

Employee's Dynamic Capabilities and Organizational Performance: A Review on the Mediating Role of Innovation and Entrepreneurial Orientation

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Abstract

The purpose of this systematical literature review is to address the linkage between dynamic capability and organizational performance through the mediating effect of innovation and entrepreneurial orientations. With this regards, the systematic review has tried to address the relationship that exist between and among different variables like dynamic capability (independent Variable) and organizational performance (dependent Variable), dynamic capability and organizational performance through innovation (mediator variable 1) and through entrepreneurial orientation (mediator variable 2). To address the stated objectives and to test the stated hypothesis, the researcher has tried to screen 1000 well known articles and identified 200 which have direct relationship with the concept. However, due to their limitations related to addressing the dependent and independent variables with the mediators, the study has focused only on 50 selected articles. The reviewed articles doesn't indicate that both innovation and entrepreneurial orientation can serve as a mediator between the two dependent and independent variables. The findings of the selected articles has indicated that there is a positive relationship between employee's dynamic capability and organizational performance. In addition, the result has indicated that innovation and entrepreneurial orientation alone can mediate the relationship between the two variables (employee's dynamic capability and organizational performance). By considering the existing results, this systematic literature review has developed a model by indicating the mediating effect of innovation and entrepreneurial orientations. Therefore, future researchers can conduct a study to measure the mediating effect of innovation and entrepreneurial orientation together in the relationship between employee's dynamic capability and organizational performance.

Key words: *Dynamic Capability, Entrepreneurial Orientation, Innovation, Organizational Performance*

1. Introduction

The notion of capability is widely used and is also determined as the basic concept in organizational performance. The concept of capability is vastly used and is considered as a central concept. Nevertheless, it is not free from ambiguity related to what establishes capability and how it is using (Furnival *et al.*, 2019, Kumar *et al.*, 2020; Abu-Rumman *et al.*, 2021). As for the strategic management dimension, the dynamic capabilities system which is well-thought-out as an extension of the resource-based view of the organization's achievement states that the sustainability of the organization's performance is based on its ability to revitalize resources as its external environment changes (Teece, 2018, Zhou *et al.*, 2019).

Dynamic capability is among the higher organizational capabilities that consists of relevant strategies, process and skills at different levels to support the organizational process (Darvizeh & Yang, 2020, Indika *et al.*, 2021). On the other hand, dynamic capability is a firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Zhou *et al.*, 2019). It is also part of organizational process that internally modify, change and renew a firm's resource base to sustain competitive advantage in situations in which the competitive landscape is characterized by rapid and unpredicted changes (Eikelenboom & de Jong, 2019). For (Saenchaiyathon & Liengjindathaworn, 2019) dynamic capability is identified to be a valuable asset, which can't be purchased from anywhere, but it has to be developed with in a company.

Innovation and entrepreneurship are becoming key concepts for economic sustainable development in today's complex and dynamic business world. Economic, social and environmental sustainable development is significantly important for organization performance. Organizations need to respond to changing business environment, technological capabilities and customer demand. Open innovation is 'the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation'. Information is generated in the present, much more than earlier, through research with regard to the entrepreneurial businesses and improvement of methodologies in social sciences. Measuring Business Performance (BP) through the impact of Entrepreneurial Orientation (EO), and Open Innovation (OI), in today's economic environment is a critical issue for academic scholars and practicing entrepreneurs (Monteiro *et al.*, 2019; Valdez-

Juárez *et al.*, 2021). Given arguments presented above in the previous section entrepreneurship has always been closely linked to innovation, indeed sometimes the results of innovation are seen as an indicator of entrepreneurship.

Rodrigo-Alarcón *et al.* (2018) highlight the three fundamental reasons why the research on a firm's entrepreneurial orientations bridges an important gap in the entrepreneurship literature. First, it has been shown that entrepreneurial orientation is a valuable construct for understanding how and why some firms are able to renew themselves regularly over time through new paths of growth (Monteiro *et al.*, 2019). Second, the entrepreneurial orientation exists as a continuous variable or a set of variables that represent one or more dimensions in which firms can be framed. Thus, this concept offers a common measurement by which entrepreneurship can be assessed. Finally, entrepreneurial orientation occupies a distinct space from other entrepreneurial concepts, such as entrepreneurial culture and climate. Thereby, and Cantaleano *et al.* (2018) suggest that entrepreneurial orientation is not a specific and unique act or behavior, but it is the essential element of the entrepreneurial process.

