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ANTECEDENTS FOR THE CAPABILITY DEVELOPMENT:

A CASE OF DIGITAL DISRUPTIVE CHANGE

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ABSTRACT

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<p>Keywords: Capabilities, organisational capabilities, dynamic capabilities, capability development.</p>
<p>Globalisation, rapid change in technology, digitalisation and competition are challenging organisations worldwide. Established companies need to create new and develop current capabilities to be competitive in future. And to survive in rapidly changing environment. These major transformations are dependent on dynamic capabilities. Dynamic capability view offers a framework for sensing and seizing business environments and to transform its assets to develop a business which continuously adopts to the changing needs. Various antecedents are affecting to successful dynamic capabilities and capability development. These factors that are influencing capability development must be addressed in the company. This thesis studies the enablers and barriers for capability development in a large corporation that is facing the change needs and is going through organisational transformation. This is a case study with qualitative research approach. Based on the case study findings, organisation need to align its strategy, structure and constellation of organisational capabilities to enable the change in the organisation. This thesis research emphasises the role of common understanding and alignment across the organisation to enable valuable capability development. Managerial implications are providing an overview of the antecedents for capability development. These antecedents and factors are affecting on the capability development and to the digital transformation of the company.</p>

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<p>Globalisaatio, nopea teknologinen kehitys ja intensiivinen kilpailu ovat nykypäivän haasteita organisaatioille. Yrityksen tulee luoda uusia ja kehittää nykyisiä kyvykkyyksiä mahdollistaakseen kilpailukyvykkyyden nyt ja tulevaisuudessa. Suuret transformaatiot ovat riippuvaisia dynaamisista kyvykkyyksistä. Dynaamisten kyvykkyyksien näkökulma tarjoaa viitekehyksen mahdollisuuksien ja haasteiden tunnistamiseksi ja niihin tarttumiseksi yrityksen toimintaympäristöstä. Näiden tunnistettujen mahdollisuuksien ja haasteiden mukaisesti muuntautuminen mahdollistaa organisaation kehittymisen tulevaisuuden tarpeita vastaavasti. Lukuisat tekijät vaikuttavat dynaamisiin kyvykkyyksiin ja kyvykkyyksien kehittämiseen. Tämä opinnäytetyö tutkii mahdollistajia ja esteitä kyvykkyyksien kehittymiselle suuryrityksessä, jossa on meneillään strategisia muutoksia markkinahaasteisiin vastaamiseksi. Tutkimus on toteutettu kvalitatiivisena case-tutkimuksena. Case tutkimuksen tulokset osoittaa, että muutoksen ja yrityksen kyvykkyyksien kehittämiseksi, yrityksen tulee varmistaa yhteinen näkemys strategiasta, struktuurista ja yrityksen kyvykkyyksistä läpi organisaation. Tutkimustulokset osoittavat käytännön liike-elämälle näkemyksen tekijöistä jotka mahdollistavat kyvykkyyksien kehittämisen ja organisaation muutoksen.</p>

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1. INTRODUCTION

Digitalisation is changing market environments across the world. We have seen shining start-ups succeed on the road of digital business, however the established companies have had more bumps on the road. My experiences in working in large corporations with long histories, and on the other hand a front seat on digitalisation on it-development and studies on innovation have offered various perspectives on how company can address the change. One question has remained; what is the secret ingredient for companies to successfully transform? This is a question that most likely remains a secret after this thesis study, but I am looking to learn more on how dynamic capabilities can help in it, by developing an organisation that can continuously evolve and change according to the change needs. In this study I am analysing enablers for capability development, more specifically focusing on to the dynamic capability view.

1.1. Background of the study

Digital transformation is not just a buzzword. New standards for business are set globally and it is affecting all industries (Schwertner 2017, 388). Digital technologies such as social, mobile, analytics, cloud, and internet of things (SMACIT) (Ross, Sebastian, Beath, Mocker and Fonstad 2016, 1) are solutions presenting great opportunities for companies globally in existing and new markets. New needs of the markets require every company, in every industry to gain an ability to transform processes, capabilities and business models (Ross et al. 2016, 1). For established companies with long histories and extensive backgrounds the change might be a challenge (Teece 2007; Berman 2012). Dynamic changes require an assessment of the resources and capabilities to manage disruptions and changes (Schwertner, 2017, 388). Research made by Ross et al. (2016) suggests that technology should be used to associate companies' existing capabilities with new digital capabilities, not just to implement individual technical solutions.

In the digital era for the past 20 years, businesses have managed successfully by making quite minor IT developments. Now the digital era has reached a point that minor developments are not enough anymore, and in order to stay competitive businesses need to

change whole strategies and operating models (Sia, Soh, & Weill 2016, 106). Schwertner (2017, 389) describes digital business transformation as follows: *"Digital Business Transformation is the integration of new digital technologies into all business areas leading to a fundamental change in the way the organization works."*

This study originates from my own interest in the challenge of established companies to adapt to the disruptive change. Digital transformation has been taking a place for a decade already. Several bankruptcies and failures, but on the other hand innovative technologies and rising businesses are seen in various industries. My career background in IT-, financial and service industries have provided exciting perspectives to the topic. Experience in various change initiatives, digitalisation processes and change in the market have raised my interest in learning on success factors of organisational change.

As stated, the background for the change need is in technological transformation, and companies need to reform their capabilities in order to meet the future needs without compromising their current business. The large company in the focus of this research gives an interesting opportunity to identify what are the factors enabling and/or impeding the development of capabilities. In this case, the company and its industry have faced technological change as its hardest. The company is acting in an industry where customer behaviour is driven by digitalisation, and technology is challenging their business. Various companies in many markets have failed to change and therefore have lost the opportunity to continue in the business. To avoid that, the case company have identified areas where it needs to develop and change in order to gain competitive advantage. Due to this, the industry and the case company is a very interesting area of research. And there is only little precedent studies conducted in this area.

1.2. Research target

The objective of this study is to form an understanding on enablers for capability development. The theoretical approach is based on the dynamic capability view. Research on organisational capabilities and competences has been carried out already from 1960's (e.g. Penrose 1959, Teece 1980), as well as its relationship with management and business

performance. Concept of dynamic capabilities was launched later in the 1990's (e.g. Teece, 1997). Researchers have been focusing on explaining dynamic capabilities as a concept of organisations' ability to change, on "how" organisations reinvent themselves to gain competitive advantage. Changes in external environment bring companies in front of a challenge to develop and change in order to become more agile. To cope with digital transformation, companies should not only focus on technological next move. To enable successful adoption in this era, organisational capabilities need to be considered. (Ross et al. 2016, 1; Teece 2007, 1319.)

The dynamic capabilities view has increased its popularity since 90's in the area of strategic management. It can be said that theory of dynamic capabilities has been one of the predominant research areas of strategic management for the past 10 years (Schilke, Hu & Helfat 2018). Increased amount of research has analysed how to keep dynamic fit between the environment and what the company offers, when the environment is faced with rapid change. The main objective of the dynamic capability view is to provide a framework for strategic change and development and for explaining how companies can achieve a sustainable competitive advantage in industries that are highly competitive. A wide variety of new capabilities need to be developed, established and deployed. What those should be, depends on the business content and specific needs based on the company, situation and strategy. (Carcary, Doherty & Conway 2016.)

Like stated by Helfat and Peteraf (2003, 1000-1001) capabilities are not ready set, or able to be taken from the shelf, those needs to be developed. Therefore, it is crucial to understand how capabilities are built, developed and maintained. This thesis first outlines the existing literature on organisational capabilities, and thereafter conducts a case study. This study adheres to emerging research on how capabilities develop, and on antecedents of dynamic capabilities. Against the background presented, the objective of the study is to examine enablers for capability development. Enablers are constructs, which have an impact on the successful development and deployment of dynamic capabilities (Ambrosini and Bowman 2009, 36). In line with the research aim described, following research question is stated as follows:

Research question: What are the antecedents for the capability development in times of

disruptive change?

The research questions seek to identify the factors affecting capability development by aiming to identify antecedents for capability development in the case organisation. By identifying these factors can be seen what the factors are enabling or barring the capability development in the case organisation to enable the transformation. Theoretical background is built, and empirical research analysed to identify capability development in the case company. Key events, actions or activities related to capability development are looked at from individual, organisational and industry level. Findings from the interviews and from the case company's secondary data are used to construct a view on the underlying factors of capability development. In order to answer these questions, procedures, practises and experiences around capabilities, dynamic capabilities and capability management are explored. The aim of the research is not to describe how capabilities are fit for the transformation nor the competitiveness of the company through capabilities. Focus is on capability development enablers. Background of the study originates to the digital transformation and during the case study the organisation is facing disruptive change, therefore disruptive change is included to the research question, however, the change is not researched besides the view of developing the capabilities.

1.1. Research design

In this master's thesis the research is built on theoretical framework based on the literature review. Dynamic capability view is based on the fact that companies are facing rapid and disruptive change. Companies need to be dynamic and change their strategies and processes to survive in dynamic market environment. The dynamic capability view is explaining the organisations change by analysing how dynamic capabilities are developed and how operational capabilities are transformed with dynamic capabilities. The literature review and framework for this study are built on organisational capabilities through the dynamic capability view.

The concept of organisational capabilities is the foundational concept in this study. Organisational capabilities are divided most often into operational and dynamic capabilities

(Danneels, 2015; Helfat & Winter, 2011; Winter, 2003). Operational capabilities exploit the existing resources for running the business, meeting the needs of customers at the moment. Dynamic capabilities are changing the resource base and operational capabilities.

Literature on dynamic capabilities raises the approach of value creation and value capturing of the companies facing rapid technological change (Teece, Pisano, & Shuen 1997, 509). This is also concluded in Teece et al. (1997) definition of dynamic capabilities: “the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments”. Dynamic capabilities explore new technologies and other resources to enable the business in the future. The dynamic capabilities approach has gained popularity as it is seen to be an answer to the challenges created by open, diverse global economy, which enables rapid innovation in existing and new markets (Teece 2000). Besides adapting to the environment, dynamic capabilities view is also raising an opportunity for the company to impact their environments internally and externally, as companies can create and modify business ecosystems, or create a market change in other ways (Eisenhardt and Martin, 2000; Teece, 2007).

Capabilities do not appear automatically; planning, management, purposeful allocation, combining, execution, development and furthermore disposing are required in creating and developing capabilities. Experience, culture and learning are in addition playing an important role. Simultaneous and balanced development of capabilities is central, but it is not an easy task for any company, especially in the time of rapid changes (O'Reilly & Tushman, 2008, 2011). By building more dynamic capabilities an organisation can simultaneously explore new opportunities and develop its operational capabilities to meet the new needs. Operational capabilities are needed to keep a stable income and focus on strategic areas. In order to make this happen, an organisation needs operational capabilities and dynamic capabilities to be working and developing in balance that serves its strategy. Capabilities need to be continuously assessed in order to recognise the development needs (Teece 2007).

The dynamic capabilities view emphasizes the role of top management in driving organisational changes (Teece 2009, 74). Dynamic capabilities are managing company's resource and capability base, but at the same time they may have a wider impact in market

(Teece 2009). Even if dynamic capabilities are for the change, organisations are still facing an issue; how to balance between must keep operations and innovations? How development of capabilities is ensured and enabled? The purpose of this thesis study is to contribute to the research on capability development in a rapidly changing industry. The aim of this study is to identify enablers for capability development in the case organisation in order to cope with emerging, rapid technological change. The topic is approached through developing dynamic capabilities, which has been rising in digitalisation and technological change research, but not specifically in the case industry.

In this case study, the company has stated its willingness to enable the change through developing its capabilities and therefore is suitable target for the observation. The managerial implications can bring valuable insights for the organisation. This is a case study conducted in a service industry company, mainly acting in north European market environment. The company can be recognised as Multinational Corporation (MNC). The research is conducted in organisational units in Nordic countries, therefore, the MNC approach is not in focus on this study. Case company has started various initiatives, i.e. digital transformation, aligning global market offering and business model changes in order to respond to the critical change in the industry. Many major change projects within the case organisation are recalling for the change in organisation's resources, capabilities and competences. This thesis is exploring factors that affect the development of organisational capabilities in the case company. Factors are researched on the group level in the case company, not focusing on individual change initiative, unit or a project.

This is an explorative research, where abductive approach and qualitative research methods are used (see Saunders, Lewis & Thornhill 2012, 669; Saunders et al. 2012, 144). Qualitative research is conducted to gain an in-depth understanding of drivers and barriers in the capability development. The research is fully anonymised per requested by the case company. Overall 8 interviews were conducted. The target group members of the research are representing various roles, units, professional backgrounds and are based in different countries. The research focuses on the employees' experiences and what type of factors they identify in their daily work that affect the change and development of capabilities.

Interviews were themed and semi-structured. This method was used in order to allow open

discussion and to gain an in-depth understanding of the organisation and interviewees' approaches (Hirsjärvi & Hurme 2000, 47-48). The chosen qualitative case study sets limitations, as generalisation of research findings is limited to this single case. The aim is to recognise the factors that can be taken in consideration regarding further actions. However, timeframe and case study approach limit the findings and therefore no broader view on the capability development can be set.

1.2. Structure of the study

This thesis consists of 6 chapters. This chapter is the introduction to the thesis work; topic, purpose and structure of the work are presented.

Chapter 2 provides the theoretical framework. The main topics such as capability development, operational and dynamic capabilities are introduced. At the end of the chapter, a literature review is used to build a theoretical framework.

Chapter 3 will present the research approach, design of the research, research conduction and reliability, and validity of the study. Interviews and data collection are also described and analysed.

Chapter 4, 5 and 6 cover the empirical part of the study. The case company is shortly described, as well as its perspective on capability context. Results are presented in chapter 4 where revised framework is presented to visualise the findings according to the literature review-based framework. Chapter 5 focuses on the discussion within context of the theoretical background and relation of the findings of the research. Finally, in chapter 6 the theoretical and empirical findings are concluded, and the theoretical contributions and managerial implications are given. Reliability and validity of the research are discussed and suggestions for the future research are given.

2. THEORETICAL BACKGROUND

The concept of organisational capability stands on the impact of the publication *An evolutionary theory of economic change* (Lenson & Winter, 1982) which is a big conceptual framework where the dynamic capabilities perspective has originated. Evolutionary theory is focusing on economic change; how companies' respond to the changed market conditions by planning and organising activity, bundling routines into higher level collections, based on managerial decisions. (Nelson and Winter 1982, 97-105; 400, Kilpinen 2013, 26-27.) The dynamic capability view complements evolutionary theory by understanding the organisations' change needs and by enabling continuous adaption to the change. The dynamic capabilities perspective is focused on explaining the factors and ways for competitive advantage. (Barney 1991; Peteraf, 1993.) Dynamic stands for ability to change and modify company's resource base when recognising an internal or external need. Dynamic capabilities identify the needs for the change and then develops other capabilities accordingly (Helfat, Finkelstein, Mitchell, Peteraf, Singh H, Teece & Winter 2007, 4).

In this study the concept of organisational capabilities is grounded on Helfat's and Peteraf's (2003, 999 based on Helfat 1997) definition: "the ability of an organisation to perform a coordinated set of tasks, utilising organisational resources, for the purpose of achieving a particular end result".

2.1. The dynamic capability view

In this research the dynamic capability view (Teece, 1997) is used to understand the concept of operational and dynamic capabilities. Operational and dynamic capabilities are functioning differently and are used for different purposes. Several authors (e.g. Winter 2003; Teece 2007) have stated that if a company relies only on operational capabilities but does not have dynamic capabilities, it most probably is able to make a return and compete for a time period, but without dynamic capabilities it is not able to adjust well enough to the change and therefore could not sustain in competition. **Operational capabilities** are doing the things right (processes, practises etc.) and **dynamic capabilities** are about doing the right things (Teece 2014, 331). Doing the right things brings us to the broader discussion on

managerial practises, culture and sensing the market, which will be further discussed. Dynamic refers strongly to change and are seen modifying operational capabilities. However, change is always occurring on some level so even without dynamic capabilities, operational capabilities has possibility to develop in changing conditions. Some of the capabilities can be used for both operational and dynamic purposes. (Helfat & Winter 2011.)

