



The positive effect of the financial crisis on the dynamic capabilities of international intermediaries

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Abstract

Purpose – This study aims to explore the dynamic capabilities of international intermediaries that cooperate with Chinese factories. The authors determine the structure of these dynamic capabilities and inquire into the manner in which they allow an intermediary to respond to external change. Furthermore, the authors examine these capabilities both before and during a financial crisis in order to better understand how an international manufacturing intermediary can succeed during a poor economic situation.

Design/methodology/approach – Based on a case analysis involving multiple organizations, the authors use triangulated data from a variety of sources: five American intermediaries, 28 Chinese factories, and additional source data.

Findings – Results from this study show that, compared to other firms, intermediary organizations contain additional dynamic capabilities. This allows for the creation of a new three-tier model of intermediary capabilities: internal dynamic capabilities, external network capacity, and external dynamic capabilities. Furthermore, the authors demonstrate that impression management, *guanxi*, and other external dynamic capabilities can be used to influence how external firms allocate and re-allocate their resources and thus become a crucial dynamic capability. This case analysis also determines that the financial crisis actually strengthened the dynamic capabilities of these intermediaries.

Originality/value – This paper is the first to determine the structure of the dynamic capabilities for this type of intermediary and to demonstrate that they possess dynamic capabilities that can influence how an external firm re-allocates resources. Additionally, the authors extend the dynamic capabilities literature to the type of firm that operates in an emerging economy.

Keywords Dynamic capabilities, Impression management, External dynamic capabilities, Intermediary
Paper type Case study

1. Introduction and purpose

1.1 Background

The purpose of this study is to examine the firm-level capabilities of successful international intermediaries, particularly American small and medium-sized enterprise (SME) intermediaries that cooperate with Chinese factories. In general, international intermediaries play a key role in international trade, with only a small portion of organizations directly exporting to foreign markets (Bernard *et al.*, 2009). Past research has shown two general reasons that intermediaries exist: to facilitate the matching of buyers and sellers (Rubinstein and Wolinsky, 1987) or to act as guarantors of quality (Feenstra and Hanson, 2004). Additionally, reasons that manufacturing firms may utilize an intermediary are plentiful; for example, they possess a core competency product (Bernard *et al.*, 2011) on which they concentrate their internal efforts to overcome market-specific costs in international trade (Ahn *et al.*, 2011), product distribution (Antràs and Costinot, 2010), and market knowledge and commitment



of resources (Jull and Walters, 1987). Although research on intermediaries has not been extensive, in recent years, growing attention has been directed toward intermediaries in international trade and the creation of new theories (Melitz, 2003; Akerman, 2010; Ahn *et al.*, 2011). Still, many of these studies have been undertaken by economists and concentrate on a variety of topics, such as productivity and costs (Melitz, 2003; Bernard *et al.*, 2010), mode of export selection (Bernard *et al.*, 2011; Ahn *et al.*, 2011), or export dependence (Arzu Akyuz and Erman Erkan, 2010). Very few studies, however, have been conducted to discover the competitive strategies and firm-level capabilities of international intermediaries. With the general acceptance of the importance of this type of firm in international trade, we set out to look into the firm-level capabilities of an intermediary, as well as how these organizations can create sustainable competitive advantage.

To date, there have been two primary areas of study surrounding sustainable competitive advantage: the resource-based view, RBV (Porter, 1980; Wernerfelt, 1984; Barney, 1991), and dynamic capabilities (Teece and Pisano, 1994; Eisenhardt and Martin, 2000). The RBV theory states that competitive advantage stems from invaluable, rare, imperfectly imitable, and imperfectly substitutable resources (Barney, 1995). This theory has been used to explain how certain firms attained sustainable competitive advantage in non-changing environments and tends to be viewed as static (Barney, 2001; Lockett *et al.*, 2009). Intermediaries, however, do not tend to act in static environments. They must deal with a variety of changes in areas such as production and market demand. Furthermore, although certain resources aid competitive advantage, such as logistical or technological resources, these tend not to qualify as non-imitable. Due to the static nature of the resource-based view, this theory does not fully explain sustainable competitive advantage for intermediaries due to their ever-changing environment. The importance of taking into consideration the nature of change in the external environment (Teece and Pisano, 1994) led to the theory of dynamic capabilities. Dynamic capabilities have been defined as a “firm’s ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments” (Teece *et al.*, 1997). Moreover, since its inception, the theory of dynamic capabilities has been widely used to explain the competitive advantage of firms in a changing environment (Eisenhardt and Martin, 2000; Zahra *et al.*, 2006; Augier and Teece, 2008). Due to the theory’s applicability to this type of changing environment, we decided to utilize a dynamic capabilities approach to research intermediary firm-level competitive advantage.

To study the dynamic capabilities of international manufacturing intermediaries in environments of rapid change, we chose US-China intermediaries (American intermediaries that have products produced in China and sell to American retailers and end-users) as a boundary for this study. China, due to its product quality, relatively low labor cost, and developed logistical system, has become a primary source for manufactured goods, with many labeling the country “the world’s factory” (IMF, 2008). Outsourcing to China has been a common and important business strategy for many American firms. There has been a large amount of empirical research on the benefits of outsourcing to China (Le Bon and Hughes, 2009; Chadee and Raman, 2009). Other than cost advantages, many American companies have found competitive advantage through product quality, dependability, and production flexibility (Fallah and Lechler, 2008). Although outsourcing has proven to have provided benefits to

many organizations, it can also lead to many frustrations if not done correctly (Seetharaman *et al.*, 2004). International intermediaries have demonstrated their ability to overcome a variety of obstacles, capture value, and be an important link in the production chain in China (Nassimbeni and Sartor, 2007). Due to the importance of China as the world's factory and the magnitude of US-China trade, we felt that American international intermediaries that have products manufactured in China comprised the optimal focus group for examining the firm-level capabilities of international intermediaries.

Furthermore, we investigate intermediary capabilities within this study through the lens of the financial crisis. The financial crisis that began near the end of 2007 had a quick and profound effect on international trade, leading to a reduction of world trade flow by 12 percent in 2009 (WTO, 2009). It was responsible for considerable disruption to global production lines and trade in intermediate goods (Bems *et al.*, 2010; Levchenko *et al.*, 2010). Although the financial crisis had a profoundly negative effect on global trade and caused many firms to go out of business, it provided us with a type of natural experiment or control variable to investigate the necessary intermediary capabilities. Research has shown that dynamic capabilities are employed to manage change within a firm's external environment. The financial crisis caused an abrupt change in local, regional, national, and global environments, which caused many firms, including international intermediaries, to go out of business. However, certain intermediaries were able to adjust to these changes quickly, which allowed them to survive the financial crisis and even find success. We utilized the financial crisis as a control within our study to investigate the strategic management decisions and capabilities that these organizations developed to survive and succeed through this tumultuous period.

