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Introduction

Transformation: a marked change in form, nature, or appearance. It is a word that characterises the profound impact that digitalisation and new media technologies have had on the way that many media firms have managed their business. Whilst many media organisations have been exposed to continual levels of turbulence in the past 20 years, two critical events have acted as key drivers of transformational change. The emergence of widespread digitalisation in 1997 and new media technologies, circa 2003, are significant events that have acted as catalysts for technological innovation and market disruption. These high velocity environmental conditions have largely persisted since the late 1990s, and when viewed over the long term, provide an ideal context through which to examine corporate strategy, dynamic capabilities, corporate performance and the strategic transformation of media firms.

These disruptive forces have also shaped and contextualised the theoretical debate of many media management researchers, so much so, that we are now seeing the emergence of 'strategic' media management as a topic of inquiry. The primary strands of this theme include: an examination of how a highly uncertain media environment has influenced management strategies, business models and profitability (Kung 2007; Koch, 2008; Doyle, 2013; Oliver, 2013; Horst and Jarventie-Thesleff, 2016; Kunz, Siebert and Mütterlein, 2016; Vukanovic, 2016; Daidj, 2018; Evens, Raats & von Rimscha, 2018; Horst, Murschetz, Brennan and Friedrichsen, 2018); how legacy media firms are developing dynamic capabilities in response to a fast changing media environment (Oliver, 2014; Naldi, Wikström and von Rimscha, 2014; Horst and Moisander, 2015; Hasenpusch and Baumann, 2017; and Maijanen and Virta, 2017); and how a strategy-as-practice approach has explicated the practical challenges of managing media organisations and their strategic

development process during transformational change (Järventie-Thesleff, Moisander and Villi, 2014; Oliver, 2018);

This paper contributes to the theoretical development of strategic media management inquiry by extending our understanding of the first two themes. In particular, it provides a rich commentary on how two media firms adapted their strategies, resources and capabilities in response to the challenges presented by the digital environment. In addition, it adds to a limited knowledge base in terms of understanding how these adaptive practices have affected corporate financial performance over the long-term. Lastly, this paper also responds to the call made by Teece, Peteraf and Leih (2016) for a more 'integrated and multi-disciplinary' approach to our understanding of organisational transformation. They argue that by examining the conceptual links between corporate strategy, dynamic capabilities and firm performance media management researchers will be better able to understand how dynamic changes in the competitive environment drive media firms to adapt and transform their businesses. As such, this paper provides illustrative organisational case studies and insight from the UK Creative Industries which have been exposed to the relentless changes in digital technologies, and as such, they provide an ideal context to examine the efficacy of integrating theory from multiple disciplines.

The research questions for this inquiry explored the interdependent areas of corporate strategy, dynamic capabilities and firm performance by examining:

- RQ1 What 'strategies' have enabled organisations to adapt and transform their business to the demands of the digital environment?
- RQ2 What 'intangible' and 'tangible' resources, skills and capabilities enabled organisations to adapt and transform their business to the demands of the digital environment?

- RQ3 How have these strategies and intangible and tangible resources, skills and capabilities affected the firm's corporate financial performance?

Literature Review

The argument that dynamic business environments drive the development of dynamic media firm capabilities and innovation is well established in literature (Teece and Pisano, 1994; Zollo and Winter, 2002; Lal and Strachan, 2007; Maijanen and Virta, 2017). Oliver (2014) argued that whilst there were numerous definitions of 'dynamic capabilities' in an ever evolving literature base, the principle premise centres on a firm's ability to renew and reconfigure their resources, capabilities and competencies in response to fast changing competitive environments.

Dynamic capabilities also argues that media firms sustain their business through a process of 'managed learning' in a way that adapts and changes, not only their resource base and capabilities, but their organisational strategies in order to produce a series of temporary competitive advantages. The literature on this managed learning process is located in the interdependent and complimentary theories of the Knowledge-based View (KBV) and the Resource-based View (RBV) of strategic management. Our understanding of these views and their relevance to the strategic adaptation and transformation of the firm contends that it is the management of in-tangible (KBV) and tangible (RBV) resources, skills and capabilities that can provide a firm with sustainable competitive advantage in dynamic environments. These intangible resources, skills and capabilities include: having an aspirational corporate strategy; persistent communication of the strategy; managerial cognition and sensing skills (Tripsas and Gavetti, 2000; Winter, 2003; Reeves, Haanes and Sinha, 2015; Teece *et al,* 2016). Whilst the tangible resources, skills and capabilities include; investment in new organisational processes and routines; product innovation and

development; forming strategic alliances; corporate acquisitions and mergers (Eisenhardt and Martin, 2000; Danneels, 2002; Colapinto, 2010).

Given the level of risk and uncertainty involved in reconfiguring resources and capabilities at a time of complex change, firms need to ensure they get a return on their investment in the form of superior performance. However, the number studies that link the renewal and reconfiguration of resources to organisational performance are relatively small in relation to the body of knowledge on dynamic capabilities. These studies include: Miller and Shamise's (1996) longitudinal study of major U.S. film studios; Ahuja and Katilia's (2004) study of innovative practices in US chemical firms; Macher and Mowery (2009) study of semi-conductor manufacturing defect rates; Oliver's (2014) study of financial performance in media firms; and Naldi, Wikström and von Rimscha's (2014) innovation process for small and medium-size audio-visual firms in Europe.

Linking corporate strategy and dynamic capabilities

Corporate strategy and dynamic capabilities are largely interdependent domains of strategic management inquiry that seek to understand the basis of competitive advantage and firm performance in different ways. Whereas corporate strategy literature tends to focus on issues such as purpose, direction, scope and the competitive forces that shape industry structure and firm performance; the central argument in dynamic capabilities literature is that superior firm performance is achieved by a firm's ability to reconfigure their resource base in dynamic market conditions. Whilst Teece et al (2016, p.18) observed that strategy and dynamic capabilities could be considered as discrete fields in strategic management literature, but argued that "a strategy that is consistent, coherent, and accommodating of innovation is just as vital as dynamic capabilities to achieving competitive advantage".

