

THE ROLE OF ORGANIZATIONAL CAPABILITIES IN DRIVING STRATEGIC IMPORT PLANNING EFFECTIVENESS: PERFORMANCE CONSEQUENCES

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ABSTRACT

Drawing on the Dynamics Capabilities theory, this study develops and tests a model of the organizational capabilities determinants and performance outcomes of strategic import planning effectiveness. Data were collected from 195 British importers and analyzed using structural equation modeling. Findings reveal that certain organizational capabilities (i.e., information gathering, managerial functional capability, managerial proactive thinking, and market adaptiveness) are responsible for a more effective strategic import planning. The latter, in turn, is instrumental in gaining a competitive advantage, and ultimately improving both market and financial performance.

INTRODUCTION

Growing globalization of markets, stiffening of competition, and improvements in transportation, communication, and information technologies have been responsible for import trade achieving tremendous growth over the last decades (Knudsen & Servais, 2007; Trent & Monczka, 2003). In light of these trends, many firms are increasingly recognizing the importance of importing as a means to achieve growth and enhance business performance (Trent & Monczka, 2003). This is particularly true for small and medium-sized enterprises, where their engagement in importing is usually motivated by a desire to have better prices and higher quality, rather than lack of domestic availability of supply (Overby & Servais, 2005). To better exploit opportunities and accommodate challenges in importing, these firms need to develop certain organizational capabilities that will help them to adopt a sound strategic perspective in their international purchasing activities and improve their performance.

However, although it is widely admitted that organizational capabilities serve a decisive role in the selection, development, and execution of value-adding strategies (Lado & Wilson, 1994), these were tangentially investigated within an importing context (e.g., Petersen et al., 2000). In fact, extant research has centered on the association of organizational capabilities with isolated aspects of importing, such as strategy effectiveness (Petersen et al., 2000), competitive advantage (Kusaba et al., 2011), and business performance (Schoenherr et al., 2014; Griffith et al., 2010). Strategic planning issues, although critical for an importer's success, have received even more limited attention, with research focusing only on the design of the global sourcing plan (Cavusgil et al., 1993) and the extent to which firms are engaged strategically in global sourcing (Samli et al., 1998).

In light of these gaps in the importing literature, our study aims to propose and test a conceptual model of the role of organizational capabilities in driving strategic import planning effectiveness and its subsequent outcomes anchored on the Dynamics Capabilities theoretical

perspective. Specifically, our research objectives are to investigate: (a) the influential role of certain organizational capabilities on fostering effective strategic import planning; (b) the impact of sound strategic import planning on the creation of a firm's competitive advantage; and (c) the effect of this competitive advantage on the importer's market and financial performance.

BACKGROUND

The literature on strategic aspects of importing has taken several directions. One group of studies dealt with the *conceptualization of import strategy*. For example, Quintens et al. (2006) treat global purchasing strategy as a company's functional response to internal and external purchase-related challenges and opportunities, building on resources and capabilities associated with importing. They conceptualize global purchasing strategy as a higher order construct of four underlying dimensions: centralization of sourcing processes, standardization of product characteristics, standardization of personnel characteristics, and standardization of sourcing processes. Higher levels of global purchasing strategy correspond to a higher degree of integration and adjustment of global purchasing activities.

Another line of research developed *various typologies of import strategy*. For example, using a stages approach, Monczka and Trent (1992) identify five strategies over five corresponding stages in the evolution of worldwide sourcing, with each successive stage being characterized by increasing coordination, control, resource commitments, and sophistication. Adopting a relational approach, Andersson and Servais (2010) categorize industrial buyer strategies for international supply management based on perceived complexity and importance of the purchase, with each buyer strategy (e.g., supplier management) matching with the most suitable international seller strategy (e.g., technology differentiation). In a recent multiple case-study, Tolstoy and Axelsson (2018) categorize international purchasing strategies based on cost orientation and expansion mode. While cost orientation represents a predisposition toward transactional behavior between international buyers and sellers, expansion characterizes a more relationship-oriented approach to international purchasing.

