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Dynamic capabilities, operational changes, and performance outcomes in the media industry

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ABSTRACT

The dynamic capabilities theorem posits that rapidly changing operating environments necessitate dynamic capabilities (i.e. sensing, seizing and reconfiguring) for success. Dynamic capabilities reconfigure existing asset positions and create organizational renewal. We contend that higher performance outcomes can be achieved when dynamic capabilities interact with operational-level changes (i.e., changes in management and practices or changes in used technologies and target markets). The present study explores different pathways of dynamic capabilities and operational-level changes for performance success in a media industry context (i.e., magazines). Due to the digitalization of its business, the media industry has undergone significant changes the past years. We use a set-theoretic approach with fsQCA and data from 78 magazines to test our conceptualization. Our findings contribute to the literature of dynamic capabilities by providing empirical evidence on the relationship between dynamic capabilities, operational changes, and performance.

1. Introduction

Companies operating in dynamic business environments are constantly challenged to adapt to changing conditions. Technological advancements, regulatory changes, shifts in customer needs/preferences, and competitive moves shape the business landscape and challenge the competitive *status quo* of modern firms. Under such circumstances, firms seek a balance between continuity and efficiency—to ensure sustained profitability—and exploration and adaptation—to achieve new competitive positions (Maijanen & Virta, 2017; O'Reilly III & Tushman, 2013). To meet this dual challenge, firms need to purposefully create, extend, and/or modify their existing resources and competences (Capron & Hulland, 1999).¹ Drawing on the resource-based view and the dynamic capabilities approach, a firm's dynamic capabilities (i.e., sensing, seizing, and reconfiguring) are central in its efforts to address changing business conditions (Teece, 2007). These capabilities are considered dynamic when they enable a firm to formulate and realize new strategies to reflect changing market conditions by modifying its resource base and/or combining and transforming available resources in new and different ways (Morgan, 2012).

Recent studies (e.g., Fainshmidt, Pezeshkan, Frazier, Nair, & Markowski, 2016), stress that dynamic capabilities alone are not

sufficient predictors of success in increasingly changing environments. Other scholars (e.g., Karna, Richter, & Riesenkaempff, 2016) argue that dynamic capabilities should align with operational-level changes, such as changes in managerial practices, technologies used, and targeted markets, to achieve success. Nevertheless, there is little empirical evidence showing how dynamic capabilities and operational changes align for greater levels of organizational performance.

Furthermore, scholars such as Jantunen, Ellonen, and Johansson (2012), contend that the contribution of dynamic capabilities on performance outcomes may be *multiply realizable*. No one-size-fits-all approach exists for all firms and business conditions; on the contrary, there are several ways to operate efficiently and multiple ways dynamic capabilities can lead to enhanced performance in an operating business environment. Therefore, a more fine-grained analysis is needed to uncover the performance consequences of different combinations of dynamic capabilities.

Our study attempts to explore the notion of multiple realizability and provide evidence of how dynamic capabilities and operational changes align for success. For the purpose of this study, we contend that business environments necessitate dynamic capabilities and argue that: (a) higher performance outcomes can be achieved when dynamic capabilities interact with internal operational-level changes; and (b) there

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¹ Similar to other studies in this field (e.g., Amit & Schoemaker, 1993) we consider resources as the stocks of tangible and intangible assets available to a firm, while competences (i.e., capabilities) are the processes by which the firm acquires new resources and transforms available resources into value offerings.

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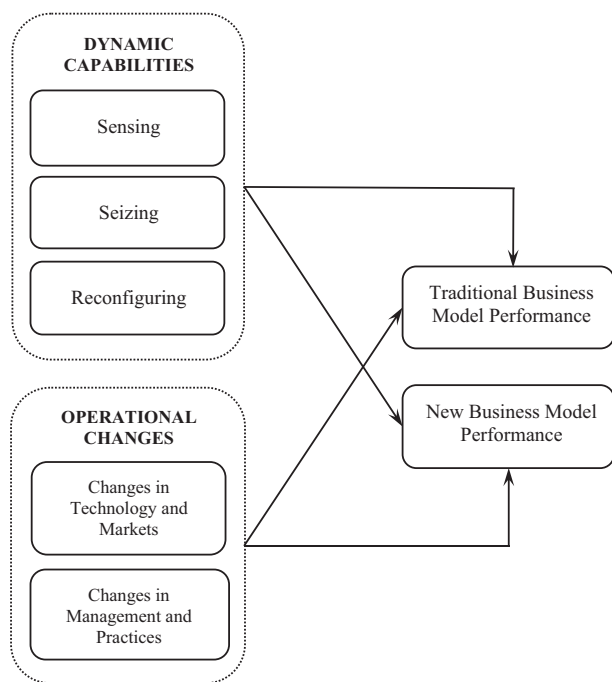


Fig. 1. Conceptual framework.

are multiple combinations of dynamic capabilities and operational-level changes that lead to desirable performance outcomes. Hence, the research purpose of the present study is to identify *how different and multiple combinations of dynamic capabilities and operational-level changes lead to higher levels of organizational performance in dynamic operating environments*.

