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Power Sources in SME's Dominant Coalition: Innovativeness, Absorptive Capacity Links

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Abstract: This paper investigates how formal and informal power sources within SMEs' dominant coalitions affect innovativeness through absorptive capacity (AC), conceptualized through three dimensions: external knowledge acquisition, internal knowledge sharing, and transformation. In a survey of 363 SME managers across five English-speaking countries, we find that both formal and informal power sources affect innovativeness only indirectly through AC. Formal power is associated with internal knowledge sharing and transformation, while informal power is linked to internal knowledge sharing and external knowledge acquisition. Environmental dynamism moderates several relationships: the indirect effect of formal power via transformation strengthens under dynamic conditions, while the indirect effect of informal power via external knowledge acquisition weakens as dynamism increases. The study contributes to the literature by positioning power as a key antecedent of AC and by showing how distinct power sources within the dominant coalition link AC to innovativeness.

Keywords: dominant coalition; formal power; informal power; absorptive capacity; innovativeness; environmental dynamism; SMEs; survey; dynamic capabilities

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1 Introduction

Small and medium-sized enterprises (SMEs) must innovate to remain competitive in uncertain and changing environments. An important mechanism enabling such adaptation is *absorptive capacity* (AC), defined as the firm's ability to "recognize the value of new external knowledge, assimilate it, and apply it to commercial ends" (Cohen and Levinthal, 1990, p. 128). While the link between AC and innovativeness is well understood, less is known about the organizational antecedents that shape the development and deployment of AC. In particular, how influential actors shape knowledge processes remains underexplored. While earlier work on AC emphasized the role of power in shaping knowledge absorption processes (e.g., Todorova and Durisin, 2007; Marabelli and Newell, 2014), subsequent discussions on AC conceptualization have largely overlooked power (Murovec & Prodan, 2009; Yildiz et al., 2024). At the same time, research on strategic decision-making highlights that organizational outcomes are strongly influenced by the *dominant coalition*, i.e., the individuals or groups that make key decisions about the firm's direction, goals, and strategies. However, we still lack an understanding of how different sources of power within such coalitions influence AC and, ultimately, firm innovativeness.

This study addresses this gap by examining how formal and informal power sources within the dominant coalition affect innovativeness, both directly and indirectly through AC. Formal power refers to authority derived from an organization's formal structure and assigned roles, enabling actors to make and enforce decisions (Finkelstein, 1992), while informal power stems from individuals' or groups' personal qualities and resources that elicit others' voluntary compliance and support within the organization, such as expertise, professional reputation outside the firm, and external networks. We identify three AC dimensions: external knowledge acquisition, internal knowledge sharing, and the transformation of existing knowledge into new knowledge and applications (Flatten et al., 2011; Zhou et al., 2021), and argue that power sources shape how firms acquire, share, and transform knowledge, thereby influencing innovation outcomes. Finally, considering previous findings (e.g., Dess and Beard, 1984; Milliken, 1987), we propose that these relationships are contingent on environmental dynamism, which increases the urgency of adaptation and may require different coalition power structures under stable versus dynamic conditions.

Understanding sources of power is important for predicting strategic changes within organizations (Greve and Mitsuhashi, 2007), particularly in SMEs, where multiple powerful actors often compete for agendas. While the role of power as an antecedent of dynamic capabilities (including AC) has been emphasized in prior research (e.g., Marabelli and Newell, 2014; Todorova and Durisin, 2007), it has been largely neglected in more recent dynamic capability research (e.g., Schilke et al., 2018) and SME research, except for cases when a family is the dominant coalition (e.g., Soluk et al., 2021). Furthermore, previous literature has primarily discussed the power of CEOs, such as their structural and prestige power (e.g., Deore et al., 2023), neglecting other important actors influencing key decisions and other informal sources of power. We extend previous research by considering a broader range of power sources, extending the concept to the dominant coalition, and making it applicable to all types of SMEs, including non-family ones.

2 Theoretical Background

In organizations, a coalition represents "a compromise between individuals with overlapping but nonidentical interests undertaken to improve potential gains against others with relatively divergent interests" (Mithani and O'Brien, 2021, p. 2). Our research focuses on a dominant coalition comprising key decision-makers who wield significant influence over strategic choices and control critical resources (Mithani and O'Brien, 2021). In SMEs, these actors may include not only senior managers but also other influential stakeholders (owners, founders, or family members). The dominant coalition reflects the distribution of power among key decision makers within the organization and plays a central role in shaping strategic decisions and organizational outcomes. *Power* is broadly conceptualized as the capacity of actors to exert their will (Finkelstein, 1992) and to influence others to engage in actions they might not otherwise undertake (Walls and Berrone, 2017). However, power is multidimensional, operating through various mechanisms and at different levels within organizations. In this study, we operationalize power along three dimensions: structural, expert, and prestige power (Finkelstein, 1992). Moreover, we consider two overarching power sources, formal and informal (Greve and Mitsuhashi, 2007). *Formal power* derives from hierarchy and decision-making authority and is associated with positions rather than individuals. *Informal power* is associated with the personal characteristics of individuals or groups (Blau, 1964) that provide access to valuable resources (Walls and Berrone, 2017). An analysis of complex organizational processes, such as decision-making, necessitates attributing power to both individual and collective actors, as informal sources of power operate alongside and complement formal authority structures (March, 1966).

