



Integrating innovation and absorptive capacity into the place branding process

A capability-based perspective

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Abstract

Purpose – The purpose of this article is to integrate organizational capabilities into the place branding process to showcase how a lead destination marketing organization (DMO) can influence a customer-based brand equity outcome. Doing so highlights the strategic, relational nature of place branding. The authors focus specifically on first- and zero-order capabilities, integrating absorptive capacity (first-order) and an innovation capability (zero-order) into a place branding framework. We define an innovation capability within a place branding context and offer absorptive capacity as a mechanism through which DMO leaders can exploit external knowledge acquisition.

Design/methodology/approach – The paper presents a theoretical framework of the place branding process that integrates firm capabilities. A framework based on analyzing existing place branding models and integrating organizational capabilities, which find root in strategic management literature, was developed.

Findings – Findings indicate that existing frameworks address operational and customer capabilities in some manner yet largely ignore innovation capabilities. A definition of an innovation capability for place brand managers and scholars is offered, and offer absorptive capacity as means to integrate external knowledge into the DMO. Utilizing multiple levels of capabilities allows a firm to influence customer-based brand equity. Testable propositions based on the authors' framework are offered.

Practical implications – Managerial implications of integrating stakeholder capabilities into place branding include appreciating a culture of innovation within DMOs, learning from external stakeholders meaningfully and regularly and encouraging creative thinking that can produce new processes, policies or services.

Originality/value – By integrating organizational capabilities, attention is drawn to internal aspects of the place branding process the place can control directly. Capabilities dictate how an organization sees itself; learns from its stakeholders; and then integrates that knowledge into organizational, stakeholder and innovation capabilities. Therefore, capabilities are inherently internal mechanisms through which a DMO can influence place brand outcomes, which are understood here as brand equity elements.

Keywords Place branding, Stakeholder engagement, Brand equity, Organizational capabilities

Paper type Conceptual paper



Places globally are implementing branding strategies to gain competitive advantage (Anholt, 2005; de Chernatony, 2010) in a hyper-marketized environment (Baudrillard, 1998). Places are undertaking increasingly sophisticated branding and marketing strategies to, at the core, gain and maintain economic, social and political capital over like locations. The study of place branding has changed since its origin within product branding, urban policy and marketing literature (Hankinson, 2010), and although practical applications of place promotion are not new (Kavaratzis and Ashworth, 2005), scholarly attention has increased since the 1970s, thereby supporting place branding as its own conscious school of thought and practice (Hankinson, 2010).

When addressing place branding, scholars and practitioners often look for guidance from corporate actors that engage regularly in promotion (Hankinson, 2010; Kavaratzis, 2004). Corporations continually refine and develop their brands to achieve not only competitive advantage but also brand equity (Keller, 1993). Put simply, companies want consumers to subconsciously select their product lines over competitors (de Chernatony, 2010), and because of this, brands have evolved into cognitive shorthand decision-makers whether in the public, private or non-profit sectors. For organizations of any type, creating and maintaining this brand equity over time is difficult (Keller, 1993). Organizations use various internal resources to develop and espouse the desired brand, and while each organization may use a range of resource combinations, the resources overall are generally characterized into capabilities.

We define capabilities, in line with Winter (2000), as high-level routines that provide leaders with a set of decision options for producing output using available resources. Capability theory suggests that three levels of capabilities exist within the organization: second-, first- and zero-order capabilities (Collis, 1994; Winter, 2000). The authors suggest the various levels of capabilities are related in a hierarchical manner and work together to influence the outcome of the organization. For the purposes of this study, we focus on the first- and zero-order capabilities of the place branding process. By understanding place branding through a capabilities lens, practitioners can leverage existing assets and engage external stakeholders in a strategic, ongoing manner, and researchers will have an enhanced understanding of how organizations influence brand equity through the place branding process.

First-order capabilities allow the organization, in this case, the destination marketing organization (DMO), to learn from its stakeholders. The manner in which the organization acquires, assimilates, transforms and exploits new external knowledge is its absorptive capacity (Cohen and Levinthal, 1990; Zahra and George, 2002). Absorptive capacity, a dynamic, first-order capability, highlights the organization's ability to learn from, and adapt to, a changing environment and is positively related to the ability of the organization to innovate and alter other lower-level capabilities (Weerawardena *et al.*, 2006). Therefore, one purpose of this article is to examine how absorptive capacity is related to zero-order capabilities in the place branding process.

Using a capability lens, we examine place branding literature and find that two types of zero-order capabilities are generally present: operational capabilities and stakeholder capabilities. Literature from strategic management suggests that innovation capabilities, a third type of zero-order capability, are important to the organization's

success (Daspit, 2012); however, we find minimal acknowledgement of innovation capabilities in existing place branding models. Often, innovation seems to be tangential to these conceptualizations and not explicitly integrated into guiding models. Innovation within place branding is necessary (Go and Govers, 2010; Zach, 2012), as locales are competing for resources locally and globally to gain competitive advantage (Anholt, 2007). Therefore, another purpose of this article is to introduce the role of the innovation capability into place branding.

