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Tangible resources and the development of organizational capabilities

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KEYWORDS

Capabilities;
Competitive advantage;
Strategic management;
Tangible resources;
Innovation

Summary Capabilities theory concerned with how firms develop organizational capabilities to improve firm competitiveness prioritizes intangible resources as antecedents of capabilities. This theory takes organizational capabilities to consist of routines that evolve over time by being enacted in their organizational contexts. Extant theory has largely left tangible resources as antecedents unstudied, thereby neglecting potentially important insight into how capabilities develop. This paper uses an explorative approach and qualitative data from product development in two world-leading Nordic firms to study tangible antecedents of organizational capabilities development. Our findings contribute to research by expanding the scope of antecedents to organizational capabilities, with implications for explaining the competitiveness of firms.

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Introduction

More than three decades ago, Nelson and Winter (1982) ignited new research attention in the area of heterogeneously dispersed capabilities to explain differences in firm performance (Amit & Schoemaker, 1993; Protogerou, Caloghirou, & Lioukas, 2012). Capabilities are central in explaining how firms manage the development of innovative products and services (Kotha, Zheng, & George, 2011), strategic alliances (Capaldo & Messeni Petruzzelli, 2011), and

integrate acquisitions (Heimeriks, Schijven, & Gates, 2012). More broadly, its ambition to explain how firms perform in relation to their competitive environment (Helfat et al., 2007) has made capability research one of the dominating schools of strategic management research (Barreto, 2010).

The importance of capabilities for firm performance has made the development of organizational capabilities a topic of much study (Arikan & McGahan, 2010; Narayanan, Colwell, & Douglas, 2009). In line with its origins in evolutionary economics (Nelson & Winter, 1982), this research generally regards capabilities as consisting of routines (Teece, Pisano, & Shuen, 1997) and has revealed several resources that influence these routines, thereby acting as antecedents of capabilities. Until now, research attention has been focused almost exclusively on certain types of (intangible) resources as antecedents of capabilities simply by virtue of their being intangible. Intangible resources are understood to be a more

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likely source of sustainable competitive advantage since they are typically more difficult to imitate (Barney, 1991; Dierickx & Cool, 1989). As a result, research has emphasized the important influence from different knowledge resources (Dosi, Faillo, & Marengo, 2008; Easterby-Smith & Prieto, 2008; Prieto, Revilla, & Rodríguez-Prado, 2009), as well as that of networks (Rothaermel & Hess, 2007) and organizational cultures (Macher & Mowery, 2009), as antecedents to organizational capabilities.

However, this focus on intangible resources implies a bracketing of resources typically labeled as “tangible” (Grant, 1996; Teece et al., 1997). Since tangible resources are recognized as indispensable aspects of the context in which organizational activities take place (Reed, 2005), neglecting these resources means bypassing a potentially important factor when accounting for how routines develop (D’Adderio, 2011). Consequently, there is a risk that this may restrict our theoretical understanding of how capabilities develop, and in turn of firm performance, thereby contradicting the espoused ambition of the capabilities field. A more inclusive approach to organizational capabilities development, e.g. by including tangible resources like physical artifacts as antecedents to this development, thereby offers the possibility of filling this gap in capabilities theory.

The aim of this paper is to contribute to capabilities theory by studying tangible resources as antecedents of organizational capabilities development. We take our point of departure in capabilities research that views capabilities as routines (Felin & Foss, 2009; Schreyögg & Kliesch-Eberl, 2007) that develop iteratively (Zollo & Winter, 2002) when used in their context of both intangible and tangible resources. Given the lack of attention to tangible resources as antecedents to capability development in particular, we apply an explorative, inductive approach. From an empirical standpoint, our study focuses on capabilities in product development that are central to the competitiveness of the two multinational firms studied, identifying categories of tangible resources as significant in relation to four distinct organizational routines.

The paper is organized as follows. We begin with a review of the existing research on antecedents of organizational capabilities. We then describe our methods – from gathering data to the analysis of the longitudinal qualitative data – followed by a presentation of our inductive findings of how tangible resources act as antecedents to a set of organizational routines central to product development. These findings are then discussed in relation to existing research on how capabilities develop, before we move on to draw our conclusions and present the implications for capabilities research.