In organizations, the dominant coalition directly shapes innovation outcomes (Waldkirch et al., 2021), drawing on power derived from both formal authority and informal influence. Especially in SMEs, where the dominant coalition tends to play a more hands-on role in both strategic direction and daily operations, its influence in shaping an innovation culture becomes particularly significant (Felekoglu and Moultrie, 2014). Formal power enables the allocation of critical resources, the setting of strategic direction, and the establishment of legitimacy of innovation (Barney et al., 2018). Informal power is often embedded in social networks that facilitate communication and knowledge by increasing actors' willingness and ability to share knowledge across network ties (Reagans and McEvily, 2003). In this way, informal power can shape interaction and connectedness within the organization. These processes can support the recombination of knowledge and the integration of differentiated expertise, which are essential for innovation. Moreover, social integration and connectedness can support the coordination and integration of diverse knowledge domains, thereby enabling both exploratory and exploitative innovation activities (Jansen et al., 2009).

H1a. Informal power sources of the dominant coalition are positively associated with firm innovativeness.

H1b. Formal power sources of the dominant coalition are positively associated with firm innovativeness.

Power sources and absorptive capacity

Cohen and Levinthal (1990) originally conceptualized absorptive capacity as a firm's capability consisting of three dimensions: "to recognize the value of new external knowledge, assimilate it, and apply it to commercial ends" (p. 128). In their view, absorptive capacity is rooted in prior knowledge, which shapes the firm's ability to assimilate and exploit new information. Therefore, firms do not automatically absorb external knowledge; rather, their existing knowledge base determines how much they benefit from it, which, in turn, is converted into innovative outcomes.

Zahra and George (2002) reconceptualized AC as a dynamic capability (DC), arguing that it comprises four dimensions: acquisition, assimilation, transformation, and exploitation, where *acquisition* refers to identifying and obtaining externally generated knowledge, *assimilation* concerns interpreting and understanding that knowledge, *transformation* involves combining newly acquired knowledge with existing knowledge, and *exploitation* refers to the implementation of knowledge in the firm's operations and commercial activities. Zahra and George (2002) further group these four dimensions into two broader categories: *potential AC* (acquisition and assimilation), which makes the firm receptive to external knowledge, and *realized AC* (transformation and exploitation), which represents the capacity to leverage absorbed knowledge to drive competitive advantage. This influential framework has been challenged by several researchers (e.g., Marabelli and Newell, 2014; Todorova and Durisin, 2007), who argue that power plays a constitutive role in shaping how knowledge is accessed, interpreted, and diffused within organizations.

Although Todorova and Durisin (2007) initially conceptualized power as a contextual factor, explaining how the absorption of external knowledge depends on power structures and on actors who influence the resource allocation, Marabelli and Newell (2014) incorporated power into the core of AC. In this research, we shift the analytical lens to a macro-level perspective, repositioning power as an antecedent rather than an embedded element of AC. Specifically, formal and informal power sources are conceptualized as structural features that shape the development of AC dimensions by conditioning how organizations recognize, assimilate, transform, and exploit external knowledge.

Absorptive capacity is often understood as being shaped by social interaction and relational dynamics within organizations (e.g. Hotho et al., 2012). Zahra and George (2002) argue that social integration mechanisms, defined as organizational structures and processes that enable the sharing, coordination, and recombination of knowledge, enhance both the frequency and quality of social interactions among organizational members. Such interactions facilitate knowledge processes, which ultimately strengthen the organization's AC. Todorova and Durisin (2007) further proposed that social integration mechanisms influence both potential and realized AC across the organization.

Informal power within organizations stems from the personal attributes of individuals and groups and is deeply embedded in organizational social networks and patterns of interaction (Blau, 1964). Informal power operates through these social relations and interactions rather than formal authority structures (Fleming and Spicer, 2014). Building on this, we argue that such relationally embedded power can shape the extent and quality of social integration by fostering patterns of trust, communication, and shared understanding among organizational members, which facilitate knowledge sharing and

combination (Nahapiet and Ghoshal, 1998). It can be expected that these social dynamics underpin the development and enactment of AC across both its potential and realized dimensions, ultimately fostering innovativeness.

H2a. The relationship between the informal power sources of the dominant coalition and firm innovativeness is mediated by the firm's absorptive capacity dimensions.

