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Stephen Seyayi

DYNAMIC EXPORTATION CAPABILITIES

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ABSTRACT OF THE MASTER'S THESIS

Unit			
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Author: Stephen Buloya Seyayi		Supervisor: Petri Ahokangas (Professor, D.Sc.)	
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Abstract

Dynamic capabilities are those capabilities that characterize the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and change its resource base.

The purpose of this Master's Thesis is to study dynamic capabilities in the context of exports and identify the how an exporting firm may be able to develop the capabilities to compete in dynamic market environments.

The data for this study was collected by conducting a literature review of academic articles. These academic articles were empirical studies on the subjects of resources, capabilities, dynamic capabilities, routines and exporting. The discussion and analysis of the academic articles followed an induction approach. Conclusions were drawn from the analysis and discussion of a select group of peer reviewed empirical studies on the subjects of resources, capabilities and dynamic capabilities in exporting/internationalization.

The findings show that the capabilities that enable dynamism in an exporting firm are a combination of the absorptive capabilities of exploration and exploitation and the export firm's management's entrepreneurial orientation. The export firm management's entrepreneurial capacity, particularly the ability to sense and interpret opportunities in foreign markets and the ability to align and re-align internal resources to capitalize on those opportunities. The export firm management's entrepreneurial capacity is essential as a guiding and supervisory capability that drives the use and development of export capabilities and facilitates the dynamism of the export firm through the creation, development and use of absorptive capabilities. The findings explain how routines are fundamental to export firms' growth and development, and how routines enable the export firm sustain competitiveness in dynamic market environments over time. The study reveals a gap in the research of organizational routines in exporting

Based on these findings the study draws some managerial and theoretical implications and recommends extending the study by conducting an empirical investigation. Due to the significance of routines, further research into the role of routines in dynamic capabilities in the context of exporting is also recommended.

Keywords
dynamic capabilities, exporting, export strategy, export development, routines, literature review, RBV

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1 INTRODUCTION

The global economy has been characterized by an accelerated pace of globalization during the last three decades. The formation of bilateral, multilateral and regional trade agreements and the systematic institution of liberal trade policies by both developed and developing countries has resulted in the elimination of protectionist measures and removal of trade barriers. Privatization of state-owned companies and the opening up of closed economies has enabled trade and Foreign Direct Investment (FDI) to increase faster than global output. These developments have led to a dramatic shift in global trade patterns, rapid industrialization, and an increase in economic development and modernization, especially in emerging markets. (Balabanis, Theodosiou and Katsikea. 2004:353, Michigan State University 2012.)

Economic transformation in emerging markets is reshaping the global competitive landscape in various industries. For example, some firms in growing emerging markets have evolved from trading in commodities to become refiners of commodities or producers of branded goods. This has compelled firms in more developed nations to specialize and diversify into sectors that offer high-returns in order to remain competitive (James Emmett 2013). In current economic conditions many firms in emerging faster growing markets currently possess the capabilities to compete against competitors in entrenched developed nations in global markets (Michigan State University 2012).

In developed economies, markets in industries such as consumer products, industrial goods and services as well as markets for resources such as capital, materials and technology have become integrated (Balabanis et al. 2004:353). The convergence of per-capita income, lifestyle, culture and tastes among industrial nations, means markets are becoming more similar. Firms are able to make more profits by standardizing products (Michigan State University 2012). Given these trends in the development of global economic conditions, firms from both industrialized and emerging markets realize that expanding beyond their domestic markets is critical to in order to sustain their enterprises in the long-run. Foreign market entry needs to be executed as quickly as possible to secure market share, and counter competitors in order to dominate a given market. (Balabanis et al. 2004:353, Michigan State University 2012.)

Firms capitalize on the current opportunities brought forward by current global developments by expanding their operations internationally. Exporting has been the most popular approach adopted by firms to enter and penetrate foreign markets, as it requires less commitment of resources, has minimal effect on the ordinary operations of the firm, and involves low investment and financial risks. Exporting enables firms to attain growth objectives, raise sales and profits, and diversify their business risks and to retaliate to the entry of foreign competitors into their domestic markets (Balabanis et al. 2004:354).

The continuous process of rapid globalization has not only led to highly competitive markets but also to constantly changing market environments. Exporting firms operate in dynamic market environments associated with frequent occurrences of significant environmental shifts in competitive, technological, social and regulatory domains (Barreto 2010). It is extremely challenging for firms to sustain competitiveness in highly competitive market environments that are continuously changing. To survive in dynamic market environments, firms require dynamic capabilities i.e. the ability to systematically anticipate changes in the market environment and react to them (Teece, Pisano, & Shuen 1997, Eriksson 2013). While globalization forces compel firms to seek and exploit opportunities outside their borders, these same forces create a dynamic environment that challenges firms to build and develop the capabilities necessary to sustain competitiveness over time.

1.1 Introduction to Resource Based View and Dynamic Capabilities

Throughout the 1960s and 1970s strategy thinking was focused on the interface between strategy and the external environment of the firm. A debate within strategy research in the 1980s revived the focus on firm resources (Grant 1991, 2008). Strategy thinking shifted from the interface between strategy and the external environment (industry: competitors, customers suppliers), towards the interface between strategy and the internal environment of the firm (resources and capabilities of the firm). Grant (2008) points out two factors responsible for the increasing focus on the role resources and capabilities as the basis for strategy;

1. The first factor is that firms' industry environments have become more unstable; customer preferences are constantly volatile, the identity of customers is continuously changing and technologies for serving customer requirements are regularly evolving. These conditions imply that over the long term, a market focused strategy may not be sufficient to provide stability and direction. The firm's own resources and capabilities become a much more stable basis on which the firm can formulate strategy. Firms whose strategies are based on developing and exploiting clearly defined internal resources and capabilities are adept at adjusting to and exploiting external change (Grant 1991:116, 2008:125).

2. The second factor is that competitive advantage rather than industry attractiveness is the primary source superior advantage. This is because industry factors account for only a small proportion of inter-firm differentials. Internationalization and deregulation have increased competitive pressure within many industrial sectors resulting in very few industries that are protected from strong competition. (Grant 2008:125). Rather than relying on barriers to entry firms need to acquire or develop resources and capabilities to compete effectively.

The notion that the firm is made up of resources was first put forward by Edith Penrose in the book "The theory of the growth of the firm", first published in 1959. In the latest publication Penrose (2009:21) states; the main economic function of an industrial firm is to make use of productive resources for the purpose of supplying goods and services to the economy in accordance to plans developed and put into effect within the firm. She defines the firm as a collection of productive resources, the disposal of which, between different uses and over time, is determined by administration decision.

This focus on firm resources led to the Resource-Based View (RBV) of the firm. The foundation of the RBV is built on the importance of resources and capabilities as the origin of competitive advantage (Wang &Ahmed 2007:32). Eisenhardt and Martin (2000) explain the RBV as theoretical framework for understanding how competitive advantage within firms is achieved and how that advantage may be sustained over time. The RBV assumes that; firms are bundles of resources, firm resources are heterogeneously distributed across competing firms, firm resources are imperfectly mobile and this makes resource differences (heterogeneity) persist over time (Eisenhardt & Martin 2000:1105, Wang &Ahmed 2007:32). The main principles of the RBV are path dependence and firm heterogeneity. Sustainable competitive advantage depends on the ownership of firm-specific resource(s) with the following attributes; valuable, rare, inimitable, and non-substitutable (Lockett et al. 2009:10-11).

Grant (2008:129) explains the rationale of the RBV stating; “when the main focus of strategy was industry selection and positioning, companies were more likely to adopt similar strategies. The RBV of the firm focuses instead on the firm’s strengths and weaknesses, putting emphasis on the uniqueness of each company, proposing that the key to profitability is not through each company doing the same as other companies, but rather through each company exploiting differences in resources with other companies. Firms are able to gain competitive advantage over rivals by formulating and implementing strategies that exploit the uniqueness of their portfolio of resources and capabilities”.

The concept of dynamic capabilities theory emerged to enhance the RBV (Wang & Ahmed 2007), providing a link between firms’ strategic choices and environmental conditions, in the strategy and organization theory literatures (Barreto 2010:256). Dynamic capabilities first gained widespread attention in literature following the publication of Teece et al. (1997). Teece et al. (1997) acknowledged that in the high-tech industry which is characterized by global competitive rivalry, firms that had accumulated large stocks of valuable technology assets still lacked capabilities to gain a competitive advantage, even when those assets were protected by strong intellectual property rights. The authors observed that globally competitive firms were those that demonstrated timely responsiveness and rapid flexible product innovation, combined with the management capability to effectively coordinate and redeploy internal and external competences.

Dynamic Capability theory transformed The RBV from what is essentially a static view into one incorporates competitive advantage in a dynamic context (Ambrosini et al. 2009). According to the dynamic resource based view, competitive advantage and disadvantage occur over a period of time and may also shift over time (Helfat & Peteraf 2003). The goal of the dynamic capabilities framework is to clarify the sources of firm-level competitive advantage over time (Teece 2007). Figure 1 illustrates the relationship between firm strategy, firm resources and the firm's dynamic capabilities.

Routines, capabilities and dynamic capabilities are, conceptually, all considered as the firm's resources. In practice they can be distinguished. Firm strategies are largely based on what the firm owns or controls i.e. its resources. The most critical resources concerned with this study are the firm's intangible resources of routines and capabilities. Routines and capabilities represent the firm's organizational processes and functional activities. They can also be referred to as the firm's operational capabilities that enable the firm to attain operational fitness and at times temporary competitive advantage (Winter 2003:992, Teece 2007: 1344). Dynamic capabilities are processes that are usually performed at the firm management level that help the firm to develop inferences, to validate or reject them, and to realign firm resources such as routines and capabilities as required (Teece 2012:1396).

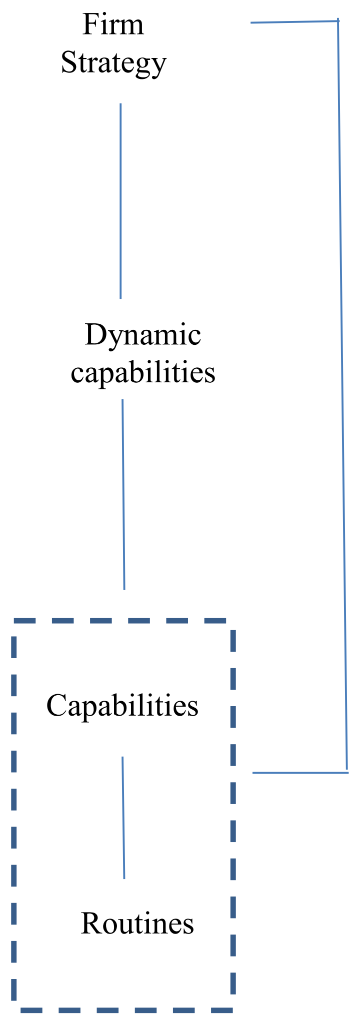

Figure 1. Multi-level collective entities (adapted from Salvato and Rerup 2011:471)

Firm strategies leverage firm routines and capabilities, which determine most of the unique characters of strategies. Because firm resources, routines and capabilities are imperfectly mobile, they tend to make firm strategies more stable, rather than changeable (Salvato & Rerup 2011:471). Dynamic capabilities are higher level routines for adapting operational routines and capabilities to dynamic environments. They evolve through explicit managerial intervention (Eisenhardt & Martin 2000 Teece et al 1997, Zollo &Winter 2002). Capabilities are firm-level assemblages of lower –level routines. They contribute substantially to firm differentiation. Firm strategies building on unique capabilities may significantly enhance firm performance (Salvato & Rerup 2011:471).

1.2 Research purpose

The significance of research into dynamic capabilities in exporting is noted by Balabanis et al. (2004), who acknowledge that the emergence of turbulent and hypercompetitive business environments and the transformation of developing and transition economies has forced exporting firms to rethink the way they develop their export strategies. The authors recommend that future research should examine the factors that facilitate or constrain the use of entrepreneurial and other strategy-making processes as well as the relationships between capabilities, the strategy making process, strategy and export performance. Also, the identification of the right marketing capabilities that firms should develop or acquire, the ability to leverage or transfer them across markets, and the ability to constantly upgrade marketing capabilities using appropriate organizational learning routines. They note that the processes used to develop capability-based strategies and to manage relationships with international customers are of critical importance.

The relationship between exports and dynamic market environments has been explored in previous research. For example, Luo (2000) presents a dynamic capability perspective on international business, examining dynamic capabilities in international expansion, with a focus on Multinational Enterprises (MNEs). Luo (2000) argues that three critical components of dynamic capability i.e. capability possession (having distinctive resources), capability deployment (allocating distinctive resources), and capability upgrading (dynamic learning and building new capability) – have become increasingly fundamental to international expansion and global operations. The authors argue that MNEs should deploy and upgrade these three component of dynamic capabilities to ensure sustained success in the context of a world economy characterized by a rapid technological developments and increasingly business globalization.

Knudsen and Madsen (2002) argue that export strategy research can be enhanced by redirecting the focus from internationalization processes and export performance towards dynamic capabilities. The authors base their arguments on the distinction between knowledge stocks and information architecture (the knowledge flows that cause particular events in the firm). Knudsen and Madsen (2002) state that exports fundamentally involve international markets and because international markets are dynamic, the key problem in export strategy appears to be to coordinate the growth of knowledge by connecting and disconnecting the firm's links with international factor and buyer markets.

Garg and De (2012) propose a model that illustrates the indirect impact of dynamic capabilities on firm's export orientation and its exports performance. The model suggests that while resources and capabilities are major determines of a firm's export orientation, dynamic capabilities facilitate the development of those resources and capabilities which in turn impacts the firm's export performance. They add that dynamic capability as the central capability for SMEs in an emerging and a growing economy like India or China. Griffith and Harvey (2001) and Tallman and Fladmoe-Lindquist (2002) focus on global dynamic capabilities. Griffith and Harvey (2001) examine a firm's ability to combine resources and coordinate activities of global relationships i.e. the firm's potential to influence the decision variables of its partner and align inter-firm resources on a global basis, while Tallman and Fladmoe-Lindquist (2002) present a framework showing the development of capability- based strategy in MNEs and their subsidiaries.

While previous research has highlighted the importance of dynamic capabilities to the performance of exporting firms, none of the researchers above have mentioned which capabilities are likely to enable the export firm to achieve high performance in dynamic markets. Most of previous research has focused on the operations of MNEs and global dynamic capabilities with the exception of Garg and De (2012) who illustrate how dynamic capabilities affect SMEs exporters' performance.

The purpose of this master's thesis is to study dynamic capabilities in the context of exports and identify the how an exporting firm may be able to develop the capabilities to compete in dynamic market environments. The objective will be reached by collecting and analyzing academic literature and previous studies on exports, dynamic capabilities and routines.

Although Dynamic capabilities as a concept has been extensively studied in literature (Eriksson 2013) not much is known about the dynamic capabilities that export companies require to remain competitive in hypercompetitive and turbulent market environments. Therefore the main research problem is formulated as follows:

What Dynamic Capabilities and Routines are related to exporting?

The second research question aims at identifying how exporting firms are able to develop the dynamic capabilities necessary to sustain competitiveness:

How can dynamic capabilities for export be developed?

The results of the research should have the potential to guide policy makers, export managers and entrepreneurs in identifying the specific capabilities and dynamic capabilities that are most effective in sustaining the competitiveness of export firms.

1.3 Methodology

The research approach of this study is qualitative literature review. A critical review of literature on the RBV, capabilities and dynamic capabilities will be conducted. A general overview of exporting will be presented. The literature review will then be used to analyze exports as a context so as to identify the capabilities and dynamic capabilities that exporting firms require.

1.4 Structure of the research

The second chapter sets the context of the study, providing a general overview of exporting. The third chapter covers the theoretical framework of the study. It covers literature review of theory related to resources, capabilities, dynamic capabilities and the role of organizational routines in dynamic capabilities. Analysis of the exporting context using the theoretical framework is found in chapter 4. Chapter 5 deals with conclusions and answers to the research questions and implications and limitations of the study.

2 EXPORTING AS A CONTEXT

This chapter provides a general overview of exporting. It aims to present exporting as a context in which the use of dynamic capabilities by exporting firms can be analyzed.

Exporting is defined as the transfer of goods and services across national boundaries using indirect or direct methods (Leonidu & Katsikeas 1996:519). It is common for both small and large firms in the manufacturing, mining, services and agricultural sectors to use exporting as a means to penetrate foreign markets. Exporting is perceived to be less risky, flexible to execute and require less resource commitment when compared with other foreign trade modes. This perception motivates firms to use exporting as an initial foreign market entry mode before progressing towards other foreign based operations over time (Hollensen 2001:244). Exporting is also employed at all stages of a firm's internationalization process, at times on its own, but more often in combination with other foreign market entry modes. (Leonidu & Katsikeas 1996, Welch, Benito & Petersen 2007.)

Exports entail both physical products and services. Unlike the export of physical products, the export of services is more complex and challenging to accomplish due to the unique characteristics of different markets, which creates challenges in service delivery. These challenges compel firms to make use of other foreign operating modes such as networks and alliances. Examples are firms offering professional services such as legal or accounting/auditing services. The distinction between 'inbound services', like tourism and health, provided in the home country to foreigners customers and 'outbound services' provided to customers in outside markets adds to the complexity of service exports. With health, tourism and education, foreign customers go to where the services are provided rather than receiving the service in their home countries. (Welch et al., 2007:240.)

Welch et al. (2007:264) note that exporting services is more feasible in the case of 'hard services', when production and consumption could be disconnected, as in the case of packaged software and engineering design. Exporting is less common for 'soft services', such as fast food and health care, where disconnection of production and consumption is severely constrained. Given the complexities surrounding service exports, this study will focus on the exports of goods. Although at times the exports of goods entails services.

Table 1. Major motives for starting exporting (Hollensen 2001:29)

Proactive motives	**Reactive motives**
Profit and growth goals	Competitive pressures
Managerial urge	Domestic market: small and saturated
Technology competence/unique product	Overproduction/excess capacity
Foreign market opportunities/ market information	Unsolicited foreign orders
Economies of scale	Extend sales of seasonal products
Tax Benefits	Proximity to international customers/psychological distance

The factors that motivate a firm to begin exporting can, theoretically, be differentiated into proactive and reactive motives. Proactive motives represent incentives to try strategy change, based on management's interest in exploiting the firm's unique capabilities – such as special technological know-how, market opportunities or tax incentives. Reactive motives show that the firm reacts to pressure or threats in its domestic market or in foreign markets and adjusts passively to them by changing its activities over time (Hollensen 2001: 28).

In practice, micro and macro environmental dynamics affecting the firm, the export firm's management sensing ability, and the stage of export development that the firm is in, significantly influence the impact of motivational factors. Management's cosmopolitan character (Hollensen 2001:35), desire and sense-making abilities determines how they interpret both the internal and external factors that influence the decision to export, as well as when and how to act on them. During the initial stages of export development process, exporting activity is reactive. Management responds to external influences and export activity reflects passive and tactical thinking. At more advanced stages of export development, management becomes proactive and internal factors become influential. The firm management adopts a more aggressive and strategic approach to exporting. (Leonidu & Katsikeas 1996: 536-537.)

Research conducted in the late 1980s on Danish SME exporting firms revealed that the more general export motivational factors; growth and profit goals, managerial desire and risk diversification were the most important reasons for engaging in exporting activity. Specific motivational factors such as; exploitation of foreign market opportunities, change agents, economies of scale, marketing advantages, extending sales of a seasonal product, excess capacity of resources, seeking unsolicited order, the existence of a small domestic market and a stagnant declining market, where of neutral importance. (Albaum et al. 1994:32.)

2.1 Export strategy

Export operations involve both strategic and tactical issues. Strategic decisions encompass issues such as the choice of countries/markets, product markets, target segments, modes of operation, and timing of market entry. The two major components of export strategy are; product policy and market selection. Product policy is mainly focused on product adaptation, and this ranges from no adaptation to minimum adaptation (the firm exports the domestic product), to developing a product specifically for export markets. Market selection strategy is focused on the countries exported to, and the nature and level of segmentation within these countries. The tactical decisions are concerned with operations within a given country. Export firms must decide on product positioning, product adaptation, advertising adaptation and media selection as well as specific promotional, pricing and distribution decisions. (Albaum et al. 1994:10-11.)

