



## Capabilities, innovation and competitive advantage

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### ABSTRACT

This special issue was aimed at advancing the literature examining the role of capabilities in innovation-based competitive strategy. Whilst the innovation literature has over the years moved away from its 'product innovation' pre-occupation to capture the role of other forms of innovation in value creation, the capability view has progressed from its 'rigid' or 'static' view to a 'dynamic' view in an effort to capture market dynamism. Despite the recent theoretical advancements the dynamic capability view still lacks a strong empirical base. Contributors to the capability literature over the recent years have adopted multiple research methods to capture capabilities that include cross-sectional designs, case studies and longitudinal studies. Within this backdrop, the articles that were selected for this special issue covers both conceptual and empirical approaches to examine the relationship between capabilities and technical and non-technical innovations and performance outcomes. This essay provides a future research agenda to advance this promising research field. It highlights the need for clearer conceptualizations and development of measures of dynamic capabilities, environmental conditions that underpin the development of dynamic capabilities within the firm and research into the much debated relationship between dynamic capabilities and competitive advantage and organizational performance.

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### 1. Introduction

*Industrial Marketing Management* with its combined practitioner and academician interest has provided us an opportunity to assemble a suite of papers on the topic 'Capabilities, innovation and competitive advantage'.

During the last decade, the capability-based view of competitive strategy which evolved within the broader Resource Based View of competitive strategy has emerged as a theoretical framework to explain heterogeneity in firm performance. In the early 1990s the need to distinguish capabilities from resources to provide a better explanation of >value creation paved the way for the capability-based view of competitive strategy. However the limitations of a 'static' or 'rigid' view of capabilities were soon the center of debate with the contributors arguing that the marketing opportunities that can be exploited will be limited by the assortment of capabilities at a firm's disposal. In addition, questions began to be raised as to the value of capabilities under rapidly changing environmental conditions. The dynamic capabilities view of competitive strategy that has gained prominence over the recent years had roots in this discussion. This view argues that firms need to reconfigure the assortment of capabilities to face the challenges presented by the fast changing business

environment. However, the academic debate within the dynamic capability view on the conceptualization, measurement and the relationship between dynamic capabilities and firm performance is taking time to reach a consensus. We observe that this research stream in its infancy and however the debate is healthy. On the other hand, the lack of a common definition and disagreement on the effects of dynamic capabilities is holding back progress (Barreto, 2010; Helfat & Peteraf, 2009).

This special issue was motivated by the need to advance literature in this promising field of research and in particular to strengthen its empirical foundation. Interestingly we find the 'rigid' view is still popular among researchers particularly those pursuing empirical estimation using cross-sectional designs (e.g. Knight & Cavusgil, 2004; Nasution & Mavondo, 2008; Vorhies & Morgan, 2005) and a substantial number of researchers using case study method (e.g. Sullivan Mort & Weerawardena, 2006) to examine capabilities. The use of longitudinal designs to explore dynamic capabilities has been limited (e.g. Montealegre, 2002).

We sought papers for this Special Issue on topics ranging from conceptualization and theoretical development to empirical advances, using both qualitative and quantitative approaches. From 43 papers we have assembled a suite of papers that fits with the Special Issue theme. Overall, the papers that have been selected after a rigorous review process have addressed a wide range of issues from capturing capabilities using qualitative designs, modeling of capabilities in the innovation-based competitive strategy to test the theoretical relationships using cross-sectional designs.

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Opening the Special Issue theme is a paper by Helen Perks and Steve Moxey on “Market-facing innovation networks: How lead firms partition tasks, share resources and develop capabilities”. The paper focuses on market-facing innovation networks that are rooted in the modular and integrated nature of product development. High levels of product innovation activity are occurring through key firms, leading and developing networks. These lead firms are generally small and medium enterprises, traditionally tasked with business to business distribution and commercialization activities. This study enhances our understanding of how task partitioning and resource sharing practices, are related to the nature and scope of capabilities of lead firms within the context of market-facing innovation networks. Through a multiple case study methodology, the findings highlight the tension between managing on-going routine distribution activities and emergent networked product innovation activities.

In the contribution by Heiko Gebauer “Exploring the contribution of management innovation to the evolution of dynamic capabilities” the thrust is on how companies that find innovative ways to manage capabilities gain competitive advantages. The findings from multiple case studies of capital goods manufacturing companies suggest that management innovation contributes to the development of dynamic capabilities. The findings lent support to the importance of sensing, seizing, and reconfiguring as dynamic capabilities. Issues in management innovation such as key change agents and utilization (motivation, invention, implementation, theorizing and labeling) differentially contribute to sensing, seizing, and reconfiguring. The conceptualization of dynamic capabilities from the perspective of management innovation advances theory-building.