Todorova and Durisin (2007) argue that "powerful actors within and outside organization may influence knowledge absorption processes to achieve their goals" (p. 782). Marabelli and Newell (2014) extend this view by developing a multidimensional conceptualization of power in the context of AC, distinguishing between *power-over* (the capacity to leverage rules and resources to achieve objectives at the expense of others) and *power-to* (a productive form that enables collective action to reshape social structures and transform existing rules).

Formal power, as one manifestation of these dynamics, refers to the authority embedded in hierarchical positions that grants control over strategic decision-making and resource allocation. Within the dominant coalition, such power enables key actors to shape organizational priorities and direct resources toward knowledge-related activities and innovation (Greve and Mitsuhashi, 2007). Formal power and strategic planning enable the preferential allocation and reconfiguration of critical resources toward knowledge-related activities and facilitate the integration and deployment of distributed knowledge and expertise within the firm (Grant, 1996). It also enables actors to overcome internal resistance and prioritize innovation-relevant initiatives, thereby strengthening key dimensions of absorptive capacity and enhancing resilience and performance in uncertain environments (Van den Bosch et al.,1999). Formal power thus shapes through power-over dynamics embedded in authority structures and through power-to by enabling the coordinated deployment of knowledge within formal organizational arrangements (Marabelli and Newell, 2014). We thus posit that when the dominant coalition derives a substantial share of its power from formal sources and demonstrates a willingness to invest in learning and innovation, it is better positioned to allocate resources and provide the structures and processes required for the development of AC and innovativeness.

H2b. The relationship between the formal power sources of the dominant coalition and firm innovativeness is mediated by the firm's absorptive capacity dimensions.

The role of environmental dynamism

Environmental dynamism refers to conditions characterized by rapid, unpredictable change that generate uncertainty and increase the need for adaptive responses (Dess and Beard, 1984). Under such uncertainty, strategic decision-making is fundamentally altered (Milliken, 1987). While prior literature identifies environmental dynamism as a crucial condition for the effectiveness of DCs (Schilke et al., 2018), it remains unclear whether their value is greater in high- or low-dynamism environments. Teece et al. (1997) link DCs to highly dynamic contexts, whereas Eisenhardt and Martin (2000) argue they also matter in moderately dynamic markets, where change is frequent but predictable. In such environments, firms rely on more elaborate routines, whereas in highly volatile environments they depend on simpler, more flexible ones. Specifically, AC, conceptualized as a DC, provides strategic flexibility in high-velocity environments

(Zahra and George, 2002) and enables firms to adapt to shifting market dynamics (Todorova and Durisin, 2007).

While prior research has examined the role of environmental dynamism in shaping firm capabilities (Dess and Beard, 1984) and the role of power through managerial discretion under uncertainty (Finkelstein and Hambrick, 1990), less attention has been paid to how formal and informal power sources within dominant coalitions affect AC and, in turn, firm innovativeness under dynamic conditions. We argue that the effects of both formal and informal power sources on firm innovativeness operate through AC and are contingent on environmental dynamism. In dynamic environments, dominant coalition members devote more time and resources to scanning and acquiring knowledge to interpret and anticipate change (Milliken, 1987). High levels of expert power and extensive networks of contacts position them to address external contingencies and facilitate knowledge acquisition in volatile environments (Finkelstein, 1992). Similarly, prestige power enhances the absorption of environmental uncertainty through interpretation and legitimization, promoting external knowledge acquisition and providing political support for its assimilation within the organization, both of which are critical in highly dynamic environments (Finkelstein, 1992).

H3a. Environmental dynamism positively moderates the relationship between the informal power sources of the dominant coalition and absorptive capacity dimensions.

Moreover, under high environmental dynamism, firms face greater demands to transform and exploit knowledge promptly. To cope with increased uncertainty and information-processing requirements, they tend to simplify and categorize environmental signals, process larger volumes of information, and rely more on hierarchical structures to manage coordination and decision-making pressures (Dess and Beard, 1984). These conditions increase the importance of realized AC, as innovation depends on the firm's ability to recombine and apply knowledge effectively. A dominant coalition endowed with formal power effectively meets these demands by facilitating coordination, directing attention, and allocating resources toward knowledge integration. Consequently, environmental dynamism is expected to strengthen the positive effect of formal power on realized AC.

H3b. Environmental dynamism positively moderates the relationship between the formal power sources of the dominant coalition and absorptive capacity dimensions.

3 Methodology and Data

Data collection

Data was collected in December 2025 via an online survey administered via Prolific. Past research suggests that Prolific displays greater attention, comprehension, and honesty of respondents as compared to alternative platforms (Peer et al., 2022). Respondents worked full-time and for at least one year in a for-profit organization with 10-249 employees in the UK, US, Canada, New Zealand, or Australia. Participants also held leadership or supervisory positions that required interactions with employees and group-based work.