Entrepreneurship is associated with the level of creativity, with the capacity for innovation, with taking risks and with the degree of proactivity of individuals (Monteiro *et al.*, 2019; Abu-Rumman *et al.*, 2021). Generally, experts on the subject have analyzed the behavior of this variable as a multidimensional construct, which considers the capacity for innovation, the ability to take risks, the ability to be proactive, aggressiveness and autonomy in the management of companies. However, the variables that are most frequently studied in the field of business sciences are: innovation, proactivity and risk taking (Cantaleano *et al.*, 2018; Valdez-Juárez *et al.*, 2021). In this same direction, various specialists in the business area and theoretical experts in business sustainability have expressed and confirmed that the Entrepreneurial Orientation (EO) provides an important number of benefits for companies (Liu *et al.*, 2021; Monteiro *et al.*, 2019). These can be financial, organizational, and market specialists in the development of the Theory of Dynamic Capabilities (TDC) have explained that entrepreneurial orientation has become a crucial business strategy to maintain a competitive advantage, therefore, it is necessary to take advantage of opportunities, know the changes in the environment and reduce threats to through the exploration of innovation capacity (adopting new technologies) and the exploitation of intangible resources (organizational management capacity) with which an organization has available (Valdez-Juárez *et al.*, 2021). Another

key dynamic capability that is linked to business strategy is the case of Corporate Social Responsibility (CSR), which has been one of the most recurring sustainability strategies in the last two decades by company managers.

Whether and how firms' dynamic capabilities lead to their competitive advantage and improved firm performance has been a core issue in the discussion of scholars. Indeed, there has been a hot debate around this question (Abu-Rumman *et al.*, 2021). On one hand, early proposals in this area assumed a direct impact of dynamic capabilities on firm performance (Faizal *et al.*, 2012). More recently, Alves *et al.* (2017) reiterated that the dynamic capabilities framework was created with an ambitious agenda to help scholars and practitioners understand the foundations of firm-level competitive advantage. On the other hand, other scholars like (Sunder *et al.*, 2019) counted that dynamic capabilities do not necessarily lead to improved performance. In their view, competitive advantage and improved firm performance do not rely on dynamic capabilities themselves but on the resource configurations created by them. Similarly, Abu-Rumman *et al.* (2021) maintained that dynamic capabilities are not directly linked to firm performance. Still, other scholars proposed that dynamic capabilities may hurt rather than improve firm performance if there is no need to use dynamic capabilities (Madsen, 2012).

The debate arises from that the mechanisms through which dynamic capabilities influence firm performance remain unclear. Prominent scholars argue that dynamic capabilities enable firms to match the resource base with changing environments (Faizal *et al.*, 2012), create market change (Sunder *et al.*, 2019), and facilitate resource access and resource development (Cantaleano *et al.*, 2018). According to Schilke *et al.* (2018), 'the dynamic capabilities perspective has been criticized for (Rodrigo-Alarcón *et al.*, 2018; Valdez-Juárez *et al.*, 2021) its confounding discussion of the effect of dynamic capabilities.' What deteriorates the theoretical confusion is that dynamic capabilities studies 'mainly focus on theoretical development, and empirical research lagged' (Rodríguez *et al.*, 2020).

It is necessary to provide insights into the mechanism of employees' dynamic capabilities on job performance to aptly show the value to contemporary organizations. The lack of such insights appears to be the major weakness of dynamic capabilities (Tworek, 2020). It is fundamental to note that the concept of dynamic capabilities as meta-capabilities has been receiving considerable attention in both theory and practice of management (Tworek, 2020; Zhou *et*

al., 2019). Though employees are considered as one of its fundamental pillars, the literature rarely discusses the dynamic capabilities of employees as a distinct subject of study rather the literature considers it as a component of dynamic capabilities. Besides, the empirical studies in this field are either large-scale surveys that cannot recognize the differences in firms' actual practices and processes or single case studies, which are difficult to compare with other studies. Some empirical studies have recently reviewed the state-of-the-art approaches (Tworek, 2020; Indika *et al.*, 2021; Valdez-Juárez *et al.*, 2021).

