The role of dynamic capabilities in the early stages of internationalization

Bernardo Munoz Angosto
Universidad Complutense de Madrid
ROSARIO Cruz
Universidad de Sevilla
Jesus Garcia-Madariaga
Complutense University

Paper from the 54th Annual EMAC Conference, Madrid, Spain, May 25-30, 2025

The role of dynamic capabilities in the early stages of internationalization.

Abstract

This study seeks to investigate the theoretical underpinnings that drive scientific progress in addressing the challenges faced by SMEs in early stage in emerging markets during their internationalization journey, particularly within the context of a digitally interconnected global economy. The primary objective is to deeply examine the dynamic capabilities of international entrepreneurs, recognizing their pivotal role in optimizing resource utilization and prioritizing international returns.

The widespread adoption of the Internet and advancements in information technologies have given rise to innovative business models and novel approaches to management. To pinpoint the most significant research areas, bibliometric and meta-analytical methods are employed using leading scientific databases. This approach helps identify key themes, prominent theories, and influential schools of thought in the field.

The empirical component of the study focuses on Peruvian companies, gathering insights from 156 interviewees. The findings highlight the significant role of managerial dynamic capabilities in improving international performance. Data obtained from the interviews reveal a critical need for managers to cultivate soft skills and acquire specialized knowledge in international trade and business. Furthermore, the research emphasizes the importance of focused training during key phases of the internationalization process, illustrating how dynamic capabilities are crucial for ensuring business success.

Key Words: small businesses, emerging economies, dynamic capabilities

Track: International Marketing & Marketing in Emerging Countries

1. Introduction

In today's interconnected and globalized world, businesses need knowledge, tools, skills, and relationships to successfully develop trade policies and compete in international markets. This study focuses on international business in emerging economies, particularly small businesses often led by international entrepreneurs. These entrepreneurs face challenges in improving their performance and ensuring their businesses thrive in global markets (Comex Perú and Banco Central de Reserva de Perú, 2023).

A key factor in today's global environment is the intensive use of digital technologies, which has reshaped international markets (World Bank, 2023). Many small businesses in emerging economies are led by entrepreneurs who understand the importance of expanding abroad but often lack the experience and knowledge to fully take advantage of these opportunities (Harvard Business School, 2023). Developing the necessary skills and abilities is crucial, as these are closely tied to support provided by foreign promotion agencies (Kotabe, 2017).

This research focuses on several themes: international businesses and markets, small businesses, emerging economies, the role of governments, and the impact of digitalization. It also explores the concept of dynamic capabilities—skills that help entrepreneurs use resources more effectively to improve their long-term international success. As specific objectives: Identify research areas, academic theories, and the dynamic capabilities of international entrepreneurs in global markets, as well as the resources influencing long-term international performance, to propose a causal model linking resources, dynamic capabilities, and international performance.

Studies show that in developing economies, about 20% of companies dominate international trade, while the remaining 80%—often smaller businesses—provide significant employment. Despite their importance, these smaller companies often struggle with a lack of training and resources to succeed internationally (Kotabe, 2017). Institutional support, such as skills training and foreign promotion resources, can become a key competitive advantage for these entrepreneurs.

This research uses bibliometric analysis to identify the main trends and authors in this field, providing insights into current and future research directions. The goal is to better understand how dynamic capabilities help international entrepreneurs in different stages to optimize resources and achieve long-term success in global markets.

2. Theoretical Framework

The digitization of the global economy has created new challenges for companies (Zott et al., 2011), leading to the development of new business models, management styles, marketing strategies, and changes in consumer behavior (Chakravorti, 2016). However, not all countries have the tools, ecosystems, or infrastructure needed to turn these challenges into opportunities (Rahman et al., 2017). Digital transformation, described as one of the most important revolutions in human history, plays a central role in these changes (UNCTAD, 2017).

Emerging economies are becoming increasingly important in the global economy (Kazlauskaitè, 2015 and Kumar et al., 2013). Still, research shows that their business ecosystems differ from those of developed countries (Knight & Liesch, 2016 and Ooi & Richardson, 2018). This highlights the need for more studies focused on understanding the factors that influence business behavior in these economies.

