Introduction

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The chapters in this book seek to meet a major challenge: namely to combine the theory and practice of organisational resource reconfigurations in order to ground the dynamic capabilities view more firmly in managerial reality. Although the processes of change have been observed by academics and practitioners alike, there is no unanimity of view as to the definitions and interpretations that can be legitimately applied to these observations. The impact and development of resource routines that may sustain superior enterprise performance has fascinated researchers investigating phenomena from a diverse range of backgrounds, including entrepreneurship, organisational behaviour, innovation and operations research. Within the field of strategic management, capabilities have been the centre of attention over the past 20 years for those seeking to understand the foundation of business survival, growth and performance.

The dynamic capabilities view, like the resource-based view (RBV), seeks to identify and categorize the prerequisites for preserving a sustainable competitive advantage within global markets. Following Peteraf (1993), such conditions may include imperfect mobility, ex ante and ex post limits to competition as well as resource heterogeneity. The underlying assumption in this respect is that firm-specific knowledge becomes central once strategic decision making for resource utilization, diversification or restructuring is required. Such knowledge is often viewed as being to a large degree ‘sticky’, since it incorporates tacit processes and learning routines. In this respect a variety of resource-based theorists have highlighted the contributions of Edith Penrose (1959) as regards the critical interactions of resources with diversification mechanisms and company performance. Criticisms of this perspective, however, include the suggestion that it lacks theoretical structure (Priem and Butler 2001) and embraces a tautological cycle as to resource composition and company performance (Eisenhardt and Martin 2000). Moreover the conception of a company as based on bundles of resources is perceived as theoretically indistinct and oversimplified (Williamson 1999). Further, companies that
operate in markets, which are classified as dynamic or as facing constant external shocks, are arguably less likely to accomplish a sustainable competitive advantage (Eisenhardt and Martin 2000).

Hence it is only logical that we focus on the development of these change dynamics in ‘Rapid Innovation-Based’ Industries, to use the terminology of authors such as Breznitz (2007). These industries are driven by new technology based firms that generate new technologies or are involved in major research and development activities that may act as a catalyst for new technologies. When examining multifaceted managerial phenomena within Rapid Innovation-Based Industries, as for example those of entrepreneurship, innovation, real options or internationalization, the behaviour of companies needs to be analysed as to their sensing, seizing, and reconfiguring capacities (Teece 2007). The microfoundations of such processes have, however, often failed to explain the disappointing outcomes as regards flexibility, value creation or innovation development. Further, there appears to be a contextual dilemma, with an excessive academic emphasis on the order and predictability of phenomena such as entrepreneurship and innovation, in contrast to the academic field researchers, who readily acknowledge the flexibility and diversity of the approaches actually followed within organisations (de Rond 2003).

In the first chapters of our book, we therefore seek to address these paradoxes by referring back to the fundamentals of the dynamic capabilities view, which are based on microfoundations such as procedures and processes, distinct skills, decision mechanisms and disciplines (Teece 2007). To do so, we respond to the apparent paucity in reliable data by reassessing the phenomenon of governance and organisational alignment, incorporating dynamic capabilities as a conceptual framework by which to analyze these phenomena. We also note that the resource-based view is restricted to relatively static environments and may only provide limited explanatory reasoning as to the creation and protection of intangible assets in environments characterised by frequent external shocks. Re-examining company survival and the development of contingent management control systems in these less stable environments may therefore provide a useful interface to indicate the challenges currently encountered by those seeking to conceptualise and theoretically embed dynamic capabilities. Further insights may also result from analysing the risks associated with the development of valuable future capabilities as well as the exploitation of existing capabilities (March 1991).

The central strategic riddle though remains: how can companies develop new creative ideas and knowledge routines in a context of continuous external shocks and novel circumstances emanating from such rapid changes, especially those which are technological or structural in nature. Hence, our second aim is to provide a variety of theoretical and empirical
research accounts on resource combination routines required for the development and implementation of ideas management, entrepreneurship and innovation.

