refers to the ability of a firm to *identify, assimilate and exploit external knowledge for commercial gains* and has become one of the major concepts to emerge in organizational research in recent years. This was contributed by the unique perspective this construct provides and due to its overlap with other popular trends in contemporary research in strategic management, organizational learning and knowledge management (Lane et al., 2006). However, they noted that despite large stream of research done and papers written so far, researchers had exhibited a rather diverse understanding when operationalizing the construct. As a result, we are yet to have a collective

understanding of what AC is all about and how it is implicated in enabling a firm to sustain its competitive advantage.

Todorova & Durisin (2007) attempted to provide a solution by proposing a revised model of AC development based on Zahra & George (2002)'s modification of the original concept proposed by Cohen & Liventhal (1990). They suggested that a model of AC should capture the dynamics of the process of how AC developed. This is because, they argued, development of AC is a path-dependent process, and any increase of knowledge in one area of expertise will affect future development of capabilities of the organization as a whole. Whilst the new model proposed enhanced our understanding and put AC on a clearer footing, a question remains - how does a firm, while operating in changing market conditions and hostile economic environment, able to learn from events around it and then, capitalize on the knowledge gained to reinvent itself, operationally and strategically, to stay competitive and continue to do so over long period of time?

In short, the problem statement can be stated as –

... Despite vast amounts of works carried out on AC, not many research or papers were able to properly explain the nature and dynamics of AC development and how organizations develop their abilities to remain competitive and sustain their competitive positions.

Therefore the major research question that needs to be answered then is,

How does, in real life, AC is implicated, developed and contributed in enabling a firm to sustain its competitive advantage?

It is this question that this research seeks to answer. The method employed was chosen to heed the calls for more research to study the phenomenon in the context in which it existed. Research was carried out to explore and gain better insights of how the company, PTG, developed over the years and in the process, becoming what it is now. Central to this is the belief that the phenomenal growth within a span of twenty years is largely contributed by the firm's abilities to respond to external stimuli to remain competitive and sustain its competitive advantages. In sum, the Company was able to sustain its current position because it was able to correctly identify, evaluate the nature and potentials of external events, add-value to its knowledge stock and assimilates the knowledge gained within its operational structure and finally exploit this 'new knowledge' to produce the capacity to sustain its competitive advantage.

1.3 The purpose of research

In principle this study seeks to explore and to gain better insights of how the company's AC developed over the years and in the process, enabling the company to grow to what it is now. In general, the aim is to explore and identify the nature and capture the dynamics of AC development in real-life setting. It is focused on gaining deeper understanding of how an organization adds value to its existing knowledge

stocks through the process of scanning its operating environment, identifying and capture relevant (external) information, process and assimilate the new knowledge into its operational and decision making structure and, finally leveraged them to build competitive capacities to sustain its position as a the undisputed leader of the industry.

Specifically, the objectives of this study are;

- a. To determine and describe the nature of **AC** in context.
- b. To map the process of how an organization determines and secures internal and external information, evaluates and enhances its know-how and finally exploit the newly updated and enhanced knowledge reservoir to create innovations and develop response strategies and affirmative actions to implement decisions designed to overcome problem(s) and to maintain its competitive advantage.
- c. To describe and explain the dynamics of **AC** development and growth.
- d. To identify the factors which contribute in enabling the Company to sustain its competitive advantage.

Data collected for analysis were gathered from a twelve-month long case study carried out in PTG. Analysis of archival documented records of over twenty years and interviews with over forty PTG senior managers, long serving employees and retail partners were carried out. In addition, other economic and significant political and social event data in Vietnam were also studied to understand the macro and

industrial impacts on the business. Data was collected with the following intentions in mind.

- a. To map out the growth of PTG based on the patterns and chronology of events from its inception in 1995 to 2017 and from there on, to identify locate significant growth patterns and development phases of the company.
- b. To study the nature and characteristics of the processes, roles of organizational participants and resources employed in the development of the organizational know-how and the exploitation of the Company's knowledge reservoir.
- c. To trace the dynamics of organizational activities and processes that explain the organization's capabilities to *recognize the values of information, acquire it, assimilate it and apply it to enhance its competitive positions* and from there on, to identify factors, actions and responses by the organization to maintain its competitive advantage.
- d. To describe and explore linkages between external events and the company's operating and growth strategies so as to identify relevant factors viewed by the organization as opportunities and threats to its competitive advantage.
- e. To offer explanations on how **AC** is involved and implicated in the development of innovations, affirmative actions and new organizational routines and management systems to overcome competitive business environment and changing market conditions to sustain its competitive position in real life setting.

