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WHEN WILL INTERNATIONAL JOINT VENTURES BE INFLEXIBLE TO EXIT?

Sungjin J. Hong, Yeungnam University

ABSTRACT

This paper aims to identify boundary conditions of real options theory in the context of international joint ventures (IJVs). Drawing upon institutional perspective and experiential learning perspective, we argue that IJVs will provide high divestment flexibility when environmental uncertainty is high and legitimacy pressures are low. If normative and regulative legitimacy pressures are high, IJVs would not provide high divestment flexibility even if host country economic environments are volatile. In a similar vein, we argue that, even though prior country and partner specific experience would reduce perceived uncertainties in the host country, increased legitimacy gained through prior experience would also raise the expected level of local legitimacy and embeddedness for those foreign parents of IJVs. Therefore, reduced perceived uncertainties may not necessarily lead to higher IJV divestment flexibility.

HAS SWOT OUTLIVED ITS USEFULNESS: A REVIEW OF SWOT

Michael D. Meeks, Louisiana State University-Shreveport

ABSTRACT

Not only has SWOT been a cornerstone of strategic management analysis since it was first introduced by Ken Andrews in 1964, but SWOT has been widely adopted by other disciplines, such as Marketing and Decision Sciences. It is argued in this paper that SWOT has outlived its usefulness because it was developed as a static "fit" model at a time when market conditions remained relatively stationary for long periods of time. Such a model is inappropriate for our current dynamic marketplace, and should only be used when its limitations are fully understood.

Data is collected from published text books and syllabi to establish any changes in the use of SWOT in business education. Findings reveal that despite SWOT's shortcomings, authors and instructors continue to promote SWOT as a keystone of strategic management and planning. The author recommends abandoning SWOT altogether except in the most elementary and preliminary analyses, and then only to inform more extensive and appropriate strategic analytics.

Survey data collected from students entering an undergraduate business Capstone course further reveals that business students identify SWOT as the strongest strategic analytics tool taught to them in their program. Similar data collected from MBA students in a strategic management course verifies the same reliance on SWOT as their primary analytic tool of choice for strategic business and industry analyses.

The author makes three fundamental recommendations. First, in a millennium characterized by ever-increasing accelerated change, practitioners must employ more appropriate analytics in their strategic assessment and planning endeavors. Second, strategy researchers and professionals trained prior to 1980 and who have failed to stay current with the rapidly growing body of knowledge in the field of strategic management should let go of outdated static models they learned long ago. Lastly, instructors and practitioners trained in disciplines other than strategy must examine the limits of their own knowledge and confer the choice of strategic analysis tools to the trained experts in the field of strategic management.

IMPLEMENTATION UNDERVALUED IN BUSINESS SCHOOL EDUCATION

Michael D. Meeks, Louisiana State University-Shreveport

ABSTRACT

Strategy scholars and university instructors seem to differ from their practitioner counterparts when it comes to identifying which aspect of the strategic planning process provides the most value, and thus warrants the most attention and resources. In this paper it is argued that strategic implementation has been undervalued by strategic management scholars and instructors, as they instead choose to give more credence to the strategic alternative choice. Practitioners, on the other hand, choose to value implementation and execution as the most crucial aspect of the process. This has serious consequences as our colleges and business schools train and graduate more professionals entering the workforce and MBAs returning for advanced knowledge and a stronger practitioner perspective.

The strategy literature is replete with boxes-and-arrows models of the strategic management process, and while we can debate over the utility of one model over another, we accept the inherent value of the overall process known as strategic planning. In the end, strategic management process models can be simplified into a linear four-box model with feedback loops for reexamination of antecedent alternatives when faced with unviable options. This four-box model includes (1) establishing goals and objectives, (2) formulating a strategy to achieve the goals or analyzing a set of strategic alternatives, (3) implementing or executing an agreed upon strategic alternative, and (4) monitoring the viability and appropriateness of the executed strategy.

Data is collected from text books and syllabi to investigate which aspects of the strategic planning model are emphasized in undergraduate and MBA education. Data is also collected from relevant popular press publications to reveal their preferred focus. Results reveal that indeed strategic implementation is undervalued in business school education, and revered as omnipotent when it comes to desired outcomes.

The author recommends that business school instructors and text book publishers include a deeper presentation of the strategic planning process model, complete with a full description of the potential biases and paradigm differences between academic researchers and scholars, and practicing consultants and executives.

STRATEGIC MANAGEMENT: COORDINATION OF DISPARATE FUNCTIONAL DISCIPLINES

Michael D. Meeks, Louisiana State University-Shreveport

ABSTRACT

At the core of strategic management is the coordination of disparate functional groups, each group adhering to a different mindset, culture, knowledge base, purpose, and guiding set of industry standards. This study examines the core nature of each group and identifies the responsibilities and value proposition targeted by each discipline. The fundamental issue addressed herein is the challenge associated with coordinating such disparate groups, and aligning them in such a way as to maximize organizational performance. The primary question surfacing from this exploration, and the key research question of this study is, "Which of the disciplines offers the most value to the organization?" In other words, which of the functional areas is perceived as most important?

Using a pre- and post-test design, data was collected from undergraduate business students in capstone strategic management courses, and from MBA students in a similar strategy course. Results suggest that prior to the treatment – the teaching of the capstone course – students tend to identify their own major as providing the most value, with the discipline of finance being selected by the sample as more important than the other functional areas. Interestingly, after the course, students overwhelmingly chose Sales as the clear favorite when it comes to value-added and importance, while Finance dropped to near the bottom of the list.

Comments collected from the survey also suggest that the capstone course is the first time in their college education students were asked to examine the broader scope of business and reflect on the bigger picture at an organization level, as opposed to the reductionist approach offered in their discipline-specific courses. These comments suggest that only when standing in the shoes of the CEO, or strategic planning team, can a student truly understand and appreciate the difficulties of coordinating the disparate functional groups, and the true value added by each discipline. Results also reveal that students appreciate the broader look at business and the organization offered in the capstone course, and expressed their preferences in retrospect that they should have been offered a broad perspective prior to the narrow-focused discipline courses in their program.

The author recommends curriculum committees examine ways to provide a broader perspective to business students early in their programs, and in a way that introduces the different functional groups within an organization, the roles of these groups, and a cursory examination into the interrelationships between these groups. Providing such a perspective would inform student career and curriculum choices. Suggestions are provided on how to best achieve these objectives.