They occupied one of the following positions: C-level, owner, partner, president, vice president, director, or manager. The survey was open for two weeks. Initial data were collected from 495 individuals. The final sample excluded respondents with fewer than 10 or more than 250 employees, as well as those who failed quality checks, yielding a final dataset of 363 respondents. The average completion time was 10 minutes, and respondents were compensated at £ 1.50 each. We implemented several quality control procedures, including attention checks (Abbey and Meloy, 2017), cross-verification of responses against Prolific's system data, and monitoring completion time. Respondents who completed the survey in less than half the median time were flagged as suspicious (Leiner, 2019).

Measures

First, respondents were asked: "Who typically makes the key decisions in your organization, where key decisions refer to decisions about the firm's direction, goals, and strategies?", and then informed that "we will refer to this group as the dominant coalition of your firm". Following Finkelstein (1992), for each power source variable, respondents were asked to rate the likelihood that an individual with that power source would be included in the dominant coalition. Responses were recorded on a seven-point Likert scale ranging from strongly disagree to agree strongly. *Formal power sources* were based on a single item assessing the extent to which the coalition included someone occupying the highest formal position in the firm (e.g., CEO/director, or senior manager). *Informal power sources* were operationalized as the mean of three items ($\alpha = .88$) measuring the extent to which the coalition included someone with extensive technical expertise or experience in the company's industry, strong external work or personal contacts, and a strong professional reputation outside the firm. The *innovativeness* scale ($\alpha = .88$) combined four items from Dibrell et al. (2015) and three items from Zhou et al. (2021). Because the items were measured using different response scales, we employed categorical principal component analysis (CATPCA) to derive a composite innovativeness score. Absorptive capacity items were drawn from Flatten et al. (2011) and Zhou et al. (2021). Although additional items were included in the dataset to replicate the scales by Flatten et al. (2011), exploratory and confirmatory factor analyses supported three distinct dimensions of absorptive capacity and a separate innovativeness scale (Table 1). *External knowledge acquisition* ($\alpha = .84$) was measured using four items adapted from Zhou et al. (2021). *Transformation* ($\alpha = .89$) was measured using six items adapted from Flatten et al. (2011), five of which originally loaded on transformation and one on exploitation in Flatten et al.'s (2011) study. *Internal knowledge sharing* ($\alpha = .78$) was measured using two items from Zhou et al. (2021) and one item from the assimilation dimension proposed by Flatten et al. (2011). We controlled for environmental dynamism ("Innovations are constantly coming out in your industry") (Uhlaner et al., 2026). Furthermore, we controlled for company size (number of employees), company age, and sector dummy variables (manufacturing, wholesale, construction, and services).

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Table 1 Construct reliability, convergent validity, and discriminant validity

Construct	*Item*	*Loading*
1. Innovativeness (CR = .883, AVE = .520, MSV = .491, ASV = .347)	Developing new products and/or services. [To what extent does your company emphasize each of the following?]	.746
	Producing specialty products and/or services. [To what extent does your company emphasize each of the following?]	.611
	Investing in research and development to gain a competitive advantage. [To what extent does your company emphasize each of the following?]	.760
	How likely is your firm to invest in new products or services in the next 12 months?	.714
	In your company, people are constantly thinking about new products or services that provide for needs that will only arise in a few years.	.753
	At your company, product, service, and process renewal are strategic goals.	.692
	In your company, the main role of management is to innovate.	.761
2. External knowledge acquisition (CR = .828, AVE = .546, MSV = .475, ASV = .333)	To gather knowledge, our company uses partnerships with other organizations (such as research institutes and other firms).	.763
	Employees are encouraged to join networks outside the company.	.725
	Our company regularly sends employees to conferences, seminars, and similar events.	.707
	Our company maintains regular contact with external experts.	.759
3. Transformation (CR = .896, AVE = .589, MSV = .514, ASV = .371)	Our employees can organize existing and new knowledge to solve company problems.	.807
	Our employees are used to absorbing new knowledge, preparing it for further use, and sharing it with others.	.781
	Our employees successfully link existing knowledge with new insights.	.828
	Our employees can apply new knowledge in their practical work.	.675
	Employees regularly organize and reshape existing knowledge to create new understanding.	.779
	Our company can work more effectively by adopting new methods and approaches.	.726
4. Internal knowledge sharing (CR = .779, AVE = .543, MSV = .514, ASV = .319)	In our company, much work is done in groups to share knowledge.	.796
	Our company pays close attention to sharing best practices across the organization.	.772
	Our management requires periodic cross-departmental or workgroup meetings to exchange information on new developments, problems, and achievements.	.631
5. Informal power sources (CR = .891, AVE = .734, MSV = .052, ASV = .026)	Those with extensive technical expertise or experience in the company's industry. [Who is more likely to be a member of the dominant coalition in your organization?]	.728
	Those with strong work and personal contacts outside the organization. [Who is more likely to be a member of the dominant coalition in your organization?]	.936
	Those with a strong professional reputation outside the firm. [Who is more likely to be a member of the dominant coalition in your organization?]	.892

Note: CR = composite reliability, AVE = average variance extracted, MSV = maximum shared variance, ASV = average shared variance

Table 1 presents the results of the confirmatory factor analysis assessing construct reliability and convergent and discriminant validity. The measurement model displayed a good fit ($\chi 2/df$ = 1.43, GFI = .92, CFI = .98, RMSEA = .04, SRMR = .04). All constructs show adequate reliability, as their composite reliability (CR) exceeds .70 (Hair et al., 2019). Convergent validity was also supported, as average variances extracted (AVE) ranged from .52 to .73, thus exceeding the cutoff of .50, and standardized factor loadings were above .6. For all constructs, AVE values exceeded both MSV and ASV, supporting adequate discriminant validity (Fornell and Larcker, 1981).

