REPUTATIONAL DYNAMIC CAPABILITY – WHAT'S BOARD GOT TO DO WITH IT

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Abstract

The power of intangible corporate assets, on disposal to board and management provide immense possibilities to enhance corporate performance. Dynamic capabilities and corporate reputation are the most salient of a kind, beside knowledge. While the relevant literature about both phenomena is ample, their synergic impact on the corporate performance is lacking. The main challenge of the paper is to seal this important gap by proposing an integrated framework of dynamic capabilities and corporate reputation. In particular, by examining the mediating role of corporate reputation in corporate interactions, the reputational capability is shaped to enhance the corporate sensibility to changes in its operating ecosystem, prior to its competition, therefore assuring corporate fitness. This new breed of dynamic capability is designed as a driver of the firm's market and non-market based competitiveness. In order to empirically verify this new mechanism, the research results conducted in Croatia are presented. The model is designed as generic in nature, hence is suitable for applying to other intangible corporate assets and dynamic capabilities interaction analysis.

Keywords: Dynamic Capabilities, Corporate Reputation, Reputational Capability

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1 Introduction

In a contemporary business reality, the firm is seen as a nexus of relationships and contracts. Such an understanding highlights the business interconnectedness with and embeddedness into surrounding and global ecosystem. The drift towards stakeholding has brought the need for changes in governing and managing mode: a more holistic view is required, the one that regards overall corporate responsibility as well as long term corporate success and sustained competitiveness. The ongoing transformation of corporate governance practice denotes actually that the scope of the field has to move beyond the classical meaning of the term "governance" as it is usually applied to contractual relations in and between organizations and their constituents (Lindberg, 2003), toward more of relational contracting. Thus, the relational assets of the corporation come to the fore, in particular corporate reputation and relational dynamic capabilities. Consequently, a development of new mechanisms able to provide and maintain corporate fitness in a contemporary, fast changing business reality is required.

A contemporary view of capabilities based theories of strategy reside on intangible assets. Being a powerful strategic relational resource, corporate reputation can be understood as kind of a label for the corporate behavior. On the other side, dynamic capabilities stand for the capacity of intended and purposeful transformation, adjustment as well as the development of the firm's intangible resources and capabilities. Having in mind that organizational capabilities, in particular dynamic capabilities as well as the ownership or control of intangibles and their co-specialized complements allow firm to differentiate and establish some degree of competitive advantage, we have followed the hunch that dynamic capabilities and corporate reputation might produce synergetic influence on firm's performance. So, we have examined their theoretical interdependence and empirical interaction and found the mediating effect of corporate reputation on firm's dynamic capabilities process aligned to firm performance. Moreover, we have identified and shaped the reputational capability, a new and a highly important dynamic capability, designed as a driver of the firm's market and non-market based competitiveness.

Within this article, corporate governance is viewed as an integrative system of stakeholders' relations as well as a form of meta-management that joins legal, financial, ethical and organizational issues of the firm performance, while the corporate reputation is regarded as a multidimensional phenomena and unique strategic relational resource, able to provide assistance in shaping the preferable kind of relations with its numerous stakeholder groups. By shaping bidirectional relational links between company and its stakeholders, we move from managing relationships toward building collaborative relationships suitable for the privileged exchange of ideas, knowledge and information, so to import a new dynamic perspective in corporate governance field, needed for generating and sustaining ecosystem's corporate fitness.

In the subsequent section, we'll briefly explicate the theoretical background and the state of the art of both phenomena. Than we move toward the conceptualization of the model in order to identify the new mechanism able to raise the firm's awareness of the changes in its environment. The conceptualization will be supported by the empirical research conducted in Croatia. The research results bring certification to the proposed framework and it's suitability for assisting the management and board in more precise direction of the firm's dynamic capabilities. The paper concludes with discussion and highlights some potentially useful governance implications.

2 Dynamic capabilities

"Dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource base" (Helfat *et al.*, 2007:1). Dynamic capabilities (Teece *et al.,* 1997) can be understood as higher-order abilities (managerial and entrepreneurs' feature, Teece, 2014) and routines (organizational property) that help in creating, reconfiguring and balancing organizational resources and capabilities (internal perspective), and in identifying, knowing and realizing opportunities, as well as in timely detection, offsetting and managing threats (external perspective). Accordingly, they link the external and internal company's environment (Tomšić, 2015). Due to their renewal effect on the resource base, they have been considered as essential and tacit firm's energy.

A capability, whether operational or dynamic, is the capacity/ability to perform a particular task or activity in a reliable and at least minimally satisfactory manner (Helfat and Winter, 2011; Helfat *et al.*, 2007). Operational capabilities enable an organization to earn a living in the present (Winter, 2003), while dynamic concern intentional or purposeful change and refer to the capacity to renew competencies (Teece *et al.*, 1997). Dynamic capability view (DCV) is developed within the resource theory of strategy, arguably aimed for the better corporate competitive performance in complex operating context. This vivid strategic management approach deals with strategic change, but surprisingly, has only timidly entered into corporate governance field through the conceptualization of board dynamic capability (Tipurić *et al.,* 2014). The reason for could be find in Williamson (1999). He has pointed out that theories of performance differentials in strategic management basically diverge around two general types: governance-based theories and competence-based theories. These two theoretical perspectives have typically been viewed as competing explanations.

