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Approaches from strategic management: resource-based view, knowledge-based view, and dynamic capability view

Päivi Maijanen

Abstract:

This chapter introduces three essential approaches of strategic management: resource-based view, knowledge-based view and dynamic capability view. They represent the modern streams of strategic management, each highlighting the role of intra-organizational factors as the source of sustainable competitive advantage. The resource-based view emphasizes the role and management of valuable, rare, inimitable, and non-substitutable resources as sources of market imperfections and thus able to create competitive advantage. The knowledge-based view focuses on the role of intangible knowledge assets as a main source of superior performance. The dynamic capability view studies strategic change with the question of how firms are able to keep their resources valuable and unique when the business environment changes. The emphasis on firm-specific and unique factors and drivers of success is highly relevant in the media industry where new technologies and keen global competition are changing existing business models faster than in any other industry. For media management, the approaches studied in this chapter provide important concepts and analytical tools to analyze intra-organizational dynamics of change and to detect what types of resources and change-enhancing capabilities media firms would need to outperform others and remain competitive.

1. Introduction

In strategic management research, the fundamental question is how firms create and sustain their *competitive advantage*, i.e., how they can outperform others. As a discipline, strategic management is young. It was only in the 1970s that strategy research started to evolve into a serious discipline. During the following decades, strategic management research has developed and matured into a discipline with diverse research agendas and methodologies. Along with the evolution, the core question of how to create and sustain competitive advantage has been studied

and approached from different theoretical perspectives. One of the main demarcation lines goes between a firm's external and internal factors as explainers of competitive advantage. The theoretical frameworks of this chapter – the resource-based view (RBV), the knowledge-based view (KBV), and the dynamic capability view (DCV) – represent the latter, i.e., the streams that emphasize a firm's internal idiosyncratic resources and capabilities as the main source of a firm's success. The emphasis on intra-organizational factors provided an alternative approach to the industrial organization framework (Structure-Conduct-Performance-paradigm, Scherer, 1980) used originally for anti-trust purposes in order to protect consumers against monopolies. Following this research tradition, Porter (1980, 1981) turned the basic model "upside down" and launched the five forces model, according to which a firm's competitive advantage is based on its product/service market position. Porter used a monopoly model and managed to show through which kinds of strategies a firm can utilize its monopoly power against its rivals.

The RBV can be regarded as challenging Porter's model that treated firms as identical black boxes and explained their different successes by means of product market imperfections. As one of the founders of the RBV, Wernerfelt (1984) analyzed the situation where firms are in a similar competitive position but show performance differences. The main explainers were to be found not in product market imperfections but in the factor/resource market imperfections. The need to explain the performance of firms arouse in the 1980s, when businesses became more global and national monopolies lost their power. This resulted in a diverse and growing body of research focusing on intra-organizational success factors (see e.g. Armstrong & Shimizu, 2007; Barney & Arikan, 2008; Lockett, Thompson, & Morgenstern, 2009; Newbert, 2007).

The RBV, KBV, and DCV can be regarded as one gradually evolving "story". The different approaches complement each other highlighting different aspects of the question of how to sustain competitive advantage. The RBV focuses on a firm's inimitable and idiosyncratic resources, whereas the KBV takes a closer look at knowledge assets as strategic value-creating resources. The DCV, in turn, takes a more dynamic stance and analyzes how firms transform their strategic capabilities to address changing business environments. The main idea in all the approaches is to create market imperfections that allow to earn extra profits or rents. For media scholars, these frameworks provide useful tools to explain why some media firms are succeeding and others are failing in today's volatile media environment disrupted by rapidly advancing digital technologies, constantly changing media users' needs, and keen global competition. Some media scholars have

highlighted the value of the strategic management approach for studying media and media management (Chan-Olmsted, 2006; Küng, 2017). The different strategic management streams provide insightful tools for media professionals to detect and understand a firm's strengths and weaknesses.