Antecedents of organizational capabilities

At the heart of capabilities research is the search for explanations of how firms perform in competitive markets. Working from the evolutionary economics (Nelson & Winter, 1982) and resource-based traditions (Barney, 1991; Wernerfelt, 1984), capabilities research looks at organizational capabilities in an attempt to explain a firm’s organizational ability to continuously renew itself through improved ways of operating (Amit & Schoemaker, 1993). Organizational capabilities derive their strategic importance from the ability to alter,

change, reconfigure (Eisenhardt & Martin, 2000; Teece et al., 1997), combine (Kogut & Zander, 1992) and integrate (Grant, 1996) the resources controlled by a firm. Some capabilities are general and robust organizational processes, others elaborate and highly specific (Eisenhardt & Martin, 2000). Capabilities explain a wide set of a firm’s abilities, including handling exogenous change (Drnevich & Kriauciunas, 2011), producing corporate entrepreneurship (Newey & Zahra, 2009), adapting to shifting markets (Rindova & Kotha, 2001), initiating and the benefit from strategic alliances (Kale & Singh, 2007), and continuously producing innovative products and services (Capaldo & Messeni Petruzzelli, 2011).

Capabilities can range from basic and common capabilities, to advanced, scarce, and more strategically important ones. Research has typically described the development of capabilities as a gradual process (Arikan & McGahan, 2010; Marsh & Stock, 2006; Zott, 2003) as routines are enacted in their organizational context (Levinthal & Myatt, 1994; Narayanan et al., 2009; Romme, Georges, Zollo, & Berends, 2010). Zollo and Winter (2002) describe this as a cycle whereby behavior is incrementally altered and retained, iterated in interaction with the assets controlled by the firm. Thus, rather than being created, capabilities develop as existing capabilities are used in interaction with a firm’s resources (Amit & Schoemaker, 1993; Zahra, Sapienza, & Davidsson, 2006).

More specifically, and in line with its evolutionary economics origins (Nelson & Winter, 1982), capabilities research views capabilities as consisting of routines: purposeful and ongoing collective, conscious or unconscious processes and ways of working (Ambrosini, Bowman, & Collier, 2009; Becker, 2004; Rerup & Feldman, 2011; Schreyögg & Kliesch-Eberl, 2007; Teece, 2007; Winter, 2003). These routines develop through formal and intentional efforts as well as informal and unreflected actions by organizational participants in their daily work, and can be either explicit and formalized, or more loosely interpreted ways of solving problems (Becker, Lazaric, Nelson, & Winter, 2005). Since this is a gradual process without a fixed starting point (Foss, Heimeriks, Winter, & Zollo, 2012), capabilities development is typically approached through analyzing the use of firm resources when enacting organizational routines.

Current capabilities research has revealed the influence of several types of resources: human resources (McKelvie & Davidsson, 2009), organizational resources, and social capital (Subramaniam & Youndt, 2005), as well as knowledge (Easterby-Smith & Prieto, 2008; Grant, 1996; Montealegre, 2002) and organizational experience (Kotha et al., 2011), learning (Carpenter, Lazonick, & O’Sullivan, 2003), and feedback from both successful (Helfat & Peteraf, 2009) and failed projects (Elmqvist & Le Masson, 2009; Marsh & Stock, 2003). Such resources are not only those owned and controlled by a focal organization. Rather, capabilities development relates to the influence on organizational routines at the individual, organization and network levels (Rothaermel & Hess, 2007; Zahra & George, 2002), from the value network (Capaldo, 2007; Newey & Zahra, 2009), including customers, competitors (Lisboa, Skarmeas, & Lages, 2011) and suppliers (Romijn & Albaladejo, 2002), and alliances (Capaldo & Messeni Petruzzelli, 2011).

The organizational structure and types of resources available have also been found to influence the development of capabilities (Persaud, 2005; Rindova & Kotha, 2001), along

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