Review

Impact of dynamic capabilities on the export orientation and export performance of small and medium sized enterprises in emerging markets: A conceptual model

Ritam Garg* and K. De

LM Thapar School of Management, Thapar University, Patiala, India.

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Despite the wide acceptance of the performance benefits of intangible assets, like knowledge, skills, expertise and networks on the overall firm performance, very little is known about the real impact of the intangible resources on firms’ export orientation and export performance. This paper provides a conceptual framework for understanding the direct and indirect impact of intangible resources on the export orientation and subsequently exports performance of the small and medium sized enterprises (SMEs). This paper draws on contemporary internationalization theories such as resource based view, and dynamic capabilities perspective with the conventional internationalization theories such as the international stage theory in the background. This paper conceptualizes direct role of dynamic capabilities on a number of firm, and management related components, that have a direct or indirect impact on firms’ export orientation and export performance. This provides a new direction for future scholars and practitioners of the field.

Key words: Dynamic capability, export orientation, export performance, small and medium sized enterprises.

INTRODUCTION

Of late, the issue of internationalization has become important for small and medium sized enterprises (SMEs) (Filatotchev et al., 2009), especially for those which internationalized during the early stages of their organizational life-cycle (Wright et al., 2006). These firms are often referred to as ‘born global’ firms or as ‘international new ventures’ in the existing literature (Oviatt and McDougall, 1994; Autio et al., 2000; Zahra et al., 2000). Although, numerous studies have analyzed the factors that drive the internationalization of smaller firms (Gabrielson and Kirpalani, 2004; Knight and Cavusgil, 2004), according to many scholars, our understanding of this phenomenon is still limited.

Research which examines new ventures, “born-global” firms, small and medium-sized enterprises (SMEs), has provided an array of findings regarding the drivers of internationalization and the factors that contribute to the success and performance of firms in international markets. However, with regard to the effects of internationalization on small firms, empirical results are mixed (Hitt et al., 1997). Researchers have a limited understanding of the performance benefits of intangible resources (Radulovich, 2008). Proponents of the resource-based view (RBV) posit that superior intangible resources provide sustainable competitive advantages and superior performance (Barney, 1991).

While these competencies are internal and are acquired by firms, understanding of dynamic capabilities perspective would help the firms to utilize the underlying knowledge, experience of their owners/managers, as well as to obtain the necessary information and resources needed to develop an internationalization strategy to achieve better performance.

According to a recent interaction with a focus group comprising of three university professors, two individuals from the industry and two from the government, the authors have realized that, the SMEs in the emerging...
economies like that of India and China, despite having enormous growth potential and significance in the economy, have not been able to harness the advantages of internationalization and subsequently has fallen short in facing the challenges of globalized competition. In a growing economy, innovative actions are fundamental for the long-term success of the firm. Due to the increasing diversity of products and production processes (Coombs and Metcalfe, 1998) intangible assets and knowledge have become more important. Additionally, conditions of hyper-competition (D’Aveni, 1994) and time-sensitive environments shift the locus of corporate innovation into networks of inter-organizational relationships (Powell et al., 1996).

Exporting as an internationalization strategy has been extensively researched in the existing literature, however majority of the studies have dealt with export orientation and export performance in the western economies. Very little research has been conducted on export orientation and export performance in the emerging economies (Okpara and Kumbiadiis, 2008).

This paper conceptualizes the indirect affects of the dynamic capabilities on firms’ export orientation and export performance in the context of emerging economies. It also discusses the conceptual model of firms’ export orientation and export performance and highlights the possible theoretical and practical implications of this framework.

