

Relationship Between Organizational Identification and Employee Perceptions of the Dynamic Capabilities of Leading Executives

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Abstract:

The relationship between dynamic capability (DC) and organizational identification is insufficiently studied. The present investigation aims to bridge this gap in the literature by empirically clarifying the relationships between how employees perceive the DC of their leading executives and how they identify relationally with their top executives and with the organization. We posit three testable hypotheses pertaining to the mediation or moderation of the connections between DC and employee organizational identification through interpersonal affinity with leading executives. Data will be collected through a web-based survey and will be empirically tested.

Track: Identity

Keywords:

dynamic capability, relational identification, organizational identification, top executive, relational identity

Introduction

The business environment is undergoing rapid changes because of digitalization and the use of artificial intelligence. Thus, many practitioners and researchers are constantly seeking ways to attain and sustain competitive advantage despite fierce competition. Dynamic capability (DC) has recently received much attention in the domain of strategy studies. The DC theory has developed remarkably over the last 20 years and is posited as more effective than the resource-based framework in investigating the conception and elucidation of organizational sources and the performance of competitive advantage in rapidly changing environments (Ambrosini, Bowman and Collier, 2009).

DC is generally defined as the organizational ability to utilize existing resources and build new organizational competencies to sustainably shape superior performance. In other words, DC denotes the capability of an organization to construct higher-level learning competencies that can simultaneously leverage the exploration and exploitation of resources or technologies (Teece, Pisano, and Shuen, 1997; Teece, 2007; Winter, 2003; Zhan and Luo 2008; Zollo and Winter, 2002). Therefore, from the DC perspective, to gain competitive advantages, a company must simultaneously exploit its existing resources, explore and develop its resources and capabilities in response to external environment changes, and sustain the construction of new resources and capabilities.

Several studies on DC have focused primarily on the organizational (firm) level. However, recently, some studies have investigated the microfoundations of DCs (see Devinney, 2013; Di Stefano, Peteraf and Verona, 2014; Teece, 2007; Teece et al., 1997). From the microfoundation perspective, a series of DC processes may be interpreted as individual capacities: the faster an environment changes, the faster organizational members are expected to acquire and adapt external knowledge to internal processes to either integrate it or convert it into a new realization. In other words, activities to exploit existing knowledge and explore new wisdom occur at the individual level.

Moreover, companies must attend to the human resources perspective to capture competitive advantages as business environments become uncertain and complex. Thus, they must address aspects of individual competence and organizational effectiveness through constructs such as leadership, commitment, and job satisfaction (Swanson, 2007). However, individual-level discussions are insufficient and researchers have rarely adopted the human resource approach. Organizational members must identify personal objectives with organizational goals and focus organizational resources and capabilities on the achievement of such aligned goals. Companies must particularly develop DC in their organizational members and proactively and promptly establish and execute strategies. The relationship between individual and organizational goals represents a research theme in the domain of organizational identification (OI).

Therefore, this study focuses on individual-level DC. Our study aims to empirically clarify the associations between DC and OI (relational and firm level).

Literature Review

Dynamic Capabilities

Scholars define DC differentially. Teece et al. (1997) describe DC as “a firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (p. 1229). Some studies have highlighted organizational processes to match market changes (Teece, 2007; Eisenhardt and Martin, 2000; Helfat et al., 2007), whereas others have attended to processes related to resource coordination, integration, and reconfiguration (Zott, 2003; Helfat and Raubitschek, 2000; Teece et al., 1997); abilities to absorb necessary information and external knowledge (Cohen and Levinthal, 1990); and capacities of acquiring information and adapting to market changes (Lu et al., 2010).

DC-related research aims to elucidate sources of competitive advantage (Teece 2007; Teece et al., 1997). Therefore, extant mainstream discussions have addressed the relationship between DC and organizational performance. Specifically, the discourse includes distinctions between ordinary capabilities and DC (Eisenhardt and Martin, 2000), performance as an indirect outcome of DC (Zahra et al., 2006), the importance of specific types, rather than the quantity, of DC (Eisenhardt and Martin, 2000; Teece et al., 1997), DC absorption abilities (Zahra and George, 2002), and DC-related learning processes (Lane, Koka, and Pathak, 2006). All these studies have employed the methodology of organization-level analyses.

Nevertheless, Laaksonen and Peltoniemi’s (2018) systematic synthesis of the existing DC-related literature indicates a few individual-level studies. Previous empirical research initiatives, particularly quantitative analyses, have explored the experiences, actions, and performance (Laaksonen and Peltoniemi, 2018) of employees or managers. Studies have also indicated the importance of executives and top management operatives for DC. For example, Pandza and Thorpe (2009) contended that evolutionary economics (Nelson and Winter, 1982) and experiential learning cannot adequately explain the existence of DC. They argued that discontinuous knowledge emanates from executive agency and competency, resulting in “creative search,” “path creation,” and “strategic sense-making.” Ambrosini, Bowman, and Collier (2009) posited that the environment-related perceptions of top management personnel and their determination of the need for changes instigate organizational transformations by utilizing resources or reconfiguring the resource base. Newey and Zahra (2009) demonstrated that organizational DC is driven by exogenous shocks as well as internal, endogenous entrepreneurship, which forms a crucial determinant of changes in DC. However, the DC-related literature has neglected this perspective at the individual level.