The existing theoretical confusion about the impact of employee's dynamic capabilities on organizational performance needs clarity for organizations and future researchers. Not only this but also there empirical shreds of evidence about the existence of controversial issues on the role of employees' dynamic capabilities on organizational performance. Different researchers like (Sunder *et al.*, 2019) disagreed that employees' dynamic capabilities have no strong relationship with organizational performance. On the other hand, different scholars like (Faizal *et al.*, 2012) have confirmed that the dynamic capabilities of employees can affect the performance of the organizations. Furthermore, a research conducted by (Yayeh, 2018), the performance of the manufacturing sector still goes beyond the needs of the society concerning income distribution and employment creation, and also the most prioritized manufacturing sub-sectors have been registering less productivity against higher expected potentials. These all pieces of evidence have initiated the researcher to research the role of dynamic capabilities on organizational performance.

Due to the above stated problems, confusions and miss understanding about the effect of dynamic capability on performance, there is a need to conduct a systematic literature review. As the reviewer stated above, there are a number of articles conduct in measuring the effect of dynamic capability and organizational performance, effect of dynamic capability on performance through innovation, and effect of dynamic capability on organizational performance through entrepreneurial orientations as mediator. However, there is no any article conducted to measure the effect of employee dynamic capability on organizational performance through the mediating role of both innovation and entrepreneurial orientations. Therefore, conducting this systematic literature review is very important to measure the effect of employee's dynamic capability on organizational performance by considering

innovation and entrepreneurial orientations as mediator between the dependent and independent variables.

2. Objective of the Systematic review

The purpose of this systematic literature review is to systematically review and analyze the current researches on dynamic capability and organizational performance through innovation and entrepreneurial orientations as mediator. In order to address the stated objective, the systematic review have tried to test the following hypothesis based on the empirical evidences.

H1: There is a positive and significant relationship between dynamic capability and organizational performance.

H2: Innovation can mediate the relationship between dynamic capability and organizational performance.

H3: Entrepreneurial orientation can mediate the relationship between dynamic capability and organizational performance.

3. Method and Procedures of Systematic Literature Review

To ensure a rigorous systematic literature review of published work on employee's dynamic capability and organizational performance with the mediating effect of innovation and entrepreneurial orientations, the researchers adopted Bacca *et al.* (2014) multi-step review approach to assemble and review the relevant literature. The three step integrative process ensures the study robustness and rigor by eliminating the subjectivity in data collection and analysis found in traditional literature reviews. These three steps involves the planning step, conducting review and report the systematic literature review.

Systematic literature review is not mainly study focused, it is basically concept focused by its nature. Therefore, in order to conduct systematic literature review, the very important thing that the researcher did were developing search strategy to access journal articles relevant to conceptualize for the review, then try to access the different websites to evaluate and measure articles/journals based on the criteria developed. In the collection process, a total of around 1000 articles were screened and 500 were downloaded by using a software called '*Publish or perish*' and among the collected articles, the researcher has selected 50 articles based on the selection criteria stated below and in addition with the title clothedness, addressed areas and purposes of the articles. That means, the

analysis of this systematic literature review is made based on the purpose, central argument, and major findings of the selected articles/journals.

The value of a systematic literature review consists in its ability to provide a systematic examination of all sources used and to describe and justify what has been done in previous studies, while purposefully avoiding partiality and subjectivity in the selection of studies analyzed. By having all these in mind, this systematic review tried to address different sources and different studies which have direct relationship with the ultimate objective of the review. Specifically, Google Scholar and Scopus were the primary sources of reference data. To select primary studies, the study developed criteria's as stated below. Several procedures were used to collect data: First, the researcher looked for scholarly works that were relevant to the ultimate objective of the systematic review. It was designed to collect data from articles published on the study area. As a result, Google Scholar and Scopus was used as the primary database for accessing reputable journals in order to obtain a broad coverage of literature on the subject. There are many papers that contain the search term, some articles that have a very different meaning and are unrelated to the topic of study have been removed during the screening process.