To address our research objective, our study concentrates on the magazine publishing industry, which, due to the digitalization of its business, has undergone significant changes in recent years. We classify the business of the magazine publishing industry into *traditional* (i.e., prior to digitalization) and *contemporary* (i.e., digitalized), and strive to identify predictors of success in each business model. Specifically, we identify combinatory pathways of success for each model of business and propose different configurations of dynamic capabilities and operational-level changes for higher organizational performance.

Fig. 1 presents the conceptualization of our study. To test our assumptions, we depart from traditional multivariate analytical techniques (e.g., multiple regression). Instead, we apply a set-theoretic analytical approach and a *fuzzy set qualitative comparative analysis* (fsQCA). Scholars (e.g., Fiss, 2011; Rihoux & Ragin, 2009) note that fsQCA is uniquely appropriate for testing typological and configurational theory and provides rich insights into the causal relationship between the configurational parameters (i.e., dynamic capabilities and operational-level changes) and the outcome of interest (i.e., organizational performance).

2. Theoretical background

In this section of the manuscript we first present the concept of dynamic capabilities, and then discuss how it is associated with operational-level changes and performance outcomes.

2.1. Dynamic capabilities

Drawing on the dynamic capability view of the firm, dynamic capabilities refer to the firm's capacity to "integrate, build and reconfigure internal and external competences to address rapidly changing environments" (Teece, Pisano, & Shuen, 1997: 516). Dynamic

capabilities are considered higher-level capabilities that: (a) enable organizational learning; (b) create new combinations of assets; and (3) renew operational (or ordinary) capabilities (Helfat & Winter, 2011; Winter, 2003).² This theoretical paradigm puts forward three dimensions of dynamic capabilities: *sensing*, *seizing*, and *reconfiguring* (Teece et al., 1997). All three facets of dynamic capabilities are essential to the organizational adaptation process; however, the domain and role of each facet differs substantially.

Sensing capabilities represent the firm's activities and processes for scanning the external environment, interpreting information, and searching and identifying market opportunities. *Seizing* capabilities relate to a firm's attempts to capture value from market opportunities and make decisions on strategic investments and business models and how to manage value chains and ecosystems (Teece, 2007). *Reconfiguring* capabilities represent a firm's ability to orchestrate its asset base, transform resources and processes to new valuable combinations, and build new capabilities through learning (Jantunen, Puumalainen, Saarenketo, & Kyläheiko, 2005). Collectively, these three dimensions establish the ability of an organization to achieve strategic change and renewal in dynamic operating environments.

2.2. Dynamic capabilities and performance

The dynamic capability view of the firm consists of one of the most central and influential theoretical paradigms in strategic management research (Teece, 2007). Despite its significant growth, systematic reviews and meta-analysis studies (see Di Stefano, Peteraf, & Verona, 2010; Eriksson, 2014; Peteraf, Di Stefano, & Verona, 2013; Vogel & Güttel, 2013) highlight that this research stream lacks conceptual consensus and robust empirical evidence that accurately validate its theoretical propositions.

The key tenet of the dynamic capability view is that dynamic capabilities are positively associated with a firm's competitive advantage and performance success (Barreto, 2010). However, this association is complex. Even though current empirical studies (e.g., Fainshmidt et al., 2016; Pezeshkan, Fainshmidt, Nair, Frazier, & Markowski, 2016) highlight the positive association between dynamic capabilities and performance outcomes, it is not clear under which conditions and through which mechanisms these positive effects are realized. Further, it is not clear to what extent these positive effects are mediated by the improvement of lower-level ordinary capabilities and/or operational activities (see Karna et al., 2016). Furthermore, research (e.g., Wilhelm, Schlömer, & Maurer, 2015) suggests that despite the positive contribution of dynamic capabilities to organizational adaptability and organizational performance, dynamic capabilities are also associated with highly developing and sustaining costs. Hence, in the context of the relative stability of business environments, the benefits dynamic capabilities offer may be overturned by the costs required to develop and maintain such competences.

Recent studies (e.g., Fainshmidt et al., 2016; Pezeshkan et al., 2016) provide support for the positive association between dynamic capabilities and performance. However, Fainshmidt et al. (2016) argue that the relationship between dynamic capabilities and performance is more nuanced. Specifically, it is highlighted that this association is contingent upon contextual factors. Further, theory (e.g., Girod & Whittington, 2017) debates whether dynamic capabilities are more conducive to competitive advantages and higher performance levels in stable or dynamic operating environments. Some studies, (e.g., Teece, 2007; Teece et al., 1997), emphasize that dynamic capabilities are needed especially in rapidly changing environments, whereas others argue that this association is not so monotonic. Specifically, Eisenhardt

² Ordinary (or functional) capabilities represent the firm's ability to carry out productive tasks efficiently (Amit & Schoemaker, 1993; Winter, 2003). Depending on context, ordinary capabilities may be technological and/or marketing related (Wilhelm et al., 2015).

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