The contribution by Sandeep Salunke, Jay Weerawardena and Janet McColl-Kennedy “Towards a model of dynamic capabilities in innovation-based competitive strategy: Insights from project-oriented firms” addresses the need for a unified model of service innovation-based competitive strategy. The model, built on thirteen in-depth interviews with CEOs of project-oriented service firms suggests that entrepreneurial service firms pursuing innovation-based competitive strategy build and nurture dynamic capabilities in client focused learning, relational learning, episodic learning and resource combination. The project oriented firm context has been chosen to address the need for industry contexts that nurtures long term relationships between service providers and customers to examine the much debated issue in the literature as to whether positional advantages gained through service innovation can be sustained.

Suellen Hogan, Geoffrey Soutar, Janet McColl-Kennedy and Jillian Sweeney in “Reconceptualizing professional service firm innovation capability: Scale development” address an important issue of developing measures through reconceptualization of the innovation capability construct within a knowledge-intensive service context. The results of exploratory and confirmatory factor analyses highlight the multi-dimensional nature of innovation capability within the professional services context. The scale offers a new way to measure innovation capability within professional service firms and highlights the need to move beyond a manufacturing mind-set. Naturally, as with all scale development effort, there is need for further testing in different contexts to establish the generalizability of the measure.

“Entrepreneurial orientation, exploitative and explorative capabilities, and performance outcomes in export markets: A resource-based approach”, by Ana Lisboa and Dionysis Skarmeass focuses on the critical role played by technical and non-technical innovation in organizational renewal in the global marketplace. The paper investigates the role of market-related exploitative and explorative capabilities, together with product development ones, in the context of exporting. The paper explores how entrepreneurial orientation influences performance through exploitative and explorative capabilities. The results indicate that entrepreneurial orientation is a precursor of exploitative and explorative product development and overseas market-related

capabilities. This study posits exploratory capabilities and overseas market-related exploitative capabilities as dynamic capabilities that influence new product differentiation and enhance market effectiveness.

“Achieving superior innovation-based performance outcomes in SMEs through innovation resource-capability complementarity” by Phyra Sok and Aron O’Cass focuses on the complementarity between resources and capabilities and the effect on innovation-based performance. The paper finds that innovation resource-capability complementarity drives innovation-based performance. The findings also suggest that firms that possess superior learning capability are willing to question their operational processes and routines and make adjustments following the feedback obtained from customers and channels; thereby enhancing their abilities to develop more new products and increase their speed in delivering products to the customers.

César Camisón and Ana Villar-López in “Non-technical innovation: organizational memory and learning capabilities as antecedent factors with effects on sustained competitive advantage” discuss the role of organizational memory and learning capabilities as antecedents to non-technical innovation i.e. organizational and marketing innovation and their effect on sustained competitive advantage. They find that both organizational memory and learning capabilities underpin the development of organizational innovation and marketing innovation which in turn significantly influences the achievement of sustained competitive advantage.

“Marketing capabilities and innovation-based strategies for environmental sustainability: An exploratory investigation of B2B Firms” by Babu John Mariadoss, Patriya Tansuhaj and Nacef Mouri, investigates an interesting emerging area across many disciplines: sustainability as a source of competitive advantage and enhanced financial performance and the role of specific marketing capabilities. The paper examines these relationships using case studies in the context of B2B firms. The paper identifies key marketing capabilities that tie together innovation-based sustainability strategies, sustainable consumption behavior and firm performance.

Aron O’Cass and Liem Viet Ngo in “Winning through innovation and marketing: lessons from Australia and Vietnam” examines two functional capabilities i.e. innovation and marketing in two economies at different stages of development. By taking into consideration entrepreneurial orientation (EO) and market orientation (MO) they find that innovation capability and marketing capability mediate the effects of MO on marketplace performance and that the interaction of innovation and marketing capabilities significantly influence firms’ marketplace performance more than they do individually.

Whilst we believe that the Special Issue has been able contribute to advance this promising stream of research we observe that a substantial number of issues remain to be addressed. This may not be limited to but may include the following aspects which require further investigation.

## 2. Conceptualization and measurement of dynamic capabilities

The capacity an enterprise has to create, adjust, hone and if necessary, replace its business model is foundational to dynamic capabilities and researchers have alternately defined dynamic capabilities as a capacity to build, integrate and reconfigure (Teece, Pisano, & Shuen, 1997); integrate, reconfigure, gain and release, and match environmental change (Eisenhardt & Martin, 2000), generate and modify (Zollo & Winter, 2002) and create, extend and modify (Helfat et al., 2007) organizational routines/resources. In a later advancement Teece (2007) disaggregated dynamic capabilities into the capacity to (a) sense and shape opportunities and threats, (b) seize opportunities, and (c) to maintain competitiveness through enhancing, combining, protecting, and when necessary reconfiguring the business enterprise’s intangible and tangible assets. Whilst we observe that these suggested processes have escaped empirical scrutiny they may provide a basis for estimation of dynamic capabilities.

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