Table 1: Inclusion and Exclusion Criteria

No.	Criteria	Inclusion	Exclusion
1	Year of publication	Proceeding from 2018	Prior to 2018
2	Types of study design	Quantitative	Qualitative
3	Language	English	Other languages except English
4	Number of Variables	Indicating Dynamic Capability (IV) and performance (DV)	Articles which doesn't include Dynamic Capability (IV) and performance (DV)
5	Types of the study design	Inferential	Exploratory
6	Quality of the Abstract	Abstracts which include the stated variables	Abstracts which doesn't include the stated variables

4. Review of theoretical Foundations

4.1 Relationship between Dynamic capability and Organizational Performance

Literatures related to dynamic capability and performance of the organization indicated that it is important to maximize both employee satisfaction and organizational performance by which dynamic capability helps the organization to challenge both the internal and external working environments (Kumar et al., 2020). To improve and to maintain the success of the organization's performance, it is basic to know the business environments and employees should be capable enough to grasp opportunities from the existing environments by rearranging the organizational resources (Čirjevskis, 2019). Opposing to the resource-based view, the dynamic capability approach gives stress that owning valued, occasional, unique, and non-substitutable resources without the capacity to renew them don't produce greater performance (Eikelenboom & de Jong, 2019, Pham *et al.*, 2019).

Abrol (2019) considered dynamic capabilities as the mixture of organizational potentials that support the initiatives to assess and affect sustainability in innovation through tactical executive practices, while (Martelo *et al.*, 2012) proposed that enterprises can acclimate to change by recognizing and essentially cultivating acceptable permutations of dynamic capabilities (Torres *et al.*, 2018). Additionally, dynamic capabilities endow the crucial dealings of performance that will ease the firms in adapting tentative and varying circumstances and improve the product, process and managerial innovations (Zhou *et al.*, 2019, Saenchaiyathon & Liengjindathaworn, 2019).

4.2 Relationship Between dynamic capability and Organizational Performance through Innovation

Innovation refers to the purposeful creation, introduction, and application of new ideas within a work role, group, or organization to benefit the role performance, group or organization (Gevers et al., 2014). Innovation is considered as an essential source of organizational survival since firms are gradually interested in unveiling the factors that promote innovative work behavior. Undoubtedly, innovation plays a fundamental role in organizational competitiveness albeit it is impossible for organizations to be innovative without their employees. In this regard, (Wali et al., 2020) opined that “one option for organizational to become more innovative is to encourage their employees to be innovative”. Besides, some researchers have revealed that

innovation is important for organizational performance since organizations can react to challenges quicker, and better exploit the new products and market opportunities (Tworek, 2020).

According to Campbell & Wiernik (2015), job performance is considered as one of the fundamental dimensions in organizational goal achievement. Hence, it is expected that performance will contribute to organizational goals as one of the organization's competitive advantages. Typically, job performance represents action and behavior which are under individuals' control that contributed to the achievement of organizational goals. It integrates the concept of activity to carry out tasks and the outcome. The economy of a nation is driven by aggregate individuals' job performance in every organization. Besides, Motowidlo & Kell (2012), described job performance as "the total expected value to the organization of the discrete behavioral episodes that an individual carries out over a standard period".

4.3 Relationship Between dynamic capability and Organizational Performance through Entrepreneurial Orientations

The concept of entrepreneurial orientation was first proposed by Miller and is defined as the strategic posture adopted by the company that renews the market officers, takes risk to try new products, service and markets through proactive approach (Valdez-Juárez *et al.*, 2021). Entrepreneurial orientation is a multidimensional that can boost up the potential of employees, an entrepreneur and for those who are in the area (Monteiro *et al.*, 2019; Valdez-Juárez *et al.*, 2021). Entrepreneurial Orientation, in recent years, has been viewed as a dynamic capability and a superior value strategy for organizations. Its conceptual origins derive from the literature of entrepreneurship, therefore, entrepreneurial orientation encompasses the configuration of practices, the adoption and application of policies in the processes that allow the creation of rational actions and decisions within the company (Rodrigo-Alarcón *et al.*, 2018; Abu-Rumman *et al.*, 2021).

Main researchers in the contextualization and measurement of entrepreneurial orientation have been Miller and Covin and Slevin, who, in addition to determining that it is a multidimensional construct, have concluded that it is defined as a business strategy that is made up of actions, intentions and abilities, both individual and collective: 1) the capacity for innovation (leadership in innovation requires a strong investment in research and development for the generation of new products, changes in existing products, generation of new