1.2 Research goal and problem statement

Although the financial crisis caused a serious downturn in demand for manufactured goods, strongly affected manufacturing outputs in China, and caused many firms to go out of business, certain American intermediaries were able to overcome the crisis and even find success. This type of firm, being direct mediators between Chinese factories and foreign retailers and customers, is of critical importance to scholars, business leaders, and governments. The importance of China-US trade and the lack of understanding of why certain firms succeeded leads to one general research question:

RQ1. How did certain foreign SME manufacturing intermediaries survive and find success during the financial crisis?

Furthermore, assuming Eisenhardt and Martin's (2000) theory on competitive advantage and that it can come from "using dynamic capabilities sooner, more astutely, and more fortuitously than the competition to create resource configurations that have advantage" leads to the following secondary questions:

RQ2. What are the dynamic capabilities of this type of intermediary, and did the proper utilization of these dynamic capabilities lead to competitive advantage, survival, and success?

RQ3. Could the financial crisis have actually strengthened the dynamic capabilities of successful intermediaries?

1.3 Contribution

Our study fills research gaps and contributes to the literature on dynamic capabilities and strategic management in the following ways. We (1) provide a framework for the dynamic capabilities of international manufacturing intermediaries and (2) introduce a new level of dynamic capabilities, external dynamic capabilities, which are employed to affect the manner in which outside firms allocate their resources. Within this level, we show that (3) *guanxi* (relationships) and impression management (IM) can be utilized as dynamic capabilities. Finally, there has been a lack of research on the common strategic decisions and entrepreneurship in emerging economies (Hoskisson *et al.*, 2000; Wright *et al.*, 2005; Zahra and Wright, 2011; Hill, 2011), and we (4) extend the strategic management literature to intermediaries that specialize in cooperating with factories in China, an emerging economy.

2. Research methodology

2.1 Context: intermediary

2.1.1 Defining an intermediary. In general, an intermediary is defined simply as a third party that offers intermediation services between two trading parties. Under this definition, a wide variety of organizations can be referred to as intermediaries. However, it is critical to case research to specifically define the unit of analysis (Miles and Huberman, 1994; Yin, 2009). We specifically define the parameters of the type of intermediary that is the focus of this study. We take into account intermediaries that are the direct mediators between factories in China and retailers in the west. In particular, we look at a specific type of manufacturing intermediary, intermediaries that have finished products manufactured at Chinese factories and then sell these products to retailers in the USA. Furthermore, the bulk of the literature on intermediaries focuses either on the importance of facilitating the matching of buyers and sellers (Rubinstein and Wolinsky, 1987) or acting as guarantors of quality (Feenstra and Hanson, 2004). Although all of the intermediaries within this study both match buyers and sellers and guarantee quality, we further tighten our definition of an intermediary as one that further adds value to the process. Each intermediary that participated within this study is involved in the production of products through product design and also takes ownership of the product and provides logistics. Table I displaying the participating intermediaries, their product specialties, employment size, location, and approximate minimum production in China.

2.1.2 Intermediary's definition of success during the financial crisis. To analyze properly the manner in which these intermediaries succeeded during the financial

	Product specialty	Full-time employees	Regular independent contractors	Founded	Headquarter location	Production in China (min.) (%)
1. Gamma	Patio furniture	43	6	1994	Florida	75
2. Spring song	Educational toys	51	14	1983	California and HK	80
3. Tripock	Gaming equipment	32	9	1995	Las Vegas	70
4. Viston	Pool supplies	38	7	1999	Georgia	60
5. Walstin	Skating products	27	3	2002	California	100

Table I.
Intermediaries that participated in this study

crisis, we first need to define success. After interviewing CEOs, owners, and top managers at each intermediary, we were able to compare their definitions and define “success” for these organizations during the financial crisis. Before the financial crisis, each company experienced significant profits, and each company also experienced a significant reduction in their profits during the financial crisis. However, each organization remained profitable during the financial crisis and rarely or never experienced a quarterly loss. Each organization also reported that a significant portion of their competition went out of business but that they had strengthened their position in the industry. Although their profits dropped, each organization remained:

- profitable, and each felt that they had;
- acquired a greater position in the market; as
- strengthened capabilities during this time put them in an excellent position to regain or surpass previous profits once the economy recovered.

2.2 Multiple case study

A multiple case study design (Yin, 2009; Stake, 2013) was utilized to discover the shared capabilities that successful intermediaries employed to succeed during the financial crisis. A case study is the optimal form of methodology under the conditions that one cannot manipulate the behavior of the units involved in the study, the context is specifically defined, the boundaries are not clear between the boundaries and the context, and the research question is best defined as a “how” or “why” question (Yin, 2009). The focus of this study clearly falls within this definition. Research has also shown that managerial dynamic capabilities are best analyzed through qualitative research (Danneels, 2011). Furthermore, this study leans toward the exploration of a new idea (Patton, 1990) as well as the development of new testable theories (Eisenhardt, 1989; Voss *et al.*, 2002), which has been a primary reason for the use of multiple case studies. To allow for a generalized theoretical model, a theoretical sampling rather than a random sampling of organizations was included in this study (Yin, 2009). The multiple case study was utilized to allow for a form of replication logic (Eisenhardt, 1989), which if replicated to a sufficient degree can lead to robust findings (Yin, 2004).

2.3 Data source

We relied on four major sources of data for this study:

- (1) interviews with owners, CEOs, and top managers at intermediaries and their corresponding factories;
- (2) questionnaire/surveys;
- (3) limited observational data; and
- (4) limited secondary source data.

The purpose of utilizing these four sources of data is triangulation (Yin, 2009; Gibbert and Ruigrok, 2010). In particular, the purpose of utilizing these four sources is data triangulation (Denzin, 1984), in which data is collected from multiple sources to confirm or disconfirm theory and data when looking at multiple contexts. This process allows this study to confirm the validity of the data collection process and the results that follow (Yin, 2009). Data triangulation was of particular importance for this study since

the intermediaries insisted that direct competitors, other competing intermediaries within their industry, not be used in this study. We utilized two levels of triangulation, first within each industry to triangulate data for one intermediary and then between each intermediary to triangulate data for generalized comparison. Each industry experiment, one intermediary and its corresponding organizations, was completed before moving to the next intermediary to facilitate a control against bias. However, a questionnaire that was compiled and coded from data obtained from all intermediaries was distributed to each intermediary at the end of the study to allow for better comparison and table creation.

