



Leveraging of Dynamic export capabilities for competitive advantage and performance consequences: Evidence from China



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ABSTRACT

As the business arena becomes more global and therefore dynamic, organizations must balance their capabilities with the demands and the conditions of the international marketplace. This leads firms to trade off the development of more capabilities with the identification of core capabilities which can best improve export competitiveness and performance. Based on the Dynamic Capabilities Approach (DCA), we develop a model of four export capabilities, namely adaptability, innovativeness, unpredictability, and task-flexibility, aimed at achieving competitive advantage in foreign markets and enhance export performance. Based on a survey of 213 Chinese exporting organizations, we find out that innovativeness, unpredictability and task-flexibility are positively related to competitive advantage. Moreover, we uncovered that in the cases of adaptability, innovativeness and task-flexibility their impact on competitive advantage diminishes under higher levels of competitive intensity, however, for unpredictability this impact becomes negative. We also confirm the necessity of addressing competitive advantage separately from firms' performance.

1. Introduction

The current international business environment is dynamic and unpredictable, and organizations that operate on the international scene have to be proactive in order to remain competitive and succeed. Consequently, research into competitive advantage (CA), and what drives it in foreign markets is drawing increasing attention (Sirmon, Hitt, Ireland, & Gilbert, 2011). Dynamic capabilities are perceived as central contributors of CA, and are particularly relevant in international business (Teece, 2013) where firms are exposed to the effects of globalized competition and the success of firms is dependent on discovering opportunities, increasing innovation, and finding new ways to compete in international markets. Dynamic capabilities determine the firm's ability to integrate, build, and reconfigure internal and external resources and functional competencies to address turbulent and ever-changing business environments (Teece, 2007, 2012; Teece, Pisano, & Shuen, 1997).

Exporting is by far the most common form of internationalization, and the study of export performance is one of the most researched topics within this area (Leonidou, Katsikeas, & Coudounaris, 2010). This

is even more so when it comes to firms from emerging markets who often struggle to adapt to the demanding conditions associated with the international arena (Wu & Voss, 2015). There is existing evidence that capabilities are important to export performance (Griffith & Dimitrova, 2014; Lee, Beamish, Lee, & Park, 2009). A large body of recent research refers to either the capabilities-export performance linkage (Kaleka, 2012; Lisboa, Skarmeas, & Lages, 2011; Lu, Zhou, Bruton, & Li, 2010; Morgan, Vorhies, & Mason, 2009; Pezeshkan, Fainshmidt, Nair, Frazier, & Markowski, 2016; Prange & Verdier, 2011), or the export capabilities-competitive advantage linkage (Li & Liu, 2014; Murray, Gao, & Kotabe, 2011; Weerawardena & Mavondo, 2011). Yet despite this large body of studies, research tends to focus on firm-level capabilities neglecting to evaluate the role played by export-related dynamic capabilities. In light of the relevancy of dynamic capabilities to international operations, such void calls for investigation. Our study focuses on four such capabilities: adaptability, innovativeness, unpredictability, and task-flexibility. These dynamic capabilities reflect specific organizational and strategic process through which export managers alter their firm's resource base (Eisenhardt & Martin, 2000) in seeking advantages and performance outcomes. All four capabilities represent the export

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function's ability to integrate and reconfigure resources in order to enhance CA, as will be discussed in the hypotheses section.

While much attention has been given to firms' capabilities within Dynamic Capabilities approach (DCA) research, very few attempts have been made to capture the full picture through the integration of both firms' CA and performance in the same study. Therefore, this body of work still largely ignores the central role the CA plays in achieving enhanced performance. CA acts as an integrator of export capabilities, through which these capabilities are transformed into a significant value offering (Murray et al., 2011). By ignoring CA as a potential mediator in the capabilities-export performance relationship, these studies distort our understanding of what drives firms' export performance (Piercy, Kaleka, & Katsikeas, 1999).

This research gap is attributed in part to the disagreement exists in the literature regarding what constitutes CA. Albeit the substantial body of research aiming to address CA, there is no consensus on how it should be measured, often leading to the use of performance measurements to evaluate CA (Li & Liu, 2014) or to the use of the capabilities—performance linkage as the bases for researching dynamic capabilities' role while disregarding the function of CA (Sirmon, Hitt, Arregle, & Campbell, 2010). Yet CA is an inherent aspect to the importance of dynamic capabilities (e.g., Teece, 2013) therefore research needs to address its role in the DCA context. Furthermore, environmental influences on the relationship between these capabilities and firms' CA are considered crucial for better understanding the dynamic nature of the capabilities (Luo, 2000). It is even more essential to examine these influences in the context of Chinese exporters as (a) prior research is lacking in this international context and (b) we avoid the confounding effects from operationalizing advantage and performance in very similar ways. Indeed Asian companies have found it difficult to transfer domestic competitive advantages into international markets. For example, Marukawa (2009) found that Japanese MNEs holding domestic competitive and technological advantages could not translate that into advantage when entering international markets, such as in China. As such, we feel it is necessary and valuable to examine further the advantage—performance relationship.