4 Results

Table 2 reports the descriptive statistics and correlations. Formal power sources were positively correlated with internal knowledge sharing and transformation, whereas informal power sources were positively correlated with internal knowledge sharing and external knowledge acquisition. The correlation between formal and informal power sources was negative. The three absorptive capacity dimensions were strongly correlated with one another and positively correlated with innovativeness. Environmental dynamism was positively correlated with internal knowledge sharing, transformation, external knowledge acquisition, and innovativeness.

Table 2 Means, standard deviations, and pairwise correlations

Variable	*M*	*SD*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*
1. Formal power sources	6.73	.78	—							
2. Informal power sources	3.34	1.83	-.11*	—						
3. Internal knowledge sharing	5.46	1.23	.12*	.13*	—					
4. Transformation	5.70	.90	.18**	.08	.59**	—				
5. External knowledge acquisition	4.67	1.47	-.00	.20**	.48**	.59**	—			
6. Innovativeness	.01	1.00	.09†	.16**	.53**	.63**	.58**	—		
7. Firm size	2.61	.49	.01	.15**	.02	.03	.11*	.15**	—	
8. Firm age	2.83	.39	-.04	.03	.02	.01	-.01	-.02	.04	—
9. Environmental dynamism	5.22	1.48	.00	.09†	.41**	.50**	.40**	.62**	.11*	-.03

Note: † - p < .1, * - p < .05, **- p < .01. Industry dummies are not displayed for clarity.

Mediation analysis

Table 3 presents the results of the mediation analysis conducted using the PROCESS macro for SPSS (Hayes et al., 2017). Indirect effects were estimated using 5,000 bootstrapped samples. We first employed PROCESS Model 4. Across all regressions, the maximum variance inflation factor (VIF) was 2.15, ruling out multicollinearity concerns. Formal power sources were positively associated with internal knowledge sharing (b = .19, p < .05) and transformation (b = .16, p < .01), but not with external knowledge

acquisition. Informal power sources were positively associated with internal knowledge sharing (b = .07, p < .05) and external knowledge acquisition (b = .12, p < .01), but not with transformation. All three absorptive capacity dimensions were positively related to innovativeness: internal knowledge sharing (b = .13, p < .01), transformation (b = .26, p < .01), and external knowledge acquisition (b = .14, p < .01). The direct effects of formal and informal power sources on innovativeness were insignificant when the mediators were included.

Bootstrapped indirect effects indicated significant mediation. The total indirect effect of formal power sources on innovativeness was significant (b = .06, 95% *CI* [.01, .13]). This indirect effect operated via internal knowledge sharing (b = .02, 95% *CI* [.00, .06]) and transformation (b = .04, 95% *CI* [.01, .09]), but not via external knowledge acquisition. For informal power, the total indirect effect was also significant (b = .03, 95% *CI* [.00, .05]). This effect was mediated via internal knowledge sharing (b = .01, 95% *CI* [.00, .02]) and external knowledge acquisition (b = .02, 95% *CI* [.01, .03]), whereas the indirect effect through transformation was not significant.

Table 3 Mediation results (PROCESS model 4)

Variables	*Internal knowledge sharing*	*Transformation*	*External knowledge acquisition*	*Innovativeness*
Intercept	2.05* (.83)	3.01** (.56)	2.15* (.99)	-4.16** (.49)
Control variables				
Firm size	-.08 (.12)	-.10 (.08)	.09 (.15)	.11 (.07)
Firm age	.06 (.15)	.06 (.10)	.02 (.18)	-.04 (.09)
Manufacturing	.34 (.21)	.17 (.14)	-.02 (.25)	.13 (.12)
Construction	.31 (.23)	.12 (.16)	-.38 (.28)	-.42** (.13)
Wholesale & retail	-.00 (.23)	-.07 (.15)	-.42 (.27)	-.09 (.13)
Services	.26 (.17)	.18 (.12)	.09 (.21)	-.09 (.10)
Environmental dynamism	.33** (.04)	.30** (.03)	.37** (.05)	.23** (.03)
Independent variables				
Formal power sources	.19* (.08)	.16** (.06)	-.01 (.10)	.01 (.05)
Informal power sources	.07* (.03)	.02 (.02)	.12** (.04)	.02 (.02)
Mediators				
Internal knowledge sharing				.13** (.04)
Transformation				.26** (.06)
External knowledge acquisition				.14** (.03)
R^2	.20	.28	.20	.60
F-test	9.44**	15.37**	9.74**	42.82**