On the opposite, Makadok (2003) demonstrates that there is actually a complementary synergistic relationship in between: superior governance and superior competences or capabilities positively interact, and are each worth more when combined together than they are worth separately. Following Makadok (2003:1044): "better governance enhances the value of competence, and better competence enhances the value of governance, so that the combined whole is greater than the sum of the parts…Being motivated to do the right thing for shareholders is less profitable if you don't know what the right thing to do is, and knowing the right thing to do is less profitable if you are not motivated to do it". The dynamic capabilities framework uses this same metaphor to distinguish between ordinary and dynamic capabilities. "Where ordinary capabilities are about doing things right, dynamic capabilities are about doing the right things, at the right time, based on unique managerial and orchestration processes, a strong change oriented organizational culture and a prescient assessment of the business environment and technological opportunities"(Teece, 2015:227).

DCV as a distinct approach to strategic management (eg. Helfat and Peteraf, 2009 for review) has the unique feature: its integrative nature, capable to merge many fragmented approaches or theories into a holistic governing and managing platform. The irresistible attractiveness of the framework resides within its inner and outer-change-related nature, in terms of context, process and content, regardless the outcomes it is related or aimed to: competitive advantage, renewal, change, ecosystem's corporate fitness[1] or just sustained firm performance. The field researches are consent that DC include difficult to replicate firm capabilities required to

[1] By the notion ecosystem's corporate fitness, "the industrial, social and institutional dimension of business fitness is understood, all three considered as antecedents that support corporate sustainable success" (Tomšić, 2013:849). The notion fitness is borrowed from population ecology literature and is brought to strategic management as a conceptual yardstick for measuring the performance of corporate dynamic capabilities (Helfat *et al.*, 2007:7).

respond to changing ecosystem[2]."They also embrace the enterprise's capacity to shape the ecosystem it occupies, develop new products and processes, and design and implement viable business models" (Teece, 2007:1320).

Being a multidimensional construct, "dynamic capabilities can be disaggregated into capacity: (1) to sense and shape opportunities and threats; (2) to seize opportunities; and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets" (Teece, 2007:1319). *Sensing* requires searching and exploring markets and technologies both local to and distal from the organization. *Seizing*, in contrast, necessitates making high-quality, interdependent investment decisions, such as those involved in selecting product architectures and business models. *Transforming/reconfiguring* entails aligning and reconfiguring the firm in response to market and technological changes, such that it retains evolutionary and economic fitness. In short, the concept includes the capacity to identify the need or opportunity for change, formulates a response to such a need or opportunity, and implements a course of action orchestrated in pursuit of new value creation and strategic renewal (Ambrosini i dr., 2009). DC also guide choices on how to secure the necessary services of assets currently missing. They determine the firm's agility and flexibility in implementing the new organizational design, including the alignment of new and existing activities and responses to the unforeseen internal and external contingencies that unavoidably accompany deploying a new business model (Leih *et al*., 2015).

Dynamic capabilities are grounded in a combination of top management skills and are shaped by the firm's unique history, values, and routines (Teece, 2012). Since processes are inherently inert, their emergence and operating depend on management's cognitive and creative abilities, which are entrepreneurial in nature (Teece, 2007). They enable the firm to alter its activities as the business environment shifts. Accordingly, they contribute to the firm's evolutionary fitness, i.e., its ability to survive longer term, rather than merely achieving a temporary fit. Dynamic capabilities govern how the organization's ordinary capabilities are developed, augmented, and combined, and undergird how firms create and capture value (Teece, 2015). The ongoing strategizing and asset orchestration are the essence of dynamic capabilities. Strong dynamic capabilities enable firms to orchestrate their resources effectively (Leih *et al*., 2015).

We add that corporate level dynamic capabilities enable balancing for ecosystem's corporate fitness as an ultimate goal of a good corporate governance practice, since for a corporation is important to be able or to become able to cope with obstacles to their sustainability by using opportunities and assets that are legitimately available. In such a framework, it is the duty of managers and board to make decisions that will increase value for shareholders and all relevant stakeholders' principals of the company, taking into account its competitiveness and efficiency, as well as its sustainable development. The challenge for operating successfully in a contemporary business reality is to "be ethical, responsible, and profitable" (Stainer and Stainer, 1998:5) at the same time. Each of the three postulates has its own issues, thus their integrated implementation is complex and requires the redesign of governing model that should be enabled by strong dynamic capabilities.

According to Leih *et al*. (2015), the real competitive strengths of a firm lie in both dynamic capabilities and strategy formulation, underpinned by value-enhancing so called "signature" processes (Gratton and Ghoshal, 2005) and other VRIN resources that the firm and its management can command. Within the DC framework the operating domain is ecosystem, so the firm broader posture, i.e. social and institutional, beside the industrial or market, is feature of interest. For reputation is created inside the firm, and evaluated outside, it is the most suitable intangible resource that firm could have in resource base that is able to operate in such a diversifying context. Corporate reputation can be understood as an interacting risk indicator, so it is a resource of board and management prime concern. Moreover, we find corporate reputation as particularly convenient to assist management in calibrating corporate level dynamic capabilities.