In this study, approach from dynamic capability perspective is utilised. Operational capabilities are defined here in accordance with Teece (1997; 2007 and revised on 2013, 4): *“Operational capabilities are sufficiency in performing a defined task. These capabilities are combination of skilled personnel (incl. contractors, consultants etc. when needed), facilities, equipment, processes, routines, technical manuals and administrative coordination”*.

Operational capabilities are referred to enable a company to make a living in the present (Winter, 2003). Breaking down to the practical level, operational capability stands for executing activity constantly, using patterned practises, on the same scale, same products and services and relatively similar customer group. Most common way to describe these are to say that operational capabilities are for maintaining the status quo. (Winter, 2003; Collis 1994.) These capabilities are enabling company to operate in business. Winter (2003, 992) adds that none of the companies are exactly operating in fully equilibrium and therefore operational capability isn't fully stable even its nature description is to build same product in same market for same customer.

Wu, Melnyk and Flynn (2010, 722-724) describe operational capabilities to be distinctive as those are emerging gradually, are tacit and are established differently based on company and environment. Operational capabilities are unity, integration and direction for operational practises and resources, where both explicit and tacit element are involved. Based on this description can be said, that these characteristics of operational capabilities could bring competitive advantage, without raising too much the discussion on change ability and speed. Wu et al. (2010, 274) whilst bringing up the individualism and uniqueness, also noted that these capabilities are occurred in individual business units and are hard to imitate even within the same company. Without operational capabilities, a company could not gain revenue from customers and would not be able to buy more inputs and do the whole thing over again

(Winter 2003, 993).

Moving forward with dynamic capabilities, dynamic capabilities have gained various explanations and descriptions. First to differ dynamic capabilities from operational capabilities, dynamic capabilities enable a company to profitably orchestrate its competences and other assets to address the change (Teece 2014, 331). In respect to Teece (2014, 332) differentiation of these capabilities are presented in Table 1. Unlike operational capabilities, dynamic capabilities cannot be bought or easily copied. But over time “signature practises” in dynamic capabilities can be adopted by other companies. In operational capabilities efficiency and repeatable process are the foundation, in dynamic capabilities adaption, orchestration and innovation are the building pieces. (Teece 2014, 331-333.)

Table 1. Differences of operational and dynamic capabilities

Operational and dynamic capabilities (Teece 2014, 332)		
	Operational capabilities	Dynamic capabilities
Purpose	Efficiency in business functions	Achieving coherence through needs and opportunities
Multilateral schema	Operate, administrate, govern	Sense, seize, transform
Key routines	Best practises	Signature processes
Managerial emphasis	Cost control	Entrepreneurial asset orchestration and leadership
Priority	Doing things right	Doing the right things

Table 1. highlights the differences between the capabilities, however it is important to recognise that the relationship of these is tight. Managerial decisions, where dynamic capabilities lay on, create and shape capabilities and determines how those are deployed. (Teece 2014, 333)

When defining dynamic capabilities, definitions varies with perspective; Helfat & Peteraf (2003) compasses dynamic capabilities perspective to be extension to RBV, where Teece et al. (1997) were aiming to differentiate from “static” RBV by describing dynamic capabilities

to address modifications to the resource base which is seen static in RBV. Similarities are found in different definitions and most common ones are presented in Table 2.

Table 2. Definitions of dynamic capabilities

Author(s)	Definitions
Teece, Pisano and Shun (1997, 516)	“Ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments”
Eisenhardt and Martin (2000)	“The firm’ s processes that use resources, specifically the processes to integrate, reconfigure, gain and release resources to match and even create market change.”
Zollo and Winter (2002, 340)	“A dynamic capability is a learned and stable pattern of collective activity through which the organisation systematically generates and modifies its operating routines in pursuit of improved effectiveness.”
Teece (2007, 1319)	“These capabilities can be harnessed to continuously create, extend, upgrade, protect and keep relevant the enterprise’s unique asset base.”
Helfat et al. (2007, 1)	“A dynamic capability is the capacity of an organisation to purposefully create, extend or modify its resource base.”

Teece’s (2007) description says dynamic capabilities to enable company to respond to the environmental change. Eisenhardt and Martin (2000) are adding on that dynamic capabilities might enable company also to create a market change. It is important to notice that all literature acknowledges dynamic capabilities and changes to be intentional and common understanding is that resources are including tangible and intangible resources and capabilities. In line with Schilke et al. (2018, 393) dynamic capabilities here are denoted to be “capabilities that can effect change in the firm’ s existing resource base (and the associated support system such as the firm’s organisational and governance structure), its ecosystem and external environment, as well as its strategy”, which builds on Teece (2007) but adds on more precisely to the resource base.

Teece (2007) notified that to get the aimed results from dynamic capabilities, those need to be fitted to the strategic goals and to ensure deployment into the practise. He continued (2014, 341) that strategy, capabilities and business environment co-evolve. This speaks up for purposeful nature that dynamic capabilities have. Dynamic capabilities are seen to be connected to the strategic changes and the alignment of the organisation with its external environment in various ways; embedded in organisations processes and routines such as learning, coordination and transformation. This relationship has raised the popularity to research the connection of capabilities and organisational performance. Eisenhardt and Martin (2000, 1111) have conceptualised that even competitive advantage can be gained, not from dynamic capabilities but through resource configurations that those create. Competitive advantage coming from dynamic capabilities relies on organisations ability to leverage and configure its assets and competences so that it creates greater value for the customer but moreover makes it harder to imitate by competitors. (O'Reilly & Tushman, 2011, 6.)

Word “dynamic” is referring to the change and as seen from the previous definitions, the change is a fundamental factor when discussing on dynamic capabilities. One difference between common perspectives from Teece et al. (1997) and Eisenhardt and Martin (2000) is the change and speed of it. Teece et al. (1997) recognised the dynamic capabilities occurring in rapidly changing environments. Eisenhart and Martin (2000) on the other hand are stating that dynamic capabilities are present even if the speed of change is low and in more stable environments. Ambrosini et al. (2009, 10) and Zollo and Winter (2002, 340) continued from the stable perspective but noted that how dynamic capabilities act is depended on the change speed, e.g. radicalism of adjustment and movements are varying.

2.1.1. Analytical purposes of dynamic capabilities: Sensing, seizing and transforming

Teece (2007) created a model of three competences for analytical purposes of dynamic capabilities, that has since gathered high attention and support in the literature. This way dynamic capabilities are made more operational, presenting sensing, seizing and

transforming as orchestration processes (Teece 2013, 6). Teece (2007, 1322) by presenting the sensing and shaping is answering to the challenge of recognising emerging trajectories. Access to the existing information and ability to utilise new information and knowledge to create new opportunities. (Teece 2007, 1319-1320).

Sensing is an entrepreneurial set of capabilities that involves proactively experiencing new technological opportunities, scanning markets & competitors and listening to the customer needs. Together with scanning elements of the business ecosystem. (Teece 2013, 6) Understanding latent demand, evolution of industry, development of technology and assessment of possible customers' and competitors' actions are also part of the sensing. This understanding from industry, customers, rivals etc. is needed to enable managerial decisions on which technologies to use and in which markets. Described practises are requiring organisation to do investments in the research and relative actions. (Teece 2007, 1322) Through these practises, the emerging opportunities and threats in the environment are recognised. Part of the environmental uncertainty is occurring through laws, regulations and standards, this uncertainty should be taking in notice when possible paths are planned (Teece 2007, 1323) Henceforth, sensing is dependent on managers ability to create and try out hypothesis. These hypotheses need to take in notice technology and market, but also leave path options so that the organisation can adjust to the emerging regulatory requirements. Insight and vision are needed for managers, which should be enriched with data-analytics on market trends and current markets. (Teece 2013, 6; Teece 2007, 1323)

Seizing is required to seize the recognised opportunities, i.e. take decisions on investments, resource allocations, organisational structures and alliances. The structure and assets of an organisation are in a key role in here. (Teece 2013, 6) The maintenance and development of technological competence and related assets need to be continuous and follow the trends and the strategic direction. That way the organisation remains flexible, so that it can invest to the dominant design when the market is ready. (Teece 2007, 1326) Seizing includes also decisions on business models, which connects processes and incentives to the commercial strategy and investments. Business model is based on assumptions regarding, customers, markets, costs and revenues. Bases on these, business model is offering value proposition for the target market and describe the value chain. (Teece 2007, 1326; 1329) Through seizing, sensed opportunities are put into the action and value can be captured; customer

satisfaction, shaping market etc. Financial flexibility is one enabler in this, besides accessible external capital, talented employees, motivation and alignment across the company. (Teece 2013, 6) Teece (2007, 1327) noted that due to these requirements, it is not surprising if a company is manging sensing, it still can fail in seizing. Especially in large, complex companies' financial investments and decision-making favours enhancements and improvements for current paths rather than emerging opportunities.

Continuing with Teece (2013), **transforming** refers to capabilities rearranging the resources when needed. Transforming capabilities are especially needed when radical new opportunities are addressed. But also, on occasional basis to avoid stiffnesses that could develop from asset accumulation and procedures in organisation. Transforming is aiming to keep strategic alignment vis-à-vis its ecosystem. (Teece 2013, 6) Danneels (2015, p. 2184) compliments previous studies of Teece and points sensing and seizing to be constructs for resource configuration. Transforming refers to renewing, orchestrating, and modifying resources, competencies, assets, and capabilities. Altogether, transforming and reconfiguring capability is seen in processes and decisions on resource placements, resource development recognition, process copying, cooperation routines, strategic resource allocation, acquiring and releasing resources, alliance and acquisition routines and internal knowledge-creation routines (Teece 2007 1327; Teece 2013; Adner & Helfat 2003)

By performing chronologically and continuously sensing, seizing, and transforming/reconfiguring, a company can create, extend, and modify the resource base when a company grows and the market changes (Helfat et al. 2007, 1). However, none of these are necessarily bringing wanted results if weakness in another area is affecting to the result, i.e. weak adoption at the end does not bring the highest value from sensing even sensing would have been done in excellent manners. (Teece 2007, 1319-1320)

Like stated previously, dynamic capabilities are seen in product development, strategic decision-making, marketing, product development, business acquisitions, business models, alliances and innovation development etc. (Helfat and Winter 2011, 1245-1246) When thinking of these areas, the model of first to sense opportunities and then seize them by adjusting current routines or creating, configuring and developing new routines, skills and competences can put into practical context. (O'Reilly & Tushman, 2011, 6)

Research on dynamic capabilities and managerial perspective is quite common, not to wonder as many of these actions, including sensing, seizing and configuring are requiring extensive work from managers in the company.

“Dynamic capabilities relate to high-level activities that link to management’s ability to sense and then seize opportunities, navigate threats, and combine and reconfigure specialised and co-specialised assets to meet changing customer needs, and to sustain and amplify evolutionary fitness, thereby building long-run value for investors.” (Teece 2007, 1344)

This definition that Teece renewed on 2007, based on his previous work 10 years before is highlighting manager’s role, even the discussion should focus in addition to the organisational structures and role definition. In order to identify which exactly is then a managerial level and what are the roles where these abilities should be recognised. Adding on managerial perspective, Helfat et al. (2000, 6) states that dynamic capabilities are not only acting in top management level, but besides in the organisational unit (division, other sub-unit, or team) and in level of individual decision maker.

As a mechanism to managerial decision making, search and selection logic applies to the dynamic capabilities. Extension and enhancement of current capabilities requires selections, such as prioritisation and identification of ones to develop. As an outcome of these search and selection processes, a company can create new capabilities, enhance its existing ones or destroy existing capabilities by selling, closing, or discarding those. (Helfat et al. 2007, 5)

2.1.2. Identifying and measuring capability

Various authors (e.g. Schreyögg & Kliesch-Eberl 2007, 915; Teece 2007, 1321 and Winter 2003, 991) note that not all the actions to solve a problem, or the action towards a threat or an opportunity are operational or dynamic capabilities. Situations can occur continuously, but still, ad-hoc problem solving is not a capability. Neither is invention and innovation by themselves. The actions can be counted or called as capabilities when organisation is able to reproduce it. In order to do that, it is needed to prove the action to be a success across various

situations. Schreyögg and Kliesch-Eberl (2007, 915) adds that these ad-hoc situations might trigger an organisation to build a capability, but the evolvement and development part still takes practise and time. Here of course learning, documenting and transferring the knowledge plays important role, these are further discussed in the next chapter of capability development.

Helfat et al. (2007) recognises two measurements on how to measure or identify capability. 'Technical fitness' and 'evolutionary fitness'. Technical fitness is defined by how effectively a capability performs its function, regardless of how well the capability enables a firm to make a living. (Helfat et al. 2007, 7) Technical fitness captures the idea of quality per unit of cost, an internal measure of capability performance. Quality and cost relationship might not be linear, they are not moving to the same direction all the time, hence it is important to separate these dimensions. (Helfat et al. 2007, 7) Helfat et al. (2007) refers to the dynamic capabilities when setting these yardsticks, but technical fitness is seen as a result of operational capabilities too (Teece 2014, 332).

Dynamic capabilities are context dependent, which evolutionary fitness is capturing. Evolutionary fit determines an ability to make a living in a changing environment (Teece, 2009; Helfat et al., 2007). Also "external fit" is referred in literature which refers that evolutionary fitness is dependent on the external selection environment. Dynamic capabilities which enables a survival, growth and to prosper are having a high evolutionary fit. Evolutionary fitness measures how well the dynamic capabilities of organisation match to the operational context. (Helfat et al. 2007, 7) Market demand and competition are therefore greatest impactors to the evolutionary fitness. So evolutionary fitness is describing how dynamic capabilities are used for creating and modifying their resource base in accordance to the external environment. Success of this is dependent on market and therefore better the company positions in the market the higher is success of dynamic capability. Dynamic capabilities can also shape the environment and through that achieve better evolutionary fitness. (Helfat et al. 2007, 6-9)

2.2. Capability development

Capability development in this content and in existing literature is referring in to creating a new capability or developing an existing one. Other descriptions and views in the area are named as capability- evolution, growth, expansion and maturation. (Teece 2016, 1) For the organisation, the challenge is how to simultaneously create and/or develop capabilities. Developing operational and dynamic capabilities in balance is an essential task for success. Nevertheless, it is very complex responsibility, especially when the change is rapid (O'Reilly & Tushman, 2008, 2011).

“Capabilities change over time” claims Teece (2012, 1396), author raises this up, as capabilities are not constitution from individuals, capabilities are collective learning, work communities, equipment and facilities that company has in that area that capability is. Large companies or companies with a long history are relying even less on individuals in capability framework. (Teece 2012, 1396) Based on the literature, not only time is enough for ensuring capability creation and development. Capability development requires managerial decision-making, funding, time, ability to predict and to create strategy based on the estimation. Taking all this in notice, developing a capability certainly is not an easy job. (Pisano 2015, 15)

Organisational capabilities theories have offered different perspectives for the capability development. Like stated previously, the relationship between evolutionary theory and the capability view is strong. In order to explain capability development, evolutionary perspective has a gradual, incremental perspective (e.g. Aldrich and Ruef, 2006 & Dosi et al., 2002). Dynamic capabilities view is relying on evolutionary theory (Teece et al., 1997 & Helfat et al., 2007), in context of developing capabilities, the dynamic capabilities perspective state that capabilities are developed in a decided way in order to stay fit with the rapidly changing external environment.