THEORETICAL FOUNDATION

Previous internationalization research reports that internationalizing firms possess certain ownership advantages such as size, superior technology, unique products, or special managerial/marketing know-how (Chen and Chen, 1998). However, many firms with international activities are small and seemingly with few resources and capabilities, and conventional theory does not provide an adequate explanation for either their motivation or the mechanism of their internationalization (Wright et al., 2006). Previous research suggests that born global companies create sustainable competitive advantages based on unique technologies and innovation, which they leverage worldwide (Bell, 1995; Hashai and Almor, 2004; Jones, 2001; Keeble et al., 1998; Knight and Cavusgil, 2004; Oviatt and McDougall, 1994; Rugman and Wright, 1999; Stray et al., 2001). The ability to create proprietary technologies and transform product and process innovations into business activities allows small firms to create competitive advantages that may support their internationalization strategy (Filatotchev et al., 2009). Studies highlight that new venture firms often have a superior capability to perform R and D activities (Knight and Cavusgil, 2004; Manalova, 2003). The resource based and dynamic capabilities perspectives also suggest that network partnerships are important to many small firms as they provide important social capital (Davidson and Honig, 2003). These partnerships may be especially important in the emerging markets as they enable firms with relatively weak internal resources to access complementary resources and capabilities within the wider network (Bruton et al., 2003). Redding (1996) suggests that network-related factors should play an important role within the context of small firms’ internationalization decisions.

Resource-based view of the firm (RBV) focuses on the internal organization of firms and factor market imperfections. Clark (2000) emphasizes that it highlights the heterogeneity of firms, varying degrees of their specialization, and the limited transferability of corporate resources. The strategy process then revolves around identification and exploitation of idiosyncratic resources and distinctive competencies. RBV also conceptualizes firms as unique collections of resources and routines from which competitive advantages can be drawn when those are valuable, rare, inimitable and non-substitutable (Penrose, 1959; Wernerfelt, 1984; Barney, 1991). The resource-based logic has been taken further in the (core) competence approach to formulate strategies. This view, developed by Prahalad and Hamel (1990), argues that the core competencies of a firm, not discrete, individual asset are the source of sustainable competitive advantage. These core competencies in turn lie behind firm’s ability to bring together intangible resources (like skills and technologies) enabling it to provide unique value to the customers.

More recently, RBV has been extended to the dynamic markets by the scholars. The logic is that RBV does not satisfactorily explain how and why certain firms sustain their competitive advantage in dynamic business environments. Previous scholars such as Teece et al. (1997) expand on the resource-based view of the firm to explore the possibility of a theory of dynamic capabilities, which they define as “the firm’s ability to appropriately adapt, integrate, and reconfigure internal and external organizational skills, resources and functional competences” or in other words, intangible assets like knowledge, expertise, skills, and processes of learning get a precedence. Zollo and Winter (2002), on the other hand, have suggested that dynamic capability should be defined more specifically in terms of the generation and modification of firm’s operational routines. Although, dynamic capabilities as such are idiosyncratic to each firm due to path dependencies and firm-specific resource configurations as well as related to specific industrial settings, it is emphasized in the literature that their formation and articulation also depends on external relations (Peteraf, 1993; Coombs and Metcalfe, 1998). Furthermore, it is possible to identify fundamental capability patterns across a range of firms which allows for drawing general conclusions (Eisenhardt and Martin, 2000).

Teece et al. (1997) argue that dynamic capabilities are in fact organizational and strategic routines by which managers alter firm’s resource base and renew
competence in order to generate new sources of competitive advantage. Furthermore, organizational processes have three roles, which include: (1) Effective coordination and integration of activities is important, both inside the firm and with external sources. (2) Learning has been conceptualized as an individual and organizational process, which enables tasks to be performed better and quickly in order to identify new production opportunities. Accordingly, improvements in organizational processes also lead to the creation of new strategic capabilities (Argote, 1999). (3) The ability to sense the need to reconfigure firm’s asset structure is particularly valuable in volatile environments. In order for an organization to exhibit dynamic capabilities, however, it must properly adjust responsive actions and move to implementing a new system skillfully and efficiently. During this process the organization receives and interprets messages about new markets, new technologies, and competitive threats (Teece, 1998).