As the field of place branding continues to grow, additional theoretical frameworks can shed light on various aspects of the process (Hanna and Rowley, 2011; Kavaratzis and Hatch, 2013). Overall, our theoretical contribution to the scholarship and practice of place branding involves:

- integrating a capabilities-based perspective to understand the place branding process;
- incorporating absorptive capacity into the place branding process; and
- introducing the innovation capability into place branding.

Given the relationship between innovation and absorptive capacity, we narrow our focus to these first- and zero-order capability levels. This perspective is valuable to place branding managers, as using these capabilities gives DMO leaders the tools to engage internal and external stakeholders to deliver new or improved practices and services.

The paper begins with brief literature reviews of place branding and firm capabilities, focusing on first- and zero-order capabilities. The next section introduces absorptive capacity as a means by which place brand managers engage with and learn from external stakeholders. We then showcase zero-order capabilities in place branding, specifically highlighting the missing innovation capability and offering a workable definition for scholarship and practice. Last, we offer theoretical and managerial implications, as well as additional avenues for future research.

Literature review

Place branding

Given the vastness of the place branding literature and the breadth of its applications, many synonyms exist for the practice: city branding, city marketing, place promotion, destination marketing, tourism marketing, etc. We use the term “place branding” as a broader conceptualization inclusive of places not inherently thought of as tourist destinations (Hanna and Rowley, 2011). Moreover, place branding encompasses economic and sociopolitical aspects of the place (Anholt, 2004; Govers and Go, 2009) rather than a focus on one or two tourist destinations. Robust place branding campaigns should involve relevant stakeholders engaged in a bottom-up process to ensure the plan is related to important place elements, both physical and affective (Govers and Go, 2009; Kavaratzis and Hatch, 2013; Kemp *et al.*, 2012).

Extending corporate branding practices into the public sector stems from Kotler and Levy’s (1969) seminal article that puts forth the idea that services are marketed similarly to products. Corporate branding literature yields parallels for place marketers: relationship building, multiple stakeholder groups, complexity, social responsibility and long-term development (Ashworth and Kavaratzis, 2007),

although the alignment between the public and private sectors is far from exact (Anholt, 2007; Kavaratzis and Hatch, 2013). Corporate branding normally falls to one organization, which creates the brand internally then promotes it externally (Hankinson, 2007). As the corporate climate changed in the 1980s to that of a more competitive enterprise, businesses emphasized branding to set apart their products and corporations from the competition (Hankinson, 2007).

In terms of place branding, usually, although not always, there is a lead destination marketing organization (Govers and Go, 2009). Traditionally, DMOs “may cover a country, a state/province, region or a specific city or town” (Blain *et al.*, 2005, p. 328). Often, many of these agencies engage in partnerships with other organizations – such as governmental agencies, local businesses and non-profit groups – to create an overall place brand ethos (Zach, 2012). Place branding scholars advocate for a unified approach to branding strategy among relevant stakeholders (Anholt, 2007), and DMOs often are that facilitating resource (Zach, 2012). A concerted place branding effort “demands a treatment of the place brand as the whole entity of the place-products to achieve consistency in the messaging sent” (Kavaratzis and Ashworth, 2005, p. 512). Without this integrated approach, the brand strategy risks failure when audiences receive competing messages (Anholt, 2007). Achieving such unity, however, often remains difficult if not elusive (Anholt, 2007; Szondi, 2011).

Depending upon the lead DMO, place branding strategies will be different. For example, a city as the lead DMO focuses on varied stakeholders including current residents, future residents, tourists, small business owners and large corporations, among others. A convention and visitors bureau focuses primarily on the tourism and business sectors, while a cultural institute promotes the country’s cultural and educational offerings (Anholt, 2007). A national-level organization as the chief DMO focuses on the country as a whole, as well as regions within that attract specific types of people, such as residents, tourists, businesses, etc. (Govers and Go, 2009). No matter its target audience, the DMO exercises its internal capabilities to attract stakeholders for both short- and long-term relationships, thus using elements that set the place apart from others.

In sum, place branding is understood as the coordinated, systematic, strategic efforts of a place’s stakeholders, usually led by a DMO, to develop, launch, communicate, maintain and adapt a brand position to gain competitive advantage and brand equity for internal and external users (Anholt, 2004; Govers and Go, 2009; Hanna and Rowley, 2011; Kavaratzis, 2004). This definition adopts elements found within the literature and captures the dynamism of the process (Balakrishnan, 2009; Hanna and Rowley, 2011; Kavaratzis, 2004), as well as the rational and emotional bonds (Morrison and Crane, 2007) that long-term, strategic place branding programs forge with internal and external stakeholders.