Total, direct, and indirect effects on innovativeness	*Formal power sources*		*Informal power sources*	
	Effect	*95% CI*	*Effect*	*95% CI*
Total effect	.07 (.06)	[-.04, .18]	.05* (.02)	[.00, .09]
Direct effect	.01 (.05)	[-.09, .10]	.02 (.02)	[-.02, .06]
Indirect effect: total	.06* (.03)	[.01, .13]	.03* (.01)	[.00, .05]
- via internal knowledge sharing	.02* (.01)	[.00, .06]	.01* (.01)	[.00, .02]
- via transformation	.04* (.02)	[.01, .09]	.00 (.01)	[-.01, .02]

- via external knowledge acquisition	-.00 (.01)	[-.02, .01]	.02* (.01)	[.01, .03]

Note: * - p < .05, ** - p < .01. Standard errors are in parentheses (.)

Moderated mediation analysis

Tables 4 and 5 present the moderated mediation results estimated using PROCESS Model 7. The maximum VIF was 2.16 across all regressions, again suggesting no multicollinearity concerns. As shown in Table 4, formal power sources were positively associated with internal knowledge sharing (b = .20, p < .05) and transformation (b = .17, p < .01), but not with external knowledge acquisition. Environmental dynamism was positively related to all three absorptive capacity dimensions. The interaction between formal power and environmental dynamism was not significant for internal knowledge sharing or external knowledge acquisition. Still, it showed a marginally significant effect for transformation (b = .10, p < .10). Internal knowledge sharing (b = .17, p < .01), transformation (b = .40, p < .01), and external knowledge acquisition (b = .16, p < .01) were positively associated with innovativeness. In contrast, the direct effect of formal power on innovativeness was nonsignificant.

Bootstrapped conditional indirect effects indicate that the indirect effect of formal power via transformation was significant at average (b = .07, 95% *CI* [.03, .12]) and high (b = .12, 95% *CI* [.04, .20]) levels of environmental dynamism, but not at low levels. The indirect effect via internal knowledge sharing was significant at the mean level of environmental dynamism (b = .03, 95% *CI* [.00, .07]), whereas the indirect path through external knowledge acquisition was not significant. The indices of moderated mediation were not significant.

Table 4 Moderated mediation results (PROCESS model 7) with formal power as the predictor

Variables	*Internal knowledge sharing*	*Transformation*	*External knowledge acquisition*	*Innovativeness*
Intercept	5.07** (.55)	5.61** (.37)	4.02** (.65)	-4.14** (.42)
Control variables				
Firm size	-.08 (.12)	-.10 (.08)	.09 (.15)	.17* (.08)
Firm age	.06 (.15)	.06 (.10)	.02 (.18)	-.07 (.10)
Manufacturing	.35 (.21)	.20 (.14)	-.02 (.25)	.09 (.13)
Construction	.32 (.24)	.14 (.16)	-.37 (.28)	-.43** (.15)
Wholesale & retail	-.00 (.23)	-.06 (.15)	-.42 (.27)	-.10 (.14)
Services	.26 (.17)	.18 (.12)	.09 (.21)	-.09 (.11)
Informal power sources	.07* (.03)	.02 (.02)	.12** (.04)	.02 (.02)
Independent variable				
Formal power sources	.20* (.08)	.17** (.06)	-.00 (.10)	-.02 (.05)
Mediators				
Internal knowledge sharing				.17** (.04)
Transformation				.40** (.06)
External knowledge acquisition				.16** (.03)
Moderator				
Environmental dynamism	.32** (.04)	.29** (.03)	.36** (.05)	
Interaction term				
Formal power sources × Environmental dynamism	.03 (.08)	.10† (.06)	.01 (.10)	

R^2	.20	.29	.20	.51
F-test	8.50**	14.21**	8.74**	33.01**

Direct and indirect effects on innovativeness

	Effect	*95% CI*
Direct effect	-.02 (.05)	[-.12, .09]
Conditional indirect effect via internal knowledge sharing		
- low ED	.02 (.03)	[-.03, .07]
- mean ED	.03* (.02)	[.00, .07]
- high ED	.04 (.03)	[-.01, .10]
Index of moderated mediation	.01 (.01)	[-.02, .04]
Conditional indirect effect via transformation		
- low ED	.01 (.04)	[-.05, .10]
- mean ED	.07* (.02)	[.03, .12]
- high ED	.12* (.04)	[.04, .20]
Index of moderated mediation	.04 (.03)	[-.01, .07]
Conditional indirect effect via external knowledge acquisition		
- low ED	-.00 (.02)	[-.04, .03]
- mean ED	-.00 (.01)	[-.03, .02]
- high ED	.00 (.02)	[-.05, .04]
Index of moderated mediation	.00 (.01)	[-.02, .02]

Note: † - p < .1, * - p < .05, **- p < .01. ED = environmental dynamism. Standard errors are in parentheses (.)