LITERARY EVIDENCE OF DYNAMIC CAPABILITIES

In spite of significant number of theoretical and conceptual contributions, empirical evidence of the nature of dynamic capabilities and their influence on firm performance is still relatively inadequate. Previous researchers have suggested the following problems: lack of consensus on a common definition (Henderson and Cockburn, 1994), potential tautology (Priem and Butler, 2001), difficulty to measure (Wernerfelt, 1984) and operational limitations (Williamson, 1999). On the other hand, Eisenhardt and Martin (2000), suggest that dynamic capabilities consist of many well-known processes that create, integrate, reconfigure and release resources and competences.

Dynamic capabilities related to the integration of capabilities are described as routines to develop products and make strategic decisions. Product development routines are considered dynamic capabilities as managers combine their diverse skills and functional backgrounds to create new products and services (Helfat and Raubitschek, 2000). Brown and Eisenhardt (1997) examined continuous change in organizations in the context of multiple product innovation. And, they found that firms successful in multiple product innovation exhibit the following characteristics: blending limited structure around responsibilities and priorities with extensive communication and providing design freedom to create improvisation, as well as relying on a wide variety of low cost measures into the future and linking the present and future together through step by step, time bound transition processes. Strategic decision making is an integrating dynamic capability since it involves pooling of business, functional, and personal expertise (Eisenhardt, 1989a). Researchers also suggest that integrative knowledge underlying dynamic capabilities can be a source of strategic advantage (Brusoni et al., 2001; Henderson and Cockburn, 1994).

Another type of dynamic capabilities identified in the literature is creation of new resources, which include knowledge creation routines as well as alliance and acquisition routines that bring new resources into the firm from external sources (Powell et al., 1996). McGrath et al. (1996) developed a framework that explains creation and evolution of competences that are necessary for innovation. They pointed out that process counts; stressing on the fact that team processes of learning and of developing proficiency shapes the economic outcome of an innovation attempt. Pisano (1994) observed significant differences in environments of firms, and concluded that approaches to learning are different in different environments. In yet another study by Katzy et al. (2001), two streams of dynamic capabilities were identified, including, incubating and grafting. These were instituted to coordinate processes of creation of internal ventures and their integration in the existing set up.

Some other examples of dynamic capability that focus on reconfiguration are resource allocation routines (Burgelman, 1994) and transfer processes, including routines for reproduction and brokering (Hansen, 1999; Hargadon and Sutton, 1997). Galunic and Eisenhardt (2001) suggested organizing recombinative processes in multi-business firms that are involved in dynamic communities. Finally, Sull (1999) suggests that there are dynamic capabilities that release resources, that is, giving up a resource combination that no longer provides competitive advantage to the firm, which might prove to be crucial in firm’s ability to remain competitive.

Zott (2003) explored how the dynamic capabilities of firms may be linked to differential firm performance within an industry. Zott (2003) proposed three performance-relevant attributes of dynamic capabilities (timing, cost and learning of resource deployment) and developed appropriate measures. The study concluded that effects of timing, cost and learning significantly contribute to intra-industry differences in performance. In another study, Macher and Mowery (2001) examined the role of the R and D organization and information technology practices for problem solving and learning-based improvement in innovation in semiconductor manufacturing firms. They derived models of the rate of improvement in manufacturing yield and cycle time, as measures of the quality and the speed of production, respectively. Results indicated that allocation of human resources to problem-solving activities and the use of information technology in the manufacturing facility determine semiconductor manufacturers’ problem-solving abilities and subsequently the performance.

Extension of dynamic capabilities approach: Alliance capability

It has been observed that under the light of the definition
Figure 1. A conceptual model of firms’ export orientation and export performance.

put forth by Teece et al. (1997) of dynamic capabilities, the research has put more emphasis on firm’s ability to integrate, build and reconfigure its internal competencies. However, there is not enough evidence in the literature on dynamic capabilities employed to integrate, build and reconfigure external competencies. The field of strategic management highlights that firms use alliances as a medium for acquiring external competencies. However, so far only few studies have been conducted that analyze practices and processes that firms employ to codify and disseminate knowledge of managing alliances. There is a study by Kale et al. (2002) where the authors have discussed the concept of ‘alliance capability’ that would rest upon “how effectively the firm is able to capture, share and disseminate the alliance management know-how associated with prior experience”. They reported that firms that create a dedicated alliance capability realize greater success with alliances. Their research explicitly addresses managerial practices strategically employed to build capability of a firm to enter and manage alliances, and, suggests that deploying dynamic capabilities to manage strategic alliances is beneficial for overall firm performance.