Organizational capabilities

The basis of our theoretical contribution to the place branding literature comes from strategic management theory. While numerous frameworks have the potential to offer insights, a capability-based approach offers a conceptualization of how an organization creates value in a changing environment. Within organizations, capabilities become routines based on an ability to adapt, integrate and reconfigure resources to gain competitive advantage (Day, 1994). Therefore, given the multiple

levels of capabilities in the organization, and their ability to work together to create value for the organization, we use the capability-based perspective to better understand the place branding process. Further, by considering the underlying capabilities, the lead DMO can more effectively influence branding processes by meaningfully integrating internal and external knowledge from relevant sources to grow and alter the overall place ethos. This integration of knowledge from internal and external stakeholders allows the DMO to deploy its capabilities:

[...] to mobilize value-adding partnerships and networks among public and private actors to build a coherent product offering [...] communicated in the right way to guarantee the emotion-laden place experience that consumers are seeking [...] (Govers and Go, 2009, p. 17).

Defining and assessing organizational capabilities. The capability perspective is used to argue that DMO leaders can achieve desired outcomes via proper management of internal capabilities to obtain an enhanced brand equity. Most simply, capabilities enable the organization to transform an input into an output. Capabilities are created over time through long-term, continuous learning, and given that each organization has unique experiences, capabilities are idiosyncratic (Kusunoki *et al.*, 1998). Therefore, the organization's unique capabilities are the means through which a competitive advantage is achieved, and in the context of place branding, it is how brand equity is influenced by focusing on and utilizing a place's unique attributes to attract and develop long-term, behavioral relationships with stakeholders (Govers, 2011; Govers and Go, 2009).

The organization does not consist of only one capability. As noted, researchers suggest that a hierarchy of capabilities exist within the organization: second-, first- and zero-order capabilities (Collis, 1994; Winter, 2003). At the highest level are second-order capabilities, which consist of the strategies, thoughts and insights of top leaders in the organization (Cernas Ortiz and D'Souza, 2010). First-order capabilities allow the firm to acquire new knowledge and integrate changes that alter lower-level capabilities in dynamic environments (Winter, 2003). The absorptive capacity of the organization is one type of first-order capability that conceptualizes how the firm acquires and integrates new knowledge. At the lowest level, zero-order capabilities create the most immediate value for the organization. Zero-order capabilities are where the "day-to-day" value is created in the organization (Winter, 2003). In business-related management studies, zero-order capabilities consist of operational, customer and innovation capabilities (Daspit, 2012). In this study, we focus on first- and zero-order capabilities and how DMO leaders can exploit these to influence brand equity. In the following sections, we apply the capability-based perspective to describe the place branding process.

Integrating absorptive capacity into the place branding process

As depicted in Figure 1, our framework begins with first-order (dynamic) capabilities. Although many dynamic capabilities exist, our focus here is on introducing absorptive capacity to place branding scholarship and practice. Zero-order capabilities, the second portion of our framework, allow the organization to create "day-to-day" value, while first-order capabilities support the reconfiguration of zero-order capabilities. At the individual level, an employee may have the capability to perform a routine task; however, if the individual wishes to

change the capability (to perform a new task or perform the task in a new way), then a retooling of the capability must occur.

The same logic applies to organizations. A DMO, for example, may have the perfect alignment of zero-order capabilities for creating a brand centered on, for example, environmental sustainability. Yet, if consumer preferences dramatically change, the organization would seek to reconfigure its capabilities to adapt to new stakeholder preferences. The ability to change zero-order capabilities results from a first-order (dynamic) capability (Teece *et al.*, 1997). Absorptive capacity refines and makes explicit the learning elements present in Hankinson's (2004) relational involvement and Hanna and Rowley's (2011) stakeholder engagement, and it is also noted that absorptive capacity creates changes in the organization by influencing lower-level capabilities. A graphical conceptualization of the theoretical framework proposed is presented in Figure 1.

When internal knowledge structures are not sufficient, the organization may seek new knowledge from its external network. The manner in which the organization acquires, assimilates, transforms and exploits new, external knowledge is the absorptive capacity of the organization (Cohen and Levinthal, 1990; Zahra and George, 2002). Merging absorptive capacity within a capabilities framework is a novel approach to understanding the throughputs of the organization: the *how* of knowledge creation and transfer (Daspit, 2012).

For DMOs with an established branding strategy, the organization's absorptive capacity is leveraged to obtain knowledge for implementing a new, more effective process, for example. Similarly, if the DMO has traditionally maintained relationships with a small number of stakeholders, the organization may use external knowledge (via its absorptive capacity) to expand the stakeholder capability and build networks and relationships (Zach, 2012). Indeed, knowledge acquisition, integration and reconfiguration have been found to directly affect an organization's innovation capability (Verona and Ravasi, 2003), the focus of the next section.