working techniques and adoption of new technologies in the processes) (Akbar *et al.*, 2020), 2) proactivity: -human capacity to face the risks of the external environment- (must show a competitive posture, be the first to introduce new products, make bold decisions before competitors, show environmental boldness, make rational decisions, etc., (Liu *et al.*, 2021; Abu-Rumman *et al.*, 2021) take risks (ease of propensity to take risks in projects with high risk and high return, value the cost-benefit) that assumes a business (Valdez-Juárez *et al.*, 2021). All this mix of capabilities leads companies to explore and take advantage of new opportunities, improve their performance in highly competitive markets and generate sustainable competitive advantages (Monteiro *et al.*, 2019). There is a positive and significant relationship between entrepreneurial orientation and dynamic capability (Rodrigo-Alarcón *et al.*, 2018), and also there is appositve and significant relationship between entrepreneurial orientation and organizational performance (Liu *et al.*, 2021). The value of studying individual's entrepreneurial orientation and lies in the fact that firms entrepreneurial orientation is implemented and strengthened by individuals, the firm owners, employees (Rodrigo-Alarcón *et al.*, 2018), and manifests at all organizational levels (Cantaleano *et al.*, 2018). Because, entrepreneurship promotes the circulation, dissemination and transfer of knowledge within and between organizations and ultimately dynamic capabilities. Generally, entrepreneurial orientations conceived as a firm's level construct, refers to an organization attribute reflecting how being entrepreneurial is manifested in organizations or business unites (Liu *et al.*, 2021).

Innovation and Organizational Performance

Innovation is the process of taking creative ideas and turning them in to useful products or work methods and is the ability to mix variety of ideas, knowledge and expertise together for the sake of having valuable products/services, which can maximize the innovative capability of an organization (Damanpour, 2020; Damanpour & Evan, 1984; Suhag *et al.*, 2017; García Manjón, 2020). According to Damanpour & Evan (1984), Damanpour (2020) and Tuan *et al.*, (2016) innovation supports organizational performance such as financial performance, product performance, service performance, sales performance, market performance, stakeholders performance. Innovations are adopted to improve organizational performance or to eliminate a performance gap that may be caused by changes in the external environment Damanpour & Evan, (1984), helps the organization to adopt change (Khan *et al.*, 2021), and to make

organizations novel in practice, workplace business, or outside relations Suhag *et al.*, (2017). According to García Manjón, (2020) innovation can enhance the firm performance specifically, innovative performance, production performance, market performance and financial performance. In addition, Khan *et al.* (2021) and Tuan *et al.* (2016) give emphasis for the role of innovation on firms technological performance, maximizing market share, market innovation and increasing firm sales. On the other hand, Tuan *et al.* (2016) shows that any firm needs innovation to succeed and survive, to gain sustainable competitive advantage, to get and done something new, to use a new process in the industry, to new market openings.

5.1 Entrepreneurial Orientations and Organizational Performance

Entrepreneurial orientation is a significant factor which is integrative, building and reconfiguring the internal and external competencies to deal with rapidly changing environments (Indika *et al.*, 2021). It is also determined as strategic posture of an organizations that exhibits innovative attitude, proactive and risk takers (Mamun *et al.*, 2018). The three commonly used entrepreneurial orientation dimensions are innovativeness, pro-activeness and risk taking (Ferrerias-Méndez *et al.*, 2021) and with these basic dimensions, entrepreneurial orientation is considered as an organizational tool that helps the companies to differentiate themselves from their rivalries (Adam *et al.*, 2022) and to gain competitive advantage (Indika *et al.*, 2021). Studies conducted by different scholars showed entrepreneurial orientation have a positive and significant effect on organizational performance (Indika *et al.*, 2021; Khan *et al.*, 2021; Abu-Rumman *et al.*, 2021; Al Mamun & Fazal, 2018). However, as indicated in the key debate part, some scholars detected that entrepreneurial orientation doesn't have a positive and significance effect on organizational performance. Even if the controversies are there, the concept and usage of entrepreneurial orientations continues to grow with the passage of time and new dimensions have continuously been added sequentially (Nguyen *et al.*, 2022).

By having these all in mind, this systematic literature review is guided by the model indicated at latter to indicate the relationship and effect of employee dynamic capability and organizational performance by considering both innovation and entrepreneurial orientations as a mediator between the relations of the two variables. Because, all the articles which are reviewed doesn't indicate the mediating effect of both innovation and entrepreneurial orientation

together to mediate the effect of employees dynamic capability and organizational performance.

5. Summarized and integrated findings

In most cases of the articles, the authors has tried to include the impact of and the nexus between dynamic capability and organizational performance. However, in some selected articles dynamic capability can be considered as a mediator between two other variables including organizational performance. The articles addressed that our current business environment is highly competitive and needs dynamic employee who can understand the existing business situation and act accordingly (Eikelenboom & de Jong, 2019; Kumar et al., 2020). Results also indicated that in one way or another, the main objective that business organizations in the 21c are winning the highly competitive market and surviving for a long period of time (Zhou *et al.*, 2019, Torres *et al.*, 2018).

