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Article: **A Way Towards Revamping Dynamic Capability Framework: A Coherent Approach Towards Superior Firm's Performance**

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A Way Towards Revamping Dynamic Capability Framework: A Coherent Approach towards Superior Firm's Performance

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Abstract

The foremost objective of this paper is to revamp conceptual framework of Dynamic Capability based upon seminal paper of David Teece (2014), "The Foundations of Enterprise Performance: Dynamic and Ordinary Capabilities in an (Economic) Theory of Firms". Previous research developments are aligned with this paper to enrich insight towards an advanced framework which may facilitate in attaining firm's overall and sustainable advantage. This endeavor is unique in a sense that multiple related and effective constructs are added into the framework to avoid organizational inertia and it's also aligned with the cognitive aspects of managerial leadership capabilities which was missing in previous researches. The former section entails introduction and theoretical underpinnings of Dynamic Capabilities framework. The later section covers logical definitions and descriptions of key concepts to get familiar with the framework. Finally, at the end, conceptual framework put forth along with conclusions.

Keywords: dynamic capabilities, resource base, ordinary capabilities, strategic flexibility, green human resource management, managerial cognition, firm performance

Introduction

In order to get acquainted with the concept of dynamic capability, first of all, capability must be understood. According to David Teece (2012), Capabilities are "firm abilities that enable it to efficiently perform its current activities". However, as far as, Dynamic Capabilities are concerned, they assist in attaining competitive advantage in ever changing dynamic environments. Dynamic Capability involves in the capability to (1) sense & shape opportunities and threats in market (2) seize opportunities (3) and ensure enterprise competitiveness through improvements, combinations,

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protection and reconfiguration of firms both tangible and intangible assets (Day & Schoemaker, 2016; Teece, Pisano & Shuen, 1997; Teece, 2007).

Hooley, et. Al. (1998) considers that, “a firms which intends towards superior performance must develop three capabilities and also focus on their coordination at three different levels” (individual, group and organizational). The dynamic capability view is now considered as a most vivacious topic in strategic management and also as a touchstone towards firm’s performance based theories’ (Arend and Bromiley, 2009, p.75). Dynamic capability concept has remained a basic reference for the studies in different areas i.e. resource, capability, competency and strategy. The available literature on dynamic capability reveals certain similarities and complementarities in definitions put forth by various researchers. Since 1990s, this concept is attempted to implement in different sectors like tourism, services and food industry (Beske, Land, & Seuring, 2014).

This paper is based upon the seminal paper of Teece (2014) which attracted attention of authors (Day,& Schoemaker, 2016; Katkalo et al. 2010) to register an endeavor to revamp the framework of David Teece (2014) to make it even more practicable and effective to gain long term competitive advantage.

Dynamic capability view explains why some organizations exploit certain opportunities scanned through external market environment and incorporate those into their processes routines through managing and designing certain resources to achieve better results while other organizations simply don’t possess or know how to develop such capabilities (Ambrosini, Bowman & Collier, 2009). Dynamic Capabilities entails capabilities which are inevitable and of major significance to address certain consumer level changes and technological opportunities (Teece, 2007). Strong dynamic capabilities possess “orchestration dimension” which facilitate organizations towards better management of innovations (Teece & Leih, 2016).

Theoretical Underpinnings of Dynamic Capabilities

Dynamic capability view is basically grounded on the theoretical basis put forth by Schumpeter (1934), Cyert & March (1963), Williamson (1975,1985); Penrose (1959); Wernerfelt (1984). According to Penrose (1959) later on the context of capabilities asserts that firm’s managers could

make combinations of the services in various ways derived from various resources under resource base view. The management will definitely ponder on the focal opportunities in market where they need to invest their resources. In initial work, identified Penrose idea of Resource Fungibility. He strived to assess how resource nature, especially its tradability influence growth pattern of organization by diversification. The inherent opportunities to trade in diversified products could become possible through optimal control on non-tradable assets. Such initial treatments primarily emphasized on transaction costs and its impacts on diversification. However, they didn't give due attention on the creation, protection and deployment of resources and non-tradable assets. Furthermore, they neglected the role of entrepreneurship. These loop holes are filled by dynamic capability view.