Organizations with a refined absorptive capacity are better able to adapt to changing contexts (Garcia and Calantone, 2002; Zach, 2012). For example, if a DMO desires to change an existing place image, the organization may acquire information about successful approaches taken by other cities, and by leveraging its absorptive capacity, new knowledge is integrated and used to make strategic internal changes.

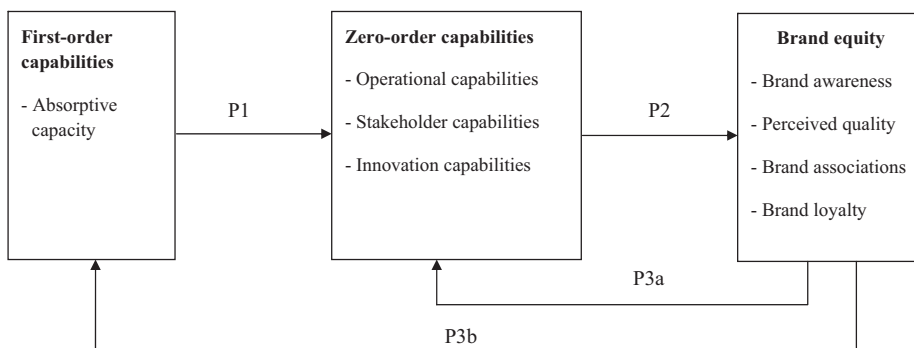


Figure 1.
Capabilities perspective of
the place branding
process

In other words, the place will use its absorptive capacity to alter its lower-level (zero-order) capabilities to create value and change the desired outcomes. To illustrate:

[...] the innovation process exposes individuals and organisations involved in to learning and capability creation, and gives rise to an iterative process that leads to new innovations. This, in turn, gives rise to higher levels of capabilities (Forsman, 2009, p. 503).

As an example, Roanoke, Virginia details its brand story, indicating extensive community engagement practices and brand testing (City of Roanoke, 2013). Because of the ability to acquire and integrate external knowledge, Roanoke place brand managers were able to successfully change the city's overall brand by meaningfully integrating external knowledge. With a refined absorptive capacity, the DMO is able to alter its zero-order (lower-level) capabilities for purposes of enhancing outcomes such as brand equity. Therefore, we offer the following proposition:

P1. Absorptive capacity influences zero-order capabilities.

Integrating zero-order capabilities into the place branding process

Zero-order capabilities

According to literature in strategic management, zero-order capabilities consist of operational, customer and innovation capabilities. Operational capabilities identify how an organization's employees and units work together to properly maximize organizational resources and implement practices to achieve competitive advantage (Daspit, 2012). It is through operational capabilities that an organization implements the changes to create value, and Fortune and Mitchell (2012) describe operational capabilities as "functional capabilities" given that the functional work of the organization is conceptualized as an operation.

Customer capabilities detail an organization's ability to meet customer needs and, in turn, how those customers perceive the organization (Daspit, 2012). This is an organization's aptitude to interact with its stakeholders and respond in a meaningful manner. Customer capabilities are the means through which organization – public relationships and brand equity are built or destroyed. To enhance applicability, we refer to customer capabilities as "stakeholder capabilities" given that places do not traditionally reference constituents as "customers". (We acknowledge that if a city is the lead DMO and uses a business-based form of governance, such as New Public Management or Total Quality Management, then citizens might be referred to as customers. Customer language, however, is not traditionally used within the public sector [Box, 1999] so we use "stakeholder capabilities" in our framework.)

Finally, innovation capabilities are an organization's ability to create new products or services (Crossan *et al.*, 2009; Daspit, 2012). Innovation capabilities work in conjunction with operational and customer capabilities to develop new, innovative output that the stakeholder perceives as unique (Day, 1994; Treacy and Wiersema, 1993). In the private sector, innovative capabilities are used to achieve performance levels above competitors to ultimately achieve a sustained competitive advantage.

To showcase the role of capabilities in place branding, Middleton (2011, p. 15, emphasis added) notes:

To succeed, the city administration must complete a strategic examination of trends in the social and economic environments; determine where the opportunities, skills, resources and *capabilities* lie within the city; what core values, attitudes, behaviors and characteristics have enabled the city to achieve these; and then figure out what combination of these provides a differentiated appeal to its various target groups. Based on this examination, an integrated brand strategy and execution must be developed [...] Administrators can then look at this and identify the best blends of those skills, resources, and *capabilities* that can be expressed as relevant benefits to each of the targeted groups.