Capability development from evolutionary perspective is an outcome from internal and external selection. Process is gradual and cumulative, standing on evolutionary processes of variation, selection, and retention (Dosi et al. 2002, 12). Variation indicates leaving the existing routines and practices, like generating ideas on how to approach old problems in

new ways or finding answers to the new challenges. Selection stands for selecting or eliminating certain types of variations, i.e. formed sets of ideas are then subject to internal selection to evaluate potential for enhancing the existing routines or the opportunity to form new ones. Retention conserves, duplicates, or otherwise reproduces the selected variation. (Aldrich and Ruef, 2006)

A lifecycle framework by Helfat and Peteraf, (2003) is suggesting capabilities to have lifecycles. Stages presented are founding, development and maturity stage. Initial step in founding is to identify a purpose. Purpose is usually an outcome form recognition from external needs, as lifecycle perspective is tight to the external and internal selections. (Penrose 1995, 25) As a result, the capability may branch into one of following six stages of the capability lifecycle: retirement (death), retrenchment, renewal, replication, redeployment, or recombination. Any of six stages can occur simultaneously or in any order with other stages. Learning and actions during the life cycle are influencing crucially to the following evolution phase of the capability. (Helfat & Peteraf 2003, 1000) Laamanen and Wallin (2009, 977) complemented capability lifecycle view with capability portfolio and constellation levels. They state that individual capabilities evolve continuously at their own pace, but in portfolio and constellation levels the semiautomatic evolutionary process does not occur and do not develop multiple capabilities and synergies simultaneously.

Organisational learning is tied to the evolutionary theory, in which knowledge generated by collective learning in the organisations resides in the organisational routines (Nelson and Winter 1982). Schilke et al. (2018, 401) noted that learning has three roles in dynamic capabilities. First, all capabilities develop through learning, involving deliberate learning or learning-by-doing, or both (Zollo & Winter, 2002). Second, some dynamic capabilities are capabilities for learning; these capabilities enable organisations to learn, thereby facilitating the organisational and strategic change. And third, dynamic capabilities enable organisations to learn, so learning is also an outcome of dynamic capabilities.

Organisational learning is a time-consuming process that involves various aspects and efforts. Zollo and Winter (2002) categorises two levels of development, that includes cognitive and learning backgrounds. Semiautomatic learning (e.g. learning by doing) and deliberate learning (e.g. knowledge articulation and codification). Combining both

perspectives, the co-evolution is building on individuals and organisations cognition and through that builds on capabilities. Exploitative learning describes building on existing resources. Pisano (2000, 129) states that learning from the external market is essential for building dynamic capabilities and especially in creation of capabilities. Capabilities can be developed through learning from others too; alliances, partnerships and acquisition. These enable learning and can help company to develop towards future needs in changing markets. Learning from these external sources is called explorative learning. (Pisano 2000, 129)

Codification is seen as important factor for capability development. Codification relies on repeated practises, Kale, Dyer and Singh (1999, 764) investigated this from alliance capability perspective. They concluded, that while repeated practice as such can contribute to the growth of capabilities, the codification of the experiences throughout the process, into technology and formal procedures were the factors enabling more growth in the capability. Articulation, codification and sharing the learning are important parts of this procedure. Eisenhardt & Martin (2000, 1113) concludes that capabilities comes robust when codified. Codification can be utilised either with operational or dynamic capabilities. Schreyögg et al. (2007, 916-917) states that structural inertia is precondition for operational capabilities. Inertia makes an organisation reliable and identifiable, so that it can produce collective outcomes with quality, repeatedly. But inertia can cause maladaptation and it is needed to control it in order to change according to the environmental needs. In here dynamic capabilities comes to support in the balancing of this situation. (Schreyögg et al. 2007, 916-917)

Like explained previously, in evolutionary economics terminology of the development process is described with variation, selection and retention. The organisational learning theory is referring to the knowledge evolution or transformation cycle (variation, selection, replication, retention or storage, retrieval and transformation) (Aldrich, 1999; Zollo and Winter, 2002). No matter the term, the logic is same; company that effectively integrate knowledge by internally creating variation in the way in which they handle new challenges, subsequently select those practices which have the greatest potential and thereafter routinise these to the capabilities (Zollo and Winter 2002, 13)

The dynamic capabilities perspective sees capability development to be an outcome of managerial exercise and how organisation use dynamic capabilities (Wang and Ahmed, 2007, 41). Dynamic capabilities, including managerial exercises are directed by firm strategy. The dynamic capability approach suggests that organisational capabilities become embedded to the organisation through managers' decisions. Involvement of strategy on capability development can be recognised in situations where company needs to do compromises in choosing between alternative capabilities. (Wang & Ahmed 2007, 41)

Strategy and strategic decision are in core of dynamic capabilities perspective, it moreover adds emphasis to the management's role (Teece et al., 1997; Teece, 2009; Helfat et al., 2007). Top management is seen in a key role for adapting, integrating, and reconfiguring internal and external resources and capabilities (Teece et al. 1997, 515). When evolutionary perspective focuses traditionally in change in internal capabilities, the dynamic capability view emphasises also the external resource that company has access to (Helfat et al., 2007, 1), including other companies' assets and capabilities, which could be utilised through various methods, i.e. alliances.

Wang and Ahmed (2007, 44) appraises that there are four things to considered when deciding on how and which capabilities should be developed. Change in the external environment, company's strengths and weaknesses, its long-term strategic orientation and position in market. Beside these, historical antecedents are playing a role and presented further later. Capability development, investments and decisions made for it does not necessarily produce wanted results immediately. Company should not end or re-direct capability development efforts too quickly, as results or even bumps in the road does not necessarily mean failure in longer term. (Wang and Ahmed, 2007, 44)

2.3. Dynamic capability antecedents

Literature recognises several antecedents, or so to say drivers for creating, developing and enhancing especially dynamic capabilities (Schilke et al. 2018, 404). The literature review on capability development form different perspectives indicates that antecedents are more researched in area of dynamic capabilities than operational capabilities. Literature recognises

the relationship of dynamic capabilities and operational capabilities to be causal and reflecting to each other. Therefore, in this research the antecedents are seen as enablers for development of any kind of organisational capabilities. Antecedents can be found from organisational, individual and environmental levels, from which organisational level has gained most of the attention. (Schilke et al. 2018, 404; Eriksson 2014, 72).

Additionally, term “micro-foundations” are used in describing the underlying actions that shape strategy, organisation and capabilities (Teece 2007). Micro-foundations are well aligned and can be embedded to the previously mentioned individual, organisational and external antecedent categories.

2.3.1. Individual level

People are the core of the company, without them, there is not existence of routines, processes nor capabilities. Capabilities, operational or dynamic are requiring individuals to be specialised in their area to be fully committed to their role. (Winter 2003, 993) Teece (2007) categorised dynamic capabilities into three for analytical purposes as presented earlier. Especially in sensing capability, individual factors are present. Sensing is connected directly to the individual’s ability to discover processes, in accordance with the organisational processes. (Eriksson 2014, 66) Managerial agility, responsiveness, sensitivity to the situation, ability to build organisational culture that promotes learning and ability to mitigate change resistance are individuals’ capacities affecting to development of organisational capabilities (Eriksson 2014, 66). Adner and Helfat (2003) introduced managerial dynamic capabilities to explain individual factors organisational decision making and change, as the “traditional” dynamic capability view (Teece 1997) were mainly focusing on organisational factors. Aligned with dynamic capability, dynamic managerial capabilities refer to the managerial ability to build, integrate and reconfigure resources and capabilities. Adner and Helfat (2003, 1011) recognised three main categories of antecedents for dynamic managerial capabilities: human capital, social capital and cognition.

Human capital

Human capital includes the skills and knowledge of the managers. Human capital refers to the learned factors, which are shaped by managers education and experiences. On-the job training and learning has been recognised as important factors in human capital. (Adner & Helfat 2003, 1020) However, research has recognised that in highly volatile conditions, managers might not be able to transform experiences to learnings. Experiences that comes too fast are therefore not building on human capital and decision making through learned outcomes. (Eisenhardt & Martin 2000, 1115) Investments done in organisation for training and learning are also common methods for human capital formatting and through that enabling capability development. Career paths and heterogenous managerial human capital varies, but besides that factors like age and gender are leading to take different decisions and affects to the dynamic capabilities. (Adner & Helfat 2003, 1020-1021) Team can also have a team-specific human capital. Team level human capital builds among common work experience. Team members may have and create complementary abilities to cover each other's human capital. (Helfat & Peteraf 2003, 1001)

Social capital

Social capital builds on all social relationship individual and team has. Managerial social capital involves one's ability to access resources through relationships and connections internal and external to the organisation. (Adner & Helfat 2003, 1021) Networks besides enabling access to resources, enhance knowledge and gives critical information for decision making. A new team or also established needs knowledge or resources besides their own to develop a capability. Access to other resources is dependent on individuals and team's ability to find these resources and to form a network around those. The social capital and external networks that individuals have are therefore building teams' social capital and after all capabilities. (Helfat & Peteraf 2003, 1001) Managers' human and social capital are connected, as all the information and knowledge that one gain through relationships and networks are also building and renewing their human capital (Coleman 1988 in Kor & Mesko 2012, 234).

Cognition

Cognition refers to an individual's ability to perform mental activities. Looking further, it is ability to do mental activities, which acknowledge the linkage between choices and

following impact on outcomes based on previously built beliefs and experiences. (Helfat & Peteraf 2015, 834-835) Person does run through numerous psychological processes when doing their work. Processes, impacts and outcomes of the decisions and actions are evolving one's experience and thinking. Thus, individuals internal state evolves over time. (Felin at al. 2012, 1360)

Managerial cognition is present in all levels of capabilities; single capability, portfolio and constellation levels. Impact of the cognition is varying though. On single capability, managers pre-existing mental pictures directs the choice on how capability is developed. When experiences accumulate, previously seen mental pictures can start to form articulated practises and rules in organization. Codification practises can be used to ensure knowledge transfer in the organisation. In portfolio level, allocation of attention, where to focus is the example of use of managerial cognition. On full constellation level, cognition is seen in how management foresees the co-specialized capabilities and transformation over time to ensure evolutionary fitness which can lead even to the impact on architectural level. (Laamanen & Wallin 2009, 952)

Winter (2003, 993) suggests that people could step back and forward between roles in operational and dynamic capabilities. This is dependent on how organisation is structured but most importantly, it could be an issue if person is not able to affect to the change initiatives, to make decisions continuously and have "explorative" mind-set embedded. (Winter 2003, 993) Which is in line with Eisenhardt (1989) stating that successful maintenance of a skill requires frequent exercise. Experiences from the frequent situations with minor variations help managers to deepen capabilities and small variation build managers ability to be flexible and see the path options when making decisions. (Eisenhardt & Martin 2000, 1115) If manager is unable to cope with uncertainty, which may occur if the role would be such a variant, it can slow down the decision-making ability in high-velocity markets (Eisenhardt & Martin 2000, 1111). Even if certain individuals have strong cognitive skills, for sustainable dynamic capabilities company should try to build sensing and seizing processes to the organisation so that it would not be relying on individuals. (Teece 2007, 1323)

Helfat & Peteraf (2014) researched managerial cognition in dynamic capabilities of sensing,

seizing and reconfiguring. Dependent on dynamic capability, some types of cognitive capabilities are more important than others. Managerial cognition found to be heterogeneously distributed among managers. Managers with superior capabilities for sensing, may not have superior capabilities for reconfiguring. Differentiation is seen especially in decision-making heuristics and biases. (Helfat and Peteraf 2014, 845)

2.3.2. Organisational level

Extensive amount of literature is referring to organisational level of antecedents, such as resources, experience, organisational structure and organisational culture. Resources are seen as capability enablers too. From resource perspective, it is vital to recognise that, even resources enable capability development, these enablers i.e. financial, technological and slack resources can be used as substitutes for capabilities in short term. Schilke et al. (2018, 402) Meaning that managers could decide to build resources that enables short-term returns whilst then more long-term capabilities are developed in more intention and focus.

In dynamic seizing capability organisational level antecedents such as product architecture, business models, organisational structure, its boundaries, protocols for managerial decision making and culture are the driving forces. Reconfiguration capability is seen to be built on structure and knowledge management. (Eriksson 2014, 66)

Organisational structure

Traditional management approach is often seen as hierarchical organisation, where from top management down might be various, at least three management levels. From capability management perspective, especially from evolutionary economic theory perspective these bureaucratic models are raised as functional bases (Nelson and Winter 1982, Teece et al. 1997) Bureaucracy is causing that employees might be obliged to the management, not to the customer. Similarly, independent profitable units lead to the boundaries in the organisation and causes distraction to build common integrated solutions for customers. Decision-making processes in hierarchical companies involve bureaucracy, that brings up formal submissions and approvals between management layers. A committee structure is common in hierarchical structures, top management is giving final justification for decisions. Usually procedures with various steps, reports and written decision are needed. (Teece 2007,

1328) Within complex organisation these process takes time and money. Positive side can be seen in managing expenditures and opportunities through the whole company, but in negative side, it does slow down the decision making. Strong leaders might be able to work around these bureaucratic issues, but it is not likely to have too many individuals like that in the company. (Teece 2007, 1328)

Dynamic capabilities literature advocates that by decentralising the organisation. The layers of organisation are lowered, so that customer needs can be better recognised. Local autonomy support sensing and seizing capability (Teece 2007, 1323) Different units and managers are empowered to do decisions and seek information in their area, without centralised acceptance models. (Teece 2007, 1336). Even if the idea of decentralised organisational structures has gained support in academia and among practitioners, it is not a fully solid solution. Decentralisation in the company may cause difficulties in integration between the units. (Leiponen & Helfat 2011, 643) Company should do decentralisation in a way that it recognises the similarities and differences between the possible areas. Units should only be formed, when customer does not benefit from integrated offering or any internal factors such as sourcing do not benefit from integration and aggregation (Teece 2007, 1336). If there are any benefits from the scale and scope on enterprise/institution level, they must be captured. If not, the company is equal as individual companies running businesses, without benefit of scale, knowledge or other assets. (Teece 2007, 1336)

In context of large multinational companies, there has been an evolution in thinking that multinational firms are not necessarily industry-driven set of similar organizations. They are seen as capability model, where unit's unique heritage and idiosyncratic capabilities are reflected to all units facing similar market demands but meeting these with individual responses. MNCs can gain competitive advantage, if they are able to transfer and combine capabilities and knowledge across geographically dispersed units (Grant 1996, 20). In here, the MNC's has seen to benefit from decentralising the operational responsibilities to differentiated subsidiaries while supporting strong integration among all affiliates. Then the bureaucratic decision-making lines are reduced, and common methods and units are supporting development in coaching way rather than commanding. (Tallman & Fladmoe-Lindquist 2002, 124)

Acquisition research is matured in area of capabilities. Acquisitions are identified as dynamic capability to explore external possibilities and as a strategic decision to extend company's capabilities in foreign markets, products or to enhance its current knowledge and capabilities. (Schilke et al. 2018, 403) Joining two or more organisations together will require several actions towards community if that is aim of the management. Research has indicated that superior performance in acquisitions can only be achieved if the organisational combination leads to synergy, whereby, in combination, the two organisations create more value than each could achieve alone (Harrison, Hitt, Hoskisson & Ireland 1991, 171; Helfat et al. 2007, 82) Synergy is created from similarities and complementarities between the parties in the acquisition – different products, market access and know-how should be led to enhance perspectives not to limit. There is evidence that differences are more likely to be adopted and produce results, as similarities are often overlooked. (Harrison et al., 1991, 174). Many structural enhancements can as well benefit organisation in capability development. Eisenhardt et al. (2010, 1267) listed in respect to various authors following ways to reduce stiffness in organisational structure: temporary assignments (Adler et al. 1999), prototyping (Eisenhardt and Tabrizi 1995), alliances (Furr 2009), and redundant organizational units (Bryce et al. 2010).

Experience

Schilke et al. (2018, 402) found that organisational experience has gained a perceptible amount of attention as an enabler or barrier for dynamic capabilities. History plays an important role in creating and developing capabilities. Capability view is building up on evolutionary background by suggesting that decisions under uncertainty are satisfactory rather than optimal, reason is bounded rationality (Zahra, Sapienza & Davidsson 2006, 920). Zahra et al. (2006, 921) continues that when a company's environment is dynamic, a company needs to create dynamic capabilities which enables it to solve a problem, rapidly change a problem and to change the way the problems are solved. This way a company can tackle the issues and simultaneously develop capabilities through strategic oriented problem solving. Company's current and future decision capabilities are embossed by past decisions and in underlying patterns, so organisational experience as an antecedent has historical theme. "The seeds of today's capabilities are sown in yesterday's experience" Pisano (2002, 150). Teece (2007, 1346) states that all capabilities and managerial decisions are affected by organisational processes, systems and structures which has been created previously.