TOWARD A SOCIAL THEORY OF THE FIRM

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ABSTRACT

Strategy scholars have focused on the theory of the firm as a way to analyze and predict performance differential between firms. In this paper, we evaluate the discussion with special emphasis on the way in which "rents" are characterized in the strategy literature. We make a case that if a firm achieves performance differential through efficiency (Ricardian) or innovation (Schumpeterian) rents, it is compatible with social welfare concerns, but when it seeks monopoly rents, it has an adverse effect on social welfare. From a theoretical standpoint, we feel that the incorporation of issues of social welfare into the theory of the firm will invest it with greater explanatory power. Such a "social theory of the firm" does not come at the expense of economic performance, but rather overlays it with issues of social welfare, so as to prevent theories of the firms from becoming divorced from broader concerns.

INTRODUCTION

It has been said that the defining feature of the sub-discipline of strategic management is the search for the determinants of intra-firm performance heterogeneities (Hambrick & Quigley, 2014). In order to get to that problem, strategy theorists have often tried to develop theories of the firm with adequate descriptive and predictive insight in this regard (see Brahm and Tarzijan, 2014 for a recent review). The search for a theory of the firm for strategic management scholars is the search for a base from which to seek answers to questions about performance such as: why do some organizations outperform others? In the context of strategic management, performance is measured in terms of economic performance. Economic performance however, is only one facet of performance among several others. In this paper, we focus on a different dimension, i.e. corporate social performance as a basis for defining the firm (Wood, 1991). The central purpose of this paper is to delineate links between the theory of the firm and corporate social performance. In order to address this issue within the confines of a single paper, we focus on a single, crucial, debate in strategic management: that between the dynamic-capabilities-based and industrial organization views of competitive advantage.

Advocates of the dynamic-capabilities-based view (DCV) have taken issue with the industrial organization view (IOV) on at least three different fronts. The first front is that of *research*. The argument on this front is encapsulated in the assertion that the dynamic-capabilities-based view, with its focus on the competences and other resources controlled by the firm, provides a better explanation of sustainable competitive advantage than does the IOV, with its focus on industry structure (Lin & Wu, 2014). The argument on a second front takes the form of a *recommendation* to top managers that competences and other resources, rather than industry structure, be used as the basis for strategy formulation and implementation (Makkonen et.al. 2014).

A third front is that of *social welfare*. While proposing the resource-based view, a predecessor of the DCV, Jay Barney had contrasted the origins in economics of the IOV with its use in strategic management. He felt that the IOV had been developed by economists such as Bain (1956) not only in order to describe competition, but also as a tool to diagnose imperfections in competition, in order that they could be remedied, and the social welfare benefits of competition reaped by customers and society. However, it had morphed to a large extent into a cookbook for firms seeking to exploit market imperfections; hence it contrasted sharply with the social welfare perspective of traditional IO theory. Barney had argued that the resource-based view could, in contrast with IOV, be “perfectly consistent with traditional social welfare concerns of economists” (Barney 1991: 116).

The structure of the paper, is as follows. Each of the next three sections contrasts the IOV and the DCV on a different front. The first contrasts research based on the IOV with that based on the DCV. It thus lays the foundation for the second and major section, in which we view the debate from the social welfare perspective; it is in this section that we review the operationalization of corporate social performance. The third of these sections reviews that part of the debate comprising recommendations to practicing managers. We draw together strands from each of these three sections in a final section, in which we conclude our case for the consideration of corporate social performance, as well as corporate economic performance, in the theory of the firm debate.

DETERMINANTS OF RENT: PERSPECTIVES FROM ACADEMIC RESEARCH

Industry Structure

Taking a cue from the relationship between strategic management and industrial organization (Porter, 1977; Legros & Newman, 2014), many theorists have postulated specific causal links between rent and the impact of market power as represented by a variety of structural variables on firm performance. It may be contended that while the foundations of research on the relationship between structure and performance were laid in the field of industrial organization (IO) economics, much of the subsequent refinement in the debate came from the field of strategy. For instance, while the postulated relationship between industry structure and firm profitability was inspired largely by Bain’s (1956) study of the relationship between profitability and industry *concentration*, it was research that went beyond the confines of neo-classical economics into management strategy which introduced *market share* as a more explanatory determinant of rents (Ravenscraft, 1983).

Further refinement of the barriers to entry concept revealed that concepts finer-grained than *industries* and *entry barriers* were required. Firms tend to cluster in *strategic groups*, bordered by *mobility barriers* restricting the movement of firms joining the group from elsewhere in the industry, and hence sustain rents (Caves & Porter, 1977). For instance, an empirical study of the brewing industry by Hatten and Schendel (1977) revealed significant heterogeneity, whereby strategic groups emerged based on regional focus and plant utilization. Research in strategic groups has been used by marketing theorists to develop and refine theories of niche marketing based on firm strengths as well as mobility barriers (Mas-Ruiz et. al., 2014).

Dynamic Capabilities

In contrast to the IOV, which explains sustained competitive advantage and rent in terms of the firm’s position within its industry environment, the DCV looks within the firm for sources of advantage and rent. In particular, it focuses on the firm’s resources. Barney (1991) identifies four attributes a resource must possess in order to bestow advantage and rent beyond the most fleeting of periods. First, it must be valuable, in that it must allow the firm to formulate or implement strategies not possible without control of the resource. Second, a resource must be rare, since widely available resources will not, by definition, bestow advantage over competitors. The other two attributes a resource must possess in order to be a source of rent are imperfect imitability and lack of substitutability. In other words, there must be barriers to the imitation of the resource by competitors. Consider the resource constituted by a web of relationships between suppliers and producers in a business ecosystem. Such relationships usually include social components. The social complexity of the web makes it firm-specific, and hence difficult for competitors to imitate. Even if imitation is possible, it is unlikely that it will be rapid, since socially complex resources take time to grow (Schilke, 2014). Another barrier to imitability is uncertainty as to the link between the resource and competitive advantage.

Rent and Resources

We have already made several references to the concept of rent. Since this concept is explicit in several accounts of the DCV (Denneels, 2012; Coff, 2010)), as well as in discussions of social welfare (e.g., Buchanan, 1980), it is helpful to clarify it at this point. Amit and Schoemaker (1993) distinguish between three types of rent. *Ricardian rents* (sometimes referred to as scarcity rents) arise from resources that are in limited supply. In contrast, *monopoly rents* arise from a deliberate restriction of production, rather than from a limitation in the supply of resources necessary for production (Peteraf, 1993). Finally, *Pareto rents* (or quasi-rents) refer to the amount by which returns to a resource exceed the returns available were the resource to be put to its ‘second-best’ use.To summarize the discussion on rents, we may therefor say that firms do seek separation from their competitors in the pursuit of rents. However, if they do so by achieving Ricardian or even Pareto rents, it has positive social consequences. However, a single-minded pursuit of monopoly rents will prove self-serving for the firm, and will have long-term negative consequences for it.

