What Facilitates Dynamic Capabilities? The Role of Organizational Climate for Trust

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While dynamic capabilities are important for competitive advantage, the antecedents of dynamic capabilities remain understudied. Because dynamic capabilities rely on collective learning and coordinated effort by organization members, the organization's social climate, which shapes patterns in attitudes, behaviors, and interpersonal relationships among organizational members, may be a driver of dynamic capabilities. Specifically, employing social exchange and social information processing perspectives, we argue that organizational climate for trust facilitates adaptability and coordination among organization members, and thus enhances the firm's sensing, seizing, and reconfiguring capabilities that in turn affect competitive advantage. Utilizing survey data from 209 Israeli firms, we find support for our theoretical predictions. However, we also find that climate for trust has a direct relationship with competitive advantage. Our study advances understanding of the antecedents of dynamic capabilities by highlighting the importance of organizational climate for trust as a social underpinning of dynamic capabilities and competitive advantage.

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Introduction

While proliferating empirical evidence and theoretical work suggests that dynamic capabilities are important to competitive advantage (e.g., Drnevich and Kriauciu纳斯, 2011; Schilke, 2014a, 2014b; Stadler et al., 2013; Wilden et al., 2013), what drives dynamic capabilities remains an open question (Danneels, 2008; Dixon et al., 2010; Foss et al., 2012; Wang et al., 2015; Zollo and Winter, 2002). Kleinbaum and Stuart (2014, p. 353) have recently noted that “the patterns in the interpersonal relationships among organizational members […] are of importance because they are the metaphoric foundation on which all coordinated activity in organizations takes place.” However, although prior literature does recognize that dynamic capabilities encompass collective learning and coordinated effort by organization members (Helfat and Winter, 2011; Schreyögg and Sydow, 2010), their social foundations remain largely unexplored (Helfat and Peteraf, 2015; Wilden et al., 2016).

In this study, we shed further light on the socio-cognitive underpinnings of dynamic capabilities by explicitly considering the role of organizational climate. A rich tradition in the social sciences maintains that organizations contain a social climate, which reflects the nature of the organization’s social system, or its normative “infrastructure”. Through social information processing and social exchange, organizational climates serve to shape organization member behaviors and attitudes that translate into organizational outcomes (Denison, 1996; Hellriegel and Slocum, 1974; Salancik and Pfeffer, 1978). Indeed, prior studies show that organizational climates may affect the organization’s innovation, growth, aggregate productivity, and financial performance (e.g., Baer and Frese, 2003; Collins and Smith, 2006; Hansen and Wernerfelt, 1989; Menges et al., 2011).

Building on Teece (2007), we explicate that the dynamic capabilities of sensing, seizing, and reconfiguring are affected by the workplace context which shapes organization member social interaction (Gavetti, 2005; Staats, 2009). Specifically, we focus our attention on climate for trust, defined as a “shared psychological state among organizational members comprising willingness to accept vulnerability based on positive expectations of a specific other or others” (Fulmer and Gelfand, 2012, p. 1174). Prior research has argued that climate for trust is foundational in that it has a broad “bandwidth” on which more specific climates can develop (e.g., voice climate; Frazier and Fainshmidt, 2012; Schneider et al., 1998) and it serves as a foundation for a range of sustained organization member attitudes, behaviors, and social exchange practices (Schneider et al., 2000; Wallace et al., 2006). As “the firm’s ability to coordinate and to adapt… are both crucial aspects of dynamic capabilities” (Kleinbaum and Stuart, 2014, p. 353), climate for trust is particularly relevant because it encourages change-oriented attitudes and behaviors (i.e., adaptability; Baer and Frese, 2003; Carroll et al., 2006), as well as cultivates cooperative efforts (i.e., coordination) among organization members (Collins and Smith, 2006; Dirks and Ferrin, 2001). Consequently,
we argue that a climate for trust should enhance the organization’s ability to sense and seize opportunities in the environment and to more efficiently reconfigure the resource base.

Our aim is to contribute to existing literature in at least three important ways. First, our study adds to a strand of research concerned with drivers of dynamic capabilities, or their antecedents (e.g., Abell et al., 2008; Gavetti, 2005; Helfat and Peteraf, 2015; Moliterno and Wiersema, 2007; Zollo and Winter, 2002). We do so by elucidating the role of organizational climate for trust, an intra-organizational contextual mechanism, in shaping dynamic capabilities. Our study thus complements previous literature that focuses more on external or upper echelon drivers of dynamic capabilities. While the importance of the organization’s social system, and trust in particular, as likely drivers of dynamic capabilities, has been mentioned (e.g., Gibson and Birkinshaw, 2004; Helfat and Peteraf, 2015; Pablo et al., 2007), our explicit coupling of organizational climate for trust with sensing, seizing, and reconfiguring dynamic capabilities is a novel addition to the dynamic capabilities view.