To address this gap, this study uses a bibliometric and meta-analytical approach (Cobo et al., 2011; Cobo et al., 2012; Murgado-Armenteros et al., 2015 and Castillo-Vergara, 2018). By analyzing scientific production from 2009 to 2018, this research identifies key factors and relationships to explain how businesses in emerging markets navigate global challenges and opportunities (Akbar et al., 2017).Using Scimat, 1,499 documents were reviewed, with 267 relevant works selected (163 from Scopus and 104 from WoS).

Furthermore, through the meta-analytical approach using keywords, we identified scientific production trends over time, the interest of leading journals, article titles, and key authors with significant publications, culminating in the selection of the primary theories underpinning our study, detailed as follows.

The theoretical foundation of this study begins with the Internationalization Theory, particularly the Uppsala Model developed by Jan Johanson and Jan-Erik Vahlne in the 1970s. This model explains how companies expand internationally, emphasizing that businesses view international opportunities as integral to their growth rather than focusing solely on domestic markets (Knight, 2004).

Next is the International Performance Theory, which evaluates how companies perform in global markets. This theory emphasizes assessing both financial and non-financial factors to understand the success of firms in their international activities (Lu, 2004).

The International Entrepreneurship Theory provides another crucial perspective, focusing on how entrepreneurs participate in international business. This theory highlights the importance of strategic collaborations, accessing global resources, and sharing knowledge with peers worldwide as key motivators for engaging in international ventures (Autio & Autio, 2010).

One of the central theories in this study is the Resource-Based View (RBV), which argues that companies achieve sustainable competitive advantages through effective management of their internal resources and capabilities. Initially developed by Barney (1991) and later expanded by Shuen (1997), this theory emphasizes that dynamic capabilities—such as adaptability and organizational learning—are critical for maintaining competitiveness in changing environments.

Finally, the Theory of Digitalization underscores the importance of leveraging digital tools and platforms to enhance business operations. (Wirtz, 2018).
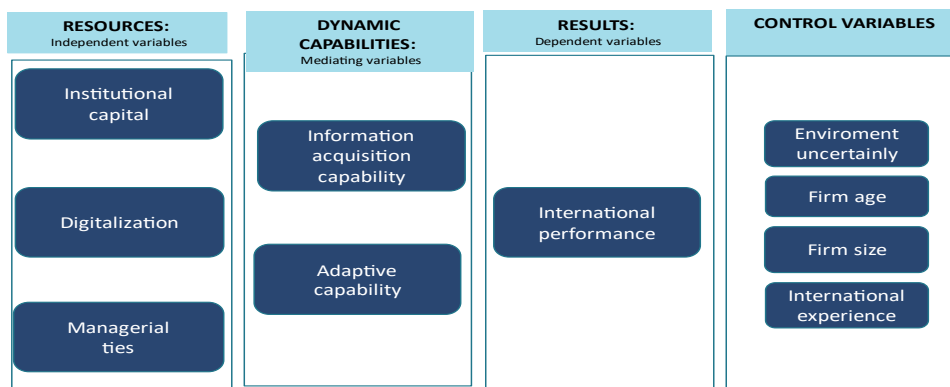
3. Base Model

Based on the meta-analytical approach conducted, which identified various theories, constructs, and corresponding measurement scales, we have developed a causal relationship

model aligned with the objectives of our research. This model incorporates independent, meditating, and dependent variables, as well as control variables.

The independent variables in the model are Institutional Capital, Managerial Ties, and Digitalization. These variables aim to explain the behavior of the dependent variable, International Performance. Additionally, in line with theoretical frameworks, the model includes mediating variables, specifically dynamic capabilities such as Information Acquisition Capability and Adaptive Capacity.

This structure allows for a comprehensive analysis of how these variables interact to influence international performance, providing a robust basis for understanding the dynamics at play.

Baseline Model

RESOURCES: Independent variables	DYNAMIC CAPABILITIES: Mediating variables	RESULTS: Dependent variables	CONTROL VARIABLES
Institutional capital	Information acquisition capability	International performance	Enviroment uncertainly
Digitalization	Adaptive capability		Firm age
Managerial ties			Firm size
			International experience

Drawing from the existing literature (Lu et al,, 2010), we define capabilities as a firm's ability to absorb, integrate, and transform both internal and external resources into sustainable competitive advantages, which ultimately lead to superior performance (Amit & Schoemaker, 1993; Grant, 1991; Sirmon et al., 2007 and Teece et al., 1997).Previous research highlights that entrepreneurial firms, often in a disadvantaged position in the market, face significant challenges in accessing critical resources. These include foreign market information and financial capital, which are essential for identifying and exploiting opportunities in international markets (Westhead et al., 2001).