2.3.1 Intermediary source data. We interviewed multiple members of each management team, including CEOs and their immediate subordinates. The teams typically included the heads of major functions such as sales, production, and top human resources/office managers. We relied on four data sources:

- (1) a preliminary interview with the intermediary's CEO or owner;
- (2) semi-structured interviews with each available member of this upper-management team;
- (3) an open-ended and a structured questionnaire; and
- (4) follow-up data.

(1) Interviews. The preliminary interview with the CEO or owner of each intermediary was done in person in a fairly open format. We began each interview by explaining to the interviewee that, for each question, we would like to hear about the differences before and during the financial crisis. The interview consisted of 20 open-ended questions. The interviewer additionally followed the guidelines of inductive research and consistently asked additional questions as necessary (Mintzberg, 1979; Yin, 1984; Eisenhardt, 1989). This open-ended format correlates well with the exploratory purpose of this portion of the study (Saunders *et al.*, 2009). The interview entailed questions regarding the organizational structure, the fulfillment of factory needs, competitive strategies, position within the industry, competitor analyses, relations with cooperating organizations, and capabilities to deal with change. Finally, the CEO or owner was asked his opinion on why his organization was able to survive the financial crisis in the short and long term and to give his definition of success during the financial crisis. These interviews continued until no new information was discovered. Later, the same process was conducted with top managers who were in charge of departments such as production, sales, and/or office management. The key difference was that these interviews focused on the specifics of the interviewee's responsibilities and were related to their direct competencies. For example, the managers in charge of office management were asked to describe how the organization utilized its human resources to deal with market or production change. After all the data had been collected from each industry, follow-up interviews were conducted with the owner or CEO of each intermediary to verify data and to clear up any vague points.

(2) Questionnaires. Quantitative data was obtained through the use of both a structured questionnaire and an open-ended questionnaire. Questionnaires were filled out by both CEOs/owners of each intermediary and members of upper management. The questionnaire process began with a structured questionnaire with set questions rating the importance of certain variables toward both success and survival both before and during the financial crisis. The questionnaires focused on variables

associated with dynamic capabilities (Eisenhardt and Martin, 2000; Teece, 2007). Each variable was rated for importance to survival and to success both before and during the financial crisis. A key component of utilizing these questionnaires was not only to list the variables but also to gain further insight into the perceived magnitude of importance of each variable through the lens of the financial crisis. Once the structured questionnaires were completed, an additional open-ended survey was completed. The surveyed individual was asked to list any additional variables that they believed aided in the organization's survival and success. They were asked to list as many as possible, regardless of importance. The purpose of the open-ended questionnaire was to gather quantitative data on variables that are unique to the type of organizations used in this study. After each member within an intermediary completed his or her list, the lists were compiled and coded and then rated again.

2.3.2 Factory source data.

(1) CEO/owner and top management interview. Interviews with associated factories took place after initial interviews with the intermediary. Inconsistent with intermediary interviews, these were conducted in a team format consisting of the owner or CEO of the factory, available top managers, and the interviewer. Under this scenario, the CEO or owner was the major contributor to the interview, and managers were utilized for supporting information. Interviews with factory leaders were conducted in a semi-structured open format. The interview consisted of 15 open-ended questions and again followed guidelines for inductive research (Mintzberg, 1979; Yin, 1984; Eisenhardt, 1989) with additional questions asked when necessary. These interviews focused on three major categories: factory needs, intermediary capabilities, and relationships.

(2) Questionnaire. Quantitative data was obtained through the use of an open-ended questionnaire. Inconsistent with the questionnaire utilized with intermediaries, only the CEO or owner of these organizations participated. The purpose of this questionnaire was to gather quantitative data on the needs that factories have that can be fulfilled by intermediaries. Utilizing an open format, the participant was asked to rate the importance to survival and to success both before and during the financial crisis.

2.3.3 *Limited secondary source data.* Secondary data was very limited throughout this study. When available, interviews were given to other corresponding organizations. These included traditional retailers, online retailers, and factory suppliers. These interviews were much shorter, lasting approximately 15 min, and the data obtained were used to support findings, as well as to offer an outside view.

2.3.4 *Limited observational data.* Observational data was acquired when available and under the condition that both the intermediary and the factory were willing to participate. To triangulate and understand better the data obtained through interviews and questionnaires regarding relations between intermediaries and factories, a key interaction between these organizations was observed. Commonly, the manager or managers in charge of product development go to the factory to meet with top managers with a few very common purposes. These could include product inspection, product development, idea creation, or discussing possible changes. Unlike other larger intermediaries or retailers that may send buyers to factories, in this study, each intermediary sent top managers or the CEO/owner to accomplish these tasks. This meeting was not interrupted or interfered with in any manner, with the observer simply watching and taking notes. After each observation was completed, a brief

discussion with both the factory owner/CEO and the manager at the intermediary was conducted over the phone. These phone calls were relatively short, approximately 15 min. Opportunities to obtain this data were very limited, with a total of seven observations (Table II).

2.3.5 Order of data collection. To ensure consistency, the order of data collection was held constant throughout the study. Each experiment began with the intermediary. This process began with the preliminary CEO or owner interview, followed by interviews with top management, and finally with the creation and completion of questionnaires. Once all data from the intermediary were analyzed, the data collection process moved to the factories. This step consisted of interviews with the owner and top management, followed by the creation and completion of the questionnaires. After the data collection for each factory within the experiment was completed, follow-up interviews were given to the CEO or owner of the intermediary. This order was strictly adhered to within the study. However, observational data was obtained whenever available, regardless of the order stated. Understandably, this raised questions about the consistency of the data collection, but the author felt that the data obtained from observations was of greater value to this study than pure data collection consistency. Each experiment, the particular intermediary and its corresponding factories, was concluded before beginning the next experiment. Additional intermediaries were added to the study until no new information was discovered. Once the above data from all experiments had been collected and analyzed, then the coded and compiled questionnaires were given to the intermediaries and factories to facilitate better comparison.

3. Theoretical model of intermediaries' dynamic capabilities

We believe that the existing literature on dynamic and entrepreneurial capabilities can be directly applied to intermediaries. However, we posit that additional dynamic capabilities are needed for an intermediary to deal with external change. Through our data collection and analysis, we propose a new three-tier model of intermediary capabilities. The first tier, internal dynamic capabilities, is best associated with prior definitions of a firm's dynamic capabilities. These include internal capabilities to seek opportunities, re-allocate resources to seize these opportunities, and manage threats. The second tier, external network capacity, is based on the intermediary's network of relationships and represents the ability for an organization to respond to external change based on the size of, diversity in, and knowledge of their network to match production and demand quickly. The third tier, external dynamic capabilities, is usually only available to organizations that successfully implemented the first two tiers. This level deals with the ability to manage external change based on the manner in which intermediaries cooperate with, influence, and develop with chosen

	Intermediary management team	Factories	Secondary organizations	Observational data sources
1. Gamma	3	5	2	1
2. Spring song	2	5	2	2
3. Tripock	3	7	0	1
4. Viston	2	8	1	2
5. Walstin	3	3	1	1

Table II.
Number of managers interviewed at each intermediary and additional data sources

organizations within their network. External dynamic capabilities involves a firm's ability to influence an outside firm's allocation of resources. A graphic representation of this model can be seen in Figure 1, which is followed by detailed descriptions of each tier (Figure 2).