This approach of analysing entrepreneurial behaviour, impacts and performance under the ‘macroscope’ of combining resources and capabilities provides a possible vehicle for bridging the gap between the dynamic capabilities view and the entrepreneurship and innovation literatures on resource development and exploitation. Moreover, the actual processes and routines of innovation can be seen from this perspective as being shaped by the companies’ resource position, evolutionary paths, structural inertia and management commitment (Schreyögg and Kliesch-Eberl 2007). Whilst the accumulation and sole availability of resources is to a large extent the locus of entrepreneurial strategy research at the more micro-level, such an approach narrowly focused on these static observations fails to explain how a company establishes its idiosyncratic innovation advantages. The integration, building and reconfiguration of internal and external competencies (Teece et al. 1997) and the eventual development of associated higher-order routines is arguably a more appropriate approach towards explaining the innovation behaviour of enterprises, which are operating in environments of constant and rapid change.

Our contention is that only a systems-wide perspective of the resource endowments of an organisation, such as intellectual property, technology and intangible assets, and the ways in which such systems have developed over time, can fully capture learning capabilities and provide the basis for the evaluation of strategic alternatives, rather than an emphasis on any individual resource or any changes in its perceived value over time. In the absence of such a systems-wide perspective, replication, copying, codification and eventual knowledge construction in this area of innovation are complex and difficult to disentangle, especially with the theory of capability development or formation still being in its formative stages. However, our future comprehension of the development of dynamic capabilities may have a strong and positive impact on our general understanding of the ability to absorb knowledge and transform that knowledge into routines for imitation and re-alignment. This approach may eventually further lift our perception of company survival, growth or performance from the largely informative level towards a more analytical level and hence provide a basis for successful policy formation and meaningful practitioner applications.

It is here that leading academics have simultaneously pointed to the necessity of developing the field of strategic practice, which would speak to, and be driven by, a more practitioner-oriented audience. Despite the successful transition from linear process models to more iterative resource-based models, phenomena such as international mergers and acquisitions
or telecommunications value-chain reconfigurations have been analysed from a comparatively atomistic and rational perspective, focusing on discovering regularities in the varied events (Henderson and Cockburn 1994; Teece et al. 1997; Eisenhardt and Martin 2000). The contextual dilemma arises as to why, on the one hand, the literature has emphasized the order and manageability of these processes, whilst at the same time acknowledging their diversity and unpredictability as to the development and construction of capabilities? Numerous theoretical accounts have therefore invited research into interdisciplinary methodologies, arguing that this may foster a more radical approach towards research in these areas. For example, major attention has been paid to the actual systems of innovation and to their influences on relations between different participants within the innovation process, whilst the dynamics and linkages within the creation of routines and the reconfiguration of capabilities have been largely neglected (Eisenhardt and Martin 2000, Salvato 2003). Also, in-depth case methodology may benefit from the bidirectional stimulation of research questions as well as the further integration of practitioner perceptions and analyses. The final section of the book builds upon the relationship between research and practice and may serve as a step towards a more fruitful dialog between the largely interdependent worlds of theory and practice with opportunities for bi-directional influence, mutual learning and diversity of thought.

FUTURE PERSPECTIVES

We are delighted to see continued growth in the dynamic capability discourse, with recent books such as by Helfat et al. (2007) and a special issue in Industrial and Corporate Change edited by Teece et al. (2009). What seems to be emerging is a degree of eclecticism in assimilating diverse theoretical bases such as Evolutionary Economics and the Resource-Based View, with the competing perspectives such as the Behavioural View and the Knowledge-Based View (Stefano et al. 2009). The struggle over fundamental aspects of the Dynamic Capability View (DCV) seems to be ongoing and presents ample opportunity for further inquiry. In addition, DCV has no exclusive right to the study of strategic reconfiguration, which calls for a broader integration of perspectives to better approach the complex interconnectedness between capability and competitive advantage.

The reader of this book will find that whilst the dynamic capability view still merits further exploration as well as tightening, a case is made for a more lucid theory of competitive advantage which can eventually be translated into actionable practitioner knowledge and routine. At the same time, by accepting the broader principles of the dynamic capabilities
view, researchers are better placed to investigate strategic decision-making and managerial strategy implementation through a lens that is increasingly refined, bearing in mind that virtually any topic involving strategic orientation and change offers opportunities for a dynamic capability interpretation. This book integrates DCV with parts of existing theoretical frameworks of, for example, entrepreneurial activity and, more broadly, the resource-based view. We feel strongly that the dynamic capability view can only gain in importance if it is integrated with existing streams of research, rather than attempting to co-exist independently.