Path dependency is in addition affecting on how strategic direction is seen in company. Studies has shown that many organisations become over determined in their strategic direction, which is not solely due to the history, it refers to the strong dynamics called “increasing returns”. When organisation finds successful activities that generate positive feedback loops, the processes start to enhance independently, following the previous path. This self-reinforcing process however creates strategic paths which are then leaving out possible other strategic alternatives. (Schreyögg & Kliesch 2007, 916) Therefore action patterns, even those are important for capabilities, it is necessary for management and to the whole organisation to keep innovative, explorative mindset (Teece 2007).

Organisational culture

Culture is including aspects of shared values, norms, attitudes and behaviours. Important is to notice that these norms and values can provide stronger commitment, alignment and control than hierarchical management. If employees agree and care about common values, any acts or accidents that are not according to these values may be sanctioned by any other member of the organisation. The power of organizational culture increases commitment among members, it clarifies what is important, is more specific than vision and coordinates members’ by motivating them towards predominant goals. Culture therefore guides employee’s behaviour and decision-making without “traditional” management. The fact that autonomy is increased is supporting organisation to superior performance especially in changing conditions. (O’Reilly & Chatman 1996, 166-167)

Good and effective organizational culture is strategically relevant, strong, and emphasizes innovation and change (Chatman & Cha 2003, 6-8). Managing and creating such a culture requires work in building and encouraging the culture to grow, empowerment for decision making, creativity and equality are important parts in it. O’Reilly and Chatman (1996) lists that selection, socialization, and rewards should be used as a part of cultural development.

In the context of MNCs, literature have recognised that capability transfer is important in MNC’s, but culture is driving power in enabling it. In MNC context the research widens the scope from organisational culture to territorial cultures as those are additional perspective in multinational environment. National cultural differences and capability transfer have been

conceptualised in terms of ‘cultural distance’. (Björkman, Stahl & Vaara 2007, 659) Cultural distance is recalling that the difficulties, costs and risks associated with cross-cultural contact increases when cultural differences between individuals, groups or organisations are variant. Kogut and Singh (1988, in Parente, Baack & Hahn 2011, 281) has created an index for measuring cultural distance, which is measuring on differences in work-related values. The cultural distance is tightly related to the choice of strategies in foreign markets, ability to manage operations, organisational learning and the endurance of global alliances and networks. (Parente, Baack & Hahn 2011, 286-287)

In organisational structure, acquisition was one possible enabler for capability development. From cultural enabler perspective, different values, goals, beliefs and organisational practices may lead to political struggles between the parties. And on another hand shared values, norms and patterns facilitate the creation of a shared identity and the emergence of trust. (Helfat et al. 2007, 78-85) In mergers and acquisitions, cultural differences may lead to increased bias and thinking which leads diversification “us vs them”, with a tendency for organisational members to overstress differences rather than finding commonalities (Stahl and Sitkin, 2005, 579).

2.3.3. Environmental level

Environmental factors very often refer to the turbulence in market, which can be technology, uncertainty or other market affecting condition driven. Besides previously discussed organisational level antecedents of mergers and acquisitions, in environmental level partnerships and inter-organisational antecedents are present.

Environmental dynamism refers to the change in market and literature suggests that rapidly changing environment is affecting positively to the development of dynamic capabilities. (Bitencourt et al. 2018, 3) Like stated previously in this chapter dynamic capabilities are developing evolutionary, when dynamic capabilities are adjusting company to the market change, that experience is simultaneously developing these capabilities forward. Studies indicate that in stable environment this is not driving the development forward, which is in line with the fact that in more stable market situation a company is not actively using

dynamic capabilities.

Interorganisational relationships and networks are seen as capability antecedents. Networks have proven to be essential for the development of capabilities. The importance of complementary resources and capabilities that are accessible through networks is emphasised, and access to complementary assets through partnerships has been found to drive capabilities. (Eriksson 2014, 72) External knowledge and resource sourcing activities, like alliances, networks and contractual agreements are enabling capability development. These actions are the options that should be recognised by seizing capability (Teece, 2007). Partners may also play a major role in terms of sensing opportunities because they can help in identifying unmet needs in the market (Eriksson 2014, 72). These external activities therefore enhance dynamic and operational capabilities even simultaneously are requiring those to recognise needs and opportunities to create networks and partnerships.

Relational capability describes company's ability to create, modify or extend the extended resource base according to strategy created for it. To make these partnerships valuable, company need to develop processes and methods to: "coordinate across organizational boundaries, develop assets specific to the linkage, develop and refine knowledge-sharing routines, and use effective governance mechanisms, including contracts and trust-based relationships". (Helfat et a. 2007, 79)

2.4. Theoretical model based on the literature

The theoretical model is built based on literature review, that aims to be tested in this master's thesis. Model is built to describe capability development, utilising evolutionary theory and especially dynamic capabilities view, in order to enable continuous development and organisational change. As stated in the literature review, there are several levels of possible analysis on capabilities; individual capabilities, capability portfolio and capability constellation (Laamanen & Wallin, 2009). In this research focus is on individual capabilities and portfolio level. In this context, the analysis and building coherent perspective of whole capability constellation has been scoped out.

This study is focusing on recognise enablers for capability development, not to explain company's success. Theoretical background is focused on the dynamic capability perspective of capability development. Kilpinen (2013) compliments previous theories of the dynamic capabilities and capability management relying heavily on top-management, which might be a barrier for individual capability development in large company. Thus, this study is focusing on to understand capability development enablers from various perspectives, including interviewees from various units and roles of organisation.

Literature have raised up the distinction between dynamic and organisational capabilities. (Helfat and Winter 2011, 1243). Zahra et al. (2006) is raising that interplay between operational and dynamic capabilities are sometimes unclear. Some definitions of dynamic capabilities are stating that dynamic capability is exactly company's ability to create new capabilities (Teece 1997). But when looking this definition deeper, it would become tautological, if always capability is behind capability. (Collis, 1994) Therefore, in this study the definition is relying on previous work of Teece et al. (1997) (and later Helfat and Peteraf 2003): all organisational capabilities may change, when influenced by internal and external factors. Dynamic capabilities are a specific type of capabilities that enable change and modify other resources and capabilities within the capability base (Helfat & Peteraf 2003, 846; Helfat et al. 2007, 3). This definition then clarifies that, as its own dynamic capabilities are not directly creating competitive advantage but by changing the routines, processes, competences and capabilities to meet the required changes, so that competitive advantage can be gained. Continuing agreeing with Helfat and Peteraf (2003), in this study all capabilities that the firm has access to are taken in notice.

Figure 1. presenting the theoretical model of the literature is built based on current knowledge and literature presented previously.

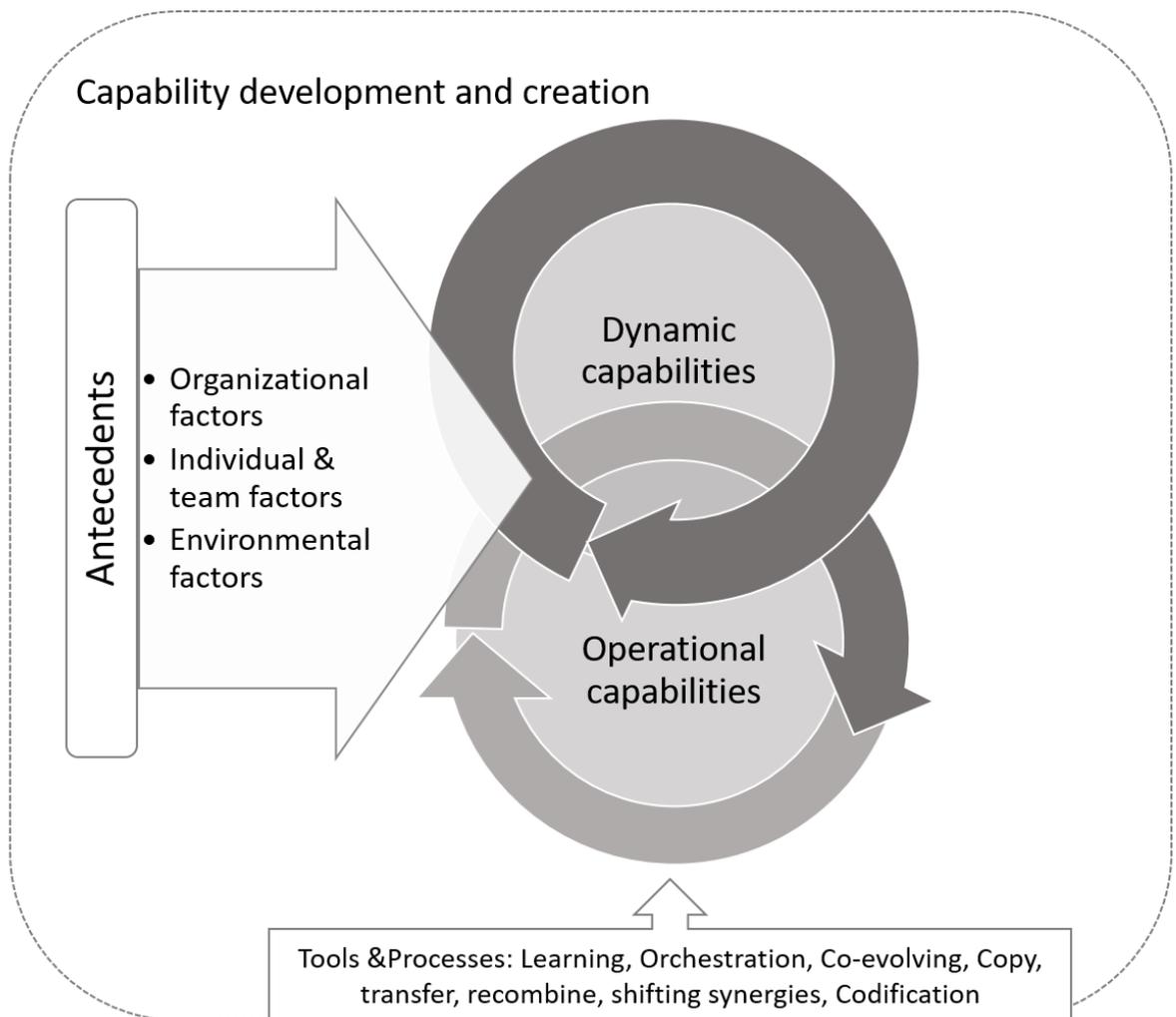


Figure 1. Theoretical model for capability development and antecedents

(Based on Teece 2007, 2013; Helfat & Peteraf 2015)

Figure 1. considers dynamic capabilities to be continuously evolving and simultaneously changing operational capabilities through resource allocations. Whilst both capabilities are developed through various tools and processes such as learning, coding and through individual, team and organisational factors.

Antecedents for the development are organised to three categories; individual/teams, organisational and external. Organisational factors are including experience, organisational structure and organisational culture. Individual and team factors are human capital, social capital and managerial cognition. Environmental factors are external environment (including dynamism, uncertainty, stage of evolution) and inter-organisational structure.

Tools and processes present in the capability development are ones presented in chapter “Capability development”, besides antecedents, several factors like evolution, learning, knowledge transfer, codification, copying practises & processes and dynamic capabilities are taken in notice.

Figure 1 reflects findings made from literature at this point, and research is still ongoing without empirical findings, some portions of the framework are necessarily incomplete. This research is done in abductive manners and this theoretical model will be tested and validated and necessary improvements are done continuously during the process, when input is gained from the data collection and analysis. Aim of the study is to find enablers for capability development, those will be visualised to the revised framework after empirical findings.

3. RESEARCH METHODOLOGY

3.1. Research approach, strategy and design

Role of the theories in the research are commonly divided to deductive, inductive and abductive. (Saunders et al. 2012, 143-144) Deductive tests the existing theory, where hypothesis is built based on existing theory and thereafter tested in research. Inductive research approach has opposite approach and aims on building theory, first to collect the data and afterwards theoretical contributions (Saunders et al. 2007, 117-120). Abductive method is combining of inductive and deductive, where reasoning and testing are done continuously during the research process. (Saunders et al. 2007, 117-120; 163). In abductive approach, first theoretical model is based on observation, then accuracy of it is tested through data gathered and existing literature, through that, prior made model is revised. (Saunders et al. 2012, 147).

This research is utilising abductive approach. The first step, of pre-understanding the subject is based on researches work and experience from case company and previous studies of area. Theoretical framework is built based on discussion of main theoretical areas in literature review. Empirical data is gathered and theory-based framework is revisited and developed through the process of data collection and analysis. At the end, the literature based theoretical framework is improved with findings from the empirical data.

Research strategy describes on how to answer to the research question (Denzin & Lincoln 2005, 53). There are various strategies such as experiment, survey, case study, ethnography, etc. (Saunders et al. 2009, 173). A case study is usually aiming for explaining causal relationships, where researcher seek to understand the factors for outcomes (Bensal, Smith & Vaara 2018, 1190). Aim of this research is to find factors that are driving or blocking capability development, case study is chosen research strategy as it is well suited for research on aiming to answer why and/or how something occurs in a context where researcher has not impact or control (Yin 2009, 13). Literature indicates that single case studies can be used for comparing the current data against the theory (Bensal et al. 2018, 1190).

Research methods are divided into quantitative and qualitative methods (Saunders et al. 2012, 160). Qualitative research creates new insights from the observations that may enable to see previous theory in a new light (Bensal et al. 2018, 1190) In qualitative research inductive and abductive methods are more commonly used as at the beginning of the research it may not be clear on how the theory is used. Theoretical framework is often inducted at the beginning, whilst collecting data and at analysis phase. Therefore, the study reaches its final form not before than data analysis is done. (Eriksson & Kovalainen, 2008, p. 42).

Decided research methodology is qualitative methods in this thesis, as it is seen as more suitable on finding answer to the research question. Based on researches knowledge on topic and case organisation, open interviews and possibility to experience and analyse individual's perspectives on topic is needed. Adding on, theoretical approach could have had thousands of perspectives and therefore inductive building during the process were most suitable option in this case study.

3.2. Data collection and sample

Data for the qualitative research can be collected using various methods, interviews, surveys, protocols, stories and observation. Most common data collection methods in case study research are interviews and observation. (Yin 1997, 74-80) In this qualitative research "themed", also known as semi-structured interviews are used. This way open discussion is enabled, and interviewee can raise topics and perspectives they feel important. For semi-structured interviews, themes for discussion topics are planned, but approaches, order and content may vary from interview to interview. Besides these, secondary data such as company's published articles and internet pages are used to support the analysis.

Interview structure (appendix 1) were given for interviewees prior to the interview to ensure common understanding of the topic. Interviews were prepared by creating the structure and additional set of questions to support the researcher during the interviews to facilitate the discussion without compromising the open atmosphere.

3.2.1. Sample overview

This research was conducted as a fully anonymised case study per request of the company. Preliminary data was gathered by interviewing eight individuals. Interviewees were from different organisational units in order to identify the differences and commonalities. Through this, aim was to build more coherent perspective and to obtain detailed qualitative information with a wider extract, than a case study conducted only in one unit would had offered. Anonymisation allowed the interviewees to provide honest information and perspectives during the interviews. Five interviews were conducted by using Skype and three were face to face meetings. Interviews were themed based on theoretical framework, simultaneously leaving space for an open discussion to allow the participants to bring experiences of the capability development in order to be able identify barriers and drivers which may not have been found from the theory.

The interviews were conducted over in short time period, but still leaving room for enhancing the interviews upcoming. Target interviewees were decided based on key role, i.e. strategic management in the business area. In that way researcher ensured that targeted members were having a wide perspective on capability management in that business area and/or group level. After each of the interviews, preliminary analysis was made and interview structure were re-assessed before moving to the next one. Members of the organisation were also decided during the process. In that way, most relevant targets for the research were identified and the data relevance for the purpose ensured. Secondary data is utilised in analysis in necessary and relevant parts.