3 Corporate reputation

Corporate reputation (CR) is the fundamental bond between firm and its stakeholders, and beside human capital, the most valuable intangible resource (Hall, 1992) which can generate many favorable consequences for the company. "A corporate reputation is a collective assessment of a company's attractiveness to a specific group of

[2] Within the DCV, the environmental context recognized for the analytical purposes is not that of the industry, but that of the business ecosystem. The notion implies the complexity of the business, social and institutional environment the corporation operates in. Following Teece, the business "ecosystem" stands for "the community of organizations, institutions, and individuals that impact the enterprise and the enterprise's customers and supplies. The relevant community therefore includes complementors, suppliers, regulatory authorities, standard-setting bodies, the judiciary, and educational and research institutions" (Teece, 2007:1325).

stakeholders relative to a reference group of companies with which the company competes for resources" (Fombrun, 2012:100). "Reputation, which is usually the product of years of demonstrated superior competence, is a fragile resource; it takes time to create, it cannot be bought, and it can be damaged easily" (Hall, 1993:616). It is a property of a company (Hall, 1993), but held in minds or cognitions of its stakeholders (Bromley, 2000). Corporate reputation is also a reflection of social evaluation of the firm (Deephouse and Suchman, 2008), whose value steams from the positive collective perception of the particular stakeholder's group of interest (Fischer and Reuber, 2007).

Reputations are formed directly through stakeholder's experience in relations with the company, and indirectly, through a recommendation of intermediates, media or participants of direct interaction (Fombrun, 2001). "Companies can have reputations for different characteristics, behaviors or outcomes" (MacMillan *et al.*, 2005:217). According to Mishina *et al.* (2012:460) "stakeholders make two primary types of reputational assessments when evaluating a target organization: what the organization *can* do (i.e., its abilities and resources) and what the organization *would likely* do (i.e., its goals and behavioral intentions)". Since it summarizes all what is known about the company, reputation may be considered as a mirror in which the company can accurately see its history, current market reflection and its internal situation (Dortok, 2006).

Reputation entails two main components: p*erception* - how the company is perceived by stakeholders; and *reality* - the truth about a company's policies, practices, procedures, systems and performance (Schultz and Werner, 2005). Consequently, due to its informational asymmetry power, it is a suitable corporate tool for influencing stakeholders' perception. Within the resource based view, reputation is considered as strength and opportunity making construct (Boyd *et al.*, 2010). But, reputations should not be regarded only instrumentally, for their nature is socially constructed: stakeholders make sense of strategic signals emanating from companies seeking to influence observers (Rao, 1994). Therefore, corporate reputation is actually inseparable from firms' responsibilities (Hillenbrand and Money, 2007), as it is from the firm itself, due to its stickiness (Ang and Wight, 2009). The reputational stickiness has its foundation in social psychology, and is based on the path dependency of social judgment form and change processes that strive to observers' maintenance of evaluative consistency (Mishina *et al.*, 2012). Since CR encompasses all of the company's explicit and implicit promises toward its stakeholders (Devine and Halpern, 2001), based on past actions in similar situation (Mahon, 2002), it reflects corporate conformance and performance, simultaneously, thus contributing to firm's strategic balance (Deephouse, 1999).

Therefore, is important to notice that corporate reputation, when evaluated, is regarded through economic and social, as well as institutional lenses, in positions of intangible asset and corporate liability at the same time. This is insightful fresh perspective for reputational governance. Such a position indicates that reputation(s) should be analyzed within its own integrated paradigm if aimed to be of use in contemporary business reality and related, broader strategic management view requirements. For that reason, we find that the reputational paradigm is to encompass the institutional based view of strategy (Peng *et al.* 2009), relational based view of competitive advantage (Dyer and Singh, 1998), stakeholder theory (Freeman, 2010) and industry based view (Porter, 1980). The assistance of a good reputation in empowering company's relational skills within the stakeholder network is important not only from the perspective of the influential groups crucial for company's survival and success, but also as an external source of new information, ideas and knowledge that could help executives in better decision making and direction of the company, in terms of sensing and seizing opportunities and deterring threats. To be able to, company has to have developed strong dynamic capabilities and favorable reputations.

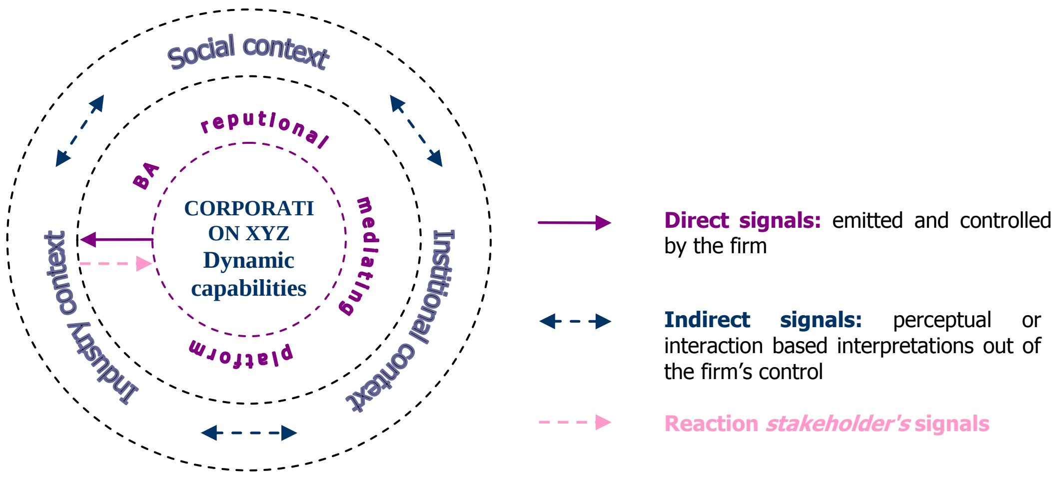
4 Conceptualization

Having in mind that corporate reputation is indivisible firm feature that accompanies it in every interaction and transaction actually disclose its hidden talent: a company that posses positive reputation, and is perceived as behaving fairly within its complex network of internal and external relationships may use its reputational platform as a kind of privilege information and knowledge sharing space that Nonaka and its colleagues labeled as *Ba*: the shared context for knowledge creation (Nonaka *et al.*, 2000). Reputational *Ba* is depicted within figure 1.