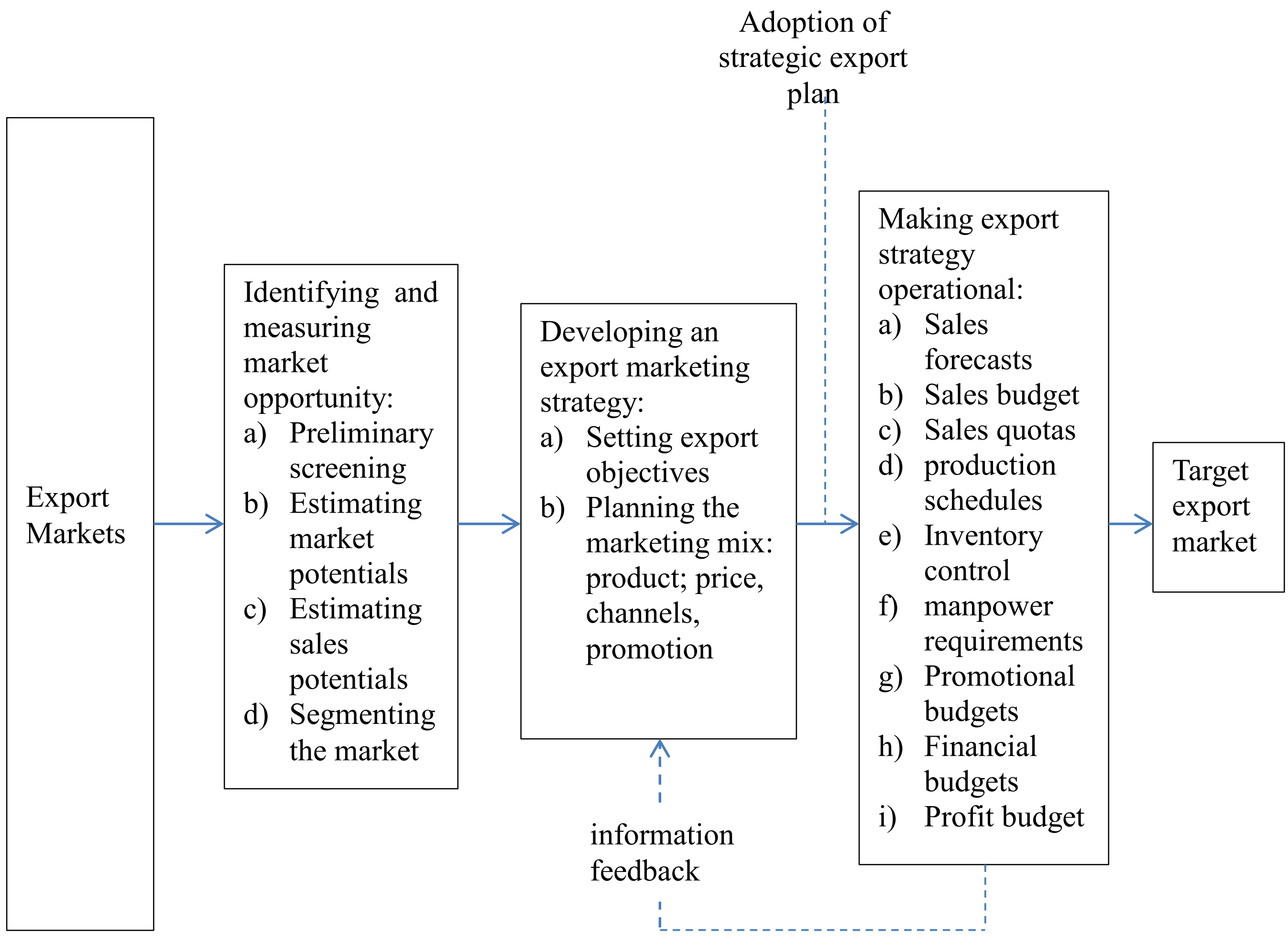

Figure 2. Export market planning process (adapted from Albaum et al. 1994:11)

The export marketing plan describes the firm's strategic objectives and tactical goals. The export plan should include: a product, market and competitor analysis in addition to details on; objectives, strategy of market entry, and an action plan specifying responsibilities of different tasks as well as an outline of evaluation processes. The plan begins with an information gathering process to identify and measure market opportunities. This is achieved by conducting structured market research that profiles potential markets, identifies opportunities and challenges, estimates sales potential and segments the market. (Albaum et al. 1994:11,NZTE 2013.)

Information gathered from the market research should enable management to describe their product's unique selling point and its competitive advantages. Market research data enables management to understand; the business and socio-cultural characteristics of target market, the strength and weakness of competitors, tax liabilities in both domestic and foreign markets and identify sources of financing and plan operational financing. Development of the export strategy is facilitated by the information gathered in the market research. When the strategy is adopted and operationalized, information gathered from operations is used to provide feedback for further developing the strategy. The nature and level of perceived risk associated with export planning is critical. When the perceived risk associated with the export plan is too high for management to proceed with exporting, the program is changed, the goals restated, and/or the organization adjusted. The export marketing plan that is implemented is to a large extent a perception of the level of risk the management will accept. (Albaum et al. 1994:12, NZTE 2013.)

Cavusgil and Zou (1994:4-5) describe export strategy as the means by which a firm responds to the interplay of internal and external forces to meet the objectives of the export venture. The firm's export marketing plan is a reflection of its strategy. When exporting, the key consideration by the firm's decision makers is whether the marketing strategy should be standardized or adapted to the conditions of the foreign market. The decision on the extent of marketing adaptation versus standardization is largely a function of product, industry, market, organization, and environmental characteristics.

Export strategy is made up of three main factors: cost leadership and differentiation, marketing standardization or adaptation across foreign markets, and the geographical diversification of exports. The strategies of cost-leadership and differentiation focus on developing an advantage over competitors. A differentiation strategy aims to create a product or service which consumers view as unique. A distinctive product or service can be created through the development of superior brand image, technology, customer service or innovation. The objective of the firms following a differentiation strategy is to build customer loyalty and to create barriers to entry for new entrants. Because of the loyalty created for a brand, demand becomes price in-elastic, leading to higher profits for the exporter. A cost-leadership strategy involves giving consumers value in comparison to that of other producers by lowering the cost of producing the product or service. This may include constructing large-scale and efficient facilities or pursuing cost reductions from experience. (Aulakh, Kotabe & Teegen 2004:344.)

Marketing standardization is the degree to which an exporting firm employs the same marketing programs in different markets. In one extreme a firm can develop marketing programs that differ in terms of products, pricing, distribution, and promotion for individual foreign markets. On the other hand, a firm can develop one marketing program, which is then implemented in all export markets. Export diversification relates to the number of markets the exporting firm targets. A firm may deliberately pursue a market diversification strategy to overcome the risk to exchange rate exposure because their costs are in one currency and their revenue from product sales come from another currency. Trading in multiple currencies minimizes transaction risks especially when exchange rates are volatile. Diversification is particularly useful for export firms that target a narrow market segment. By targeting similar segments in different countries the firm widens its market size. Diversification enables exporting firms to use the accumulated knowledge of one country to other markets that are economically and culturally similar and through large market size, economies of scale can be achieved. (Aulakh et al. 2004.)

While marketing standardization/adaptation centers on the uniformity of marketing programs and processes between domestic and foreign markets as well as across markets. Cost leadership/differentiation relates to a firm's competitive posture. It possible for export firms pursing cost leadership or differentiation based competitive strategies to implement either standardized marketing programs or to adapt their programs to individual markets. An exporter in one country can differentiate its products on prestige aspects, through higher pricing, and distribution through luxury stores. While in another country it can differentiate on service aspects, through distribution via an in-home sales force. Although the exporter is using a differentiation strategy in both markets, it is adapting its marketing program specifically for each market. (Aulakh et al. 2004: 355.)

The two principle ways to export are direct and indirect. In practice firms tend to use more than one channel in their overall exporting operations. Using indirect exporting does not exclude the possibility of a firm exporting directly. The firm may for example export directly to nearby markets while allowing an intermediary to handle sales to challenging or distant markets. A firm may also gradually increase its level of direct exporting once it has gained enough experience and sales volume to justify added investment. (A Basic Guide to Exporting 2012.) The principal consideration in determining whether to export directly or indirectly is the amount of resources the firm is willing to invest in the international marketing effort. Other factors that influence the choice of whether to export directly or indirectly include, the firm's tolerance for risk, nature of products and services, previous export experience and expertise and business conditions in the selected market. (Welch et al. 2007: 252, Export.gov 2012.)

When exporting indirectly, the manufacturer utilizes the services of various types of independent marketing organizations or cooperative organizations referred to as export intermediaries. They include export management companies (EMCs) and export trading companies (ETCs). Export intermediaries are helpful when a company lacks sufficient resources, such as; capital, personnel, and equipment to sell directly. Intermediaries are located in the firm's home country, they assume the responsibility for carrying out the foreign selling from the exporting firm. The challenge for the firm is to select an intermediary firm which is capable of finding foreign markets and buyers for the company's products (Albaum et al. 1994:154, NZTE 2013).

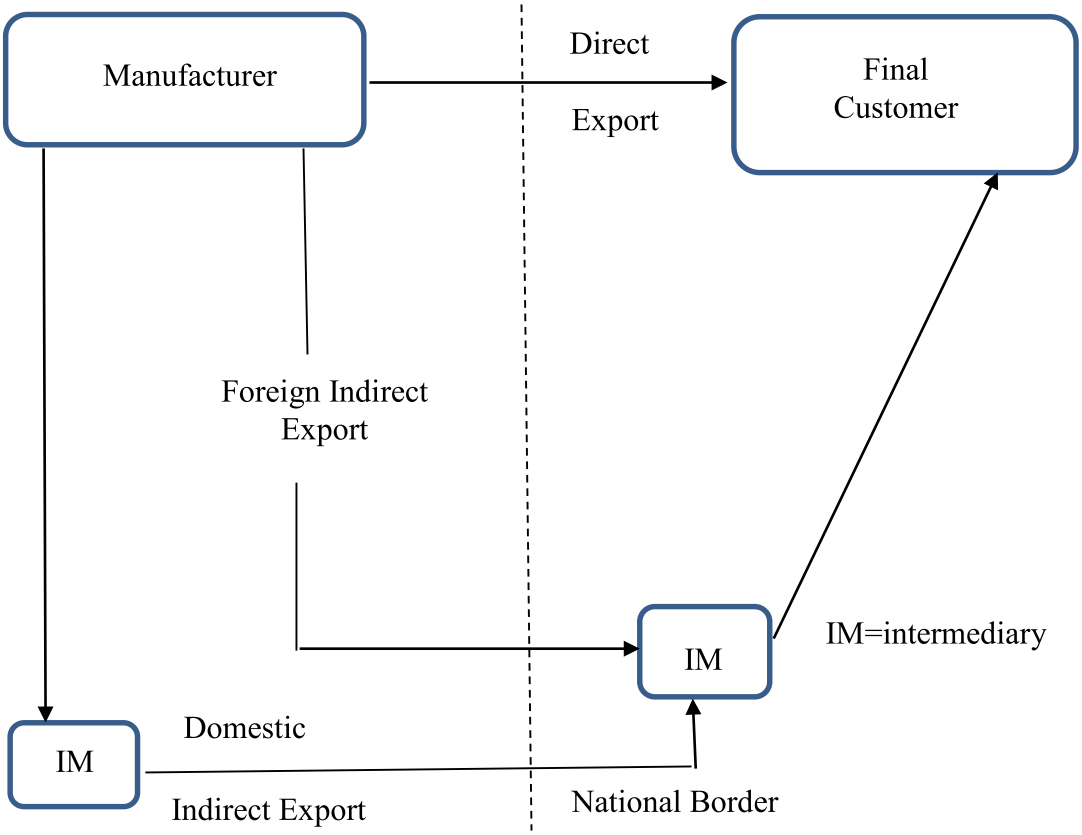

Figure 3. Export Operations (adapted from Welch et al. 2007:248)

Theoretically direct export implies that the exporting firm does not operate through independent intermediaries in home or foreign markets. The exporting firm has complete strategic and tactical control over its exporting activities. Welch et al. (2007:264) state that direct or own export is an exporting form whereby the exporter does not operate through independent intermediaries in home or foreign markets, but undertakes all exporting activity by itself. However in practice, a firm engaged in direct exporting will require some form on foreign market assistance. The unique characteristics of each market, means that direct exporters will employ the services of local suppliers in the foreign market to provide for example marketing and/or promotion services. Welch et al. (2007:267) note that due to the importance and impact of cultural sensitivity, in practice, direct exporters frequently have to call on assistance from various local services suppliers, to provide for example marketing and promotion assistance, and perhaps translation and interpreter services. In contrast, many if not all these purchased services would have been provided through an intermediary.

The direct method of exporting is most relevant for products that are differentiated, complex, specialized and require a high level of customer interaction are often marketed to institutional customers. These customers may include governments, public institutions such as hospitals, universities or large enterprises. Firms that export directly do so because they view their customer relationships as too important to be left for independent organizations to manage. Certain conditions favor the use of direct exporting methods. For example when the firm has an existing large and steady export sales volume, there is a high potential for growth in future exports and export sales potential is concentrated in a relatively small number of markets so that available selling effort does not have to be spread too thin. (Albaum et al. 1994:200, Welch et al., 2007:264.)

The main advantage of direct export over indirect export is that the exporting firm has more control over critical aspects of the export operation. The firm has greater influence over sales negotiations, customer contact, technical interaction and marketing policies. Also, the direct participation in the marketing process within the foreign market enables the firm to obtain unfiltered market information which is important for being competitive. Through direct involvement with all export operations the exporter is able to build in-house capabilities which may assist the firm to progress to other modes of foreign operations. (Welch et al. 2007: 267.)

In contrast intermediaries shield the firm from engaging in activities that improve efficiency and develop new capabilities (NZTE 2013). Through direct export, the firm is able to benefit from all profits accrued from export operations. These profits are critical in enabling firm growth which is critical for firm survival. Direct export enables the firm to learn through risk taking. Learning facilitates long term longer term expansion and is important for sustaining competitiveness over time. Most of the disadvantages of direct export stem from financial and human resource demands. The firm must invest substantial resources in understanding the foreign market, building business relationships, negotiating business deals as well as designing and executing marketing activities. This requires skilled technical staff. Also the exporter has to confront all the demands of cross-cultural adaptation, which if rife with misinterpretation, error and conflict. (NZTE 2013, Welch et al. 2007: 267.)

The decision to export directly to foreign markets typically coincides with internal organizational changes within the firm to support more complex functions. A firm with domestic operations will need to separate the management of its domestic and international operations by setting up an international operations department in order to centralize the specialized skills required to deal with foreign markets. Selecting which market to enter, the choice on the best channels for distribution for each foreign market, and the establishment of specific foreign business relationships, are some of the critical decisions and tasks confronting the direct exporting firm. This implies that marketing methods are critical in penetrating unfamiliar foreign markets. Therefore, to successfully increase export sales, organizational restructuring within the firm should focus on facilitating marketing activity and the marketer's job. (Basic Guide to Exporting 1998-9.)

A firm may decide to coordinate and control marketing and operational activities in foreign markets from its home base by setting up a specific unit or department within the company that will centralize the specialized skills required in international operations. (Basic Guide to Exporting 1998-9.) The export department may be based domestically in the home market or set-up as a subsidiary that can be located in a global or regional center for international business. Alternatively the export firm may decide to transfer the marketing and sales function to the foreign market. Such a transfer demonstrates a greater commitment to the customer than using domestic-based sales representatives (Hollensen 2001:294). The firm may use sales representatives, open a foreign sales branch or set up a foreign sales subsidiary. (Hollensen 2001:294-295, Albaum et al.1994:193-196.)

2.2 Export development

The decision to begin exporting initiates the development of exporting processes within the firm. Export development is a growth process in which theoretically, the exporting firm progresses through stages. In practice the growth process is multidimensional, complex and dynamic in nature, this is due to due to intra-and inter-firm differences in resource endowments, market opportunities and managerial capabilities (Leonidu & Katsikeas 1996, Czinkota et.al 2004). However, illustrating the development and growth of exporting firms as a linear and predictable pattern allows exporting firm management to better manage growth as foreign market opportunities arise. By understanding and the behavior of risk and profitability associated with each growth stage, exporting firms are better prepared to confront short term challenges that may have negative impact on growth (Czinkota et.al 2004:112).

A review and analysis of export development models by Leonidou and Katsikeas (1996) reveals specific patterns in the export development process of exporting firms. The authors divide these patterns into three broad phases: the pre-engagement phase - when firms are engaged in business activities in their domestic market but are seriously considering exporting activity, the initial phase – when the firm begins exporting activity and the advanced phase – when exporting significantly contributes to firm revenue. Czinkota et.al (2004) refer to the phases mentioned by Leonidou and Katsikeas (1996) as stages of export development which the export venture advances through as it grows.

Albaum et al. (1994:33) view export development as an incentive driven process where experiential learning is the most important determinant. In the early stages of development the firm is passive and reactive while in advanced stages the firm is strategic and proactive. Leonidu and Katsikeas (1996) explain that export activity develops from a series of incremental decisions by the firm's management. In their view export development is an evolutionary and sequential process. The authors describe a circular mechanism which assumes that market knowledge and commitment of the firm's managers affect both commitment decisions by management and the manner in which management performs exporting activities, which in turn influence market knowledge and commitment.

In the early stages of exporting the firm has limited knowledge and experience of exporting, particularly exporting procedures and practices. The firm's ability to collect and process information about foreign market opportunities is also limited. The result is that managerial decision making is to a large extent informal, disjointed and unplanned. The lack of adequate information of foreign markets creates a sense of uncertainty. The firm's commitment of human, financial and related resources towards exporting is done gradually and in small amounts. The firm is at this stage still an experimental exporter, targeting markets that are psychologically close to its domestic market. These markets are likely to be easier and less costly to penetrate. In this early stage of export development, firm managers with a cosmopolitan and international mindset, and organizational factors that relate to the firm's competitive advantage are essential in facilitating the export development process. (Leonidou & Katsikeas 1996:532-533, Czinkota et.al 2004:111.)

The firm is most likely to use indirect exporting modes to enter foreign markets, and rely on intermediaries to access established experts and contacts while the firm maintains some degree of control over the sale. The firm is likely to adopt a standardized marketing strategy and a concentrated market focus due to limited resources. And will be highly dependent on foreign buyers' guidelines regarding marketing mix requirements in foreign markets. Management is faced with the challenge of developing the appropriate capabilities required to facilitate international business transactions. Management focuses on seeking technical advice and securing adequate sales effort. As their exposure to international markets grows, managers begin to think about tactical marketing issues, such as communication and sales effort. (Leonidou & Katsikeas 1996:532-533, Czinkota et.al 2004:111-112.)

Firms reach the export adaptation stage when export being to significantly contribute to the firm's revenue. At this stage the firm assumes a more proactive and strategic approach towards international business. This proactive approach compels the firm to acquire more resources as it seeks to exploit more opportunities in foreign markets. As the firm gains expertise in handling export routines and processes and establishes the suitable systems and processes relating to international business, it becomes more willing to spread to a large number of markets. Management decision making become more formalized, continuous and structured. Management focuses more on service delivery and market regulatory changes. (Leonidou & Katsikeas 1996: 533, Czinkota et.al 2004:111.)

Capabilities such as skilled international marketers and an increased application of marketing knowledge become essential. The firm gradually expands its operations to a greater number of foreign markets that are psychologically more distant. Management is more likely to adopt direct methods of export as the firm becomes entrenched in international markets and adjusts its activities to changing exchange rates, tariffs, and other variables. The firm gradually internalizes and eventually gains full control of the elements of the exporting mix strategy and is more likely to undertake significant adaptations in the element of the marketing mix. (Leonidou & Katsikeas 1996: 533, Czinkota et.al 2004:111.)

In summary exporting can be conceptualized as a strategic response by management to the interplay of internal and external forces (Cavusgil & Zou 1994:3). The firm's management may desire to leverage the firm's unique assets such as technological know-how, products or capabilities. Management may intend to take advantage of market opportunities and tax incentives or respond to external forces such as competitive pressure and a saturated domestic market. The most influential reasons that motivate firms to engage in exports are the desires and intensions of the firm's management, growth and profits goals, and risk diversification. The management's entrepreneurial capacity, particularly the ability to sense and interpret opportunities in foreign markets has a significant influence on the factors that motivate exporting.

The export plan details management's strategic and tactical goals for international markets. The planning process is a dynamic and continuous. Structured market research provides the information required to identify and evaluate market opportunity. This facilitates strategy development and decision making. When the strategy is operationalized, information from operations is used to continuously update, improve and develop strategy. The export marketing plan that is implemented reflects the level of risk the management is willing to tolerate. Export strategy is comprised of three principle factors; the competitive strategies of cost leadership and differentiation, marketing standardization or adaptation and geographical diversification. In practice all three strategies can be implemented simultaneously. A firm pursing geographically diverse markets may implement a cost leadership or differentiation strategy while employing a standardized marketing program in one market and an adapted marketing program in another.

The resources that a firm owns and controls and is willing to invest in export operations is critical influencing management's choice to export direct or indirectly to foreign markets. Other influential reasons in selecting the form of export include: business conditions of the selected market, management's expertise and previous experience in exporting and the nature of the firm's products and services. Direct export requires a significant amount of human and financial resources. To have full control of the export operations, the firm will need to invest in new organizational structures and recruit staff specialized in international marketing. Indirect export requires less financial and human resources as most of the firm's export operations are managed by intermediaries. A firm exports indirectly to foreign markets through export intermediaries. Export intermediaries are independent marketing organizations that are located in the firm's domestic market who assume the responsibility of international marketing on behalf of the export firm.

A firm exports directly to foreign markets when it assumes complete strategic and tactical control over its export operations. Direct exporting requires a significant amount of human and financial resources. Most of the resources are spent in recruiting and training specialized staff as well as investing in setting up and operating administrative structures. To manage and control export operations, export firms need to be designed and organized in a manner that facilitates the marketing of the firm's products to international markets. The export firm has a variety of administrative structures to select from in order to best fulfil its exporting plan. The firm may set up a department or unit that deals exclusively with export marketing, it may set up a subsidiary to benefit from taxation and location advantages or transfer marketing and sales function to foreign markets.