The analytical approach adopted is both contextual and processual. Descriptions and analysis were made to gain insight as to what has happened and what is going on. This approach was taken to ensure that the insights captured will allow readers to make sense and ‘visualize’ the concept and understands the involvements of **AC** in the wider economic, social and organizational settings of the firm. In addition, in conducting this study, significant external events and changes occurred were viewed as stimulus for organizational actions and reactions. They are threats or indicators that formed the external context which prompted the firm to act and, by so doing, set **AC** in motion, enabling the dynamic of the processes and relationships between key actors to be studied in its real setting.

As such, this study;

- a. Is not about seeking generalization or carried out to test or verify a set of predefined hypothesis in order to affirm or to reject a theory. Rather, it was conducted to capture the process of **AC** development is sustaining competitive advantage within a specific organization’s social practices, and as understood by organizational members – the context in which it (**AC**) existed. For that, findings will be context specific but contributing in broadening our understanding of **AC** in real-life.
- b. Is focused on improving and expanding the theory of **AC** first proposed by Cohen & Liventhal (1990), modified by Zahra & George (2002) and finally improved by Todorova & Durisin (2007). It was carried as a case study to capture the essence of **AC** in order to describe the concept in practice, based on academically accepted research processes. As such, this

research will contribute towards developing an improved theory of AC and enhancing our knowledge on AC development in its real-world context.

1.4 Justifications

This study was motivated by a lack of academic papers published and studies carried out to address the roles of AC in logistics organizations. These were acknowledged by Busse & Wallenberg (2011). They then suggested that more studies should be carried out because AC provides a perspective to understand how LSPs respond to constantly changing economic conditions and operating environment.

In particular, this research seeks to address the following research gaps;

- a. The concept of AC has been studied and its construct thus far has been developed over three phases. The original one was proposed by Cohen & Liventhal (1990). This was expanded by Zahra & George (2002) and was further fine-tuned by Todorova & Durisin (2007) and Volberda et al. (2010). The two main contesting points are; a) what constitute major activities of the process of AC development, and, b) if the process (of AC development) is linear. Whilst Todorova & Durisin (2007) saw the merit of Cohen & Liventhal's three-stage process, Zahra & George suggested that the process of converting knowledge into actions that will produce competitive advantage – potential and realized AC, and are made up of four distinct activities. This view was supported by Volberda et al. (2010).

These diverging views of the AC development process showed that it can be revisited and further expanded, the issues this study seeks to address.

- b. In operationalizing AC, past researchers had used variables like R&D intensity, knowledge content, organizational routines and processes and, others such as age and size, as proxies for the organization's knowledge stock. But, these variables are gathered from multiple researches in different settings. As such, this study provides an opportunity to explore and have a clearer conceptualization of the concept especially on the proxies used to describe AC in its single, actual real-life setting.
- c. There is a trend that many past researches on AC and competitive advantages are slowly moving into the SM, OL and KM disciplines. Findings suggested that AC helps the speed, frequency and magnitude of innovation and that innovation produces knowledge that becomes part of AC, which then contributes to firms developing affirmative actions to sustain competitive advantages. Hence, this study will contribute towards enhancing our understanding of how firms continue to survive or even improve its long term competitive position.
- d. There were two opposing views with regards to knowledge characteristics which affects the absorption and assimilation by an organization - a) how to recognize the type of knowledge that are significant and which can enhance the organization's ability, and b), how an organization assimilates and exploits such information for commercial gain once it was able to identify that such information is valuable and relevant. Our understanding

on these issues will be enriched as this study focused on how AC developed in the context in which it exists.

- e. Past studies had shown that the evolution and development of AC were affected by multiple factors and managerial roles which influenced knowledge search patterns, activation of organizational triggers and transformation of organizational knowledge. Organizational structure has also been found to be very crucial in facilitating knowledge transfer and shaping the AC of the firm. But a large majority of past studies have ignored the role of organizational structure in defining the AC of the firm. As such, this study will allow us to enhance our understanding of the dynamic capabilities, roles, contingent conditions and other factors such as organizational structure, culture and other economic and social influences on AC and vice versa.

Methodologically, this study adopted and used the qualitative-inductive approach based on the following grounds;

- a. There have been growing calls for more studies in AC to adopt an inductive and qualitative based methodology. Zahra & George (2002) suggested that researchers can use interview data and secondary data from archives and those collected and analysed over multiple time horizons to better understand AC in its context. In addition, Spens & Kovaks (2006), in their review of research approaches in Logistics, found that qualitative research is gaining recognition in logistics research. Of the 378 published