Title: Dynamic Capabilities: exploring media industry level capabilities

ABSTRACT

The competitive dynamics of many industries have changed considerably over the past decade, and perhaps, none more so than in the Media Industry. Industries have long been examined by researchers from a strategic perspective with various themes of inquiry relating to; industry structure and positioning, industry evolution and development, industry lifecycle, industry change and industry consolidation. Fundamentally, this body of knowledge emphases the importance of an organisation’s strategic fit with their competitive environment. This paper extends our knowledge of industry analysis into the domain of dynamic capabilities. As such, it examines the notion of dynamic capabilities existing at industry level and in doing so it presents the findings from a survey of UK media executives into the existence dynamic capabilities in the UK Media Industry.

Key words: Dynamic Capabilities, Resource-based view, Business Transformation, Industry Convergence, Competitive Advantage, Media Industry

LITERATURE REVIEW

The convergence of media industry capabilities

The increasingly dynamic nature of the media environment provides an ideal context to examine the dynamic capabilities exhibited by a group of media organisations competing in a high velocity environment (Oliver, 2012, 2013) that is characterised by ambiguity and complexity (Kung, 2008; Lee, 2010). As a consequence “media firms have naturally adapted their business and corporate strategies in the face of these changes” (Doyle, 2013:35) to the extent that industry level capabilities could be considered to be converging. Whilst questions of industry analysis have been extensively covered in the field of strategic management, there is a dearth of literature that examines dynamic capabilities from a Media Industry level perspective, and more specifically the UK Media Industry.

The idea that an industry can exhibit dynamic capabilities have been investigated by a relatively small number of researchers. For example, Zott (2003) developed a theoretical model that explained intra-firm differences in performance, whilst Owers and Alexander (2011) longitudinal examination of media industries found that new media technologies and media ownership acted as key drivers for media organisations’ to transform and restructure of their resource base. However, the work of Lampel and Shamsie (2003:2191), which examined the evolution of capabilities in the
Hollywood movie industry, is of particular interest in terms of supporting the idea of industry level capabilities. They found that a highly turbulent competitive environment created “new patterns of competition” within the industry and “new managerial mindsets” which tended to dominate what was considered to be new industry level capabilities that led to competitive advantage. In particular, they argued that new capabilities emerged in the form of ‘mobilizing capabilities’ which “consists of routines needed to identify and commit most of the resources, particularly in the form of various forms of creative talent such as producer, director, writer, and stars” and ‘transforming capabilities’ that “comprises routines that drive and regulate the process of using this bundle of resources to obtain a finished product of a desirable quality”.

This evolutionary view of converged industry capabilities is supported by Eisenhart and Martin (2000) and De Witt and Mayer (2005) who argued that the emergence of new industry capabilities was determined by two factors. Firstly, that a series of incremental innovations in products and services lead to widespread imitation within the competitive set. Teece et al (1997:526) supported this view arguing that challenger firms simply reproduced the “strategic position” of market leading firms who had achieved a competitive advantage. Deans, Kroeger and Zeisel (2002) and Pettigrew et al (2007:39) noted that the converging nature of industry level capabilities essentially produced new capabilities that could be considered as the ‘minimum threshold’ that were required to satisfy market requirements. Secondly, these new industry level capabilities could be developed by firms competing independently of each other, but that they ultimately converged due to the limiting factors of technological capability and regulation within the industry. Madhok and Osegowitsch (2000:328) provided a different perspective on the emergence of industry level capabilities. They argued that it was collaborative activity in the form of strategic alliances between competitive rivals who possessed “complementary skills” and sought to reduce the risks inherent in the innovation process that led to a convergence of industry level capabilities.