3.2.2. Data collection and analysis

Fast phase of interviews created a pressure for the researcher, but it also reduced the variation on data that could have been occurring if case company's change objectives, business models and strategies would have been changing between the discussions. All interviews were based on literature review but were varying based on the knowledge that the researcher gained between them and of course based on perspectives of the interviewees as discussion were open ended. All interviews were recorded, using recorder or by recording skype session.

Additionally, researcher notes during interviews and retrospective thoughts after sessions were done.

Data analysis started immediately after first interviews. In the data analysis, the interview recordings were transcribed and enhanced with researcher's notes. As a first step, all transcribed material was read through various times to re-assess the goal and research question. As this thesis is conducted using abductive approach, the first step of actual data analysis was to use an inductive data analysis method of themes and coding. But unlike in inductive research, the data were first analysed using open coding, the codes were identified from the transcribed materials and were organised into groups in excel, without theoretical framework. These groups were named and shortly described, highlighting the content from the quotes. All codes were then organised into themes, larger categories. Then moving to the inductive approach on the next step, following the theoretical framework data were re-coded. Next, the literature-based codes and open codes were compared to determine relations. Overlapping codes were merged together and unclear code names were rephrased to better describe the data. From open coding 28 codes were identified, literature framework with capability antecedents were categorised into 6 main themes, after all codes were revised and redefined, three overarching themes; organisational factors, individual level factors and environmental factors were formed, based on the codes from the literature review. Open codes were however creating sub-categories to these themes that were recognised outside the framework. After categories were formed, the theoretical framework was re-assessed. The coding enabled to find all the themes, order those and to find common factors that might be enablers in capability development. Analysis was applied in order to identify similarities and differences from the data. Data analysis and conclusions are presented and discussed in next chapter.

3.3. Reliability and validity

Saunders et al. (2012, 380) state that data quality issues in semi-structured interviews are reliability, generalisability and validity. Bensal et al. (2018, 1193) highlighted that nearly everyone doing a research is impacting to the organisational context. This is affecting to the validity of the research. In this study, researcher aim was to remain objective to the data, but

noteworthy is that as researcher were having previous experience in industry and context. Researcher were preparing to the data collection by creating the interview structure according to theoretical themes, so that researchers own biases would not affect into the interviewees. In this research, the quality and reliability were ensured by using different sources of data and by preparing into the data collection. Validity has been ensured by reviewing literature on continuous basis and by keeping the interviews on track to remain the focus. Generalisability is low as case study is having only singular approach of this company in current situation.

In research based on interviews the data validity is ensured by different practises when collecting and handling data, however possibility is that interviewees understands the questions differently and considerable is that are these answers corresponding to the question. To ensure quality in data collection, researcher prepared carefully by creating the interview structure. To improve the reliability, similar questions were asked to get a larger variation of answers. Data were collected in manners that ensured theoretical saturation, which in terms ensures validity of the research Table 3. Shows the categories which were used to ensure holistic perspective. At the beginning the research plan were to interview two to three participants from each business unit, but after first interviews the research plan were re-assessed as research analysis showed, that variation between units were not answering fully to the research question. Firs interviews indicated that individuals were accessing the topic from the group, or organisational level, not on single unit. Variation were recognised between the individuals with different experiences and roles, more than based on organisational unit they were working. Therefore, theoretical saturation table were created to ensure coherent picture on the topic. Theoretical saturation does not identify individuals in any way in order to ensure anonymity. Interviewees are from different business units of the company, different ages, genders and nationalities.

Table 3. Theoretical saturation of data collection

	Working closely with concepts and methods, experience on capability development as concept/method	Not working closely with concepts and methods, no experience on setting up the “framework”
Is seeing capability development as ongoing working process, identified drivers	Interviewee x Interviewee x	Interviewee x
Sees challenges for capability development and/or thinks it is not possible in current situation, identifies barriers	Interviewee x Interviewee x Interviewee x	Interviewee x Interviewee x

Data were gathered from interviewees with persons working in position where concept of organisational capabilities has been present, and they had personal experience on capabilities, how they are developed and has seen successful practises around those. Also, interviewees with similar type of background but with and/or experiences on failures or challenges were interviewed. To understand the variation in the organisation, also representatives from different business units with no close relation to conceptualisation were interviewed. These interviewees presented perspectives also for success and barrier factors. Main dividend was in the role if it were close to the parts where capabilities and capability thinking has been kicked off in the organisation. In theoretical saturation of data collection (Table 3.) can also be seen the variation of the views. Interviewees weren't solely only seeing driver or barriers or were fully working with the capability development or were isolated totally from the conceptualisation. Therefore, variants are seen also in horizontal and vertical axes.

4. FINDINGS

In this chapter the findings from the interviews are described. The findings provide an overview on how capabilities and capability development is approached in an organisation by its members. These findings are associated with the theoretical model, which were presented previously and built based on existing literature. As said, the research is abductive and in honour to previous literature, interviewees inputs are compared to the theoretical framework. Subsequently, the model is revised and enhanced with the findings of the research.

Theoretical model of capability development and factors influencing it (Figure 1.) were built on literature review, in accordance to empirical findings of case study, the model was revised (Figure 2.). The empirical findings on antecedents are echoing the theory-based model.

Capabilities can be researched on level of individual capabilities, portfolio including various capabilities and capability constellation which includes all capabilities that a company has (Laamanen & Wallin, 2009). Aim of this study is to build a coherent perspective on capability development on individual and portfolio levels, capability constellation level was scoped out. Empirical findings show that in order to build individual and portfolio level capabilities, the company should have strategic alignment on its goals, agreement on constellation level capabilities and structure to support it in a best way. The company should have a common agreement to view the organisation and strategic decision making through these capabilities. These are the foundational antecedents for the capability development in a revised framework.

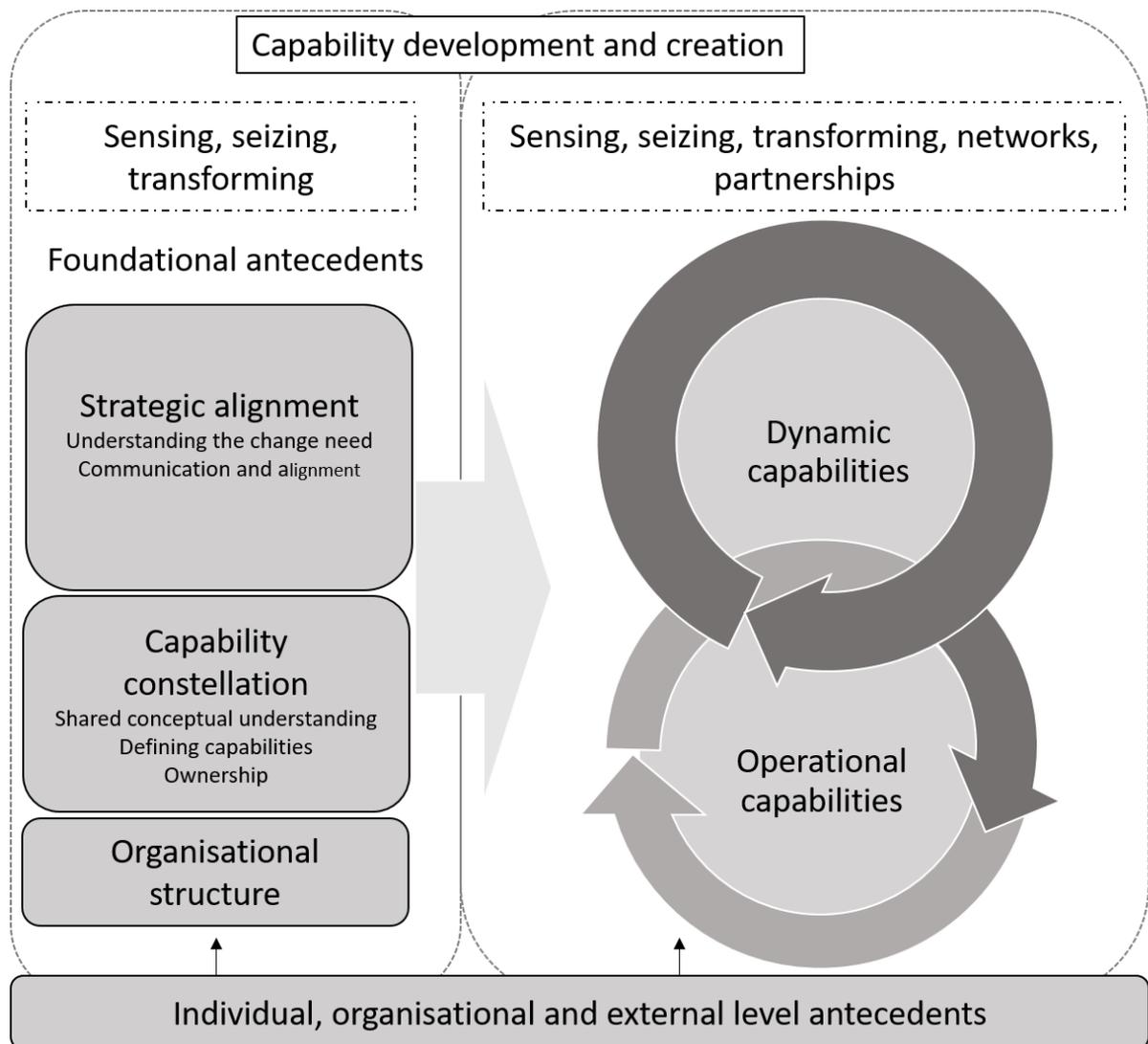


Figure 2. Revised model of capability development

The revised theoretical framework shows these three foundational antecedents to be crucially effecting to sensing, seizing and transforming, that are needed in order to create the foundational base for capability development, besides the actual capability development. Strategic alignment and constellation level agreement were added to the revised framework as importance of those before starting with capability development were highlighted in the empirical study.

Based on the findings, capability constellation is referring to company's whole capability base which should be visualised and revised according to strategy. Defining individual and portfolio level capabilities are part of that work. Common understanding of terminology

around capabilities was recognised as a factor, that were not presented in a theory-based model.

Findings indicate that capability development is driven and impeded by factors echoing to the literature of dynamic capabilities and antecedents. Organisational level antecedents were raised more from the empirical findings, than individual and external factors. Antecedents of organisational level, individual level and environmental level are affecting to the capability development. But these antecedents do also have a complementing role in foundational level. Connections of antecedents are discussed further in next chapters. In theory-based framework the role of learning co-evolving etc. tools were presented in capability development. Empirical results do not denote these as separate factors, and therefore are not presented in the findings.

The findings are presented through the revised model based on the empirical analysis (Figure 2.). Citations from the interviews are used to present accurate comments and thoughts from the interviewees. Discussion is done in relation of empirical findings and literature review. Implications of the findings are concluded at the end. As mentioned, empirical research found antecedents for dynamic capabilities, and drivers and barriers for capability development that were not presented in literature review-based theoretical framework. Findings indicate that understanding change, terminology and strategic alignment to be organisational level antecedents besides ones identified in theoretical framework. Creating and managing coherent capability constellation were found to be a driver for successful capability development in the organisation. The research found these antecedents and drivers very important in order to be able to answer to the research question, so besides theoretical framework-based findings, also these new findings are presented and discussed further.

4.1. Foundational antecedents for capability development

4.1.1. Strategic alignment

Strategic alignment consists two areas. Having a common understanding on change need and then sharing a vision and align among the organisation regarding the strategic direction.

The need to understand the change

The results indicate that understanding the change in organisation is affecting to the dynamic capabilities and capability development. The analysis of the data found it to be related to the foundational pre-requisites of the capability development.

The company has recognised the change need and have published material stating the need and importance of digital transformation. It further states that digitalisation is no longer only an exciting option, it is a necessity. Referring to the company's publications, they see that digital disruption is rapidly changing the competitive landscape, prompting a strong drive to adopt and apply new technologies and capabilities. Digital transformation has been ongoing for three years in the case company. A year ago, the company expressed that it is seeking for moving to the next phase, where the aim is to structurally bring down costs and increase efficiency as its previous investments have started to deliver. The company also recognises that the road to the digitalisation is not easy, but mandatory. These secondary data findings are stating that unpredictable, volatile world, where everything is changing at an increasing pace, has motivated the company to develop its business to meet the challenges and demands of this fast-paced environment.

Above presented secondary data findings are describing the urgency of the change. Primary data resonates to that. The company has communicated around the change needs and management is supporting in understanding it. However, interview data indicates high variation on level of understanding the change needs and speed. Variation occurs at on unit, team and individual levels and is seen as an impediment, as we could see in the next quotations:

“They understand how big the change is, but not the speed.”

“They understand the amount of changes, but we are rushed. If we don't, we might die.”

The findings of this research states that if the one who does not recognise the change necessity is in decision making position, it might have crucial influence on the company's strategic path. Furthermore, if the change speed is not understood, the decisions and changes

might take too long time to be implemented. Change resistance is seen to occur in the organisation, when the individuals or units are not aligned on why the change is needed or are not agreeing on the prioritisation of the change initiatives, when they might feel that one thing is more crucial or urgent than the other one. Majority of the interviewees felt that top management and managers in strategic positions should be aware of the needs and the direction but were suspicious if the change has been understood in similar way. They were mainly aligned with each other that not everyone in the organisation necessarily need to be on same level of understanding on market challenges the company is facing, as long as each individual is able to adapt to the change in his/her position.

“People do understand the change need in large part. In some cases we can’t get individuals to change, we need to change quickly but not everyone will sit on the same bus”

Some of the interviewees were concerned that some employees might not understand at all the amount of changes that may occur on following years and therefore might feel it later as a big surprise, e.g. re-organising, closing or opening services based on customer needs could be situations causing this. In the organisation, the continuous change is seen affecting the business on every day and in all levels. Various change programmes and initiatives are implemented, in group and unit levels

From digitalisation perspective, some of the interviewees are wondering if that has been understood in similar way in the company and what are the implications of it in a larger picture, not just for a single change programme or actions were processes are digitalised. Results indicate that in order to ensure the strategic alignment, the decision makers should have a common view on digitalisation, its impact on the company and finally, aim towards common goals.

Strategic alignment

Literature has recognised the importance of tight capabilities to the strategy (LÄHDE). Empirical data raised strategic alignment to be a fundamental building block for the capability management.

Data gathered from the interviews indicate that the company is lacking a common approach on its strategic direction. Some of the organisational change initiatives are seen to build a common approach, where all units and country divisions are aimed to move from siloed model towards more “one company” approach. However, practical implications to drive all actions to that direction are lacking

”I feel it is more said that everyone has a same ambition, than truly has”

”We need to create a picture on what is this organisation and what we would like it to be.”

Data indicates that the top management should decide on strategic direction. When ensuring its leverage on the organisation, most of the interviewees thought that every unit and every individual should be aware of it. But also, perspectives that not everyone need to be fully aware of long-term strategic directions.

”To me, its good if leaders share the same view as me so they can direct their team in the right path but do every individual need to know? If they get to know its better but is it a must? Probably not”

Quote from the interview highlights the role of team leaders in knowing the strategic direction. The study found that a talented leader might be able to motivate the team to good results, especially if they have motivating goals or specified projects that they are working on, even if the leader nor the team does not have bigger view on its impact.

4.1.2. Organizational structure

Empirical data evidences that organisational units are somewhat working as decentralised organisational units, but variance between business areas and countries are present. A case company is characterised to be large and complex by its members which is caused by geographically and dispersed units around the company’s market area.

“This company is very complex in structure”

“This complexity and all these layers”

Complexity of an organisation have been recognised at all levels of the organisation. Experience, background of an organisation is affecting on how organisation is structured. Findings indicate that members of the organisation feel that current way how units are organised is causing difficulties in building capabilities across the organisational units and countries.

”The predominant view is that we are recognised as one entity, have one company delivering capacity to different business units. Another perspective could be to have separate businesses. Holding companies. What’s right? We should ask from the CEO.”

Findings of this study indicate that the company have dispersed perspectives on how it should and could be organised. One perspective raised is that organisation should be aiming towards organising processes, capabilities or units at the group level, rather than business area level. Two interviewees indicated that might not be the right thing to do. Also, multi-national perspective is concerned:

“One is country dimension, the way we do processes. And then there’s also the business area perspective. It’s the both, to large extend what needs to be done in each of the countries”

As seen from the quotation, the variation is caused by units and countries. The predominant factor raising from the data is the country dimension. The company is structured by country units during the past years, which seems to have become one of the obstacles for common solutions across the company. The history of country units however is also barring the common approach.