One of the alternate ways for smaller firms to gain access to external competencies was put forth by Iansiti and Levien (2004a, b). They drew on analogies from the field of biology, and innovatively treated business networks as ecosystems, and suggested that there are three types of firms in a business ecosystem: keystones, dominators and niche players. According to the authors, bulk of an ecosystem is composed of niche players, and since, on average, SMEs account for approximately 50% of GDP and 60% of employment in national economies (OECD, 2004), and 25 to 35% of world manufactured exports (Hall, 2002; Sakai, 2002; Schreyer, 1996), it would be proper to term SMEs as niche players. On the other hand, keystone would be a firm that occupies the center of asset-sharing relationships, employs keystone strategy and by doing that improves performance of an ecosystem, which is assessed by measuring ecosystem’s health on three dimensions: productivity, robustness and niche creation. Keystone strategy is aimed at enabling other firms in the ecosystem to create value, and sharing that value with the ecosystem.

The most important contribution of a keystone firm is to provide stable and predictable set of common assets that other firms use to develop their own offerings. This set of common assets constitutes a platform, which embodies “set of solutions to common problems that is made available to the members of the ecosystem through a set of access points or interfaces” (Iansiti and Levien, 2004). For example, The Tirupur Exporter's Association, Tirupur, India, through the setting up of a special purpose vehicle called G-Tech Info Solutions, is adopting Wipro's next generation enterprise resource planning (ERP) solution for all manufacturing units in the cluster. Exporters in Tirupur's over $2-billion knitwear industry will now share a common software platform on pay-as-you-go basis, as they seek to bring down operational costs and compete effectively with rivals from countries like Bangladesh and China. Among India's industrial hubs, this is the first time that small exporters have joined hands to create a common technology platform. The cloud solution, based on Microsoft Dynamics ERP, platform is expected to improve the efficiency of over 4,000 small units in Tirupur. By integrating such set of solutions in their own organizational processes, SMEs can get access to external competencies that would otherwise be hard to attain (http://articles.economictimes.indiatimes.com/2011-05-12/news/29536229_1_tirupur-exporters-association-cloud-solution-microsoft-dynamics-erp).

The proposed conceptual model will draw on the analogy of resource based view, dynamic capabilities perspective with notion of alliance capability (Kale et al., 2002), which suggests that a firms’ critical resources may be embedded in inter-firm resources and routines, and building on the international stage theory.

The conceptual model

The conceptual model presented in Figure 1 shows relationship between dynamic capabilities and its impact on export orientation and export performance. The first half of the model conceptualizes the multifaceted relationship between the dynamic capabilities and its extension
Dynamic capability and management perception to exports

The management perception is considered to be an important factor for a firm to consider exporting or expanding export activities. Managers’ favourable attitude towards the foreign market environment normally encourages them to consider exporting as an activity with attractive growth potential for the firm. Perceptions relate to managers’ levels of awareness, previous internationalization experience, access to global networks, and knowledge about international market opportunities and threats, attractiveness of export, obstacles, competitive position, risks and returns (Schlegelmilch, 1986). It is very important to understand the complexities of the foreign market environment before a firm plans to internationalize. However, because of the complexity of the international business environment and the comparative scarcity of resources, small and medium-sized enterprises (SMEs) often find themselves in a very difficult position if they do decide to compete internationally (Ramaswami and Yang, 1989; Seringhaus and Botschen, 1991). The uncertainties of the exporting environment, lack of knowledge about foreign markets, and the overwhelming nature of exporting processes combine together to dissuade the small firms from exporting (Seringhaus and Rosson, 1990).