Dynamic capabilities and superior firm performance

Teece et al (1997:516) defined dynamic capabilities as “the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments”. Many of the elements in this definition now form the central tenets of Dynamic Capabilities Theory. That is, firstly, dynamic capabilities are associated with organisational change. Secondly, that this change process is centred on a firm’s ability to adapt and renew their resources, capabilities and competencies. Thirdly, that this process of adaptation occurs in a compressed timescale due to the fast changing nature of market conditions.
Whilst Teece et al (1997:509) argued that dynamic capabilities can explain the fundamental question of how firms achieved competitive advantage over time, the work of Porter (1991) provided the basis for the fourth tenet, that is, that dynamic capabilities can explain the broader notion of ‘superior performance’ over time, and not simply short term competitive advantage. Hung, Chung and Lien (2007:1027) also found a positive and significant relationship linking dynamic capabilities and superior firm performance in the form of market share, profit, cost, total sales revenue, and customer satisfaction.

The idea that media organisations’ have dynamic capabilities arose from theorists questioning how firms sustained competitive advantage and superior performance in high velocity conditions where “the increasing dynamism of the environment” (Pettigrew, Thomas and Whittington, 2007:143) made it increasingly difficult to remain competitive. Many scholars (Mintzberg, 1987; Leavy, 1998; Zollo and Winter, 2002) concluded that superior performance is driven by a firm’s ability to learn, adapt and change their resource configuration in order to produce a series of temporary competitive advantages over time. Lawton and Rajwani (2011:167) took this line of thinking further and concluded that “dynamic capabilities are the bridge between firm resources and business context” and as such, this concept provided a useful lens through which to examine superior organisational performance.

In its simplest form ‘dynamic capabilities’ is a consideration of the renewal of firm resources and capabilities in relation to structural changes in market conditions. It suggests that tangible resources are configured and utilised to generate value and rents, and that intangible resources in the form of skills, experience, learning, systems and processes create competitive advantages that cannot easily be imitated by competitors. Ambrosini and Bowman (2009:30-35) argued that dynamic capabilities “specifically focuses on how firms can change their valuable resources over time”. They go on to argue that the words dynamic capabilities refer to the drive and enthusiasm of a firm in their “renewal of resources”. This perspective echoes the earlier work of Teece and Pisano (1994) and Zollo and Winter (2002) who emphasised that a changing external environment required firms to adapt and reconfigure resources, assets, operating routines and competencies in order to improve its effectiveness and competitiveness in the pursuit of superior performance. In a sense, the idea that firm capabilities need to be dynamic is a consideration of the competitive environment, its future direction, and how a firm can take advantage of the opportunities provided in their existing and future markets (Teece et al, 1997; Danneels, 2002, Oliver, 2012).

*Dynamic capabilities: developing corporate strategy with investment and adaptation at the core*
The literature on dynamic capabilities continues to evolve, but is largely fragmented. There have been few studies (Oliver, 2012, 2014) that have sought to address the need for a conceptual framework that integrates the subject field from the strategic view of media organisations.

This paper argues that in order to understand dynamic capabilities at Media Industry level, we need to address issues of strategic direction (Pettigrew et al, 2007) and organisational adaptability (Jarzabkowski, 2004) whilst also investigating innovative capabilities in the form of R&D that leads to product development (Wang and Ahmed, 2007). This is particularly important as Zott (2003:101) explained that “a high rate of product innovation is likely to lead to a better fit between a company’s product line and market needs”.

Dynamic Capabilities Theory argues that whilst many organisations have access to similar resources, it is their ability to manage, as Grant (1991) suggests, these resources better than competitive rivals that differentiates one organisation’s capabilities and performance over time than another. However, the ‘management’ of these organisational resources is a top-down management approach where the Chief Executive Officer/Executive Board craft a Corporate Strategy around organisational processes, skills and learning which transforms a firm’s major processes into strategic capabilities that consistently deliver superior value to customers. Hamel (1996:80) noted that this “top-down approach often achieves unity of purpose” where an aspirational Chief Executive Officer and strategy provides a rallying call to employees to create new organisational capabilities, infrastructure, systems and processes (Pettigrew et al, 2007:39).