Assessing the zero-order capabilities of the place branding process

To evaluate the presence of zero-order capabilities in the place branding literature, several existing models were analyzed utilizing a capabilities perspective. The logic of Hanna and Rowley (2011) was followed, and popular, oft-cited models of destination branding were analyzed. The examined models include destination branding (Balakrishnan, 2009; Cai, 2002), relational branding (Hankinson, 2004), city brand communication (Kavaratzis, 2004), brand management (Gaggiotti *et al.*, 2008) and strategic place brand management (Hanna and Rowley, 2011). Each explores different elements and outcomes of place branding with a specific focus on target audience. Cai (2002) and Balakrishnan (2009), for example, highlight brand equity in destination branding, while Kavaratzis (2004) emphasizes communicative aspects of place branding that involve primary, secondary and tertiary elements. All models appreciate the bottom-up, dynamic, strategic aspects of place branding (Hanna and Rowley, 2011). A summary of the findings is offered in Table I.

Operational capabilities

DMO leaders develop operational capabilities to support cooperation among units and properly configure operational resources. Such capabilities appear in analyzed models as, for example, primary communications (Kavaratzis, 2004), infrastructure (Hankinson, 2004; Hanna and Rowley, 2011) and attributes (Cai, 2002). According to Kavaratzis (2004), infrastructure and landscape represent facilities and environmental planning, and both give distinct character to the place and embody not only physical but affective aspects (Preziosi, 1979; Rapaport, 1990; Zavattaro, 2010). Hanna and Rowley (2011)

Place branding model	Operational capability	Stakeholder capability
Cai (2002)	Attributes component	Marketing programs; marketing communication; and affective and attitudes components
Hankinson (2004)	Brand infrastructure relationships; primary service relationships	Customer relationships; media relationships
Kavaratzis (2004)	Primary communication	Secondary communication
Gaggiotti <i>et al.</i> (2008)	Place; processes; people	People; partners
Balakrishnan (2009)	Vision; brand components; product portfolio	Stakeholder management; communication strategy
Hanna and Rowley (2011)	Infrastructure	Stakeholder engagement

Table I.
Capability-based
classification scheme of
branding
conceptualizations

make a similar argument, noting that infrastructure and landscape strategies are functional attributes of the place that influence experiential attributes. For [Hankinson \(2004\)](#), infrastructural elements embody access services, hygiene facilities (baby changing stations, open spaces) and brandscape, the ambience and feeling of the place. Essentially, the operational capabilities in [Table I](#) draw attention to the functional aspects of the branding process that the place agency can control directly but are not often thought about as overt communicative elements ([Kavaratzis, 2004](#)).

Stakeholder capabilities

Stakeholder capabilities, found within place branding models analyzed, focus attention on the place's ability and willingness to meaningfully engage others within the branding process ([Hanna and Rowley, 2011](#); [Merrilees et al., 2012](#)). Stakeholder capabilities consist of direct traditional public relations and marketing activities (e.g. media relations) ([Kavaratzis, 2004](#)), as well as direct stakeholder management programs addressed in models from [Hanna and Rowley \(2011\)](#), [Balakrishnan \(2009\)](#) and [Cai \(2002\)](#). The inclusion of a stakeholder capability speaks to the importance of developing long-term, strategic, often emotive, relationships with stakeholders. It also is the alignment of vision and culture; it is people internally living the brand to promote it externally.

Introducing innovation capabilities

During examination of zero-order capabilities in place branding, the absence of references to innovation capabilities of DMOs was noticeable. It is here that we contribute to the place branding literature by expressly including, within a holistic framework, a space for an innovation capability. One problem with innovation as a construct is that it often goes undefined ([Garcia and Calantone, 2002](#)). This gap presents place brand scholars with an avenue for future research and practitioners with an area of focus to create a culture friendly to innovation. Innovation can indeed take many forms, but two common areas are product and process, usually mediated by technological developments or investments into research and development as noted in strategic management literature ([Crossan et al., 2009](#); [Kay, 1996](#)). [Garcia and Calantone \(2002\)](#) differentiate levels of innovation (radically, really new, incremental), micro- vs macro-level innovation levels and the firm area the innovation impacts most closely. Each requires the exploitation of different organizational capabilities. For our purposes, we couple [Zach's \(2012\)](#) innovation framework with [Gold's \(2006\)](#) to offer a definition of an innovation capability suitable for place branding.

Defining innovation capabilities in place branding. [Zach \(2012\)](#) proposes a model of innovation success that identifies antecedents of innovation as innovation collaboration and setting. After surveying a variety of American DMOs, [Zach](#) found that the organizations innovate and rely heavily on partners to do so. For example, he found that 68.5 per cent of surveyed DMOs:

[...] introduced at least one new tourism service within the past three years. This is quite remarkable for DMOs since they are facilitators of tourism rather than direct providers of tourism services (p. 422).

Moreover, top managers of the DMO provide the catalyst for innovation, especially when done with an eye toward long-term strategic goals rather than mirroring existing organizations; thus, innovation is internally-driven by the DMO.