IMPLICATIONS FOR SOCIAL WELFARE

We now turn to the implications of the IOV and DCV for social welfare. These implications have long been a concern of the IO economics in which the IOV is rooted (see Lin, Chen & Lo, 2014, for a recent review). Hence we commence by reviewing this concern.

The IOV

Effective competition, that is, competition that promotes social welfare, is the central concept of IO economics. The debate over the importance of effective competition began in the late 1890s when concerns surfaced over the effects realized to society by mergers involving dominant firms. The monopolistic environment created from these mergers was viewed as undermining efficiencies gained from competition, slowing innovation, and effecting societal change by transferring wealth from ordinary citizens to the wealthiest in society (Scherer & Ross, 1990).

The discussion flourished in the 1920s. Early economists such as Alfred Marshall (1920) began to focus on three main factors: efficiency, innovation, and fairness in distribution. Efficiency refers to the optimal allocation and employment of resources, with obvious benefit to social welfare. The second factor, innovation, focuses on the rate of introduction of new products and processes. Social benefits from innovation are that business realizes greater efficiencies and gains from new products, and consumers procure more advanced and better products at fair prices.

The DCV

The DCV focuses on differences between the resource endowments of firms. Further, it posits a link between these differences and firm performance. Hence it asserts that rents arise from resource heterogeneity across firms (Blyler & Coff, 2003). Peteraf (1993) first develops this argument in terms of Ricardian rents. She then makes the following telling remark. ‘The condition of heterogeneity is equally consistent with models of market power and monopoly as it is with the Ricardian story’ (Peteraf, 1993: 182).

The point of this remark is that if a firm is in a position in which resource heterogeneity is favorable and durable, it is able to generate monopoly rents. It is able to restrict output in order to command a higher price and thus maximize profits in just the same way as the firm protected by the entry or mobility barriers of the IOV. In order to see why this is so, it is necessary only to recall the attributes a resource must have if it is to be a source of rent: value, scarcity, imperfect imitability, and absence of substitutes. Since other firms do not have access to the sustained competitive scarce resource in question, or even to substitutes for it, they are unable to offer a similar product. Hence the firm is able to parlay its monopoly on the resource into market power, that is, into the power to set prices rather than to have to produce at the price set by a competitive market.

Rents and Welfare

Buchanan (1980), introducing a volume of economic analysis of rent, offers an example of rent in terms of resource deployment:

> *Consider a situation in which some person, a potential entrepreneur, discovers a use for a resource or a combination of resources that had not been previously discovered.... The entrepreneur organizes production and commences sale of the new commodity or service. By definition, he is a pure monopolist during the initial period. He may be able to secure a return over and above what he might earn in any alternative employment. He receives “economic rent” on his entrepreneurial capacity (Buchanan, 1980: 6).*

Buchanan (1980) argues in terms of allocative efficiency. To read the other side of his social welfare coin, he is concerned with the problem of allocative inefficiency. This problem is that when firms can set prices by restricting output, they divert resources to activities less valued by consumers, and thus undermine social welfare (Scherer & Ross, 1990). He is also concerned with ‘rent seeking,’ the process by which firms incur expenses, and hence divert resources, to attain and maintain market power. However, allocative inefficiency and rent seeking are far from the only threats to social welfare when firms can command rents.

Two problems are apparent in the above discussion of rents and welfare. The first is that although the three types of rent are conceptually distinct, it is difficult in any particular case or class of cases to tease apart the Pareto, Ricardian, and monopoly components of rent. Further, it can be argued that even monopoly rent, if not “excessive” in terms of quantity or duration, may serve a societal purpose in that it provides an incentive to innovation. This leads to the second, empirical, problem: that of operationalizing the impact of firms and their competitive interactions on society.

Operationalizing Social Issues

There have been several existing traditions within the fields of management and accounting that have explicitly attempted to model social issues in empirical research. An underlying problem with this research is that it is difficult to determine standards for corporate social performance. Individual values, ideologies, and emotions affect the interpretation of this topic (Ullmann, 1985).

Management scholars began to search, along with their accounting colleagues for potentially interesting causal linkages between a firm's commitment to non-economic models of corporate social responsibility and their performance. The results of this research have been mixed, but a consensus is emerging that an explicit focus on social responsibility does indeed have long term economic benefits for firms (see Anderson, Hyun & Warsame, 2014, for a recent review of the research in this area).

It is evident that CSR studies have been narrow in scope and focus within the management and accounting disciplines. The "Principles of Corporate Social Responsibility" model developed by Wood (1991) offers promise for interesting discussion and research within strategic management. Managerial discretion is one such segment of the model. The domain of managerial discretion within the CSR discussion has been relative to activities such as corporate philanthropy and public-private partnerships (Carroll, 1979) and is given little consequence in the literature.

The theoretical implication of the above discussion is that when firms seek to achieve performance advantages without taking into account social efficiencies, they inadvertently incorporate into their routines the seeds of their long-term decline. They do so by reducing their focus on the win-win aspects of improving social product and social efficiency along with firm performance. Such firms will then be vulnerable to being superseded by their competitors who have incorporated social concerns into their strategy.

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(Further References and Expanded Paper Available on Request)

MANAGING KNOWLEDGE IN THE AGE OF GLOBAL CAPITAL

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ABSTRACT

The knowledge-based view of the firm has gained currency in organizational theory since the 1990s. In this paper, we evaluate it in a historical perspective, and suggest that the new theories of the firm as a receptacle of knowledge emerged in the context of the intensified knowledge communication within organizations in the early 1990s, and organizational practices that appropriated public property through the regime of intellectual property rights. We contend that organizational theory and practice are both in a state of dynamic mutual interaction, with theory often playing a lagging role. In other words, organizational actions precede, and are retroactively described (and legitimized) by theoretical developments. We then we subject knowledge-based theories of the firm to scrutiny, and conclude that they resort to simplistic definitions of knowledge. Using information from other social sciences, we identify some of the facets of knowledge that need to be considered in order to make our theories more meaningful.