The argument for strategic organisational transformation is presented by Hensman, Johnson and Yip (2013:10) who proposed that corporate strategies have historically had competitive advantage at their core. However, due to the dynamic nature of the media environment, the “only advantage is the ability to change more quickly that one’s rivals” to the extent that corporate strategies need to emphasise organisational adaptation, or as they put it, “dynamic capabilities on steroids”. Hensman, Johnson and Yip (2013) also argued that researchers have largely ignored the notion of how to move dynamic capabilities from theory into implementable practice. This criticism, is to an extent justified, however, the recent work by Oliver (2012, 2014) presented a conceptual framework drawn from previous knowledge and applied this to UK media firms in a longitudinal analysis of dynamic capabilities and superior firm performance. This work argued that media organisations’ can renew, refresh and leverage new capabilities and competencies in order to successfully adapt to turbulent markets conditions by setting corporate objectives and implementing a strategy that:

- is aspirational and stretches the organisation in to winning position in the market place;
- acknowledges the need to form strategic alliances, merge or acquire other firms’ capabilities rather than rely on organic development of new capabilities;
- acknowledges that research and development costs have to be absorbed for a sustained period of time;
- directs significant resource commitments in infrastructure, people and organisational processes in order to develop innovative responses to structural market changes;
- acknowledges that the focus on resource investment needs to be considered in terms of the range of products/services that are successfully launched into and sustained in a challenging market place.

Renewal of media organisation resources, capabilities and competencies

Media industries have changed and evolved over the past decade due to high velocity market conditions that are characterised by a blurring of industry boundaries, new industry entrants and changing business models. This raises the question of whether or not organisational capabilities and competencies can remain relevant in such dynamic markets. This issue provides media organisations’ with a dilemma. On the one hand, they have to invest in and exploit their existing resources, capabilities and competencies. On the other, they are being driven to refresh, adapt and re-configure their resource base in line with strategic environmental changes. If media organisations do not renew their resource base, then their core competencies are likely to become ‘core rigidities’ that act as barriers to change. Jarzabkowski (2004:533) noted that the recursive nature of some firms who failed to adapt, tended to exhibit “path dependence, persistent organizational routines and organizational memory” that resulted in unique competencies, but a failure to renew resources in fast changing conditions. Pettigrew et al (2007:217) described this dilemma as a “competency trap” which tended to promote stability and organisational inertia.

Positioning this research

The study develops our existing knowledge on dynamic capabilities in a number of ways. Firstly, it extends the limited knowledge of dynamic capabilities at industry level, where to date there have only been a few studies that have investigated this phenomenon. Secondly, it develops the idea that dynamic capabilities are a top-down approach, and as such, the essence of this study into the UK Media Industry was to examine the media executive mind-set in a similar vein as Lampel and Shamsie (2003). Thirdly, the UK Media industry is known for its high velocity market conditions, and we can learn much about industry level perspectives of dynamic capabilities and media firm adaptation.
METHOD

The sampling design used in this study was a non-probability, purposive survey of UK media executives. The sampling frame was created from the online professional network Linkedin, using the label ‘Broadcast Media (UK)’ as an umbrella term to identify suitable respondents. At present there are not enough studies published to understand whether or not generating a sampling frame from Linkedin has any inherent bias, however, the researcher believes that there are no obvious disadvantages to this approach. The sampling frame was then populated with 60 media executives (26 responded) who had responsibility for developing and implementing strategy at firms like: BBC, BSkyB, ITV, Virgin Media, FremantleMedia, Viacom, PBS, Fox International, NBC Universal, UKTV, Discovery Networks, Endemol, and The Walt Disney Company amongst others.

A quantitative survey comprising of 15 questions used a five point Likert scale (Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree) that intended to obtain an assessment of: an assessment of the competitive environment and the extent of media firm adaptation; current media firm capabilities, dynamic media firm capabilities (see Appendix 1). The review of Dynamic Capabilities literature identified a number of factors that have can be used to classify dynamic capabilities and create units of analysis in the survey questions. These were:

- an aspirational corporate strategy (Hamel, 1996; Winter, 2003; Pettigrew et al, 2007);
- corporate activity in the form of strategic alliances, merger, acquisition (Eisenhardt and Martin, 2000; Winter, 2003);
- significant investment in R&D (Helfat and Raubitschek, 2000; Steinbock, 2000; Macher and Mowery, 2009);
- significant investment in infrastructure, people and organisational processes (Tripsas and Gavetti, 2000; Zollo and Winter, 2002; Winter, 2003, Steinbock, 2000);
- an indication of new product/service development (Helfat and Raubitschek, 2000; Steinbock, 2000; Winter, 2003; Danneels, 2002; Eisenhardt and Martin, 2000).

