Micro-Foundations of Firm Dynamic Capabilities & Export Performance: A Conceptual Approach Addressing the Role of Export Department Employees

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Abstract: Drawing by the micro-foundation approach to dynamic capabilities, this conceptual study attempts to highlight the contribution of export department employees to the emergence of dynamic capabilities of exporting firms and to export performance. Although individuals are viewed as the source of knowledge which is considered as the core ingredient of dynamic capabilities, their role in the emergence of dynamic capabilities has been neglected by the scholars. In conjunction with the existing research, this study proposes that export department employees as knowledge workers matter for firms’ dynamic capabilities, which reflects their indirect contribution to export performance.

Keywords: Export Performance, Dynamic Capabilities, Export Department, Multilevel Interaction

Introduction

The increasing intensification of global competition drives an accelerating number of companies exploring and exploiting opportunities overseas markets to achieve a...
sustainable firm performance (Leonidou et al., 2002). Exporting as the initial route for international markets has been considered as the most common foreign market entry strategy especially for small and medium sized firms, accordingly, the vital role of exporting in worldwide markets is undeniable (Leonidou and Katsikeas, 2010; Spyropoulou et al., 2010). Although international markets harbor a number of opportunities, companies face challenges to outperform their rivals and survive in international markets (Morgan et al., 2006). In this vein, understanding the sources of sustainable competitive advantage has become the core aim of majority research efforts in the field of management and international business. In conjunction with this view, resource-based view (RBV) has emerged as a bona fide theory that points out the interplay between firm resources, capabilities, and competitive advantage (Hart, 1995: 986). As a nascent research stream, RBV aspires to conduce the internal sources of competitive advantage that enables companies to outperform their rivals in the marketplace (Kraaijenbrink et al., 2010: 350). The core notion of RBV points out that companies need to exploit, manage, and apply their resources and capabilities in pursuit of achieving a sustainable competitive advantage (Barney, 1991; 2002). However, RBV is considered to provide a limited explanation to comprehend business performance of international companies (Monteiro et al., 2017). In order to investigate firm success in highly volatile markets, the firm dynamic capabilities have emerged (Eisenhardt and Martin, 2000). Dynamic capabilities as an extended view of resource-based approach reflects the maintenance of competitive advantage in volatile environments. Through those capabilities, companies can explore and exploit opportunities and launch unique products and services into worldwide markets, thereby, companies can outperform their rivals in the global marketplace (Dunning and Lundan, 2010). In understanding the drivers of export success, a substantial amount of studies has focused on the contributions of dynamic capabilities (Monteiro et al., 2017; Villar et al., 2014). Despite the great deal of attention given to the role of dynamic capabilities, only a few of them addressed the role of individuals in firm dynamic capabilities (Felin and Foss, 2005; Felin et al., 2012; Foss and Pedersen, 2019). However, individuals are viewed as the sources of organizational capabilities with their skills, behaviors, and interactions with others in their organization (Distel, 2019; Teece, 2007). In the literature, despite the crucial role of individuals in exploration and exploitation of knowledge within the organizations, a complementary line of research directed more attention on collective constructs such as organizational learning or organizational culture while the role of individuals have been neglected (Felin and Foss, 2005; Felin et al., 2012; Foss and Pedersen, 2019). Moreover, research that focused on the roles of individuals pointed out the dominant role of upper echelons in firm capabilities (e.g., Bendig et al., 2018). Existing research lacks how dynamic capabilities as a collective construct are built or risen, especially in the context of international business, which can block the understanding heterogeneity on firm performance (Distel, 2019; Salvato and Vassolo, 2018; Sprafke et al., 2012). In essence, R&D employees, engineers, and sales personnel are considered as important agents that play a significant role in knowledge diffusion within the company (Rothaermel and Hess, 2007). Although, dynamic capabilities have been emphasized in international business literature, their sources have been neglected. However, employees in export departments
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...can be vital since they identify opportunities, acquire knowledge about overseas markets, and coordinate export operations, which are all considered as the heart of export success (Katsikea et al., 2005; Navarro-García et al., 2016). All in all, although the micro-level antecedents of dynamic capabilities started to be under the spotlight of the researchers, the role of export department employees still needs to be investigated.

Drawing by those notions in the existing literature, this study proposes the important role of export department employees through a prospective framework in which export department employees’ abilities and behaviors promote firm knowledge based dynamic capabilities.

II. Theoretical background

A. Micro-foundations of dynamic capabilities

In the literature, the micro-foundations view is analyzed in two perspectives. While the first one focuses on the level of analysis, and the second approach addresses the directions between the multi-level variables.

Macro & micro level approach: Research in strategy has been intensively macro level whilst analyzing the antecedents of firm performance at higher levels including industry type, location effects, firm resources and capabilities, and so on (Molina-Azorín, 2014). These studies are considered as macro level since they analyze the variables at higher levels but not at individual level (Abell et al., 2008). In addition, most of the dependent variables are at the firm level whereas the independent variables are usually at firm level in the extant literature.