Linking corporate strategy and dynamic capabilities literature to understand the strategic transformation of media firms in a dynamic environment follows the line of reasoning advocated by Pettigrew, Thomas and Whittington (2007, p.3) who suggested that theoretical development in the field of strategic management would more likely result when "intellectual bridging" between previously discrete fields occurred.

Adapting firm strategy, resources and capabilities can be a risky and expensive business, and one that carries a higher risk of failure for senior executives due to the level of uncertainty that characterises many media markets (Wikström, 2009; North and Oliver, 2014; Maijanen and Virta, 2017). As such, the role of leaders and their executive management teams is an essential element in driving 'top down' strategic change, where the corporate level strategy not only articulates the firm's vision, but also the levels of resource investment in new assets, skills, capabilities and competencies that would take advantage of the opportunities provided by fast changing markets. Whilst our understanding of the effects of CEOs and their senior executives on the contribution to firm performance is debatable (Helfat and Peteraf, 2015) there is no doubt that their role in understanding changing market dynamics and driving strategic change remains important. Indeed, Hensmans, Johnson and Yip (2013) argued that leaders can "dramatically lift performance by giving people a guiding star and inspiration through times of turbulence and uncertainty" whilst Kung (2015) and Reeves et al (2015) assert that the role of leader was of paramount importance in terms of determining organisational vision and driving strategic change.

The corporate strategies that guide this transformative process are crucial in delivering the successful strategic adaptation of media firms, and so the question of *how* these strategies are formulated should be addressed. The relevant strategic management literature provides conflicting views on the formulation process. The 'prescriptive approach' dominated the 20th century and an extensive body of literature argued for strategy to be

'designed' through a rational analysis of the competitive environment using numerous diagnostic management tools. This analysis would establish an understanding the firm's strategic fit and market positioning (Andrews, 1981; Porter, 1985; Bowman, Singh and Thomas, 2007; Oliver, 2013). As many markets became increasingly turbulent and uncertain toward the end of the 20th century, a counter argument appeared in strategic management literature. The idea that strategy simply 'emerged' as a result of firms learning over time, and where executives critically reflected on past experience, current events, and intuitively adapted their strategies incrementally to a changing business environment (Quinn, 1980; Leavy, 1998; Mintzberg, Ahlstrand and Lampel, 1998, Argyris, 2004; Horst, and Järventie-Thesleff, 2016).

In many ways these bi-polar views of the strategy making process have been superseded by a 21st Century narrative that argues for a strategy making process that is 'appropriate' to the dynamics of the competitive environment. For example, Perrott (2008) and Lynch (2015) support the view that fast changing and uncertain environments encourage emergent strategy making due to its ability to produce experimental and flexible responses to opportunistic conditions. However, in more stable competitive environments, it is more advantageous to employ prescriptive strategies as a means to position the firm in relation to the opportunities and threats presented to them. This stance has been developed further by Reeves *et al* (2015, p.6) who argued that the dynamism and uncertainty exhibited in many business environments means that leaders and their executive management teams need to "match and apply" the appropriate strategic approach for their firm according to the degree of unpredictability, malleability and harshness in the environment. Whilst the theoretical debate around the 'appropriateness' of strategy making process is nascent, there is no doubt that it will form an increasingly important part of media management research as media

industries and firms adapt their strategies, business models, resources and capabilities at an increasingly frequent rate to cope with highly changeable competitive conditions.

Corporate strategy, dynamic capabilities and adaptation

The argument for the strategic transformation of media firms is presented by Hensmans et al (2013) who observed that corporate strategies have historically had competitive advantage at their core, however, due to the dynamic nature of the business environment these strategies now needed to emphasise organisational adaptation. In essence, it is the incremental adaptation of firm strategies, resources and capabilities over the long-term that results in the strategic transformation of the firm.

There is an emerging view in literature that the ability of a media firm to adapt to changing market dynamics can be considered to be a dynamic capability in itself. For example, Wei and Lau (2010) argued that the continuous evolution and adaptation of organisational processes produced ‘adaptive capabilities’ that resulted in improved firm performance. More recently, Dixon, Meyer and Day (2014) argued that a firm can create dynamic capabilities in ‘organisational adaptation’ by acquiring existing knowledge from outside of the firm and exploiting them to create new operational capabilities. They concluded that organisations which leveraged these adaptive capabilities secured a temporary competitive advantage and outperformed their competitors.

Explaining how and why firms adapt was the premise of Van de Ven and Poole’s (1995) widely cited paper on the organisational change and development processes. Whilst their paper presented four theoretical perspectives on organisational change, two are particularly relevant in relation to the strategy making perspectives discussed above. Firstly, Van de Ven and Poole (1995) proposed an Evolutionary Theory where firm adaptation is considered to be a continuous cycle of adjustment in strategy, resources and capabilities

which create new forms of the organisation and emerge by random chance. How media firms adapt to new competitive conditions, is therefore, aligned to the Darwinian view of *natural selection* where the competitive survival of the firm is determined by trial and error and how successful they are at incrementally adapting their strategies and resources to the prevailing environmental conditions. As such, this incrementally adaptive view of organisational change is closely aligned to the emergent strategy making perspective where firms make continuous and gradual changes over time.

An alternative view is derived from Teleological Theory which argues that the strategic adaptation of firm strategy, resources and capabilities is not achieved arbitrarily by chance but by a 'purposeful desire' to realise an organisational purpose or goal (Van de Ven and Poole, 1995). This theory considers the adaptation of a firm to be objective driven with a rational management process of "goal formulation, implementation, evaluation and modification of goals" that is dictated by changes in the competitive environment (Pettigrew et al, 2007, p.208). This view of organisational change is aligned to the prescriptive strategy making process since both theoretical perspectives are underpinned by the assumption that firms are purposeful in their adaptive processes and that organisational change and development is a repetitive sequence of goal formulation, implementation and re-formulation.