As figure 1. reveals, corporate reputation stands as an invisible cover, surrounding the firm in whatever context it operates. Therefore, it actually occupies at least moderating position in every firm's interactions and transaction, serving as *Ba*. *Ba* is a place, not just physical, where information is interpreted to become knowledge. It is a concept that unifies physical, virtual, and mental space and a specific time. We understand corporate reputation as such a virtual and mental space through which company's transactions and interactions are held.

According to Nonaka and his colleagues (2000: 13-19) the key concept in understanding *Ba* is interaction. Knowledge is created through the interactions amongst individuals or between individuals and their environments. Applied to firms, *Ba* is the context shared by those who interact with each other. Through such interactions, those who participate in *Ba* and the context itself evolve through self-transcendence to create knowledge. In that creation, one cannot be free from context. Social, cultural and historical contexts are important, as they provide the basis for one to interpret information to create meanings. By providing a shared context in motion, *Ba* sets binding conditions for the participants by limiting the way in which the participants view the world. And yet it provides participants with higher viewpoints than their own. There are four types of *Ba*: originating, dialoguing, systemizing and exercising, which are defined by two dimensions of interactions: one is the type of interaction (individual or collective), the other is the media used in such interactions, that is face-to-face or through virtual media.

Figure 1. The mediating position of corporate reputation

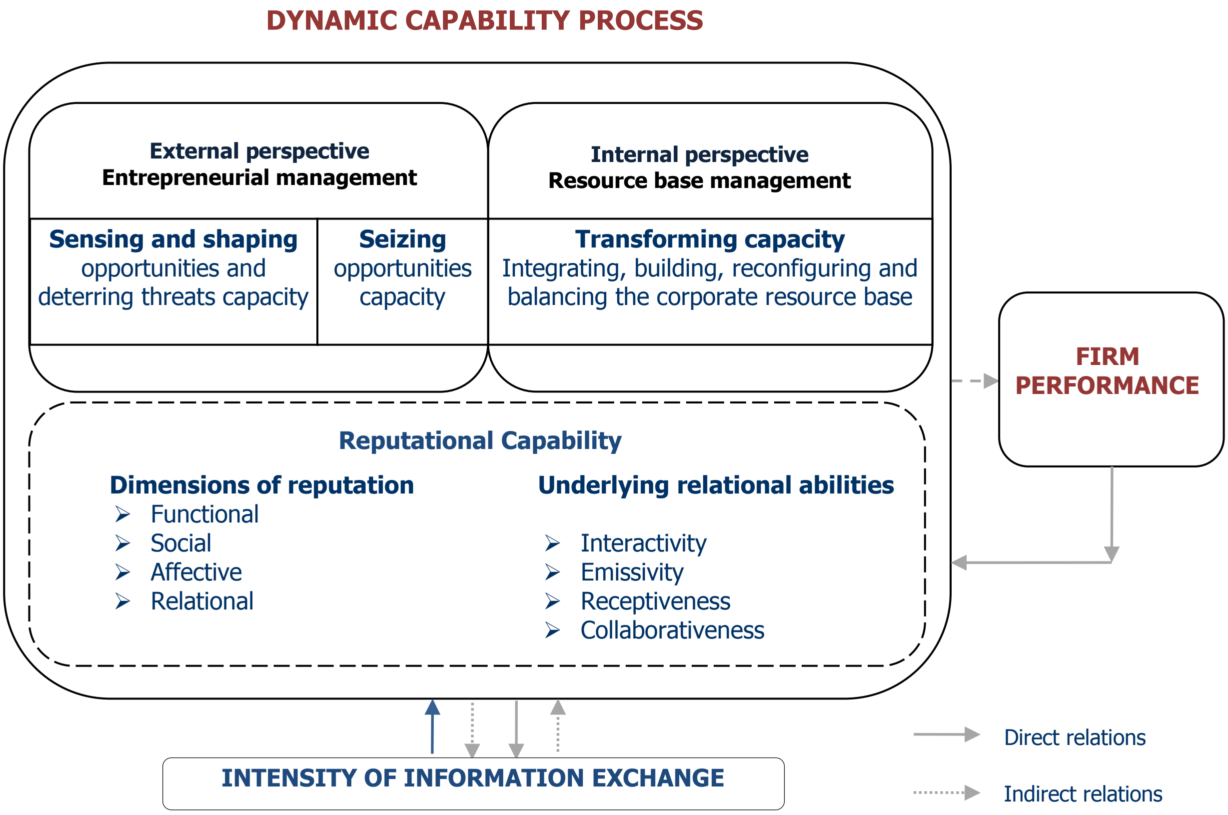


Corporate reputation, viewed in such an dynamic mode, actually means its transformation from one-directional (inside out) oriented emitting resource to bidirectional, two ways (inside out and outside in) operating flow, which basically capture is role as a capability. Reputational resource, combined with a selection of firm relational abilities: interactivity, emissivity, receptiveness, and collaborativeness, in reality forms a new capability, labeled – a reputational capability. Reputational capability is defined as the capacity of companies to make use of their reputational potential in order to create, develop, maintain and exploit interactions with stakeholders within overall context of firm performance. The aim of the capability is to indicate valuable and relevant information, ideas and knowledge to the firm executives prior to the competition, and so to participate in purposefully renewing or balancing company's resource base. Since stakeholders in interaction with the company gain experience and feelings of it, directly or indirectly, that form their attitude, and moreover their behavior toward the company in focus, through its reputation capacity a company may achieve better understanding of its arms length as well as embedded relationships, and calibrate it more astutely. Hence the new capability may be used as an auditing mechanism for diminishing the expectation gap in both market and non market arena, as well as for sensing the new occurrence within (Tomšić, 2013).

5 Model

The empirical research was conducted on a sample of Croatian companies, based on the turnover ranked 1-799 out of top 1000. The research resulted in 103 completed and returned valid questionnaires from different companies. The response rate is 12,89 % which could be taken as satisfactory return, having in mind that the topic of dynamic capabilities requires higher level of strategic management knowledge that is still not widely spread in Croatia yet. We'll briefly explicate the variables conceptualization and their interrelationship, and then explain the main hypothesis and the research results. Figure 2. depicts the research model.