Top-down & bottom-up approach: In strategic management, there are two approaches that explain the relationship between the higher level and lower level concepts (Kozlowski and Klein, 2000). The first one is "Top-down" approach which focuses on the effect of higher-level factors on lower level factors. Take for instance, the effect of organizational climate on employee behavior. On the contrary, the "Bottom-up" approach underlies the perspective that lower concepts are the origins of high-level concepts (Ployhart et al., 2014). For example, absorptive capacity as a collective or wholistic construct can indicate the characteristics, behaviors and capabilities of employees.

Dynamic capabilities are mostly viewed as organizational-level constructs (Helfat et al., 2007). Therefore, some scholars consider that since dynamic capabilities are intensively analyzed at collective level, they were defined as “black box” (Pavlou and El Sawy, 2011: 240). According to Kevill et al. (2017), understanding of micro-foundations of dynamic capabilities comprehensively can help to open the black box. In addition, some scholars made calls to analyze the micro-foundations, which fostered the attention for micro-foundations (Salvato and Rerup, 2011; Vogel and Güttel, 2013). While Felin et al (2012: 1352) provide an extensive explanation on micro-foundations perspective and assert that aggregate organizational constructs need to be analyzed through the lower-level constructs such the role of individuals. In addition, Abell et al. (2008) assert
that strategic management should fundamentally focus on underlying how human actions and interactions can produce collective constructs.

Dynamic capabilities as organizational level constructs are hard to be observed which directed the scholars’ attention to investigate their emergence process and sources (Wilden et al., 2016). Teece (2007) pointed out the micro-foundations as individual bundles of capabilities through its theoretical framework. Micro-foundation perspective of dynamic capabilities reflects the role of individual actions and collective interaction on firm dynamic capabilities (Felin et al., 2015). In this sense, dynamic capabilities are the aggregated and unified constructs that are composed of micro level sources. Micro-foundations as a recent conceptualization has been addressed with broad macro-level theories (Felin et al., 2015; Salvato and Vassolo, 2018). The ultimate goal of micro-foundation research stream is to provide a comprehensive understanding of how individual-level factors and interaction of individuals in an organization can contribute to the emergence of organizational level outcomes and how those individual level factors can mediate or moderate between collective variables (Abell et al., 2008). Felin and Foss (2005) asserted that employees in an organization underpin constitution of an organization, organizational culture, and other types of aggregated constructs. Employees who possess specific abilities with unique expertise can contribute to improvement of firm capabilities since they are the locus of knowledge resources of a company (Corredoira and Rosenkopf, 2010). In addition, employees help companies deal with the core rigidities of capabilities (Leonard-Barto, 1995). Based on these notions, employees matter in improvement of organizational processes and resources that contribute to dynamic capabilities. For this reason, investigation of dynamic capabilities as merely an aggregated construct can lead to inconsistent findings (Dansereau et al., 1999).

While some scholars have emphasized the micro-foundations of firm capabilities (Felin et al., 2012; Felin and Foss, 2009, 2005; Foss and Pedersen, 2019; Helfat and Peteraf, 2015), some others investigated the phenomena through an empirical approach. Some of those studies focus on the effect of individual level absorptive capacity on innovation (Enkel et al., 2017), employee motivation on absorptive capacity (Minbaeva et al., 2003); learning goal orientation and civic virtue on absorptive capacity (Yao and Chang, 2017), owner-manager self-efficacy on perceiving capability (Kevill et al., 2017), and CEO experience on marketing and R&D capabilities (Rodenbach and Brettel, 2012). However, none of these research efforts have examined the potential role of export department employees on emergence of dynamic capabilities through a multi-level approach, which shows that more research efforts are needed that delve deeper into the individual sources of dynamic capabilities, especially in the context of international business (Distel, 2019; Foss and Pedersen, 2019). In addition, Contractor et al. (2019) pointed out that micro-foundation perspective can provide a lens into the international management field to better understand capabilities, routines, and knowledge diffusion. Moreover, Kano and Verdeke (2019) examine the main frameworks of micro-foundations that are embedded in international business, they found that the micro-level propositions within those studies are not linked to key strategic decisions. Therefore, a
bulk of research in international business has tackled multi-level constructs while micro-foundation perspective per se has not (Foss and Pedersen, 2019). In this sense, unveiling the role of export department employees in firm capabilities can shed light on the sources of dynamic capabilities in the context of international business and can make a contribution to the existing literature.