Dynamic capabilities, adaptation and corporate performance

Whilst much of the literature on the adaptation of the firm has concentrated on the need for organisational adaptation, rather than the advantage it can deliver to firms. The ability of a firm to adapt to changing environmental conditions, faster than their rivals, can provide them with a competitive advantage. Prominent studies include Ennui, Post and Berger's (2005) study of US telecom firms found that those firms who aligned their strategy,

structure, resources and competencies to the external environment were better able to take advantage of the market opportunities and produce significant differences in performance. Whilst this work examined the 'process of how' firms adapted they did not develop the idea that this adaptive ability provided firms with a competitive advantage. Reeves and Deimler (2011) and Reeves, Love and Nishant (2012) produced a number of influential papers on organisational adaptability and corporate performance. They present a powerful argument for media firms to develop new adaptive learning capabilities, which would not only create value, but transform their business to take advantage of the prevailing competitive conditions. Their arguments are supported by extensive research into the volatility in a firm's operating environment and the market capitalization growth rates versus the weighted-average market capitalization growth rates in its industry during periods of market turbulence. A total of 2,500 companies, in 59 U.S. industries, were analyzed between October 2005 and September 2011. Of particular relevance to this paper is their examination of the US Media Industry, which concluded that DirecTV, Time Warner Cable and Disney had all outperformed their industry rivals (including Omnicom Group, The Washington Post, Viacom, Cablevision Systems and Thomson-Reuters) with increases in market capitalisation during times of turbulence. Put simply, an ability to adapt to volatile operating conditions, lead to an advantage that delivered superior corporate performance.

Method

Of paramount importance to the study of the strategic transformation of media firms is use a longitudinal perspective, and the deployment of multiple methods and data sources (Hensmans et al 2013). As such, this study presents data from 1995-2017 and a mixed methodological approach. Qualitative content analysis was used to gain insight into the strategies, intangible and tangible resources, skills and capabilities that enabled media organisations to adapt and transform their business to the digital environment; whilst

quantitative data was used to ascertain corporate financial performance against historic firm, inter-firm, industry and market performance indicators over the long-term. This type of research approach has been advocated by numerous scholars including Fielding and Fielding (1986); Saunders, Lewis, and Thornhill (2000); and Bryman (2006) who argue that multiple methods can be used not only for different and complimentary purposes for the same study, but also to triangulate different data sources. As a consequence, insight into the strategic transformation and performance outcomes of media firms are explored from different perspectives with the intention of developing new knowledge by using multiple methods and data sources.

Sample

A non-probability, purposive sample of UK Creative Industries firms was used in this research. Whilst the UKs Creative Industries have, on the whole, been affected positively by the emergence of digitalisation and new media technologies, discrete industries have been affected differently. Desk research identified Pearson Plc (Publishing) and Sky Plc (TV) as two companies that had undergone a 'strategic transformation' over the course of two business cycles, which importantly covered the disruptive forces of digitalisation and new media. This sampling approach also meant that the findings from the study of these two companies could not be generalised to the population of firms in the UKs Creative Industries.

Qualitative Method: Content Analysis

RQ1 and RQ2 were investigated using a qualitative 'thematic' content analysis of company Annual Reports (Miller and Shamise, 1996; Oliver, 2014; Arango-Kure, Buschow, and Wellbrock, 2014) to understand and assess how these organisations had adapted their strategies, resources and capabilities to changing competitive dynamics over time. Whilst Amernic and Craig (2007) and Conaway and Wardrope (2010) draw attention to the inherent bias associated with CEO narcissism and embedded cultural traits contained in

Annual Reports, they remain a source of data that meets the demands of investors, stakeholders and regulatory bodies.

A content analysis of company Annual Reports between the period 1995-2017 was undertaken using the computer software package Nvivo. This software is known for its ability to help researchers gain meaningful data from 'text rich' sources through a process of coding text to previously assigned units of analysis, which as Hilal and Alabri (2013) noted, has the advantage of allowing the researcher to more easily recognise patterns and themes in data and draw conclusions. The coding process was largely straight-forward, but as with all inductive research, there were a few occasions when the researcher's interpretation of what was written could be regarded as subjective. This was most apparent in terms of the 'product innovation and development' unit of analysis for Pearson Plc where the value of R&D and investment spend was shown, but no clear indication of specific product and service output. On these occasions, a nil return was recorded in the data analysis.

The units of analysis for this study were derived from literature and included:

Knowledge-based View (in-tangible resources, skills and capabilities): an aspirational strategy; persistent communication of the strategy; managerial cognition and sensing skills (Tripsas and Gavetti, 2000; Winter, 2003; Pettigrew et al, 2001, Reeves *et al,* 2015; Teece *et al,* 2016);

Resource-based View (tangible resources, skills and capabilities): investment in new organisational processes and routines; product innovation and development; strategic alliances; corporate acquisitions and divestments (Eisenhardt and Martin, 2000; Danneels, 2002; Brouthers and Hennart, 2007; Colapinto, 2010).

Quantitative Method: Corporate Financial Analysis

RQ3 examined how the strategic adaptation and transformation of the firm had affected each firm's financial performance and whether that performance was 'superior' when benchmarked against historic firm, inter-firm, industry and market performance indicators. A number of different financial measures were used to triangulate corporate performance in terms of the 'value' created from the firm's corporate strategy and resource management. These were: Market Value (£), Revenue (£), and Return on Invested Capital (%).This data was obtained from Thomson Reuters DataStream and provided historic financial statistics for both Sky and Pearson and the FTSE 100 index which is composed of the 100 largest companies listed on the London Stock Exchange. The analysis of Market Value and Return on Capital Invested for Sky and Pearson against the FTSE 100, over the time period 1995-2017, ensured that only those firms (n=57) who had consistently appeared in the index for each of those years was used for data analysis.