Silverman et al. (2002) found that firms without export experience have a wide range of information needs in order to overcome perceived external barriers. A major thrust for export development and success is the need to develop the capability required to manage exporting problems (Yang et al., 1992). Yet another stream of scholars (Wiedehem-Paul et al., 1978) proposed that pre-export activities, particularly the level of a firm’s activity in information gathering, are a prerequisite in determining the likelihood of a firm to export. As a result, firms must increase their ability to gather information so that they can react appropriately to environmental changes and adopt proactive strategies for the international market. Hence, SMEs should emphasize on acquiring and developing their knowledge base related to perspective markets. Dynamic capabilities approach would help the managers to integrate, reconfigure and adapt the processes according to the environment. This would help the managers to overcome the barriers and develop positive perceptions towards exporting.

Therefore, we can propose that:

H1: The dynamic capabilities approach regarding the acquisition of knowledge and building the resources to compete in a prospective market is positively associated with the management perception to exports.

Dynamic capability and exporting knowledge

Exporting knowledge is the knowledge possessed by the manager/owner about how to market the firm’s product(s) and service(s) in a foreign market (Seringhaus, 1993). There are two types of exporting knowledge which have a critical bearing on a firm’s exporting success: knowledge of exporting procedures and knowledge of the foreign market (Wang and Olsen, 2002). Knowledge of exporting procedures enables the firm to deal effectively with procedures such as financing, logistics, red-tape, and payment anomalies. Knowledge of foreign market includes understanding of the socio-cultural environment, infrastructure, and buyer behaviour of that market.

Both objective and experiential knowledge are needed for overseas expansion of a firm (Johanson and Vahlne, 1977). Objective market knowledge can be “taught” (Johanson and Vahlne, 1977) or “obtained from secondary or primary sources” (Seringhaus, 1986). On the other hand, experiential knowledge “can only be learned through personal experience” (Johanson and Vahlne, 1977) and “must be personally acquired through direct market or customer contact” (Seringhaus, 1986). Johanson and Vahlne (1977) argue that experiential knowledge is critical to provide the framework for perceiving and formulating opportunities. Experiential knowledge enables managers to recognize export opportunities, to evaluate them, to adopt the appropriate export behaviour, and to achieve their export objectives.

With experience and learning, the firm develops competencies to become a committed and regular exporter (Johanson et al., 1976). Wang and Olsen (2002) also suggest that the firm’s export-related knowledge and expertise positively affect export orientation. It can be deduced from the preceding discussion that expertise, skills and knowledge is an apparent factor in competing in foreign markets, hence dynamic capabilities once again takes precedence in explaining the importance of intangible assets like knowledge becoming an important resource for exporting. Therefore, we propose that:

H2: Dynamic capabilities are positively associated with building firm’s exporting knowledge.

Dynamic capability and export orientation

Export orientation is defined as a general willingness by management to export or not by devoting adequate
financial, managerial and human resources to export related activities (Aaby and Slater, 1989). Export orientation is majorly affected by the attitude of the owner/manager of the small firm; their ability to take risks and sail in uncharted waters. The attitudinal component correspond to the cognitive and affective elements of attitude and has been referred to in other studies under such labels as favorability of management’s expectations, perceived attractiveness, or management’s perception, of the benefits and risks associated with exporting (Cavusgil and Nevin, 1981; Aaby and Slater, 1989).

A large export development budget and a specialized export management staff have been seen as critical to successful business performance in foreign markets (Cavusgil and Zou, 1994). Previous studies have also suggested that management should increase its commitment to exporting by investing greater resources in export management and enhancing the firm’s competence to increase their exporting efforts.

The “management element” is crucial in carrying out the tasks associated with exporting (like, documentation and budgeting, etc) (Cavusgil and Naor, 1987). Therefore, top management’s reluctance to allocate sufficient resources for exporting, especially those related to building the exporting infrastructure, is a significant deterrent to exporting. By building on their dynamic capabilities, firms can increase their potential by allocating required resources to gather necessary information, planning, and establishing global networks to facilitate the achievement of their export objectives. However, there is limited literature to support this argument; hence, it requires an investigation to explore the following propositions.

