

# An Influence of Dynamic Capability to Corporate Performance

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**Abstract** - Performance of a company is typically considered and concerned in the present. The purpose of this study is to examine the relationship model among the constructs, namely dynamic capability, corporate image, innovativeness and corporate performance. The mail questionnaires were distributed, and 112 companies were returned for a total response rate of 32%. The method of partial least squares structural equation modeling (PLS-SEM) was employed to analyze the data. It found that dynamic capability affected directly the effects of innovativeness, and indirectly the effects of corporate image. Moreover, innovativeness and corporate image affected corporate performance.

**Keywords**– corporate image, corporate performance, dynamic capability, innovativeness, PLS-SEM.

## 1. Introduction

According to dynamic capability for seeking new opportunities, allocating bundled resources and creating an innovation, were taken into consideration as the factors which affect better performance for a company [10].

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Dynamic capability is identified to be a valuable asset, [23] which cannot be purchased from anywhere, but it has to be developed within a company. It is also able to transfer it to another company, such as a company that provides differentiation in both of capability and resources, Grant (1991) [8] mentioned that it could drive better performance and image for an organization.

From previous reviews under the notion of dynamic capability, it is found that the changes within a company and a proper evolution of innovative capability were forced by dynamic capability [17]. However, the study of the relationship of dynamic capability and innovative capability linked through corporate performance in Thailand country is rare. It is therefore the present study aims to examine the relationship model among variables, namely dynamic capability, corporate image, innovativeness and corporate performance.

## 2. Literature Review

### 2.1 Dynamic Capability and Innovativeness

Dynamic capability simply came up from the concept of resource-based view (RVB). This notion explains the characteristics of a competitive resource as in four properties namely valuable, rare, inimitable, non-substitutable [2]. Strategically, not only competitive advantage of a company but also the ability to adapt itself in any uncertain situation makes a company reached higher performance among its competitors [23]. To formulate any strategic policy based on dynamic capability of a company, the bundled resources have to be allocated according to the current and future situation [5].

Innovative capability is assessed by the ability in conjunction with product development, characteristic of differentiated products and services, and past three years of innovation counts, as well. [22]. Dynamic capability affects to innovativeness of a company. If an organization is able to integrate resources and innovation, it can launch a valuable

product and service to the customers [5]. Innovativeness of a company comprises knowledge of both internal and external organization, which can be applied afterwards. It is therefore dynamic capability in the dimension of creating, seeking, integrating new knowledge with the existing knowledge, or arrangement with other companies in the matter of perception and opportunity leads to innovativeness. The hypothesis can be proposed as given.

**H1:** Dynamic capability affects innovativeness.

## 2.2 *Dynamic Capability and Corporate Image*

Image and reputation of a company are generally identified by the position of all stakeholders. [19]. The degree of customer loyalty has a tendency to be higher when perceptions of both corporate reputation and corporate image are strongly favorable. The perception of stakeholders to the manner of company's activities, it is related concerning company's reputation, image and brand loyalty [15]. Corporate image and reputation can be assessed by the perception of all stakeholders through company's evolution and activity [4]. However, it is still unclear enough how important is corporate image in the view point of internal staffs. For instance, in the case of having dynamic capability, not only innovation is launched but also corporate image is influenced. So, the second hypothesis should be given as;

**H2:** Dynamic capability affects corporate image.

## 2.3 *Innovativeness and Corporate Image*

The company's innovation is valuable, non - substitutable, unique and difficult for the competitors to imitate, this will generate competitive advantage for them [3]. Also, if it is the first move toward the market, it seems corporate image promotes over its competitors. It established loyalty by customers and employees to the brand, or repurchased products and services. Income will be further generated for a company. In other words, innovativeness supports corporate image in particular industry for making domination and modernization. This is how preferable image can be moved to customers and employees, company loyalty, brand loyalty, and willingness to develop new products and services continuously [25]. The third hypothesis can be presented as;