The export firm achieves growth through the development of export processes and capabilities. The development process is multi-dimensional, complex and dynamic. It is largely driven by experiential learning. Learning in export development is perceived as a continuous process whereby, as the firm accumulates knowledge about its markets, the firm increases the amount of resources committed to exporting, which enables the firm to accumulate more knowledge. Organizational resources that are directly responsible for the firm’s competitive advantage are essential in facilitating the export development processes. However the most significant influence to the development process are the firm’s managers. The firm’s managers need: to able to correctly interpret market information and assess risks, to establish processes and routines to ensure the systematic gathering of market information, to establish operational structures and developing the appropriate capabilities that facilitate international marketing, to decide on the amount of resources to commit to export operations as well as the choice on export form and strategy.

Given the above discussion about the context of exporting, this study will focus on the analysis of export strategy and export development. Because firm strategies leverage firm routines and capabilities (Salvato & Rerup 2011:471), there is a relationship between the firm’s routines, capabilities and strategy. Focusing on export strategy will be helpful in explaining this relationship in the export context. The development of exporting is essentially an outcome of the development of the firm’s exporting capabilities. Therefore there is a direct relationship between development of firm capabilities and the development and growth of export operations. Focusing on export strategy and export development in the discussion and analysis in this study will facilitate the answering of the research questions.

3 RESOURCES, CAPABILITIES, DYNAMIC CAPABILITES AND ROUTINES

3.1 Resources and Capabilities

The resources that the firm is made up of can be defined as; the stocks of available factors, intangible or tangible assets that are owned or controlled by the firm and converted into products or services, using a variety of other resources and bonding mechanisms. These stocks and assets enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness. Commonly described as internal attributes of the firm, stocks of available factors include; assets, capabilities, processes, routines, and knowledge. Firm resources also include; informal relations (within a firm and between a firm and other firms in its environment) as well as firms' relationships to foreign customers', suppliers and authorities (Amit & Schoemaker 1993:35, Wernerfelt 1984:172, Barney 1991:101, Ahokangas 1998). Page??

Learning as well as entrepreneurial resources (the risk taking of managers who are responsible for the growth of the firm) are both strategically significant resources of the firm (Grant 1996, Lockett et al. 2009, Dhanaraj & Beamish 2003). A convenient way to identify firm resources is to classify them (Grant 1991). For example Barney (1991) suggests three main categories of resources;

- Physical resources, which include the physical technology used in a firm, the firm's plant and equipment, its geographic location and its access to raw materials.
- Human capital resources, these include; training, experience, judgment, intelligence, relationships and insight of individual managers within the firm and,
- Organizational capital resources; includes a firm's formal reporting structure, its formal and informal planning, controlling and coordinating systems and informal relations among groups within a firm and between a firm and those in its environment.

In addition Ahokangas (1998) mentions three categories; financial (size and type of capital), technological (product and process-related), and reputation (image, brands, loyalty, trust, and goodwill) Grant (2008) classifies resources into tangible and intangible.

Tangible resources include;

- Financial (cash, securities, borrowing capacity)
- Physical (plant equipment, land, and mineral reserves)

Intangible resources include;

- Technology (patents, copyrights, trade secrets)
- Culture,
- Human resource (skills/knowhow, capacity for communication and collaboration, motivation)

The significance of firm resources lies in their ability to enable firms to achieve competitive advantage over competitors. Whether the competitive advantage the firm achieves is sustainable will depend on how easily the advantage can be replicated by rivals. In their framework of asset stock accumulation. Dierickx and Cool (1989:1507) explain; if certain resources or assets cannot be bought in factor markets, competitors could either try to imitate them by accumulating similar asset stocks of their own or they might try substituting them by other assets. To overcome these threats from competitors, Barney (1991) states that, for a firm resource to hold the potential of competitive advantage, the resources that the firm owns or controls must have the following attributes; they must be valuable, rare, inimitable and non-substitutable (VRIN);

- Valuable resources refers to resources that enable the firm to exploit opportunities and/or neutralize threats in a firm's environment,
- Rare resources are those that are limited in supply and not equally distributed across a firm's current and potential competition.
- Inimitability refers to the extent to which resources are different to replicate by other firms which may be due to factors such as social complexity, causal ambiguity and specific historical circumstances.
- Non-substitutability of resources implies that on firm's resources cannot simply be replaced (or substituted) by another one.

Therefore firm resources or asset stocks are strategic to the firm, only to the extent that they are non-tradable non –imitable and non-substitutable (Dierickx & Cool 1989:1510).The firms resources that meet these attributes are to a large extent intangible resources.

However, competitive advantage cannot be sustained simply by possessing resources with VRIN attributes. Lockett et al. (2009) examine in detail, the relationship between the role of firm managers and firm resources. The authors argue that, manager perception about the internal characteristics of their own firms as well as the external environment in which their firms compete is critical in the decisions made on how to use resources to achieve competitive advantage. Managerial perceptions and decisions in relation to resource functionality, resource recombination and resource creation and decay influence the nature of competition in markets.

For example, regarding resource functionality, Lockett et al. (2009) argue that resources have a number of different functions, which may enable them to be employed across a number of different markets over time. The role of managers is to determine the most profitable usage of resources at their disposal because what matters is not the resource, it is the functionality of the resource and how the resource is employed. A bundle of resource will have different values according to their usage across different markets. Managers are confronted with the challenge of understanding the functionality of the resources under their control, as well as understanding how to use those resources that are under the control of other firms. Overcoming this challenge enables mangers to not only detect present competitors but also to anticipate future competitors.

Understanding the capacity for usage firm resources permit in also critical. For example intangible resources in the form of knowledge has no real limit to the extent it can be used Physical resources may be easily exhausted, and their use in one market may prevent them being used in another market. Concerning resource recombination, Lockett et al. (2009:14) point out that by combining resources firms are able to add value if they are: complementary, related, or co-specialized in nature. Resource combinations result into capabilities, the firm's opportunity set is influenced by the way in which managers are able to combine resources to produce capabilities. If managers are able to recombine their resources in a range of different ways, they may be able to produce new outputs for the firm.

Regarding managerial perception to resource creation and decay, Lockett et al. (2009:16) explain that to create resources firms may do so in two ways; firstly they may be lucky and acquire resources below their full market value because of a seller's ignorance, and secondly firms may own, or have access to, other idiosyncratic resources that are not available to other firms and which augment the value of the resources. Alternatively Dierickx & Cool (1989) argue that firms create or build resources stocks by consistently investing in expenditures that build up strategic assets. Examples include; consistent investment in advertising expenditure (to build up, image and brand loyalty) and continuous spending on research and development (to build up technological expertise). Penrose (2009) argues that firms develop resources through their productive activities, generating excess capacity in their resources-bases. Excess capacity in the resource base enables firm expansion. The activities of the firm will lead to the development of resources over time. Resource decay or asset erosion may be caused by exhaustion, obsolescence and competitors' innovation (Dierickx & Cool 1989).

In summary the firm resources can broadly be classified into tangible and intangible asset stocks that are either owned or controlled by the firm. These assets are essential for the productive activities of firms, enabling the production of goods and services. To remain competitive firm require assets with VRIN attributes, such assets are most likely to be intangible, firm specific and difficult to trade.

Firms have the potential to achieve a competitive advantage over rivals as long has management comprehends; the functionality of the firm's assets, how firm assets are created, how they erode and depreciate, and how assets can be recombined. Productive activities lead to the creation of resources enabling firm expansion and growth. Resources are only productive if they are used in combination with other resources. Resources combinations are critical for competitiveness and survival as they result into capabilities which enable the production of new outputs. Capabilities are therefore critical for firm output and value adding. The next section examines the significance of capabilities and how they are related to resources.

The difference between resources and capabilities is to a large extent conceptual. In principle capabilities can be regarded as resources. However in practice they are different; if resources are stocks then capabilities are flows (Ahokangas 1998). Another way to explain the difference between resources and capabilities would be to view resources as inputs into the production process. Resources are the productive assets owned by the firm (both tangible and intangible). They include items of capital equipment, skills of individual employees, patents, brand names, finance etc. that a firm owns or controls, and is able to access, on a semi-permanent basis. On their own few resources are productive. Individual resources do not confer competitive advantage, they must work together to confer an organizational capability. The cooperation and coordination of teams of resources enables productive activity. This coincides with Lockett et al. (2009)'s view that resource combinations yield capabilities.

Therefore, resources are the productive assets owned by the firm, capabilities are what firms can do. A capability is the capacity for a team of resources to perform some task or activity. Capabilities are not the result of simply assembling a team of resources; capabilities involve complex patterns of coordination between people and between people and other resources. Perfecting such coordination requires learning through repetition. While resources are the source of a firm's capabilities, capabilities are the main sources of competitive advantage. (Grant 1991, 2008, Helfat & Peteraf 2003, Camison & Villar 2008.)

The reason why capabilities are more likely to be the main source of a firm's competitive advantage is because capabilities compared to other resources, are a type of intangible asset that cannot be given a monetary value and therefore cannot be traded or imitated, also they and are deeply embedded in organizational routines and practices (Stalk et al 1992, Day 1994). This implies that capabilities are firm specific, and are developed by the firm over time (Wang &Ahmed 2007).

Day (1994:38) defines capabilities as complex bundles of skills and accumulated knowledge exercised through organizational processes that enable firms to make use of their assets. These organizational processes demonstrate the firm's ability to perform a productive task repeatedly (Grant 1996) and determine the efficiency with which firms physically transform inputs into outputs (Collis 1994). One of the requirements for an activity or performance to be labeled a capability is that it has reached some minimum level of functionality that permits repeated, reliable performance of a routine activity. This means that it must work in a reliable manner (Helfat &Peteraf 2003, Helfat et al. 2007, Ambrosini et al. 2009.)

Capabilities are demonstrated in typical business activities such as order fulfillment, new product development and service delivery (Day 1994). Most organizational capabilities require integrating the specialist knowledge bases of many individuals. The essence of organizational capability is the integration of special knowledge to perform a discrete specialist task (Grant 1996). Camison and Villar (2008: 127-128) as well as Salvato and Rerup (2011: 472-473) present a comprehensive description of capabilities; they argue that capabilities govern how resources are transformed into products through; firm-specific organizational norms and routines, through the development, management and interchange of information and knowledge via human capital and through the creation of an organizational culture that supports the firm's global activities. Capabilities are derived from learning processes. Generally, firm-specific capabilities;

- are based on idiosyncratic knowledge, which is embedded in the firms routines , processes, practices, and culture and is therefore difficult to observe;
- involve considerable long term learning and time advantage,
- and are based on tacit knowledge dispersed among many individuals, so a competitor cannot acquire that knowledge simply by poaching employees
- are collections of routines characterized by evident firm-level purpose
- are identified with the know-how that enables an organization to reliably perform and extend its characteristic output actions: the creation and provision of an existing product or service and the development of new products or services

- are similar to routines because a) exercise of a capability is repetitious and b) performing firm-level action requires organized activity.
- reflect a firm's ability to perform basic functional abilities

In summary, capabilities are intangible resources of the firm. Capabilities represent what the firm does; they show the productive activity of the firm. In essence they represent the firm in action. Capabilities are manifested in the functional activities of the firm. They are the outcome of complex interactions, coordination and combinations of people and resources. They require repetitive activity, long-term learning and development over time. Capabilities become embedded in firm practices, processes and culture. This implies that they cannot be given a monetary value and are therefore difficult to trade. They are not easy to observe especially to those outside the firm, making them difficult to imitate. Because of these qualities capabilities are more a more likely source of competitive advantage. By investing in developing capabilities firms are able to produce new value adding outputs.

The challenge for managers is to select the right kind/type of capability/capabilities that will deliver competitive products and services that add value. For example continuous investment in research and technology activities leads to increased technological expertise/capabilities (Dierickx & Cool 1989). However, over time, the firm and the market evolve. Both the internal and external environment of the firm constantly change. Firms cannot keep investing in the same capabilities to produce the same products. To remain competitive, firm capabilities need to continuously adapt. The following section examines how firms are able to remain competitive over time.

3.2 Dynamic Capabilities

The foundation of the RBV is built on the importance of resources and capabilities as the origin of a firm's competitive advantage. However the emergence of highly dynamic business environments in the 1990s, challenged the original prepositions of the RBV. These dynamic business environments were characterized with increasingly frequent and at times rapid shifts in competitive, technological, social, and regulatory areas. There was also as a swift expansion of global trade which led to both greater specialization and more rapid competitive responses. (Barreto 2010:257, Teece 2012, Wang &Ahmed 2007.)

The RBV does not sufficiently explain how and why certain firms achieved competitive advantage in situations of rapid and unpredictable change while other firms could not. The RBV is criticized as being static and neglecting the influence of market dynamism on sustaining competitive advantage over time. Additionally the validity of the RBV is questioned over key aspects such as the definitions of key concepts (the differences between resources and capabilities), and the mechanisms of transforming resource advantage into competitive advantage. In dynamic environments it becomes difficult for firms to sustain competitive advantage. Instead firms need to be managed in such a way that they can build successive temporary advantages by effectively responding to successive environmental shocks. This is achieved when firms develop and maintain resource configurations that enable their businesses to deliver value to customers. (Eisenhardt and Martin 2000:1106, Wang &Ahmed 2007:32-33, Barreto 2010:257, Teece 2012:1396.)

The emergence of dynamic capabilities concept has enhanced the RBV by addressing the evolutionary nature of firm resources and capabilities in relation to environmental changes. The concept of dynamic capabilities facilitates the identification of firm or industry specific processes that are critical to firm evolution (Wang & Ahmed 2007: 35). It is essential for the RBV to have a dynamic perspective, so as to understand how firms evolve over time through their deployment and acquisition of resources. Firms must continuously renew and reconfigure themselves if they are to survive in an environment that is constantly changing (Ambrosini et al. 2009:11). Existing literature on dynamic capabilities and the role they play in creating value for firms is filled with inconsistencies, overlapping definitions, and outright contradictions (Zahra et al. 2006). Existing definitions found in literature on dynamic capabilities (Teece et.al 1997, Eisenhardt and Martin 2000, Zollo and Winter 2002, Winter 2003, Helfat & Peteraf 2003, Zahra et al. 2006, Teece 2007, Wang & Ahmed 2007 and Ambrosini et al. 2009) reveal that dynamic capabilities have been conceptualized in different ways (Barreto 2010).

Barreto (2010:271) defines Dynamic capabilities as those capabilities that characterize the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and change its resource base. Unlike previous definitions, Barreto (2010)'s definition of dynamic capabilities is an aggregate multidimensional concept, which incorporates the main dimensions whose significance has been highlighted in relatively recent research. The definition makes reference to four different but related dimensions; the propensity to sense opportunities and threats, to make timely decisions, to make market-oriented decisions, and the propensity change the firm's resources base. All these dimensions are treated as a single theoretical concept.

In order to get a general understanding of dynamic capabilities, this study will follow the guidance of Barreto (2010)'s critique and synthesis of the research streams on dynamic capabilities. Barreto (2010)'s review reveals that the alternative conceptualizations of dynamic capabilities differ in terms of; the nature, specific role, relevant context, heterogeneity assumptions, and purpose of dynamic capabilities.

Nature

Dynamic capabilities have been defined as abilities (or capacities) but also as processes or routines. Ambrosini et al. (2007), Teece et al. (1997), Teece (2007) and Zahra et al. (2006), all consider dynamic capabilities to be an ability or capacity. It was Teece et al. 1997 who justified the word capabilities to emphasize the key role of strategic management, while the use of the term capacity in Ambrosini et al. (2009)'s definition was intended to refer not only to "the ability to perform a task in at least a minimally acceptable manner” but also to its repeatability –to differentiate it from a one-time change (Barreto 2010).

Eisenhardt and Martin (2000) defined dynamic capabilities as firm processes that are specific and identifiable and suggest that the nature of dynamic capabilities varies in accordance with market dynamism. In moderately dynamic markets dynamic capabilities are detailed, analytical routines that rely on existing knowledge while in high- velocity markets dynamic capabilities are simple, experiential routines. Wang and Ahmed (2007) argue that dynamic capabilities are not simply processes, but they are embedded in processes. Their argument is that processes are characterized by explicit structuring and are a combination of resources and thus can be transferred more easily within the firm or across firms. This in their view is in contrast to capabilities, which encapsulate both explicit process and tacit elements such as know-how and leadership, embedded in the processes.

Zollo & Winter (2002) view a dynamic capability as a learned and stable pattern of collective activity. Helfat and Peteraf (2003) state that both capabilities and dynamic capabilities consist of routines, further specifying two types; routines to perform individual tasks routines that coordinate individual task. In Teece et al. (1997)’s article, dynamic capabilities have been related to processes or routines. The authors assumed that dynamic capabilities are typically built rather than bought and that their creation and evolution are embedded in organizational processes that are shaped by firms’ asset positions and the evolutionary paths they have adopted in the past (Barreto 2010).

Teece et al. (1997:518) describe managerial and organizational process as the way things are done in the firm, or what might be referred to as routines or current practice and learning Winter (2003) characterized dynamic capabilities as highly ‘patterned and repetitious’ (similar to his definition of a routine) in comparison to ad-hoc problem solving. Eisenhardt & Martin (2000) explicitly refer to dynamic capabilities as the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split and die.

In summary dynamic capabilities are patterned collective routines that are embedded in processes. They are patterned and repetitious problem solving processes. Because dynamic capabilities constitute firm capabilities responsible for adapting the firm's resource base to changing environment they can be referred to as organizational and strategic routines.

Specific Role

Teece et al. (1997), Eisenhardt and Martin (2000), Wang & Ahmed (2007), Teece (2007) Ambrosini et al. (2009) state that the role of dynamic capabilities is to;

- integrate, build and reconfigure internal and external competences,
- integrate, reconfigure, gain and release resources
- integrate, reconfigure, renew and recreate its resources and capabilities
- purposefully create, extend, or modify its resources base.
- reconfigure the business enterprise's intangible and tangible assets

Zollo & Winter (2002) explicitly state the role of dynamic capabilities as the means which organizations systematically generate and modify their operating routines, Helfat and Peteraf (2003) and Winter (2003) indirectly state that the role of dynamic capabilities is to build, integrate or reconfigure, extend, modify or create operational capabilities or ordinary capabilities. Both authors refer to operational and ordinary capabilities as a high-level routine or collection of routines. Generating, creating, building, modifying, reconfiguring, renewing, recreating integrating, gain and releasing, or extending the resource base can generally is referred to transforming or transformation. Dynamic capabilities transform the firm's resources base. The firm's resources include internal and external competences, routines, capabilities as well as intangible and tangible assets.

Helfat and Peteraf's (2003) concept of the capability lifecycle (CLC) articulates general patterns and paths in the development of capabilities over time. The authors illustrate capability transformation through the branching of capabilities. They argue that capability transformation occurs when factors from the internal or external selection environment of the firm intervene.

Internal selection environment factors are mainly managerial decisions and originate from within the organization. External selection environment factors may include changes in demand, science and technology, availability of raw materials, and government policy. The manner, in which external selection environment factors affect the firm, mainly relies on managerial reaction. Therefore managerial decisions are central to capability branching and transformation because they are responsible for selection activity. Different managers in different firms may make different choices, unless the external selection environment is so constrained that it limits managers to only one possible option. (Helfat & Peteraf 2003:1004.)

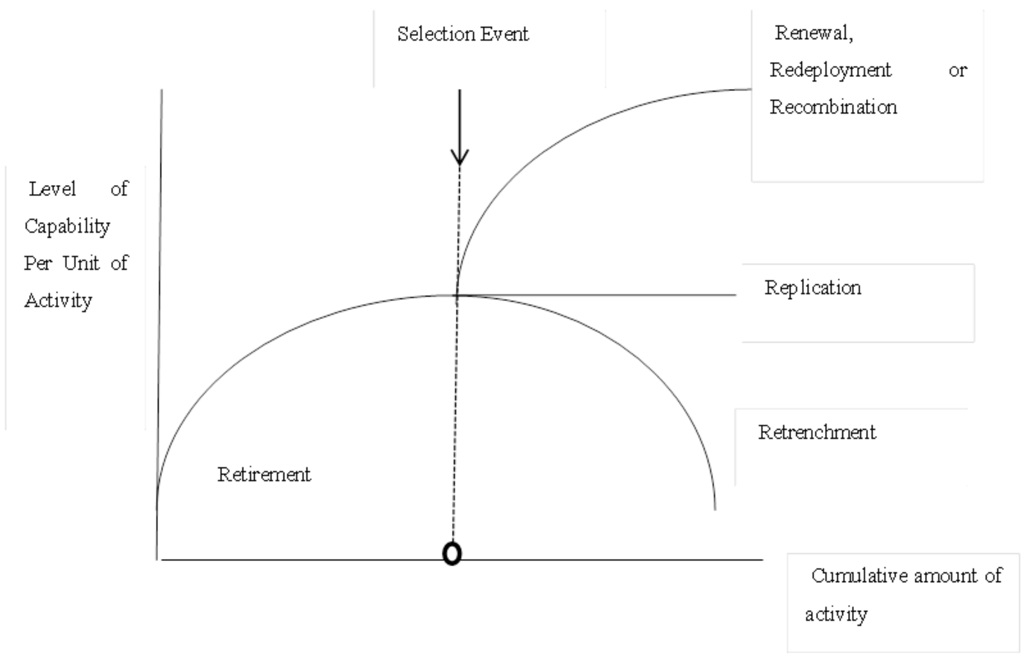

Figure 4. Branches of the capability lifecycle adapted from (Helfat & Peteraf 2003: 1005).