H3: A firm’s export orientation is positively associated with dynamic capabilities.

Alliance capability and export orientation

There are a growing number of researches on networks, which talks about concept of social networks and considers embeddedness an important factor in defining the alliance opportunities and other forms of inter-firm partnerships a firm might build (Gulati, 1998). Emerging market SMEs typically lack relevant embeddedness in international social networks of firms, and rely on social contacts of its owners/managers, which may not be sufficient for establishment of appropriate partnerships with other firms and might prove to be an impediment to its competitiveness. Boeker (1989) said that SMEs lack status in the international arena, which is especially true for SMEs in the emerging economies and is an important element, in uncertain and volatile environments (Podolny, 1994). These factors clubbed together may further affect the chances of potential partnerships with more established firms, who have already built competencies relevant for acquiring and integration by emerging market SMEs.

Kale et al. (2002) emphasized on the previous experience of managers/owners to manage the alliance capability. They reported that firms that create a dedicated alliance capability realize greater success with alliances. Their research explicitly addresses managerial practices strategically employed to build capability of a firm to enter and manage alliances, and suggests that deploying dynamic capabilities to manage strategic alliances is beneficial for overall firm performance. Hence, we propose the following:

H4: A firm’s export orientation is positively associated with alliance capabilities.

Exporting knowledge and management perception to export

The theoretical explanation for the relationship between ongoing export stimuli and the level of export development rests with the issue of uncertainty and the ways in which firms cope with it (Erramilli, 1991). Reid (1984) suggested that one of the main obstacles to exporting is the lack of knowledge and information gaps, which discourages small firms from pursuing exporting. Previous researchers, have therefore, stressed a lot on the acquisition of knowledge through experience from business operations in a specific overseas market as the primary means of reducing uncertainty and as a result become a driving force in the internationalization of the firm (Johanson and Vahlne, 1977). Those firms with a high degree of international exposure are generally more able to manage and overcome potential barriers in exporting. Scholars have also argued that the more experienced the firms were in exporting to a foreign market, the more positive the attitude they would have toward that market. The resource-based theory also proposes that objective and experiential knowledge/skills are intangible firm capabilities that create sustainable competitive advantage for the firm and help them perform better than their competitors (Hamel and Prahalad, 1994). This suggests the following proposition:

H5: Exporting knowledge is positively associated with the management perception to exports.

Exporting knowledge and export orientation

Internationalization stage theory (Johanson and Vahlne, 1977) focuses on firms’ step by step acquisition, integration and use of knowledge about foreign markets, to get involved with that market. According to the theorists, lack of knowledge and resources is an important obstacle to internationalization; however, it can
be reduced through learning, thus shifting incremental decision-making toward further internationalization (Johanson and Vahlne, 1977). This indicates a direct relation between a firm’s knowledge acquisition and increasing commitment to international operations. Resource-based theory posits that capabilities as organisational processes combine and transform available firm resources into deployable value offerings for (export) markets toward achieving competitive advantage (Morgan et al., 2004).

Export knowledge as a valuable resource input (preferably a dimension of the human resources) to the complementary capabilities and can assist a firm leverage its product and other marketing capabilities for the foreign market (Morgan et al., 2004), and consequently contribute to better performance experience and increased export commitment (Lages and Montgomery, 2004). This suggests that the better the tacit and experiential knowledge about an export market, the more the firm can leverage its other resources and capabilities for better performance and the stronger is the commitment to the markets. Therefore, the following hypothesis could provide further revalidation to the theories:

H6: Exporting knowledge is positively associated with export orientation.

Exporting knowledge and internationalization strategy

The growth of small business exports may be fairly important with increased internationalization. Scholars have recognized exporting as the first stage of internationalization of small firms (Jones, 2001). Scholars like Karadeniz and Gocer (2007) have also emphasized that export strategy is the main foreign market entry mode used by small business in their internationalization efforts.

