

A Dynamic Capabilities View of Firm Growth

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EXECUTIVE SUMMARY

This paper builds a path by which dynamic capabilities can be developed over time to provide for long-term firm growth. We know that resources are developed in a complex, path dependant process. This paper demonstrates that dynamic capabilities are also developed in a complex, path dependant process. This paper explains how specific dynamic capabilities are developed in what sequence over time to provide for long-term growth. The paper explains that as a firm increases its stock of managerial resources, these new managerial resources may develop a position where the firm may be able to dictate environmental conditions in turbulent environments.

Keywords: Managerial resources, Dynamic capabilities, Firm growth

INTRODUCTION

The resource-based view lens has been linked to more current work in the dynamic capabilities literature (Helfat & Peteraf, 2003; Helfat et al., 2007). As work on the resource-based view has progressed, it has become clear that the resource-based view can be extended to not only to the assets of an organization but also to its capabilities (Henderson & Cockburn, 1994; Eisenhardt & Martin, 2000).

The sequential development of a firm's resources and capabilities over time is a central issue in the strategic management literature. This sequential development of resources can make a firm's advantage inimitable (Barney, 1991). Competitors cannot simply buy these resources without acquiring the entire firm. As is true of resources, it is important to understand how dynamic capabilities evolve over time.

This paper builds a path as to how dynamic capabilities can be developed over time to provide for firm growth in turbulent environments. How firms grow over time is of interest to both scholars and practitioners. Exhibit 1 develops a path of dynamic capabilities which could lead to long-term growth. If firms are to grow successfully, the firm must have environmental scanning capabilities.

ENVIRONMENTAL SCANNING

Environmental scanning represents a dynamic capability of the firm (Eisenhardt & Martin, 2000). The environment is made up of factors external to the firm, which the firm has little control over. Sometimes these external factors exert great influence on the firm (Daft, Sormunen, & Parks, 1988). As such, environmental scanning is utilized to provide the firm a better picture of the environment in which it operates. Scanning is an important and valuable capability because it is a prerequisite for successful organization adaptation in dynamic markets (Garg, Walters, & Priem, 2003). At the industry level, firms must understand strategic industry factors and how they have evolved over time (Amit & Shoemaker, 1993).

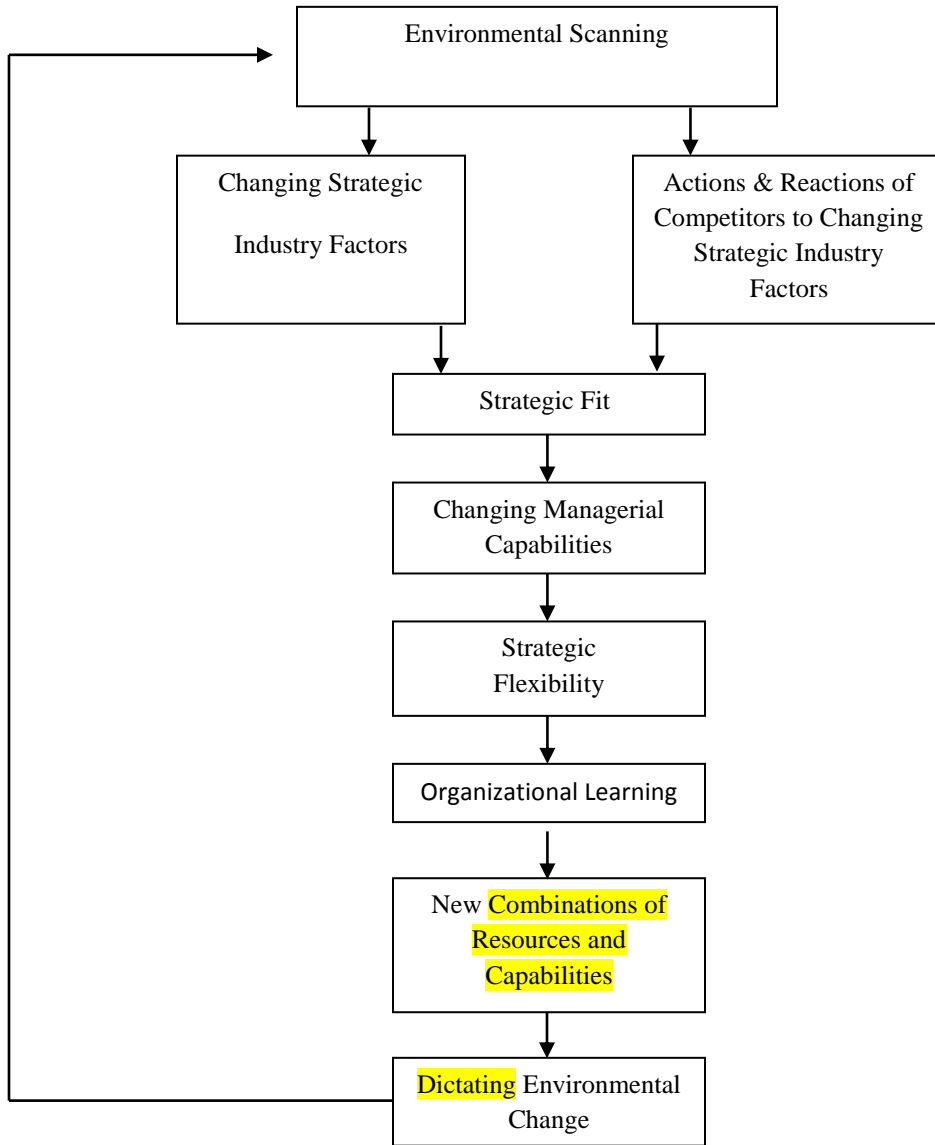
STRATEGIC INDUSTRY FACTORS

Strategic industry factors are determined at the market level through interactions between the firm and its customers, competitors, regulators, investment banks and other firm stakeholders (Amit & Schoemaker, 1993).