INTRODUCTION

For scholars and professionals in the field of business management, the challenges of the twenty first century appear to be especially daunting. On one hand, the recent past has seen a tremendous acceleration in the rate of trade between countries, the growth of MNCs, and fundamental changes in work practices leading to increased productive efficiencies in organizations (UNCTAD, 2013). On the other hand, the future poses intensified challenges. Will organizations of the future be "wiser" than they were before (Sims & Sauser, 2013)? Will newer forms of technology be deployed by organizations to increase their grasp of the market (Block, 2014)? How can organizations better interlink their product delivery systems to offer more integrated services to their customers (Clark, Huckman & Staats, 2013)? How will they respond to the challenges of a diverse workforce by instituting systems that are equitable and just (Scheel, Rigotti & Mohr, 2014)?

In this paper, we advance the contention that organizational theory and practice are both in a state of dynamic mutual interaction, with theory often playing a lagging role. In other words, organizational actions precede, and are retroactively described (and legitimized) by theoretical developments. We examine one such instance, which is the emergence of the knowledge-based formulations of the theory of the firm in the 1990s. We suggest that the new theories of the firm as a receptacle of knowledge emerged in the context of the intensified knowledge communication within organizations in the early 1990s. In that time, as we crested the socially constructed temporal milestone into the new millennium, we saw a sudden intensification in management theory of “knowledge-based” perspectives in organizational theory, especially in strategic management. Knowledge management became the subject of special issues in a variety of influential journals, the exclusive topic of a plethora of academic websites, and a number of consultants began to market executive programs aimed specifically at managers wishing to take advantages of knowledge routines within firms. This trend continues till today, as we talk about knowledge management in new organizational configurations (Wagner, Hoisl, & Thoma, 2014), absorptive capacity (Huang, Lin, Wu & Yu, 2015), dynamic capabilities (Knudsen, Levinthal & Winter, 2014), and intellectual property (Liu, & La Croix, 2015).

The rest of this paper is organized into three sections. In the first section, we discuss the issue of knowledge communication within firms across geographical distances, especially as they relate to the transfer of knowledge within MNCs. We also examine the new technological and organizational arrangements that need to be deployed to facilitate better coordination of diversified firms. In the second section, we unpack the concept of knowledge by examining how it has been represented in a variety of social science traditions, and what our theories can learn from these alternative representations. In the process, we critique existing operationalizations of knowledge in management theory. In the final section, we engage in a discussion on the potential meaning of knowledge-based theories. We end by offering a set of caveats that both theorists and practitioners need to heed if knowledge-based theories of the firm are to become more inclusive and egalitarian.

KNOWLEDGE COMMUNICATION IN THE NEW AGE

Over the past few years, management theorists have been preoccupied with the role of the firm as an efficient carrier and distributor of knowledge (see Klarl, 2014, for a review). In particular, these theories have been applied to MNCs (Sofka, Shehu & de Faria, 2014), and suggest that the inefficiencies of trade across geo-political boundaries can be transcended by a large, spread-out organization, which can then be a conduit for knowledge flows. Knowledge transfer has not only been subjected to theoretical examination, but has also been empirically measured (see Wijk, Jansen, & Lyles 2008, for a thorough review). This theoretical interest in knowledge communication parallels extraordinary development in the movements of capital across national boundaries all over the world.

In the last quarter century, especially following the collapse of the command economies of Eastern Europe, many countries across the world have effected significant policy shifts toward "neoliberalism" at the expense of import-substitution policies. These neo-liberalist policies were developed as a means to attract foreign capital, primarily through an increased proliferation of investments by multinational corporations (MNCs) (Kant, 1996). The trend of globally dispersed investment by corporations continues till today. For example, the inflows of foreign direct investment, a key marker of MNC investment approached $2 trillion in 2013, with over $500b reported as mergers and acquisitions (UNCTAD, 2013), leading to a more concentrated global economy. The top 500 MNCs of the world showed revenue growths in excess of 10% and profit growths in excess of 15% in 2012 despite the global economic downturn (Fortune, 2013), and their revenues routinely exceeded the GDP of most nations; if firms and nations were listed together (annual revenues alongside national GDP), each of the top five corporations in the world (Royal Dutch Shell, Walmart, Exxon Mobil, Sinopec and China National Petroleum) would be ranked as a top 30 nation[1]. Not only have FDIs grown, existing MNCs in these regions have begun to increase the communication between headquarters and subsidiaries. This has exposed the local industrial landscape to a bewildering influx of production methods, new technologies, and new management practices, all of which constitute newer ways of *thinking* and *doing*. It is an effort to comprehend these

[1] Data developed by comparing corporate statistics from http://money.cnn.com/magazines/fortune/global500/2013/full_list/ and national data from http://data.worldbank.org/indicator/NY.GDP.MKTP.CD.

phenomena, and bring them into the ambit of "theory", that has led to the renewed interest in knowledge transfer in management theory.

Apart from the impact of new technologies and new organizational processes on day-to-day operations, we should also be mindful of another important role that knowledge communication played in the geographically diversified firm. According to more interpretive theorists of the firm, organizations may be also seen as cultural phenomena, which change, develop and legitimize themselves primarily through interactions between various sub-groups (Garsten, 1994). These interactions and communicative processes are essential to create a context of shared meaning within organizational members, and an organizational culture.

Such a creation and sustenance of a shared organizational identity and culture had often posed a number of problems in the past, especially for MNCs. MNCs necessarily have to rely on innovative ways of long distance communication as a way of developing and sustaining a coherent and shared meaning system. To that end, large corporations have taken the lead in deploying technology for organizational communication, often expending a lot of resources to create sophisticated communication systems within the firm (Chanson & Quélin, 2013).

It is through the successful management of organizational identities and cultures that MNCs have managed to achieve an exponential growth and geographic spread in the recent past. The swift increase in scope and power of MNCs as economic units in the last quarter of the 20th century can scarcely be overstated. By the early 1990s, the top 300 MNCs accounted for over 25% of the world's productive assets (Barnet and Cavanagh, 1994). MNCs became been particularly adept at deploying knowledge in a variety of ways, including new product development routines (Subramaniam, Rosenthal and Hatten, 1996), overlapping project activities (Takeuchi and Nonaka, 1986), cross-functional teams (Griffin and Hauser, 1992) and innovative structural linkages (Dinur and Inkpen 1996). Examples of these included new product launches, new production process incorporations, adoption of newer methods of quality assurance, changing of routines, the incorporation of new information systems and technologies into the organization, or newly instituted management practices specifically introduced at the behest of the headquarters into the subsidiary.

While it was obvious to the organizational theorist of the 1990s that product development, inter-unit communications and project management involved the exchange and communication of knowledge, what exactly was this knowledge? How could one we measure it? How, for that matter, could we define it? Theorists certainly needed a working definition of knowledge they were to subject it to any critical scrutiny. In the next section, we will describe their attempt to develop that definition of knowledge through an analysis of this concept in a variety of other social sciences.