Penrose (1959) although, did acknowledged the significance of productive opportunities and entrepreneurship yet she didn't describe the role of resources in attaining true competitive advantage. However, Wernerfelt (1984) and Barney (1991) focused on generation of economic rent through ownership of specific resources. The main strategic resources must satisfy VRIN criteria (Barney, 1991) and they results in sustainable competitive advantage Rumelt (2011); Wernerfelt (1984), Williamson (1975), and Penrose (1959). The gap further filled by Prahalad and Hamel (1990) through addition of competency factor in firm's success. Furthermore, Kogut and Zandar (1992) extended the capability version to knowledge based view as combinative capabilities (Eisenhardt and Martin, 2000). Competency based view describes firms as bundles of skills and technologies (Hamel & Prahalad (1990), knowledge base view consider firms as source of knowledge creation through organizational level of learning and finally, resource based view overtime evolve dynamic capability view.

Capability

Capability is the basic concept of dynamic capability. Capability is considered as 'a set of activities that exploit firm resources to transform them into products and services. According to Winter (2003) routine based activities are the defining feature of dynamic capabilities. Capabilities can

further sub divided into two distinct classes of capabilities i.e. Dynamic capabilities and ordinary capabilities.

Ordinary Capability

Ordinary capability is called upon in different names i.e. Static (Collis, 1994) zero level (winter, 2003) first order and substantive (Zahra, Sapienza & Davidson, 2006). Ordinary capability is believed to be stronger when firms are managing best practices along with skilled workforce and it has advanced equipment. But, it is evident through various research findings that only best practices cannot guarantee sustainable advantage except in weaker environments (Teece, 2014).

Dynamic Capability

Dynamic capabilities are differently defined by various authors as it is considered as a multidimensional construct having strong theoretical base like it is acknowledged as a process (Eisenhardt & Martin, 2000), as a skill (Teece, 2016) and as a capability (Helfat et al. 2015; Zahra, Sapienza & Davidson, 2006; Winter, 2003). Therefore, dynamic capabilities could be considered as process, capability or skill which build, combine, integrate, reconfigure and transform firms' resources for better advantages. Dynamic Capability is a process and routine which enable innovation in competitive environments and facilitate in increasing company's competitive advantage (Teece et al. 2016; Day & Schoemaker, 2016).

The capabilities are placed on different levels. Higher levels lead towards more abstraction and complexity (Easterby-Smith et al. 2009; Schike, 2014; Zollo & Winter, 2002). Schilke (2014) elaborates that learning routines are considered as first order dynamic capabilities however, second order capabilities are acknowledged as "learning to learn" capabilities. Winter (2003) further enriched by defining that lower order dynamic capabilities impacts on ordinary capability or resource base (e.g. change in production process: Ambrosini et al. 2009), while higher order dynamic capabilities are results of organizational learning which create and modify lower order dynamic capabilities.

Consequently, higher order dynamic capabilities (2nd order, Meta or regenerative dynamic capabilities: Ambrosini et al. 2009) entails more

strategic insights and complicated capacity which is complicated and difficult to crack (Collis, 1994). Because of inimitability, performance differentials become visible; therefore, it is advantageous to invest in higher order dynamic capabilities (Crook et al. 2008). Higher order capabilities considered as more transformational than lower order dynamic capabilities in solving problems (Zahra et. al.2006).

Green HRM

The Green HRM is new emerging topic in today's world. It's an outcome of growing need for strategic Green HRM, it's an integration of environment management into HRM. It results in progression and sustainability. Now-a-days, companies are emphasizing on the Green HRM and corporate social responsibility in order improve performances and to attain a sustainable competitive advantage. In previous eras the foci was on the economic gains but now in twenty first century, green environmental consequences are more important and proactive (Mandip, 2012).