Strategic industry factors change over time as a result of new customer needs and the changes which competitors make in response to changing their competitive strategies. From a resource-based perspective, the firm identifies key strategic industry factors, and then develops resources and capabilities to address these factors as they change over time (Mahoney & Pandian, 1992; Teece, Rumelt, Dosi, & Winter, 1994).

EXHIBIT 1

A Dynamic Capability View of Firm Growth



ACTIONS AND REACTIONS OF COMPETITORS

Not only can scanning be utilized to identify changing strategic industry factors, but scanning can be utilized to determine the actions and reactions of competitors to a dynamic environment and to determine the strategic changes made by competitors. The top managers’ perceptions and interpretations of the actions of competitors and others in the environment can affect

decisions of the firm to change strategically (DiMaggio & Powell, 1983). What is needed is to develop an accurate assessment of how the environment has changed and to link the firm's strategy to these changed conditions better than competitors. As these firms adapt to changes in customer preferences over time, they achieve strategic fit.

STRATEGIC FIT

Fit is a strategic resource that has the capability of creating value (Day & Wensley, 1988; Powell, 1992; Hall, 1992, 1993). A dynamic "fit" is required between the environment and a firm's resources and capabilities over time.

As the firm continues to align its resource base with changing environment conditions, the firm will "lock in" certain trajectories and "lock out" other trajectories (Teece, Pisano, & Shuen, 1997). For firms to maintain strategic fit, the firm may require additional managerial resources.

CHANGING MANAGERIAL CAPABILITIES

From a resource-based perspective, firms would experience growth in related businesses because they would develop skills and resources to be competitively viable (Porter, 1987; Chang & Singh, 1999). Managers from related industries would provide the firm with new managerial capabilities. These new managerial resources could generate new ideas which may provide the firm a position of differentiation from rivals.

This changing knowledge of management creates new productive opportunities for firm growth (Chandler, 1992). For a firm to grow over time, the firm must have strategic flexibility.

STRATEGIC FLEXIBILITY

From a resource-based perspective, the firm continually replaces previously defined sources of competitive advantage with new sources of advantage to provide for continuous growth (Bogner & Thomas, 1994; Hamel & Heene, 1994). As such, the firm must develop a flexible resource base because these changes in key success factors may not be able to be predicted *ex ante*.

Reconfiguring the firm's resource base leads to an intertwining of capabilities to provide scale and scope economies which facilitate the grow process (Penrose, 1959; Chandler, 1990). Strategic flexibility allows the firm to reconfigure its resource base in the direction of needed change. As firms utilize strategy flexibility, organizational learning is achieved.

ORGANIZATIONAL LEARNING

Organizational learning serves as a dynamic capability (Teece, Pisano, & Shuen, 1997; Winter, 2000) that can continuously generate economic value through development of new ideas and renewal of existing capabilities (Kogut & Zander, 1992). Organizational learning guides the evolution of resources and capabilities (Eisenhardt & Martin, 2000; Zollo & Winter, 2002). These new resource combinations (e.g., of existing and new resources) collectively produce a new set of productive services that were previously unavailable to the firm (Penrose, 1959).

Opportunities for growth are maximized when these new learning opportunities are close to existing firm capabilities (Teece, Pisano, & Shuen, 1997). The integration of related managerial resources into a firm's existing resource base provides for organizational learning. This learning can provide opportunities to reconfigure the firm's resources.

NEW COMBINATIONS AND CAPABILITIES OF RESOURCES

The reconfiguration of a firm's resource base allows the firm to create new resource combinations. New combinations essentially create new services; in the process, they enhance the potential productivity of any given set of resources (Penrose, 1959; Moran & Ghoshal, 1999). It is not resources per se, but the ability to access, deploy, exchange, and combine them that lies at the heart of growth. As new combinations are capable of rendering new productive possibilities, they serve as the basis for the creation of new and better resources or new and better (i.e., more productive) ways of making resources (Penrose, 1959; Moran & Ghoshal, 1999). New resource combinations may give the firm the capability to dictate environmental change.

DICTATING ENVIRONMENTAL CHANGE

Creating new resource combinations may result in a firm-level capability to dictate environmental change (Penrose, 1995). As a firm sustains its strategic fit through unique strategic positions and creative resource combinations (Peteraf & Barney, 2003), the firm may be able to influence environmental conditions. Some firms are especially capable of identifying, interpreting and acting upon early signals from their internal and external environment and so position themselves to take advantage of these opportunities well in advance of others (Cockburn et al., 2000).

As the firm acquires additional managerial resources, these resources bring with them the potential for creating new sources of growth. When new mental models are combined with additional new mental models, opportunities for growth are created. As such, the firm may obtain a position which competitors may not be able to achieve. As such, the firm has the ability to differentiate itself from competition over time.

CONCLUSION

With the incorporation of new managerial resources, these resources can develop new capabilities for growth. These new managerial resources can "accelerate" firm growth because these resources provide new productive opportunities. With new managerial capabilities, firms may develop new ways of using resources to develop capabilities which could further generate additional firm growth.

As these new dynamic capabilities are created and deployed, they may provide unique opportunities for growth which may make it difficult for competitors to catch up. As competitors begin to catch up, the initial firm develops additional dynamic capabilities which distance a firm from its competitors to provide for additional firm growth.

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