A third group of studies focused on the *antecedents* of the existence and extent of *import strategies*. In this sense, key drivers of implementing international sourcing strategies primarily include product characteristics (e.g., lower costs, better quality, higher innovation), flexibility of the sourcing process, and a desire to obtain competitive advantage (e.g., Alguire et al., 1994; Gelderman et al., 2016). The extent of sourcing strategies was also found to be predicted by environmental factors (e.g., trade barriers), benefits received (e.g., cost reduction), firm characteristics (e.g., size, multinationality), competitive factors (e.g., domestic competitors sourcing internationally), and product characteristics (e.g., complexity) (Mol et al., 2005; Nassimbeni & Sartor, 2007; Trent & Monczka, 2003).

Another line of research centered on how the firm's *import strategy is actually implemented*. Studies focusing on this topic mainly describes the scope (e.g., number of sources, the source regions preferred, the nature of imported products), the process (e.g., identification of foreign suppliers, communication with foreign suppliers, payment to foreign suppliers), and the problems and challenges (e.g., logistics difficulties, legalistic constraints, finding qualified suppliers) of import strategy (e.g., Liu & McGoldrick, 1996; Trent & Monczka, 2003).

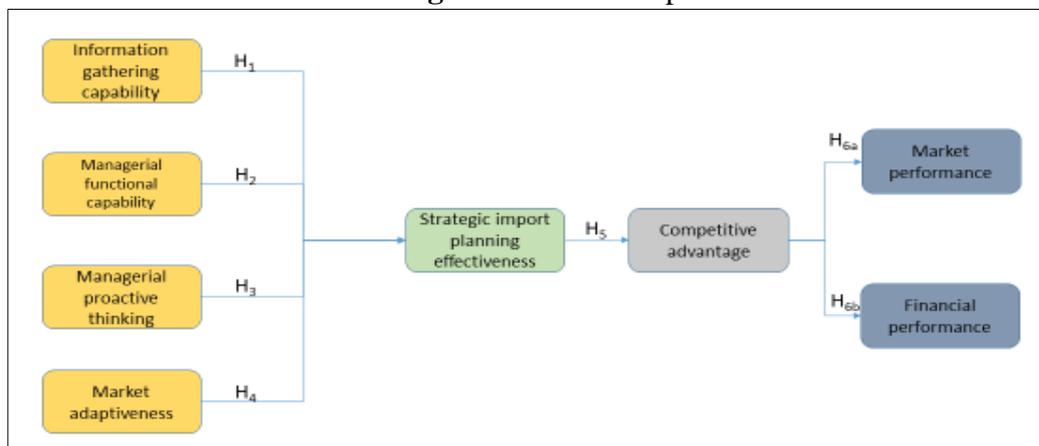
The *performance consequences* of importing strategies was the object of another group of studies. It was reported, for example, that the existence, extent, and importance of an import strategy lead to heightened business performance, expressed in terms of lower costs, better delivery, sales growth, and competitive position (e.g., Bozarth et al., 1998; Trent & Monczka, 2003). However, Mol et al.'s (2005) study did not empirically support this import strategy-performance link.

The final stream of research dealt with the *planning/organizational aspects* of importing strategies. Specifically, Samli et al. (1998) report that the treatment of global sourcing in the company as a strategic activity strengthens its role in the company strategic plans. Moreover, Hartmann et al. (2008) note that global sourcing strategies are accompanied by more centralized and hub-and-spoke type organizational configurations, while transnational sourcing strategies are characterized by decentralization and network structures. Furthermore, Jia et al. (2014) find that an importing strategy is related to the complexity of organizational structure, with more decentralized strategies implying more complex organizational designs for international purchasing offices.

CONCEPTUAL MODEL AND THEORETICAL BACKGROUND

Figure 1 illustrates the conceptual model of the study. Accordingly, four organizational capabilities (i.e., information gathering capability, managerial functional capability, management proactive thinking, and market adaptiveness) are considered as drivers of effective strategic import planning. The latter, is expected to create a sustainable competitive advantage for the importing firm, which will subsequently be conducive for improving the firm’s market performance and financial performance.

Figure 1: The conceptual model



Our conceptual model is anchored on Dynamic Capabilities theory. Dynamic capabilities refer to “a firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environment” (Teece et al., 1997, p. 516). Dynamism is inherent in the ability to renew the organizational competences so as to be harmonious with the changing environment (Teece et al., 1997). These difficult-to-replicate capabilities help the firm achieve new and innovative types of competitive advantage, shape the network in which it is embedded, and design and execute different business models that will yield superior performance (Teece, 2007).