”If you actually want to transform and to make sure we are competitive in future, the fact that we think so much local is actually holding us back”

Findings indicate that strong strategic decision making and huge change programs are

required if the company wants to be acting more as one entity. Some structural changes have been done in business areas but impacts on group level were not highlighted by interviewees. The analysis confirms that organisation have indicated and communicated its willingness to drive towards model to be one entity, not dispersed country or business units. Results indicate that business units are in some cases working on solutions that are built to support common alignment across the group level or across the units.

“Every time we still do things, we do it in country not look at what could be the common solution. But there are some things we are trying it.”

“Most of the initiatives we have, we want to transform to be one company, which is nice strategy. But if we look at it, there’s lot of complexities that are preventing us doing it. It is around the country dimension, it works for us and work against us.”

Results however indicate that resistance is caused by culture, experience and unintentionally. It means that people are focusing on running the current business, creating customer impact and revenues to the shareholders, so that they “don’t have time” to consider how they as individuals, teams or units could be building more common solutions for the group. Concerns on common, group level solutions were highlighted to relate to the validity of the solutions to the dispersed markets. And questions were whether organisation can meet the local needs if there would not be local unit serving the market. This finding tie together well the finding on capability development and traditional unit discussion. As interviewees felt that current country and business area-based silos are not able to deliver and develop group level capabilities that would harmonise the organisation and cut its cost. But at the same time, they were aligned that common, group level solutions are difficult to build and therefore current solutions often tend to focus on smaller entities.

Results indicate that localities are having benefits for sensing needs in the local markets. Main barriers for alignment between countries are seen in varying market needs and in belief that unit or capability working across the countries might lose its sight to the local markets. This finding is discussed further in the next section of the findings, capability constellation (see 4.1.3.). Empirical data indicate that structure of the organisation is tight closely to the unsolved issues on capability constellation presented next.

Some of the organisational units are using “capability areas” for describing organisational unit that has collected human resources with similar skills, competences and roles to the same bundle. This has a connection to the organisational capability as the intention is to build these individuals forward and through common activities such as communities of practise, training and knowledge sharing in order to enable more coherent skillset across the group.

4.1.3. Capability constellation

Capability constellation describes capabilities with which a company has determined to deliver its strategy. Through capability constellation, organisation could design its organisational structure in a most efficient way to reach its goals. (Williams & Rains 2007, 164). Capability constellation were not included in literature-based framework, it was recognised as significant finding from the empirical study, as it is correlating strongly to the structure and to the capability development.

From the interviews can be recognised that the case company started a unit or a project to take activities in capability management view in order to tackle the market challenges. The aim was to increase the knowledge in the organisation on capability view as an strategic approach. Interviews indicated that there is variation on how this has been understood. On one hand, some of the interviewees highlighted that on group level there have been various initiatives, groups, projects and permanent positions to enhance the knowledge and create the capability constellation. But simultaneously data shows that people are not aware of that work and they do not have visibility on if and how capability constellation is managed.

Capability map

Findings show that team who started the previously mentioned initiatives for capability view adoption were also building capability map to visualise the capabilities company has. Aim of the unit were to build a coherent picture on capability constellation. The unit was identifying the common activities performed in different parts of the company in different ways and through different units. As a result, they aimed to consolidate the best practises and to start building common capabilities rather than various solutions in all different units.

“One of the things we tried to do was to shift the access of power in organisation from silo-based company to transversal organisation where there were all these capabilities would be serving the entire company. So this capability would be specialist in their function and through service architecture would be serving the different units on behalf of the group. So that was the initial idea”

Interviews indicate that the capability map is felt unclear, not used and its too extensive. Some interviewees raised a concern, that first actions such as building capability map was seen as a PowerPoint exercise rather than actual strategic movement. Another concern raised regarding capability constellation were that not all identified topics on the “map” are capabilities, nor should be.

“If you look 42 capabilities in our capability map, I don’t know whether its sustainable to have 42, be bit too complex. there must be grouping for logical capabilities together.”

Unclear capability map and lack of definitions are causing irritation and mistrust among employees. The framework of business capability map is seen as too general, not specific for the organisation and relationship of the capabilities and addressing the change needs is not recognised. Results indicate that map is consisting many topics, where some of them were seen more as small steps in the process rather than capabilities.

“People see this and think what a hell do you mean?”

Where on another hand, some of the topics on the same map were big business entities with multimillion-dollar businesses. Results therefore indicate that there is a variation in organisation that which actions, processes and units are seen as capabilities. Interviewees also were aligned among each other’s that capability constellation is not managed in visible way and strategic alignment on capability constellation is missing between the business units. Two interviewees said that maturity in the organisation regarding capabilities is not high enough to develop and create capabilities, even map is a great start for identifying possible needs.

Defining capabilities

The study demonstrates the connection of identifying and defining individual capability, capability constellation and adoption of the capability view. By defining capability, the results show that it is unclear in the case company what a certain capability means and what it is supposed to do. Interviewees were not sure what are the value that are aimed to be gained from the capability. Results also indicate that responsibility on who should decide on what the necessary and wanted capabilities are is unclear. Even it was an important thing to be able to reduce the context in the capability map. Six out of eight interviewees would like to see work ongoing for identifying what are the capabilities that company is or want to be very good at. In addition, they find it important to identify which capabilities should not be developed internally bought or built with external partners. This would allow the company to focus on the creation of strategically important capabilities. One of the interviewees felt that in there seems to be no room for this in the top management's discussion. Other participants emphasized the importance of unit heads in building the common approach to meet the strategic objectives through the strategic capability development.

Organising capabilities

Interviewees felt that capability development should be taken into special observation in the company, to identify whether capabilities should be executed as centralised group level capabilities, which capabilities should be local per market area, per business area or otherwise dispersed. Interviewees felt that it is unclear in the organisation at the moment. The process to discuss and decide on capability constellation is long, hard and time consuming. Some of the current initiatives as described earlier, are driving towards common way of doing things.

“But it does think that core systems and number of other things are capabilities that gradually are moving, but it's quite tricky to start with.”

Individuals working closely with capability identification and who are driving for capability development were stating that some work is done on the group level, but quite often the capability assessment and development decisions are executed in business area level, when country dimensions are taken in notice but different business areas not. One of the interviewees said that the assessment of capabilities is a part of the configurations every time

strategy is adjusted, or when the departments or unit's ability to create value is concerned. Overall the results indicate that variety on how capability assessment is seen is high.

Implementation and execution of centralised capabilities are a tough process. One of the biggest barriers on starting the capability establishment were identified to be related to the validity of the capability to its end user or customer. Key words used in the context were trust, validity, match, meeting the needs, customer needs, usability, one-size and fit.

The main concern regarding deciding on centralising the capabilities to serve functions and areas across the group were related to the local needs. Whether or not centralisation is done, the decision should be done by evaluating the customer impact of the capability. And if group level, common capability can serve the needs of the customer better than the current local solutions. Results emphasised that the company need to consider carefully differences in markets, customer needs and expectations, differences in regulatory, taxonomy or legal conditions. Interviewees felt that aiming for centralised, or common solutions can go horribly wrong if it is done for all the cases, without considering the mentioned factors.

"We should not aim for centralised solutions at all times. Only when it's smart to do it so what value can be created, we should not aim to centralize everything"

"As soon as you do centralization, consolidation, you pay the price that you go further away from customer. And something that it's so neutral it doesn't matter, it can be consolidated."

Results show that the organisation should evaluate the business criticality of the capability to the market needs. If the capability is something that is delivering result to the end user, customer, then it should be carefully assessed if it is able to meet the needs without local variation. The study recognised that local businesses are in different levels on sensing customer needs, creating options for it and in trying out new ways for meeting the needs

Descriptions of capabilities, goals and borderlines are lacking which makes constellation assessment and adoption hard. Borderlines and ownerships between capabilities are blurry and unclear. Which is complementing the finding that capability constellation is not aligned

and responsibilities on different capabilities and units are not clarified, communicated or designed.

“Then you might step on peoples toes, responsibility areas, no one really knows what the borderland is and where does this capability stops and where is the next one is or next solutions starts.”

Politics and relationships among individuals are a part of the discussions on how capabilities should be organised. Additionally, interviewees noted that it could be solved or avoided by describing the capability, its responsibility, ownership and agreeing on interplay between capability and its customers/users.

Gathering requirements for capabilities

Dispersed needs and requirements from different units are compromising the establishment and development of common capabilities. However, research results indicate that these variants of requirements might be partly tight to beliefs, assumptions and limited view on how things could be done. Difficulty is emphasized, when units are having solutions to the problems already in place.

“I also see number of capabilities aren't so easy either to define or to develop or to maintain. Because of the number of solutions you already have in place which not the capability but it's almost a capability”

Local solutions, or capabilities are usually well working solutions which has been built and developed with great dignity throughout the years. Lots of resources has been put to the solutions and it is often seen as “only way” of doing things. Therefore, aligning the different ways, when there might be even 4 to 6 different local solutions in place is hard. Results indicate that the organisation is aware of the costs that dispersed solutions create, as it might be even four to six times higher than running one common solution would be. Interviewees indicated that tension is also raising from that. If four different solutions are moved to the common, one centralised way of doing things, it is cutting costs, but it is happening through reducing local resources. People tend to feel that this is not tempting option, as it requires either re-allocations, trainings or reduces to the workforces which in turn is not easy nor

nice.

Trust issues were raised from the findings regarding centralising and building common capabilities. Usually building a common capability requires first search on existing solutions. Then these solutions should be compared, commonalities and differences should be identified.

“How do we get all of the stakeholders that needs the solution to trust that delivery organisation. how do you ensure that right input is given to be able to develop the capability”

“Including different business areas and countries takes lot of discussions to get to the agreement”

If a capability is not able to answer to all local needs, it could offer common solution for all units needing it but leave room for localised implementation and execution. Results however indicated that people do not trust that this would happen and that might cause a barrier for developing a capability. Organisational structure is here connected to the consolidation as research indicates that gathering the requirements and needs are difficult due the high number of units and geographical factors. The lack of trust occurs when common capabilities are not believed to be able to meet the local market needs. Different units are not trusting to each other, units and individuals have their own pride on the solutions that has been serving the organisation usually in good manners. People are seen to have high level of ownership; they want to ensure that capabilities truly bring value to the organisation and to the end user. People fear, that if capability would be common group level solution, the needs of the local markets are not considered well enough.

In organisational structure is seen that involving many participants slow down the decision making. In capability development important would be to ensure that right people are involved to the decision making and presenting the requirements of the business areas. Business architects are seen in some organisational parts to support business to conceptualize the needs and through that design better capabilities. In these units' architect's role is seen as vital integration part between different stakeholders and as a “gate keepers” for gathered

requirements, so that capability can still be coherent and not too wide spread.

Involving various participants and gathering information around the company is identified as an obstacle. If all the units are not willing to go for a common solution, they might be resilient to discuss on the topic. The process is also facing difficulties on finding suitable persons to share the knowledge, as roles and units are different throughout the organisation. Interviewees have recognised that push from the top management is sometimes required in order to get all the necessary units and geographical locations to agree on a decision. Sometimes people make it happen but then the willingness to change is usually evoking for a longer time. On group level decisions, interviewees have recognised that decision mandate is missing when to decide on capability and to align different units and solutions.

The unit which started with capability view acknowledge actions of identifying the different solutions and built the capability map also ramped up four capability pilots. Project unit was cancelled later but research shows that some of the pilot areas are still running and can be seen as capabilities.

Sharing conceptual understanding

Interviews started by ensuring that participants are aware of terms, definitions, topic of the research and practises. First observation from all interviews is that term “capability” is unclear, mis-understood and it is first barrier to start using the capability view in a strategic management. This factor was not recognised in the literature review. The analysis of the data found it to be related to the “foundation”, when creating a capability constellation

Interviewees noted that organisation has offered internal material regarding the topic and definition of organisational or “business-capabilities” are in line with definition used in this research. Analysis indicate that even mentioned definition is provided in the internal channels, there are numerous ways how “capability” as a word is used in the case organisation.

“I think people use capabilities interchangeable, when I talk about capabilities like we do here, I have started to use term “business capabilities”. But there are conversations where they talk about capabilities as is competency, people competency.”

*“It is very difficult for some people to understand it’s not an organisational chart.”
(interviewee on “capability map”)*

“Confusing. And I think we never really got our arms around business capabilities and what is that.”

Besides citations presented, data specifies that capabilities are used as a term in human resource management where capability is referring to individual persons skill and competences and in role description. In that definition no other factors of capabilities are included, like in organisational capabilities that are used in this research. In one business unit “capability areas” are referring to group of individuals with similar roles, skills and competences to ensure coherent development across that business unit.

Terminology and common understanding of wording were not included in theoretical literature review. Empirical research shows that it is an important factor when capability constellation is built and in enable the company to start implementing the capability view in to the strategic management.

4.2. Organisational level antecedents

Organisational level antecedents are seen affecting to the capability development. These antecedents are present also present when the foundational level is built, but the role of these were found to be additional and comprehensive to the previously presented foundational antecedents.

4.2.1. Organisational experience

“Bygones are rarely bygones” (Teece et al. 1997, 522). The analysis confirms that the organisation is established company with a long history formed by aligning, purchasing, selling and uniting tens, even hundreds of organisations during the years. The complexity is affecting organisations ability to adopt the capability view to the strategic management and

to develop capabilities further.

“Very big organisation with long history a very kind a complex history, then capabilities are quite challenging”

Interviews indicated that the legacy of the organisation is very long and complex, so that it barriers the development for the future needs. Interviewees have recognised that previously made “short cuts” or strategic decision where the technical constructions have not been aligned are complicating the current development of an organisation. Results indicated that organisational units have been building solutions serving their customers’ needs in current market situations and even solutions might be working, those rarely are scalable across the organisation. Topic of structure will be discussed further later, however from IT-architectural perspective the lack of alignment between the business units and countries is one of the open questions that organisation should handle.

“We lived over ten years that we had a same logo and some common statement, but effectively only numbers were together, otherwise all these big parts of the companies were country specified units”

From empirical findings can be seen that complexity of the it-legacy is causing also financial damage. Interviewees indicate that questionable is if current solutions are meeting the architectural needs and are aligned to the common architectural strategy. Results indicate that it is sometimes unclear what are the driver for the development agenda. It is seen as an impediment towards the capability development, as people feel that decisions are not aligned and well communicated.

“All of the sudden someone can make up that we are not using these systems, we are going to use another technology”

Research identified that these types of decisions might be driven by units who has ability to affect across the group but if stakeholders and users of the systems are not involved to the development process the resistance is increasing as these solutions might not be seen as building coherent global solution, rather driving individual problem solving.

IT-legacy is not something recognised only in this study. The case company is doing various change initiatives on it and is actively seeking on possibilities. One big change is ongoing consolidation of the IT-legacies.

“For example core systems, it’s trying to see what should be common. But its taking more time.”

”We need to pay this price now, as we have not invested more previously to the common platforms and common activities”

This type of consolidations is seen as large change initiatives taking time and money. Which is then seen compromising the adaptiveness to the rapidly changing market environment as resources are tight to these larger initiatives.

4.2.2. Organisational culture

Findings indicate that experience on capability development, years in the company or role does not resonate with the perspective of organisational culture. Some of the interviewees expressed that they do not see that current state of organisational culture enables capability development. But in another hand, 3 interviewees were saying that culture is the biggest enabler at the moment for any change, development and to the successful performance.

As discussed in change and transformation part, the company have recognised need for change caused by environmental factors of customer expectations, new technologies and changing regulatory environment. Data indicate that the case company has ongoing cultural transformation that have been set up to support transformation and change. The empirical data shows that culture is a core driver for enhancing communication, ways of working and as a building block to overcome challenges identified i.e. in structural context.