Traditionally, the internationalization strategy has been defined in terms of prospective market selection and product strategy (Cooper and Kleinschmidt, 1985). Contemporary strategy focuses not only on product strategy but also on integrated marketing activities, that is, product, price, promotion and distribution (Cavusgil and Zou, 1994). However, internationalization strategy in this context relates to the strategies covering – identification of prospective clients/customers, developing strategies for competing in new markets (cost leadership, marketing and service differentiation), developing capabilities to collect necessary information, etc. A firm’s physical resources (manufacturing facilities), experiential resources (knowledge, skills, networks) and its capabilities (expertise) combine together to create competitive advantage (Hamel and Prahalad, 1994). McKee and Varadarajan (1995) argue that competitive advantage is the foundation of strategy, and intangible assets like skills and knowledge become the essence of that competitive advantage. Lack of these assets makes exporting more risky (Sullivan and Bauerschmdt, 1989). Improved export knowledge significantly reduces the perceived barrier and complexity of exporting and helps to implement proactive internationalization strategies. Morgan et al. (2004) reported a positive impact of available resources (knowledge, skills and physical) on export venture competitive strategy. Therefore, knowledge may help a firm select its prospective markets for exports and formulate and implement its proactive internationalization strategies more effectively (Cavusgil and Zou, 1994). This leads to the following proposition:

H7: Exporting knowledge is positively associated with firms’ internationalisation strategy.

Management perception to export and internationalization strategy

Effective exporting requires development of comprehensive internationalization strategies that take into consideration differences in the international market environment (Jain, 1989). According to many scholars, managers’ perceived level of risks about the export market environment as well as perceived benefits of exporting significantly affect their exporting decisions. Managers who perceive the export market environment unfavorably tend to avoid any involvement in exporting and in developing proactive internationalization strategies (Axinn, 1988). Those who perceive the export environment favorably tend to acquire information to make proactive internationalization strategies and logical market entry decisions. Moreover, Axinn (1988) suggested that managers’ positive perceptions of the relative advantages of exporting are important for making the internationalization strategy. Previous studies have also revealed that decision makers who have positive perceptions of the foreign market environment (cost, profit, risk etc) invariably takes a more positive view on foreign operations and adhere to more export planning (Johanson and Nonaka, 1983). Based on the aforementioned logic, the following hypothesis is proposed:

H8: Management perception to export is positively associated with the firms’ internationalization strategy.

Export orientation and firms’ internationalization strategy

Many researchers assert that interest and commitment among the top management levels is a critical determinant in carrying out the export functions (Benito and Welch, 1997). A favourable orientation, deliberate interest, and the willingness to devote adequate resources
to exporting have been emphasized in the past. The willingness of the top management to commit resources to the formulation and implementation of internationalization strategies is an important component needed to produce an aggressive internationalization strategy (Lim et al., 1993). When the top management is committed to the export, they cautiously plan the market entry based on their capabilities and allocate sufficient managerial and financial resources to improve their overall internationalization strategy. With proper planning and resource allocation, uncertainty can be reduced and internationalization strategies can be implemented effectively (Aaby and Slater, 1989). The relationship between export orientation and internationalization strategy could be tested in the comprehensive model for further validation, in the following proposition:

H₃: Firms’ export orientation is positively associated with the firms’ internationalization strategy.

**Export orientation and firms’ export performance**

Filatotchev et al. (2009) refer to export orientation as the export propensity (that is, export/ no export decision) and depends on the knowledge of the owners/managers, experiences gained abroad, and knowledge transferred from abroad. The authors also suggest that the export orientation is an indicator of firms’ strategic intent (Hamel and Prahalad, 1989; Filatotchev et al., 2001). Firms’ initial exporting attempts could be in the form of small consignments, perhaps samples, and this attempt may fail. Subsequently, the export performance would reflect the degree of success of a firms’ internationalization strategy, as its strategic intent is exposed to global market forces (Filatotchev et al., 2009). Based on their comprehensive review, Filatotchev et al. (2009) concluded that export orientation is a key determinant of performance, regardless of performance dimensions. High export propensity allows a firm to aggressively go after the export market opportunities and pursue effective export strategies that improve export performance (Koh, 1991). This intent drives the management to commit resources in making proactive internationalization strategies, which has also been seen as critical to successful business performance in foreign markets, particularly during the early stages of internationalization (Cavusgil and Zou, 1994). This leads to the following hypothesis to be tested in the proposed comprehensive model:

H₁₀: Firms’ export orientation is positively associated with the firms’ export performance.

