

ABSTRACT

Small-medium enterprises (SMEs) are a major source of employment in the world economy. Yet, the statistics show that SMEs face high rates of failure in the first three years of operation (The Australian Business Review, 2007). This high failure rate is attributed to the limited resources of SMEs. The knowledge economy and global trends require SMEs to revise and renew their knowledge so that they can innovate and develop new technologies to keep pace with the changing market (Grant and Baden-Fuller, 1995).

This study draws on the theories of social capital, resource-based view (RBV) and dynamic capabilities to examine how SMEs leverage their relational capital to improve firm performance via absorptive capacity. Knowledge resources are viewed as “stock” (Amit and Schoemaker, 1993), and therefore require absorptive capacity, which represents the ability to acquire, assimilate, transfer, and exploit knowledge (Cohen and Levinthal, 1990), to turn the knowledge into a “true resource” (Barney, 1991).

With random samples drawn from two reputable Hong Kong associations that mainly consist of SMEs, this study applies quantitative research method to collect data from small-medium Hong Kong manufacturing firms with manufacturing facilities in China. The survey instrument was pre-tested and fine-tuned before the formal data collection. Of the nine hundred and fifty questionnaires distributed, one hundred and eighty-five valid responses representing 19.47% of the response rate were collected and used in this study.

This study has several contributions to the literature. First, it empirically examines two path dependent learning processes. Second, the study contributes to research revealing how moderators matter to the path between relational capital and absorptive capacity. The findings show a negative moderating effect of key knowledge employee turnover on the relationship between relational capital and absorptive capacity as well as the relationship between potential absorptive capacity and realized absorptive capacity. In addition, it shows a positive moderating effect of intra-firm information sharing on the relationship between potential absorptive capacity and realized absorptive capacity.

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