

Dynamic Capability & Firm Performance: Mediating Role Of Learning Orientation, Organizational Culture & Corporate Entrepreneurship: A Case Study Of Sme's Of Pakistan

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Abstract

This research paper is aimed to understand how dynamic capabilities are playing major role overcome or dealing with the uncertainties of market and business environment. SMEs in Pakistani business market is playing a crucial role in terms of developing the economy of the entire world which is why it is necessary to investigate the role of dynamic capabilities and its factors upon the financial and non-financial performance of SMEs. There were 516 participants of this research that were involved in the process of conducting a survey questionnaire. The results have stated that organizational performance can significantly enhance even in an uncertain business environment if a firm develop dynamic capabilities based on its factors that are learning orientation, organizational culture, and corporate entrepreneurship. The findings illustrated that dynamic capability positively and significantly linked with firm performance. It also found that learning orientation, organizational culture and corporate entrepreneurship also mediated between dynamic capability and firm performance. Environment dynamism also moderate the relationship between dynamic capability and firm performance. Limitations and managerial implications are also provided that it can open channels for future research areas which are not covered in the study.

Key words: Dynamic Capability, Firm Performance, Learning Orientation, Organizational Culture, Corporate Entrepreneurship & environment dynamism

Introduction

The theories that elaborate the source of firm's competitive advantage contain the theory of dynamic capabilities (DC) of the firms (Teece, 2014). According to the definition of firm's capability, the information-based procedures because of which the resources of the organization are being deployed so as to realize the set objectives (Rockart & Dutt, 2015). From the last decade, the role of dynamic

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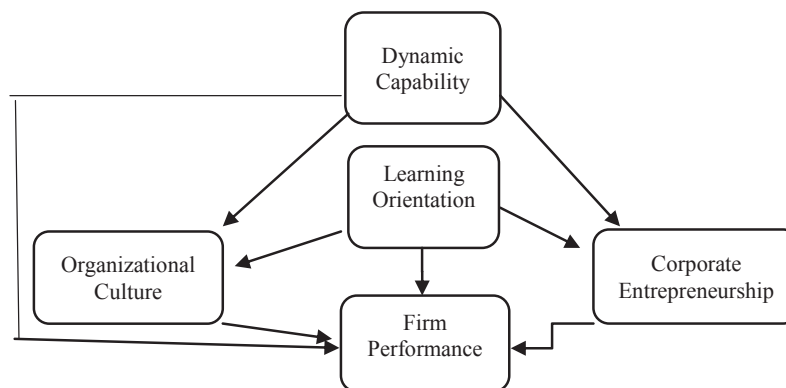
capabilities has been observed in value creation and competitive advantage. Role of dynamic capabilities in enhancing the firm's performance has attracted many scholars (Lin & Wu, 2014; Hermano & Martin-Cruz, 2016; Villar, Alegre & Pla-Barber, 2014). The approach of dynamic capabilities is basically the extension of the resource-based view that explains about the sustainability of the competitive advantage of an organization. Dynamic capabilities provide the competitive advantage to the people. An organization can very easily get the sustainable competitive advantage when they get the dynamic capabilities for bringing the functional competences (Pervan, Curak, & PavicKramaric, 2017). Scholars have concluded that dynamic changes in the capability of the firm are potential to reflect constructive consequences on the performances of the firm (Wilden & Gudergan, 2015). As it has been acquired through before contemplates, firms may go into co-operations that have a positive impact in the accomplishment of the firm's objectives (Wang, Senarate & Rafiq, 2015). Dynamic abilities make associations able to do such imaginativeness by arranging out appropriate apportions and finding their effects on the achievement of firm's objectives (Chen & Miller, 2015). This research tries to explore the relationship of dynamic capabilities with the performance of firm empirically.

Literature review

The enterprise in this competitive world of business requires the various elements of dynamic capabilities (Teece & Leih, 2016). According to Birkinshaw, Zimmermann, & Raisch, (2016) the firm's dynamic capacity is its evolutionary expansion of the resource-based perspective for the reason that dynamic capabilities clearly observe the evolution of capabilities along with the observance of managing turbulence of environment in the organization. There are numerous views and outlook extant upon the topic that dynamic capabilities of the firm are helpful to improve performance of the firm or to gain the competitive advantage in the business market (Cavusgil & Knight, 2015; Camisón & Villar-Lopez, 2014; Chen & Miller, 2015). Rothaermel, (2015) also stated that competitive advantage of the firm is not directly gained by the dynamic capabilities for the reason that dynamic capabilities establish value to the organization in the indirect manner such as redesigning the resource base of the organization. According to certain studies, it has been stated that there are four of the categories that develop dynamic capabilities critically in the entrepreneurial position of SMEs namely capability to acquire resources (Alvesson, 2012), capabilities to align strategic