Second, the strategy literature recognizes that organizational climates are important to competitive advantage and firm performance (e.g., Danneels, 2008; Gibson and Birkinshaw, 2004; Hansen and Wernerfelt, 1989; Ray et al., 2004). Yet, the mechanisms by which organizational climates matter to organizational outcomes are not well understood. Our paper helps uncover how organizational climates may translate into important firm outcomes, namely by facilitating dynamic capabilities. In doing so, we add to a growing “strategic organizational behavior” research stream whereby constructs, theories, and phenomena typically examined under the umbrella of micro-organizational behavior and organizational psychology are integrated into the strategy conversation (Ployhart, 2015). Relatedly, we advance the organizational climate and trust literatures by theoretically and empirically investigating the nature and scope of climate for trust’s implications for organizations (Fulmer and Gelfand, 2012).

Finally, we provide one of the few empirical tests of the sensing–seizing–reconfiguring framework (Teece, 2007), as well as its impact on competitive advantage. Most research on this framework to date has been conceptual; an empirical analysis helps to provide validity to the framework, as well as bring about ways to refine it (Wilden et al., 2013). As noted by Giudici and Reinmoeller (2012, p. 445), “we need much more empirical research on dynamic capabilities… [C]arefully crafted empirical work would enhance the chances of challenges to the construct’s validity being overcome”.

The remainder of this paper is structured as follows. In the next section, we establish our study’s conceptual framework for dynamic capabilities and their drivers, highlighting the importance of the organizational social context. Next, we develop hypotheses explicating the role of climate for trust as an antecedent to sensing, seizing, and reconfiguring dynamic capabilities and, consequently, competitive advantage. We then provide a detailed account of the data and analyses utilized to test our hypotheses, followed by the study’s empirical results. We end with a discussion of our study’s implications and limitations that provide several directions for future inquiry.

Theoretical framework

Dynamic capabilities of the firm

The term ‘capability’ refers to a routine-based activity inside the firm, which develops over time through problem-solving and collective learning (Schreyögg and Kliesch-Eberl, 2007; Winter, 2003). According to Helfat and Winter (2011, p. 1244), a capability is in place when “the organization (or its constituent parts) has the capacity [i.e., is able] to perform a particular activity in a reliable and at least minimally satisfactory manner.” What makes capabilities ‘dynamic’ is their change-oriented nature (Eisenhardt and Martin, 2000; Teece et al., 1997). Dynamic capabilities are “high performance routines” (Teece and Pisano, 1994, p. 537) that alter the way an organization makes its living and “promote economically significant change…, even if the pace of change appears slow or undramatic” (Helfat and Winter, 2011, p. 1249). Helfat et al. (2007, p. 4) build on previous literature and define dynamic capabilities as the “capacity of an organization to purposefully create, extend, or modify its resource base”.

Teece (2007) maintains that dynamic capabilities can be disaggregated into three interrelated capabilities: sensing, seizing, and reconfiguring (hereafter: SSR). Sensing involves activities of scanning, search, and exploration aimed at gathering information and learning about markets, customers, competitors and the external environment at large (Augier and Teece, 2009). Seizing includes “the [systematic] evaluation of existing and emerging capabilities” (Wilden et al., 2013, p. 74), which “can entail making large and sometimes irreversible investments in tangible and intangible assets” (Helfat and Peteraf, 2015, p. 840). Finally, reconfiguration encompasses activities that recombine bundles of resources and ordinary capabilities (Sirmon et al., 2011; Wilden and Gudergan, 2015) in an attempt to “maximize complementarities inside and outside the enterprise” (Teece, 2012, p. 1398).

Consistent with Teece (2007), Wilden and Gudergan (2015) demonstrate empirically that SSR capabilities are interrelated (also see Martin, 2011). Danneels (2015, p. 11) indeed notes that “sensing and seizing could be considered precursors or antecedents to resource reconfiguration”. A stronger sensing capability generates new information flows about opportunities and threats, which may result in the seizing of new opportunities and/or the recombination of existing ordinary capabilities and resources. In other words, sensing capability demarcates the firm’s potential to change; it enhances reconfiguration and seizing capabilities but in and of itself does not necessarily reflect implementation. As such, sensing capability is expected to serve as a distal antecedent to competitive advantage, and the advantages that an organization
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