4. Hypothesis

Information about international market conditions, potential customer needs, and regulatory requirements is crucial for entrepreneurial firms to make strategic decisions about international operations" (Yeoh, 2000).

Entrepreneurial firms depend on their capacity to gather and process information, as well as their adaptive capabilities regarding international markets, to enhance their performance.

1: Information acquisition mediates the effect of institutional information on international performance.2: Information acquisition mediates the effect of managerial ties on international performance.3: Information acquisition mediates the effect of new technologies on international performance.4: Adaptive capacity mediates the effect of institutional information on international performance.5: Adaptive capacity mediates the effect of managerial ties on international performance.6: Adaptive capacity mediates the effect of new technologies on international performance
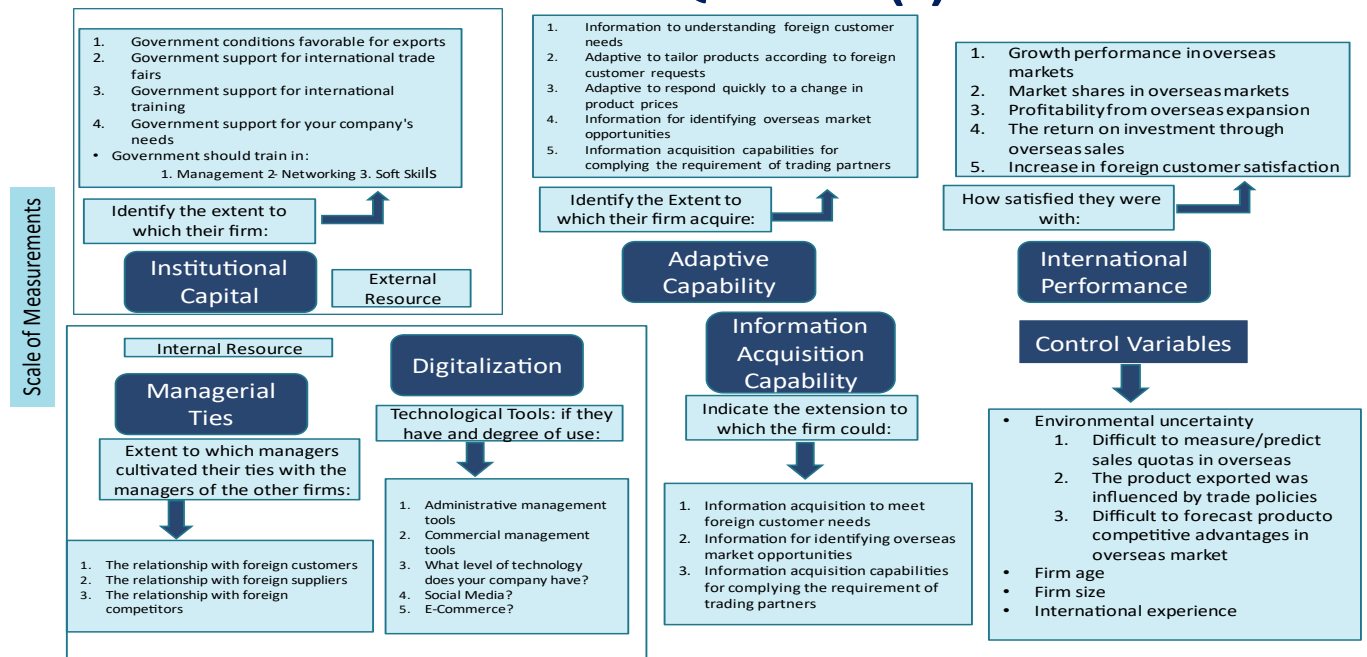
5. Empirical Testing

As indicated at the beginning of this document, the objective of the study is to analyze the role played by dynamic capabilities as mediating variables between resources and international outcomes.

Concerning about the definition of Target Population: Peru, as one of the leading countries in Latin America, stands out for its robust economic indicators, including one of the highest GDPs, the lowest inflation rates, minimal country risk, and substantial foreign reserves over the last 25 years. During this period, Peru has not only maintained consistent economic growth but also significantly increased its exports.

The USA was selected as the focus of the study because it is Peru's most significant export market, accounting for 33% of all exporting companies. Notably, 88% of Peruvian companies exporting to the USA are SMEs.