The branches of the capability lifecycle are: retirement (death), retrenchment, renewal, replication, redeployment, and recombination.

- These branches occur when a selection event intervenes. Renewal, redeployment, and recombination branches use the same curve, because the three stages have a similar trajectory even though underlying mechanisms differ.

- The branches of the capability lifecycle represent the impact two sorts of selection effects; those that threaten to make a capability obsolete, and those that provide opportunities for capabilities growth or change.
- While all six branches of the CLC may relate to threats to a capability, new opportunities do not involve retirement or retrenchment of a capability
- Branches of replication and redeployment and (often recombination) involve transfer of the capability into a different market.

Key assumptions of the figure include;

1. The branches represent a general set of potential paths. The choice of the path depends in part on the particular capability and its stage of development. They may not represent all possible branches, although they do include a large range of capability transformation to correspond to many consistencies identified in large-sample and case study empirical analysis of business strategies.
2. The exact shape and placement of the branches for any particular capability may differ from that of the figure
3. The analysis of branching deals with only capability that has reached the maturity stage of development.

Capability opportunities may be internal or external to the firm. Opportunities external to a firm may influence managers to decide to redeploy a capability into a different industry, especially in the current industry is declining and market opportunity exists in another industry that requires similar capabilities. Technological developments may offer the firm the opportunity to renew a capability. The removal of tariff barriers may encourage managers to replicate a capability by entering a new market. Internal opportunities may be come in the form of slack resources that management can redeploy or recombine or replicate them in other markets, firms may choose to do so even without slack resources as long as the opportunity offers increased returns from prior investment in capability development. (Helfat & Peteraf 2003.)

Threats to a capability may lead firms to retire or retrench capabilities. Government regulations may ban the production and sales of particular products, forcing firms engaged in the production of products and service to shut down, retiring the associated capabilities. A fall in the demand of a product, or interruptions in production may lead to declines in productivity, forcing a firm to retrench a capability. As an alternative to retrenchment a firm may decide to renew a capability, by searching for new ways to improve a capability to raise efficiency, re-developing the capability might involve minor or major modification to the original capability. Redeployment or replication capability to another market may be executed by a firm in response to a threat to a capability in one market. Replication involves reproducing the capability in another geographic market. (Helfat & Peteraf 2003.)

A firm redeploys a capability to a market for a different but closely related product or service. This transfer of a capability often requires some modification of the capability to serve the new market, and therefore additional development of the capability in new directions. If the firm chooses to transfer a capability to serve a different but related market, the firm may recombine the original capability with another capability. (Helfat & Peteraf 2003: 1005.)

In summary dynamic capabilities are capabilities whose role is to reconfigure the firm’s intangible and tangible assets. This includes the transformation of operational/ordinary/ substantial capabilities. Capabilities are transformed in mainly six ways, capabilities can be; renewed redeployed or recombined. They also can be replicated, retrenched or retired. The influence of managerial decision making in the selection activity that is responsible for capability transformation highlights the importance of sensing, seizing and transforming capabilities (Teece 2007). Sensing seize and transforming capabilities will enable management to better interpret opportunities and threats, which will in turn guide the decisions on whether to renew, redeploy, recombine reconfigure, replicate, retrench or retire capabilities.

Relevant Context

Teece (2007) provides a clear relationship the between the dynamic capabilities and rapidly changing environments by arguing that the possession of dynamic capabilities is important to enterprise performance in business environments that are;

- open to international commerce and exposed to the opportunities and threats associated with rapid and systemic technological change
- where global markets for goods and services are well developed
- where markets for technological and managerial knowledge are poorly developed and,
- where regulatory or institutional shocks occur.

Eisenhardt and Martin (2000) suggest that the effectiveness and sustainability of dynamic capabilities varies with market dynamism. In moderately dynamic markets, where changes occur frequently but follow predictable and linear paths, industry structures are relatively stable. Firms in moderately dynamic markets rely heavily on existing knowledge, and the designs of processes and activities typically follow a problem solving approach. In high velocity markets, where changes are non-linear and less predictable, market industries are unclear and industry structures are ambiguous and shifting the firm's dynamic capabilities are focused on creating situation specific knowledge.

In contrast Zahra et al. (2006) state that, the rate of change in a firm's environment does not necessary influence the dynamism of a capability. The authors argue that the need to change to a firm's resource base may originate from changes in organizational conditions rather than the external environment. Zollo and Winter (2002) agreed with this view, and added that firms integrate, build, and reconfigure their capabilities even in environments characterized by low rates of change. However both Zahra et al 2006 and Zollo and Winter (2002) agreed that dynamic capabilities may be more valuable in rapidly changing environments Barreto (2010).

Wang and Ahmed (2007) develop a proposition stating that market dynamism is an antecedent to firms' dynamic capabilities, the more dynamic a market environment, the stronger the drive for firms to demonstrate dynamic capabilities to address external changes. Ambrosini et al. (2009) argue that environmental dynamism is dependent on firm managers' perceptions of the need for change, which is a function of their perceptions of the external and internal environment of the firms. Firm manager's perceptions influence whether the firm's resource base is changed. A perceived stable environment is an environment where external or internally triggered changes are largely seen by managers to be predictable and incremental, with a low a rate of change, while a perceived dynamic environment is an environment where managers perceive fast paced, unpredictable and unanticipated change.

These different perceptions result in managers using different types of dynamic capabilities to change the firm's resource base. Incremental dynamic capabilities are useful in environments that are perceived to be stable; resources are incrementally adjusted, improved and adapted but are not transformed. The resource stock remains basically the same, but the resources go through continuous development. Renewing dynamic capabilities are effective in unstable environments; they refresh and renew the nature of the resource stock rather than incrementally adapt it, new resources are either created or introduced, or resources are combined in new ways. (Ambrosini et al 2009:15.)

Eisenhardt and Martin's (2000) view may aid in understanding the nature of the processes undertaken in specific environmental conditions. Zahra et al. (2006)'s and Zollo and Winter (2002)'s position that internal conditions may be responsible for reconfiguration of the resources base is similar to Helfat and Peteraf's (2003) view on internal selection effects; the effect of external selection environment to the firm depends on how firm managers react (internal selection environment). Wang and Ahmed's (2007) assessment that dynamic environments leads firms to employ dynamic capabilities is line with the core position of the dynamic resource based view. Ambrosini et al.'s (2009) argument that environmental dynamism is dependent on firm managers' perceptions of the need for change, and that this is a function of their perceptions of the external and internal environment of the firms, highlights the role that firm mangers play in the exercise of dynamic capabilities.

Generally, there is division among researchers regarding the type of external environments that are relevant for dynamic capabilities. Some researchers attribute the dynamic capabilities concept to highly dynamic environments, some argue the different degrees of environmental dynamism are significant, others acknowledge the relevance of dynamic capabilities in both stable and dynamic environments, and there are authors who decide to ignore the characteristics of the specific environment. (Barreto 2010:261.)

Creation and Development Mechanisms

Research into the mechanisms responsible for the creation and development of dynamic capabilities has largely focused on learning mechanisms (Barreto 2010). Eisenhardt and Martin (2000) identified; repeated practice, past mistakes, controlled crisis and the pacing of experience as learning mechanisms that are most likely to guide the development of dynamic capabilities. The use of learning mechanisms results in experiences, which managers must select and incorporate into the enterprise. Eisenhardt and Martin (2000) suggest that the selection process is achieved through variation and selection. According to the authors variation is more suitable in moderately dynamic market situation and selection is most relevant for high velocity market environments. The authors also pointed out that the order of implementation of dynamic capabilities is also significant in their development. Because dynamic capabilities are often combinations of multiple related capabilities and routines, some may be foundational to others; this may require them to be learned first.

Zollo and Winter (2002) present a theoretical account of the creation and evolution of dynamic capabilities that focuses on the role of several learning mechanisms and their interaction with selected attributes of the organizational task being learned. The main learning mechanisms mentioned by Zollo and Winter (2002) are; experience accumulation, knowledge articulation and knowledge codification. They argue that dynamic capabilities are shaped by the coevolution of these learning mechanisms. At any point in time, firms adopt a mix of learning behaviors created by a semiautomatic accumulation of experience and by deliberate investment in knowledge articulation and codification activities (Zollo & Winter 2002:339).

Routines are stable patterns of behavior that characterize organizational reactions to multiple, internal or external stimuli, they lead to the quasi-automatic, tacit accumulation of past experience. Knowledge articulation is the process through which implicit knowledge is articulated through collective discussions, debriefing sessions, and performance evaluation processes. Knowledge codification occurs when individuals codify their understanding of the performance implications of internal routines in written tools such as; manuals, blueprints, spreadsheets, decision support systems and project management software. Unlike quasi-automatic organizational reactions, knowledge articulation and codification are more deliberate learning mechanisms. (Zollo & Winter 2002:340-342.)

Zollo and Winter (2002) propose that these deliberate mechanisms are more effective compared with tacit accumulation of past experiences when the frequencies of the focal experiences are lower, when the heterogeneity of task experience is higher, and when action-performance causal ambiguity is higher. Zahra et al. (2006) proposed several learning mechanisms critical for the development of dynamic capabilities, they are; trial and error, improvisation, and imitation. They claimed that although learning from experience is more effective for established firms, trial and error, and improvisation processes are more likely for new ventures (Barreto 2010). Helfat and Peteraf (2003:1002) draw their implications on capability development from studies based on empirical research about organizational learning. In studies the authors referenced, the implication for organizational learning was derived from statistical estimates of the experience curve in organizations. The authors conclude the following regarding the development of a new capability; the basic path of capability development reflects a process of capability improvement. Improvements in the functioning of a capability originate from a set of complex factors that include learning by doing, deliberate attempts at process improvement and problem solving, as well as capital and R&D investment over time.

Early conceptualizations of dynamic capabilities such as the concept developed by Teece et al. (1997) assumed that dynamic capabilities are firm specific processes that emerge from path dependent histories of firms (Eisenhardt & Martin 2000, Barreto

2010). Eisenhardt and Martin (2000) argue that dynamic capabilities are processes with common features and are common across firms, and are commonly known as ‘best practice’. The existence of commonalities is the result of multiple, and similar effective ways of performing the task credited to the dynamic capability (Eisenhardt &Martin 2000, Barreto 2010). Eisenhardt and Martin (2000:1110) state that although dynamic capabilities are common in key features across different firms they are idiosyncratic in their details. They note that path dependent processes are critical, and that firms may begin the development of a capability from diverse starting points, and take unique paths. There are multiple paths to the same dynamic capabilities, yet firms may end up with capabilities that are similar in key attributes. The path of building capabilities is not universal across firms, therefore the outcome of capability development is different across firms. Firms tend to develop capabilities as directed by their firm strategy (Wang &Ahmed.2007:41).

Wang and Ahmed (2007) distinguish capability development from capability building. Capability development is an outcome of a firm’s capability over time while capability building is referred to as a process of dynamic capabilities (Wang &Ahmed.2007:40).Measures for capability development frequently include a comparison of the firm’s dynamic capabilities at different points in time. Wang and Ahmed (2007:41) propose the higher the dynamic capabilities, the more likely it is likely to build particular capabilities over time; the focus on developing particular capabilities is dictated by the firm’s overall business strategy.

In summary dynamic capabilities are created and developed through learning processes. The learning processes or mechanisms result in experiences which are then incorporated into the firm through variation and selection. Routine activities lead to the tacit accumulation of past experience, enabling organizational learning. This way learning is more effective for established firms. Deliberate learning processes include; knowledge articulation, codification, trial and error, improvisation, learning by doing, process improvement and problem solving, as well as investments in capital as well as research and development over time. Deliberate learning mechanisms are more effective than routine activities and the tacit accumulation of experience. The order of implementation of dynamic capabilities is essential, as some capabilities may have to be created/learned first before other capabilities.

Trial and error, improvisation and imitation processes are most suited for new ventures. Dynamic capabilities exhibit similarities in key attributes across different firms. However path dependent processes, imply that different firms begin developing their dynamic capabilities from different starting points. The creation and development processes are unique in detail in each firm. The creation of particular capabilities is an outcome of the firm's strategy.

Purpose

Most definitions of dynamic capabilities indicate clear a purpose for their use. In Teece et al.'s (1997:516) definition, the ability to integrate, build and reconfigure internal and external competences is useful to "address rapidly changing environments". In Eisenhardt and Martin's (2000) definition the purpose is not only to match, but also to create market change. Zollo and Winter (2002) indicate that the purpose of dynamic capabilities is improved effectiveness, while Zahra et al. (2006) explained that the purpose of changing the resource base is to support the desires the firm's principal decision-makers. Wang & Ahmed (2007:35) explicitly state that the purpose of reconfiguration, reconstruction and upgrade of the firm's resource base is to "respond to the changing environment in order to attain and sustain competitive advantage".

Outcomes

Teece et al. (1997) proposed a direct link between firms' dynamic capabilities and performance. The authors argue that dynamic capabilities are responsible for private wealth creation and the competitive advantage of firms. Teece (2007) states that dynamic capabilities enable business enterprises to, create, deploy and protect the intangible assets that support superior long-run business performance. Emphasizing the relationship between dynamic capabilities and performance Teece (2007:1320) writes; "the ambition of the dynamic capabilities framework is nothing less than to explain the sources of enterprise-level competitive advantage over time." Enterprise success and superior enterprise performance rely on dynamic capabilities.

Other researchers have a different view, for example Eisenhardt and Martin (2000) state that dynamic capabilities are necessary but not sufficient for, conditions for competitive advantage. The authors argued that because the functionality of dynamic capability can be duplicated across firms, their value lies in the resource configurations they create, not in the capabilities themselves. Zahra et al. (2006) proposes a schematic model of capability formation and performance that illustrates dynamic capability indirectly affects performance through substantive capabilities (set of things the firms can do) and organizational knowledge (all that is known and understood by the organization and its members). The authors proposed that the effect on dynamic capabilities on performance will depend on the quality on the firm's knowledge base.

Ambrosini et al.2009 Take a similar view arguing that dynamic capabilities are indirectly linked to firm performance through the firms resource base. The authors' state; "we do not imply that dynamic capabilities automatically lead to advantage, rather the resource base is directly linked to rents. Dynamic capabilities impact the resource base" (Ambrosini et al. 2009:19) Wang and Ahmed (2007) agree that dynamic capabilities are 'conducive' to long-term firm performance but they acknowledge that the relationship between dynamic capabilities and firm performance is complex. Wang and Ahmed (2007) propose an indirect relationship between dynamic capabilities and firm performance, relationship that is mediated by capability development and firm strategy.

Ambrosini et al. (2009) pointed out that the use of dynamic capabilities may have a negative impact on firm performance, they argue that dynamic capabilities may change the resource base but this renewal may not be in line with the environment. Zahra et al. (2006) assumed that there are costs to developing and using dynamic capabilities. The costs mentioned involve the consumption of organizational resources in creating new capabilities and reconfiguring existing capabilities, as well as costs for wrongly estimating the need for change. Additionally the authors noted that the use of dynamic capabilities when they do not need to be implemented or when they are based on incorrect cause-effect assumptions may have a negative impact on performance.

Winter (2003) states that dynamic capabilities usually involve long term commitments to specialized resources that involve high costs of commitment (a lot of specialized personnel who are committed full time to their change roles, and other types of investments as well). Attempting too much change –possibly in a deliberate effort to exercise the dynamic capability, can impose additional costs when the frequent disruption of the underlying capability outweighs the competitive value of the novelty achieved. There is an ecological demand for balance between the costs of the capability and the use that is actually made of it. Dynamic capabilities are associated with an important opportunity cost of ad-hoc problem solving (the costs of ad-hoc problem solving disappear when there is no problem to solve)

In summary there are different viewpoints on the outcome of the use of dynamic capabilities. Some scholars propose a direct link between the use of dynamic capabilities and firm performance while others suggest an indirect link. The use of dynamic capabilities may directly affect firm performance by enabling firm level competitive advantage over time or it may indirectly affect performance through the quality of the firm's knowledge base, capability development and firm strategy. Dynamic capabilities involve considerable costs in the form of long term investments in specialized resources. The negative outcomes of dynamic capabilities on firm performance are mostly related with the costs that the firm has to incur through their use. When dynamic capabilities are implemented without reason or their use is based on incorrect cause-effect assumptions, firm performance is negatively affected. This highlights the role of the firm's decision makers in the creation, use and development of dynamic capabilities.

To improve the measurement and analysis of dynamic capabilities in firms, recent research has focused on disaggregating dynamic capabilities into component factors (Wang & Ahmed 2007) or capacities (Teece 2007). To better analyze dynamic capabilities (Teece 2007) separates dynamic capabilities into the capacity to; sense and shape opportunities and threats, seize opportunities, and manage threats and reconfiguration.

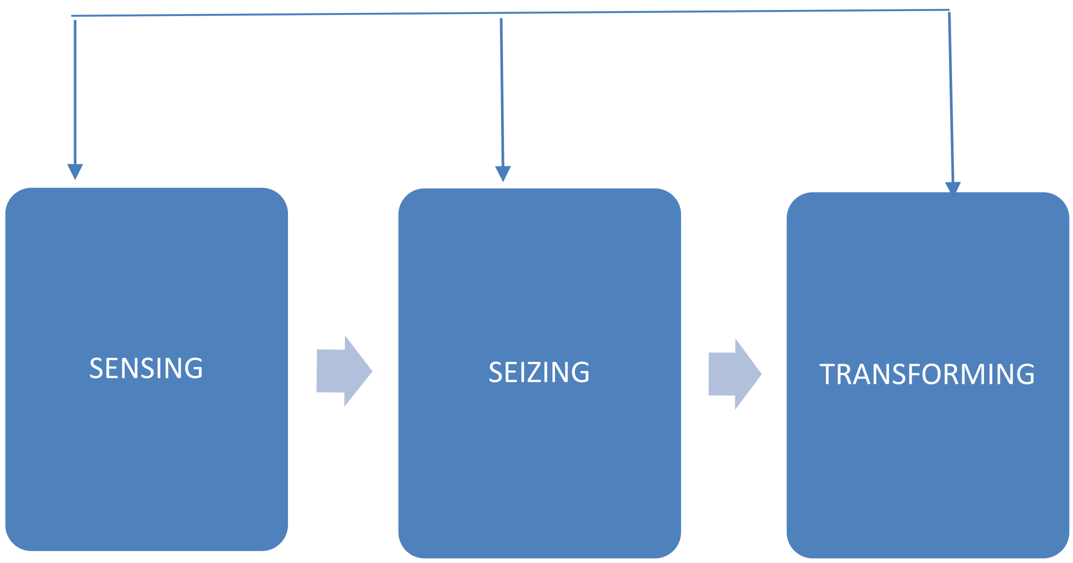

Figure 5. Dynamic capabilities (adapted from Teece 2007:1342)

Teece (2007: 1322- 1323) explains that sensing and shaping opportunities and threats involves scanning, creation, learning and interpretive activity. In order to enable the identification and shaping of opportunities, firms need to invest in the research of customer needs and technological possibilities as well as constantly scan, search and explore across markets, both local and foreign. According to Teece (2007), the purpose of sensing activity should be; to understand latent demand, the structural evolution of industries and markets, and likely supplier and competitor responses. Successful sensing and shaping processes should result in the opening up of a wide range of commercial opportunities for the firm. Once a new (technological or market) opportunity is sensed it must be addressed through new products, processes, or services.

Seizing opportunities involves maintaining and improving technological competences and complementary assets. And when a suitable opportunity arises, investing heavily in the particular technologies and designs that are most likely to achieve market place acceptance. Additionally, to seize an opportunity, firms must also select or create a particular business model that defines its commercialization strategy and investment priorities. To design proper business models, it is critical that the firm aligns processes and incentives with physical technology. Teece (2007: 1326-1327).

Teece (2007) describes reconfiguration as a process that is required to maintain evolutionary fitness enabling the firm to escape from unfavorable path dependencies. The reconfiguration of the resource base is essential when the firm's success with particular processes creates routines. Routines are necessary for operational efficiency and are helpful in sustaining continuity until there is a shift in the environment. Shifts in the environment may be the outcome of innovation. The author explains that an important managerial function is achieving semi-continuous asset adaptation and corporate renewal, including the redesign of routines. And points out that; to remain competitive the firm must invest in semi-continuous and/or continuous efforts to build, maintain, and adjust the complementarity of product offerings, systems, routines, and structures. Redeployment and reconfiguration involves business model redesign as well as asset-realignment activities and the refurbishing of routines. Redeployment can involve transfer of non-tradable assets to another organizational or geographic location. It may or may not involve mergers, acquisitions and divestments. Sharing of a capability between the old and the new, and the geographic transfer of capability from one market to another is possible but not easy. (Teece 2007: 1336.)

In summary the dynamic resource based view explains how resources can be used to sustain competitiveness over time. Generally dynamic capabilities fall into three groups of activities and adjustments; identification and assessment of an opportunity, mobilization of resources to address an opportunity and to capture value from doing so and continued renewal (Teece 2012). These capabilities of sensing, seizing and transforming when used effectively enable firms to respond to successive environmental shocks by build temporary advantages ensuring firm survival in highly dynamic environments. Teece (2012:1396) argues that some firms will be stronger than others in performing some or all of these tasks.