KNOWLEDGE AS DESCRIBED IN OTHER SOCIAL SCIENCES

Thus far, we have established that the communication of knowledge has been central to the rapidly expanding firm of the recent past, and would be equally important for the firm of the new age. However, in order to understand the specific challenges that face the firm of the new age, especially with respect to knowledge, it becomes essential to subject this term to some scrutiny. After all, the term "knowledge" has varied meanings depending upon the various perspectives and positions from which it is studied. In our case, we wish to explore only those aspects of it that are related to its *communicability*.

The concept of knowledge has been very intensely studied in the field of cognitive psychology. Most cognitive psychologists make a key distinction between declarative knowledge (data) and procedural knowledge (rules, scripts, routines) (Graf, Squire and Mandler, 1984). Organizational theorists (Hedlund, 1994) deployed these constructs to make a distinction at the organizational level between "cognitive" knowledge and "imbedded" knowledge. In an organizational context, declarative knowledge communication could include exchange of financial data, demand and production forecasts, market feedback etc. However, procedural knowledge is far more complex, imbedded and tacit. It usually manifests itself in organizational routines (Nelson and Winter, 1982). Procedural knowledge communications include the transfer of new product and process innovations, information and control systems, and management practices.

Economists also studied knowledge communication with great interest. An economic perspective on knowledge communication would entail examining the costs associated with such a knowledge transfer. For example, one study of the cost of technology transfer across MNC boundaries estimated it to be around 20% of the total project cost (Teece, 1981). This was a truly astonishing figure that challenges the claims of MNCs that they are efficient vehicles of knowledge communication. Alternative economic theories have focused on routines of knowledge communication among non-competitive and collaborative organizations.

Anthropologists studying organizations (Darrah, 1996) studied the tacit aspects of organizational knowledge systems (drawing from Polanyi (1966)). Some anthropologists (Acheson, 1994) have attempted to uncover the imbedded nature of organizational routines. They argued that after all, a firm exists in a network of other supporting institutions in mutually reinforcing cycles of influence. Knowledge then, was a system of inter-linked ideas, a set of social discourses that could be debated over distances, or a shared system of collegiality.

Communication theorists suggested that knowledge communication is achieved through diffusion, translation, imitation, or isomorphism (Czarniawska and Joerges, 1996). They also pointed out that knowledge is not a "neutral" commodity, but is extremely value-laden, contextual and contested (Putnam and Chapman, 1996). Knowledge transfer then, was more an act of *transformation* than one of *information* and involved the exercise of power (Deetz, 1995).

This heterogeneity of perspectives regarding knowledge communication across a spectrum of social sciences indicated that knowledge-based theories of the firm had a long way to go. Knowledge is a complicated construct, and has to be understood as a function of rules, beliefs, and rituals. Its relationship to power can never be over-emphasized. However, knowledge-based management theories rarely considered this complexity, choosing instead to simplify the term in order to make it convenient and measurable. Despite their apparent commitment to understanding organizational routines and the procedural aspects of knowledge, many of them rarely examined the complexity of knowledge flow, resorting instead to simplistic operationalizations of knowledge in empirical studies.

TOWARD A HOLISTIC ATTITUDE TO KNOWLEDGE COMMUNICATION

Thus far, we have tried to historicize the emergence of the knowledge-based perspective in organizational studies. We have contended that its emergence coincided with a huge expansion of corporate power and impunity, as well as an era of increased conflict between powerful firms and poor people across the world. To that extent, we imply that we need to be suspicious of these theories (and their inheritors, such as the dynamic capabilities perspective) as handmaidens to corporate elites, and agents of global capital. In this context, we have tried to point toward point to the extremely complex and contextual nature of the term "knowledge", and knowledge-based theories of the firm. We believe that certain specific historical, technological and organizational transformations have been behind these knowledge-based theories, and that these approaches have reflected newer challenges and opportunities that organizations face, particularly as they move into the new age.

We therefore suggest that different research agendas need to be developed while studying corporations, especially by researchers who are interested in exploring the impact of these new developments on strategy. For example, from the perspective of MNCs that are intensifying knowledge transactions across national boundaries, the following questions could be useful:

- What are the specific power relationships that guide the practices of knowledge flow from the headquarters to the subsidiary of a MNC? How is this power transmitted?
- How are the secondary institutions (governments, international regime groups, domestic and foreign competitions, unions, trade and industry organizations) employed to anchor the knowledge communication process? How are they managed?
- What forms of coping mechanisms are employed at the local level to deal with knowledge transfer that may appear to be threatening to local labor? How will labor at the headquarters respond to knowledge transfer to the subsidiaries, especially knowledge that may lead to the displacement of work to those regions?

DISCUSSION

In this paper, we have subjected knowledge-based theories of the firm to scrutiny, and concluded that they were resorting to simplistic definitions of knowledge. Using information from other social sciences, we identified some of the facets of knowledge that needed to be considered in order to make our definitions more meaningful.

In conclusion, we would like to suggest ways in which knowledge-based theories of the firm can become more responsive in the new age. A good theory must have the capacity to inform practice, rather than simply follow it. At the same time, it also needs to be close to empirical reality. Knowledge-based theories of the firm have the capability of being excellent theories on both counts. Firstly, their roots lie in the empirical reality of multinational expansion, and the fact that despite operating in a tremendous heterogeneity of cultural, political and technical environments, these corporations are able to maintain a distinct identity. Also, the reality of the tremendous magnitude of technology transfer and knowledge communication in these corporations makes the subject matter of the knowledge-based view of the firm particularly apt. Through socialization mechanisms, through integrative routines, through the use of information technology and through the mediation of management consultants, organizations have continued to rapidly expand their knowledge communication routines.

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(Further References and Expanded Version of the Paper Available on Request)

FAILURE TO EXECUTE EFFECTIVELY: THE CONTINUED STRUGGLE WITH STRATEGY EXECUTION

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ABSTRACT

In today's fast paced, global marketplace, it is important for companies to have a well developed and executed strategy. While many organizations have become adept at strategy formation, many of these same organizations get lost in the complex nature of effective strategy execution. Too often, companies take the time to develop strategic plans, but fail to provide a structure and the adequate processes that allow for effective implementation of those plans.

This paper posits that knowledgeable and flexible leadership, organizational alignment, adequate technology, and performance measurements are critical factors that are necessary for effective strategy execution. The perspective draws on current literature to explore these factors, discuss how each factor impacts strategy execution, and presents a framework on how these combined factors work together for effective strategy execution.