Findings on how the case company culture is seen are two folded. Findings indicate that top management is supporting on cultural transformation. Support that top management gives

for the cultural change were described by interviewees to create empowerment for individuals and teams.

“From the support that top management gives, the change is being even pushed from the top management”

Results show that top management support is creating positive interest towards the transformation and individuals were describing the ongoing change in a positive way. Cultural transformation programme is considered as an enabler for creating greater atmosphere internally but also to put company’s vision into practise and create more customer focused products and services. Despite this, 7 out of 8 interviewees were concerned that the transformation and culture programme have not reached everyone in the company. Data indicate that especially on discussion were financial decisions or resource allocations are made, the cultural values and practises are not utilised. Which also raised a concern that maybe then people deciding on capability development prioritisations are not living the culture either, which might cause less customer-oriented decisions. Or distraction between units and individuals, if the decisions are not aligned with the culture and values of the organisation. Interviewees did not had examples on situations like this, but they did “feel” that it might occur sometimes.

Managements reward systems and key performance indicators were noted by interviewees to guide decision making towards options that are creating short term impacts and results.

“we are still run by people who are rewarded on quarterly basis on how well they perform on current portfolio – no one rewards them on how many experiments are you running, how much are you trying to substitute your current business model“

This finding does echo on the fact that culture program was recognised as a great initiative but its effectiveness around the group were still questioned. Interviewees were feeling that the KPIs are contradictory to the cultural programme which denotes empowerment, entrepreneurial mindset and innovativeness. Managerial decision making is driven by these key performance indicators, rewards and by budget allocations. Research indicates that budget allocations are driven by short term returns and interviewees felt that if the results

are not visible immediately, they are going to get funding for next three years.

4.3. Individual level antecedents

Findings on individual level antecedents are suggesting the individual level factors of human capital and social capital to be connected and building on managerial cognition. Therefore, these are not presented as separate factors but as one factor, individuals' cognition, that might enable or prevent the capability development.

As presented in organisational structure, interviewees were unsure if capability development should aim towards group level development initiatives or unit level solutions. That finding is rooting to individual level, where past experiences are causing variance on how organisations members see decision options. People feel that previous development initiatives "across the silos" have created expectations, trust issues and concerns that might prevent new initiatives across the units. Data indicates that relationships between individuals are usually built on trust and organisations members see their colleagues as loyal and as "good colleagues". The data shows that trust between units is less than between individuals presenting the units. Research recognised that the history of organisational activities and individuals experience on those are creating a tension between individuals that is affecting to the ability to find a common agreement. Data show that individual level experiences are distributed to the unit and therefore creates a common view in that organisational unit on the topic and therefore previous experiences that others have had might cause expectations and assumptions for new members of the organisation too.

Research indicates that individuals' decisions are guiding the development of the company forward. Data shows that decision power is distributed differently between the units. Some of the strategic decisions are felt to be taken by units, committees or management groups, but interviewees raised that in some cases certain individuals are having more "guts" and are taking big decisions on their own. This individual power is seen in positive and negative light, dependent on the context and effect of the decision taken. Individual power seems to originate from individuals comprehensive career background, social skills and self-esteem. In context of capability development, interviewees especially raised that individual

experiences are driving the decision whether capabilities are built on group or in unit level organisations. Which connects the findings to the organisational structure and strategic goals of the organisation.

Internal politics founded in the study were referring to the individual level factors. Results indicate that individuals are driven to take solutions that are benefiting their career development, recognition and organisational position. Findings indicate that individual might take a decision based on what benefits him/herself. These decisions were called as “empire building” that refers to one keen to reach a position higher in the organisational hierarchy.

“There’s tradition in large old companies that people who has been around for a long-time, they have invested their entire career for building empires. And the level of success of that empire is measured by number of people reporting to you, so people take some pride of “I have 1500 employees.”

Above quote refers to the individuals with long organisational experience to build these empires. Data however presents also controversial perspective, where individuals who are rather new to the company, with little experience are career oriented and seeking on to reach position where many people are reporting to them.

In the case company, it is understood that when developing common capabilities, the power of individual might be distributed to others, then as a head of unit/country/area the one would no longer be responsible for all the solutions and processes offered in that unit. Results indicate that it is not seen as favoured solution. If capabilities would be developed with a common approach and integrated to the various units through skilled individuals, “internal consultants”, or by creating projects with participants from different areas are recognised to create political challenges, when individuals who used to be leading people, are not having these members as direct reports. Research participants were explaining these political barriers to be caused by natural human sense factors but were also raising that it might be caused and/or prevented with organisational actions. Some of these could be on developing on how organisation acknowledges different roles and how compensation and measurements are supporting the roles, ways of working that are not “traditional” managerial positions.

Few interviewees thought educational background to act as a driver or barrier for the capability development. It-architectural background in organisational architecture unit might lean architectural decisions towards IT-favouring solutions not to aligned more with the business. Designer, customer experience and business architecture background were seen to drive capability development.

Interviewees have recognised that gathering resources and knowledge in organisation is hard. Caused by individual beliefs, experiences and organisational structure. Networking and building relationships are happening actively by individuals. In decisions where input from various aspects are needed, the sensing is found as a barrier. Partly due to the organisational structure, but also as individuals in different units might not prioritise the topic and therefore the data gathering is taking time.

The data indicates that people feel that taking decisions, developing project or other initiatives that reach various units, are slow due the difficulty to find common agreement. But if decisions are made, developments done or solutions built without actively participating all the possible participants, usually feedback at the end will be negative.

“you try to migrate from the present solution into the new one and then you have number of users of that capability that are used to do it in one way. And first response is usually not “yeiii this is the best thing since sliced bread”

Interviewees believe that people do not purposefully doom the solution if they were not participating, but it comes from the individual’s beliefs that it can not be suitable for me, or for my customers if I were not participating, without looking for options that the solution could bring.

This study found that in the case company, it members do trust that top management are sensing and seizing opportunities well, they do see possibilities to develop further methods and processes, maybe even tools and systems to enable an organisation that bears and can have an ability to proactively communicates possibilities, risks and concerns upward, and then to translate the decisions and proactively communicate these downwards, when

described from the hierarchical organisational structure. This is also referring to the other structures but describing that information flow should be enabled between different levels of an organisation.

4.4. Environmental level antecedents

All interviewees raised the importance of regulatory and legal requirements in the industry to have an enormous effect on business. Perspectives were aligned that company do have various incentives on going around meeting the regulatory needs and new requirements are challenging the business decisions. Data indicates that members of organisation do believe that company is doing good work on this are and could be superior when compared to another industry players.

In seizing and transforming capabilities, the data shows that prioritisation and decision making is compounded by external factors such as regulatory requirements, laws and customer needs. External factors are making decision making sometimes hard and is driven by ad-hoc problem solving to meet the requirements, rather than building innovative new opportunities. Risk management perspective have however been recognised forward seeing, as areas and units have been sold out that are not beneficial enough when compared to the risks involved. Important is to notice that majority of interviewees were concerned that other change needs are not recognised or prioritised enough due to the regulatory needs and were questioning that there might be room for adjustment on management prioritisation.

The data indicates that budget available is drained to the mandatory requirements when new insights and development for customer enhancements are down prioritised. Some of the interviewees believe that either the mandatory requirements/regulatory management could be done more in business focus, thinking how to develop customer experience, services or products with that solution that is done for regulatory needs. Or to address only the minimal amount of the resources to those actions, not to overdo it, which is seen to be the case occasionally.

The research found that organisations ability to sense and seize external factors such as new technologies has been enhanced by establishing networks and partnerships with start-ups,

other industries and universities. Some of the relationships and networks have been established to create new revenue streams in the case company. Four interviewees had experiences on networking with other companies in- and outside the organisational boundaries. Interviewees felt that those have been established to ensure the visibility to the new market areas and possibilities. Interviewees highlighted that they believe that these relationships are not always utilised in full potential and some of the benefits, like learning are not gained, as the case company tend easily to take “observer”, “sponsor” or “supporter” role in the networks, rather than finding possibilities. Also, knowledge sharing practises were found to be sometimes lacking, as individual employees might not be able to share all the learnings form the networks so that organisation could use these to developing the capabilities. Results indicate that organisations members would be interested to use external networks even more to enhance knowledge and learning and development in the organisation, but sometimes these external relationships are “something that is done only in bigger scale”. One of the interviewees pointed that individuals’ beliefs might be a barrier more than organisational rules or distractions, as active networking and capability development through external assets are seen in various organisational units.

5. DISCUSSION AND CONCLUSION

The aim of the discussion is to analyse the data by mirroring it against to the theoretical base of the study. The research question: “What are the antecedents for capability development in a context of disruptive change?” will guide the analysis forward.

This research contributes to the literature by showing the core dimensions of dynamic capability antecedents for future development of capabilities. In this research I build a model of antecedents for dynamic capability development that include three main dimensions: strategic alignment, capability constellation and organisational structure. This model is the main contribution of the study.

5.1. Model: Foundational antecedents

The main finding consists three foundational antecedents for the capability development; Strategic alignment, Capability constellation and Organisational structure. The revised model (figure 2) echoed to the model that was created based on the literature review (figure 1), but differences were apparent. The main contradiction was that the empirical analysis highlighted the mentioned three factors to be prerequisites for the capability development, which means that those are the ground base so that company can start utilising the capability view in the strategic management. Another factors and antecedents are driving and barring building this foundation, but also the capability development.

5.1.1. Strategic alignment

The findings suggest that to enable the transformation, first establishing a common vision and direction is needed. Focus of the study were on capability development and factors affecting into it. Major recognised barrier was stating to the more foundational issue than expected. Hereby stating that strategic alignment is an antecedent that need to be recognised as a pre-requisite to enable the adoption of capability view as a perspective for strategic management and further capability development. In practise this mean that strategic managers and decision makers in the company should see company constructed through capabilities and assessment and development of the capabilities should be done to enable the transformation of the company. The findings define that key factor for capability

development first is to set organisation into the mode that capability development is seen as a common interest. Interesting finding is that organisation does not feel that capabilities are constructed in strategic manners or aligned with the corporate strategy. Finding of strategic alignment as a prerequisite is echoing to the previous literature. The literature recognises that the organisation needs operational capabilities and dynamic capabilities to be working and developing in balance that serves its strategy, capabilities of an organisation should be built based on the business content and specific needs of the company, its situation and strategy. (Teece 2007; Carcary et al. 2016)

Strategic alignment as a foundational antecedent is connected to the antecedents on organisational and individual levels. The empirical findings suggest that strategic alignment in the organisation ensures commitment from the employees and help organisational units to drive towards common goals of the company. Organisational structure and how decision making are dispersed in the organisation are inter-related to the strategic alignment as a foundational antecedent. Results indicate that in dispersed organisation with various units driving their businesses, the strategic alignment is needed as units and managers in those can set the directions for the development of the unit. If these organisational units would not be able to set their own directions, the common approach might be less needed. The empirical evidence suggest that the case company has done actions referring to the decentralisation of the organisation (Teece 2007). As suggested in literature, the bureaucratic decision-making lines are reduced, which enablers different units and managers to do decisions and seek information in their area, without centralised acceptance models. (Teece 2007, 1336; Tallman & Fladmoe-Lindquist 2002, 124). Hence, the findings on lack of alignment across the units is emphasising the literature; decentralised organisation faces difficulties to integrate between the units. (Leiponen & Helfat 2011, 643). As a result, decisions made in the units might drive organisation toward more dispersed actions rather than common goals and aligned processes, services and products. This finding is important to be acknowledged if company in future aim towards more coherent, aligned entity.

Study indicated that relationship between strategy and dynamic capabilities is contradictory. Dynamic capabilities, sensing and seizing are needed for building a strategy. Top management should sense and seize the opportunities and risks to create a coherent strategy. In large corporation the individuals in the top management are not able to do relatable

decisions, unless they have competent managers with dynamic capabilities across the organisation sensing, seizing and leveraging the knowledge. Hence, dynamic capabilities all around the organisational levels are needed to build the strategy. However, strategic alignment is a prerequisite for the dynamic capabilities; if managers across the organisation are not aligned to develop capabilities or do not share the view of strategic direction, they are not able to use or develop dynamic capabilities.

The need to understand the change

Common understanding on the change needs in the organisation were recognised to be an enabler for achieving the strategic alignment in the organisation. Empirical data indicates that in order to adopt the common strategic direction, organisations key strategic decision makers need to understand the change need, how it affects to the company and how the change is wanted to be addressed in the company. Results show that the change need and affects that digitalisation has to the company has been understood widely in the organisation, but variety on it occurs. There is a variance on how people think that the change should be addressed, which leads to the initiatives that are responding to the change, but not building on the company's overall strategic goals. Individual change resistance occurs when prioritised change needs or speed of the change are not aligned in the organisation. Based on empirical findings can be stated, that the finding echoes to the literature of dynamic capability antecedents of organisational structure and managerial cognition. As individuals and units in decentralised organisations are empowered to sense and seize their environment, not relying solely on the top-managements capabilities (Teece 2007) and managerial cognition in turn effect on how individual understands the need and decisions made based on it (Helfat & Peteraf 2015). Finding also echoes to the finding from Laamanen & Wallin (2009), that on company's capability constellation level, the cognition is seen in how management foresees the capabilities and transformation over time and how management ensures evolutionary fitness that might have impacts to the company's overall architecture.

5.1.2. Organisational structure

Organisational structure was recognised as an organisational antecedent for capability development in the literature review (Schilke et al. 2018). Empirical findings raised the importance of the structure as a foundational antecedent for the capability development.

Company is large and complex, geographically and market area dispersed. The findings do echo to the theory; can be seen that organisation has got the benefits of the decentralisation, local autonomy supports sensing and seizing capability (Teece 2007). Units and managers are empowered to do decisions and seek information in their area, without centralised acceptance models. (Teece 2007, 1336) Which leads to the fast market responses and knowledge of local customers. In another hand, dispersed units lead to the boundaries in the organisation and causes distraction to build common integrated solutions for customer and barriers building capabilities across the organisational units and countries, which echoes to the theoretical findings (Teece 2007; Leiponen & Helfat 2011).

The complexity raises from the extensive history of the company, that dates to tens of acquisitions and mergers. At the time of these strategic decisions, the solutions and processes of the different parties has not been merged, merged companies have continued to work as country or business units. This empirical finding builds on existing evidence of organisational experience (Teece 2007, 1346) that all managerial decisions are affected by organisational processes, systems and structures which has been created previously. So past decision is creating path dependency (Teece 1997, Schreyögg & Kliesch 2007) and limits current options for the case organisation. Therefore, the synergies might not have been gained, as synergies can be gained from similarities and complementarities between the parties in the acquisition (Harrison et al., 1991, 174).

From the empirical findings stating the variance between the units, is obvious that the case company has not been able to capture the benefits from the scale and scope on enterprise/institution level. Therefore, company is equal as individual companies running businesses, without benefitting from the large scale of the company. (Teece 2007, 1336) Differences among country dimensions have been reduced during the years but are still present. The analysis confirms that organisation have indicated that it is aiming towards more coherent structure to be operating as a one company, than separate country and business unit constructions. As literature states, MNCs can gain competitive advantage by transferring and combining capabilities across geographically dispersed units (Grant 1996). Empirical evidence of common initiatives across the units to support the common alignment are present, but echoing on the literature, in complex organisations these process takes time and money (Teece 2007, 1328). This does drive organisation to have local solutions and not

aim for common approach and alignment of the solutions.

One business area of the company is having “capability areas” that are developing individuals with common skillsets, these can be seen as intermediates that transfers the knowledge and learning through various sub-units. Here of course the question can be raised how relevant it is for different capabilities or units to have these as structural organisations rather than temporary assignments (Adler et al. 1999) or as a centre of excellence or other format to ensure knowledge transfer among organisations members. Besides, the outcomes and differences on end results of the knowledge sharing should not be overlooked, as individual biases and perspectives are affecting to it, as discussed in individual level antecedents (e.g. Adner & Helfat, 2003)

5.1.3. Capability constellation

From the results can be seen, that the case company has identified need to consolidate various practises occurring all over the company. Company has started by creating a business capability map in order to identify what company is exactly doing. That can be argued to be supporting the theory; capabilities should be identified based on the business content and specific needs of the company, situation and strategy. (Teece 2007; Carcary et al. 2016) Originally, Teece and Pisano (1994) and Teece et al. (1997) raised that capability identification, selection and creation are highly important strategic choices, just like other strategic decisions (Pisano 2017, 748).