In the RBV competitive advantage was based on the ownership and control of resources. In the dynamic capabilities view, competitive advantage is based on the ability to sense opportunities, seize those opportunities by integrating resources and transforming the resource base to responding to market changes. If this is done in a swift, precise and creative manner that is difficult and costly for competitors to imitate, dynamic capabilities can become a source of competitive advantage. (Teece 2007: 1319, Wang & Ahmed 2007:36).

Dynamic capabilities overcome the criticisms of the resources based view by explaining the mechanisms of transforming resource advantage into competitive advantage. The processes that involve: the identification of market opportunities and careful selection of technology and product attributes, design of business models and the commitment of financial resources to investment opportunities, the ability to recombine and to reconfigure assets and organizational structures as the enterprise grows and markets and technology change, together, lead to firm growth and profitability. These processes underline transformation of firm resources and capabilities into products and services that deliver superior value to customers (Teece 2007:1333-1334, Wang & Ahmed 2007:36).

The processes which make up dynamic capabilities are referred to as organizational routines. The following sub-chapter explores organizational routines and how they are related to capabilities and dynamic capabilities.

3.3 Routines

Current theories of dynamic capabilities (Teece et al.1997, Eisenhardt & Martin 2000, Zollo and Winter 2002, Helfat & Peteraf 2003) are based on the concept of capabilities as routines (Pentland et al. 2012). Salvato and Rerup (2011) recognize routines and capabilities as two concepts that represent regularities in organizational behaviors, cognition and performances. There is broad consensus in literature that dynamic capabilities entail change (Winter 2003) this distinguishes them from operational capabilities (Helfat & Peteraf 2003). Helfat and Peteraf (2003) explain that an operational capability generally involves performing an activity. For example;

the manufacturing of a particular product. Manufacturing as an activity, is achieved by a collection of routines that execute and coordinate the variety of tasks required to perform it.

Zollo and Winter (2002) describe dynamic capabilities as learned and stable patterns of collective activities that modify an organization's operating routines. This distinction between processes in steady state and processes contributing to change matches the distinction between operational and dynamic capabilities (Pentland et al. 2012:1488).Therefore if capabilities are routines, then dynamic capabilities are routines that cause change (Winter 2003). The challenge in the research to identify the micro-foundations of routines has been to connect the micro-level actions that occur within routines to macro-level phenomena such as dynamic capabilities. Pentland et al. (2012:1488) state that any foundational theory of organization routines should explain how routines change (or fail to change) over time. An organizational routine is a repetitive, recognizable pattern of interdependent actions, involving multiple actors (Feldman & Pentland 2003:96). They represent successful solutions to particular problems (Teece et al. 1997:520). Winter (2003) adds that routine-behavior is learned and founded in part in tacit knowledge-and the specificity of objectives. He clarifies that brilliant improvisation is not a routine, and that there is no such thing as a general purpose routine.

Feldman (2003:727) states that routines are important to the ability or inability of organizations to adapt to changing circumstances. Feldman (2003) argues that, from a resource based perspective, routines contribute to the dynamic capability of firms and the ability of firms to regenerate. The distinction between individual routines and organizational routines is that organizational routines are characterized by multiple actors and interdependent actions (Pentland and Feldman 2005:795).

Generally routines are recognizable learned repetitive patterns, of interdependent actions. They are founded in tacit knowledge and involve multiple actors. A collection of routines executed in a steady state makes up a capability. When a collection of routines contribute to change and adaptation they are known as a dynamic capability. Therefore routines form the micro-foundations of capabilities and dynamic capabilities. The aim of this chapter is to show how routines enable firm to adapt and regenerate.

Feldman (2000) identifies an internal dynamic to routines with the potential of promoting continuous change. By incorporating human agency in the performance of routines, Feldman (2000) demonstrates that routines are performed by people. People are participants in the performance of a routine. Change in routines is the result of participants' response to outcomes of previous repetitions of a routine. Routines change in two ways; first, when actions by participants produce unintended and undesirable outcomes creating problems that need to be solved. Routine participants can respond by **repairing** the routine so that it will produce the intended and desired outcome. Secondly routines may change when actions by participants produce new resources and intended outcomes. New resources facilitate new opportunities for the firm and may inspire participants to **expand** the routine to take advantage of the new opportunities. Intended outcomes may fall short of ideals, this may encourage participants to **strive** for better outcomes. (Feldman 2000: 627.)

While unintended and undesirable outcomes indicate reasons for change, they do not guarantee continued change. Expanding and striving have a high potential for continuous change because of their relation to what is desirable. Both affect routines in an ongoing way because they alter the standard for doing work. All outcomes and change responses may occur in relation to either the process of the routines or what the routine accomplishes. (Feldman 2000:620.)

Feldman (2000) proposes a performative model of routines that is based on the changes she describes in routines. The model conceptualizes routines as a cycle of plans, actions, outcomes and ideals.

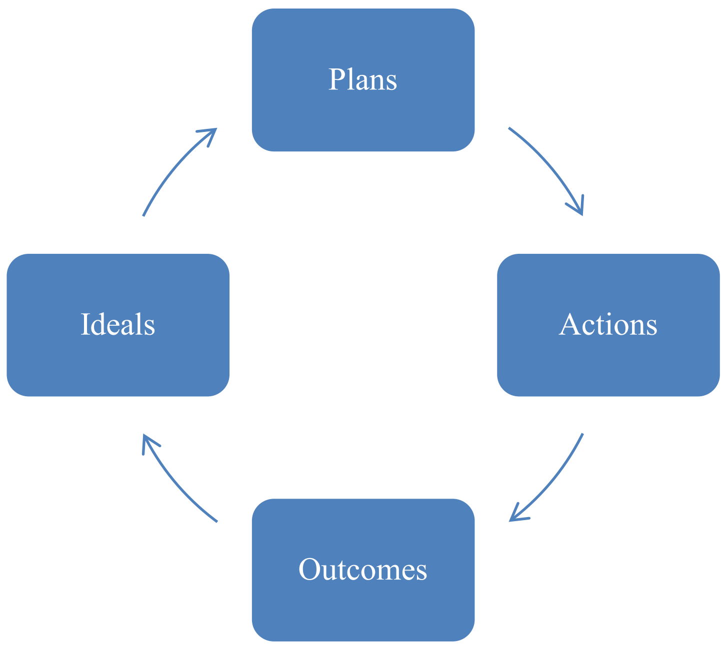

Figure 6. A Performative Model of Routines (adapted from Feldman 2000:623)

Plans and action produce outcomes that influence - in conjunction with ideals or values, what makes sense to do next. Ideals are a broad number of normative influences that include values, goals, missions and expectations. Outcomes at the “end” of each “round” can be compared with ideals as well as with previous plans and can feed into the plans for the next repetition of the routine. Outcomes can also influence ideals or values when they change what people see as the possibilities. The interactions between the elements of the performative model support the actions of repairing, expanding, and striving that change routines.

By incorporating Nonanka and Takeuchi (1995)’s four modes of knowledge creation, Feldman (2000) is able is reveal that engaging in routines is also a process of learning. Organizational routines involve people taking action, reflecting on what they are doing, and do the same things differently.

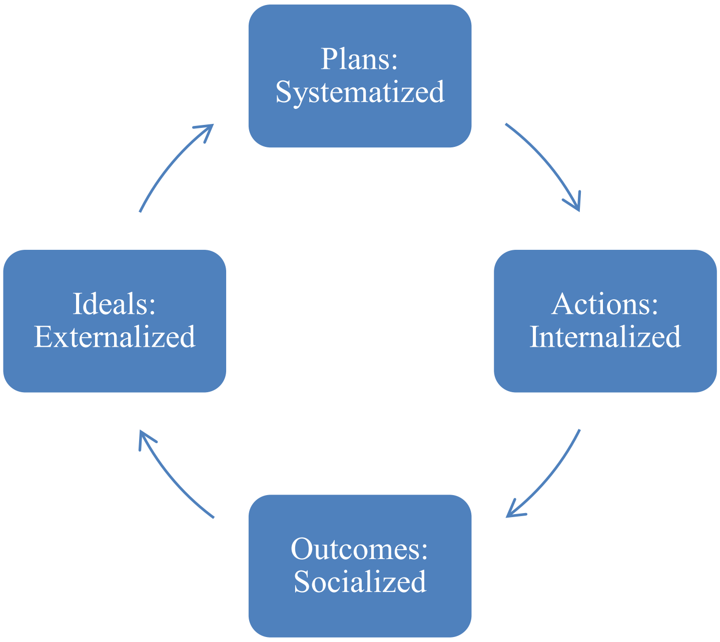

Figure 7. A performative model of learning in routines (adapted from Feldman 2000:625)

Starting at the top of the diagram, plans become internalized or embodied into actions. This embodied knowledge becomes shared or socialized as the actions manifest themselves in outcomes. This shared knowledge is externalized as people compare it to models or ideals. These models or ideals then become systematized as plans that can be enacted in the next iteration of the routine. The difference with Nonanka and Takeuchi (1995) understanding of organizational learning and Feldman (2000)'s that Feldman (2000) visualizes the learning process as a process that takes place within organizational routines. Feldman (2000)'s conceptualization of routines implies that people in a position to influence an organizational routine may have various ideas about what should be accomplished by the routine. Managers for example may have many interpretations of the effectiveness of the actions taken by employees. Also firm managers may have various interpretations of whether the outcome of actions by employees are problems or resources and, in either case, what to do about it (Feldman 2000:623).

Feldman and Pentland (2003) propose a theory of organizational routines that re-conceptualizes organizational routines. They distinguish routines into ostensive and performative aspects to illustrate routines as a source of stability as well as change. The ostensive aspect of a routine is the routine in principle. It shapes the perception of what a routine is. The ostensive aspect of a routine may be codified as a standard operating procedure, or it may exist as a taken for granted norm. It incorporates the subjective understandings of diverse participants. Each participants understanding of a routine depends on his or her role and point of view. The significance of a rule, or of the ostensive aspect of a routine, becomes apparent only in its performance. (Feldman & Pentland 2003:102.)

The performative aspect of a routine, is the specific actions taken by specific people at specific times when they are engaged in an organizational routine. It is the routine in practice. Practices are carried out against a background of rules and expectations, but the particular courses of action chosen are always to some extent novel. Performances of the routine generate a constant stream of variations and exceptions as the performers accommodate and innovate. The performative aspect of routines is characteristically improvisational. Even routines that have been engaged in by the same people many times need to be adjusted to changing contexts. (Feldman & Pentland 2003:102.)

The ostensive aspect of the routine is the idea, the performative aspect, the enactment. Both aspects are necessary to constitute what is understood to be a routine (Feldman & Pentland 2003:102). Feldman and Pentland (2003) explain how the ostensive and performative aspects of organizational routines are recursively related. When routines are executed there is movement from ostensive to performative and from performative to ostensive. The manner in which people use the ostensive aspect in relation to the performative aspect is referred to guiding, accounting and referring. Individuals can choose the ostensive aspect of routines prospectively, as a guide to what actions that have to be taken, or retrospectively as a guide to accounting for actions already taken.

The performative aspect of routines is essential for the creation, maintenance, and modification of the ostensive aspect. Organizational routines are created through repetition and recognition. For example a written procedure and the idea it codifies must be performed repeatedly before it becomes an organizational routine. (Feldman & Pentland 2003:107.) Performing an organizational routine maintains the ostensive aspect of the routine by exercising the capability to enact it. For example; performing a hiring routine maintains and develops many of the capabilities required to perform it. Interviewing, for example is a skill that people often become better at as they practice it and as they attend to how others practice it. Lack of practice may lead to loss of skill. (Feldman & Pentland 2003:107-108.)

Routines are modified when the people enacting them choose to deviate away from the routine. An example is when people do new things - whether in response to external changes or in response to reflexive self –monitoring. The potential range of activities that creates and recreates the ostensive aspect of the routine is altered. However in the end members of an organization may or may not choose to incorporate variations into the ostensive part of the routine. Generally performances create and recreate the ostensive aspect and the ostensive aspect constrains and enables performances (Feldman & Pentland 2003:107-108.)

The recursive relationship between the ostensive and performative aspects of routines reveals power relations within routines. In the movement from ostensive to performative (guiding, accounting, referring), power can be interpreted in terms of managerial control. Managers are usually empowered to create rules and other artifacts that document a particular version of the ostensive aspect. While in the movement from the performative to the ostensive, variations may or may not get incorporated into the recognized routine. Individuals with power to identify particular performances as “routine” have the power to turn exceptions into rules and, thus, to enact the organization in ways they think appropriate. (Feldman & Pentland 2003:110.)

Feldman and Pentland (2003:112-113) adopt a model of variation and selective retention to explain change and adaptation within organizational routines. Performances are variations that are selectively retained in the ostensive part of the routine. Endogenous change can occur simply as a result of engaging in the routine and then selecting which variations to retain. Some variations will be intentional, in the sense that the participants want to change the ostensive aspect of the routine in order to alter the way they do their jobs. Other variations will be unintentional. Also there may be new interpretations of the ostensive aspect of the routine, or they may be accommodations to particular features of the given context. These variations enable routines to change.

However this type of change does not enable a routine to be functionally adaptive. To ensure functional adaption, Feldman and Pentland (2003:113) argue that variation and selective retention requires an effective and consistent selection mechanism. Selection within organizational routines occurs in two ways; first, people will sometimes vary the performances that the ostensive aspect of the routine guides, refers to, and accounts for. These intentional variations may be referred to as "selective variations" then from among the variations that are produced both intentionally and unintentionally, people performing the routine will interpret some as the ostensive aspect of the routine. Through this selection of variations, the ostensive aspect of the routine is created, maintained and modified. This is referred to as "selective retention." (Feldman & Pentland 2003:113.)

Feldman and Pentland (2003:113) explain that retention within organizational routines occurs when people turn a variation into part of the story about how the do their job. Feldman and Pentland (2003) state that, by simply executing the routine in various circumstances in which it must be performed, change in the routine can occur. They add that, if the change is combined with consistent, effective selection criteria, variation and selective retention can ultimately lead to functional adaptations. This basic process can be directly applied to the idea of continuous improvement.

In summary, routines can be conceptualized into two parts; the ostensive aspect (the idea) and the performative aspect (the enactment). Identifying the dual nature of organizational routines reveals a new way of conceptualizing routines and change. Change with the routine is the result of engaging in the routine itself, Feldman and Pentland (2003:112). The recursive relationship between the ostensive and performative aspects of a routine reveals two things. First, routines are modified when the people enacting them choose to deviate away from the routine. And second, the power and influence of firm managers to control the way work is executed in firms, as well as how their firms operate.

The performance of routines results in variations. People may intentionally vary their performance of a routine because they intend to change the way they execute their task, or people may unintentionally vary the performance of a routine to adapt to a particular features of a given context. This results in an endogenous change in routines. Change in routines occurs simply as a result of doing the routine in the various circumstances it must be performed and then selecting which variations to retain. When there are consistent and effective selection criteria within the firm, variation and selective retention leads to functional adaptations.

Pentland et al. (2012) introduce a generative model of organizational routines and their change over time. The model directly links micro-level actions within routines to the macro-level dynamics of routines. It demonstrates that variation and selective retention of patterns of action are essential and adequate to explain the features of organizational routines that are most relevant to dynamic capabilities. Focusing on actions and their repetition over time, the authors argue that the macro-level dynamics of routines emerge from the micro-level relationship between specific actions and patterns of action.

Pentland et al. (2012) outline four dynamics of routines that are related to macro-level outcomes such as dynamic capabilities. The four dynamics identified are the result of a review on empirical research on routines. The dynamics are:

- Formation: routines form through repetition and can form very quickly
- Endogenous stability: A hallmark of routinized behavior is that patterns of action tend to stay stable even when external conditions change. This resistance to change contributes to the tendency of routines to become less efficient and effective.
- Endogenous change: Paradoxically, routines exhibit changing patterns of action even when external conditions are apparently stable
- Learning: Routines are the primary mechanism for organization learning. They tend to improve over time, at least in the early stages of formation.

Pentland et al. (2012) point out that organizational routines have been linked to absorptive capacity. Zahra and George (2002) define absorptive capacity as a set of organizational routines and processes by which firms acquire, assimilate, transform and exploit knowledge to produce a dynamic organizational capability. The creation of dynamic capabilities depends on the underlying routines actually changing. If the routines display inertia, absorptive capability will be low, learning will be slow, and the capabilities of the organization may not be -particularly dynamic. Pentland et al. (2012:1501) argue that the core processes of variation, retention, and selection provide theoretically meaningful and practical levers for influencing the dynamics of routines. Managers or organization designers who intend to influence those dynamics can pull levers that act on variation, retention, and selection processes of routines.

Pentland et al. (2012) explain in detail each of the processes and how managers are able to influence them. Variation; is often an outcome of efforts to solve organizational problems related to the routines. Managers can deliberately encourage or suppress sources of variation. Examples of variation-inducing organizational mechanisms include; recombination, routines and mechanisms used in new product development such as cross functional teams or error, and decision-making, planning, and design. Disruptions can also introduce variation in patterns of action. Organizations/Managers can choose to introduce disruptions i.e. by acquiring new software or technology, changing locations etc. as well has having disruptions thrust upon them. (Pentland et al. 2012:1502.)

Methods for reducing variation include:

- Standards, processes such as (e.g. ISO 9000), content of job roles, and training
- Any kind of managerial control could also be considered as a mechanism for managing (generally reducing) variety.
- Procedural memory or the formation of habits
- Automation can reduce variety, although computer information systems might increase variety in some settings

Variation, regardless of how it is introduced, has significant effects on the formation and evolution of routines. From these examples variation is perceived as prospective i.e. you try something to see what happens. (Pentland et al. 2012:1502.)

Selection: Selection involves evaluating the outcomes of a particular repetition. Formal methods for decision-making and optimization can be thought of as meta-routines for selection. When used for selection, such methods are basically retrospective- looking back at the past to select which things to do in the future. However selecting techniques are not always effective; selecting on an outcome that is no longer relevant because the environment has changed can reinforce competency traps. When performing routines, individual actors may select pieces of performances for any number of reasons (ease, familiarity, guile, and personal gain). Artefacts may be programed towards selecting particular actions or patterns of action. In addition, there may be managerial accounting systems (e.g. activity based costing) that are intended to control the process/organization as a whole. In contrast selection is retrospective. After a variation has been tried, you can evaluate how it worked out. . (Pentland et al. 2012:1503.)

Retention: The main interest is in memory of past events, of how tasks were accomplished in the past. People possess the capabilities of remembering past events. However Pentland et al. (2012) explain that human memory may not be the only source of retention for patterns of action, and that further research needs to be done in the study of retention processes. Pentland et al. (2012) explain that in their model; variation occurs at the level of specific actions within a sequence, but selective retention occurs at the level of sequences (e.g. paying for an invoice), routines develop through the selective retention of sequences of action. The authors also point out that there is a distinction between the 'routine' and performances. This is because the word 'routine' is often used to refer to the fact that an organizational task is accomplished in a stable way, while performances that have been executed refer to a particular sequence of actions. Particular sequences of action that are the expression of a routine are selected and retained (Pentland et al. 2012:1485). This kind of hypothesizing concentrates attention to the features of the contexts which sequences of actions are produced, as well as the mechanisms by which they are produced, and provides opportunities to understand how these features affect stability and change. (Pentland et al. 2012:1503-1504.)

In summary, Feldman (2000) establishes that change within routines is a result of agency through action. Change with the routine is the result of engaging in the routine itself. Routines change because those who preform them, due to various circumstances, change them. Performance requires action, action through agency leads to change. Feldman and Pentland (2003) re-conceptualize routines into ostensive and performative parts. They show that the performance of routines results in variations, which if selected and retained lead to change in the ostensive part of the routine. Through the VSR model Feldman and Pentland (2003) illustrate that endogenous change in routines is a result of doing the routine in the various circumstances it must be performed and then selecting which variations to retain. Functional adaptations in routines occurs when there are consistent and effective selection criteria within the firm.

Pentland et al. (2012) explain the link between micro-level-routines and macro-level routines such as dynamic capabilities, they argue macro-level dynamics of routines emerge from the micro-level relationship between specific actions and patterns of action over time. The authors focus on the features of the contexts which sequences of actions are produced, as well as the mechanisms by which they are produced to demonstrate that variation and selective retention of patterns of action are critical in linking organizational routines to dynamic capabilities. Performances refer to particular sequences of action. Variation occurs at the level of specific actions within a sequence. The selective retention that occurs at the level of sequences of actions enables the development of routines.

The role of routines in dynamic capabilities is that they lead to performances that enable change, adaptation and development. The three articles above explain and describe how specific action and sequences of action enable change, adaptation and development. Capabilities entail what a firm can do. By performing its activities the firm executes specific actions and sequences of action. For change to occur agency is required. Routines change because of the initiative of those who perform them.

Consistent and effective selection criteria within a firm enables functional adaptation and the development of routines.