3.1 Tier 1: internal dynamic capabilities

The first tier, internal dynamic capabilities, is most closely associated with the traditional definition of dynamic capabilities. Although there is not a consensus amongst scholars on an exact definition of dynamic capabilities, each definition revolves around an organization's ability purposefully to create, extend, or modify its resource base (Helfat *et al.*, 2007; Teece, 2007). Dynamic capabilities relate to the firm's internal capabilities to sense opportunities and threats, to seize opportunities by combining and reconfiguring the organization's assets (Teece, 2007). Research on firm-level dynamic capabilities has been extensive (Teece *et al.*, 1997; Eisenhardt and Martin, 2000; Zahra *et al.*, 2006; Augier and Teece, 2008; Ambrosini and Bowman, 2009; Helfat and Winter, 2011) and can be applied directly to an intermediary's internal dynamic capabilities. We do not intend to alter the definition, but due to findings within this study with regard to relationships, we emphasize only that internal dynamic capabilities revolve around the allocation and re-allocation of the firm's own resource base.

3.2 Tier 2: external network capacity

The tier 2 capabilities, external network capacity, relate to the intermediary's network and most closely correspond to early research on the importance of an intermediary in facilitating the matching of buyers and sellers (Rubinstein and Wolinsky, 1987). In this study, international intermediaries work as mediators between Chinese factories (sellers) and American retailers (buyers), as well as operating as a nucleus at the center

Figure 1.
Flowchart of the data collection process; additional data collected whenever available

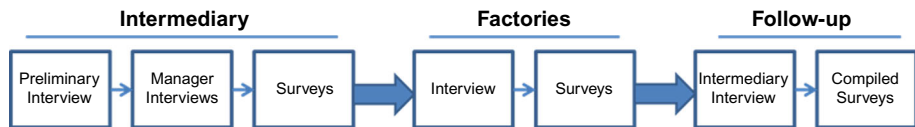
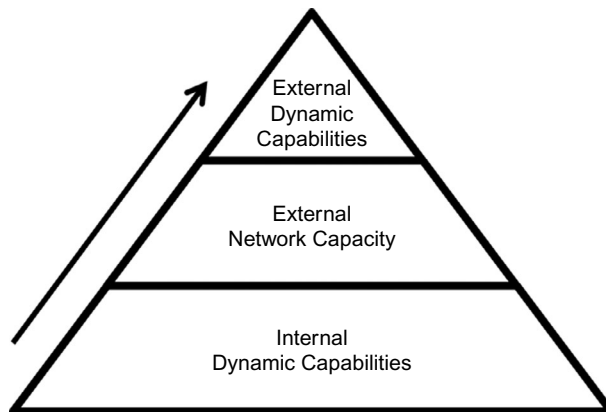


Figure 2.
Dynamic capabilities of an intermediary: a three-tier model



of the network. An intermediary with strong internal dynamic capabilities does not necessarily develop a large network and may concentrate on a small target market, serviced by a limited number of factories. However, if an intermediary does expand its network, we found that this level of external flexibility allows it to respond to rapid changes in the market. With a large customer base, if certain products are no longer needed or certain products need is greater, i.e. change of customer demand, an intermediary can utilize their knowledge of factory capabilities and their relationships with these factories to alter the supply side quickly. This capability does not relate to developing co-specialized capabilities with factories but to developing a broad product mix and a broad customer base to allow an intermediary immediately to buy product that fulfills current demand.

To clarify, we do not classify external network capacity, the ability to match buyers and sellers, as a dynamic capability because it does not relate to the allocation or re-allocation of resources. It is also important to note that reliance on flexibility within networks tends to be used only in the short term. Within these studies, we found that the average time it took from product design to efficient production was 89.1 days. Due to the short-term nature in the application of external network capacity, we found that the production capacity of intermediaries in this study is limited to products that were already being produced. To manage the change in customer demand past the short term, intermediaries had to rely on other capabilities.

3.3 Tier 3: external dynamic capabilities

As stated above, internal dynamic capabilities are commonly defined as an organization's ability to purposefully create, extend, or modify its own resource base. However, findings within this study showed that intermediaries consistently influenced the allocation of the factories' resource base. This allows us to take the next step and analyze how intermediaries influence factories' strategic management and capabilities. To do so, we posit external dynamic capabilities and define it as follows:

External dynamic capabilities are a firm's ability to purposefully create, extend, or modify *an external firm's* resource base.

As the definition implies, external dynamic capabilities are utilized to influence the manner in which a factory allocates its resource base to lead to some sort of advantage for the intermediary. The following sections will provide descriptions of each of the discovered external dynamic capabilities. Additionally, it is very important to note that the intermediaries that participated within this study did not simply buy product from factories and that they were actively involved in the production process through product design. If they simply bought finished products from factories, then the capabilities of the intermediary would end at tier 2. However, these intermediaries worked very closely with factories to develop innovative and desired products, and through these relationships, they have developed capabilities to influence factory decision making. The next section discusses the techniques that intermediaries that participated in this study reported using to influence the allocation and re-allocation of factory resources, which is followed by a section that addresses the benefits that an intermediary can hope to gain from its application.

3.3.1 Capabilities.

(1) *Guanxi* capabilities. *Guanxi*, or relationships between people (Michailova and Worm, 2003), refers to the network of business or personal relations in China, which is “rich, complex, and dynamic” in nature (Yang, 2002) and has strong implications for inter-organizational dynamics (Tung and Worm, 2001). *Guanxi* has also been shown to be a key factor in competitive advantage (Carney, 2005; Chen *et al.*, 2009). There have been many definitions of *guanxi*. For the purpose of this study, we will utilize the following definition set by Chen and Chen (2004): an informal, implicit psychological contract that follows:

[...] the social norm of *guanxi* such as maintaining a long-term relationship, mutual commitment, loyalty, and obligation. A quality *guanxi* is also characterized by the mutual trust and feeling developed between the two parties through numerous interactions following the self-disclosure, dynamic reciprocity, and long-term equity principles.