Figure 2. Reputational capability and dynamic capability interdependency research model



As figure 2. presents, we assume that the capacity of dynamic capabilities is related to corporate reputation, in particular that reputational capability influence firm performance. Corporate reputation is regarded as an emotional and social intelligence of the firm, conceptualized, and empirically tested within the model as four-dimensional formative construct.

Table 1. Corporate reputation four dimensional taxonomy

REPUTATION	Functional	Social	Affective	Relational
Reference	Objective world of the true Performance tags of functional system	Social world of the good Ethical standards Expectation gap	Subjective world of the beautiful Individual character Image	Experiential world of (direct and indirect) interactions Values, culture, behavior organizational identity,
Indicators	Competence Success	Integrity Responsibility	Attractiveness Uniqueness	Relationship mode Fairness
Appraisal style	Cognitive-rational	Ethical	Emotional	Behavioral
Sub dimensions	Performance Quality Capability	CSR Citizenship	Communication Emotions Character	Trust and credibility Commitment Reliability and responsibility Legitimacy

As indicated in table 1, the three dimensional reputational taxonomy is being enriched by relational dimension, based on theoretical underpinning. A four-dimensional taxonomy fits better within broader corporate governance view. Besides, it is much convenient within the stakeholder engagement perspective, since it covers overall corporate performance and related responsibilities issue, like a kind of holistic corporate behavior and performance monitoring tool. Thus could be contrasted to expectations of any stakeholder group of board's particular interest whether for performing or for the adjusting of corporate direction process. Hence,

Hypothesis: Reputational capability (RS) mediates the dynamic capability (DC) – performance (DJE) relationship.

The hypothesis is actually twofold: it supposes that the reputational capability could be validated (a) and that it mediates the dynamic capability-performance relationship (b). So, we have examined the validity of the conceptualized reputational capability prior to continue with testing its mediating position, all supported with a SEM technique.

The data were collected through the questionnaire, originally prepared for the research. Participants were asked to indicate the extent to which they agreed or disagreed with the statements in the questionnaire with reference to a five-point Likert-type scale, where point 1 on this scale indicated strong disagreement, point 5 strong agreement and point 3 neither agreement nor disagreement. Firm performance was measured by participants' comparative estimation of two years growth, compared to related industry average growth.

The research protocol has been performed as follows: first we have conducted the reliability analysis for all the variables, formed as latent formative constructs (Helm, 2005). A correlation analysis was then conducted to understand the nature and direction of relationships between different scales of reputational capability, as well as the strength of association utilizing software SPSS version 20. Understanding the strength of these relationships was the basis for the application of SEM. In a final step, the data were analyzed with an SEM technique (utilizing AMOS software version 5.0) to test the specification of the proposed model. The results of the reliability analysis and descriptive statistics are reported in table 2.

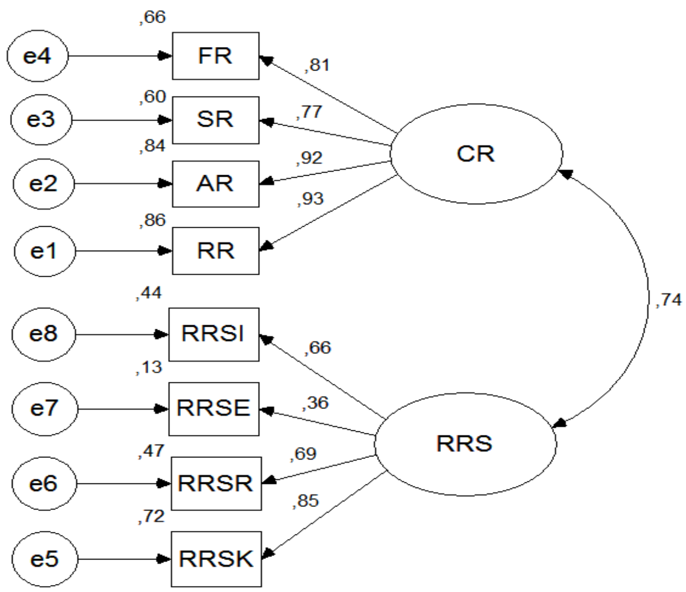
Table 2. Descriptive statistics for all the model scales