THE STRATEGIC DIMENSION OF CUSTOMER RELATIONSHIP MANAGEMENT: A FRAMEWORK FOR PROFITABLE CUSTOMER LOYALTY AND SATISFACTION

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ABSTRACT

A strategic framework for optimal customer relationship management (CRM) is proposed. The aim of the model is to sustain higher level of customer satisfaction and loyalty by preventing supplier switching of profitable customers through prioritization scheme while retaining at-risk customers. Resulting simulation analyses of a CRM call center operation showed that segmenting customer base into tiers by level of satisfaction and loyalty allows the allocation of premium resources for high value customers, insuring therefore higher return for the firm. Such process would also afford the strengthening of customer retention programs via incentive schemes with higher financial revenue for the company. The model also pointed to a strategy for expanding customer base through the use of knowledge and socially aware criteria, adding a profitable strategic dimension to an existing CRM program.

REGULATING AGENT DECISION MAKING: INCENTIVES AND BOARD GOVERNANCE

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ABSTRACT

The self-interest behavior of managers has been an issue that has plagued corporations for years. Agency theory seeks to explain the problems related to managerial and ownership divergences. Two methods of regulating the agency problem are the monitoring function of board governance and distribution of incentives. The board monitors the agent's decision making by conducting audits and performance evaluations, as well as communicating objectives and interests to the agent on behalf of the principal. Incentives seek to align the objectives of the principal to those of the agent. These incentives may be performance-based, stock options, or bonuses. This study proposes to address the theory supporting the agency problem, examine the monitoring function of corporate governance limiting agency costs, analyze non-profit board structure, examine incentive mechanisms, and identify an empirical analysis of how incentives and board structure regulate agent decision making.

INTRODUCTION

Through the years, researchers in the field of economics have been concerned with the incentive issues that develop when decision making in an organization is the authority of managers who are not the organization's shareholders (Fama, 1980). These issues surface from the premise that managers will not act to maximize shareholder returns (Jensen and Meckling, 1976), but instead act in their own best interest (Pratt and Zeckhauser, 1985). In the wake of recent scandals and the passage of the new regulation in 2002, the Sarbanes Oxley Act, the association between corporate governance and shareholder value has become a matter of substantial notability among academics, practitioners, and regulators (Dey, 2008). Therefore, owners have reason to establish corporate governance structures to monitor managerial activities and limit undesirable managerial behavior (Jenson and Meckling, 1976). This study will first examine the problems associated with agency theory. Secondly, various facets of the monitoring function of corporate governance will be explored. Thirdly, the research will analyze the composition of the non-profit board structure. Fourthly, the paper will examine the effects of incentives on agent behavior. Finally, a proposed empirical analysis will be presented demonstrating how board governance, whether strong or weak, positively or negatively regulates agent decision making.

AGENCY THEORY

Agency theory is concerned with the relationship between the principal, the one who delegates the work, and the agent, the one who performs the work. In agency theory terms, the owners are principals and the managers are agents (Jensen and Meckling 1976). The principal-agent relationship may also be characterized as shareholder-CEO, owner-manager, employer-employee, buyer-supplier, or other agency relationships (Eisenhardt, 1989). In non-profit organizations this relationship may be expressed as donor-organization, founders-organization, and manager-employee, just to name a few (Jergers, 2010). Researchers have long been concerned with incentive issues that develop when decision making in an organization is the responsibility of mangers/agents who are not the organization's owners/principal (Fama, 1980). Broadly stated, given that agents of an organization are held accountable for orchestrating business in the interest of the organization, and given that an agent's own self-interests will never completely align with the interests of the organization, agents of an organization will frequently experience conflicts of interest when executing transactions on behalf of the organization (Bryant, 2012).

Agency problems in organizations result from the separation of ownership and control, the divergent objectives of principals and agents, and the information asymmetry between principals and agents (Fama & Jensen 1983). Zahra & Pearce (1989) believe that in most instances, the agent possess numerous freedoms and powers. If left alone, the agent is believed to pursue objectives that may contradict the goals of the principals. Therefore, the focus of agency theory is to resolve two problems that may develop during the principal-agent relationship. One problem may occur when the desires or goals of the principal and agent are incongruent (Arthurs and Busenitz, 2003). An issue that arises from this problem is that it is rather difficult for the principal to determine exactly what the agent is doing, thus it cannot be determined whether or not the agent has behaved properly. There are two aspects of this agency problem. The first being moral hazard which refers to the lack of effort on the part of the agent (Eisenhardt, 1989). Arthurs and Busenitz (2003) characterize moral hazard as being those negative behaviors, such as not putting forth enough effort or shirking by the agent. Given that agents have sufficient opportunity in the application of financial procedures, they are likely to have incentives to take actions that maximize their utility, even when those actions do not maximize the principal's wealth (Dey, 2008). The second aspect of the agency problem is adverse selection (Eisenhardt, 1989). Adverse selection is the misrepresentation of ability on the part of the agent (Arthurs & Busenitz, 2003). In this case, an agent may claim to have certain skills or abilities when the contract is initiated. However, adverse selection may arise due to the fact that the principal cannot verify those skills or abilities when the contract is initiated or while the agent is working (Eisenhardt, 1989). Also, trying to maintain proper alignment between the principal and the agent can be rather expensive (Eisenhardt, 1989). Maximizing behavior which favors individual utility is more than likely to be the result when proper incentives and controls to align the goals of the agent with the principal are not enacted (Arthurs & Busenitz, 2003).

The other problem has to do with risk-sharing which comes into being when the principal and the agent have different risk preferences (Arthurs & Busenitz, 2003). Their different attitudes toward risk may cause them to take different actions (Eisnhardt, 1989). When agents' wealth is dependent upon organization performance, risk aversion can cause the agent to pass up risk-increasing ventures that may be beneficial to the principal (Smith & Stulz, 1989; as cited in Guay, 1999). Fox & Hamilton (1994), state that organizations will deviate from profit-maximizing behaviors when the interests of the principal and the agent diverge. Lane et al. (1998) believe that agents will act of out of self-interest and pursue actions intended to lower risks. Diversifying their individual portfolios at the principal's expense is one of those means to lower risk (Fox & Hamilton, 1994). At the heart of agency theory is that of a rational person who seeks to maximize his or her individual gain or utility. Both the agent and principals seek to receive as much possible utility with the least possible expenditure. Thus given the choice between two alternatives the rational assumption is that the agent or principal will choose the option that increases his or her individual utility (Jensen & Meckling, 1976).