path (Birkinshaw, Zimmermann, & Raisch, 2016), capabilities to internally and externally reconfigure and integrate (Cavusgil & Knight, 2015), and capabilities for learning network (Qamar et al., 2013; Feng, Morgan, & Rego, 2015). In the study of Khalique et al., (2015) it has been stated that dynamic capabilities in the SMEs helps to adopt the change in compliance with the market environment. In the study of Teece, (2018) it was argued that firms can exhibit the dynamic capabilities in the best way which illustrate different factors of the firms such as substitutability, equifinality, and homogeneity. The process of adopting dynamic capabilities within the operational abilities of the firm is the unique and distinctive process of the firm that helps to enhance the firm productivity and performance yet many of the organizations possess commonness in adopting dynamic capabilities in the firm but the extent of effectiveness varies from organization to organization. These studies highlight the complexity of the dynamic capabilities–firm performance relationship and the need for further empirical investigation. Chen & Miller, (2015) suggested in the study that prior performance measures which include competitive advantage, value creation, and sustainable competitive advantage can also be functional and useful for the dynamic capabilities. Though, these mentioned measures do not consist of a time aspect (apart from the measure of sustainable competitive advantage) and not clearly integrate the characters of dynamic capabilities.

Research Model



Methodology

A self-administrated questionnaire is used for the collection of data. Target population of study is the small and medium enterprises

in Pakistan located in Gujrat, sailkot, gujarawla, warizabad and jalapur jattan SMEs. Sample size for multivariate research should be 10 times larger than the number of variables of the study (Sekaran, 2013). keeping in view the recommendation 516 respondents have been selected. An adapted questionnaire was used for data collection. Dynamic capability scale is developed by the Teece DJ, (1997), Organizational culture scale is used in this study is adapted from (Fey & Denison, 2003). In this study Calantone et al (2002), scale has been used to measure learning orientation in SME's. Firm performance has been measured by the perceived financial and market performance (Wu, Yeniyurt, Kim, & Cavusgil, 2006). Entrepreneurial orientation scale used in this study is originally developed by the Covin & Slevin (1986)s' and scale is revised by Dess & Lumpkin (2005). Scale is adapted from Garg et al., (2003). To test the hypothesis preacher and Hayes process macro has been used.

Measurement of the normality

As per the assumption of the multivariate analysis data should be normal. According to Hall & Wang, (2005), the value of skewness and kurtosis should be between +2 & -2,. As shown in the table no. 2 all the variables are normally distributed.

Table: 2 Participations means, standard deviation, skewness and kurtosis

Constructs	Mean	Std. Deviation	Skewness	Kurtosis
SC	3.319	0.912	-0.342	-0.679
CC	3.38	1.004	-0.229	-0.583
IC	3.482	1.052	-0.337	-0.611
LC	3.414	1.03	-0.376	-0.366
CL	3.208	0.926	-0.3	-0.654
SV	3.896	0.781	-1.014	1.518
OM	3.54	0.857	-0.499	-0.246
IKS	3.218	1.334	-0.234	-1.247
A	3.263	0.786	-0.038	-0.703
CA	3.342	0.721	-0.178	-0.491
Li	3.299	0.73	-0.117	-0.261
RT	3.284	0.729	-0.181	-0.348
I	3.558	0.902	-0.496	0.212
C	3.167	1.005	-0.483	-0.203
NF	3.714	0.715	-0.584	0.487
F	3.651	0.73	-0.64	0.319

Note: SC = Sensing Capability, CC = Learning Capability, IC = Integrating Capability = Coordinating Capability, A = Autonomy,

CA = Competitive aggressiveness, Ii = Innovativeness, RT = Risk taking Proactiveness, I = Involvement, C = Consistency, F = Financial Performance, NF = Non-Financial Performance, CL = Commitment to learning, SV = Shared vision, OM = Open-mindedness, IKS = Intra-organizational knowledge sharing.

Assessment of multi-collinearity

Variance inflation factor (VIF) and tolerance are the good way to test the multi-collinearity. Researcher suggest that the value of VIF should be less 10 and tolerance value should be higher than the .1. As shown in the table 3 current study is free from multi-collinearity issue.

Table 3 Assessment of multi-collinearity

SR	Variables	Collinearity Statistics	
		Tolerance	VIF
1	LO	0.935	1.07
2	CE	0.691	1.447
3	OC	0.832	1.202
4	FP	0.708	1.413

Dependent Variable: DC

Note: DC = Dynamic Capability, LO = Learning Orientation, CE = Corporate Entrepreneurship, OC = Organizational Culture, FP = Firm Performance, ED = Environment dynamism,

Conclusion

The analysis of the results indicate that SMEs in Pakistan performs on the basis of critical parameters which are subjected to the involvement of employees, entrepreneurs, marketing and management strategies, as well as crucial environmental changes. The above analysis provides clear knowledge regarding the performance of small and medium-sized organizations and how different factors participate to affect its growth. The result of learning orientation and corporate entrepreneurship has positive relationship with the firm performance (Najafi-Tavani, Sharifi, & Najafi-Tavani, 2016; He, Huang, Zhao, & Wu, 2018; Breznik, & Lahovnik, 2016). Learning orientation is also a part of corporate entrepreneurship which is promoted in a strategic way in order to develop significant reputation in the growing market (Janssen, Castaldi, & Alexiev, 2016). The developed hypothesis 6 is accepted

while significant values of mediating relationship also indicate acceptance of key variables and their underlying relations. Breznik & Lahovnik (2016) study supports the findings of our study. Study also explored that impact of such dynamic capabilities have been analyzed in terms of changing aspects and approaches that are undertaken with respect to the extent of environmental changes. Results has also given correct measure and align with findings of (Breznik & Lahovnik, 2016).