We couple this finding with Gold's (2006, p. 222) intellectual architecture, "the set of people, institutions, rules, and practices that, when it works, leads to the creation of knowledge, culture, and technology in that place". Intellectual architecture ideally fosters creativity and is part of a bottom-up, holistic approach to place branding. Place brand managers are charged with fostering a climate that appreciates the place's intellectual architecture, which, in turn, brings in the creative class (Florida, 2002) that cultivates innovation. Managing intellectual architecture is a multi-layered process that involves, for example, capitalizing upon internal cultural attributes, infrastructure improvements and fiscal rules. These elements are complementary to Zach's (2012) innovation setting and collaboration elements, which a DMO actively manages to produce a culture of innovation. The DMO can utilize existing intellectual architecture resources to develop product, process, policy or service innovations. Indeed, the blending of innovation and intellectual architecture already finds grounding within place branding literature (Fetscherin and Marmier, 2010; Pamment, 2011; Trueman *et al.*, 2008). Therefore, given that DMO managers utilize internal resources to create new or improve upon current resources, we offer the following definition of the innovation capability:

Innovation capability is the organization's meaningful and systematic use of internal knowledge and resources to deliver new or improved processes, practices, and/or services.

Underlying this definition are several important points. First, organizations exploiting an innovation capability regularly and meaningfully reallocate resources to researching, designing and implementing new processes, practices or services. This shows the strategic nature of innovation rather than simple imitation. Second, DMOs using this capability recognize the power of their network (Zach, 2012) and use innovative governance strategies that foster "the attainment of balanced relationships among the various enterprises and organizations on the one hand, and consumers as equally important participants on the other" (Halemane *et al.*, 2010, p. 172). Adopting innovative governance practices means fostering a culture that appreciates creative, critical and even utopian thinking. Finally, the organization will put resources toward developing and implementing policies that foster an internal culture of innovation, as well as welcome the external creative class, thus taking advantage of the place's intellectual architecture (Gold, 2006).

Examples of innovative place branding practices are found within the scholarly literature. For example, Fetscherin and Marmier (2010) examined Presence Switzerland, a national-level DMO that coordinates public – private partnerships not only in the country but also globally. The authors focused on one of those partnerships: *swissnex*, which are science and technology hubs located throughout the world that promote Swiss scientists, higher education, research and innovation. Examining the Boston *swissnex* outpost, the authors found that the innovative approach used to co-brand was an effective means to engage the community, although there were challenges with over-branding the "Swissness" of the organization (Fetscherin and Marmier, 2010, p. 65).

Additionally, Govers and Go (2009) detailed the innovations Dubai undertook in revamping its place image. These innovations, including public-private partnerships, technological advances and commitment to grandeur, led to increased knowledge of, and experience with, the place. Although the authors also note problems with such rapid expansion and efforts to overcome a still-lingering negative image of the Middle East,

lessons can be learned from an innovation capabilities perspective. Indeed, the main case example throughout their book revolves around Dubai's rise to a global phenomenon via its rapid expansion, which was created through refined first- and zero-order capabilities.

Zero-order capabilities and brand equity

The ultimate goal of any organization, public, private or non-profit is to have a sustained competitive advantage. One common measure of success for brands is customer-based brand equity (Keller, 1993), understood as "an asset that can be the basis of competitive advantage and long-term profitability" (Aaker and Joachimsthaler, 2000, p. 9). Brand equity concerns stakeholder response to the place's marketing efforts regarding items unique to the brand (Keller, 1993) and often encompasses financial and strategic aspects to elevate the brand above available alternatives. In other words, consumers decide, for example, how much more they are willing to pay for a branded product rather than a generic alternative.

Brand equity involves many dimensions, but we adopt those from Buil *et al.* (2013): brand awareness, perceived quality, brand associations and brand loyalty. Essentially, brand equity, similar to other elements of the place branding process, is relational and ongoing and involves awareness, image and reputation (Govers, 2011). For places, achieving brand equity becomes important as competition increases, although measuring equity and success often proves difficult (Zenker, 2011). By examining the internal organizational workings, we assess the means through which DMO leaders influence these brand equity outcomes (Keller, 1993). The capabilities-based perspective offers an organizing framework for examining the internal resources of the organization and how the various levels of capabilities shape the brand equity outcome.

An explicit innovation capability – when coupled with operational and stakeholder capabilities – has an integral role in the creation of brand equity for the DMO. By incorporating an innovation capability into the conceptualization of the place branding process, we acknowledge the value in innovative outcomes for places (Zach, 2012). For example, even though places may have similar strategies for branding, each place requires the strategy to be customized to fit the idiosyncrasies of the location (Govers and Go, 2009). The development and customization of such branding strategies requires an innovation capability. Without implementation, branding practices (regardless of quality) do not create value for the organization. Additionally, the organization must use its stakeholder capability to ensure its alignment with external parties. Without alignment offered from the stakeholder capability, both the innovation and operational capabilities are less valuable. Complementarity among all capabilities exists to create a valuable brand outcome for the organization. When zero-order capabilities are properly deployed, the brand equity of the organization is positively enhanced.