Therefore, to achieve the stated objectives, having qualified human capital who have dynamic capability to earn competitive advantage (Pham *et al.*, 2019; Rodrigo-Alarcón *et al.*, 2018). Managers at the top, middle and operational level has to give value to the competitive advantage of an organization, which includes sourcing, finance, human resource, technology, process and brand (Saenchaiyathon & Liengjindathaworn, 2019). With this regard, among the different element of competitive advantage, human resource positions as top. Therefore, organizations has to give due attention and value to the availability of dynamic capable human capital and their significant value to both competitive advantage and survival (Fitriati *et al.*, 2020). Doing these all can help firms to sustain its competitiveness in the current highly changing environment (Zhou *et al.*, 2019).

The prevailing view of the relationship between dynamic capability and organizational performance have evaluated over time (Torres *et al.*, 2018). The systematically reviewed articles believed that if an organization proceed strong dynamic capabilities it would attain sustained competitive advantage (Darvizeh & Yang, 2020; Abu-Rumman *et al.*, 2021). The reviewed literatures have also argued that sustainable performance should be addressed through a process of constant adjustment, which can be facilitated by dynamic capabilities. In most parts of the reviewed articles, it is possible to theorize that dynamic capability which could be defined by three distinct dimensions, (sensing capability,

seizing capability and reconfiguring capabilities), facilitates different types of innovations that intern improve firms performance (Zhou *et al.*, 2019).

According to the systematic review result, dynamic capability have positive and significant effect on performance of an organization. Because, dynamic capability helps the organizations to have flexible employees which can simply boost up their actual performance (Pham *et al.*, 2019). In this context, to achieve organizational performance, employees should have innovative character as an additional element of dynamic capabilities (Eikelenboom & de Jong, 2019; Saenchaiyathon & Liengjindathaworn, 2019). Because, what the reviewed literature support is that, innovative characteristics of the employees can affect corporate image of the whole organization. Drawing from the resource based view and social capital theory, the systematic literature review examines the ability of recognizing and capitalizing opportunities of dynamic capability mechanisms affecting organizational performance (Kumar *et al.*, 2020; Zhou *et al.*, 2019). Dynamic capability is has been increasingly considered as a key element of superior organizational performance (Darvizeh & Yang, 2020). The hypothesized statements of the systematically review articles measured the causality between dynamic capability and performance and determined the direct effect of dynamic capability on performance. With this regard, the result indicate that: dynamic capability and organizational performance have positive and significant relationship (Fitriati *et al.*, 2020), there is a positive relationship between dynamic capability and innovation, there is a positive and significant relationship among dynamic capability and performance through innovation and also there is a positive and significant relationship between performance and innovation through dynamic capabilities (Zhou *et al.*, 2019).

From the result of the article it is possible to justify that innovation have an influence on performance of a firm, but having a smaller factors compared with dynamic capability. A very important element that we can understand from the systematic literature review on the relationship and effect of dynamic capability and organizational performance is that, organizational performance can significantly enhance even in an uncertain business environment, if a firm develop the culture of dynamic capabilities based on its factors that are learning orientations, organizational culture and corporate entrepreneurship, by including the elements of dynamic capabilities as stated above. Despite some nuanced differences existing among different literatures on the relationship between dynamic capability and performance, most of the reviewed literatures

indicated that: dynamic capability maximizes firm's efficiency to produce new idea and to develop new product, allow for maximum utilization of resources and above all motivating and harnessing the resources. Changing time bring in the need of effective coordination between different resources for the accomplishment of strategic and managerial goals (Eikelenboom & de Jong, 2019). In addition, advancement in all spheres is the need of the hours. Because, modernization is the outcome of dynamic capabilities which are essential for competitive advantage and sustainable development. As a final remark, the systematically reviewed literatures indicated that higher performance outcome can be achieved when dynamic capabilities interact with operational level changes like changes in management, change in used technologies and changes in target market. Because, dynamic capabilities can reconfigure existing asset positions and create organizational renewal. However, managers at different levels and researchers on the area of dynamic capability and organizational performance have to note that all dynamic capability dimensions are not equally important for firm's development and it will be significant if we have additional variables to moderate the relationship between dynamic capability dimensions and firms performance (Kumar *et al.*, 2020). Dynamic capability and organizational performance have a positive relationship and entrepreneurial orientation can also mediate their relationship for further success. With this regard, according to (Monteiro *et al.*, 2019), dynamic capabilities and entrepreneurial orientations directly affect organizational performance. In addition, the research conducted by (Liu *et al.*, 2021), dictated that entrepreneurial orientation is positively related to corporate dynamic capabilities and firms performance and that dynamic capability mediate the positive relationship between entrepreneurial orientation and firms performance.