The principal-agent relationship can be characterized as a contract by which one or more principals engage an agent to perform some type of service on the behalf of the principal(s). This service involves delegating some authority to the agent (Jergers, 2010). Owners become principals when they contract with managers to operate their organizations for them. Managers, as agents of principals, are morally responsible to maximize the principal's utility (Davis et al., 1997). Therefore, the unit of analysis in agency theory is the contract which governs the relationship between the principal and the agent. The principal must decide whether or not a behavior-oriented contract is best or whether an out-come oriented contract is best. The behavior-oriented contract would consist of such items as salaries or hierarchical governance, and outcome oriented contracts would consist of such items as commissions, stock options or transfer of property rights (Eisenhardt, 1989). Many contracts are concerned with the governance mechanisms that solve the agency problem. The argument here is that when contracts align the preferences of the agent and the principal because the reward outcomes depend on the same actions, in turn reduces the conflicts of self-interest between principal and agent (Eisnhardt, 1989). In this case, the goals between the principal and agent are congruent, therefore agency theory is silent (Arthurs & Busenitz, 2003). This implies that when the contract between the principal and the agent is outcome-based, the agent is more likely to make decisions in the interests of the principal (Eisenhardt, 1989). Also, the principal may rely on information systems to curb the opportunistic behavior of the agent. This implies that when information systems are in place to inform the principal of what the agent is actually doing, the agent is less likely to behave in a way that is contrary to what the principal desires. The agent realizes that the principal cannot be deceived (Eisenhardt, 1989).

Demsetz (1983) believes that mangers/agents will act largely out of self-interest unless they are closely monitored by the principal/shareholders. These self-interested agent behaviors may comprise a range of activities such as empire building, the consumption of corporate resources as perks or bonuses, the avoidance of optimal risk investments, and the manipulation of financials to optimize compensation (Dey, 2008).

Empire building, as mentioned above, is one of the primary agency problems that have been well-documented. This activity refers to an agents' tendency to grow the organization beyond its optimal size or to maintain unutilized resources with the purpose of increasing personal utility from status, power, compensation, and prestige (Chen et al., 2012). Agents will pursue self-interests by conducting cost-benefit analysis in which they examine the utility of personal wealth, status, leisure, etc. against the cost of attaining them (Jensen and Meckling, 1976). If the cost of obtaining these items is greater than the benefit, the agent may act in favor of the principal. However, if the benefit outweighs the cost, the agent may act in favor of his own self-interest.

THE MONITORING FUNCTION

The relationship between the principal and the agent is filled with conflicting interests that develop due to the separation of ownership and control, diverse agent perspectives and principal objectives, and information asymmetry between agents and principals. Because of these conflicting interests, agents have the incentives and ability to maximize their utility at the expense of the principals (Dey, 2008). The more divergent the interests of agents and principals, the greater the agency costs (Wasserman, 2006). Contracts by themselves are not always enough to resolve the conflict (Hart, 1995). Therefore, the principal has good reason to establish mechanisms to monitor agent activities and limit undesirable agent behavior (Jensen and Meckling, 1976). According to Davis et al. (1997), when the principal and the agent have different interests, imposing control mechanisms upon the agent may curb the losses to the principal. Agents will engage in behaviors contrary to the principals' interest when the behaviors are not curbed by alert monitoring and incentive packages (Prat and Zeckhauser, 1985). These actions focus on the protection of the investment of the principal against the detrimental radical actions of the agent (Jensen & Meckling, 1976). The principal should seek to mitigate or avoid the agency problem. This may be employed by offering the agent incentives or utilize monitoring to achieve goal alignment in order to protect against or mitigate the agency problem, particularly moral hazard or adverse selection (Arthurs & Busenitz, 2003). Given that agents tend to act on behalf of their own self-interests when those interest conflict with the principal, and given that agents will frequently experience conflicts of interest while doing business on behalf of the organization, agents are more likely to act in the interest of the organization when their interests are aligned with those of the organization or when their behavior is monitored or controlled to curb the self-interested behavior (Bryant, 2012).

To protect the principal's interests, diminish agency costs and ensure agent-principal alignment, two mechanisms have been prescribed by agency theorists. Those mechanisms are governance structures and agent compensation schemes (Davis et al., 1997). Governance structures and agent compensation may be implemented by establishing a board of directors to help alleviate agent opportunism. This body provides a monitoring of agent actions on behalf of the principals (Donaldson and Davis, 1991). Corporate governance is expected to alleviate the agency problem and restrain managers' incentives to further their own interests at the expense of the shareholders (Shleifer and Vishny, 1997). A key activity for corporate governance is monitoring the actions of agents on behalf of the principal and that effective monitoring can improve an organization's performance by reducing agency costs. The monitoring function refers to the responsibility of the board to monitor agent behavior on behalf of the principal. This may include conducting audits and performance evaluations, as well as communicating principals' objectives and interests to agents to keep agency costs in check (Davis et al., 1997). Monitoring is paramount because of the potential costs which may incur when agents pursue their own interests at the expense of the principal's interest (Hillman & Dalziel, 2003). Since controlling the agent is the main function of the board, the board should be independent of the agent; to be sure they act on behalf of the principal (Cornforth & Edwards, 1999).

Agency theory examines the monitoring role of boards as being best accomplished when ownership is concentrated into the hands of large blocks of shareholders (principals). Since these shareholders have greater incentives to perform monitoring activities (Demsetz, 1983), they tend to be well informed and act on behalf of their economic interests (Jarrell and Poulson, 1987). These monitoring activities may include monitoring the agent, monitoring strategy implementation, planning agent succession, and evaluating and rewarding the agent of the organization (Hillman & Dalziel, 2003). These activities are performed to maximize shareholders (principals) wealth and to reduce agency costs (Zahra & Pearce, 1989).

INCENTIVES

Agency theory argues that the agent (manager) will exemplify opportunistic interests that often diverge from the interests of the principal (Chen, et al., 2012). To rectify this issue, the board may also reward agents to ensure maximization of the principal's wealth (Zahra & Pearce, 1989). Financial incentive schemes establish rewards and punishments that are focused at aligning principal-agent interests. If agents receive compensation that is subject to the successful completion of principal objectives (long-term rewards tied to organizational performance), the agent will be motivated to act in a manner consistent with the principals' interests (Davis et al., 1997).