5.1 Sample and Data Collection - The questionnaire used in this research has been rigorously designed, based on a deep analysis of the literature identified in the meta-analysis approach. In this process, we identified a variety of previously validated authors and scales used in the literature to measure the constructs defined in our analysis (Lu et al., 2010). The questionnaire's core constructs were analyzed using various techniques. Descriptive data analysis employed statistical measures like mean and median to summarize the data, while Likert scale responses (rated 1 to 7) were examined through frequency tables and mean values. For quantitative variables, such as company lifespan and years of experience, metrics like range, median, mean, and standard deviation were calculated. Binary variables (e.g., use of management tools, social networks, or e-commerce) were analyzed based on "Yes/No" responses. These methods provided a comprehensive understanding of the data distribution and characteristics.

Research Question(s)

Scale of Measurements

Identify the extent to which their firm:

Institutional Capital

External Resource

1. Government conditions favorable for exports
2. Government support for international trade fairs
3. Government support for international training
4. Government support for your company's needs
- Government should train in:
   1. Management 2- Networking 3. Soft Skills

Internal Resource

Managerial Ties

Extent to which managers cultivated their ties with the managers of the other firms:

1. The relationship with foreign customers
2. The relationship with foreign suppliers
3. The relationship with foreign competitors

Digitalization

Technological Tools: if they have and degree of use:

1. Administrative management tools
2. Commercial management tools
3. What level of technology does your company have?
4. Social Media?
5. E-Commerce?

Identify the Extent to which their firm acquire:

Adaptive Capability

1. Information to understanding foreign customer needs
2. Adaptive to tailor products according to foreign customer requests
3. Adaptive to respond quickly to a change in product prices
4. Information for identifying overseas market opportunities
5. Information acquisition capabilities for complying the requirement of trading partners

Information Acquisition Capability

Indicate the extension to which the firm could:

1. Information acquisition to meet foreign customer needs
2. Information for identifying overseas market opportunities
3. Information acquisition capabilities for complying the requirement of trading partners

How satisfied they were with:

International Performance

1. Growth performance in overseas markets
2. Market shares in overseas markets
3. Profitability from overseas expansion
4. The return on investment through overseas sales
5. Increase in foreign customer satisfaction

Control Variables

- Environmental uncertainty
   1. Difficult to measure/predict sales quotas in overseas
   2. The product exported was influenced by trade policies
   3. Difficult to forecast product competitive advantages in overseas market
- Firm age
- Firm size
- International experience

In this research, a meticulous survey was carried out, involving the distribution of 1,742 emails to Peruvian exporters. Of these, 1,045 were sent to companies in the agro-export sector, and 697 were targeted at the textile sector. The questionnaires were distributed to all companies exporting to the United States within these sectors in 2021, representing 70% of the total exports to the U.S. in these categories.

This effort resulted in responses from 156 companies, offering valuable insights into the dynamics of export firms in the agro-export and textile industries. The methodology was guided by the frameworks proposed by authors such as Peng and Luo (2000), whose theories in international trade provided a robust foundation for designing and conducting the surveys and interviews.

The statistical analysis was performed using the software application RStudio (RStudio 2021.09.2+382 "Ghost Orchid" Release) for macOS.

The techniques and statistical tests employed included: Descriptive statistics for quantitative variables using usual measures of central tendency and variability, Correlation analysis among questionnaire items. The validity of the questionnaire was tested through confirmatory factor analysis. The reliability of the questionnaire was assessed using Cronbach's alpha. The proposed modeling was conducted through structural equation modeling (SEM).

Based on the theoretical models proposed and guided by the analysis of previous theories and studies, external resources (institutional capital) and internal resources (managerial ties and digitalization) were configured as independent variables. Dynamic capabilities (information acquisition capability and adaptive capability) were designated as mediating variables. International performance was set as the dependent variable, while control variables included

factors defining a company's international nature, such as age, number of employees, experience in international markets, manager's experience etc.

For this purpose, we proposed a baseline mediation model. Building on this baseline and following the nested model approach, various alternative relationships among the considered variables were suggested and aligned with the theoretical framework (from the Baseline Full Mediating model to Model 12, concluding with the researcher's proposed model). None of the models yielded the expected results until we reached model 13, which met all the expected values.