Guanxi can lead to a variety of privileges, such as reciprocity, favors, and willingness to help. It is no surprise, then, that intermediaries reported that they, at times, used *guanxi* directly to ask a factory to re-allocate their resources. The application of *guanxi* was most often direct, and a good example found within this study was given by the CEO of Tripock. A key factory headquartered in Dongguan had expanded into Vietnam and planned to send an important production manager to oversee beginning operations. Tripock, however, was concerned about an important new product line that an important retailer desired. Even though it was in the best interest of the factory to move the production manager to Vietnam, the factory did not send him there immediately. The implied reciprocation and favors related to *guanxi* had convinced them to allow the manager to delay the move until production of the intermediary’s new product was running smoothly.

(2) Knowledge broker capabilities. Knowledge broker capabilities involve two factors, the ability for an intermediary to obtain information and the ability of an intermediary to broker information. We found that, if an intermediary was able to create a large external network capacity through a large network of factories and retailers, it was able both to gain a large amount of information and often to have access to rare information. “Knowledge is power”, and factories, like other organizations, can gain competitive advantage through knowledge (Grant, 1996; Mudambi and Tallman, 2010). We have found that, if an intermediary gains access to rare information, the firm becomes a knowledge gatekeeper. Rare information can be traded to a factory in exchange for some manner of factory re-allocation of resources that is of benefit to the intermediary. We additionally found that the intermediaries within this study were able to gather additional information that was of high value to factories, such as information on factory suppliers, competing factories, production techniques, investments within the industry, and regulatory changes. This capability is moderated by the importance and rareness of the knowledge, as well as the factory’s current position.

(3) IM capabilities. IM is used to show “efforts by an actor to create, maintain, protect, or otherwise alter an image held by a target audience” (Bozeman and Kacmar, 1997), and organizational impression management (OIM) is used to demonstrate efforts to influence the manner in which an audience perceives an organization (Elsbach *et al.*, 1998). Although altering the perception of an outside entity may not be viewed in the best light, managers at each intermediary reported intentionally altering the perception of factory managers with the purpose of altering a factory manager’s decision making.

As shown above, an intermediary, through its access to rare information, can become a knowledge broker and trade valuable information to factories. However, a representative of an intermediary can also use its access to rare information to alter the perception of that factory manager. He can choose to reveal or hide, exaggerate or diminish importance, clarify or obfuscate, or even lie about information that is pertinent to a factory manager's strategic decision making. The information could relate to a large variety of sources, including consumer markets, suppliers, competitors, innovation opportunities, and even the intermediary's strategies and desires to cooperate. "Perception is reality", and if an intermediary manager can alter the perception of a factory manager, he can influence factory managers' decisions.

Although there are many opportunities for intermediaries to utilize IM to their advantage, the findings demonstrate that the level of *guanxi* strongly affects the willingness and strategy to utilize these techniques. First, when *guanxi* is well established, these techniques tend to be used only to *nudge* the factory manager's decision making and only when it will help or, at worst, not hurt the factory's own competitive advantage. An example of this was given by the CEO of the Gamma patio furniture company. In 2010, the intermediary was looking to create two different high-end patio chairs, each using different treated woods. The CEO felt that each chair would sell equally well. He did, however, approach two factories separately and exaggerate his opinion of the potential market demand for each product. He told one factory that he thought the darker wood would sell better, told the other factory that the lighter wood would sell better, and told each that he chose their factory to produce the best product because of their strong relationship and that the factory had the best capabilities. His goal was simple, to further endear the factory to him, to give the factory owner face, and thereby to strengthen their *guanxi* and to receive preferential treatment, such as high priority in production and extra attention in quality control. Second, in cases where *guanxi* was low or non-existent, IM techniques were used more often and with less discretion. Three intermediaries reported utilizing IM techniques repeatedly to gain access to information. The basic strategy is to set up meetings with factories that they do not currently do business with to see whether there are any new opportunities to cooperate. The intermediary managers reported that, after discovering that they would not do business with these factories, they often feigned interest and even exaggerated their potential desire to buy from these factories in the future as an IM tactic. As any potential partner would do, the intermediary continually asked questions about factory capabilities, suppliers, and product design. This information could then be added to the intermediary's access to rare knowledge and could be utilized for direct brokering or IM techniques.

(4) Partner choice capabilities. Intermediaries operate within a network and have the ability to choose the factories that they cooperate with. The choice of partners, since it does not directly affect the allocation of the factories' resource base, falls well within the traditional literature of dynamic capabilities or, in this study, internal dynamic capabilities. However, participating intermediaries within this study reported that they took into consideration their perceived ability to utilize *guanxi*, knowledge brokering, and IM on a prospective factory manager as a deciding factor when choosing partners.

3.3.2 Purpose and goals of utilizing external dynamic capabilities.

(1) Preferential treatment. Interviews with intermediary leaders revealed that they were consistently looking to gain preferential treatment from factories as a source

of competitive advantage. A significant reason behind utilizing external dynamic capabilities was to have a factory re-allocate its resources to ensure that the intermediary received greater benefit than other organizations. Analysis of data from both intermediaries and factories acknowledged that there are two primary areas of desired preferential treatment, production and factory managers' attention. Factory production and manager attention are both valuable limited resources. Intermediaries have a lot to gain through preferred access to a factory's limited production capacity. We found that, on average, it took 89.1 days for a product to go from design to smooth production, and any effort to speed production can be crucial. Furthermore, new opportunity identification, changes in consumer demand, or a special order marks important access to a factory production line. As intermediaries work in a very dynamic environment, full of consumer demand change and production issues, they rely heavily on working with factory managers to overcome issues. Factory managers also work with many outside organizations and are busy helping a number of intermediaries solve problems.

(2) Knowledge. Similar to intermediaries, factories work within a network and have access to information that could benefit an intermediary's decision making. The information could originate from suppliers, retailers, or competing intermediaries that are outside the intermediary's network. Information can be obtained on a variety of topics, such as latent demand, product design, firm investment, and changes to the supply chain. Managers indicated that information gained often allowed them to make better strategic decisions on a variety of issues. The recorded desire of intermediary managers to gain knowledge is in line with prior research that has shown that a firm's access to new information and ability to assimilate it with existing knowledge strengthened their own dynamic capabilities (Verona and Ravasi, 2003; George, 2005) and can therefore lead to competitive advantage (Grant, 1996; Mudambi and Tallman, 2010).

Another important reason for gaining additional information relates to opportunity identification. Opportunity identification, through organizational processes, is a key factor of dynamic capabilities (Helfat *et al.*, 2007; Teece, 2007). Only after an opportunity is identified can an intermediary and factory invest resources in seizing the opportunity. Furthermore, opportunity identification requires both dynamic capability routines and access to information (Teece, 2007). The magnitude of and speed to access information usually positively correlates to opportunity identification (Shane, 2003; Vaghely and Julien, 2010), and intermediary managers reported employing strategies with the purpose of gathering information. An excellent example was provided above, demonstrating that multiple intermediaries reported feigning interest in cooperating with new factories as a technique to gain information. To summarize, an intermediary's ability to manage its external environment is reliant on the re-allocation of resources, which in turn is dependent on the ability to sense an opportunity. Since the ability to identify an opportunity depends on access to information, intermediaries are incentivized to gain access to information.