Change within routines is impossible without agency. Without managerial influence and intervention organizational routines cannot change. Firm managers have power and control over how firm employees execute organizational tasks as well as their outcome. Manager interpretation of the effectiveness of the actions taken by employees and their outcomes enables them to take the necessary action required to change performances. The recursive relationship between the ostensive and performative aspects of routines as explained Feldman and Pentland (2003) illustrates the significance of managerial influence. Firm managers have the power to control organizational routines through the creation of rules that document a particular version of the ostensive aspect as well as power to turn exceptions into rules. Firm managers are able to lead and guide the organization in ways they decide is appropriate.

In their VSR model Feldman and Pentland (2003) state that for routines to undergo functional adaptation, consistent and effective selective retention processes are necessary. Given the power, influence and control that firm managers possess over what the firm does, these selective retention processes should be found at the managerial level. While routines may change just by executing the routine in various circumstances in which it must be performed, managerial intervention, through specific selective retention processes, which are consistent and effective, enable routines to become functionally adaptive. According to Pentland et al. (2012) firm managers are able to influence the dynamics of routines through variation, selection and retention processes. Through deliberate means, managers prospectively induce or reduce variation processes. Variation mechanisms are critical to the formation and evolution of routines. Selection processes involve formal methods for decision-making and optimization which involves retrospective methods that evaluate the outcomes of a particular performances. After a variation has been tried, you can evaluate how it worked out. With variation process managers try something to see what happens while with selection process managers look back at the past to select which things to do in the future.

4 METHODOLOGY

This thesis study is qualitative. It focuses on concepts, definitions and descriptions and is guided by a desire to explain and to contribute insight into existing or emerging concepts that may explain human social behavior. (Berg & Lune 2012:3, Yin 2011:8, 93). Fink (1998:146) states that the main differences between qualitative and other methods can be found in the areas of research design, the use of an inductive and descriptive approach, and the narrative style of the study. She argues that qualitative studies tend to rely of single settings and relatively small samples from which in-depth information is collected.

This study researches the emerging concept of dynamic capabilities. The research aim is to explain and contribute insight into the mechanisms of RBV. This is achieved by to describing the relationship between firm resources, routines, capabilities and dynamic capabilities and how they influence export strategy and development. The study explains the mechanisms which export firm managers can use to maintain the competitiveness of their firms over time in dynamic market environments. The study adopts an inductive and descriptive approach, and relies on a small sample of articles for an in-depth analysis and discussion.

4.1 Literature review

This study relies on the review of existing research studies to answer the research questions. Fink (1998:3) defines a literature review as a systematic, explicit, and reproducible method for identifying, evaluating, and interpreting the existing body of recorded work produced by researchers, scholars, and practitioners. According to Yin (2011:64) the literature review can be separated into two parts; a selective review and a comprehensive review. The selective review targets other studies that appear to cover a similar ground and helps the author define their study in a more subtle manner, establishing a niche for a new study. The selective review is done after a decision on the subject of the study has been made. The comprehensive review is conducted out of a desire to summarize what is known on a given topic. Thody (2006:89) explains that in research, literature includes all secondary sources for the research which provide information related to the research but have not been produced specifically for the current topic.

Literature was sourced from academic articles, books and online sources. The academic articles were sourced from journals from key databases in international business namely; EBSCO, ProQuest, Science Direct, JSTOR Arts and Science collection as well as Wiley Online library. When searching for articles I used the following keywords; exporting, export strategy, export development, firm resources, firm capabilities, dynamic capabilities and organizational routines. I began with searching for review articles. Apart from providing an overview on key issues to be focused in the subject area, review articles allowed me to find specific articles more closely related to my research problem. The literature review for this study is divided into two stages; the first stage was focused on understanding the main concepts of the study and the context of exporting, the second stage was focused on reviewing and analyzing current empirical literature that combined the main concepts of my study and the context of exporting.

I began with a critical review of the main concepts of my study. Saunders, Lewis and Thornhill (2009:98) explain that a critical review enables the authors of the research to develop an in-depth understanding of, and insight into, previous research that relates to the research questions and objectives. This is achieved by setting the research in context by critically discussing and referencing work that has already been undertaken, drawing out key points and presenting them in a logically argued way, and highlighting those areas where the study provides fresh insights. The main concepts for the study were identified with the guidance of my thesis supervisor. These concepts were: resources and capabilities, dynamic capabilities routines. The context was exporting. Literature of the concepts was critically reviewed to find out what was already known. Key points about these concepts were drawn, argued and presented in a logical way in chapter 3. The review provided fresh insight into the role of firm managers and the relationship between resources and capabilities, dynamic capabilities and routines.

I then proceeded to the gathering of information to outline the main features and processes of exporting with the objective of describing exporting. This involved reading and reviewing literature on exporting. Literature on exporting was sourced from academic articles, books and online sources. A presentation of the key features of exporting is made in chapter 2. The decision to focus on export strategy and export development was the done to focus the context on the research objectives of the thesis. Dynamic capabilities are exercised at the strategic levels of the firm and export development is essentially the development of the firm's ability to export. Before begging to collect data a short selective review was done to search and evaluate previous literature on the subject of dynamic exportation capabilities. The details of the review are presented in the sub chapter 1.2 research purpose.

4.2 Data collection and analysis

The data for this study was collected by conducting a literature review of academic articles. These academic articles were empirical studies on the subject of the RBV and exporting. To combine the discussion of the theoretical review with the context of exporting, academic articles which had already been published and that discussed resources and capabilities and exporting, dynamic capabilities and exporting were searched for and reviewed. The following search terms were used in conducting the searches from the same databases used in the review conducted in the first stage: resources and exporting, dynamic capabilities and exporting, routines and exporting, strategy and exporting. The date of publication was specified from 2000-2013. Several articles from the following journals were identified and used for the analysis; *Journal of Small Business Management, Journal of the Academy of Marketing Science, American Marketing Association, Decision Sciences Journal, Journal of International Marketing, Management Decision, Journal of international Entrepreneurship.*

The discussion and analysis of the academic articles followed an induction approach. An inductive analysis according to Thomas (2006) uses detailed readings of raw data to come up with concepts, themes, or a model through interpretations made from the raw data by a researcher. Thomas (2006:238) states that the primary purpose of inductive approach is to allow research findings to emerge from the frequent, dominant, or significant themes, embedded in raw data without the restraint imposed by structured methodologies. He explains that in the inductive approach data analysis is guided by the research objectives. The research objectives identify the areas and subjects to be investigated. The analysis is carried out through multiple readings and interpretations of raw data. Although the findings are influenced by the research objectives or questions, the findings arise directly from the analysis of the raw data, not from previous expectations or models. The research objectives provide an area of focus of relevance for conducting the analysis, not a set of expectations about specific findings.

The analysis and discussion in chapter 5 was guided by the research questions and the objectives set out in the beginning of the study. The research questions guided the identification of the areas to focus on in the analysis. The main purpose was to answer the research questions. The discussion was extensive and rigorous. It aimed at finding core meanings in the text that were relevant to the research objectives. Once the core themes were identified they were categorized and illustrated through Table 2 and Table 3. The most important themes to the thesis, those were presented and described in the conclusions. The findings come directly from the analysis of the published articles. These findings answer the research questions, highlight the role of managerial action and a reveal gap in the research on the role routines play in exporting.

5 ANALYSIS AND DISCUSSION

This chapter is a combination of resources, capabilities and dynamic capabilities and routines and the exporting context. The aim of this discussion is to reveal the dynamic capabilities required by exporting firms, and how an exporting firm is able to develop dynamic capabilities. This is done by analyzing the relationship between, resources and capabilities, dynamic capabilities and routines with export strategy and export development. The purpose is to show how the tangible and intangible asset stocks that the firm owns or controls is able to facilitate export strategy and export development.

5.1 Resources and Capabilities in exporting

The literature review on firm resources shows that the tangible and intangible asset stocks owned and controlled by the firm, form the resource base that enables the productive activities of the firm. The difference between resources and capabilities in practice is that resources are what the firm owns while capabilities represent what the firm does. Capabilities are the intangible resources of firms that result from resource combinations; when the firm's human resources interact with the firm's other resource stocks. They are expressed through the functional activities of the firm. Capabilities become embedded in firm practices, processes and culture and are critical for competitiveness and firm survival. In the context of exporting firms, resources are the firm-controlled asset stocks that constitute the raw materials available to the enterprise's export venture business units while capabilities are the organizational processes by which available resources are developed, combined, and transformed into valuable offerings for the export market (Morgan et.al 2004:91).

A review of studies concerning the resources of export firms shows that most studies have focused on the relationship between export firm resources, strategy and performance. For example in a comparative study of export performance of United States and Canadian small medium enterprise (SME) exporters by Dhanaraj and Beamish (2003) reveal three sets of key resources that positively influence export firm's performance through constraining or strengthening the firm's expansion strategy. These resources are; firm size, enterprise and technological intensity.

Firm size represents managerial and organizational resources and is an indicator of managerial and financial resources available in the firm. Organizational resources are reflected in the firm's domestic market expansion, experience in distribution, management expertise in marketing, and the scale of the firm's operations. Entrepreneurial resources refer to the risk and drive of firm managers who are responsible for the growth of the firm. Excess resources enable a firm to look for opportunities for expansion. The enterprise of an exporting firm is typically represented in the management's inclination to consider expansion across geographic boundaries as well as its commitment to foreign market information gathering activity. Management's preference for foreign markets will result in the increased investment of foreign market information gathering activities and more investment in R&D. Technological resources are the tangible and intangible technical assets of the firm. A high technological intensity is usually indicated by a high R&D expenditure. Investments in R&D provide the firm with unique technological know – how, which often supports the expansion of the firm overseas. (Dhanaraj & Beamish 2003:245-246.)

Dhanaraj and Beamish (2003) argue that firm size, enterprise and technological intensity influence the degree of internationalization i.e. the firm's export sales and the number of markets the firm exports to. The bigger the size of the firm, the higher its technology intensity and the higher the enterprise of the firm. This leads to a high degree of internationalization, which Dhanaraj and Beamish (2003) define as high export sales to many international markets. High export sales and a high number of markets the firm exports to results in high profitability, a large market share and high sales growth.

Managerial expertise, particularly international marketing experience as well as capabilities built in domestic expansion and distribution can be leveraged to international markets. Managerial experience and international marketing experience will result in less uncertainty and a better tolerance for risk. This will encourage the pursuit of multiple markets to maximize profit and growth. Large scale manufacturing for example can lower costs and allow economies of scale. This enables the firm to produce more for export and makes exporting to a large number of markets cost effective.

While entrepreneurial resources are reflected in the manager's inclination to pursue international markets that desire is facilitated by a high commitment to gather foreign market information. The more that is known about different markets the easier it becomes to take the risk to export to those markets. The creation of valuable know-how through investment in R&D encourages a diversification strategy as exporting firms seek first mover advantages to maximize the value of their technologies as well as the returns on their investment. To maximize first mover advantages the export firm must export to as many markets as quickly as possible.

Morgan, Kaleka and Kastikeas (2004)'s empirical assessment of the antecedents of export venture performance illustrates the link between the export firm's resources, its capabilities, and the relationship between resources and capabilities with the export firm's strategy. According to the authors, the resource stocks that are influential to the export firm's competitiveness in foreign markets are; experiential resources, such as market and process knowledge gained from the firm's overseas market operations experience. These resources enable the firm's marketing program to match the needs of channel members and customers. Scale resources relate to the size and scope of the firm's operations. Scale resources considerably affect cost structures and influence competitive strategy and performance. Financial resources influence the working capital and financial liquidity requirements of export operations. Physical resources include modern equipment and access to valuable supply sources that facilitate the firm's process efficiency and product effectiveness.

These resources are inputs into the export venture's complementary capabilities, namely: informational capabilities, relationship building capabilities, and product development capabilities. Informational capabilities are related to the acquisition and dissemination of information about customers, competitors, channels and the broader export market environment. These capabilities help the firm to reduce uncertainty in export marketing. Relationship building capabilities enable the firm to build relationships with suppliers, customers and other channel members so as to better understand and be able adequately respond to export market requirements. Product development capabilities include the firm's existing product modification and new product development processes; enable the firm to be effective and efficient in delivering superior value in the target market. The firm's resources (experiential, scale, financial and physical) are combined and transformed through it's the firm's capabilities (informational, relationship and product development) into value offerings. (Morgan et.al 2004:94.)

Morgan et.al (2004) argue that the utilization of planned resources and capabilities available to the export firm provides the firm with strategic choices based on cost leadership and differentiation. Through examples, Morgan et.al (2004) explain that a cost leadership strategy through investments in manufacturing technologies enhances efficiency in the delivery of value offerings to customers. Marketing differentiation such as investments in promotional and brand development activities facilitates the delivery of unique value offerings to customers. Service differentiation through the implementation of competitive customer service programs that offer high levels of customer support will enrich customer value.

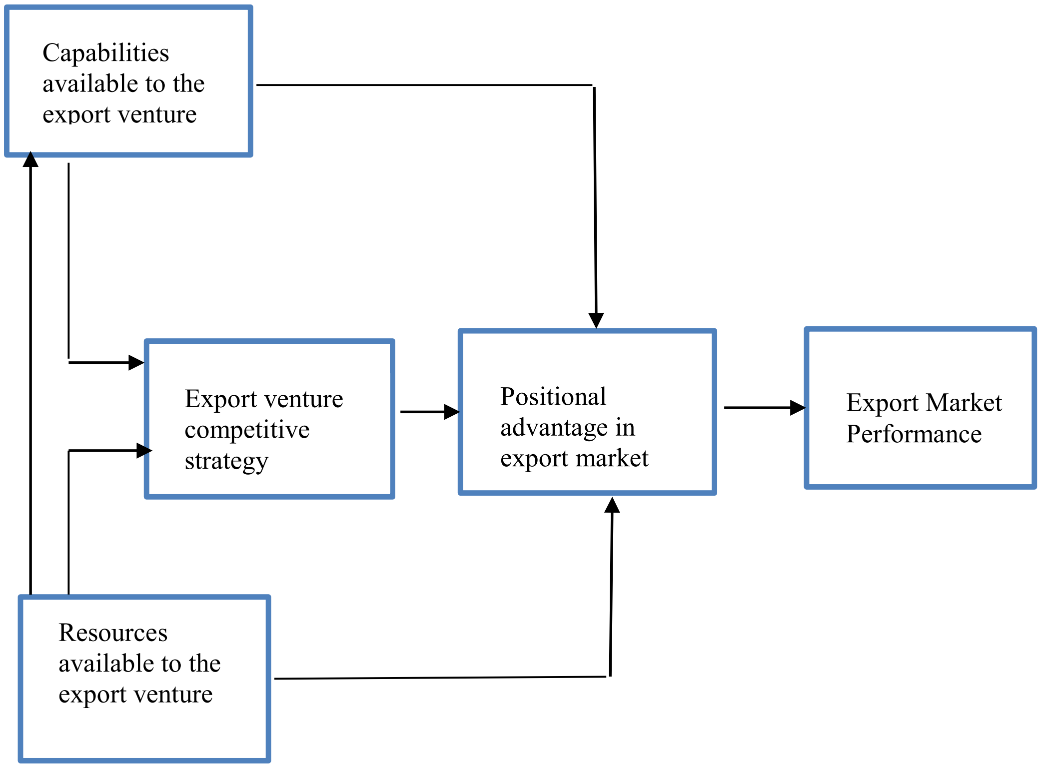

Figure 8. A Theoretical Model of the Antecedents of Export Venture Performance (adapted from Morgan et.al 2004:92)

In the figure above the resources available to the firm are inputs into the firm's capabilities. Planned resource and capability use influence the firm's strategy. The resources available to the export venture are the sources of the firm's capabilities. The firm's capabilities are derived from its resource stocks. In this case, the firm's informational, relationship and product development capabilities are developed from its experiential, scale, financial and physical resource stocks. The firm's resource stocks and capabilities influence the firm's strategy which leads to the creation of positional advantages in the target foreign market and positive performance outcomes.

Morgan, Zou, Vorhies and Katsikeas (2003) adopt a Knowledge Based View of the firm (KBV) to examine relationships between the export firm's knowledge base, capabilities and its adaptive performance.

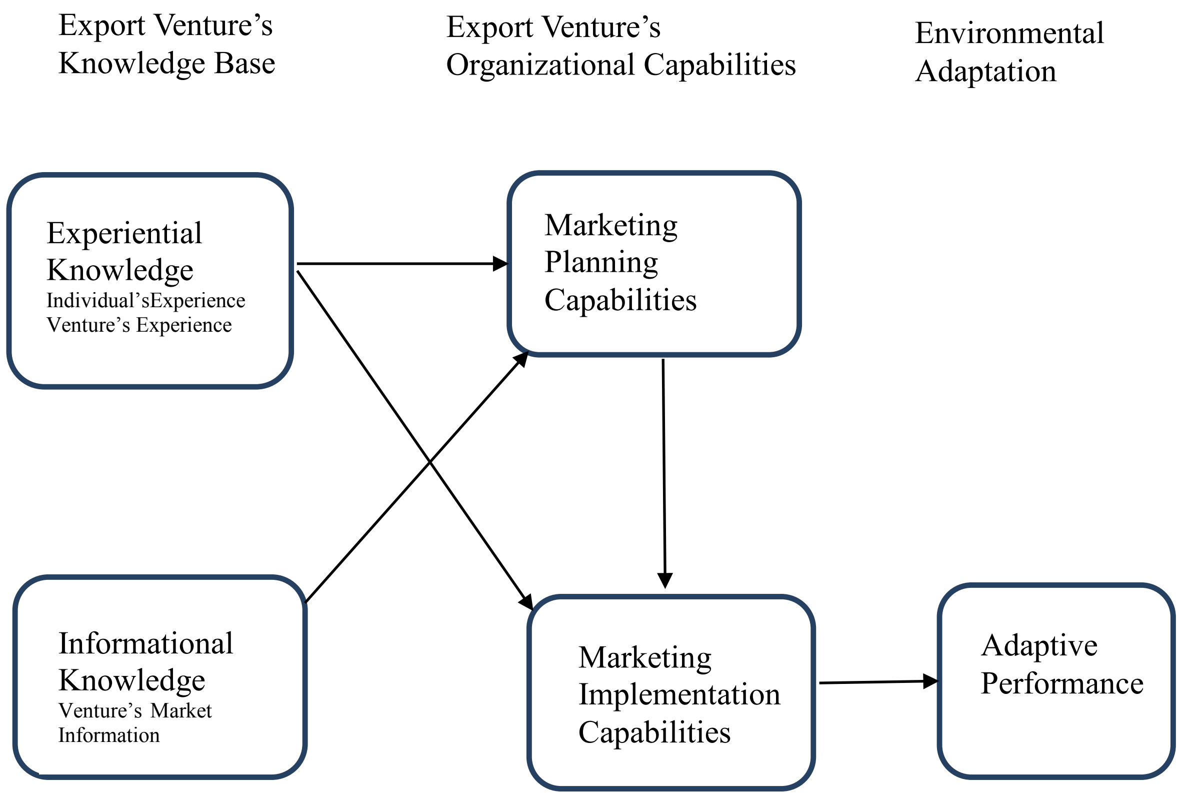

Figure 9. Hypothetical Model (adapted from Morgan et.al 2003:296)

Morgan et.al (2003) state that the resource base of export firms is made up of two main resources: Experiential knowledge and Informational knowledge. They argue that experiential knowledge at the individual level and informational knowledge at the firm level are essential to the export firm's marketing planning and marketing implementation capabilities. Individual-level experiential knowledge concerns the accumulated learning of individuals that allows them to perform relevant exporting tasks. This resource is transferred to the firm through the development of routines and is important for developing and using marketing planning and marketing implementation capabilities. Firm-level experiential knowledge concerns environment learning relevant to doing business in the firm's target market. This resource allows firms to better match their internal resources with external opportunities in foreign market environments. Firm-level experiential knowledge enables the firm to adapt better to its target market through the continuous creation and updating of the firm's marketing planning and implementation capabilities

Informational knowledge at the firm level is comprised of market information about the export firm's customers, competitors and channels, and the wider environment in the target export market. Market information about the export firm's target export market, provides insights into which value adding activities the organization should undertake, and how these should be accomplished in ways that match market conditions. Information input into the to the firm's market planning capability helps improve the quality of decision making by guiding how aspects of the venture's planning capability should be designed and managed to align it with the requirements of the exports market environment.

Morgan et.al (2003:292) explain that the capabilities an export firm requires are derived from the firm's knowledge resource base. The firm's knowledge resources are converted into organizational level capabilities through routines. Routines develop as a result of individuals and groups within the export firm exploit and apply available experiential and informational knowledge to solve the firm's problems. The routines that emerge, are combined within the organization to develop capabilities. Embedding the value extracted from informational knowledge into the firm through routines enhances the firm's efficiency and effectiveness. Individual level experiential knowledge becomes a knowledge asset of the firm through the development of routines which transform the knowledge into capabilities.

According to Morgan et.al (2003), the architectural marketing capabilities of marketing planning and implementation are the most important capabilities for the exporting firm. Marketing planning capability is made up of the processes used to organize the integration of the firm's specialized marketing capabilities (such as product development, advertising, channel management etc.), and the combinations of resources (e.g. brand equity, channel relationships etc.). It involves both the clear articulation of export marketing goals and the thoroughness, skill, and creativity with which strategies are developed to achieve them.