DEVELOPMENT OF RESEARCH HYPOTHESES

An Information gathering capability refers to the ability of firm to obtain information about its environment (Sinkula, 1994). Strategic planning formulation requires information about the company, the market, the competition, and the environment, based on which firms anticipate the market and financial performance implications of their strategies (Makadok & Barney, 2001). Depending on their strategic objectives, firms can gather different types and amounts of information. A higher efficiency in gathering, processing, and disseminating this information within the importing organization implies that the firm can form more accurate expectations about how their resources will be used more effectively and efficiently in planning their import strategies (Makadok & Barney, 2001). Hence; **H₁: The higher the level of information gathering capability possessed by the importing firm, the higher the level of strategic import planning effectiveness.**

A managerial functional capability refers to the management of the core processes in a firm that are deployed to create economic value (Day, 1994). These processes encompass the key entrepreneurial functions, such as human resources, finance, operations, and marketing, and R&D, which are crucial in performing the firm's activities (Hooley et al., 2005). Importing firms rich in this capability are characterized by higher levels of cross-functional coordination and support to better design and implement market-oriented strategies (Hooley et al., 2005). It can also facilitate the importing firm to better understand the connection between the purchasing and customer value creation process, thus improving the effectiveness of its strategic planning process. Thus; ***H₂: The higher the level of managerial functional capability possessed by the importing firm, the higher the level of strategic import planning effectiveness.***

A managerial proactive capability refers to the firm's ability to take precautionary measures, actions, and procedures in anticipation of future events of a strategic nature, rather than passively reacting to them (Aragon-Correa, 1998). There are indications that strategically proactive managers tend to anticipate and take into consideration changes in the market, competition, and environment in a more swift, decisive, and systematic manner, which helps to have more effective strategic planning processes. (Aragon-Correa, 1998). This is expected to be of particular usefulness to importing firms, because of the very volatile, complex, and uncertain conditions characterizing the international environment. Hence; ***H₃: The higher the level of managerial proactive thinking possessed by the importing firm, the higher the level of strategic import planning effectiveness.***

Market adaptiveness can be defined as the capability required by the importing firm to effectively and efficiently adjust its strategies to better fit the fast-changing market conditions (Chakravarthy, 1982). The possession of such advantage helps the firm to better understand the market requirements and give direction to its competitive edge (Slater & Narver, 1995). Importing firms that have the ability are in a better position to adjust their strategic purchasing plans in terms of costs, quality, innovation, and other parameters to better reflect the new trends in the markets served (Day, 2011). This capability highlights the role of the importer as a facilitator (or even a performer) of the exporter's marketing activities (Coviello & Munro, 1995). Hence; ***H₄: The higher the level of market adaptiveness capability possessed by the importing firm, the higher the level of strategic import planning effectiveness.***

Strategic import planning is the process of planning, implementing, evaluating, and controlling strategic and operational decisions in order to direct its importing activities toward opportunities consistent with the company's capabilities to attain its long-term goals (Carr & Smeltzer, 1997). An effective strategic import planning process implies a setting of suitable import strategic goals and an indication of how its import strategy is configured and implemented to achieve a sustainable competitive advantage (Carr & Pearson, 2002). Hence; ***H₅: The higher the level of strategic import planning effectiveness by the importing firm, the higher the competitive advantage in the importing firm.***

A competitive advantage possessed by the importing firm, which can take the form of lower costs, product differentiation, or broader product-market scope, possessed by the importing firm will enhance both its market and financial performance. This is because: (a) having lower costs than competitors will enable the importer to offer higher value by decreasing customer acquisition costs through better prices (Li & Li, 2008); (b) product differentiation will create higher value by producing higher benefits, thus increasing customer satisfaction, building brand loyalty, and facilitating acquisition of new customers (Zhou et al. 2009); and (c) a broader product-market scope increases the firm's operations in multiple market segments, thus increasing its potential for more sales and profits (Porter, 1985). Thus; ***H₆: The higher the competitive advantage of the importing firm, the higher the level of its: (a) market performance; and (b) financial performance.***