(3) *Guanxi*. We posited above that the direct application of *guanxi* can be used as an external dynamic capability by altering a factory's resource base and is referred to as *guanxi* capabilities. For an intermediary to be able to spend *guanxi* to alter a factory's resource base, it must also earn *guanxi*. *Guanxi* is about maintaining "a long-term relationship, mutual commitment, loyalty, and obligation" (Chen and Chen, 2004), and managers within the participating intermediaries emphasized their continuous efforts to create a large reserve of *guanxi*. They often added to their *guanxi* reserves by the

traditional means of reciprocation and favors. However, they also utilized external dynamic capabilities to earn *guanxi*, such as brokering rare information or even applying IM techniques. An interesting example of utilizing an IM technique to gain *guanxi* was done by the owner of Gamma, and two other participating intermediaries. During observational data collection, it was noticed that, after the owner was quoted a per-unit price, he requested a higher price. Although raising the price by a marginal amount, it was still more expensive for the intermediary to buy the product. Follow-up interviews with the owner revealed that the basic idea was again to endear the factory to the intermediary and earn *guanxi*. This can be seen in his statement:

We had some room on that price, and the quarter extra I gave them per piece is an investment, they loved it, and I guarantee you I'll make a ridiculous return on that investment.

It is important to note that *guanxi* was found to be very cyclical in nature throughout this study, with intermediaries spending *guanxi* to influence a factory's resource base and then utilizing external dynamic capabilities to earn *guanxi*.

(4) Create inter-firm dynamic capabilities and a network of inter-firm operational capabilities. Top intermediary and factory managers stressed the importance of creating inter-firm capabilities. The key to inter-firm capabilities is to align the factory and the intermediary to have a seamless capability and to act, at least to an extent, as one organization. As Teece (2007) pointed out, dynamic capabilities entail:

- sensing opportunities;
- seizing opportunities; and
- enhancing, combining, protecting, and, when necessary, reconfiguring assets.

Both factories and intermediaries stand to benefit by creating co-specialized abilities to adjust quickly to the external environment together. This is not to say that assets are re-allocated between the two organizations but that they are re-allocated to re-align within each organization to “match” and, to some extent, create one seamless capability. These findings are in line with prior research on routines of co-specialized capabilities (Becker, 2004; Zollo and Singh, 2004; Teece, 2007). We did, however, find that intermediaries within this study put additional effort into creating a network of inter-firm capabilities, particularly operating capabilities. To date, there has not been any documentation on completely transformational firms. That is to say that, no matter the level of dynamic capabilities, it is safe to say that no organization can completely transform itself to manage any external change. By creating a network of inter-firm capabilities that could create various product types, lines, and qualities, an intermediary provided itself with greater flexibility to manage future change in their external environment. A good example of this is Gamma and their patio furniture production structure. Over many years of cooperation with a factory in Dongguan, in southern China, they had created a great inter-firm capability of producing upper- to middle-end wooden furniture. As consumer demand changed, the two organizations had developed co-specialized capabilities to adjust and align both of their resource bases to manage change. However, in 2009, the supply price of quality wood dramatically increased, and Gamma could no longer afford to produce wooden furniture to target the upper- to middle-end market. These two organizations quickly adjusted their processes to produce middle-end wooden furniture. However, Gamma still needed to create products to target the upper- to middle-end furniture that

retailers demanded. Because Gamma had proactively built a network of operational capabilities with other factories, they quickly adjusted production with a different furniture factory in Vietnam that had access to quality, well priced wood.

It is critical to point out that the creation of inter-firm capabilities and a network relating to their operational capabilities by itself does not relate to external dynamic capabilities. In theory, this can be accomplished by both utilizing internal dynamic capabilities relating to co-specialization and choosing to cooperate with a variety of factories that are able to produce different products, thus creating a network of operational capabilities. This relates heavily to both tiers 1 and 2 intermediary capabilities. Nonetheless, intermediary managers reported that simply choosing which partners to cooperate with would not be enough. They first chose partners for their capabilities and then utilized external dynamic capabilities to *nudge* their resource allocation to optimize their inter-firm capabilities. Production, logistics, and communication methods could be influenced to become preferential to intermediaries. Over time, they became highly routinized and more difficult for the factory to adjust on its own. Utilizing partner choice capabilities and the ability to influence their partner's allocation of resources, an intermediary can proactively influence its network of capabilities.

4. Factory needs before and during the financial crisis

The focus of this paper is to outline the dynamic capabilities of intermediaries and how these capabilities are utilized with external partners, in this case factories. Intermediaries, to survive, must fulfill certain factory needs or the factory will bypass the organization and directly sell to the retailer or end consumer. Factories have a multitude of needs, as well as problems that need to be solved. It is important to understand these needs since they are a large part of the intermediary's external environment. Preliminary interviews with factory managers resulted in an understanding that there are two main types of needs that intermediaries fulfill for factories, informational and non-informational needs. Non-informational needs are ways in which an intermediary provides a direct service for a factory, such as logistics or product design. Informational needs are the desire for information that can help a factory to succeed, such as information on changes in customer demand or competitor investments. The results of these interviews and questionnaires for both before and during the financial crisis are as follows.

4.1 *The effect of the financial crisis on non-informational needs*

The data revealed that factories relied on intermediaries to solve a variety of problems and fulfill a variety of needs. In general, it was found that factory managers relied on intermediaries most to provide innovative designs, manage and provide logistics, and market and sell their products. We found that, due to pressure related to the financial crisis, there was an increase in each non-informational need. However, the increase was only significant for product design, which is heavily related to information and the intermediaries' relationship with retailers. This can be seen in Table III, with the majority of needs only incurring a magnitude increase of less than one point. It is important to point out that we found that the listed needs are always present, regardless of economic situation. This lack of change due to the financial crisis allows us to conclude that the non-informational needs in an intermediary's external environment remained fairly stagnant throughout the financial crisis. The combined

	Pre-financial crisis	Financial crisis	Difference
Relationships with retailers	6.1	8.3	2.2
Product design	7.9	9.2	1.3
Finance and mitigate financial risk	7.1	7.9	0.8
Intermediary's reputation	6.1	6.8	0.7
After-sale service	8.1	8.7	0.6
Product marketing	7.7	8.2	0.5
Quality control	6.8	7.2	0.4
Training (managers and workers)	4.9	5.3	0.4
Logistics and warehousing	9.3	9.7	0.4
Production methods	6.1	6.3	0.2
Regulation and compliance	5.9	5.8	-0.1

Positive effect of financial crisis

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Table III.
Factory non-information needs and importance before and during the financial crisis

list of factory non-informational needs, as well as the average level of importance of each need, can be found below. The list of needs is ordered by the magnitude of change due to the financial crisis.