5.2 Implication for Further Research: gaps and implications for further research

From the available literature, it is relatable that there is a significant association between dynamic capabilities and an organization's performance but the mediating role of innovation towards the role of employee's dynamic capabilities on organizational performance proposed in this study is underexplored (Zhou *et al.*, 2019; Darvizeh & Yang, 2020). Furthermore, studies have not paid attention to the empirical analysis of the dynamic capabilities of employees with particular reference to an organizational

performance by considering the mediating role of innovation. Researchers have concentrated more on financial and technological perspectives such as marketing, locational factors, the responsibility played by businessmen; globalization perspectives, and management of conglomerates (Laaksonen & Peltoniemi, 2018).

The existing theoretical confusion about the impact of employee's dynamic capabilities on organizational performance needs clarity for organizations and future researchers. Not only this but also there empirical shreds of evidence about the existence of controversial issues on the role of employees' dynamic capabilities on organizational performance. Different researchers like (Sunder *et al.*, 2019) disagreed that employees' dynamic capabilities have no strong relationship with organizational performance. On the other hand, different scholars like (Zhou *et al.*, 2019) have confirmed that the dynamic capabilities of employees can affect the performance of the organizations.

As the researcher tried to discuss in the above theoretical parts, different researchers have missed the practical contribution of dynamic capabilities on organizational performance with the mediating role of innovation (Torres *et al.*, 2018). Still, there are different controversial issues related to the real contribution of the different dynamic capabilities on the performance of the organizations (Zhou *et al.*, 2019).

According to Rodríguez *et al.* (2020), the reason for the existence of the different controversies on the contribution and relevance of dynamic capabilities for organizational performance was that most of the researchers focus on theoretical aspects of the concept and they ignore the empirical aspects of dynamic capabilities.

Pham *et al.* (2019) analyzed existing research on the resource-based view and established that in all resource-based methods, dynamic capabilities view is the least empirically investigated stream. They noted that empirical research on dynamic capabilities is still in its early stages. Furthermore, he founded that the research published prior revealed inconsistent findings less than 40% of studies done found an association between dynamic capabilities and practice of performance. They suggested that this may be due to the nature of how the dynamic capability performance relationship was tested. Therefore, the rationale behind the study is to outline the role of dynamic capabilities (multiple capabilities) in the performance of organizations through innovation.

Since the arrival of social media and online networking, the importance of entrepreneurial networking has significantly increased, and entrepreneurial networks have received increasing attention in the management research (Valdez-Juárez *et al.*, 2021). In achieving better performance, entrepreneurial orientation and entrepreneurial networks are both considered to have a significant impact (Rodrigo-Alarcón *et al.*, 2018). However, in the literature, several authors have tried to focus on understanding whether the advantages of entrepreneurial networks outweigh the disadvantages from a theoretical perspective, yet the results are sometimes inconsistent (Cantaleano *et al.*, 2018). The literature on entrepreneurial networks from the perspective of resource dependency theory has also received increasing attention (Rodrigo-Alarcón *et al.*, 2018; Valdez-Juárez *et al.*, 2021); however, the literature on entrepreneurial networks and the consequences of entrepreneurial networks is vague and diversified because of a lack of identification of their role. When it comes to firm performance, the findings are divergent and have certain inconsistencies (Monteiro *et al.*, 2019; Akbar *et al.*, 2020). When examining closed entrepreneurial networks, the literature shows even more diversified results. Closed entrepreneurial networks, commonly known as closed inter-organizational relationships, involve the whole social interaction within the firm's network and includes diversity and strength of the network (Abu-Rumman *et al.*, 2021).

By having these all in mind, this systematic review have developed the following model to indicate the effect of employee dynamic capability on organizational performance by considering both innovation and entrepreneurial orientations as a mediator between the relations of the two variables. Because, all the articles which are systematically reviewed doesn't indicate the mediating effect of both innovation and entrepreneurial orientation together to mediate the effect of employees dynamic capability and organizational performance.