STUDY METHOD

The study took place among importers in the United Kingdom in 2016. Initially, a random sample of 1,000 small-and-medium sized importing firms operating in a cross-section of industries was derived from the Dun & Bradstreet Directory. After contacting the person in charge of import operations to check his/her availability and willingness to take part in the study, we were left with 524 importing firms. The research instrument was a pre-coded, self-administered questionnaire. Construct operationalization was based on established scales from the literature that were further refined with the assistance of a panel of import managers. The questionnaire was prepared around the constructs operationalized, following the sequence of their appearance in the model. All constructs were measured on seven-point scales. A set of questions inserted at the end of the questionnaire evaluated the degree of familiarity, knowledgeableability, and confidence of the respondent to supply the information required. Before initiating the full-scale study, the questionnaire was pilot tested to ascertain its flow, duration, and ease of response, revealing no particular problems. All firms that expressed a willingness to participate in the study were sent the questionnaire by mail, giving them the option to provide their answers either by returned mail or electronically. We received a total of 195 completed questionnaires, representing a 37.2% response rate. Comparisons of the answers of early and late respondents, revealed no statistically significant differences between the two groups, thus excluding the possibility for non-response bias (Armstrong & Overton, 1977).

DATA ANALYSIS AND RESULTS

We analyzed the data with structural equation modeling (SEM), using EQS, in two stages: (a) assessment of the measurement model, construct reliabilities, and construct validities; and (b) testing the structural model.

Concerning the measurement model, confirmatory factor analysis revealed a good fit to the data ($\chi^2 = 1365.90$, $p = .00$, $df = 914$; $NFI = .95$; $NNFI = .96$; $CFI = .96$; $RMSEA = .06$, 90% C.I.= (.054,.067)) (see **Table 1**). Regarding the purification of the data, convergent validity was met, as the t -value for each item was always high and significant, all standard errors of the estimated coefficients were very low, and the average variance extracted for each construct was above .50 (Hair et al., 2018). Discriminant validity was also secured because the confidence interval around the correlation estimate for each pair of constructs examined never included 1.00 (Anderson & Gerbing, 1988) and the squared correlation for each pair of constructs never exceeded their average variance extracted (Fornell & Larcker, 1981). Construct reliability was also evident, with all constructs in our conceptual model having Cronbach's alphas greater than .70 and composite reliability coefficients higher than .50. We also tested the possibility of common method bias, by using the marker variable method, revealing the existence of no bias.

Table 1: Measurement Model Results

Constructs	Scale items	Stndrdized loadings	t-value	A	ρ	AVE	Mean score	S.D.	Items means	Items S.D.
Information gathering capability	IGC1	.86	*	.91	.85	.58	5.57	1.21	5.24	1.44
	IGC2	.88	12.57						5.79	1.35
	IGC3	.87	12.38						5.80	1.27
	IGC4	.82	11.26						5.44	1.38
Managerial functional capability	MFC1	.82	*	.88	.79	.56	4.92	1.26	5.37	1.37
	MFC2	.76	9.19						4.34	1.55
	MFC3	.83	10.34						5.20	1.34
	MFC4	.77	9.47						4.73	1.56
Managerial proactive thinking capability	MPT1	.69	*	.79	.71	.53	5.05	1.21	5.63	1.43
	MPT2	.88	8.11						5.05	1.55
	MPT3	.78	7.62						4.99	1.47
	MPT4	.65	6.58						4.55	1.69
Market adaptiveness capability	MAD1	.78	*	.88	.83	.57	5.03	1.27	4.73	1.62
	MAD2	.91	11.17						4.86	1.46
	MAD3	.84	10.28						5.54	1.25
	MAD4	.81	9.72						5.00	1.41
Strategic import planning effectiveness	SIP1	.73	*	.90	.75	.54	3.29	1.44	2.50	1.63
	SIP2	.90	8.00						3.36	1.87
	SIP3	.94	8.22						3.50	1.81
	SIP4	.83	7.54						3.53	1.82