Managerial Implication and Recommendation

Currently, many of the SMEs are taking initiatives to strive for the innovation however, there are rest of the factors that were not taken into the consideration by the SMEs. SMEs of Pakistan are not focusing on any of the factors regardless of knowing the fact that more than 90% of the enterprises in Pakistan are SMEs (Khalique et al., 2015). SMEDA (Small and Medium Enterprises Development Authority) can utilize the results of this study and devise such policies that boost the growth of SMEs in the country as well as help them in overcoming the challenges of market uncertainties (Raza et al., 2018). The top management in SMEs that normally entail Leaders and Managers are required to strive to line up the procedures of sensing, seizing, and transforming resources through the help of overall strategy of the organization (Fern, Ferreira, & Rose, 2017).

Regression Analysis

Hypothesis		Hypothesis 1						Hypothesis 2						Hypothesis 3						Hypothesis 4										
Model No.		1		2		3		1		2		3		1		2		3		1		2		3						
Coefficient Estimates	DV/IV	CE	LO	FP	LO	IV	CE	OC	LO	FP	LO	IV	OC	OC	DC	FP	DC	IV	OC	CE	DC	FP	DC	IV	CE					
	variables	4.37	-0.3	3.19	0.26	4.34	0.18	-0.3	2.5	0.26	3.2	0.3	2.33	0.17	0.3	2.3	0.29	2.9	0.32	2.32	0.24	0.28	4.24	-0.3	3	0.3	3.86	0.27	-	0.21
	Coefficient	0.22	0.06	0.21	0.06	0.27	0.06	0.04	0.23	0.06	0.2	0.1	0.22	0.06	0	0.1	0.04	0.12	0.04	0.15	0.04	0.04	0.14	0.04	0.1	0	0.21	0.04	0.04	-
	SE	19.5	-4.5	15.1	4.4	16.2	3.2	-6.6	10.9	3.9	15	4.4	10.6	3.06	9	17	7.7	23.5	9.2	15.3	6.79	7.26	60.5	-6.4	24	9.2	18.6	7.61	-	5.35
	T-test	0	0	0	0	0	0	0.002	0	1E-04	0	0	0	0.002	0	0	1E-04	0	0	0	0	0	0	0	0	0	0	0	0	0
Model Summary	P-value	0.03		0.04		0.11		0.03		0		0.16		0.1		0.14		0.22		0.07		0.1		0.43		85		58.9		0
	R ²	20.2		18.9		32.3		15.8		19		51.2		59		84.5		72.9		41.5		85		58.9		85		58.9		0
	F-test	0		0		0		0		0		0		0		0		0		0		0		0		0		0		0
	P-value	0		0		0		0		0		0		0		0		0		0		0		0		0		0		0

Hypothesis		Hypothesis 5						Hypothesis 6						Hypothesis 7																		
Model No.		1		2		3		1		2		3		1		2		3		1		2		3		4						
Coefficient Estimates	DV/IV	LO	DC	FP	DC	LO	IV	FP	DC	LO	IV	OC	FP	DV	IV	DC	LO	DC	IV	OC	FP	DC	LO	DC	IV	CE	LO	IV	CE			
	variables	2.83	0.18	2.97	0.32	2.64	0.301	0.12	2.97	0.32	2.8	0.2	1.99	0.27	0.1	2.1	0.23	0.08	0.28	2.97	0.32	2.83	0.18	4.76	0.2	0.2	1.61	0.26	0.08	0.2		
	Coefficient	0.09	0.03	0.12	0.04	0.21	0.037	0.06	0.13	0.04	0.1	0	0.23	0.04	0.1	0.2	0.04	0.06	0.04	0.13	0.04	0.09	0.03	0.23	0	0.1	0.28	0.04	0.06	0		
	SE	30.2	7.03	23.5	9.2	12.6	8.21	1.99	23.5	9.19	30	7	8.71	6.81	2	9.7	6.19	1.46	7.12	23.5	9.19	30.2	7.03	20.7	5.4	2.8	13	7.01	1.38	5.2		
	t-test	0	0	0	0	0	0	0.05	0	0	0	0	0	0	0.1	0	0	0.14	0	0	0	0	0	0	0	0	0	0	0	0.17	0	
Model Summary	P-value	0.08		0.14		0.15		0.14		0.1		0.11		0.2		0.2		0.14		0.14		0.14		0.09		0	0.19		0	0.17	0	
	R ²	49.3		84.5		44.4		84.5		49		31.8		49		84.5		49.3		84.5		25		40		40		40		0	0.17	0
	F-test	0		0		0		0		0		0		0		0		0		0		0		0		0		0		0	0.17	0
	P-value	0		0		0		0		0		0		0		0		0		0		0		0		0		0		0	0.17	0

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