Although a significant number of researchers contributing to this book and to the wider academic community has provided stimulating perspectives on organizational phenomena and their causal mechanisms, their contribution has often been conceptual. For dynamic capabilities are becoming an increasingly serious concern for managers and students of business, a greater empirical focus, aimed at verifying a sophisticated theory, seems warranted. To date, capabilities’ messy dispersion across numerous social entities and organisational networks have deterred researchers away from comparative empirics. On a very aggregative level, exemplary contributions such as Adner and Helfat (2003) have given indications of how dynamic capabilities could be captured in future studies. Some authors succeed in depicting individual capabilities and their contribution to performance (Peteraf and Reed 2007). A study of a firm’s overall capability levels, however, seems to remain elusive. It is here where the joint research effort of scholars could verify and refine capability concepts of competitive advantage, and thus help the dynamic capability view to gain both conceptual integrity and enable a more intuitive grasp of the theory.

Within all these future research directions, an empirical link between firm performance and the firm’s capability set is desirable. Especially underutilised measures such as growth are vehicles for a better understanding of how dynamic capabilities contribute to the evolutionary fitness of firms within evolving environments. In their chapter, Klingebiel and Lange make the case that unless academics provide executives with structured decision-making heuristics, namely (imperfect) responses to lessons learned from powerful empirical observations of causal relationships with performance, the dynamic capability movement remains confined to the scholarly world. We can expect little translation of academic propositions into practice, rather a parallel development of knowledge by practitioner-experts, for as long as academics fail to relate various dimensions of performance with a conscious management effort to navigate the organisational capability base. Nevertheless, all firms need to alter their resource bases at some point during their lifetime. If organisations forsake their current resources and capabilities, they face high costs of obtaining
new resources and capabilities that have an adequate fit with markets. Therefore, the potential opportunity for researchers to make a lasting impact with relevant research at the forefront of the dynamic capabilities perspective could not be greater.

As with other areas of theory development, the dual need of comparative statistical inference and in-depth organisational understanding may prove difficult to satisfy. As some of the authors in this book are already demonstrating, closer interactions with practitioners may hold the key to this challenge. Understanding resource coordination challenges through a practitioner’s frame of mind is likely to allow researchers to define and operationalise capability constructs that are more reflective of organisational realities and, therefore, more robust in modelling causal relationships. This exercise stands to benefit econometric approaches seeking to link capability models with performance parameters.

Engagement may also bridge the gulf between academic and practitioner approaches to capability reconfigurations. At present, academics undertake laudable efforts to guard against bias in the analyses by adopting research methods that distance the researcher from the research object. Ironically, the maturing of the dynamic capability view is dependent on a two-way dialogue. Collaborating managers can stimulate collective and public conversations about the purpose of dynamic capability research and its relevance to the firm. They may also enter a dialogue about research findings. If all this happens, the future scholar conducting empirical research in dynamic capabilities will be able to learn about organisational phenomena and their fit with prior theoretical assumptions. There may thus be great potential to nuance dynamic capability concepts and to make them more applicable and ultimately relevant for managers. Given the current incentive structure of academic scholarship, we expect this to be the greatest challenge for the continued development of the dynamic capabilities view.

In sum, the academic community has the chance, as well as responsibility, to explore a plethora of opportunities to further investigate dynamic capabilities over the coming years – an endeavour promising to be both challenging and rewarding.

**ORGANISATION OF THE BOOK**

The book contains 11 chapters, organised around three key themes that provide a suitable basis for theory development and practitioner interest. The three themes connect dynamic capabilities with organisational theory, strategic entrepreneurship, and organisational applications.

Chapter One begins with an account of how dynamic capabilities can
extend our knowledge as regards organisational survival over time. The model developed by Ian McCarthy and Brian Gordon helps explain how contingent management control systems leverage the organisational behaviours necessary for developing dynamic capabilities. The chapter makes a timely contribution to the current debate as regards the higher-order capabilities which control the development and re-configuration of capabilities (Schreyögg and Kliesch-Eberl 2007).