In addition, since each firm's human resources are likely to contribute a significant proportion of a firm's total resource base, employee productivity was examined. As such, the 'Number of Employees' was measured against 'Operating Income (£)' to assess the 'Operating Income per Employee (£)' for each firm. These figures were then benchmarked against labour productivity data in the form of Gross Added Value per Employee (£) for the UK Creative Industries[1]. Gross Value Added (GVA) represents the amount that individual businesses, industries or sectors contribute to the economy. Broadly, this is measured by the income generated by the business, industry or sector less their intermediate consumption of goods and services used up in order to produce their output. As such, it is the closest measure to a firm's Operating Income, and both of these metrics have been used to examine the performance of Sky and Pearson in comparison to employee productivity in the UK Creative

[1] This data was produced from the Department of Culture Media & Sport *Creative Industries Economic Estimates* (1997-2017).

Industries. This provides an assessment of the performance for each firm as benchmarked against their respective industry and the entirety of the UKs Creative Industries. As such, this analysis provides an assessment of whether or not each firm had managed their 'human resources' in a way that had created value and delivered superior and sustained performance over the long-term.

Results

RQ1 What 'strategies' have enabled organisations to adapt and transform their business to the demands of the digital environment?

Sky: an aspirational and ambitious growth strategy.

Since 1995 Sky has consistently focused on one primary corporate objective, that is, 'profitable growth'. The firm's corporate growth objectives are clearly positioned within the Teleological Theory of organisational adaptation, where changes in the competitive environment are met with rational management process of goal formulation and modification. This is illustrated by the corporate target number of pay-tv subscribers being set years in advance. For example, the target number of: 7m by 2003 was set in 2000; and 10m subscribers by 2010 was set in 2004. Their consistent focus on the growth of pay-tv subscriber numbers and revenues was delivered by a strategic recipe of: negotiating the rights to premium content (sports, film and TV); developing new conditional access technologies; delivering a high quality customer service; and the acquisition of firms for their capabilities.

Sky's corporate strategy extended their perimeter of activities when taking advantage of the opportunities provided by the new media environment and the harmonisation of technology and regulation across Europe. For example, they broadened the focus of their growth strategy by extending the scope of their activities, via joint ventures and acquisitions, into the provision of UK based broadband and mobile telephony (2006). Their corporate

perimeter was further extended, geographically, with the acquisition of Sky Italia and Sky Deutchland (2014), which in turn, repositioned the company as a world-class pay TV operation in Europe and provided a platform on which to expand their growth ambitions. These strategic moves adapted and ultimately transformed the company from being a 'UK based pay-TV provider' into a 'European, multi-product, multi-platform entertainment and communications firm'.

Pearson Plc: investing in high growth markets with high profit potential.

Over the past 20 years Pearson has transformed their organisation from being a 'holding company' of disparate business, to an 'Entrepreneurial M-Form media business' to their current incarnation as a 'global, single product learning company'. Their corporate growth objectives also follow the Teleological Theory of organisational adaptation, however, in contrast to Sky, the motivation behind each transformational strategy had been a desire to take advantage of (potential) high growth market opportunities provided by both media and non-media markets.

Prior to 1995, Pearson was a 'holding company' for a number of businesses that ranged from publishing to investment banking, and tourism. Pearson's 'Entrepreneurial M-form international media business' started to emerge with the appointment of their activist CEO, Marjorie Scardino, in 1997. Recognising the market opportunities of digitalisation and new media, Pearson focused their corporate strategy on building a more integrated media company consisting of three strategic business units: business information, consumer publishing and education. Between 1995-2000 they expanded into high growth media markets with the acquisitions of global news, TV production, broadcasting and distribution firms. By 2000, they had made $5bn of acquisitions and $2bn in disposals which had transformed and repositioned Pearson into an 'international media company'. Their Chairman reflected on this transformative process saying:

“It has taken three years of hard work to turn Pearson from an attractive collection of diverse businesses into one company with a coherent strategy single-mindedly pursued by every part of Pearson”.
Dennis Stevenson, Chairman, Pearson (2000:2)

Whilst they had made significant resource investments in content, technology, international expansion and efficiency gains, the ‘Entrepreneurial M-form international media business’ appeared to be well placed to take advantage of the opportunities provided by high levels of environmental turbulence in the creative industries. They noted that:

“The relentless shift to a digital world has huge implications for how we create, store, protect, package and charge for our content”.
Glen Moreno, Chairman, Pearson (2005:3)

The advent of digitalisation and the new media environment provided many opportunities for Pearson, however, by 2005, their corporate outlook argued for ‘strategic flexibility’ and the need to constantly think about the future of their firm. Their attention subsequently changed to the role that education would play in their business, and by 2006, they had declared themselves to be an ‘international media and education company’. By 2008, Pearson had started to sow the seeds of their next transformation, by declaring their next strategic move would be to reconfigure company structures and resources toward the potential opportunities provided by an emerging global middle class population of three billion, who recognised the value of education. They commented that the:

“education market we’ve chosen to work in will be a good, long-term growth industry”.
Marjorie Scardino, CEO, Pearson, (2008:7)

In 2009, Pearson’s latest transformation started to emerge as they declared themselves to be a ‘world-leading education company’ where digital technologies would make their content more personal, more valuable and provide access to new, bigger and faster growing sources of corporate revenue. Pearson’s desire to be the world’s leading

learning company meant that their corporate strategy and allocation of resources would be focused on four global businesses: School, Higher Education, English, and Business Education which they believed provided the biggest growth opportunities. They stated that:

"Global education is a once-in-generation opportunity and Pearson is uniquely placed to grasp it.
John Fallon, Chief Executive, Pearson, (2012:8)

As a result, they disposed of the Financial Times Group (2015) and their equity stake in The Economist (2015) in order to focus their capabilities and products on educational learning technologies.

RQ2 What 'intangible' and 'tangible' resources, skills and capabilities enabled these organisations to adapt and transform their business to the demands of the digital environment?