This study contributes to international business research in a number of ways. First, we expand on dynamic capabilities research in an attempt to address the call for a greater understanding of the sets of capabilities that underpin competitive advantage, followed by a more focused endeavor addressing the potential effect export dynamic capabilities bear on firms' CA and performance (Prange & Verdier, 2011). By looking at this issue from the international angle, we harness the rapid changes embedded in it, therefore gaining most value from the use of the DCA (Tseng & Lee, 2010; Villar, Alegre, & Pla-Barber, 2014). We do not proclaim to focus on all relevant dynamic capabilities as there are many others that could be considered. However, these have been identified as pertinent for international businesses to harness in competitive environments (Teece, 2013) and are as yet untested as a set in international business research. Second, we address the competitive advantage—performance relationship by following Ambrosini, Bowman, and Collier' (2009) statement that a clearer understanding of what impacts firms' competitive advantage is necessary. Therefore, we advance understanding on specific export dynamic capabilities and how these generate advantage and advance the work of Newbert (2008) in divorcing competitive advantage from performance as current understanding of competitive advantage is being confounded by researchers operationalizing advantage in performance terms (e.g., profitability).

From a managerial perspective, the results of the study can help managers prioritize and allocate resources appropriately to the development of different capabilities. It is especially relevant for Chinese exporters, which, on average have been involved in international trade for a shorter period in comparison to their Western counterparts (Mathews, 2002). Furthermore, firms from emerging markets often struggle to fit their strategy with their environment to gain advantage (Bhaumik, Driffield, & Zhou, 2016). Thus, Chinese firms require more

detailed knowledge on how to further develop their internal strengths to be able to outplay competitors in the international market (Deng, 2009).

In the next section, we discuss the four export dynamic capabilities, competitive advantage and performance, and follow this with the development of a set of hypotheses establishing the relationships between them. We outline our methodology and proceed to test the hypotheses using an AMOS-based path analysis. We conclude by discussing findings, contribution, and further research avenues.

2. Literature review

The DCA is sourced from the Resource-Based View yet deviates from it by acknowledging environmental dynamism (Eisenhardt & Martin, 2000) as a central factor when it comes to planning a strategy. According to the DCA, the capabilities' patterns adjust to market dynamics, so while under more stable market conditions they are more robust and process-oriented, under more dynamic conditions they become more flexible and less predetermined (Eisenhardt & Martin, 2000). The capabilities – environment interplay is crucial for assessing the dynamics of the capabilities.

DCA addresses the potential impact of capabilities on firms' competitive advantage (CA) and performance. CA is defined as “the relative superiority of the export venture's value offering to customers in the target export market and the cost of delivering this realized value” (Morgan, Kaleka, & Katsikeas, 2004 p. 91); whereas capability can be considered as the “ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result” (Helfat & Peteraf, 2003 p. 999). CA refers to the outcome of an organization developing attributes that allow it to outperform its competitors in a way that makes it difficult or impossible for competitors to imitate (Sun & Tse, 2009). Though, competitive advantage and firm performance are often used interchangeably (Newbert, 2008). Viewed as a means to an end, competitive advantage is often regarded as facilitated by superior value creation (Adner & Zemsky, 2006), therefore leading to enhanced performance (Grahovac & Miller, 2009). Yet, whether defined by a set of capabilities enabling firms to achieve better performance (López, 2005) or viewed as performance-contingent (Peteraf & Barney, 2003) competitive advantage is still poorly understood not least due to confounding effects from operationalizing competitive advantage in performance terms. Following the logic of Cockburn, Henderson, and Stern (2000), competitive advantage could result from an initial set of conditions (e.g., differentiation, innovation, clearer market positioning, superior product value etc.) that aided in delivering superior profitability in an export market. This can be eroded over time as competitors with poorer initial conditions implement strategic responses to catch-up fast—or level the playing field—to bring about convergence and so more level profits, or as new competitors enter the sphere with innovative products and so forth. In this case surely the basis for initial competitive advantage is what was eroded as competitors make strategic adjustments to raise their own profitability.

Barney, Wright, and Ketchen (2001), pointed out that a better understanding of the capabilities leading to competitive advantage is needed. They claim that based on previous research, firms cannot achieve CA under a turbulent environment unless they utilize their capabilities in accordance with these conditions. Barney, Wright and Ketchen (2001 p. 631) further argue that “...firms in a rapidly changing market are more nimble, more able to change quickly, and more alert to changes in their competitive environment, they will be able to adapt to changing market conditions more rapidly than competitors, and thus can gain competitive advantage”... Drawing on this line of thought, capabilities cannot be viewed as equivalent and interchangeable, though clusters of capabilities might share similar (dynamic) characteristics which, together, may drive superior international business performance (Prange & Verdier, 2011).

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