	SIP5	.68	6.60						3.24	1.72
	SIP6	.64	6.35						3.58	1.75
Competitive advantage (higher order construct)	IPD1	.86	*	.91	.84	.58	5.32	1.09	5.37	1.21
	IPD2	.81	10.98						5.51	1.20
	IPD3	.89	12.73						5.20	1.21
	IPD4	.82	11.25						5.12	1.26
Low-cost advantage	ICL1	.88	*	.86	.78	.53	4.28	1.22	4.08	1.49
	ICL2	.99	14.12						4.16	1.46
	ICL3	.69	9.17						4.71	1.32
	ICL4	.72	9.62						4.17	1.52
Product-market scope advantage	IPS1	.93	*	.92	.86	.62	4.74	1.26	4.68	1.36
	IPS2	.95	17.67						4.79	1.39
	IPS4	.82	13.13						4.74	1.31
Market performance	MPR1	.79	*	.85	.74	.52	5.15	0.88	4.59	1.25
	MPR2	.80	7.90						4.73	1.08
	MPR3	.67	6.75						5.66	1.08
	MPR4	.66	6.67						5.51	1.20
	MPR5	.67	6.78						4.79	1.19
	MPR6	.76	7.62						5.67	1.06
Financial performance	FPR1	.75	*	.93	.84	.54	4.75	1.08	4.49	1.38
	FPR2	.83	9.64						4.68	1.30
	FPR3	.79	9.17						4.75	1.27
	FPR4	.87	10.26						4.79	1.25
	FPR5	.81	9.44						4.69	1.19
	FPR6	.88	10.34						4.85	1.10

Fit statistics: $\chi^2 = 1365.90$, $p = .00$, $df = 914$; NFI = .95; NNFI = .96; CFI = .96; RMSEA = .06, 90% C.I. = (.054, .067)

We subsequently tested the structural model, which revealed a good fit to the data. ($\chi^2 = 1609.81$, $p = .00$, $df = 935$; NFI = .93; NNFI = .94; CFI = .94; RMSEA = .07, 90% C.I. = (.067, .079)) (see **Table 2**). Regarding the individual hypotheses, results confirm the instrumental role of information collection capability on the effectiveness of strategic import planning, lending support to H₁ ($\beta = .15$, $t = 1.69$, $p = .09$). Likewise, firms with higher levels of managerial functional capability tend to have a more effective import strategic planning, which confirms H₂ ($\beta = .28$, $t = 2.94$, $p = .01$). Results also provide support to H₃, as importing companies demonstrating higher levels of managerial proactive thinking are characterized by greater import strategic planning effectiveness ($\beta = .41$, $t = 3.77$, $p = .00$). Market adaptiveness capability is found to positively influence the firm's strategic import planning effectiveness, thus supporting H₄ ($\beta = .16$, $t = 1.89$, $p = .06$). As expected in H₅, the more effective the strategic import planning, the higher the competitive advantage gained by the importer firm ($\beta = .40$, $t = 3.07$, $p = .00$). Finally, the study confirmed H_{6a} and H_{6b} that the achievement of such advantage helps to improve the importing firm's market performance ($\beta = .84$, $t = 4.34$, $p = .00$) and financial performance ($\beta = .81$, $t = 4.34$, $p = .00$).

Table 2: Structural Model Results

H	Hypothesized path	Standardized path coefficients	t-value	p-value
H ₁	Information gathering capability → Strategic import planning effectiveness	.15	1.69	.09
H ₂	Managerial functional capability → Strategic import planning effectiveness	.28	2.94	.01
H ₃	Managerial proactive thinking → Strategic import planning effectiveness	.41	3.77	.00
H ₄	Market adaptiveness → Strategic import planning effectiveness	.16	1.89	.06
H ₅	Strategic import planning effectiveness → Competitive advantage	.40	3.07	.00
H _{6a}	Competitive advantage → Market performance	.84	4.34	.00
H _{6b}	Competitive advantage → Financial performance	.81	4.41	.00

Fit statistics: $\chi^2 = 1609.81$, $p = .00$, $df = 935$; NFI = .93; NNFI = .94; CFI = .94; RMSEA = .07, 90% C.I. = (.067, .079)