4.2 The effect of the financial crisis on informational needs

The results show that factories have a strong need to obtain a variety of information and that an intermediary can fulfill these needs. Information throughout the industry, such as changes to consumer demand, market knowledge, and competitor strategy, allows factories to properly make investments and choose their own strategies. Survey data revealed an across-the-board gain in the importance of information due to the financial crisis. Interviews with top managers shed light on the reasons for this change and are worth highlighting. Managers stressed two reasons. First, the financial crisis caused competition to rise sharply, and business, in turn, had to be run more tightly. Information allowed for a better choice of strategy. The second reason is of particular importance. Respondents from 25 of the 28 participating factories in this study commented that they had invested in trying to bypass the intermediary to obtain or verify information. Prior to the financial crisis, multiple methods were utilized; a few examples are training employees to go overseas, attending a large variety of industry shows, and paying for external analysis. The financial crisis both limited their financial resources and forced many of these factories to focus their attention inward. The difficulties associated with the financial crisis led factory managers to rely more heavily on information obtained through intermediaries. As shown in Table IV,

	Pre-financial crisis	Financial crisis	Difference
Customer demand	6.9	8.6	1.7
Avoid bias and misinformation	4.7	6	1.3
Opportunity identification	7.8	9.1	1.3
Competitor information	7.1	7.9	0.8
Investments	5.3	6.1	0.8
Supplier information	5.9	6.5	0.6
Retailer information	4.1	4.6	0.5
Regulatory information	4.3	4.6	0.3

Table IV.
Factory information needs and importance before and during the financial crisis

the financial crisis caused a greater change in magnitude concerning information that is more difficult for a factory to obtain, such as consumer demand, avoiding misinformation from other parties, and, as mentioned above, product development. The change in informational needs due to the financial crisis marked a change in the external environment of the intermediary. It is therefore of particular importance since a change in the external environment leads to re-allocation of firm resources. The next section displays results found in this study on the effect of the financial crisis on intermediary dynamic capabilities and the manner in which this change in factories' informational needs affected intermediaries' dynamic capabilities. The combined list of factory informational needs, as well as the average level of importance of each need, can be found below. The list of needs specific to these factories is ordered by the change in importance due to the financial crisis.

5. Effect of the financial crisis on intermediary dynamic capabilities

5.1 Internal dynamic capabilities

The above survey data, as well as follow-up interviews with leaders at each firm, led to the following findings in regard to tier 1 of the model. First, when the economy is strong, internal dynamic capabilities are crucial for both the survival and growth of an intermediary. Intermediaries always have to be very dynamic to deal with changes in the market as well as changes in the production of products. Competition is always fierce, and since the intermediary does not directly produce the good and other intermediaries can buy from the same or similar factories, intermediaries need to be in a continual "state of readiness" to deal with external change. However, due to increased competition, the financial crisis slightly increased the importance of these dynamic capabilities for the intermediary to succeed. The managers' competitor analysis revealed that certain firms whose internal dynamic capabilities were not strong enough did not survive the financial crisis. The most important finding, however, is that strong internal dynamic capabilities are crucial for successful intermediaries regardless of the economic situation, and this study did not find a significant magnitude of change in importance concerning internal dynamic capabilities caused by the financial crisis (Table V).

	Pre-financial crisis		Financial crisis		Difference		
	Survival	Success	Survival	Success	Survival	Success	Average
Technology	7.3	7.5	8.5	8.8	1.2	1.3	1.3
Employee loyalty	6.3	8.3	8.2	8.9	1.9	0.6	1.3
Common manager understanding	8.3	8.1	8.9	8.9	0.6	0.8	0.7
Opportunity identification	8.1	8.5	8.9	9.1	0.8	0.6	0.7
Evaluate competitors	6.8	7.3	7.5	7.8	0.7	0.5	0.6
Cross-trained employees	8.9	9.1	9.4	9.5	0.5	0.4	0.5
Internal communication	8.5	8.7	8.9	8.8	0.4	0.1	0.3
Co-specialization	7.7	7.9	7.9	8.2	0.2	0.3	0.3
Decentralized and changing	9.2	9.2	9.3	9.4	0.1	0.2	0.2
Horizontal structure	9.1	9.3	9.3	9.4	0.2	0.1	0.2
Evaluate markets	8.3	8.6	8.5	8.7	0.2	0.1	0.1

Table V.
Financial crisis effect on intermediary internal dynamic capacity factors

5.2 External network capacity

As the survey data revealed, under good economic conditions, having a large network is not always necessary for the survival and growth of an intermediary organization. Managers from each intermediary gave multiple examples of competitors who operated in small networks, selling to a few retailers, and utilizing a few factories, and stated that they were very successful under good economic conditions. These competitors tended to focus on one particular area of the market and learned to serve this area very well. However, many of these intermediaries did not survive the financial crisis. The reason that these organizations went out of business was the immediate lack of demand associated with their target market. This most often occurred because the price was too high, the products were viewed as more of a luxury, the supply chain shifted, or consumer taste immediately changed. In this case, many intermediaries with strong internal dynamic capabilities were unable to deal with sudden change. The intermediaries interviewed for this study, however, were able to adjust quickly to immediate changes in consumer demand. Since they had relations with a large number of factories, were currently producing a broad range of products through a variety of factories, and understood these factories' manufacturing capabilities, these intermediaries could immediately adjust their production through purchasing. Through their large networks, with a broad product mix and a broad customer base, these intermediaries were able to achieve external flexibility to deal with demand change. Participating intermediaries listed the importance of this large network as nearly essential to surviving the financial crisis in the short term. Interestingly, firms viewed expanding their networks before the financial crisis as a goal rather than a need. Managers stated that they simply tried to expand their business, to sell to more customers, and therefore needed relationships with more factories to fulfill this need. Managers emphatically remarked that this network became an indispensable tool to deal with market change during the financial crisis (Table VI).

5.3 External dynamic capabilities

Managers reported that, due to the pressure associated with the economic downturn and rapid changes in market demand, their organization could not simply rely on their external network capacity to respond to market changes. Although having a large external network was reported to be crucial, managers stressed that this capacity was relied upon in the short term. To deal with changes in the foreseeable and unforeseeable future, intermediary managers emphasized the importance of factors related to external dynamic capabilities. Due to the variety and severity of issues that the financial crisis caused, it is not surprising that intermediaries reported relying on the benefits that can be gained from the application of external dynamic capabilities,

	Pre-financial crisis		Financial crisis		Survival	Difference	
	Survival	Success	Survival	Success		Success	Average
Broad product mix (and factories)	4.7	7.5	8.6	8.7	3.9	1.2	2.6
Broad customer base (and retailer)	5.3	5.9	7.8	8.1	2.5	2.2	2.4

Table VI.
The effect of the financial crisis on intermediary network capacity factors

preferential treatment, *guanxi*, knowledge, and their proactively created network of inter-firm capabilities to manage the abrupt changes to their external environment. What may be surprising is that the findings showed that the financial crisis actually strengthened intermediary influence on factory allocation of resources by strengthening external dynamic capabilities.