LATENT VARIABLE	CODE	MEAN	STANDARD DEVIATION	*CROMBACH'S ALPHA*
CORPORATE REPUTATION	CR	4,5000	0,60666	0,896
Functional dimension	FR	4,1942	0,66292	0,888
Social dimension	SR	3,9935	0,62769	0,669
Affective dimension	AR	4,0971	0,64181	0,890
Relational dimension	RR	4,1748	0,57184	0,874
DYNAMIC CAPABILITIES	DC	4,3200	0,39475	0,887
Sensing	DCO	4,4965	0,37094	0,758
Seizing	DCD	4,2913	0,44141	0,788
Transforming	DCT	4,1723	0,49013	0,852
RELATIONAL ABILITIES	RRS	4,1897	0,50316	0,643
Interactivity	RRSI	4,0680	0,53915	0,746
Emissivity	RRSE	4,2039	0,56882	0,191*
Receptiveness	RRSR	4,2977	0,52376	0,794
Collaborativeness	RRSK	4,1893	0,55513	0,807
PERFORMANCE	DJE	4,760	1,4555	0,789

As indicated in table 2 with the *sign, the emissivity component coefficient was declared extremely low. That is due to one included indicator (*analyzing the intended achievement with secondary stakeholders' group*), which is obviously a natural outlier. When excluded, the coefficient of the component automatically has risen to 0.607, and the total for relational abilities would become 0,846. But, due to a consistency of formative approach, and the solid reliability of the whole RRS construct (0,643), we haven't excluded the outlier, and have treated it with care in further testing phases. As for all the rest of coefficients they are above the acceptable threshold (>0,7, Hair *et al.*, 2003), demonstrating strong reliability of constructed variables.

The latent constructs were conceptualized as means of their formative manifest indicators, out of 3 to 8 per dimensions or components, as follows: Dynamic capability (DC) = ***f*** **{**DCO, DCD, DCT**};** Corporate reputation (CR) = ***f*** **{**FR, SR, AR, RR**};** Relational abilities (RRS) = ***f*** **{**RRSI, RRSE, RRSR, RRSK**};** Reputational capability (RS) = ***f*** **{**FR, SR, AR, RR, RRSI, RRSE, RRSR, RRSK**}.** The Crombach's alpha coefficient for the reputational capability amounts 0.843. To test the robustness of the reputational capability construct, as well as to understand the nature and direction of relationships between different scales of reputational capability we have applied SEM analysis. The structural model for reputational capability is presented within figure 3.

Figure 3. Reputational capability conceptualization model



As shown in figure 3. two latent constructs, corporate reputation and relational abilities were measured with a four formative indicators each, calculated as means of indicators representing different dimension. Standardized beta weights and factor loading based on maximum likelihood estimate method are indicated. The results supports for the specified link. The estimated parameters are all positive and significant to the level 1%, with a wide range of intensity, as systematized in table 3 below.

Table 3. Non-standardized and standardized parameters estimates

			Non-standardized Estimate	S.E.	C.R.	P	Standardized Estimate
RR	<---	CR	1,000				0,927
AR	<---	CR	1,113	0,072	15,410	***	0,919
SR	<---	CR	0,836	0,080	10,487	***	0,773
FR	<---	CR	1,015	0,088	11,573	***	0,812
RRSK	<---	RRS	1,000				0,850
RRSR	<---	RRS	0,760	0,112	6,804	***	0,685
RRSE	<---	RRS	0,855	0,247	3,460	***	0,364
RRSI	<---	RRS	0,758	0,115	6,578	***	0,663

As standardized coefficient (0,927) indicates, the relational dimension contributes the most to the measurement model for corporate reputation. Moreover the proportion of its variance explained is highest, 86%, thus supporting strongly the rationale of introducing the relational dimension to the corporate reputation construct. For the relational abilities construct, the collaborativeness is the component that contributes the most (0,850) to the measurement model for this latent construct. Its variance is 72% explained. As expected, the lowest standardized coefficient is shown for emissivity ability, due to outlier not excluded from the constructive items of the component. The latent constructs within the measurement model for reputation capability strongly positively correlate. The correlation coefficient is 0.743, significant to the 0,001 level. Besides estimating the significance of path and parameters between the constitutive elements of reputational capability, the predictive ability of the measurement model was tested. The data fit the model well. The chi-square is not significant and the chi-square/df ratio is within the acceptable range, as shown in table 4.

Table 4. Model fit summary

	Number of parameters	χ2	df	p-value	χ2/df	RMSR	GFI	IFI	TLI	CFI	NFI
Model	17	26,189	19	0.125	1.378	0.019	0.942	0.985	0.977	0.984	0.946

As indicated in table 4, the non significant chi-square supports the validity of theoretical conceptualization. To evaluate the predictive ability of the model, other measurement of fit were calculated: *root mean square residual* - RMSR, *goodness of fit index* - GFI, *incremental fit index* - IFI, *Tucker & Lewis index* - TLI, *comparative fit index* – CFI and Bentler-Bonett *normed fit index* – NFI were calculated. The very small RMSR residual and all the model fit indicators level above the recommended 0,9 (Hair *et al*., 2003) confirm that the reputational capability model could be considered as valid and plausible, that allows for hypothesis to be tested. Within the next step, due to a parsimony principle (Byrne, 2013) the reputational capability was included in the measurement model with its two constitutive elements. The structural model is presented in figure 4.

