

The Impact of Culture and Capabilities on Operating and Business Performance

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Summary abstract

There is a significant divergence in the literature as to what contributes to competitiveness of companies. This work tries to reconcile divergent literature streams in a concise, testable measurement model and as such represents a contribution to the existing theory on the subject. Large GMRG database is used, comprised of developed and developing countries, in fast and slow industries. So far, the majority of research is conducted in hyper competitive environments, lacking insights from the majority of manufacturing. The results show good model fit explaining the role of capabilities and organizational culture on performance.

Keywords: Culture, capabilities, performance

Purpose

According to Pisano (2015), there is much literature concerning highly turbulent markets and hyper competition and how to stay competitive in such markets. Sources of competitive advantages are constantly being researched as there is still no definitive answer about what makes one company more competitive than another. In this quest, today's most researched sources of competitive advantage are dynamic capabilities originated by Teece et al. (1997) and Eisenhart and Martin (2000). On the other hand, there is a stream of literature that states that it is the organization's culture that creates competitive advantage, because it is created from inside the company, cannot be bought in factor markets and as such not easily replicated, thus presenting a competitive advantage (Schilke, 2014).

Therefore, the first research question is of what actually creates competitive advantage – culture or capabilities or both?

The second question is well described by Grant and Verona (2015) and many other authors. There is still no consensus on what constitutes dynamic capabilities, ordinary capabilities and culture. Di Stefano et al. (2014) in their bibliometric study show that dynamic capability view is actually diverging rather evolving into a coherent view. The root cause is the fact that there are two seminal starting papers: Teece et al. (1997) and Eisenhart and Martin (2000) explaining dynamic capabilities in different ways. Following one of these two seminal papers, research divergences started to grow. For example Wu et al. (2010) researched operations capability, but their operationalization of operations capability construct involves dynamic capabilities as well as culture. Therefore, current literature still does not give measurement constructs by which to test performance, be it

through dynamic capabilities, ordinary capabilities mediated by dynamic capabilities (Protogerou et al. 2011) or culture (Schein, 2004; Simon, 2010). This article aims to systematize measurement scales used in capabilities, dynamic capabilities and the culture streams of literature and find the overlapping constructs that could answer the first research question, that is, test what actually creates competitive advantage in terms of raised operating and business performance. The second research question is then: what variables constitute ordinary and dynamic capabilities and what variables constitute organizational culture and how do they contribute to operating and business performance.

Design/methodology/approach

Empirical validation of dynamic capabilities and culture as sources of competitive advantage and performance are scarce, and the few that are empirically tested are all named differently, and yet the majority of constructs have all the elements of Teece's (2014) definition of dynamic capabilities.

Eggers and Kaplan (2013) proposed a very complex recursive model of how cognition affects routines, then capabilities and then performance, but they warn that no individual research project should analyze the whole process. Bearing that in mind, our model analyzes only how capabilities and culture affects operations and business performance.

The large database from Global Manufacturing Research Group (GMRG) V is used. The data was collected in 2012. The database consists of 1008 companies from 16 countries. Structural equation modelling for analysis is used in order to assess complex relationships among constructs. Even though we performed all the standard tests and obtained a good model fit, the majority of the paper is concentrated around explaining the variables that entered the model, that is, to contribute to the second research question posed in this abstract.

Relevance and conclusion

As there is a significant divergence in the literature as to what contributes to competitiveness of companies, this work tries to reconcile divergent literature streams in a concise, testable measurement model and as such represents a contribution to the existing theory on the subject. That is possible because GMRG research instrument is extensive and covers data from demographic data, innovation, culture, supply chain management and sustainability.

Second contribution is in the fact that large GMRG database is used, comprised of developed and developing countries, in fast and slow industries that could contribute to more generalizable results. So far, the majority of research is conducted in hyper competitive environments, lacking insights from the majority of manufacturing that is not in such hyper space. The results present a very good model fit explaining the role of capabilities and organizational culture on performance.

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