In Chapter Two, Michael Horn and Carsten Zimmermann examine the suitability of varying governance structures for radical innovation through dynamic capabilities. They provide a refreshing reappraisal of the corporate governance literature and show how different firm-level corporate governance systems are associated with more effective reconfigurations of routines. Their observations suggest that greater rapidity in the gaining and releasing of productive resources and competences is conducive to more radical innovation. Horn and Zimmermann conclude that this favours ‘American’ corporate governance systems, which are based on highly variable, performance-based remuneration schemes.

In Chapter Three, Sebastian Raisch and Florian Hotz study 2500 discrete strategic reconfigurations. By focusing on the firm’s relative alignment to environmental circumstances as regards adopting explorative or exploitative strategic positions, Raisch and Hotz are able to distinguish between highly dynamic adaptation patterns and less adaptive, more sluggish alignment behaviour. Whilst they find no significant difference in average performance between the two patterns, they establish that more dynamic adaptation leads to greater short-term performance oscillation, increasing both risk and return, whilst less dynamic adaptation decreases earnings potential but safeguards stability. Thus, Raisch and Hotz caution overt enthusiasm for dynamic capabilities by putting into perspective the risks associated with constant strategic flux.

The fourth chapter by Aino Kianto and Paavo Ritala takes a critical stance towards some of the more contentious elements of the dynamic capability argument. In their refined version, they account for the problem that knowledge is socially constructed, especially at top management level. The emerging knowledge-based view provides a more nuanced explanation of the organisational capacity to change dynamically.

In the second section of the book we explicitly deal with the theoretical underpinnings and issues involving strategic management and the economics of entrepreneurship, which are arguably the mainstays of modern economies. The section opens with a chapter by Dan Breznitz and Carsten Zimmermann, who propose that a strategist’s imperative to generate dynamic capabilities in order to sustain competitive advantage is not dissimilar to that of a strategic manager with a focus on industrial
development. As in large organisations, Breznitz and Zimmermann argue that the state needs to coerce its multitude of agents to constantly develop and refine the dynamic capabilities that lead to value-growing, non-repeatable strategies, in order to compete successfully with foreign industries. This chapter suggests that the dynamic capabilities theory is capable of explaining the social processes of reconfigurations far beyond the level of the firm. In Chapter 6, Berna Polat examines acquisition mechanisms in the context of venture survival, with a data set of more than 100 companies showing the impacts surrounding early firm entrance.

In Chapter seven, Thomas Hutzschenreuter, Fabian Guenther and Johannes Voll examine growth paths and economic success. They show that continuity of development rather than mere growth has a positive influence on performance. Whilst not explicitly framing their study in the dynamic capability perspective, their evaluation of the impacts of positive signals as regards financial results on firms’ adaptiveness illustrates that the DCV approach has significant scope to gain from adjacent literatures dealing with the same phenomena.

In the following chapter, Ronald Klingebiel reviews the literature on planning and real options to conceptualise a capability that allows firms to balance the advantages and disadvantages of commitment and flexibility in resource allocation. His contribution involves the delineation of the boundary conditions for flexibility value and the parameters that ought to be optimised during the planning of decision-making. The integration of the literature on planning strategic projects with a real options logic stands to benefit from our understanding of performance-oriented decision-making under uncertainty. To conclude this section, Einar Lier Madson develops a new organisation of dynamic capabilities that is centred around the existing theory of entrepreneurship and the ongoing discussions on exploration versus exploitation.

The final section of the book then develops dynamic capability showcases and reflects the combined efforts of leading practitioners in management as well as academics in the field. Stefanie Dük, Silvia BoBw-Thies, Philipp Zimmermann, and Dieter Lange examine how telecommunications providers configure and reconfigure resources and capabilities amidst rapidly changing business landscapes. They find that for the upcoming challenges of converging devices and services in the telecommunications industry, the DCV is a useful concept to frame executive strategies.

Ronald Klingebiel and Dieter Lange then give an account of a practitioner-driven concept: value chain redefinition. This concept originates from within the practitioner sphere, notably the consultancy sector, and addresses many of the same issues encountered by DCV theorists. Whilst less sophisticated but more manageable and structured, the value
chain redefinition concept provides a tangible tool for aligning companies with market dynamics.

REFERENCES