Knowledge-based resources, skills and capabilities

Persistent communication of the strategy

Chairmen and Chief Executives' have an important role in communicating the firm's strategy to stakeholders in a way that mobilizes and empowers them to proactively respond to changes in the uncertain competitive environments. Sky, in particular, have excelled with the persistent communication of their aspirational strategies over the past 20 years. For example, with the potential for industry disruption in 1997, due to the widespread introduction of digital technologies, the Chairman's message to stakeholders was:

"The future holds no fear for Sky - our business has always thrived on the need for change"
Gerry Robinson, Chairman, Sky (1997:7)

Furthermore, aspirational statements made by successive leaders illustrate a dynamic firm that is prepared to adapt to new market dynamics and uncertainty. The following quotes provide a good illustration of their approach:

"Opportunities for companies to acquire true market leadership are rare, and BSkyB is uniquely positioned to achieve this on the back of our investment".
Rupert Murdoch, Chairman, Sky (2000:7)

"Our focus has been on setting the pace of change and re-affirming our appetite for doing so".
James Murdoch, CEO, Sky (2006:4)

"We believe that those businesses that achieve sustainable success have an appetite for change and a commitment to constant renewal in all that they do".
Jeremy Darroch, CEO, Sky (2013:3)

Pearson has met the challenges of a fast moving operating environment with equal optimism. They embraced the opportunities provided by digitalisation and new media technologies by re-enforcing their reputation as one of the most innovative firms in the industry. For example, their senior executives commented:

"Pearson operates in an industry changing quickly and constantly. It is our ability to manage the complex creative and commercial mix of that environment that gives us our competitive edge".
Dennis Stevenson, Chairman, Pearson (1997:3)

"The outside environment has inspired us to move more quickly, to be more radical in our approach, to be more courageous".
Glen Moreno, Chairman, Pearson (2011:5)

Managerial cognition and sensing skills

One of the consistent themes in dynamic capabilities literature is the crucial role of the cognitive and sensing skills of senior management within an organisation. Their ability to detect signals in a dynamic environment and identify corresponding market opportunities provides the stimulus for the strategic adaption of the firm. The management teams at both Sky and Pearson have consistently been able to comprehend and successfully negotiate the challenges of an uncertain digital environment. Their forward-looking approach has put both firms at the forefront of industry development by making strategy and resource investment decisions that deliver new capabilities and superior firm performance. The following

statements provide an indication of their ability to anticipate the potential disruption and opportunities of digital tv and new media platforms:

"This convergence of media and communications has created a dynamic, fast moving sector that not only brings significant opportunities, but also a degree of uncertainty. Media companies that expected historical performance to protect their business models… will continue to fail."
Rupert Murdoch, Chairman, Sky, (2007:2)

"To seize this opportunity, we need to accelerate our shift from mature to developing markets, from print to digital products".
John Fallon, CEO, Pearson (2013:10)

Resource-based resources, skills and capabilities

Investment in new organisational processes and routines

Creating new operational capabilities requires firms to invest in organisational processes and routines at a time when the opportunities provided by dynamic markets make the decision to invest, intuitive at best, and speculative at worst. These investments tend to be significant and require the firm to accept higher costs in the short-term, in order to benefit in the long-term. The impact of these investments for Sky are illustrated in their Return on Invested Capital (see Figure 3) which declined into negative territory between 1999-2003 following their multi-billion pound investment in digital technology, customer relationship management and interactive broadcasting services. Accepting that significant capital investments affect corporate financial performance is illustrated in the following quote:

"We made a huge investment in distribution and programming for the digital launch, an investment which has had an adverse impact on profits and cash flows this year, but which will prove extremely worthwhile".
Rupert Murdoch, Chairman, Sky, (1999:1)

Pearson on the other hand has taken a different approach to their investment in the firm. They have invested in the re-configuration of the firm and transformed it from being a 'holding company' to an 'Entrepreneurial M-form international media firm' and into its present iteration as a 'global, single product learning company'. They have also recognised

the need to invest in new digital technologies, processes and routines. The following quotes represent their consistent investment approach:

> "We've spent a lot of time and effort transforming Pearson...integrating our businesses and their shared functions in ways that will add to our bottom line in the years to come".
> Marjorie Scardino, Chief Executive, Pearson (2002:7)

> "We believe that this constant investment is critical to the quality and effectiveness of our products and that it has helped us gain share in many of our markets".
> Marjorie Scardino, Chief Executive, Pearson (2011:10)

Product innovation and development

The output from the renewal and reconfiguration of firm resources and capabilities is often seen in the development of new products and services. The level of product innovation, is therefore, a key characteristic of dynamic firm capabilities. Over the past 20 years Sky have continuously innovated numerous industry leading products and services including: Sky+ the UK's first fully integrated personal television recorder and the Sky Guide an advanced electronic programme guide (2001); Sky Multi-room subscription (2004); Sky Gnome the portable device to listen to audio content (2005); Sky HDTV, Sky Broadband and Sky Talk, Sky+ access from customer mobile phones (2006); Sky Anytime, an on-demand service (2007); 3D television (2010) and Sky Go (2011); the streaming service, NOW TV (2014); and Sky Q (2016) which merges live TV with catch-up, on-demand and video streaming.

The output from Pearson's product and service innovation and development is less obvious from their Annual Reports. For example, in 2002 they stated that more than £250m was spent on new product development, and in 2003 an additional £50m was invested service improvements for customers. Between 2004-09 they had invested £2.3bn in new education programmes, new authors for Penguin and digital journalism, claiming that continual investment was critical to the quality and competitiveness of their products and

services. However, unlike Sky, these innovations were unspecified in terms of their actual names and functions.