**H3:** Innovativeness affects relating corporate image.

## 2.4 *Innovativeness and Corporate Performance*

The attempt to develop company's performance, innovation, and image comes from company's operation. Moreover, the better performance reflects innovation development and competitive advantage. Company or corporate performance is traced from operation and determined by sales volume, margin, net profit, return on investment etc. Alternatively, not only the monetary return, but the other advantage are able to employ namely reduced time of operation, productivity, cost control, novel product, market share, marketing development and human resource development [1]. The company that develops better innovation seems to reach higher performance and effectiveness within the same business sectors [12]. The fourth hypothesis can be presented in the following;

**H4:** Innovativeness affects corporate performance.

## 2.5 *Corporate Image and Corporate Performance*

To retrieve positive image categorized as intangible asset for developing a sustainable competitive advantage for a company [3]. The factors concerned with a competitive advantage are in value of brand, reputation and innovativeness [24]. As a result, corporate image and brand's reputation are the fundamental business success [20]. So, the fifth hypothesis can be proposed as;

**H5:** Corporate image affects corporate performance.

## 3. **Research Methodology**

To examine the model of dynamic capability that affects corporate performance, the total company of 2,980 companies, from the registered list organized by the Department of Business Development, Ministry of Commerce, Thailand. The number of samples were drawn by Krejcie and Morgan [11]. The samples were identified at 340 and selected by systematic random sampling. The mail questionnaires were sent out, which is representing research objectives and oriented details. The telephone was used to communicate randomly with the respondents, who received mail questionnaire. There were 112 respondents or 32 percent mailed returned. The response bias was examined by using the data of age and year operation. The groups of early response by 75 percent and 25 percent of late response were not different ( $p > 0.05$ ). It can be concluded that the overall pattern of response among these two groups is not problematic for this study.

**3.1 Measurement scale**

The authors have developed research tool as questionnaire by considering the previous scholar study. It was approved formerly through the pilot study. For each construct, dynamic capability was adapted from Makkonen et al. (2014) [17]. It is composed of 6 items such as sensing and seizing, knowledge creation, knowledge integration, reconfiguration, leveraging, and learning. These items were identified in 7-point Likert scale (1= strongly disagree, 7 = strongly agree).

The construct of innovativeness was adapted by Lin, Su & Higgins [13] and Schilke [22]. It assessed the ability to develop, characteristics of products, pattern of products or services, differentiation, and examined for past three years operation. These items were identified in 7-point Likert scale (1 = strongly disagree, 7 = strongly agree). The construct of corporate image was adapted from Nguyen & Leblanc [15]. The respondents were assigned to compare themselves to their competitors through reputation, brand loyalty of customers, brand personality. These items were identified in 7-point Likert scale (1 = worst, 7 = best).

**3.2 Measurement model assessment**

All hypotheses were examined by using Partial least square structural equation model (PLS-SEM) [9]. The tests of the effect observe variable to latent variable; PLS-SEM technique on to R plsmpm package software program [18]. The analysis procedure was followed by Sanchez [21]. The components of the model composed of outer model (or measurement model) and inner model (or structural model).

*Table 1 Composite reliability, Cronbach’s alpha, AVE, VIF, and 1<sup>st</sup> Eigen*

Constructs	CR	$\alpha$	AVE	VIF	1 <sup>st</sup> Eigen
Sensing and seizing	0.871	0.801	0.716	2.888	2.150
Knowledge creation	0.930	0.900	0.769	2.006	3.080
Knowledge integration	0.841	0.756	0.671	2.053	2.020
Reconfiguration	0.947	0.915	0.856	3.121	2.570
Leveraging	0.918	0.821	0.848	3.237	1.700
Learning	0.917	0.863	0.786	3.050	2.360
Dynamic capabilities (Formative)	0.000	0.000	0.000	0.000	0.000
Innovation	0.947	0.925	0.817	2.622	3.270
image	0.922	0.883	0.688	2.786	3.450
Performance	0.926	0.904	0.676	2.635	4.060

Per Table 1, Assessment of unidimensional reflective indicators that measure the latent variable, in PLS comprises three main indices in order to check the Cronbach's alpha ( $\alpha$ ) [16], and the 1<sup>st</sup> eigen value of the indicators' correlation matrix. Constructs' reliability was examined through both composite reliability and Cronbach’s alpha, and both values are 0.70 (Nunnally, 1978)., This sufficiently indicated the instrument was reliability. The AVE values for reflective model greater than 0.5, indicates convergent validity for reflective constructs [9]. The 1<sup>st</sup> Eigen value was addressed over 0.70 and 1 respectively. The scales were unidimensional and proper to be latent variables. To evaluate convergent validity of the formative construct (Dynamic capabilities), multicollinearity was checked by the means of VIF value and, the results of these analyses indicate that their values below refers the threshold 5.