Figure 4. The mediating model

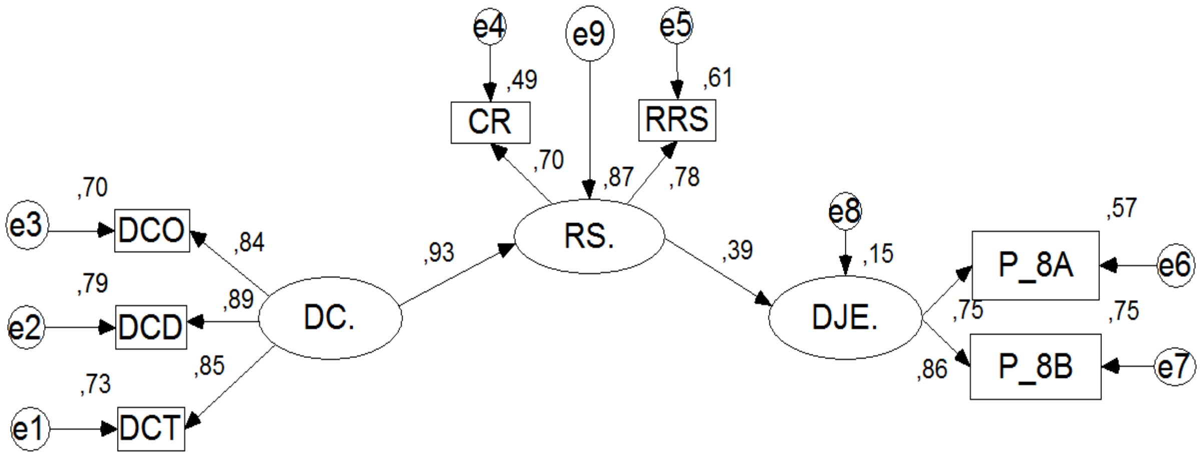


Figure 4. presents the structural model showing three latent constructs interrelationship. Standardized beta weights and factor loading are indicated. The estimated parameters are all positive and significant to the level 1%, with a wide range of intensity, as systematized in table 5 below.

Table 5. Non-standardized and standardized parameters estimates

			Non-standardized Estimate	S.E.	C.R.	P	Standardized Estimate
RS	<---	DC	0,868	0,119	7,282	***	0,933
DJE	<---	RS	1,111	0,408	2,722	0,006	0,387
DCT	<---	DC	1,000				0,854
DCD	<---	DC	0,936	0,083	11,305	***	0,887
DCO	<---	DC	0,742	0,071	10,393	***	0,837
CR	<---	RS	1,000				0,703
RRS	<---	RS	1,024	0,148	6,926	***	0,778
P_8A	<---	DJE	1,000				0,754
P_8B	<---	DJE	1,106	0,320	3,459	***	0,864

The standardized coefficient (0,933) indicates that dynamic capabilities are strongly positively connected with reputational capability, significant to the 0,001 level. Since the direct and significant dynamic capabilities – performance relationship do not exist, which is consistent with most of the theoretical assumptions (DC measure -0,04 with DJE, with no significance of the path, therefore path removed from the model in previous phase), the indirect effect could be calculated. That is 0,933*0,387 = 0,36107, and allows for inference: based on the results of this research, dynamic capabilities influence the performance positively and indirectly via the reputational capability mediation effect of total 0,36. This result as well as the model fit summary, presented in table 6 bellow, all support the hypothesis that the reputational capability mediates the dynamic capability – performance relationship.

Table 6. Model fit summary

	Number of parameters	χ2	df	p-value	χ2/df	RMSR	GFI	IFI	TLI	CFI	NFI
Model	16	9,543	12	0.656	0.795	0.017	0.974	1.007	1.012	1.000	0.975

As indicated in table 6, data fit the model well. The chi-square is not significant and the chi-square/df ratio is within the acceptable range. The very small RMSR residual and all the model fit indicators that amount above the recommended 0,9 level, support the very good predictive ability of the model and the suitable theoretical conceptualization, as well.

6 Discussion and conclusion

To achieve congruence between the firm's competencies and changing environmental conditions, firms need to renew themselves to stay fit. Changes in the corporate internal and external complexity, brought by stakeholder principals perspectives, and moreover by the occurrence of incomplete contracting, highlight the phenomenon of boards not only as a mechanism, but more as active, vital body authorized and appointed to govern as well as to bear responsibility for the corporation. Dynamic capabilities view can be taken as generic approach to strategy based on making the right choices to stay ahead of the competition, which is both top management team, as well as corporate board responsibility. Sensing and shaping new opportunities is very much a scanning, creating, learning, and interpretive activity, while transforming refers to the resource base renewal and balancing activities, needed to maintain evolutionary fitness. Investment in research and related activities is usually a necessary complement to those activities, being performed both local to and distal from the organization (Teece, 2007). To both develop and harness dynamic capabilities reside within the duty of top management team, the individual managers (Teece, 2015), as well as corporate boards (Tipurić *et al.*, 2014).