Research suggests the use of incentives to incrementally realign the interests of the principal with those of the agent to induce desirable behaviors while reducing undesirable ones (Eisenhardt, 1989). Harris & Bromiley (2007) believe that agents respond favorably to their incentive mechanisms; this implies that rewards for specific objectives enhance the probability that agents work toward those objectives. Incentive compensation has the ability to motivate agent behavior and organizational performance (Finkelstein et.al, 2008). If organizations want to achieve organizational objectives, they must give incentives in the form of financial incentives (Lawler, 1990). March & Simon (1993) believe the larger the monetary incentive on performance, the more optimistic are the results perceived for behavior which promotes better performance. In addition, they debate that incentives will enhance efforts toward the objectives attached to the incentive. Therefore, a well-designed incentive framework bonded with substantial rewards will persuade appropriate managerial action. Stock options and bonuses tied to performance usually offer an unambiguous link between organizational performance and agent compensation. These forms of incentives can influence agent behaviors and employee outcomes (Harris & Bromiley, 2007).

Eisenhardt (1989) believes incentives that link organizational performance transfers risk from the principal to the agent. Hopefully, this risk transfer to the agent through incentives will align the objectives of the agent with those of the principal, as well as heighten the desired managerial behaviors (Chng et al., 2012). The desired managerial behaviors contribute positively to organizational performance which includes more resilience, more attention to organizational tasks, appropriate risk taking, and increased ethical behavior (Mahony & Thorn, 2006). Chng, et al., (2012), states that these behaviors benefit the long-term interests of the principals.

PROPOSITIONS

Because agency problems vary across organizations, the governance structures required to address the problems may vary also. Agency conflicts and governance mechanisms in an organization tend to be complementary, that is the higher the level of agency conflicts, the stronger the governance structures (Dey, 2008). Some boards may not always do a good job monitoring due to poor board structure, inappropriate composition, or the domination by CEOs of board decision-making processes. Without a well-designed framework to develop and activate boards, the role of control will be poorly performed (Zahra & Pearce, 1989). Core et al., (1999) believe that organizations with weaker governance structures have greater agency problems.

While most researchers agree that incentives persuade managerial behaviors and organizational objectives, they also realize that its effects are very complex (Finkelstein et al., 2008). According to agency theory, organizations should either increase incentive structures that align the interests of principals and agents (Fama & Jensen 1983) or increase monitoring, control and oversight of agents by principal delegates, particularly the board of directors (Bryant, 2012). When boards provide richer information to the principal, the behaviors of agents are better known. Also, when information is more prevalent, agents are more likely to engage in behaviors that are consistent with the principal's interest. Thus, we develop the following hypothesis:

P 1: When an organization has a strong governance structure in place, the agent acts in the interest of the principal.

P 2: When an organization has a weak governance structure in place, the agent exemplifies self-interest behaviors.

P 3: When an organization has an incentive mechanism in place, the agent acts in the interest of the principal.

P 4: When an organization does not have an incentive mechanism in place, the agent exemplifies self-interest behaviors.

METHODOLOGY

The study population will be defined including local nonprofit organizations in the Mississippi Delta or stand-alone incorporated affiliates or chapters of national organizations. The data will be collected using several classes of variables including use of various prescribed board practices, objective organizational effectiveness criteria, and judgments of the effectiveness of the organizations. To measure board effectiveness judgments, we will adapt the self-assessment for nonprofit governing boards (Slesinger, 1991). This study has a Cronbach's alpha of 0.89, indicating high reliability. Herman & Renz's (2000) survey instrument will be used to measure nonprofit organizational effectiveness. The Cronbach's alpha of this instrument is 0.85. The strength of board governance will be measured in terms of characteristics such as frequency of board meetings, number of board sub-committees, number of board members with long tenure, number of board members with managerial and industry experience, and number of board members representing specific ownership groups (Eisenhardt, 1989). Therefore, we will examine board strength based on Eisenhardt's recommendations. For board strength, organizations will be contacted and surveys will be administered to determine:

1) The frequency of board meetings
2) The number of board sub-committees
3) The number of board members with long-tenure
4) The number of board members with managerial and industry experience
5) Number of board members representing specific interest groups

Items in the board practice index recommended by Herman & Renz (2000) will be used to assess the effectiveness of board practices.

To investigate the effects of incentives on agent behavior, we will examine two compensation schemes: (1) incentive compensation and (2) fixed salary compensation. Under incentive compensation we will examine participants' compensation packages that are Performance based, which consists of a base salary and performance bonuses. Under fixed salary compensation, the salary does not change regardless of firm performance. The appropriate statistical analysis technique will be used to assess the data.

MANAGERIAL IMPLICATIONS

Agency theory provides an effective means of explaining relationships where principal-agent interests are in conflict and can be brought more into alignment through proper monitoring and a well-planned compensation mechanism. This analysis may assist stakeholders (principals) in devising mechanisms that ensure stakeholders interests are upheld more consistently. The monitoring function of board governance is one mechanism that aids in aligning the behavior of the manager (agent) with that of the principal. Stakeholders should be mindful that effective boards positively regulate managers' behavior and weak governance structures have an adverse effect. In addition, stakeholders should provide incentive mechanisms which aid in aligning their interests with those of the managers to induce desirable behaviors while reducing undesirable ones.

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THE INFLUENCE OF COMPETITIVE PRESSURE ON INNOVATIVE CREATIVITY

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ABSTRACT

Government policy to open free market changes business environment. It will then deeply influence SME's competitive rate especially on creative industries. Tight competition pushes entrepreneurs in batik industry to keep on innovating, such as innovation in product, design, dyeing method, technology, and service innovation. These need to be done to make batik industry more interesting in import and export market. One local heritage creative industry in Indonesia is batik industry. This study is aimed to investigate and analyze the influence of competitive pressure on innovative creativity and competitiveness of batik SME in Indonesia. Design method in this study is survey method on batik entrepreneurs in Indonesia. The number of samples are 168 respondents. Purposive sampling technique is used to decide sample, based on certain criteria that is the frequency of exporting batik into foreign countries. Data is analyzed by using Structural Equation Modelling (SEM) and AMOS 16.0 program. Hypotheses results state that competitive pressure does not affect product innovative creativity skill, on the other hand competitive pressure affects the ability to adapt with business environment change. Adaptive ability on business environment change also affects batik industry's marketing performance. Product innovative creativity also affects significantly on SME's product performance. Competitive pressure in business environment will push entrepreneurs to be more creative in developing their product and to improve SME's competitiveness. Results from this study contribute to Resource Based View theory (RBV) states that an organization will be able to improve marketing performance through product innovative creativity and adaptive ability to business environment change.

Key Word: Competitive Pressure, Marketing Performance, Batik SME