Green HRM entails activities and functions i.e. green HRM policies green philosophies and practices related to environmental management and its aimed to sensitize employees regarding green environmental responsibilities. The consideration of environmental issues is inevitable for the organizations as they are the major causes of environmental problems (Bebbington, 2001).

The green HRM thus may contribute towards firm's overall performance and it could also act as dynamic capability of any organization or at least facilitate in developing dynamic capability in certain grounds.

Resource Base

Resource base is established upon resources. According to David Teece (2014), "the resources are basically potentially productive tangible and intangible assets and people who are semi permeably attached to a certain firm". However, intangible resources are those assets which meet the VIRIN criteria for resource differentiation (Teece, 2000). The dynamic capabilities facilitate an organization to make timely market oriented decision and help in systematic problem solving and also cause innovative

changes in resource base (Teece, 2014; Ambrosini and Bowman, 2009; Schike 2014b).

However, there are some divergent authors as well who argued that dynamic capability does not generate a accurate resources configuration (Eisenhardt and Martin, 2000; Ambrosini and Bowman, 2009). Apart from this, other studies also elaborate that dynamic capabilities are important (Peteraf et al. 2013), and idiosyncratic in nature (Eisenhardt & Martin, 2000) and learned (Winter, 2012) so they are considered as more precious element for the firms which is also difficult to imitate (Peteraf et al. 2013). A systematic change in resource base results in performance differentials due to knowledge accumulation concerned with how to bring change with lower costs and also facilitate an increased congruence with overall environment.

Strategic Flexibility

Strategic Flexibility is considered as a sturdy anchor for firm competitiveness and it is truly acknowledged in strategic management literature (Chen et al. 2017). The literature on strategic flexibility reflects that it is a firm's capability which facilitates organizations to effectively navigate through most turbulent situations in business environment (Brozovic, 2018). Strategic flexibility is responsible for fine tuning of internal and external change agents and it also ensure firm's survival (Spieth & Schneider, 2016).

Keeping in view changing environmental conditions and stiff competitions the instilling of flexible strategizing is inevitable. To design certain long term, rigid and inflexible strategies may appear detrimental in long run as well. The strategic flexibility basically reflects 'how certain firms position itself in relation to menu of future choices' (Carlsson, 1989).

Firm Performance

In dynamic capability framework, the most fundamental relation exists between dynamic capability and firm performance. Barreto (2009) proposes three distinct approaches. The first approach directly observes a connection between dynamic capabilities and performance or competitive advantage (Zollo & Winter, 2002; Makadok, 2001). Makadok (2001), consider dynamic capability approach as a cause and effect process that create

economic rents and also viewed that such firms hold resources on which dynamic capabilities can act on. Zollo & Winter (2002) also assumed a direct relation between dynamic capabilities and firm performance. Teece (2007) concluded that dynamic capabilities live in the core of enterprise success or failure.

The second approach posits that dynamic capability does not guide towards firm's performances (Helfat et al. 2007; Eisenhardt and Martin, 2000) and it depends upon the resources and the ways how managers exploit dynamic capabilities. Zott (2003) also reviewed that dynamic capabilities do not impact performances unless medication of resources and routines.

The third approach reflects dynamic capability and performance has an indirect relation (Zott, 2003). Zahra et al. (2006) also having the same notion that the relation between performance and dynamic capability is an indirect one. Winter (2003) posits that dynamic capabilities may incur costs and become less advantageous in order use or develop them. Therefore, it is evident that firm's performances heavily based on the strength of dynamic capabilities that an organization holds. It depicts a direct bearing of dynamic capability on the performance of a firm.