Marketing implementation capability is made up of routines by which the export firm transforms intended marketing strategy into realized actions and resource deployments. They are made up of resource allocation, monitoring and organizing processes. Marketing planning capability's influence on adaptive performance is dependent on the venture's capability to successfully implement marketing strategy decisions. Good strategy helps good implementation. The firm's resource base, comprised of experiential and market information knowledge allows export ventures to establish and adapt marketing planning and implementation capabilities that enable the transformation of the firm's available resources into superior adaptive performance outcomes in target foreign markets (Morgan et.al 2003:295).

In summary Morgan et.al (2003) establish the relationship between firm resources, capabilities and performance and highlight the role and importance of routines to the firm. The authors define the export venture's strategy as the ability to respond to the specific and unique requirements of their export target market and argue that this ability is essential in achieving positive performance outcomes (Morgan et.al 2003). This implies that knowledge resources are directly responsible for the ability of the exporting firm to plan and implement its strategy. The effective application of the firm's and employees' experiential knowledge as well as market information to plan and execute strategy makes the firm to be more adaptive to its target market. The development of capabilities through routines, reflects the export development process of the firm. Instead of focusing on the type of strategy the export firm should pursue the authors concentrated on the elements that facilitate the strategy process.

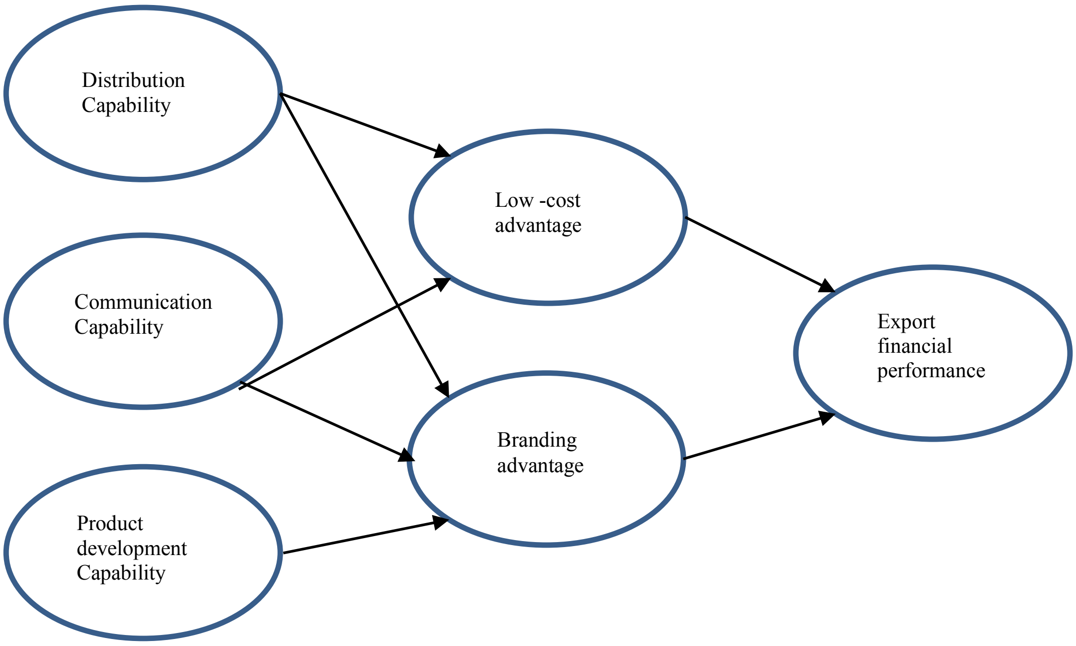

Figure 10. A conceptual model of export marketing capabilities and performance (adapted from Zou et.al 2003:36)

Zou, Fang and Zhao (2003)'s investigate the effects of a firm's export marketing capabilities on its export performance. The authors' highlight three core functional capabilities in a marketing mix that managers of export ventures can leverage. They are product development capability, distribution capability and communication capability. These marketing capabilities affect an export firm's financial performance indirectly by creating low cost and branding advantages. Zou et.al (2003) explain that distribution and communication capabilities positively influence low-cost advantage by facilitating a strong relationship between exporters and distributors, reducing distributors' opportunistic behaviors. The reduction in opportunistic behaviors decreases costs associated with forming and maintaining relationships. A superior communication capability enhances the market-sensing ability of exporters, enabling the firm to be better at collecting competitors' information such as their cost structure and market behavior. This allows the firm to be better able to design a competitive low-cost strategy. A low-cost advantage enables an export firm to achieve higher sales and/or profits compared to competitors. New product development and distribution capabilities help link external customers' needs with the firm's internal R&D creating high quality products with unique features, positively influencing the firm's branding advantage. A branding advantage entices customers to pay premium prices for the export firm's product.

Zou et.al (2003)'s model and study illustrates the outcome of an export firm's investment in the functional capabilities of distribution, communication and product development. The performance outcomes are mediated by the strategic outcomes these capabilities facilitate. The authors do not directly mention the strategic choices an export firm is likely to pursue. They instead focus on the market advantages that are created. Based on the advantages mentioned, the export marketing capabilities as mentioned in the study facilitate a competitive strategy of low-cost of differentiation. This strategic choice creates advantages in the target market which in turn influence the firm's performance.

Table 2. Key resources and capabilities in exporting

AUTHOR	RESOURCES	CAPABILITIES
Dhanaraj and Beamish (2003)	Managerial Entrepreneurial Technological	
Morgan et.al (2004)	Experiential Scale Financial Physical	Informational Relationship Product development
Morgan et.al (2003)	Experiential Knowledge Informational Knowledge	Planning Implementation
Zou et. al (2003)		product development distribution communication

The empirical studies reviewed above show the relationship between the firm's resource base, its capabilities, strategy and performance. Performance outcomes are in essence, the outcome of the export firm's strategy. A well-executed strategy will result in positive performance outcomes. Positive performance outcomes such as high sales revenue and profits are crucial to the development of capabilities. The revenue from high sales or a percentage of the profits can be ploughed back into the company for the investment and development of critical capabilities the export firm will require for growth. For example, Lages and Montgomery (2004)'s research on Portuguese SMEs found that the past performance of export firms is critical to SMEs commitment to exporting and to the determination of their current marketing strategy. While the performance outcomes were a critical aspect of these studies, this study is limited to the impact of resources and capabilities to export strategy and development.

According to the studies above, the resource base of exporting firms comprise a mixture of tangible and intangible assets. These assets that an export firm owns or controls are transformed by routines into capabilities that facilitate the formulation of strategy and the implementation of strategy. Firm resources determine the firm's capabilities. Both the firm's resources and capabilities facilitate the firm's strategy. Experiential knowledge seems to be the most critical asset as it is mentioned in three of the four studies. Experiential knowledge consist of accumulated skills that enable export tasks to be effectively and efficiently accomplished (Morgan et.al 2003).

Dhanaraj and Beamish (2003) for example mention experiential resources in terms of managerial experience in distribution and marketing, and experience in the management of the firm's domestic operations and expansion. The authors argue that when these experiential resources are in excess, they enable the firm to be able use them for expansion into foreign markets. Morgan et.al (2004) and Morgan et.al (2003) refer to experiential resources as the market and process knowledge gained from the firm's experience in foreign market operations. Know –how about exporting processes and the firm's specific export market context. According to both authors experiential knowledge enables managers to better understand the particular requirements of channel members and customers in the export market. Based on these three articles; experiential knowledge is acquired through the accumulation of experience of marketing and distribution processes before the beginning of export operations. It is also acquired through the accumulation of experience in foreign market operations once the firm commences exporting. This experience is accumulated by the export firm's personnel. Most likely the managers who are tasked with managing foreign market operations.

Experiential resources drives the enterprise of the firm's managers. This influences firm's managers to invest in other resources such as: foreign market information gathering, increasing the firm's scale of operations, financial capital and R&D. The investments in these resources together with investments in human capital facilitates the development of capabilities. There appears to be a correlation between the resources that enable exporting. For example the gathering of target market information informs the firm on what investments will add value to its export activities as well as how best to match its export operations with current market conditions. This may involve seeking more financial capital to; finance operations through working capital, increasing investment in skilled personnel, increase the size and scope of operations, investments in better machinery and supply chain, and investments in R&D. Or it may involve scaling back certain resources. The experience gathered by the firm's managers should enable them to be able to interpret how best to adjust their resources based on the market conditions that their firm's encounter.

The experiential knowledge of exporting accumulated by the export firm's personnel, informational knowledge accumulated by the firm, and the firm's financial, technological and physical resources enable the development of the marketing capabilities the firm needs to execute its export strategy. The capabilities mentioned in studies by Dhanaraj and Beamish (2003), Morgan et.al (2004), Morgan et.al (2003) and Zou et.al (2003) show capabilities that are crucial for international marketing operations. The successful execution of export operations critically depends on the firm's ability to build relationships that create distribution and supply channels and design and develop products that add value for their target markets. The analysis of the articles above show that the marketing capabilities that are most influential, are those that allow the export firm to efficiently and effectively plan and execute international marketing operations. The planning and implementation of export operations will rely on the experience of the firm's managers with exporting. This experience influences their ability to acquire and interpret valuable information about the firm's target market, then turn that information into deploying effective and efficient operations.

5.2 Dynamic Capabilities in exporting

The conceptual review of dynamic capabilities earlier in this study revealed that dynamic capabilities are made up of processes responsible for; identification and assessment of an opportunity, mobilization of resources to address an opportunity and to capture value from doing so and continued renewal (Teece 2012). These processes are most likely to be initiated and implemented by firm managers with an entrepreneurial orientation. Dynamic capabilities in exporting firms should represent sensing, seizing and transforming processes. They should represent the ability of the firm to continuously adapt and renew to remain competitive. This section explores the relationship between dynamic capabilities, the firm's resource base and the firm's strategy.

In Morgan et.al (2012)'s study of the effectiveness of implementing export marketing strategy in manufacturing firms that export to international markets, the authors draw from dynamic capability theory to examine the significance of marketing capabilities in enabling firms to successfully implement their planned export marketing strategies. They explain how and why marketing capabilities are important sources of competitive advantage and superior performance in export ventures. Their arguments are based on; the dynamic capability view of capabilities and, asset interconnectedness.

Morgan et.al (2012) state that the main drivers of planned marketing strategy implementation effectiveness are the capabilities within the firm that are used to translate marketing strategy decisions into appropriate tactics and resources deployments and those capabilities related to current market understanding and future market forecasting. They identify two types of higher-order marketing capabilities that play a vital role in enabling effective marketing strategy implementation in export venture operations:

1) Architectural export marketing capabilities. These are processes by which the exporting firm learns about its export venture market and uses this insight to make appropriate export market strategy decisions. Architectural export marketing capabilities include routines used to gather, process, and interpret export market

information; distribute relevant foreign market information to export decision makers; and develop export firm marketing strategies (Morgan et.al 2012:273-274).

2) Specialized market exporting capabilities, the authors refer these capabilities as export marketing-program related processes needed to implement export firm marketing strategies. These include product and pricing management, distribution management and delivery, post-sales service, marketing communications, and selling processes that a firm may need to transform its available resources into planned value offerings for target customers in the export firm's market (Morgan et.al 2012:274). Morgan et.al (2012) state that in the context of export ventures and export marketing implementation effectiveness, architectural export marketing capabilities and specialized market exporting capabilities are most valuable to the firm when they are interconnected or used in combination. Capability complementarity or capability interconnectedness creates causal ambiguity, and make it difficult for competitors to identify the source of a firm's observed competitive advantage.

The results of Morgan et.al (2012)'s study suggests that most of the export venture benefits of marketing capabilities are realized through the effective implementation of planned export marketing strategy. The study results show that export marketing capabilities have both a direct and an indirect effect on the performance of export firms. Although most of the performance impact of export marketing capabilities is indirect and operates through the implementation of planned export strategy, architectural marketing capabilities help to directly determine export venture financial performance and specialized marketing capabilities help directly determine export venture market performance.

Rodriguez, Wise and Martinez (2013)'s study focuses on the impact of innovation and entrepreneurship orientation, as dynamic capabilities on the firm's ability to integrate, build and reconfigure its absorptive capabilities. The firm's absorptive capabilities are developed from the firm's technology, market and social knowledge base. Absorptive capabilities are made up of exploration and exploitation capabilities. Their development is essential to the sustainability of exporting strategies over time as they represent the firm's ability to identify the value of new information, integrate it, and apply it to commercial ends as the firm responds tactically to foreign markets. Exploration capabilities involve the firm's ability to acquire external knowledge while exploitation capabilities leverage the firm's existing knowledge (Rodriguez et.al 2013:1645).

Rodriguez et.al (2013) describe exploration capabilities as capabilities that require learning to assimilate knowledge and problem solving skills to implement the firm's innovation efforts. Technology, market and social learning processes enable exporters to identify opportunities and to integrate external knowledge. Technology learning provides the firm with knowledge that supports the development of innovations and enhances the firm's performance through R&D capabilities, the design of differentiated products and speed to the market. Market learning determines the firm's preparedness to sense market and customer changes and anticipates responses. Social learning processes enable the firm to develop and maintain collaborative relationships with customers, channels and suppliers.

Exploitation capabilities are made up of market expansion-adaptation and a combination of manufacturing flexibility and innovation capability. Market expansion-adaptation capability entails the firm's ability to configure and deploy marketing resources among different export markets to achieve performance. Market expansion builds on the firm's adaptation capabilities. Adaptation requires enterprises to initiate strategic change which adjusts their market position through adding new products or eliminating markets from their portfolios as response to sensing changes in the competitive arena: Market expansion-adaptation capability is necessary in order to bring innovation output to international market and as such, becomes an exploitation capability that triggers export performance. An innovation capability combines manufacturing flexibility and technology capabilities with a deep understanding of markets. Manufacturing flexibility capability involves the firm's ability to manage production resources and infrastructure to meet customer demands. Innovation capabilities support innovation in products and processes through identification of customers' needs, product specifications, rapid prototyping and flexible production systems. (Rodriguez et.al 2013: 1647, 1656.)

Rodriguez et.al (2013: 1648) state that entrepreneurship orientation is characterized by a risk taking behavior, pro-activeness, and innovativeness. It constitutes a capability that allows initiating change, pursuing new business ventures, and recognizing new opportunities. It is a guiding and supervisory capability that aligns and realigns the export firm's strategic capabilities: manufacturing flexibility, innovation and market expansion in order to transfer new products and technologies to international markets. Entrepreneurship orientation nurtures new product development processes and the ability to design new products while shaping the firm's strategic position by providing flexibility to adjust and monitor internal capabilities.

Jantunen, Puumalainen, Saarenketo and Kyläheiko (2005) also highlight the significance of a firm's entrepreneurial orientation. Their study examines the relationship between a firm's entrepreneurial orientation, its reconfiguring capabilities and international performance. The authors describe entrepreneurial orientation as multidimensional concept which is comprised of; innovativeness - which is reflected in a firm's tendency to enter into experimentation, support new ideas and depart from established practices. Pro-activeness - refers to the propensity to anticipate future needs and changes in the operating environment and to pioneer new methods and techniques. A risk-taking propensity - represents the willingness to make investments in projects that have uncertain outcomes or unusually high profits and losses (Jantunen et al. 2005: 226).

Jantunen et al. (2005) explain that a firm with an entrepreneurial orientation creates opportunity through its actions. An entrepreneurial orientation facilitates opportunity recognition in new markets and is critical in the early stages of internationalization. It is essential for capability development and market penetration. Jantunen et al. (2005) state that reconfiguration capabilities are necessary to capitalize on the opportunities created as a consequence of entrepreneurial action. They argue that to exploit existing resources and accumulated knowledge in new markets, firms need the ability to reconfigure their processes, practices and structures to achieve a fit between their resources and capabilities and the requirements of new market environments. Firms must skillfully and effectively reconfigure their asset base by creating new processes, business models, complementary assets and organizational practices. This should enhance performance.

Table 3. Dynamic capabilities in exporting

AUTHOR	DYNAMIC CAPABILITY	
Morgan et.al (2012)	Architectural Specialized Integration	
Rodriguez et.al (2013)	Learning (Technology Social, Market) Market expansion-adaptation Manufacturing flexibility Innovation	Entrepreneurial orientation
Jantunen et al. (2005)	Reconfiguration	Entrepreneurial orientation

Morgan et.al (2012) show that the ability of the export firm to confront dynamic market environments rests on the effectiveness of both planning and implementing their export strategy. Architectural marketing capabilities and specialized marketing capabilities share similar characteristics with; the processes of identifying and assessing of an opportunities and, the mobilization of firm resources to address an opportunity and to capture value. Architectural capabilities resemble marketing planning process (the sensing and interpretation processes) while specialized capabilities represent marketing implementation (marketing mix operationalization). According to Morgan et.al (2003), marketing planning and implementation capabilities enable adaptive performance outcomes.

Morgan et.al (2012)'s study argues that the ability to integrate both architectural and specialized capabilities is a dynamic capability because an export firm possessing strong architectural and specialized capabilities is better able to make both appropriate marketing strategy decision with respect to the export environment and to have a wider range of executable strategy options from which to select. The integration of architectural and specialized capabilities enables the firm to be flexible. Flexibility is essential for highly competitive and volatile market environments. The ability to integrate capabilities is an essential feature of dynamic capabilities. It can therefore be argued that the integration of architectural and specialized marketing capabilities creates a dynamic capability that enables exporting firms to be flexible in strategic ways.

The possession of both architectural and specialized capabilities and the ability to use them in combination empowers the firm with the capacity to continuously transform and remain competitive. The authors show that dynamic capability is a strategic ability to plan and implement the firm's international marketing strategy. Therefore the integration of architectural and specialized capabilities enables the firm to be dynamic.

Rodriguez et.al (2013)'s study identifies absorptive capabilities as the capabilities that are important to the ability of the exporting firm to sustain its strategies over time because they enable the firm purposefully respond to foreign markets. The absorptive capabilities of exploration and exploitation closely resemble the sensing, and seizing capabilities that constitute dynamic capabilities. According to Rodriguez et.al (2013) the purpose of exploration capabilities is to acquire external knowledge and assimilate it within the firm. This is achieved when the firm institutes social, market and technology learning process (Rodriguez et.al 2013). Generally, learning involves the acquisition, interpretation and utilization of knowledge. Learning process are more likely to enable the understanding of: latent demand, the structural evolution of industries and markets, and likely supplier and competitor responses (Teece 2007). Social, market and technology learning processes facilitate the acquisition of external knowledge through continuous scanning, searching and exploration of potential markets as well as investing in the research of customer needs and technological possibilities (Teece 2007).

Rodriguez et.al (2013) describes exploitation capabilities as those capabilities that make use of the export firm's existing knowledge resources. Apart from maintaining and improving technological competences and complementary assets (Teece 2007) it also involves adapting the firm's marketing resources to different markets to allow market expansion. According to Teece (2007) the best way to achieve this, is for the export firm to design multiple business models. By configuring the firm's competences and complementary assets with physical technologies, the firm is able to define its commercialization strategy and investment priorities. The firm is then able to select a particular model that is most likely to meet market expectations. In this way the firm is able to decide how best to use its existing resources in the most effective way.

Jantunen et al. (2005) and Rodriguez et.al (2013) both share similar perspectives on the characteristics of an entrepreneurial orientation that an exporting firm needs. These characteristics are pro-activeness, innovativeness and a propensity to take risks. Jantunen et al. (2005) notes the significance of an entrepreneurial orientation in exporting as it facilitates opportunity recognition in new markets, it is critical for capability development and market penetration. Rodriguez et.al (2013) argues that an entrepreneurial orientation enables the export firm to initiate change. Whereas Rodriguez et.al (2013) combines entrepreneurial orientation with the ability to align and realign the export firm's strategic capabilities, Jantunen et al. (2005) separates entrepreneurial orientation with reconfiguration capabilities.

Jantunen et al. (2005) argues that reconfiguration capabilities are essential for the firm capitalize on the opportunities created through entrepreneurial action. Through the creation of new processes, business models, complementary assets and organizational practices, the firm is able to achieve an alignment between their resources and capabilities and the requirements of new market environments (Jantunen et al. 2005). Rodriguez et.al (2013) make a similar argument, stating that in addition to entrepreneurial orientation enabling the firm to recognize new opportunity it is also a guiding and supervisory capability that reconfigures the firm's strategic capabilities. The slight difference in perspective may be because to the two studies had different objectives.

What is important to this study is that both studies highlight the importance of reconfiguration capabilities, which is essentially to allow the adaptation, renewal and redesign and development of the firm's internal capabilities. According to Teece (2007) reconfiguration capabilities is critical for the firm to maintain its competitiveness by enabling the firm to adapt and become flexible. An entrepreneurial orientation combined with reconfiguration capabilities allows the export firm to be flexible in adjust to market conditions and monitor internal capabilities. Through redesigning business models, redeploying, realignment and renewing of routines and capabilities, the export firm is not only capable of creating new opportunities and capitalizing on them, but is also to break away from unfavorable path-dependencies that obstruct renewal (Teece 2007). When the firm is able to repeatedly sense or create new opportunity it has to be able to exploit those opportunities. New opportunities will demand new ways of doing things. A reconfiguration and redeployment of capabilities is necessary to break away from old ways and take advantage of the new, allowing the firm to remain competitive over time.