*Table 2. Squared roots of AVE, R<sup>2</sup>, GFI*

Constructs	dc	inno	img	Perf
Dynamic capabilities (dc)	Formative			
Innovativeness (inno)	0.056	0.904		
Corporate images (img)	0.358	0.641	0.829	
Corporate performance (Perf)	0.412	0.672	0.730	0.822
R <sup>2</sup>	0.995	0.292	0.456	0.658
GFI = 0.7				

Table 2 shows the square root AVE values on the diagonal and the squared interconstruct correlations of the diagonal. All constructs were employed except dynamic capabilities (dc) since this construct is formative measurement scales. Discriminant validity assessment considering  $\sqrt{AVE}$ , the criteria was based on whether  $\sqrt{AVE}$  is higher than the square interconstruct correlations for each column.

This method was employed and followed by Fornell-Larcker [7]. Comparatively, reflective indicator loadings were higher than their relevant cross loading, supporting additional verification of discriminant validity. Thus, the reflective endogenous (innovativeness (inno), corporate image (img), corporate performance (perf)) were formed using different constructs. The second-order construct dc is a formative scale, then the items measurement discriminant validity were checked by tolerance and VIF values, and the result confirm that all latent constructs were different to measure the second-order construct dc, and no sign of multicollinearity were found.

The amount of variances in the endogenous were explained by independent latent variable presented by  $R^2$  values. Dynamic capabilities (dc) were explained by six exogenous variables ( $R^2=99.50\%$ ) with high level. The innovativeness (inno) was explained by dc ( $R^2=29.20\%$ ) as low level, while the corporate image (img) was explained by

inno and dc ( $R^2=45.60\%$ ) indicating the moderate level. The corporate performance (perf) can be evaluated by two latent variables (inno, img), it revealed  $R^2 = 65.80\%$  with indicated as high level [21]. The goodness-of-fit index (GFI) was 0.7, supported by the acceptable of overall prediction performance of the model.

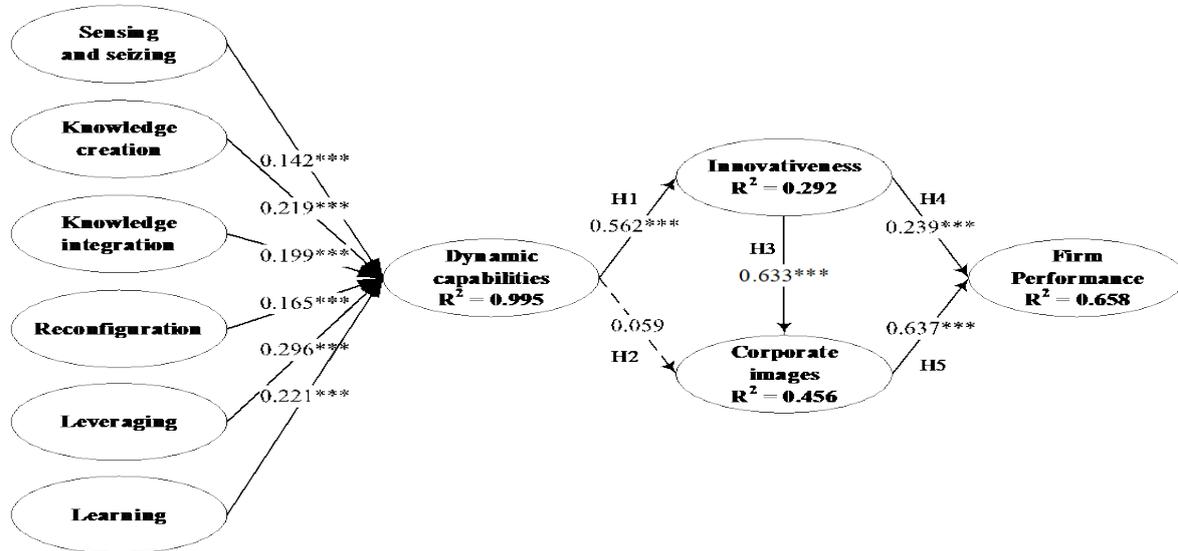


Figure 1. Path Model and PLS-SEM estimates.