The firm's surrounding requires understanding "the rules of the game" of businesses the company deals with or is to deal, as well as understanding of the overall present and emerging occurrences or future ecosystem the firm is intended to operate within. The importance of sensing the opportunities and threats is needed for proper calibration of strengths, weaknesses, and technological and market trajectories (Teece, 2007), since "competitors may or may not see the same opportunity, and even if they do they may calibrate it differently" (Leih *et al.*, 2015:30). This happens because top management team as well as board member team perceptions affect their attitude and behavior towards the renewal of the firm's resource base (Ambrosini i dr., 2009; Adner and Helfat, 2003). Cognitivist and bihaviourist empirical work suggests that managerial cognition shapes strategic decisions and outcomes, including responses to changes in the external environment, and that managerial value systems also affect the preferential ordering of alternatives and consequences (eg. Gavetti, 2012). A manager's and board member's limited field of vision, selective perceptions, and interpretations filtered by the cognitive base and value system combine to produce perceptions of a situation (Huff, 1990), which all bias the calibration of the firm's dynamic capabilities.

The problem occurs not only regarding sensing capacity, but as well as seizing and transforming. "Once a new (technological or market) opportunity is sensed, it must be addressed through new products, processes, or services" (Teece, 2007:1326). Seizing, in contrast to sensing, necessitates making high-quality, interdependent investment decisions, such as those involved in selecting product architectures and business models. "Addressing opportunities involves maintaining and improving technological competences and complementary assets and then, when the opportunity is ripe, investing heavily in the particular technologies and designs most likely to achieve marketplace acceptance. Moreover, the manner and time at which an enterprise needs to place its bets depend on competition in the 'input' markets and on the identity of the enterprise itself. Seizing innovative investment choices requires the overriding 'dysfunctions' of decision making" (Teece, 2007:1326-7).

Building on Teece's (2007) analysis review, Hodgkinson and Healey (2011) highlight two major psychological barriers that potentially undermine seizing capabilities. First, corporations must be able to evaluate sensed opportunities and threats in a progressive, forward-looking manner and, where appropriate, commit to them in a timely fashion. Second, in order to do so, they must be able to unlock dysfunctional fixations with existing strategies to mitigate or remove decisional bias, inertia, and strategic persistence. Alleviating bias and inertia requires both cognitive and emotional capabilities (Hodgkinson and Healey, 2011). Hence, the executive's propensity to seize will relate to its awareness of the corporate positions and the availability of competing paths that are on the disposal to enable the wanted or needed change. The decision making about whether to change and which changes of the resource base should be made is the essential component of dynamic capability, as suggested by Moliterno and Wiersema (2007). Even though the company is able to move rapidly in new directions, the value of emerging opportunities would have been dissipated without the action of leaders to enable the transforming changes that made them possible.

Therefore, having in mind Augier and Teece's phrones saying that "a company excellent at making the wrong things will fail" (Augier and Teece, 2009:411), it seems noteworthy to harness all the resources available to the company that can assist in objectifying the decision-making situation, so that executives can make more tamely decisions and take purposeful actions. Corporate reputation matches perfectly such a hard requirement. Within this article, corporate reputation is regarded as an emotional and social intelligence of the firm, dynamic capabilities as an overall firm's intelligence, while the stakeholder proactive management approach in term of stakeholder engagement is applied for the model conceptualization.

It refers to top management, as well as board members' ability to coordinate and execute strategic renewal and corporate change. The transforming capacity within DCV relates to the corporate strategic and behavioral positions, paths and processes calibration important for its competitiveness and sustainability. The firm's strategic and behavioral postures are both in focus in today's business reality, and are especially salient when firm performance is not in the balance with the relevant stakeholder expectations. As stressed in previous sections, corporate reputation is a reflection of both market and social status of the firm. Being highly sensitive phenomena, it cumulates the judgmental evaluation of stakeholders, and is able to absorb the subtle, as well as obvious attitude changes. For these properties it can signal the state of both internal and external environment of the firm, and bring to the managerial and board member attention more objective insights, therefore reducing perception's subjectivity and consequently, decision making biases.

Information steaming from so called market arena is of highest importance for competitive performance of the business. But the information steaming from non market arena (Mahon, 2002) are of a particular interest due to its change related content, for they can reveal the future needs, occurrences and opportunities before they become obvious, thus opening the possibility for a focal firm to take advantage of the early cues. Corporate reputation from a stakeholders' point of view, serves as a solid criteria for the choice of interacting with the focal company, therefore privileged and not readily reachable information may become available by the provision of firm's reputational capability. Otherwise, they might not be reachable to it at all. Moreover, since reputation is indivisible from the firm, when the company is to enter the new market, its reputation stays ahead of that transaction. Hence, reputation actually has the potential to navigate management and board to do the timely fine-tuning in goals setting, and chose the better adjusted behavior mode for the new environment. For all those reasons, good corporate reputation enhances firm's dynamic capabilities in all of their constituting parts.

Without an acceptable reputation, it is difficult for a company to make progress, or to survive in a longer term. Knowing the right measure of acceptance for corporate reputation is sometimes hard to find out, so it remains the virtue of strategic balance and good corporate governance practice. Nevertheless, in searching for the improvements of effectiveness and efficacy of governance model, and in sensing and implementing corporate change in a manner that is highly regarded in market as well as in non market arena, reputational capability has been presented and validated as a new breed of relational dynamic capability and an potentially distinguishing corporate level competitive tool.

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