Model 13 Rival Mediating without Managerial ties
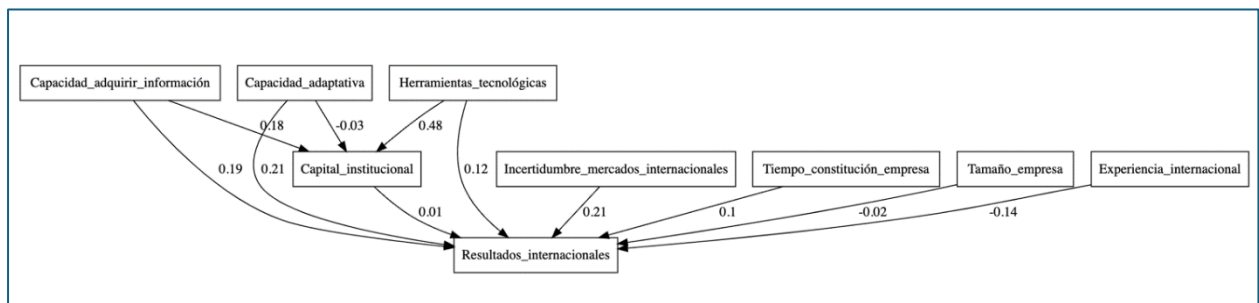
5.2 Hypothesis testing - According to model 13: rival mediating without managerial ties, only hypotheses 1,3, and 4 are fullfilled. Hypotheses 2 and 5 are removed from the model due to the elimination of the "managerial ties" variable, and hypothesis 6 is not formulated, as both adaptive capabilitys.

This insight encourages further exploration of the relationship between dynamic capabilities and international outcomes in emerging economies, which demonstrate distinct behavior despite possessing similar capabilities and resources.

Ultimately, in contrast to more advanced economies where dynamic capabilities act as mediators, in this emerging economy, they serve as precursors to resources. Consequently, effective evolution and development of a company's capabilities enable better resource utilization and, thereby, enhanced international performance

6. Conclusions

The main conclusion is that theoretical models from studies in advanced economies do not apply well to emerging economies. These economies have different business cultures, education levels, infrastructure, stages of market development, and priorities regarding economic and political factors

Based on the findings (Cuypers, 2020; Kumar, 2020; Asemoka et al., 2019; Korsgaard, 2020; Kuckertz, 2020; Seetharaman, 2020 and Zahra, 2020), we focus on the role of the international entrepreneur's dynamic capabilities in effectively utilizing internal and external resources. While this framework has been well-studied in developed markets, it has received

limited attention in emerging markets. The validated models often applied in advanced economies are not fully feasible in less developed regions due to differences in environments and stages of internationalization.

The proposed theoretical model is strongly supported by scientific research, as evidenced by references. However, an important conclusion emerges while the theoretical framework identifies dynamic capabilities as mediators between resources and long-term outcomes, there are instances where these roles may reverse. This is particularly evident in the early stages of engagement with international markets, where companies often lack substantial experience in building relationships with commercial partners. This finding, observed in our empirical analysis, raises questions that warrant further exploration in future research and directly addresses the central theme of our paper.

In relation to an Emerging Economy like Peru, the main conclusion we reached is that, although its study is justified because it represents an important macroeconomic value for the LATAM region; However, its unique industrial and political ecosystem makes it difficult to compare with countries like Brazil or Argentina, even those with similar characteristics. Therefore, the comparison of data provided by institutions such as the IDB, WB, UN, OECD and others shows us that it is necessary to perform a cluster analysis of countries according to their ecosystems and not according to their geography. The study highlights the significance of government support and its specialized programs training entrepreneurs in a targeted manner.

7. Limitations

The internationalization of entrepreneurial companies in emerging economies is a growing yet underestimated topic, limiting the availability of references for this study.

Future research should develop a comprehensive approach to measure institutional support, enabling a precise evaluation of its impact on companies' capabilities and performance during internationalization.

Another limitation was the reliance on perceptual measures of performance; future studies should incorporate multiple performance metrics.

This study aims to bridge the gap by exploring the interplay between resources, capabilities, and performance, laying a foundation for future research to deepen theoretical and empirical analysis

8. References

Akbar, Y. H., Balboni, B., Bortoluzzi, G., & Tracogna, A. (2017). SME export performance, capabilities, and emerging markets: The impact of institutional voids. European Journal of International Management, 1(2), 201-226

Amit, R., & Schoemaker, P. (1993). Strategic assets and organizational rent. Strategic Management Journal, 14(1), 33–46.