Results indicate that organisational unit that was working on with the capability map were utilising search and selection processes (Helfat et al. 2007, 5) to identify capabilities present at the organisation. However, lack of visibility across the organisation and missing buy-in from the different units are barring the creation of new capabilities, enhancement of its existing capabilities or extinguishing of the existing capabilities by selling, closing, or discarding those. (Helfat et al. 2007, 5) Some of these capability development actions are seen happening, but on unit levels, not visible on group level and therefore are driving towards local solutions. This makes the capability constellation and portfolio level to collapse as these solutions for changes seem to be more ad-hoc solutions and decisions per

manager or unit (e.g. Schreyögg & Kliesch-Eberl 2007, 915; Teece 2007, 1321; Winter 2003, 991), not building on business capability and group level integration. Teece (2007) stated that organisation needs operational capabilities and dynamic capabilities that serves its strategy. In the case organisation, the local solutions might be driving to the various directions and would be essential to recognise the paths that these are creating in order to consolidate the strategic direction.

Finding that were not covered in the theoretical background, is that definitions for each of the capabilities in the organisation are missing and it is causing narrative across the company. Boundaries across the capabilities, identifying the responsibilities of each capability is missing which causes political discussions among individuals and tensions between the units that are not sure what is in their responsibility. The latter however has a strong correlation with theoretical findings on individual level antecedents of cognition, besides organisational experience that refers that company's current and future decision are embossed by past decisions (Pisano 2002, 150; Teece 2007, 1346). Findings indicate that organisation has previously decided to organise its functions and solutions to the country or business unit organisations, having a strong ownership on those, which challenges the new decisions on creating common interfaces and agreements on capabilities.

Findings on how to organise capabilities (centralised vs local) and gathering the requirements for capabilities are echoing on the literature of organisational experience and individual level antecedents, as main issues identified are stating to the social relationships, cognition and experiences. Barrier of collecting the needs of organisation is related to the organisational structure and to the networking and social capital

The empirical research also highlights the importance of common understanding of concepts. This type of factors was not referred in the literature review. However, as a managerial implication it can be valuable, when developing organisational communication further.

Strategic alignment, common concepts, employee engagement, common vision and understanding on change were found to be crucial for organisation in capability development. This study echoed to the dynamic capability view (Teece 1997). The dynamic

capabilities view acknowledges the importance of strategy and goals to develop meaningful, valuable capabilities. The findings of this study highlighted the importance of communicating strategy in order to have an alignment in the organisation that engages organisations members to work towards the common goals. Regarding the capability development, the findings confirm that antecedents for capability development are in vital role to enable the capability development. Especially the organisational factors of structure, experience and culture should be acknowledged by the company to create an environment where capabilities can be developed.

The literature of dynamic capabilities suggests dynamic capabilities to be in the top-management (Teece 2009). In this study, the findings indicate that in large dispersed organisation, managers across the company are having dynamic capabilities that are affecting on to capability development. The revised framework strives to broaden the dynamic capability view by suggesting that capability development requires engagement and organisational actions in all levels of the organisation. Empirical findings indicate that individuals and organisational units might be barring the capability development unless they are aware of the strategic aims and are understanding their contribution to it.

Managerial contributions of this study focus on suggesting that company should assess on how organisational experience, culture and structure are affecting to the strategic goas of an organisation. In order to cope with changes in the markets, new capabilities need to be built and existing operational capabilities developed, or even resigned. In order to perform these activities, large corporations should focus on creating the foundation for implementing the capability view as a strategic management concept, by acknowledging the prerequisites of the capability development.

5.2. Model: Antecedents for capability development

The empirical findings indicate that multiple antecedents are influencing to the capability development besides previously mentioned foundational antecedents. Findings on capability development and antecedents mostly echo to the theory presented in the literature review.

Organisational experience

Echoing to the *organisational experience* as an antecedent (Teece 1997) the case organisation is seen to be tight on its previous decisions and paths. Even prisoned by it. Managerial decisions in the past regarding the strategic directions, how to meet market needs and how to align the business units, are having a causal affect to the current possibilities of the company. Empirical evidence is speaking for lack of dynamic capabilities to drive the group level initiatives. Root cause identified is the lack of organisational alignment. Which leads organisational units to serve current needs, build local solutions, rather than building the group level capabilities and to enhance those based on the sensed future needs.

Organisational culture

The roots in mergers and acquisitions are dividing the company to structural constructions, it affects to the *culture* (Stahl and Sitkin, 2005), it is seen in attitudes, in decision paths and in individual mindsets. From cultural enabler perspective, different values, goals, beliefs and organisational practices are leading to political struggles between the units and individuals in the case organisation, echoing the theoretical findings (Helfat et al. 2007). Helfat and al. (2007) highlighted in context of culture in acquisition that values, norms and patterns facilitate the creation of a shared identity and the emergence of trust. As acquisitions in the case company have happened ages ago, common approach has been managed to build, but still trust issues are present, which occurs especially between units, more than on individual level. It is a barrier for capability development on group level. Diversification “us vs them”, in line with Stahl & Sitkin (2005) are evident in the case company, apparent also in situations where discussion is whether to consolidate the different solutions to the common capabilities.

Empirical study advocates the positive effect of the organisational culture, strong commitment and control are achieved in the case company through the organisational culture (O'Reilly & Chatman 1996) Large cultural program to support the organisational change has been established, it is supported strongly by top management. The program is driving to create a culture that help to drive strategy and emphasizes innovation and empowers individual. These definitions do echo to Chatman & Cha (2003). Managers in the company believe that the direction of the cultural change is right. However, the empirical study raises forward a concern that culture might not be embedded to all the employees across the

company, which reduces the power of it, that should be recognised as an possible barrier, to achieve even greater impact of the culture that it is already creating.

Empirical findings indicate that managements reward systems and key performance indicators are guiding decision making towards options creating a short-term impacts and results. Literature recommends using rewards as a driver for cultural development (O'Reilly and Chatman 1996), from empirical finding can be concluded that the reward is not driving the decision making to the same direction with the culture. KPIs are contradictory to the cultural programme which denotes empowerment, entrepreneurial mindset and innovativeness. Prioritisation and budgeting in the case organisation are barriers for capability development. Allocations are driven by short term returns and in capability development, investments necessarily do not produce wanted results immediately. (Wang and Ahmed, 2007, 44)

Individual level antecedents

Empirical findings are highlighting connection of human capital, social capital, cognition and organisational factors. Organisations and individuals' experiences on previous decisions, organisational re-organising and development initiatives are affecting to the individuals, teams and organisations decision making capability. Findings indicate that individual level factors are related to culture and structure. Culture is affecting to individuals and vice versa. Individual factor of power and control, which can be categorised to individual level antecedents is also part of structural antecedent, as it is dependent on what type of structure organisation has. Besides that, it also depends on what type of managerial behaviour culture is acknowledging in cultural perspective. Findings are complementing that individual level antecedents are affecting heavily on dynamic capabilities of sensing, seizing and transforming (Teece 2014). Capability to sense the environment were recognised, but mainly focusing on individual level and affecting to the unit and team levels. Individual level antecedents of managerial cognition, social capital and human capital are interplaying together (Coleman 1988 in Kor & Mesko 2012, 234), this relationship is confirmed by empirical data.

Empirical study compliments theory on managerial cognition (Helfat & Peteraf 2015). Positive results on units or geographical areas affects to individual's managerial cognition.

And in another hand negative experiences on group level initiatives are creating a barrier for capability development in a group level. These finding indicated that managerial cognition and organisational culture are in causal relationship. Common beliefs in the organisation are formed by individuals' experiences, sharing the knowledge in their environment, that belief is inherited through the organisational culture to other employees. These beliefs might live in the organisation for a long time, even the individuals and context could change. This is preventing capability development, as it is blocking social networks, internal sensing and innovativeness in the organisation. These cognitive factors might cause organisation to focus on unit based local capabilities, rather than building on common capabilities that would enable greater momentum and lower the costs of the entity

A number of findings in this study refers that environmental “fit” of dynamic capabilities is low (Teece, 2009; Helfat et al., 2007) Prioritisation is often focused on shutting down the fires, ad-hoc problem solving or for regulatory needs, not to the evolutionary fitness catering for longer term success and mirroring the market needs. Question raising from here is that is this prioritisation driven by the top management? Are these decisions taken towards the communicated strategic direction? Decision making and prioritisation are driven by managerial cognition (Teece 2007). One suggestion is that, possibly units and individuals are overestimating the need for the enhancements and regulatory needs rather than new opportunities. When cognition is built on bad experiences on group level initiatives, it could cause fear in the organisation and drive managers to favour incremental enhancements and mandatory developments rather than strongly driving for totally new, group level solutions.

Environmental level antecedents

Findings on environmental antecedents are referring organisation efficiently sense and seize environmental opportunities and risks especially from regulatory and legal perspectives. Empirical evidence is given that the company is actively using complementary resources and capabilities through networks and partnerships, which are drivers for capability development (Eriksson 2014, 72) Complementing Teece (2007). External knowledge and resource sourcing activities; alliances, networks and other forms of external collaborations are bringing valuable insights to the company that can drive capability development. Partnerships are used sensing opportunities, to identify new needs from the market (Eriksson 2014, 72), however these partnerships could be utilised even more efficiently to ensure that

gained knowledge is utilised to the capability development in the organisation.

The literature offers several tools and processes such as codification, learning and copying for capability development. Empirical data indicates that in the organisation where capability management is not actively pursued, the discussion on tools and processes felt to be too ambiguous for the members. Therefore, can not be stated that results would be contradictory to the literature, but research did not recognise separate methods for these. However, from various dynamic capabilities, organisational structure and unit level initiatives can be seen learning and knowledge transfer practises.

5.3. Conclusion

Digital transformation requires companies to transform their strategies and business models. The dynamic capability view provides a framework for strategic change and development, by explaining on how companies can achieve a sustainable competitive advantage in industries that are highly competitive. A wide variety of new capabilities need to be developed, established and deployed. In this study, capability development was researched to identify the factors enabling and barring the capability development. The thesis research started by literature review, which consisted the dynamic capability view, capability development and antecedents for dynamic capabilities. The model for the study were created based on the theoretical findings on literature review. The literature review framed the background for the study. The empirical research was conducted as a case study, by utilising qualitative methods, with abductive approach. The data was gathered from 8 themed interviews. From the empirical findings the theoretical model was revised. The finding was presented through the revised model and in discussion the empirical findings was discussed accordingly to the theoretical background.

The research question on this thesis was “**What are the antecedents for the capability development in times of disruptive change?**” The main finding consists three foundational antecedents for the capability development; Strategic alignment, Capability constellation and Organisational structure. Which is echoing to the literature of antecedents of capabilities. The empirical analysis highlighted the mentioned three factors to be foundational

antecedents, prerequisites for the capability development, which means that those are the ground base so that company can start utilising the capability view in the strategic management. In time of disruptive change this is found to be important, so that the company can develop its existing capabilities or to create new capabilities to enable the transformation. Another factors and antecedents are driving and barring building this foundation, but also the capability development. These enablers and barriers can be categorised to individual level, organisational level and external level antecedents, accordingly to the previous literature. Empirical findings advocate that these levels and factors on those levels are highly inter-correlated and are affecting on foundational level and in capability development.

Besides the antecedents for capability development, I state back to the introduction of this study and my interest on digitalisation and disruptive change. As a result of this study I cannot give simple answer on what is the secret ingredient for companies to successfully transform. But research of the dynamic capabilities indicate, that capability management does offer interesting opportunity for organisations to address the change need and to adapt the business accordingly. The research provides model (figure 2) that recognises three foundational elements, that organisation should take in notice when adopting the capability view to the strategic management

From empirical evidence can be seen that organisation has dynamic capabilities. Managers ability to sense, seize and reconfigure. Can also be claimed that units and even whole organisation has made various acts in order to adapt to the future needs of customers and to the market change besides running the business. But the question raising form here is that are these actions more firefighting, making actions but not building on capabilities? As managers on organisation has not bought the idea of capability driven strategy, due to the lack of coherent description and goals, the decisions driven by dynamic capabilities are not at the end building the common, holistic capabilities of company. Many decisions, re-allocations and development are happening in the silos, varying between business units, countries or even teams. Is this then building the strategic path of the company? The data proved that the case company has a strong aim to build towards more aligned strategic position, to build company where different organisational parts are working as a one company. At this time, when managers cannot see the common aim, their cognition is

affected by experience of previous times, their decision are made driven by KPIs supporting short term goals, their budgets are for building the current needs, due to these, the future is less catered. If managers can not relate to the future, if they cannot see how capabilities should be on constellation level, how can they manage organisational parts and units and teams, individuals and processes towards that common picture?

The case company is a collection of various mergers and acquisitions locally and globally. All organisational units in different countries has a strong local history. Besides that, market areas and differences in business and retail customers are creating differences to the units. That has led company to be un-aligned across the units and has created silos, that can be seen in two lights, positive and negative. On positive side can be seen that decentralisation of decision making is happening in smaller units, enabling adaption to local markets with local solutions. The difficulties come up if the decisions should be made across the unit borders. Vital question then to raise is that should company aim for a global standardisation and alignment, is it most feasible strategy for it? Answer to this can only be found by focusing more to the strategic goals of the company. Local external forces; competition, customer expectations, legislation and taxation policies are driving for locality. What are the parts of the processes, tools, business models and strategies that should be global then? Long history of the company is creating a culture, beliefs and experiences that drives towards local setups. However, successful results can be recognised form the cultural transformation programme. Also the change in individuals thinking more globally can help to drive business towards global setups. Experiences on previously made global projects has made employees hesitant to aim for commonality, political discussions are caused by ownership, fear and path dependencies. These are all possible to overcome, by overwriting these paths with successful capability developments in global scale, not an easy task, but by creating the foundational base for it and by acknowledging the possible pit-falls and utilising the drivers, the transformation in the time of disruptive change can be enabled through the capability view.

5.4. Limitations and future studies

Alignment between research questions, data, and analysis is a key element in the research. In qualitative research insights from the data are often raising new ideas that might inspire

to gain more data, alternate analytical processes or to modify the research question. (Bansal et al. 2018, 1193) findings indicated barriers to barring the capability development, but more importantly the adoption of the capability view as a strategic management direction in the company. Theory and findings however were aligned and these additional findings are creating interesting opportunity for the future research.

All interviewees were acting in strategic, managerial role. That might have affected to the reliability of the study, because presentative from other roles might have answered differently. The case study was conducted in one organisation with relatively small data set, so the results of this study cannot be generalised.

The findings from this research show that the development of capabilities is requiring commitment of entire organisation and that dynamic capabilities are not relying only on top-management. This finding gives interesting opportunity for future research in large corporations. Organisational structure as an antecedent and prerequisite for capability development were highlighted in the empirical results and offer opportunity for future research to find structures that would best support the capability development in large companies.

This study suggests that research on communication and culture as an enablers of strategic alignment and in capability development could bring valuable insights for the theory of dynamic capabilities.

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APPENDIX I – THE INTERVIEW STRUCTURE

Key concepts:

Organisational capability - organisation's capacity to execute certain activity "in a reliable or at least minimally satisfactory manner"

- Capabilities are bundle of resources, including technical solutions, people's skills, competence, processes, tools etc.

Operational capabilities enable a firm to make a living on an everyday basis

Dynamic capabilities: enables business in future. Dynamic capabilities are a specific type of capabilities that enable change and modify other resources and capabilities within the capability base.

THEMES FOR THE INTERVIEW

Background information

Knowledge on capabilities, Prior experiences on topic

Capabilities in organisation

Current setup

Finding opportunities

- Sensing, seizing transforming

Implementation of findings

Capability creation and development

- Individuals role in capability development
- Organisational factors
- External factors

Roles and responsibilities

- Group level/ Unit/ Team/ Individual

Anything else?