CONCLUSIONS, IMPLICATIONS, AND DIRECTIONS

A central conclusion that can be derived from this study is that the possession of certain capabilities by the importing firm increases the likelihood of an effective strategic import planning, with the latter generating a competitive advantage that is conducive to enhance market and financial performance. Our study contributes to the importing literature by: (a) integrating the firm's organizational capabilities, strategic planning, competitive advantage,

and business performance within an importing setting; (b) strengthening our theoretical understanding of importing phenomena by introducing a Dynamics Capabilities perspective; (c) arming import managers with important input on how to effectively manage their import planning activities to yield superior performance; and (d) providing useful material to international business scholars to be used for further strengthening this important field of research. Import managers need to develop specific organizational capabilities associated with: information gathering through the cultivation of a learning organization; managerial functional processes through cross-functional coordination to support for customer value creation; management proactive thinking through the development of flexibility to recognize and appreciate new opportunities; and market adaptiveness through the monitoring and anticipating changes in their market, if they want to enhance the effectiveness of their strategic import planning process. This is vital in improving the firm's competitive advantage and ultimately enhancing its market and financial performance. Future research could take several directions. First, it is essential to obtain external validity for our conceptual model by replicating this study in other country settings. Also, Second, various other organizational capabilities (e.g., organizational learning) also warrant investigation as predictors of effective import strategic planning. Finally, there is a need to better understand the moderating role of certain external (e.g., market dynamism) or internal (e.g., internationalization level) factors on the capabilities-strategic import planning link.

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Appendix: Construct Operationalization

Constructs	Items	Item description	Source
Information gathering capability	IGC1	Understanding of firm's competitors	Griffith et al. 2010
	IGC2	Understanding of firm's customers	
	IGC3	Knowledge of the industry within which the firm belongs	
	IGC4	Knowledge of trends in the market	
Managerial functional capability	MFC1	Having a strong financial management	Hooley et al. 2005
	MFC2	Having an effective human resource management	
	MFC3	Having a good operations management	
	MFC4	Having an effective marketing management	
Managerial proactive thinking capability	MPT1	We are always looking for new opportunities.	Aragon-Correa (1998); Sharma et al. (2007)
	MPT2	Our main technology is focusing on having flexibility and innovation.	
	MPT3	We are very open and flexible to allow us to seize new opportunities.	
	MPT4	The field within which the firm currently conducts its business is broad.	
Market adaptiveness capability	MAD1	Acquiring new/innovative products from foreign sources	Morgan et al. (2004); Morgan et al. (2009)
	MAD2	Sensing new trends in the market	
	MAD3	Responding effectively to new customer needs	
	MAD4	Monitoring competitive products in the market	
Strategic import planning effectiveness	SIP1	Our strategic import function has formally written long-range strategic plan	Carr and Smeltzer (1997); Carr and Pearson (2002)
	SIP2	Our strategic import plan is regularly reviewed and adjusted to match changes in the company's strategic plans	
	SIP3	Our strategic import plan includes the right kinds of materials or services to be purchased from abroad	
	SIP4	Our strategic import plan includes various types of relationships to be effectively established with suppliers	
	SIP5	Our strategic import plan refers to importing strategies that are designed support our overall strategies	
	SIP6	Our company has a formal strategic import planning process	
Product differentiation advantage	IPD1	Importing products that are unique to the market	Vorhies and Harker (2000)
	IPD2	Importing products that customers will consider of high quality	
	IPD3	Importing products that are characterized by high innovativeness	
	IPD4	Importing products that customers will find very distinctly different features	

Low-cost advantage	ICL1 ICL2 ICL3 ICL4	Buying goods from abroad that have the lowest possible cost in the market Importing products that have the lowest possible prices to customers Emphasizing cost efficiency when importing and subsequently selling these products to the market Focusing on imports that will generate high volume of sales and spread costs	Vorhies and Harker (2000)
Product-market scope advantage	IPS1 IPS2 IPS3 IPS4	Our import activity aims to offer more products to the market Importing a broad range of products to cover multiple customer needs Importing products in order to serve more market segments Focusing on imports that will offer a limited line of products to the market (R)	Vorhies and Harker (2000)
Market performance	MPR1 MPR3 MPR4 MPR5 MPR6	Market share Customer satisfaction Customer loyalty Customer acquisition Company reputation	Griffin and Page (1993); Moorman and Rust (1999)
Financial performance	FPR1 FPR2 FPR3 FPR4 FPR5 FPR6	Sales turnover Operating profits Sales growth Return on investment Return on assets Return on sales	Hult et al. (2008)