Asemokha, A., Musona, J.; Torkkeli, L., & Saarenketo, S. (2019). Business model innovation and entrepreneurial orientation relationships in SMEs: Implications for international performance, Journal of International Entrepreneurship, 17,425-453.

Banco Interamericano de Desarrollo, Informe. (2023). LAC2025: América Latina y el Caribe en 2025. Washington.

Barney, J. (1991). Firm resources and sustained competitive advantage. Journal of Management, 17(1), 99–120.

Castillo-Vergara, M., Álvarez, A., & Plasencio-Hidalgo, D. (2018). A bibliometric analysis of creativity in the field of business economics. Journal of Business Research, 85, 1-19.

CEPAL. (April 2016). CEPAL.org. Retrieved from Internacionalización de las PYMES: Medición, innovación y financiamiento. Consulted December 21, 2017.

Chakravorti, B. (2016). Where the digital economy is moving forest. Harvard Business Review, 1-20.

Kahiya, E. (2017). Export barriers as liabilities: near perfect substitutes. European Business Review, 29(1), 61–102.

Katsikeas, C., Morgan, N., Leonidou, L., & Hult, G. (2016). Assessing performance outcomes in marketing. Journal of Marketing, 80, 1–20.

Kazlauskalite, R., Autio, E., Šarapovas, T., Abramavičius, Š., & Gelbūda, M. (2015). The Speed and Extent of New Venture Internationalization in the Emerging Economy Context. Entrepreneurial Business and Economics Review, 3(2), 41–52.

Kumar, V. S. (2011). The effects of proactive sustainability strategies on consumer's brand perception and loyalty: An empirical study. Journal of Business Ethics, 102(1), 31-50.

Korsgaard, S., Hunt, R. A., Townsend, D. M., & Ingstrup, M. B. (2020). COVID-19 and the importance of space in entrepreneurship research and policy. International Small Business Journal.

Kotabe, M., Srinivasan, S. S., Aulakh, P. S. (2002). Multinationality and Firm Performance: The Moderating Role of R&D and Marketing Capabilities. Journal of International Business Studies, 33(1), 79–97.

Kuckertz, A., Brändle, L., Gaudig, A., Hinderer, S., Reyes, C. A. M., Prochotta, A., ... & Berger, E. S. (2020). Startups in times of crisis–A rapid response to the COVID-19 pandemic. Journal of Business Venturing Insights, e00169.

Lu, Y., Zhou, L., Bruton, G., & Li, W. (2010). Capabilities as a mediator linking resources and the international performance of entrepreneurial firms in an emerging economy. Journal of International Business Studies, 41(3), 419-433.

Luo, Y. (2022). A general framework of digitization risks in international business. Journal of International Business Studies, 53(2), 344–361.

Murgado-Armenteros, E., Gutiérrez-Salcedo, M., Torres-Ruíz, F., & Cobo, M. (2015). Analysing the conceptual evolution of quantitative marketing research through science mapping analysis. Scientrometrics, 102(19), 519-557.

Ooi, S. M., & Richardson, C. (2019). The internationalization of service-sector SMEs in an emerging market: Insight from business training and consultancy firms in Malaysia. Review of International Business and Strategy, 29(11), 44-60.

Peng, M.W. & Luo, Y, (2000). Managerial Ties and Firm Performance in a Transition Economy: The Nature of a Micro-Macro Link. Academy of Management Journal43,

Seetharaman, P. (2020). Business models shifts: Impact of Covid-19. International Journal of Information Management, 54, 102173.

Teece, D. J. (1997). Dynamic capabilities and strategic management. Strategic Management Journal, 18(7), 509-533.

Westhead, M. W. (2001). The internationalization of new and small firms: A resource-based view. Journal of Business Venturing, 16(4), 333–358.

Wirtz, B. W. (2018). Business models: Origin, development and future research perspectives. Long Range Planning, 51(1), 1-27.

Yeoh, P. L. (2000). Information acquisition activities: A study of global start-up exporting companies. Journal of International Marketing, 8(2), 36–60.

Zahra, S. A., Petricevic, O., & Luo, Y. (2022). Toward an action-based view of dynamic capabilities for international business. Journal of International Business Studies. https://doi.org/10.1057/s41267-019-00252-6.

Zott, C., Amit, R. H., & Massa, L. (2011). The Business Model: Recent Developments and Future Research. Journal of Management,