Table 5 reports the moderated mediation results with informal power as the predictor. Informal power was positively associated with internal knowledge sharing (b = .19, p < .05), but not with transformation or external knowledge acquisition. Environmental dynamism again showed positive associations with all absorptive capacity dimensions. The interaction between informal power and environmental dynamism was significant for external knowledge acquisition (b = −.06, p < .05), but not for internal knowledge sharing or transformation. As in the previous model, all three absorptive capacity dimensions were positively related to innovativeness.

The direct effect of informal power on innovativeness was insignificant. Conditional indirect effects show that the indirect effect of informal power through external knowledge acquisition was significant at low (b = .03, 95% *CI* [.01, .06]) and mean (b = .02, 95% *CI* [.01, .04]) levels of environmental dynamism, but not at high levels. The index of moderated mediation for this path was significant (b = −.01, 95% *CI* [−.02, −.00]), indicating moderated mediation. Indirect effects through internal knowledge sharing and transformation were not moderated by environmental dynamism.

Table 5 Moderated mediation results (PROCESS model 7) with informal power as the predictor

Variables	*Internal knowledge sharing*	*Transformation*	*External knowledge acquisition*	*Innovativeness*
Intercept	3.97** (.80)	4.61** (.54)	4.41** (.95)	-4.14** (.42)
Control variables				
Firm size	-.08 (.12)	-.09 (.08)	.10 (.15)	.17* (.08)
Firm age	.07 (.15)	.07 (.10)	.04 (.18)	-.07 (.10)
Manufacturing	.34 (.21)	.17 (.14)	-.02 (.25)	.09 (.13)
Construction	.31 (.23)	.12 (.16)	-.37 (.28)	-.43** (.15)
Wholesale & retail	-.01 (.23)	-.07 (.15)	-.44 (.27)	-.10 (.14)
Services	.26 (.17)	.18 (.12)	.10 (.21)	-.09 (.11)
Formal power sources	.07* (.03)	.02** (.02)	.13 (.04)	.02 (.02)

Independent variable				
Informal power sources	.19* (.08)	.15 (.06)	-.01** (.10)	-.02 (.05)
Mediators				
Internal knowledge sharing				.17** (.04)
Transformation				.40** (.06)
External knowledge acquisition				.16** (.03)
Moderator				
Environmental dynamism	.32** (.04)	.29** (.03)	.35** (.05)	
Interaction term				
Informal power sources × Environmental dynamism	-.02 (.02)	-.02 (.01)	-.06* (.03)	
R^2	.20	.29	.21	.51
F-test	8.57***	14.02***	9.48***	33.01***

Direct and indirect effects on innovativeness		
	Effect	*95% CI*
Direct effect	.02 (.02)	[-.02, .06]
Conditional indirect effect via internal knowledge sharing		
- low ED	.02 (.01)	[-.00, .04]
- mean ED	.01* (.01)	[.00, .03]
- high ED	.01 (.01)	[-.01, .02]
Index of moderated mediation	-.00 (.00)	[-.01, .00]
Conditional indirect effect via transformation		
- low ED	.02 (.02)	[-.01, .05]
- mean ED	.01 (.01)	[-.01, .03]
- high ED	-.00 (.01)	[-.03, .02]
Index of moderated mediation	-.01 (.01)	[-.02, .01]
Conditional indirect effect via external knowledge acquisition		
- low ED	.03* (.01)	[.01, .06]
- mean ED	.02* (.01)	[.01, .04]
- high ED	.01 (.01)	[-.01, .02]
Index of moderated mediation	-.01* (.00)	[-.02, -.00]

Note: * - p < .05, ** - p < .01. ED = environmental dynamism. Standard errors are in parentheses (.)

5 Discussion and Conclusion

The findings support the view that power is not merely a contextual condition but an important antecedent of knowledge processes and innovation outcomes. First, the results show that both formal and informal power affect innovativeness only indirectly through AC dimensions, implying full mediation. This suggests that AC is the key mechanism translating power into innovation outcomes. The two power sources operate through distinct paths: while formal power fosters internal knowledge sharing and transformation, informal power fosters internal knowledge sharing and external knowledge acquisition. Formal power, rooted in hierarchy and authority, appears particularly suited to coordinating internal processes and enabling the recombination of knowledge (Grant, 1996). This corresponds to prior research conceptualizing formal power as structurally determined and closely tied to hierarchical position, enabling top-down coordination and control (Peiró and Meliá, 2003). In contrast, informal power, grounded in expertise, reputation, and networks, facilitates boundary-spanning activities such as acquiring external knowledge (Reagans and McEvily, 2003). Because informal power is based on

personal resources and operates through reciprocal interactions, it is particularly useful for interaction, cooperation, and knowledge exchange across organizational boundaries (Peiró and Meliá, 2003).