**Internationalization strategy and firms’ export performance**

Internationalization strategy is the means by which a firm responds to international market forces to meet its objectives. The export literature increasingly reflects the importance of strategy on export success (Aulakh et al., 2000; Cavusgil and Zou, 1994). Previous studies suggest that export performance is determined by internationalization strategies and managements’ capability to implement the strategies as a whole (Aaby and Slater, 1989; Cooper and Kleinschmidt, 1985; Cavusgil and Zou, 1994). A detailed review of the determinants of export performance revealed that general internationalization strategy has received significant research attention but reported mixed results (Filatotchev et al., 2009). There is a need for the owners/managers of small firms to design a complete strategic mix for success in a selected target market (Leonidou et al., 2002). Therefore, this model focuses on internationalization strategy as a whole rather than any specific element of it. The proposed relationship to be tested is:

H₁₁: Firm’s internationalization strategy is positively associated with the firms’ export performance.

**DISCUSSION AND CONCLUSION**

With our discussion, we intend to demonstrate the importance of dynamic capabilities as the central capability for the SMEs in an emerging and a growing economy (like India or China), and present a model where firm- and management-related factors serve as mediating variables to assessing the indirect effect of dynamic capability on firm’s export orientation and export performance. The model provides conceptual arguments that dynamic capability plays an important role in the export development process of a firm by contributing to a number of firm and management related factors that in turn affect firms’ export orientation and subsequent performance. Using the resource-based view of the firm, and dynamic capabilities perspective, this model suggests that while firm resources and capabilities are major determinants of orientation, dynamic capability approach facilitate the development of those resources and capabilities. Therefore, the model proposed a mediated effect in the dynamic capability – firms’ export orientation – export performance relationship. On the basis of the integrated conceptual framework, important theoretical and practical (managerial and policy making) implications can be drawn. First, the model can contribute to the literature by conceptualizing how dynamic capabilities indirectly influence firm export orientation through firm- and management-related variables. There is limited number of studies examining the role of dynamic capability in the export orientation model as export stimulating factor; researchers have basically overlooked this indirect effect. This proposed model contributes to the literature by examining the indirect impact of dynamic capabilities on firms’ export orientation,
and subsequently its export performance. The international stage model of internationalization of firms emphasizes on experiential knowledge toward developing commitment to exports, but it does not adequately address the process from the context of a developing economy, where lack of resources and managerial capabilities of Small and Medium-sized Enterprises (SMEs) is often a common ground of firms’ failure in internationalization. The proposed model suggests that dynamic capabilities act as a source of knowledge that facilitates firms’ entry into the initial export stage to gain experiential knowledge. Intangible assets like, skills, expertise, networks/alliances, knowledge and the process of learning provide much needed resources support to SMEs toward filling the information gap. Similarly, this proposed model explains how dynamic capabilities act as a source to fill the gap of SMEs’ internal resources toward achieving export goals in an emerging economy context. The proposed model can provide a guideline for managers of exporting firms, especially in developing countries, to benefit from dynamic capabilities perspective in improving their attitude towards exports, building knowledge base and enhancing commitment to exporting for successful international operations. Furthermore, we propose that the development of dynamic capabilities in SMEs needs to be adapted according to their area of expertise. Their specific strengths should be distended to increase their alliance capability. On the other hand, the SMEs should also identify the bottlenecks in the process of increasing their dynamic capability and should amend them. Finally, government policy makers in developing countries can also benefit from the proposed model in designing appropriate policies to provide support in the form of external resources (creation of technology platforms, etc), to satisfy the needs of SMEs to access complementary resources that are otherwise too expensive or hard to attain, and the necessary experience toward achieving the national objectives of overall economic growth through the process of internationalization.

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