Before we can demonstrate how each external dynamic capability was strengthened, it is important to point out one key finding that was reported by both factory and intermediary managers and had a profound effect on the intermediary's ability to influence factory allocation of resources. As shown in the data obtained concerning factory needs, representatives from 25 of 28 participating factories in this study commented that they had invested fairly heavily prior to the financial crisis in trying to bypass the intermediary to obtain information. The financial crisis then forced these intermediaries to turn their attention and other resources inward, causing them to rely more heavily on cooperating intermediaries for a variety of information. Competitor analysis data also revealed that many of the intermediaries that these factories cooperated with went out of business and were therefore no longer a source of information. These two factors led intermediaries within this study to seek greater data pools and increased the rarity of information within their data pools. We found that this had two significant positive effects for intermediaries that were able to survive the financial crisis. First, as demonstrated above, access to information and access to rare information increases a firm's opportunity identification ability. Intermediary owners, CEOs, and managers each reported a gain in their ability to identify opportunities; however, this gain was reported in two separate ways. Three intermediaries, Gamma, Spring Song, and Viston, reported a positive gain in their absolute ability to identify opportunities. Additionally, every participating intermediary reported a positive gain in their comparative opportunity identification ability. Because many competing intermediaries went out of business, even if an existing firm's absolute opportunity identification capability remained constant, the mere fact that fewer opportunities would be discovered by other firms was also reported as advantageous. Beyond opportunity identification, intermediaries stressed that this new knowledge advantage, access to greater rare knowledge, also reinforced and strengthened factors relating to external dynamic capabilities. The way in which this knowledge advantage affected external dynamic capabilities is incorporated below in the list of external dynamic capabilities and the manner in which the financial crisis affected them.

(1) *Guanxi capabilities*. Both factory managers and intermediary leaders reported that the financial crisis increased intermediaries' ability to utilize *guanxi* to their advantage. Factories reported that, due to the increased pressure and competition, selling product was not as easy as before the financial crisis. In the factory-intermediary relationship, the intermediary is the buyer, and the financial crisis caused factories to appreciate greatly the business that intermediaries provided to them. By simply continuing to do business with factories, the intermediaries in this study were able to earn additional *guanxi* that could be spent through their *guanxi* capabilities.

(2) *Knowledge broker capabilities*. The increase in knowledge broker capabilities is directly related to the increase in access to rare information that successful intermediaries incurred due to the financial crisis. Due to factories being forced to turn their attention away from external knowledge gathering inward toward production capability, coupled with the presence of fewer intermediaries in the production market,

raised the value of successful intermediary knowledge. As the rarity of this information increased, so did its value. Each intermediary within this study reported greater brokering value for their knowledge and therefore a greater ability to utilize their external dynamic capability in exchange for one or more of the corresponding benefits.

(3) *IM capabilities.* IM capabilities, the ability to alter the perception of factories, was not primarily related to the additional knowledge gain that the intermediaries experienced due to the financial crisis but to the loss of information gathering that factories incurred during this period. As displayed concerning factory information needs in Table II, factory managers reported a significant increase in their need to avoid bias and misinformation. The reduction in the available information in the market left them relatively vulnerable to IM techniques. This increased the ability for intermediaries to utilize IM techniques to their advantage.

(4) *Partner choice capabilities.* We did not find significant improvements in partner choice capabilities due to the financial crisis. The only improvement reported was a minor change in the selection of partners due to their increased ability to be influenced by intermediary information and external dynamic capabilities (Figure 3 and Table VII).

6. Summary and discussion

The purpose of this study was to determine the manner in which certain successful international manufacturing intermediaries survived the financial crisis and found success. The findings allowed us to create a three-tier model for international intermediary dynamic capabilities. Using this model, we were able to demonstrate that an intermediary can utilize external dynamic capabilities to affect factories' allocation and re-allocation of factory resources and that this constituted an important dynamic capability for the intermediary that we labeled external dynamic capabilities. We found

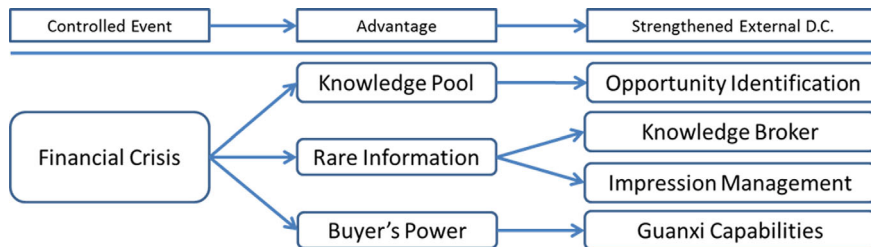


Figure 3. Graphic representation of the financial crisis' effect on external dynamic capabilities

	Pre-financial crisis	Financial crisis	Difference
Create inter-firm capabilities	6.5	8.7	2.2
Information broker	5.3	7.1	1.8
<i>Guanxi</i> : reciprocate, favors	6.7	8.3	1.6
Comparative opportunity identification	7.1	8.7	1.6
Impression management	6.1	7.2	1.1
Create network of inter-firms	7.8	8.9	1.1
Opportunity identification	7.5	8.1	0.6
Partner choice	7.3	7.8	0.5

Table VII. The effect financial crisis' on the ability to influence factory resources

that each tier of dynamic capabilities led to different abilities to manage change in the intermediary's external environment. Strong internal dynamic capabilities allow an intermediary to be a dynamic firm. External network capacity allows an intermediary to manage short-term change by quickly matching buyers and sellers. Finally, external dynamic capabilities allow an intermediary to influence a factory's allocation of resources. As a control, we used the financial crisis as a means to determine how an intermediary can utilize its dynamic capabilities to manage major external change. Our most profound contribution to the literature of dynamic capabilities is that we demonstrated that intermediaries could utilize their gained knowledge advantage to strengthen their external dynamic capabilities to both survive the financial crisis and find success. Intermediary success was determined by their ability to influence external organizations' allocation of resources, and this leads us to believe that external dynamic capabilities is a latent topic awaiting future research. Research can continue along the lines of intermediary dynamic capabilities and the ability of a firm to utilize external capabilities to influence the allocation of outside firms' resources.

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