Data Analysis

Descriptive statistics were used to describe and summarize the data and present meaningful information. Every attempt was been made to ensure that the data collected, analysed and presented in this paper is credible. As such, a number of validation methods (searching for disconfirmation,
identifying outliers, researcher reflexivity) have been used to ensure that the data is trustworthy (Saunders et al, 2009).

RESULTS

An assessment of the competitive environment

Overall, the outlook for the UK Media Industry in 2014 was extremely favourably with 94% of media executives agreeing that the outlook for the industry was positive in the year ahead. This optimism is likely to be the result of improved macro-economic conditions that have fed down to industry level since media executives largely agreed (75%) that developing media strategy was not being hampered by uncertain market conditions. They also commented that their corporate advertising revenues were likely to increase in the next 12 months (69% Agreed or Strongly Agreed). However, there was some doubt amongst media executives with regard to some aspects of their competitive environment. For example, only 44% of respondents agreed that their business planning assumed economic growth in the year ahead, and 38% agreed that it was difficult to protect their core business whilst building new revenue streams.

One of the central tenets of Dynamic Capabilities Theory is that fast changing competitive conditions are the key driver for media organisations to renew, refresh and reconfigure their resource base in order to remain competitive. As such, the competitive environment provides a context for strategic organisational change, adaptation and the transformation in structure, processes, competencies and resources. One of the most striking facets of this study were the responses to the question ‘Our company is adapting to change too slowly’. Here the data indicated three completely different views, with 25% agreeing with this statement, 44% disagreeing and 31% being unsure about whether their media organisation was adapting rapidly enough to the changes in the competitive environment.

An assessment of corporate capabilities

Corporate capabilities are derived from the ability of a media organisation to manage and develop their resources in such a way that differentiates them from the competition. These capabilities provide customers with value and a competitive advantage for the firm in the market place. Capabilities are the minimum threshold of resources that are required to satisfy market requirements, but in high velocity markets, these resources need to be renewed and refreshed in or to meet the dynamics of new market conditions and sustain the corporate objectives of the firm.
The survey data provided some interesting observations on how media organisations were adapting their resource base to changing market conditions. In response to the question ‘Our core business is running out of steam and needs new capabilities’ only 13% of respondents agreed with this statement, whilst 69% either Disagreed or Strongly Disagreed which suggests that UK media companies are adapting and refreshing their resources and capabilities in line with changing market conditions. In terms of how these capabilities translate into financial returns for the firm, 13% of media executives strongly agreed and 38% agreed that their firms current capabilities were sufficient to achieve their financial objectives, although a further 38% of respondents disagreed with this point of view.

An assessment of dynamic capabilities

The key driver for media organisations’ to develop dynamic capabilities is fast changing and often turbulent nature of the competitive environment. The literature review on dynamic capabilities identified a number variables that contributed to a firm’s ability to renew and refresh their resource base. Essentially, these related to an aspirational corporate strategy, gaining new capabilities through corporate acquisition/merger/strategic alliance, and investments in people, process infrastructure with the purpose of developing new products and services.

Our survey asked respondents to comment on their firm’s corporate strategy and 75% of media executives strongly agreed or agreed that their corporate strategy was aspirational, whilst only 6% said that it wasn’t. When asked whether their corporate strategy would include acquisition/merger activity to access new capabilities, the responses were more varied, with 25% strongly agreeing or agreeing with this statement, and 35% disagreeing and 13% strongly disagreeing. However, these responses contrast with the use of Strategic Alliances as a corporate strategic option, with 88% of media executives stating that their media company would use this approach to enhance capabilities and boost innovation. Indeed, innovation was central to most media executive responses, with 50% of respondents saying that their company would focus more on innovation than cost reduction in order to remain competitive in the market place.