Leadership

Leaders strive to locate new opportunities (sensing) for society (Kerr, 1998). The firm's performance is based upon leaders' ability to resolve the concerns reside between flexibility and efficiency (Brown & Eisenhardt, 1997; Uzzi, 1997; Tushman & O Reilly, 1996). True leaders are expected to continuously sensing and scanning the environment and prioritize the problems to address. Leaders pave the paths towards firm competitive advantage. Eisenhardt (2010) proposes three mechanisms which have direct bearing on the cognitive psychology are as follows:

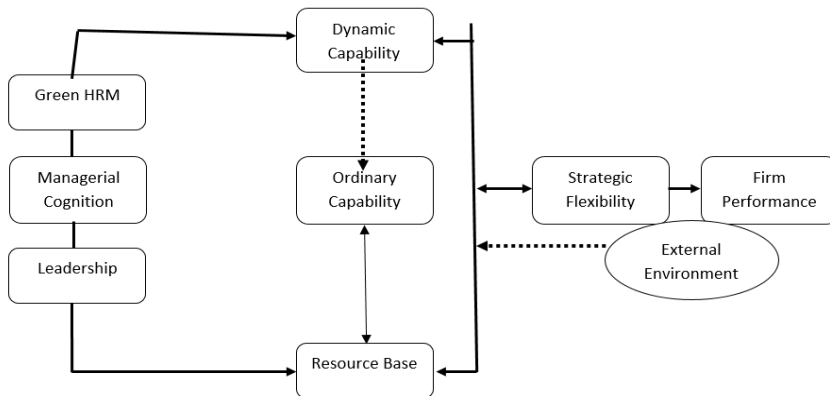
First is abstraction. As leader's experience and notice diverse opportunities in turbulent environment, abstract thinking which facilitates them to make an amalgamated comprehension of diverse experiences (Bingham, 2010). Abstract thinking exposes similarities that superficially materialize differently. In this way abstract thinking help in generating certain situational understandings.

Cognitive variety is another dimension which point out towards multiplicity of mental template which helps in problem solving in organizations. Cognitive variety renders certain benefit also like greater repertoire of potential solutions, creation of collective flexibility and tolerance for variety itself (Barber, 1988).

The last dimension is interruption. Interruptions results in flexibility. Because it cause a pause in routine activity which may facilitate reassessments and change in orientations. It saves time of leaders and instills efficiency. It is also observed that inclusion of out siders in executive teams results in variations in strategic thinking (Furr, 2009).

Figure 1

Dynamic Capability Framework



The framework entails both internal and external factors i.e. internal factors are dynamic capabilities, ordinary capabilities, resource base, strategic flexibility, managerial cognition, green human resource management and leadership. Whereas, external environment itself considered as external factors which have a very strong impact on every organization. Congruence and collective emphasis on all these factors ultimately leads towards better firm performances.

The leadership dimension was lacking in Teece (2014) impressive seminal paper’s framework. This gap is filled through adding leadership because the leader’s role cannot be ignored in firms overall growth and

development. Leaders play an extremely vital role in sensing the opportunities and threats from external market and leaders also assist in development of dynamic capabilities (O Reilly and Tushman, 2011) and in assets orchestration (Teece, 2007). On the grounds of Eisenhardt (2007) paper, cognitive approach (three mechanisms i.e. abstraction, cognitive variety and interruption) has been linked up as this mechanism affect directly the leaders ability to take decisions, to analyze situations more objectively and concretely by exploiting dynamic capabilities.

Furthermore, the previous researches also endorse the significant role of cognition of top level managers (Cannella, Finkelstein, and, Hambrick, 2009). Therefore, in order to strengthen this, managerial cognition capability has been introduced. It was refers by Helfat (2014) as “a capacity of manager to one or more mental activities which composed of cognition”. However, it’sa heterogeneous factor which may vary from manager to manager.