Forming strategic alliances, corporate acquisitions, mergers and divestment

Organic investment in resources provides one route to the development of new organisational capabilities. However, in fast moving and dynamic markets accessing new capabilities through strategic alliances, corporate acquisitions and mergers provides a more expedient route to expand into new markets and access new resources and capabilities, which in turn, accelerates the strategic adaptation of the firm. In response to the digital and new media environment, Sky consistently made strategic investments and acquisitions to access new capabilities which have extended the firm's scope of activities from direct-to-home television broadcasting to a multi-platform, multi-product media firm providing TV, broadband and fixed line telephony and mobile services. The most significant resource investments acquired new online and interactive broadcast and communication capabilities through the acquisitions of: British Interactive Broadcasting Holdings Limited for digital interactive broadcast capabilities (1997); Sports Internet Group for internet content infrastructure and on-line gaming capabilities (2000); Easynet for broadband delivery capabilities (2007); 365 Media Group for sports and gaming capabilities (2007); Amstrad for their capabilities in designing high definition PVR and set-top boxes (2008); The Cloud, for Wi-Fi network capabilities which enable customers to connect to content in thousands of locations across the UK (2011); and the acquisition O2, for consumer broadband and fixed-line telephony capabilities (2013).

Strategic acquisitions have consistently featured in Pearson's corporate strategy as the firm reshaped, reconfigured resources and transformed their business. Indeed, the number of acquisitions are too numerous to mention here, but three consistent themes emerge in relation to the strategic transformation of the firm. Firstly, the acquisitions have contributed

to the new corporate strategy and structure of the firm during each transformation. Secondly, the acquisitions have extended the firm's reach and strength in new geographic markets with a market-leading position or good opportunities for high growth. Lastly, the acquisitions have improved the firm's resources and capabilities in digital products and service provision including: eCollege the online distance learning capabilities (2007); MoneyMedia - online financial news capabilities (2008); Fronter, online learning capabilities (2008); 7ticks - online financial solution capabilities (2009); Wall Street Institute Education - web-based learning capabilities (2010); Assanka-web app development capabilities (2011); EmbanetCompass - online graduate learning capabilities (2012); GlobalEnglish – for cloud-based, online English learning capabilities (2012); NOOK Media - digital learning capabilities (2013).

The common view of dynamic capabilities tends to focus on the role of 'investment' in reconfiguring and renewing a firm's resources and capabilities. However, the role of 'divestment' has received less theoretical inquiry and debate, and yet, the disposal of strategic resources is an intentional decision that can lead to considerable organisational change and transformation. Perhaps one of the most striking aspects of the data analysis was the number of references in the Annual Reports of both Sky and Pearson referring to the 'divestment' of resources. Sky's Annual Reports, for example, mentioned divestments in 16 out of 23 years and were referenced 66 times. They disposed of equity holdings in a number of different firms because these assets did not fit with their strategic focus, and made a number of tactical divestments of non-core products and services that included TV channels, entertainment and gaming services and communication platforms due to poor performance in the market place.

The figures for Pearson were equally significant, with 63 references to divestments in 19 out of the 23 years. These included the divestment of often long established businesses

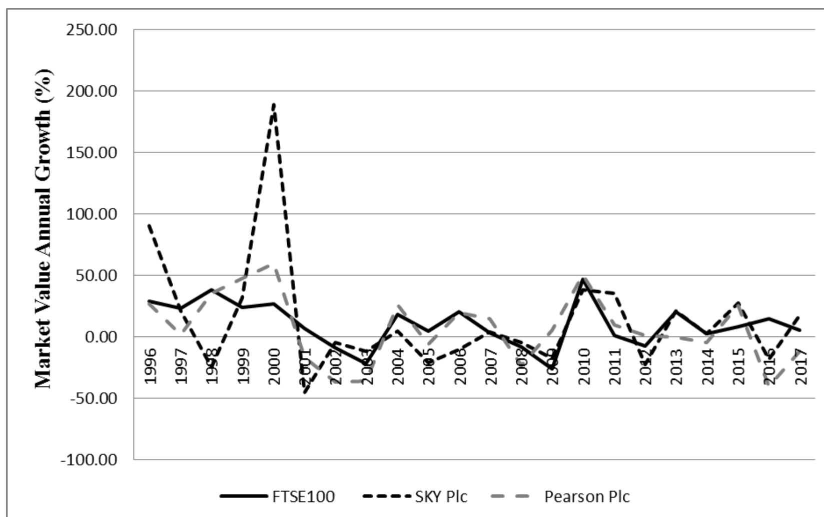
that provided the financial resources to invest in new acquisitions that would ultimately re-shape the portfolio and transform the firm from being a holding company, to an Entrepreneurial M-form business, into their current form as a global, single product learning company. For example, their entertainment business (The Tussauds Group) was sold in 1998 after 20 years as theme parks no longer contributed to their emerging media business. In 2005, they commented that "over the past four years, we sold three times (by value) as many assets as we acquired"; and in 2015 they sold the Financial Times Group and their stake in The Economist in order to focus on education and learning.

RQ3 How have these strategies and intangible and tangible resources, skills and capabilities affected the firm's corporate financial performance?

An underlying principle of Dynamic Capabilities Theory is that the costs of resource reconfiguration, to generate new capabilities, should deliver a return on this investment in the form of superior firm performance. In terms of market performance, the annual Market Valuation increase/decrease was compared against the FTSE100 between 1995-2017. Whilst the market valuations differed from year to year, Sky's average market valuation increased 13.59% over this period, compared to 6.54% for Pearson and 9.90% for the FTSE100 (see Figure 1). The analysis of market value also demonstrated that both Sky and Pearson were more susceptible to macro-environmental forces than the FTSE100. For example, at the peak of the Dot.com bubble, Sky posted a +188% annual increase in market valuation, only to be followed by three years of declines (-45.64%, -4.79%, -12.06%) in the wake of the collapse of the Dot.com economy and the uncertainty created by the introduction of new media technologies. Further turbulence in the form of the Global Financial Crisis resulted in market valuation declines in 2008 (-4.66%) and 2009 (-17.53%). The comparative figures for Pearson follow the same trend, a +59.18% increase in 2000, with subsequent annual

decreases in market value in the following three years of -17.19%, -36.62% and -36.34%. Pearson's exposure to the effects of the Global Financial Crisis was not as severe as Sky, with only 2008 recording a decline in annual market valuation of -23.06%. The specific reasons for this differing performance are not clear, but, it would be plausible to assume that Pearson's strategy of penetrating the global education market meant that their business model was less reliant on advertising revenue and discretionary consumer spending in comparison to Sky.