Dynamic Capabilities Theory argues that refreshing a media firm’s resource base in order to create new capabilities, requires significant and long-term strategic investments in Research & Development, infrastructure, people and organisational processes. The survey data indicated that 56% of media firms would make significant investments in Research & Development in 2014, whilst 31% of firms would not. In addition, 50% of media firms would make significant investments in infrastructure, people and processes, although 38% of respondents were unsure whether this would be the case for their media firm.
With most media firms outlook for the UK Media Industry being positive in 2014 and their corporate strategy being aspirational in terms of collaborative activity and investment in their resource base, it is no surprise to find that the majority (94%) of media firms expected to launch new products and services in the year ahead. Indeed, product development is widely regarded by one of the key characteristics when assessing the presence of dynamic capabilities in a media firm.

CONCLUSIONS

This study set out to develop the existing knowledge on dynamic capabilities by exploring the notion of media industry level capabilities with senior media executives in the UK. The UK Media industry provided an ideal environment to examine this topic, due to its fast changing and dynamic environment. Whilst the results from this research provide some interesting conclusions, the non-probability sample of media executives and the small sample size makes the generalisation of the findings not possible. However, future media management research in this area could establish a statistically robust model of measuring industry level capabilities by utilising the units of analysis established in this research.

Firstly, an assessment of the competitive environment suggests that the UK Media Industry provides a complex and challenging market place in which to compete. The positive aspects of this competitive environment indicates that the majority of media firms expect their advertising revenues to increase in the year ahead and that their ability to develop media strategy was not being hampered by uncertainty in the micro-environment. Indeed, most media executives were optimistic in their overall assessment of the competitive environment and had developed ambitious strategies as a consequence. On the downside, the UK Media Industry provided a challenging environment where the majority of firms believed that they were not adapting fast enough to the challenges that they faced, particularly in terms of protecting their core revenue streams. Hensman, Johnson and Yip (2013) argued that in such volatile market conditions media firms needed to adapt faster than their rivals in order to remain competitive and the findings from this paper support their argument since one in four media firms felt that they were adapting fast enough to the transformative challenges in the UK Media Industry.

Secondly, the majority of media firms believed that their core business was robust and that they had the capabilities to deliver on their financial objectives. Since the majority of media executives considered their corporate strategy as aspirational, with significant investments in R&D, infrastructure, people, and strategic alliances delivering new capabilities, one can conclude that their optimistic view of their capabilities and positive outlook for the industry is well founded.
Thirdly, this exploration of industry level capabilities has revealed some interesting features on the existence and convergence of media capabilities. For example, there appeared to be a similar media executive mindset (Lampel and Shamsie, 2003) which implied industry level capabilities. This mind set converged on being optimistic about the outlook for the industry, developing an aspirational corporate strategy and focusing more on innovation than cost reduction for competitiveness. Lampel and Shamsie, 2003) also found that patterns in the competitive positions of media firms was another indicator of industry level capabilities. The findings of this paper concur with this view since new capabilities and competitive advantage were being realized through strategic alliances between competitive rivals with complementary skills (Madhok & Osegowitsch, 2000) in order to develop and launch of new products and services.

References


**Oliver, J.J. (2014). JOMBS**


Appendix One: Survey questions

AN ASSESSMENT OF THE COMPETITIVE ENVIRONMENT
Our company is adapting to change too slowly.
It is difficult to protect our core business whilst building new revenue streams.
Our ability to develop strategy is being hampered by uncertain market conditions.
Our planning assumes economic growth.
Our advertising revenues are likely to increase.
Our outlook for the UK Media Industry is positive.

AN ASSESSMENT OF CAPABILITIES
Our current capabilities are sufficient to achieve our financial objectives.
Our core business is running out of steam and needs new capabilities.

AN ASSESSMENT OF DYNAMIC CAPABILITIES
Our corporate strategy is aspirational.
We expect to make significant investments in Research & Development.
We expect to make significant investments in infrastructure/people/processes.
We will boost innovation through strategic alliances/collaborative partnerships.
We will focus more on innovation than cost reduction for competitiveness.
We expect to launch new products/services.
Acquisitions/Merger will be critical to achieving our growth objectives.