As noted, several studies have reported the perspectives of top management personnel, for instance, recounting how managers build or develop DCs (Galunic and Eisenhardt, 2001; Zahra et al., 2006). Nonetheless, the extant literature on DC has insufficiently attended to individual-level analyses (e.g., top managers and executives as DC agents). Therefore, our study will focus on the roles discharged by managers in

constructing or advancing DCs as generally defined at the organizational level by Teece et al. (1997) and Eisenhardt and Martin (2000) at the firm level. We will also consider how managers function apropos DCs (Galunic and Eisenhardt 2001; Zimmerman et al., 2001). We intend to define DC as the ability of a firm's top managers to transform, integrate, and reconstruct organizational resources in response to rapidly changing business environments. We will then contemplate how this ability affects organizational members (employees). We examine in the next section how employee perceptions of the DC of their top management personnel impact their behavior (i.e., the relationship between DC and the OI of employees), especially vis-à-vis establishing and executing strategies.

Identification in Organizations

OI denotes the sense of belonging to the firm and the degree of alignment of individual and organizational values and beliefs. Previous studies have focused on the organization and its subgroups such as teams and departments at the group level. An increasing number of recent studies on identity and identification at the interpersonal level have attended to role relationships in organizations, also labeled relational identity and identification.

According to role theory, relational identity pertains to the nature of role-based relationships (Sluss and Ashforth, 2007), for instance, boss–subordinate or colleague–colleague associations. Relational identity includes role relationships within an organization as well as links with specific individuals outside the organization, such as sales–customer affiliations. Conversely, relational identification represents a means of defining oneself in terms of one's role relationships (Sluss and Ashforth, 2007, p. 15). In turn, relational identity determines the extent to which individuals internalize their personality in terms of specific role relationships as a partial form of self-definition (Aron and Aron, 2000) and the degree to which their self-definitions reflect role relationships.

Sluss and Ashforth (2007, 2008) proposed that the interpersonal employee–supervisor relationship represents the most important determinant of relational identity and identification. This hierarchical subordinate–supervisor connection also denotes an important psychological factor because of daily workplace interactions and because the supervisor represents the organization in some instances and enforces its policies and procedures. Managers are charged with internally allocating organizational resources and developing and implementing strategies to improve the firm's efficiency and outcomes. These resources include organizational assets, capabilities, processes, attributes, information, and knowledge (Barney, 1991). Managers also represent the firm and act as chief decision-makers endowed with the position and authority to make and execute managerial decisions. Such strategic management decisions are complex and significantly impact the future of the firm (Child, 1972). Therefore, managerial members represent a key factor in the constitution of the organizational identity (i.e., who we are; Albert and Whetten, 1985) and substantively influence employees' attitudes and behaviors. In

addition, their effects on employee attitudes and behaviors are significant not only for DC-related studies but also for numerous other management studies, including investigations on leadership and human resources.

Several relational identification studies have indicated that the relational level links the individual and the organizational planes (Sluss and Ashforth, 2007, 2008; Sluss et al., 2012). Sluss and Ashforth (2008) postulated a model in which the relationships between relational and OI are mediated by cognitive, affective, and behavioral mechanisms and are regulated by task interdependence and prototypicality in subordinate-supervisor relationships. Sluss et al. (2012) also conducted an empirical study on the aforementioned process model and found that the identification of organizational recruits with their bosses converges with their identification with the company under certain conditions. Our study reveals that a manager who represents the company and commands DC elicits positive employee feelings and psychological security and fosters a sense of identification with the company. In other words, the DC of a top manager who represents the company can result in positive emotions among employees by inculcating a sense of psychological safety due to the existence of the company and cultivating a superior position, reputation, and image. Such actions can motivate employees to identify with the company. OI is thus thought to be mediated by employee identification with the manager. The following hypotheses are derived from the assumption of the highest level of managers in a company.

Hypothesis 1: The more employees perceive the dynamic capability of their top executives, the stronger their identification with the company's management.

Hypothesis 2: The more employees identify with the dynamic capability of their top executives, the stronger their identification with the firm.

Hypothesis 3: The relationship between employee perceptions of the dynamic capability of their top executives and employee identification with the firm is mediated by employee identification with the company's management.

Methods

Preparations are currently underway to conduct a web-based survey this year to test the presented hypotheses with a sample of 500–1000 respondents. We will refer to Eisenhardt and Martin (2000), Teece (2007), and Jantunen et al. (2005) to measure DC and assume that individual DC can be differentiated at the organizational level as exploratory absorption and conversion fusion capacity to develop a scale for individual DCs. We will then adapt Sluss et al.'s (2012) relational identification measure, changing

“supervisor” to “top executive.” Our survey will also incorporate five items from Mael and Ashforth’s (1992) renowned OI scale. All hypotheses presented will be statistically tested using SPSS and AMOS.

Expected Results and Research Directions

This paper will be positioned as a pilot study. In the future, we will develop a comprehensive theoretical model of DC and identification. We will present our conceptual framework at the BAM2024 DP session and aim to construct an effective and precise theoretical model and survey design based on the feedback received from this study.

If this study clarifies the relationship between DC and identification, which, to the best of our knowledge, is an unexplored research area, we believe that its findings will contribute to scholarly understanding of DC by uncovering its microfoundations. Further, this study could be significant for research on identification as a fresh perspective on employee identification with top-level managers, with whom ordinary organizational members have little to no daily interaction, and elucidate how this affiliation links to OI. Therefore, we believe that our study, although extremely challenging, can contribute to the literature on DC as well as identification.

BAM2024 Theme

The theme of BAM2023 is “Achieving transformation for greater good” As we have discussed, DC is indispensable to the organization to which employees belong, flex, adjust, and transform themselves in the context of unpredictable environmental changes. Organizations can command distinctive DCs but we, people working within organizations, ultimately possess and demonstrate the abilities so defined. In our opinion, identification denotes a means of converting individual DCs to the organizational level through relational affiliations.

We welcome advice and ideas from other conference participants for expanding the scope of this study and look forward to discussing how our hypotheses can be further refined and tested.

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