Figure 1: Market Value (1995-2017)

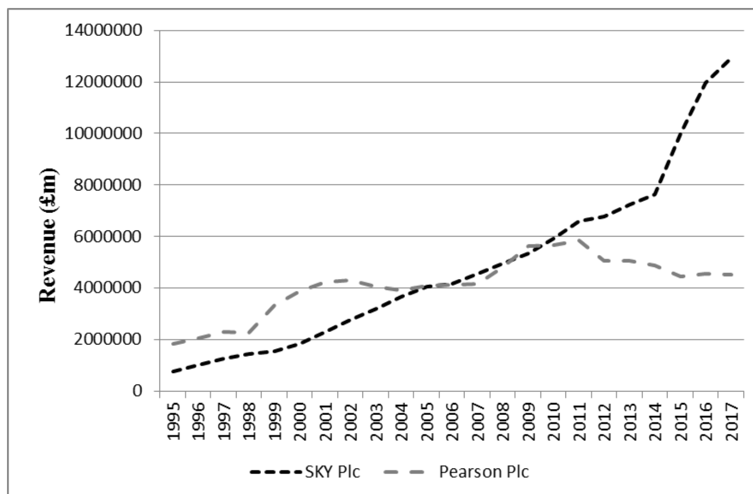


Source: Thomson Reuters DataStream

The comparisons of historical firm and inter-firm revenue performance are illustrated in Figure 2. This shows that Sky continued to deliver impressive and consistently increasing annual corporate revenue figures. In 1995, their revenue was £777m and had grown to £12.92bn by 2017, which had been driven by a succession of corporate strategies that have successfully transformed the firm from being a UK based television broadcaster into a European multi-platform, multi-product media firm. In comparison, Pearson's corporate revenue was £1.83bn in 1995 and had grown to £2.47bn by 2017. This increase was driven

by a consistent growth strategy that saw Pearson's revenue figures peak in 2011 at £5.86bn before plummeting in 2016 to record the firm's largest pre-tax loss in their history at £2.6bn.

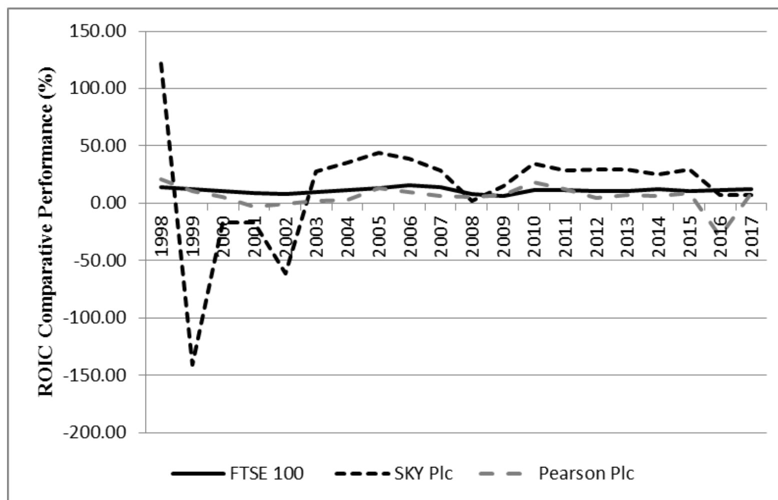
Figure 2: Revenue Performance (1995-2017)



Source: Thomson Reuters DataStream

The comparisons of the Return on Invested Capital (ROIC) for the period 1998-2017 illustrate Sky's superior ability to make a profit from invested capital. Over this period the average ROIC for Sky's was 70.31%, well ahead of the averages for Pearson (8.29%) and the FTSE100 (13.39%). Indeed, apart from the period 1999-2002 when Sky made significant capital investment (£1,512m in 2000 and £1,163m in 2001) in interactive services, customer relationship management systems and interactive broadcasting services, they have consistently outperformed both Pearson and the FTSE100. Figure 3 below illustrates the comparative ROIC performance over the long-term. The time period for this comparison has been adjusted slightly, from 1995 to 1998 due to Sky's impressive ROIC figures (ranging from +224% to +555%) skewing the illustration.

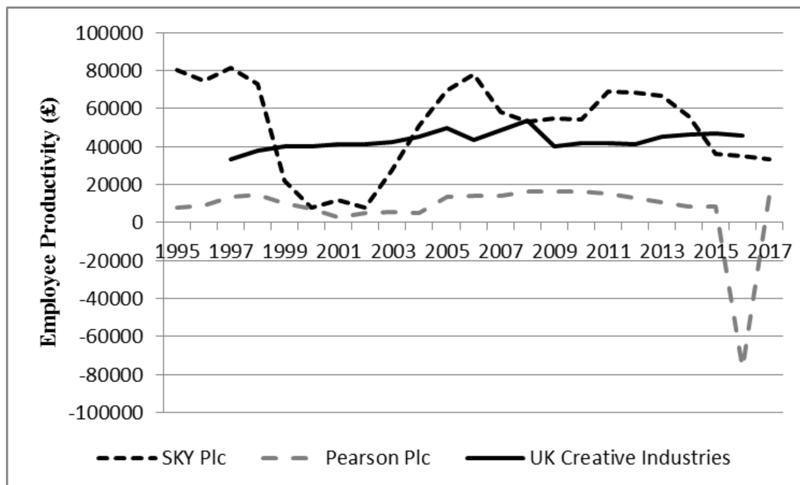
Figure 3: ROIC Comparative Performance (1998-2017)



Source: Thomson Reuters DataStream

The analysis of employee productivity provided some interesting insights into the performance management of human resources. The 'Operating Income per Employee' for Sky and Pearson was compared to the 'Gross Value Added per Employee' for the UK Creative Industries (Figure 4 below) in order to examine employee productivity over the long-term (1995-2017). Sky's 'Operating Income per Employee' indicates an impressive and superior ability to generate income from their employees, at £50,833, which is significantly higher than Pearson (£7,259) and the UK Creative Industries (£43,339). Sky's employee productivity performance was subdued by the significant capital investments, joint ventures and acquisition during 1999-2002 and the resultant step change in the number of employees which increased from 4,634 (1998) to 10,730 (2000); and the corporate acquisitions of Sky Italia and Sky Germany in 2014 which increased the number of employees from 20,841 (2014) to 29,132 (2017). The creation of dynamic firm capabilities requires a long term commitment to resource reconfiguration and renewal, and as a result, Sky have had to endure higher labour costs and lower levels of productivity for sustained periods of time.