To showcase how the various capabilities work together, we can look toward Sweden's House of Sweden (HoS) in Washington, D.C. (Pamment, 2011). The HoS is the embassy for the country in the USA, and the building's open design is a tangible metaphor for the country's warmth and transparency. Essentially, the building itself was imagined as a tool for public diplomacy (Pamment, 2011), thus embodying an innovation that embodies both rational and emotional aspects of place branding. Similar to the Swiss case, place brand managers and diplomats at HoS hosted public events,

engaged stakeholders and promoted Swedish assets. Moreover, all branding material from partner agencies matched official DMO language, thus showing a coordinate message. "Innovation may also be seen in the strategy of connecting spaces that are normally separate from one another, and in *facilitating* new communicative configurations" (Pamment, 2011, p. 133). This effort from the HoS appropriately demonstrates how the customer, innovation and operations capability are used complementarily to enhance brand equity. Given that the alignment of zero-order capabilities enhances brand equity, we offer the following proposition:

P2. Zero-order capabilities influence brand equity.

Place brand managers need mechanisms to understand how their efforts achieve desired ends. Therefore, brand evaluation becomes necessary. Several assessment tools exist for this purpose, including financial value and equity (de Chernatony, 2010). In this article, brand equity is understood as the outcome. For brand evaluation to work well, assessments must be conducted (de Chernatony, 2010) to understand the current status of brand equity. Ideally, the internal capabilities of the organization are in alignment and configured to produce the optimum level of output (brand equity). If assessments of brand equity status indicate the outcome is not at a desired level, then the appropriate DMO leaders are responsible for making internal changes to alter the result (de Chernatony, 2010). To do so, alterations to first- and zero-order capabilities are made to better configure the capabilities and achieve a more favorable outcome. We acknowledge the place branding process is inherently dynamic, and by evaluation of the brand equity outcome, future changes to first- and zero-order capabilities will be made. Therefore, we propose that:

P3a. Brand equity influences zero-order capabilities.

P3b. Brand equity influences absorptive capacity.

Discussion and conclusion

In 2004, Hankinson stated that "[...] the need for the development and refinement of a comprehensive model of the place brand has never been greater" (p. 118). This statement holds true still today, and our reconceptualized framework offers a comprehensive perspective of the place branding process valuable to researchers and managers alike. In this article, we have sought to further the theoretical development of place branding by examining the process through a capabilities-based lens. To do this, we incorporated the work of Collis (1994), Winter (2000, 2003) and others that recognizes a hierarchy of capabilities: namely, second-, first- and zero-order. We narrowed our discussion to first- and zero-order capabilities to closely examine the relationships among each and the influence on brand equity.

A second contribution was to introduce absorptive capacity, a first-order (dynamic) capability, as a mechanism for DMOs to acquire, integrate and exploit knowledge. DMOs exercising and exploiting these capabilities to redesign, refine or introduce new processes, practices and/or services are likely to increase organizational outcomes, which are understood here as brand equity. The third contribution was to introduce the innovation capability into the place branding process. Strategic management literature suggests zero-order capabilities consist of operational, customer (stakeholder) and innovation capabilities, and through our

analysis of existing place branding models, most addressed operational and stakeholder capabilities in some fashion (Table I), yet discussions of innovation capabilities were not well-integrated in extant literature. Therefore, we filled the identified gap by offering a definition of an innovation capability specific to a place branding context and making a space for innovation expressly within a place branding framework rather than as a tangential element.

Theoretical implications

By applying a capabilities-based approach to the place branding process, new insights were discovered that were not clearly identifiable in previous research. For example, by further specifying the components of zero-order capabilities, we identified that the majority of previously cited components of the place branding process were classified as either operational capabilities or stakeholder capabilities. This finding suggests that recognition and integration of an innovation capability is limited in prior research, and innovation is an area widely available for future research. For example, given that the innovation capability is a value-adding component of zero-order capabilities, then how do DMO leaders create a culture of innovation that may yield an enhanced brand equity or other measure of success? Literature from entrepreneurship and innovation management (Johns and Mattson, 2005) may be useful to further understand whether innovation-driven cultures have similar outcomes in public organizations as in private firms.

We acknowledge with our framework that place branding is not static (Anholt, 2007; Balakrishnan, 2009; Hanna and Rowley, 2011). Rather, it is a dynamic process that evolves with new projects, policies and refinements created by leveraging the innovation capability. Our addition of an innovation capability gives place brand managers license to try out new marketing tactics, community visioning process, landscape design, communication tools, etc., and it provides researchers a conceptualization that more comprehensively acknowledges the components of the branding process (Barone and Jewell, 2013).