Note: \*\*\*  $p \leq 0.001$ ; dashed line represents non-significant relationship

## 4. Results

### 4.1 Structure model assessment

Considering Figure 1, which shows testing of bootstrap at 95% confidence level and, it is found that dynamic capability plays positive effect respecting innovativeness (H1). However, dynamic capability is not connected to corporate image (H2). Besides, H3, H4 and H5 were supported. In details, innovativeness affects to corporate image. Innovativeness affects positively corporate performance (H4). Corporate image had positive effect to corporate performance (H5).

## 5. Discussion

In these findings, the dimension of dynamic capability composes sensing and seizing, knowledge creation, knowledge integration, reconfiguration, leveraging, and learning. These constructs affect higher innovativeness of a company. Similarly, Wang & Ahmed [26] mention that dynamic capability is ideally explained with reference to the further cohesive resources. The improvement of corporate performance is the ability in core competence respondent correspondingly to the

uncertain changed environment in which keeping competitiveness is needed.

However, in order to describe why innovativeness did not affect corporate image, Jiao, Alon, Koo and Cui argued in their study [10]. They find that the flexibility within company and technology did not affect the performance of a new born organization. Moreover, the small and medium enterprises (SMEs) in Thailand are found new comers. This is why dynamic capability does not affect corporate image.

Innovativeness affected corporate image. This is because the first mover into the market gets benefits and profitability. In addition, it is possible that innovation will drive corporate image to be dominant among its competitors respecting the leader [25]. Besides, innovativeness affected corporate performance. It is consistent with the study of Leal-Rodríguez, Eldridge, Roldán, Leal-Millán & Ortega-Gutiérrez [12].

They represent that a company which is innovative dominates to obtain higher performance and effectiveness more than its competitors within the same business industry. Also, dynamic capability is linked to corporate performance. It is the result of innovation improvement and better responding to its customers than competitors. It affects corporate

performance [6]. Dynamic capability is explained since a company sought both inside and outside knowledge for adapting, in order to generate creation within company. The previous knowledge can be advanced in a better way [14]. The impressive result of company's dynamic capability is then getting more innovative and better responding to customers' requirement. Therefore, the innovative company has been leading over the viable competitors [6].

## 6. Conclusion and Limitation

Dynamic capability of a company affects innovativeness. It forces ability to launch new differentiated products or services. In addition, company's dynamic capability indirectly affected to obtain better corporate image passed the company's innovativeness. It can be concluded that a company which has been seeking new knowledge in order to improve business operation, has to conduct a business research, creates new ideas, establishes business network, solves problems which are barrier based on the previous obstacles, and support organizational learning, in which dynamic capability exists. Lastly, innovativeness and corporate image affect corporate performance.

The impressive results of this research indicated precisely that to develop the company's innovativeness and improved the iconic company's image, these will directly promote the company performance. It has to do with business survive and success. Higher innovativeness drives to better perception regarding corporate image and customer loyalty. It can provide further generating profitability, higher returns, and increase the revenue more than competitors within the same business industry. The conceptual framework of the present study is developed from previous reviews. The research tool is developed systematically however, the limitation is found. The respondents are mainly from the business owners or executives' staffs. The other stakeholders as customers are excluded. So, the contribution for the other respondents should be investigated further.

Within the expansion of economy, technology advancement, social and cultural transfer, and multinational business growth higher competition is forced. These factors change consumer behavior. The customer requirement is a variety concerning the growth of the market. A company which develops its dynamic capability undoubtedly have to be more competitive than its competitors.

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