However, several hypotheses were not supported, which warrants further discussion. First, formal power was not related to external knowledge acquisition. This may reflect the inward-oriented nature of formal authority. While formal power may enable resource allocation and coordination, it does not inherently provide access to novel external knowledge. External knowledge acquisition often depends on social capital and credibility, which are resources more closely associated with informal power. This finding supports the view that formal authority (power-over) is rather prohibitive, whereas informal influence (power-to) is more productive in enabling exploration (Marabelli and Newell, 2014). Second, informal power was not related to transformation. Although informal power fosters knowledge exchange and access, it may lack the authority needed to mobilize resources and enforce the changes required to recombine and exploit knowledge. Transformation requires coordinated action across the organization, which may depend more strongly on formal authority. Third, the direct effects of both power sources on innovativeness were insignificant. This suggests that power does not automatically translate into innovation outcomes unless it is channeled through effective knowledge processes. In SMEs, whose resources are often constrained (Woschke et al., 2017), simply having influential actors may be insufficient; what matters is how their influence shapes learning and knowledge integration.

The moderated mediation analysis provides a more nuanced picture of how environmental conditions shape these relationships. For formal power, the indirect effect via transformation becomes stronger at higher levels of environmental dynamism. This finding supports the argument that, in volatile environments, firms rely more on hierarchical coordination and rapid decision-making to process information and respond quickly (Dess and Beard, 1984). Formal power enables such coordination by directing attention and reallocating resources efficiently, strengthening realized AC. However, the absence of a significant index of moderated mediation warrants caution when interpreting the findings. For informal power, environmental dynamism negatively moderates the relationship with external knowledge acquisition. Specifically, the indirect effect is significant only at low and moderate levels of dynamism but disappears in highly dynamic environments. One explanation is that in highly uncertain contexts, the speed and ambiguity of change may reduce the effectiveness of network-based knowledge acquisition. Informal networks may become less reliable or slower as firms shift toward more centralized, formalized decision-making. This finding aligns with Eisenhardt and Martin's (2000) argument that highly dynamic environments favor simpler and more centralized routines over complex processes. Interestingly, no moderation effects were found for internal knowledge sharing, suggesting that this AC dimension may represent a more stable organizational process that is less sensitive to environmental conditions.

We make three contributions to the literature on SME innovativeness, absorptive capacity, and the role of the dominant coalition. First, responding to calls to reconsider power as a neglected antecedent of dynamic capabilities (e.g., Marabelli and Newell, 2014; Todorova and Durisin, 2007), we show that both formal and informal power sources within the dominant coalition indirectly enhance innovativeness through specific AC dimensions. In doing so, we move beyond prior work that has largely focused on

individual power holders (e.g., Deore et al., 2023) and demonstrate how multiple influential actors shape knowledge processes. This highlights that AC is not only a capability but also an outcome of organizational power structures. Second, we provide support for a three-dimensional conceptualization of AC (external knowledge acquisition, internal knowledge sharing, and knowledge transformation) as distinct yet complementary mechanisms through which power translates into innovation. Third, we show that the effectiveness of power sources is contingent on environmental dynamism, thereby integrating insights from contingency theory into the study of power. Overall, our findings contribute to research on dominant coalitions by extending the concept beyond its frequent application in family business contexts (e.g., Chua et al., 1999) to a broader range of SMEs. We show that understanding who holds power and how it is exercised is essential for explaining how firms develop and deploy AC and, ultimately, achieve innovativeness.

Our study also has practical implications. It suggests the value of including in the dominant coalition both individuals whose power derives from formal authority and those whose power stems from informal factors, such as technical expertise, professional reputation, and external networks. However, firms should align these power sources with the level of environmental dynamism they face. In more stable contexts, dominant coalition members with informal power sources may be especially valuable for acquiring external knowledge to support innovation. However, in rapidly evolving and volatile environments, time constraints may increase the importance of formal power, as it can provide the efficiency needed to transform existing knowledge into new knowledge and applications into innovations. Balanced coalitions are likely key to SME success.

Finally, our research suggests that further research is needed in several directions. Our analysis focused on SMEs, which have different resource structures and availability as compared to other firms (e.g., Woschke et al., 2017). In other firms, therefore, power may be translated into innovation differently. Future research may attempt to replicate our findings in large firms, which are typical of formalized, decentralized decision-making, as well as in micro-enterprises, where the "dominant coalition" can consist of a single person. Also, future research could examine the composition and internal dynamics of the dominant coalition in greater detail. We distinguish between formal and informal power sources, but we do not capture how these sources are distributed across multiple actors, whether they are concentrated or shared, complementary or conflicting. Future work could therefore explore how coalition diversity and power balance shape absorptive capacity and innovativeness. This would be especially valuable in SMEs, where influential actors may pursue competing agendas.

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