In this presented framework, dynamic capabilities are connected with both ordinary capability and resource base. Collis & Winter (2003) suggests that dynamic capability brings a certain rate of change in ordinary capabilities. Meanwhile, dynamic capabilities also directly engaged with resources as well due to continuous reliance on resources for firms operations and to ensure differentiation. It’s also because of the intention to attain evolutionary fitness which can be achieved through sensing opportunities, navigating through threat and asset reconfiguration of assets to meet customers’ needs and creating a long term value for investors (Teece, 2007).

In addition to this, it is also evident that dynamic capabilities persistently endeavor to perk up ordinary capabilities in order to get greater efficiency (Zollo & Winter, 2002). Meanwhile, dynamic capabilities are responsible for building new resources and capabilities for future which ensure competitive advantage through radical changes in competitive environment (Danneels, 2015). Dynamic capabilities bring a drastic change in resource base and those new resources pave a way for new product market positions which ultimately have direct bearing on firm’s performance (Zott, 2003). By resource base, it means, the resources must follow the criteria of VRIN. The resources are of different kinds and with

different impacts. Few resources and operational and can be outsourced while others can make a huge difference and they ensure differentiation which ultimately help in gaining competitive advantage. Such resources in resource base must qualify the principle of VRIN. As dynamic capabilities are themselves capabilities therefore they are composed a part of resource base of a firm (Teece, 2007).

The proposed framework has another most important component i.e. strategic flexibility. The dynamic capabilities are directly connected with the strategy and cannot perform adequately enough alone to gain competitive advantage (Teece, 2007). The magnitude of strategic importance increase manifolds when diversity and change persists in environment and in intangible assets. In such circumstances, the prime role is of strategy and strong inimitable capabilities for growth and performance of firm both economically and financially.

One of critical factors being discussed in Teece (2014) paper was inertia which germinates owing to status quo situations. Transforming component of dynamic capability recommended making rigidities softer but how it can be done that mechanism was missing. Therefore, to overcome this deficiency the concept of strategic flexibility I slinked up which facilitate in overcoming organizational inertia and to gain sustained competitive advantage.

The researchers denote strategic flexibility to “a firm’s ability to comply with dynamic competitive environment (Sanchez, 1995). Sanchez suggested that strategic flexibility depends upon two components i.e. there inherited flexibility of firm’s available resources and flexibility to apply them. Additionally, dynamic capabilities breed strategic capability as well (Rindova & Kotha, 2001). In consistent with the previous researches, the concept of strategic flexibility entangled with dynamic capability to cope up with intense and dynamic environmental pre requisites.

Discussion and Conclusion

Dynamic capability approach is remedy for ever changing, turbulent and dynamic environments. This construct holds wide array of theories under its umbrella. Dynamic capability is unique in the sense that it quickly adapt towards certain environmental changes over time. This proposed conceptual

framework strives to coherently align certain concepts to present single, unified and comprehensible dynamic capabilities process.

The conceptual work developed here emphasize upon managerial cognitions. It is evident from researches that strong cognitive abilities among managers better equip them to make timely decision, to scan environments effectively and to deal with change efficiently as compared to others.

However, more concrete research is required to better enhance the knowledge how dynamic capabilities assist in developing and reconfiguring resource base (Vogel, 2012). Lot of changes face disturbances and resistances at multiple levels i.e. individual, group and organizational level (Ford et al. 2008) therefore there is a need of time to integrate researches on dynamic capabilities and change management.

The ample focus on strategic flexibility is inevitable. Strategic flexibility plays a vital role in planning and maintaining resources within an organization. Strategic flexibility along with dynamic capabilities pave a way towards organizational growth and ensure sustainable competitive advantage.

Finally, it is considered that dynamic capabilities are significant to gain sustainable competitive advantage in presence of flexible strategic orientation coupled with green HRM, managerial cognition and leadership which intensify each other and ultimately will assist in overall firm's performance. The revamped novel framework of dynamic capabilities is expected to work effectively in order to attain firms 'sustainable competitive advantage.

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