B. The role of export department employees

Exporting, the initial step to international markets, is considered as the most common and important entry strategy for international markets. Compared to other entry strategies, exporting is more attractive since it requires less resources and commitment, accordingly, it is less risky and more flexible (Dhanaraj and Beamish, 2003; Fuchs and Köstner, 2016; Lu and Beamish, 2002). For getting into export markets, firms carry out exploration and exploitation operations for identification and utilization of opportunities. However, these operations require deep market research in order to understand environmental conditions and reconfigure firm strategies through adaptation. In exporting companies, export departments carry out export activities (Winklhofer and Diamantopoulos, 1996). Export department employees acquire and disseminate vital information about export markets (Katsikea and Morgan, 2003). Networking is one of the important mechanisms to generate knowledge about export markets (Gomez-Mejia, 1988), reaching customers and rivals in related export markets (Moorman, 1995), which are substantially undertaken by export department employees. Therefore, based on the information acquired and disseminated by export department employees, companies assign export strategies. Accordingly, export department employees have the responsibility for specification of market adaptations to export markets. The knowledge gathered by export department should be disseminated within the firm in order to promote cross functional coordination required for operations (Navarro-García et al., 2014). Thus, the knowledge provided by export department employees within the company is vital. In this sense, it can be proposed that export department employees are important agents for export functions since they gather required knowledge for export market adaptations that enable achievement of competitive advantage (Cadogan et al., 2009). For instance, export operations have a complex nature including its documentation, logistics, customs operations, and etc. in which export department employees are exposed to a number of responsibilities for which they may have to make vital decisions (Gomez-Mejia, 1988; Navarro-Garcia et al., 2016). In addition, export department employees need to have language abilities for smooth communication with foreign customers, agents, and distributors, which may influence the customer satisfaction, relatedly market performance, information flux, and the whole export success. In this regard, export department employees are the knowledge agents who acquire and disseminate knowledge that is viewed as crucial for adapting capabilities to foreign markets (Martinkenaite and Breunig, 2016; Schneckenberg et al., 2015). For this reason, export employees’ abilities to acquire, assimilate, and disseminate knowledge within the firm can affect the firm dynamic capabilities, especially market orientation and organizational learning. Since market orientation requires generation of knowledge about customers, competitors, market regulations and dissemination of the knowledge,
and showing market responsiveness based on the knowledge gathered (Cadogan, et al., 2012), export department employees can promote market orientation. In addition, as export department employees explore and exploit knowledge, and disseminate this knowledge throughout the firm; they can make a contribution to organizational learning capabilities. Furthermore, export department employees’ ambidextrous capabilities can improve learning abilities of exporting firms. Moreover, learning oriented employees can improve the knowledge based firm capabilities. Therefore, export employees’ cognitive abilities and proclivities can promote firm dynamic capabilities. In addition, through communication and configurational competencies, employees can broaden their social capital that can later contribute to relational and learning capabilities of companies.

In the light of the literature, it can be proposed that

**P1:** Export department employees’ cognitive abilities and proclivities promote firm capabilities.

**P2:** Firm dynamic capabilities are positively associated with firm export performance.

The proposed framework is shown at Figure 1.

![Figure 1: The Prospective Multi-Level Theoretical Framework.](image)

**III. Discussion & Conclusion**

This current study attempts to provide a conceptual insight into the unearthed and neglected role of export department employees through a micro-foundation perspective of firm capabilities, which in turn, increases firm export performance. The micro-foundation lens points out that individuals can contribute to firm capabilities (Felin and Foss, 2005). Micro-foundation perspective has become an important theme in international management/business research, which is considered to be a reaction towards the overemphasis of macro-level approaches (Contractor et al., 2019). Merely focusing on the interrelationships between macro-level constructs led to a substantial lacuna of the impact of employee level characteristics on firms’ strategic actions (Felin et al., 2015). Individuals matter in making critical decisions and directing the actions in firms, therefore, the underlying role of individuals in organizational-level constructs cannot be neglected. In this sense, the extent that characteristics and proclivities of employees contribute to the organizational level constructs needs more comprehensive understanding especially in the context of international management/business as employee level effects as unit of analysis are underestimated and neglected (Contractor et
al., 2019; Foss and Pedersen, 2019). The principal motivation of this study is to shed light on the potential contribution of export department employees to firm dynamic capabilities, which in turn, boosts export performance. The proposed multi-level theoretical framework is an initial step to unveil the role of employee-level effects on firm strategic tools which are firm dynamic capabilities, which reflects the indirect effect of cognitive abilities and proclivities of export department employees on export performance. While the micro-foundation perspective is addressed scarcely in the literature, this is first study that integrates the role of export department employees and dynamic firm capabilities under the export context. Export department employees carry out substantial amount of export operations including customs operations, logistics, dealing with customers, documentation, and market research, etc. As export department employees engage in marketing operations including adaptation strategies, they can be viewed as the source of knowledge since they acquire knowledge related to export markets and disseminate this knowledge within the firm. Therefore, export department employees can be knowledge workers that contribute to firm capabilities. For instance, communication competencies can boost better understanding between individuals from different cultural backgrounds that can enable smooth knowledge inflow from the external environment to the firm. In addition, employees with ability to acquire and assimilate knowledge can gather more fruitful knowledge about the export markets including customers, regulations, and distributors which can contribute to market orientation and organizational learning capabilities of firms.

Through this multi-level proposal, this conceptual study aims to shed light on the unexplored roles of export department employees on firm dynamic capabilities and their indirect effect on export performance. Given the conceptual nature, this study lacks investigation through an empirical lens into the proposed theoretical framework. Therefore, future studies can focus on addressing these issues through qualitative or quantitative approach. In addition, the proposed theoretical framework can be analyzed in domestic concept with employees from other departments who can be considered as knowledge workers.

References