5.3 Routines in exporting

Research reviewed earlier in this study showed that organizational routines are the foundation of capabilities and dynamic capabilities (Winter 2003, Salvato & Rerup 2011) and routines enable learning in an organization. Since capabilities are essential to the strategy and development of exporting firms, the role of routines in exporting should be adequately explored. Feldman (2000)'s assertion that learning process is a process that takes place within organizational routines and that engaging in routines is a process of learning has important implications to exporting firms.

Morgan et.al (2003) state that learning is a process involving: the acquisition of information, interpretation of the information to derive meaning, utilization of the resulting understanding in ways that allow behavior change, and storage of the resulting knowledge for future use and sharing of information from the individuals to the organization and from the organization to individuals working in them (Morgan et.al 2003:292). Based on this view of learning, the environmental information acquisition and distribution processes as well as foreign market acculturation process among export firm employees are the primary mechanisms export firms utilize for learning about foreign markets. The acquisition of foreign market information and its distribution within the firm is a critical aspect of exporting because it determines how other firm resources are utilized. Market information is the main input into the export marketing plan. Individuals within the firm are better able to market the firm's product once they have adequate information about the target foreign market. Understanding the unique cultural characteristics of a foreign market is critical to developing an appropriate export strategy. The more export firms are able to learn about their respective markets the more they are able to develop their knowledge base and advance their exporting operations. These examples exemplify the significance of routines and the importance of learning in the exporting.

Morgan et.al (2003:292) illustrate the role of routines in the development of capabilities. The authors state that theoretically, routines develop as a result of individuals and groups within the export firm exploit and apply available experiential and informational knowledge to solve the firm's problems. These routines result in the sharing and combining of knowledge and the socialization of heuristics in the form of problem solving processes. Routines are combined within the organization to develop capabilities. One of the most important capabilities for exporting firms are absorptive capabilities. Absorptive capabilities are sets of organizational routines and processes by which firms acquire, assimilate, transform and exploit knowledge to produce a dynamic organizational capability (Zahra & George 2002). Rodriguez et.al (2013) explain that absorptive capabilities require learning to assimilate knowledge and problem solving skills to apply the firm's innovation efforts. The learning capabilities of technology, market and social supports opportunity identification and enables the firm to better integrate external knowledge. The external knowledge that is integrated into the firm facilitates manufacturing flexibility, innovation and market-expansion capabilities, which enable the firm to be dynamic.

Therefore organizational routines are essential for exporting because they enable learning. The learning process of assimilating and integrating external knowledge allows the firm to become dynamic. Exporting firms need to learn about the exporting processes, their target foreign markets, technological and market opportunities so that are able to successfully market their products to international markets. These learning processes lead to the development of capabilities which combine, transform and deploy the export firm's assets and resources in ways that create valuable outcomes (Morgan et.al 2003:292). This process of learning and capability development represents the export development process of the firm.

This brief discussion highlights the importance of routines to growth and development of exporting capabilities and to the export firm's dynamism. In spite of this significance, the influence of routines to export capability development and export strategy has not been extensively explored in current research. This presents an opportunity for further research on organizational routines and their relationship to export capabilities and export development.

6 CONCLUSIONS AND IMPLICATIONS OF THE STUDY

In the previous chapter the discussion and analysis was focused on revealing the resources and capabilities and dynamic capabilities that an exporting firm requires to remain competitive. The main subjects of the articles discussed and analyzed was either resources or capabilities and dynamic capabilities in exporting or a combination of subjects. The discussion and analysis concentrated on export strategy and export development. This is because of the significance of dynamic capabilities to both the strategy and the development/growth of the firm. Additionally the role of routines was examined and discussed. The discussion revealed the important role of routines and their development for the exporting firm. Through discussion and analysis the key resources, routines, capabilities and dynamic capabilities essential for creating and maintaining the competitiveness of exporting firms were noted and listed in the two tables Table and Table. The resources listed will provide the answers to the research questions below.

Before answering the research questions it is important to keep in mind the key features of exporting. Exporting is conceptualized as a **strategic** response by the management of a firm to the interplay of internal and external forces affecting the company. Strategy involves planning and implementation. An export strategy encompasses the development of specific routines and processes that enable the export firm to plan and implement its export strategy. The design and development of an export plan, decision-making, and operationalization of the export plan involves multiple processes and routines. Information gathering routines represent sensing processes, the information gathered is used to make decisions that represent seizing processes. Decisions on whether to export direct or indirect, whether to use a competitive strategy of cost leadership and differentiation, marketing standardization or adaptation and geographical diversification, how best to organize, structure and design the organization to facilitate operations, will depend on the information gathered through sensing processes.

Resources that the firm owns or controls (financial, human, physical, and technological) are essential in decisions on export form. They are also sources of the capabilities that are essential in facilitating the export development processes and directly responsible for the firm's competitive advantage. For exporting firms the most critical resource is experiential learning. The learning process is a continuous process where the export firm accumulate knowledge about its target markets. The knowledge and information accumulated enables the firm to increase the amount of resource committed to exporting operations. This increase in resource commitment leads to export growth and development. As the firm becomes more involved in its target markets, it is able to learn more about them. Experiential learning is therefore a resource that determines the use of other resources.

6.1 Answers to the research questions

What Dynamic Capabilities and Routines are related to exporting?

Based on the studies reviewed, the capabilities that enable dynamism in an exporting firm are a combination of absorptive capabilities and the export firm's entrepreneurial orientation

The discussion of exporting as a context shows the significance of an entrepreneurial orientation to the initiation, management, growth and development of exporting activities by the firm. Both Jantunen et al. (2005) and Rodriguez et.al (2013) define an entrepreneurial orientation as a multidimensional construct characterized by pro-activeness, innovativeness and a propensity for risk-taking. All three dimensions are critical for the success of any export venture. Exporting is essentially a strategic response by the firm to the interplay of forces that are external and internal to firm. The management's entrepreneurial capacity, particularly the ability to sense and interpret opportunities in foreign markets and the ability to align and re-align internal resources to capitalize on those opportunities has a significant influence on the factors that motivate the firm to initiate exporting operations

To ensure the growth and development of export operations, export firm managers need to be able to correctly interpret market information and assess risks. They also need to establish processes and routines to ensure the systematic gathering of market information, establish operational structures and develop the appropriate capabilities that facilitate international marketing. Export managers must be able to decide on; the amount of resources to commit to export operations, the choice of export form and strategy as well as to ensure the effective implementation of the export strategy. An entrepreneurial orientation allows the firm to meet all these demands. Pro-activeness for example enables the exporting firm to establish processes that allow the continuous anticipation of future needs and changes in the target market operating environment enabling the firm to sense changes and opportunities. This makes it possible for the firm to invent new methods and techniques to quickly respond to changes. A pro-active firm will quickly organize to take advantage of new opportunities.

Innovativeness – the action and the process of innovating for example enables the firm to turn new ideas into products and solutions that create value for its target market. WebFinance (2015) explains that Innovation involves deliberate application of information, imagination and initiative in deriving greater or different values from resources and includes all process by which new ideas are generated and converted into useful products. The creation of products and solutions that create value for consumers critical for the existence of any export venture as it allows the firm to successfully market its products. Decisions on resources allocation and investment that support new products and solutions, as well as the establishment of the organizational structures, capabilities and processes to support the international marketing of those products, require an innovative mindset on the part of the export firm management. Innovation is therefore a significant aspect of exporting success.

A tendency for risk-taking is essential for exporting especially in the decision to initiate export operations and during the early stages of exporting when the degree of uncertainty is very high. The management of the export firm takes risks in designing its product and selecting its target market, and has to make decisions about investments in resources that facilitate the marketing of its products and solutions to international markets. Such decisions have uncertain outcomes as they may lead to unusually high profits and/or losses. Without a risk-taking tendency, the firm may decide not to begin exporting. The firm will lose out on foreign market opportunities which may affect the firm's potential for growth and development.

An entrepreneurial orientation alone is not sufficient to make the export firm dynamic. Successful export firms establish absorptive capabilities to ensure continuous flexibility in dynamic market environments. Absorptive capabilities (Zahra & George 2002) are essential in making the firm flexible and adaptive. They enable export firms to acquire, assimilate, transform and exploit knowledge to produce a dynamic organizational capability. In the exporting context, absorptive capabilities can be divided into exploration and exploitation capabilities. They permit the export firm to make sense of the markets in which it operates and use the acquired information to develop innovative solutions. Being able to simultaneously sense market information and use that information to implement transform the firm's resources into valuable offerings allows the firm to be dynamic. The export firm is able to continuously innovate by transforming its resources into offerings that create value and meet the needs of its markets.

Exploration capabilities are sets of routines and processes concerned with the acquisition and processing of market information which enables the firm to develop its export strategy. Information acquisition requires learning mechanisms and processes to facilitate the identification of opportunities and to integrate external knowledge. When utilizing learning processes to acquire and integrate knowledge and market information, the firm needs to focus on acquiring knowledge that enhances its ability to produce products that create value for its target market. The export firm should focus on learning about its target market dynamics and plan responses to those dynamics. Equally important is learning about the unique business and cultural characteristics of markets so as to create collaborative relationships with distributors, channels, and suppliers to facilitate the flow of products. The information and knowledge acquired from market learning is used to develop and craft product offerings and that create value. The information acquired and the knowledge created allows the firm to create market responsive strategic plans.

Exploitation capabilities are sets of routines and process concerned with implementing the firm strategy. These capabilities allow the firm to exploit its resources and accumulated knowledge in response to market dynamics and competition. They are made up of routines that facilitate speed in developing new products and flexibility in production systems, adapting product offerings, entering new markets or exiting old markets, as well as adjusting the firms' infrastructure and production resources to meet market requirements. Exploitation capabilities are also made up of routines and processes which transform the firms' available resources such as market knowledge and experiential learning into offerings that create value.

These routines include processes such as product and pricing management, distribution management and delivery, post-sales service, marketing communications, and selling are critical in differentiating the firm's product offering from competitors.

The absorptive capabilities of exploration and exploitation resemble the sensing, seizing and transforming capabilities of dynamic capabilities. These findings correspond with Teece (2012) assertion that responding or instigating change in dynamic business environment requires diagnosing the structure of new challenges and then choosing an overall guiding policy that builds on the firm's existing competitive advantage. The dynamic capabilities that make it possible to succeed in such contexts involve good strategizing and good execution. He explains that although some elements of dynamic capabilities may be embedded in the organization, the capability for assessing and recommending changes to the configuration of resource assets (both within and outside the organization) rests on the shoulders of the firm's top management. The firm's top management's entrepreneurial and leadership skills around sensing seizing and transforming are required to enable the firm to be dynamic. This implies that the entrepreneurial orientation of the export firm's top management facilitates the absorptive capabilities of exploration and exploitation.

The second research question aims at identifying how exporting firms are able to develop the dynamic capabilities necessary to sustain competitiveness:

How can dynamic capabilities for export be developed?

Dynamic capabilities are developed over time. Their development is guided by the export firm's strategy. This implies that export firm managers determine what capabilities are developed and how dynamic capabilities for export are developed. The entrepreneurial orientation of export firm managers is essential in facilitating the building of dynamic capabilities and their development over time. An export strategy driven by an entrepreneurial orientation is critical in determining the particular type of capabilities to be built and developed. In the case of exporting firms those capabilities are the absorptive capabilities of exploration and exploitation. An exporting firm will a high degree of entrepreneurial orientation is more likely to commit towards developing the absorptive capabilities necessary to sustain competitiveness in dynamic business environments.

Export firm capabilities are developed through experiential learning over time. Export firm managers must create and guide the development of learning processes and routines that allow the firm's employees to acquire and accumulate knowledge about exporting operational tasks as well as routines and processes that enable learning relevant to doing business in the firm's target market environment. The objective of experiential learning routines concerning export operations and doing business in a particular target market should be to develop the firm's ability to plan and implement the export firm's strategy as well as to continuously align and re-align the resources which the firm owns and controls with the opportunities in target foreign markets.

In practice employees within export firms will be learning through experience by performing the tasks required to successfully accomplish the international marketing of the firm's product. As the employees encounter different problems when implementing marketing routines and processes in different circumstances and contexts, firm managers have to institute deliberate processes and process improvement routines that aim at solving those problems. In a dynamic market environment the context in which marketing processes are executed is constantly changing. Employees will vary the way they implement international marketing routines. Managers must deploy selective retention processes to retain those variations that adequately respond to market needs. In this way the firm develops its absorptive capabilities and becomes dynamic.

This means that when market changes make specific marketing processes ineffective, managers need to be able to diagnose the problem and take measures to improve the process or adapt the process to respond to market changes. This process involves sensing market changes, seizing on those changes and transforming the resources base. As consumer tastes and preferences are constantly changing managers must ensure that there is continuous investment in R&D over time. Through proper R&D processes the firm is able to develop its capabilities to explore market opportunities and exploit its resources. R&D involves systematic processes which combine both basic and applied research aimed at discovering solutions to problems or creating new products and knowledge (WebFinance, 2015). R&D is important in facilitating experiential learning through the creation of knowledge.

These findings have been derived from current research. They are the result of inferences made from analyzing current empirical studies on the subject of export strategy and development as well as dynamic capabilities. The findings are therefore consistent with what is currently know about the topic. The answers to research questions show how an entrepreneurial orientation is essential as a guiding and supervisory capability (Rodriguez et.al 2013) that drives the use and development of export capabilities and facilitates the dynamism of the export firm through development and use of absorptive capabilities.

6.2 Theoretical implications

This study is able to argue the conceptual and practical differences between firm resources, routines, capabilities, dynamic capabilities. Analyzing firm resources by separating them into different components enriches understanding of how resources impact firm performance. It shows how resources in practice affect firm performance this extends and advances the RBV of the firm. A rigorous review of literature reveals the relationship between firm resources, routines, capabilities, dynamic capabilities and the firm strategy. This study illustrates how routines convert firm resources into capabilities, how the functional adaption of routines facilitate dynamic capabilities and how strategy is determined by the firm’s resources and capabilities. An important outcome of this study is the illustration of the influence of firm resources and capabilities, routines and dynamic capabilities on export firms’ competitiveness and development.

The analysis and discussion of literature highlights the significance of routines on the firm performance and growth. This study shows how routines are fundamental to export firms' growth and development. And how routines influence the export firm's ability to sustain competitiveness in dynamic market environments over time. Firm routines are essential to learning, knowledge articulation and dissemination within the organization. Learning and the firm's knowledge base are the foundation of dynamic capabilities. Learning facilities growth and development over time as the firm is able to continuously improve the performance of its capabilities. The ability to adapt routines facilitates flexibility allowing the firm to adapt its organizational routines in response to market dynamics. The discussion of routines in previous studies is either very brief or non-existent. Future research into export strategy and export development should focus on the influence of routines on strategy and development.

6.3 Managerial implications

This study has revealed the importance of firm managers to the success of the export firm. Dynamic capabilities are higher –level capabilities, they are practiced at the managerial level of the firm. It is expected that for dynamic capabilities to be well practiced, firm managers should have a deep understanding of their firm's resources. By recognizing and understanding the importance and use of their firm's resources, managers will be better positioned to make appropriate decisions regarding which resources to invest in, how to invest in those resources, the best way to use firm resources and how to develop resources over time. By understanding how firm resources, routines, capabilities and dynamic capabilities are related and how they interact, managers are better positioned to make the strategic decisions required to maintain the export firm's competitiveness.

The importance of an entrepreneurial orientation and entrepreneurial action to the exports firm's dynamic capability means that export firm managers should actively seek to spread entrepreneurial skills within the firm. The export firm could create training programs within the firm to enable learning and facilitate knowledge transfer. The firm may collaborate with external consultants, training institutions such as colleges and business schools to create practical training programs which encourage an experiential learning culture among current and future employees of the firm. National export promotion programs should focus on helping export firms to invest in research and development to facilitate innovation and in developing dynamic capabilities by facilitating the development of export firm managers' entrepreneurial skills.

6.4 Evaluation of the research

Yin (2011:19) states that quality of a qualitative study is assessed by how the author has described and documented qualitative research procedures. All data needs to be transparent so that others should be able to scrutinize my work and the evidence used to support my findings and conclusions. Fink (1998:147) provides a checklist for evaluating the quality of qualitative research. She states that data collection methods must be reliable and valid and accompanied by supporting evidence of their accuracy. The study should contain proof of a rigorous research design, and analysis methods should be carefully explained.

The chapter on methodology describes and explains the method I used in conducting this study. All of the data which mainly consisted of academic articles from peer reviewed journals are available in my references list. The list of references also include book titles and online resources. Fink (1998:173) states that a reliable literature review is one that consistently provides the same information about methods and content from time to time from one person("within") and among several reviewers ("across") while a valid review is an accurate one. The author explains that in relatively smaller reviews where there is just one reviewer with limited resources, objectivity is improved when the single reviewer re-reviews a randomly selected sample of studies. Perfect agreement from the first to the second review is considered perfect interrater reliability.

This study falls into the category of a small review. To ensure that my findings were reliable, a search of peer reviewed articles was conducted using the search terms *export strategy*, *export development* this resulted in 18 articles. These article were further reviewed to find out whether their specific areas of focus were in anyway related to this study. This implied that the studies had to have focused on resources and capabilities, export strategy and the relationship between them. Also they had to be published between 2010 and 2015 so that the findings are more recent. Four peer reviewed, empirical study articles were found. Although they differed in method with this study their content and findings are related because they provide the same information.

Rundh (2010)'s empirical study explores how SMEs are meeting market needs in their export marketing strategy. A survey of 212 export manufacturers with experience in exporting and interview with experts established; the importance of product quality and the significance of flexibility (the ability to act or to respond to changing competitive conditions in order to develop or maintain a firm's competitive advantage) and that the ability to respond to external market is dependent on the firm's capabilities and resources. Chung (2012)'s study surveyed 100 manufacturing firms from New Zealand who were exporting to the E.U. firms. The study shows that export market intelligence generation and dissemination have positive associations with export market responsiveness and export market responsiveness is positively related to strategic export performance.

Leonidou Palihawadana Theodosiou (2011) surveyed export manufacturers in the UK studies and found that the adoption of specific national export-promotion programs positively strengthens the firm's export-related resources and capabilities. They found that national export promotion programs on export-related resources and capabilities are critical for SME's while some specific programs were important for SMEs with little international experience. While Rundh (2010)'s and Chung (2012)'s findings share similar explanation with the findings of this study Leonidou et.al (2011)'s findings confirm the practical implications of this study.

A valid study is one that has properly collected and interpreted its data, so that the conclusions accurately reflect and represent the real world that was studied (Yin 2011:78). The conclusions and answers to the research questions were the outcome of a rigorous analysis and the discussion of a select group of empirical studies on; resources, capabilities, dynamic capabilities, exports and strategy. The chapter on methodologies extensively describes how I collected the empirical studies and the method used in their analysis. The discussion and conclusions were based on the analysis, discussion and interpretation of the articles that were reviewed.

An important test of quality of a study is self-reflexivity. Yin (2011:272) states that the quality of a qualitative study is ensured when the reflexive self provides ample information that informs the circumstances in which the study's data was sought and collected. My cultural background had a significant impact on the choice of my thesis topic. I come from Tanzania a developing country that is currently trying to promote exports as a driver of economic growth. And I live in Finland a knowledge economy driven by exports. These two contexts have made me aware about the significance of exporting to national economies and influenced my desire to understand how exports can be successfully managed. Also I am highly motivated to understand strategy as a subject, and how it can be applied into the context of international business. I saw an opportunity to link dynamic capabilities (strategy) with knowledge about exporting to understand how both developing and developed countries can overcome their current challenge to grow their economies through trade and particularly exports.

My methodology was very informal at the early stages of the study. A lack of understanding of research methodologies and research planning meant that I spent too much time on the conceptual literature review, struggling collect to understand the relationship between concepts. Progress was slow as I spent too much time, selecting, reading and understanding articles. However, through guidance from my supervisor this situation changed as the study progressed. Thorough understanding through a proper and correct review of qualitative research literature would have saved plenty of time and avoided unnecessary challenges. I was working full time at the same time of writing the study. This impacted my writing schedule. These factors influenced my choice in selecting my data collection method. I perceived that a literature review would be more convenient for my situation, as I had limited time due to consuming too much time in the beginning of the study.

Based on the above criteria I believe that this study is trustworthy and its quality has been maintained.

6.5 Limitations and suggestions for further research

The main limitation for this study was that it was a literature review. No empirical data was collected. Although it was based on previous empirical studies, empirical data would have allowed the conclusions to be tested. This would have strengthened the findings. Another limitation was that the sample of the articles reviewed focused mainly on manufacturers who export. Dynamic capability research in service exports is a possible avenue for further research. It may yield unique insights and further extend applications of the dynamic capabilities concept.

This thesis may be further developed through an empirical study to test the findings and conclusions. The study may for example explore how export managers influence the development of absorptive capabilities. It may also explore how the entrepreneurial orientation of export managers influences the exports firm's strategy. Further research should be done to explore the relationship between routines and exporting dynamic capabilities. There is currently no evidence found in the literature reviewed for this thesis on such studies. The significance of routines to export capabilities and development is highlighted in this study, for example in the chapter on theoretical implications examples on the significance of routines to exporting firms are mentioned and suggestions on avenues for further research are presented. Further research with empirical evidence would be helpful in understanding this relationship in practice. Such research could explore the routines export managers create and develop to enable their firms to compete in highly competitive environments.

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