Furthermore, we acknowledge the broad influence of absorptive capacity on zero-order capabilities. Previous empirical studies support a positive relationship between absorptive capacity and the innovation capability of private firms (Lichtenthaler & Lichtenthaler 2009), yet understanding the precise nature of *how* absorptive capacity influences each component of zero-order capabilities remains to be discovered. We suggest that future researchers examine the influence of absorptive capacity of DMOs to obtain a more precise understanding of the influence on each capability.

Finally, Sun and Anderson (2010) propose that various leadership styles have divergent influences on absorptive capacity. Although the current discussion was limited to first- and zero-order capabilities, we look forward to future researchers who expand on Sun and Anderson's (2010) work to better understand how higher-level (second-order capabilities) influences of top leaders affect organizational-level factors such as first-order capabilities (e.g. absorptive capacity). Through a more comprehensive analysis, we will better understand effects on brand equity and other organizational outcome measures.

Managerial implications

Integrating capabilities into the place branding process has several managerial implications, including opportunities to create a culture of innovation, learn from stakeholder engagement and exploit innovative practices. An innovation capability does not work well if organizations lack a culture that supports “out-the-box” thinking (Forsman, 2009; Go and Govers, 2010; Johns and Mattson, 2005; Verona and Ravasi, 2003). DMO managers are encouraged to model this behavior for employees and encourage idea creation. This is an exercise in critical imagination that changes the status quo.

While a grassroots approach to innovation has benefits, an organization should also be open to continuously learning from its stakeholders to better respond to environmental changes. We introduced absorptive capacity into the place branding process as a mechanism by which organizations take in new, external knowledge. Most scholarship and implementation recommendations regarding innovation involve a learning component (Forsman, 2009; Zach, 2012), and when internal (zero-order) capabilities are not sufficient to satisfy the external demands of stakeholders (or even the internal demands of visionary leaders), the organization may leverage its absorptive capacity (first-order capability) to acquire, integrate and exploit new knowledge, which thereby enhances its capabilities. With revised capabilities, the DMO is better able to enhance its brand equity by responding to stakeholder demands based on utilizing its internal and external resources.

Limitations

Although the contribution of our framework has potential in advancing the literature, the framework is not without limitations. First, we have intentionally over-simplified the framework. We acknowledge that numerous first-order capabilities exist, which have the potential to influence zero-order capabilities. For the purpose of this discussion, we used absorptive capacity as an example of how one type of first-order capability influences zero-order capabilities. Future studies are encouraged to further develop the scope of first-order capabilities present in DMOs, and examine the influence of each first-order on zero-order capabilities. We have, however, taken one step in that direction, which we hope will support further development of this research trajectory. Additionally, we acknowledged the dynamic nature of the framework by proposing recursive relationships between brand equity and first- and zero-order capabilities. Other recursive relationships (e.g. the influence of zero- on first-order capabilities) are likely to also exist, but in an effort to simplify the conceptual model, such relationships were excluded from this analysis.

Next, we did not include elements over which the DMO and related stakeholders traditionally have little control. For example, we recognize the importance of traditional and electronic word-of-mouth communication in promoting a place brand. Both are important as potential tourists, residents, business owners and, more often, make Internet searches a first and top priority. Oftentimes, individuals check the comments section to see how other users responded to the product or service (Govers and Go, 2009; Hennig-Thurau *et al.*, 2004). Normally, the organization cannot directly control these messages, but web-based communications tools allow for a relative level of anonymity and thus manipulation by organizational employees. Future research should study not

only the effects of the word-of-mouth responses but how the organization addresses that feedback.

Finally, the relationships among stakeholder, operational and innovation capabilities within the place branding process are not explicitly addressed. Instead, our focus here was on an innovation capability to fill a gap found within the existing place branding literature. Future research can evaluate how DMO managers, and related organizational stakeholders, address these capabilities. How, for example, does utilizing a customer capability directly influence the place's success? Do relationships exist among the components of zero-order capabilities that allow researchers to understand exactly how value is created through a specified combination of capabilities? Even though numerous questions remain to be answered, the potential for the development of future research with place branding remains great.

Conclusion

Given the status of place branding literature, additional theoretical frameworks are vital to understanding the nuances of the branding process (Hanna and Rowley, 2011; Kavaratzis and Hatch, 2013). The capability-based perspective offers insight into the place branding process by highlighting the internal capabilities that allow DMOs to successfully influence brand equity. The theoretical conceptualization offered is a framework of how capabilities exist in the place branding process. We encourage researchers to continue this line of research through additional theoretical refinement and empirical assessment to contribute to a more informed understanding of how DMOs are able to better influence the brand equity through the place branding process.

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Further reading

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