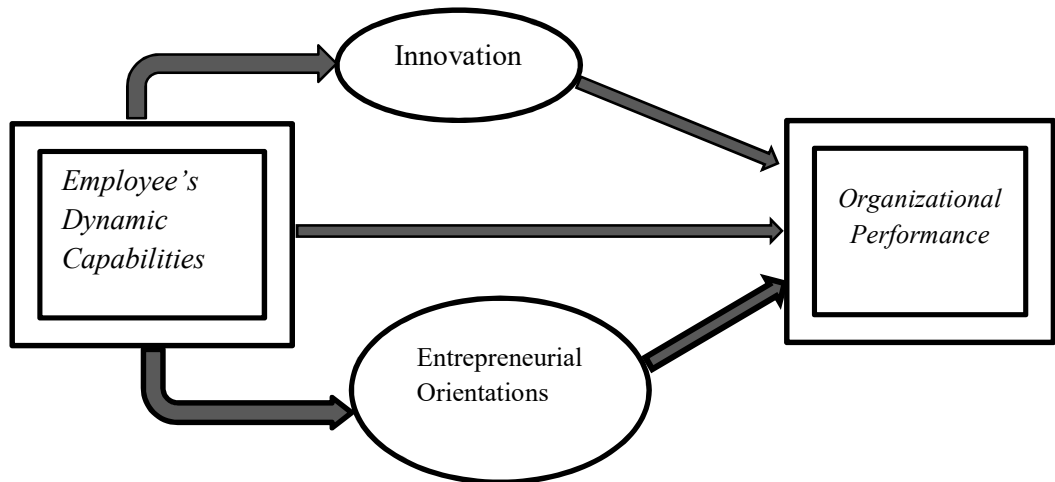


Figure 1: Conceptual Framework for the systematic Literature review

The conceptual framework of the systematic literature review organized by considering the issues in each variable (Employee's dynamic capability as independent variable, Organizational Performance as dependent variable, and Innovation and entrepreneurial orientations are mediating variable).

Dynamic capability, according to Teece (2018), in the business model consists of three components, namely:

Sensing, namely identifying opportunities by always observing the environment and looking for opportunities that arise within or outside the company's boundaries.

Seizing is when there is an opportunity then its potential and value are captured to be learned by choosing the right technology or better understanding the target customers.

Transforming / Reconfiguring is when opportunities are perceived and captured then the company reconfigures resources to adjust changes and opportunities in the corporate environment.

According to Shahzad (2012) good **organizational performance** is expressed in three main quantities, namely, **sales value** as indicated by the value of money or unit profits, **sales growth** as indicated by an increase in product sales, and **market share** as indicated by byproduct contribution in controlling the product market compared to competitors who ultimately lead to profits the company.

However, Dyer & Reeves, (1995) and Rogers & Wright, (1998) indicated that organizational performance can be measured based on the following four (4) effective measures:

- ✓ Human Resource Outcomes: includes absenteeism, turnover, individual and group performance.
- ✓ Organizational Outcomes: includes productivity, quality and service.
- ✓ Financial outcomes: includes profitability, return on asset, and return on investment.
- ✓ Stock-market performance: includes stock value or shareholders return.

Chumaidiyah (2012) suggested that innovation influences company performance. Innovation can be measured by how often companies introduce innovations in processes, products, marketing, and management (Striteska & Prokop, 2020). So innovation is an idea, an idea that is realized and accepted by a person or group for improvement in products, processes, marketing, and management.

Product innovation: the introduction of products or services that are newly introduced to consumers as a renewal of existing products or have gone through significant improvements related to the characteristics or intended use of the product.

Process innovation: the application of production or delivery methods that are completely new or have gone through significant improvements.

Marketing innovation: the application of new marketing methods or a significant increase in the product packaging or design, product placement, product promotion, and prices.

Management/organization innovation: the application of new organizational methods to business practices, workplace organization, company external relations.

The dimensions of **entrepreneurial orientations** are also understood and stated by different scholars, the common dimensions of entrepreneurial orientation are stated here. According to Dal-Soto *et al.* (2021) and Carnahan *et al.* (2010), entrepreneurial orientations are explained by: ability of the strategic managers to take the risks related to the business (risk taking dimensions), to favor change and innovation for gaining competitive advantage

(innovativeness dimensions), and to compete aggressively with other firms (pro-activeness dimension).

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