Figure 4: Employee Productivity (1995-2017)



Source: Source: Thomson Reuters DataStream/ Department of Culture Media & Sport *Creative Industries Economic Estimates* (1997-2017).

Discussion and Conclusion

Digital technologies have acted as a key driver for the transformation of legacy media firms for more than two decades. This paper sought to understand how media firms had adapted their strategies, resources and capabilities and transformed their business to the challenges of an increasingly digital environment; and to examine how these adaptive practices had affected their corporate financial performance. As case studies of strategic change and transformation, both firms are in stark contrast to their form, nature and appearance now, compared to 1995.

This paper argues that the most appropriate way to develop the theory on the strategic transformation of media firms is to conceptually link the knowledge from corporate strategy, dynamic capabilities and firm performance literature in a way that produces a logical conceptual framework. This process of “intellectual bridging” (Pettigrew et al, 2007) between largely discrete fields of strategic management literature has provided a

more holistic view of strategic business transformation, and made it possible to make the following conclusions.

Firstly, organisations with an ambitious strategy which invests and adapts firm resources to produce new and dynamic capabilities has every chance of producing superior firm performance in the long-term. Indeed, the findings reveal that both firms adopted a teleological approach to the setting of sequential corporate goals, objectives and strategies which have adapted and transformed each firm to the opportunities provided by an increasingly digital environment. Both firms have undergone a series of strategic transformations, however, the route to these transformations has differed, with Sky transforming themselves from being a single product media firm, into a multi-product media firm with impressive results. In contrast, Pearson have engaged in five strategic transformations, moving it from being a holding company, to an Entrepreneurial M-form business, into their current form as a global, single product learning company. The number of strategic transformations that Pearson have undertaken is mostly likely to be the result of their consistent corporate objective of seeking out potential high growth market opportunities. With each new market opportunity there appears to have been major restructuring of their resource base, with numerous investments, acquisitions and divestments. It could be inferred from their consistently underperforming ROIC, that their unyielding pursuit of market opportunities has meant that each strategic transformation has simply not had the time to become established, whilst the accrued costs of reconfiguration, restructure and resource renewal have hindered their corporate performance.

Secondly, this teleological approach to realise organisational goals and objectives has guided resource investment, which in turn, has renewed and reconfigured firm resources and structure. This renewal and reconfiguration of resources has delivered new digital capabilities, products and services through organic investment and through numerous

strategic acquisitions of firms with capabilities crucial to the development of a firm operating in the digital world. Whilst acquisitions have played a central and consistent role in the transformation of both firms, the divestment of strategic assets has been equally important. These divestment decisions have largely been taken on the basis that they were a drain on corporate resources, or that the resources did not fit into the firm's future, or that they provided a valuable source of funds to invest in future and more profitable ventures.

Thirdly, as noted earlier, corporate strategy and dynamic capabilities are largely interdependent theories connected by one primary aim, that is, delivering the 'value' that produces superior measures of corporate performance over the long-term. The conceptual links between dynamic capabilities and firm performance has been established in literature, however, the integration of knowledge from strategy literature conceptualises dynamic capabilities in a more holistic way by understanding the strategic arguments that compel a firm to reconfigure their resources and capabilities in dynamic business environment. Certainly the data presented in this paper illustrates how both firms engaged in high growth strategies that were executed through a consistent approach to the investment in the resources that delivered new digital capabilities and competitive advantage. The findings clearly illustrate how Sky have transformed their business and delivered a level of corporate financial performance that has outperformed their competitive set, the wider UK Creative Industries and the top 100 firms in the UK. The case for Pearson delivering 'superior' firm performance is more difficult to defend. Whilst the consistent increases in Market Value and Revenue will have delivered value to shareholders, the average ROIC has consistently fallen below the FTSE100, whilst their average 'Operating Income per Employee' over the duration of this study was well below that of the UK Creative Industries. Whilst the historic financial data up to 2014 presents a positive view of Pearson's strategic approach, their disposal of important strategic assets (The FT Group and The Economist) in 2015 has

delivered less than impressive financial results over the past few years. In essence, their corporate strategy 'bet the company' on a single product, and one can only conclude that to be successful in a volatile digital media environment, having a more diversified portfolio of strategic business units would enable a firm to take advantage of the opportunities, whilst also off-setting the potential threats of poor strategic investment decisions.

The findings have also revealed the importance of strategic acquisitions and divestment to the reconfiguration and transformation the firm's resources and capabilities. Whilst there is a common understanding in the literature about the role that acquisitions play in accessing new resources and capabilities, there is not the same level of understanding on how the divestment of strategic assets helps to deliver resource renewal, strategic transformation and superior corporate performance. As such, future researchers working in this field may find a fruitful area of inquiry.

Finally, the strategic management of media organisations as an area of inquiry amongst the academic community has relied on a limited number of conceptual frameworks that have been drawn from general management theory (Picard and Lowe, 2016; Achtenhagen and Mierzejewska, 2016; and Mierzejewska,2018). There is no doubt that the digital transformation of media industries and firms will remain a strategic issue that researchers will continue to address; and whilst the development of unique media management theory has proved challenging, the dynamic nature of the media environment does provide researchers with an extraordinary opportunity to develop new intellectual insight by bridging previously discrete fields of knowledge.

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