2. Resource-based view

Scholarly interest in the strategic importance of firm-specific heterogeneous resources as a source of competitive advantage arouse in 1980s partly as a response to Porter's (1980, 1981) five forces model. In that time, the works of Wernerfelt (1984), Rumelt (1984), and Barney (1986a, 1986b) contributed to the formation of the new theoretical paradigm that shifted the focus towards firms' internal resources, routines, and capabilities. Their works revitalized the ideas of Edith Penrose (1959) who emphasized idiosyncratic human resources and the services provided by them by managerial actions (Kor & Mahoney, 2004; Lockett, 2005; Lockett & Thompson, 2004; Pitelis, 2005, 2007a; Rugman & Verbeke, 2002).

Finally, after the initial stage of diverse theory development (Barney, Ketchen, & Wright, 2011), the fundamental assumptions of the RBV were highlighted in Barney's (1991) seminal article "Firm resources and sustained competitive advantage". During the following decades, the RBV evolved and matured, reaching a strong position both in the theoretical and empirical strategy research, and in line with this, it also gained prominence in the studies of media management (Chan-Olmsted, 2006).

2.1. VRIN resources

According to the core assumption of the RBV, firms are heterogeneous in terms of their resources, and this heterogeneity can be long-lasting due to the immobile nature of resources (Barney, 1991), i.e., resources "cannot be transferred from firm to firm without cost" (Priem & Butler, 2001a, p. 25). The core assumptions of the RBV are deeply rooted in Ricardian economics of scarce resources[1] (Barney & Arikan, 2008; Peteraf, 1993). These assumptions are opposite to

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[1] David Ricardo (1817) launched the model where he managed to explain the differences of land rents. The more fertile the land site was the higher the rent and vice versa.

those of the Porterian view, which emphasizes the mobility of resources and regards firms as identical in terms of their resources.

In his seminal article, Barney (1991, p. 101) defined resources inclusively as "all assets, capabilities, organizational processes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness". Barney (1991) further categorized resources into physical capital (e.g., machines, equipment, and location), human capital (e.g., skills, routines, and managerial skills) and organizational capital (e.g., processes, control and coordination mechanisms, and organizational culture). Later, Barney and Arikan (2008, p. 137) condensed the original definition by defining resources as "the tangible and intangible assets firms use to conceive of and implement their strategies".

According to the RBV, a firm's competitive advantage is based on resources that are scarce and hard to imitate. One of the central ideas is Barney's (1991) definition of the so-called VRIN resources. According to his idea, rent-generating VRIN attributes are *valuable*, *rare*, *inimitable*, and *non-substitutable*. Resources are *valuable* when they add value by enabling firms to minimize threats and to exploit opportunities (Barney, 1991, 1995). Barney and Arikan (2008, p. 137) define valuable resources as "strategies that have the effect of lowering a firm's net cost and/or increasing a firm's net revenues beyond what would have been the case if these resources had not been used". The attribute of *rareness* emphasizes that the resources are in short supply. *Inimitability* means that the resources are difficult to imitate or copy for other firms. The attribute of *non-substitutability* requires that there are no substitutes available for the specific resource.

According to the RBV, a resource needs to be simultaneously valuable, rare, inimitable, and non-substitutable in order to be a source of sustainable competitive advantage. Together, the VRIN attributes create *isolation mechanisms* (Rumelt, 1984) against competitors. The RBV highlights three of them in particular: *unique historical conditions*, *causal ambiguity*, and *social complexity* (Barney, 1991; Barney & Hansen, 1994). As to the *unique historical conditions*, firms can gain superior competitive advantage in at least two ways (Barney, 1991, 2011, pp. 129–130): (1) Firms may enjoy the first-mover advantage of acquiring and exploiting resources that generate competitive advantage. This aptly applies to the current rapid rise of the so-called platform-based economy (e.g., Facebook, Google, Amazon, Airbnb, Uber, and Spotify) that managed to be quick in exploiting knowledge-related externalities. All these firms have managed to profit from the first-

mover advantage. (2) Firms may develop their resources path-dependently through cumulative learning based on the firm's own experiences of failure and success. Through learning processes, a large amount of firm-specific tacit knowledge (Polanyi, 1962) becomes embedded into the firm's internal resources. Tacitness and firm-specificity make the resources hard to copy for others. *Causal ambiguity* means that resources are often complex and acting in various combinations, which makes it impossible for rivals to make sense of what the actual valuable resources behind the competitive advantage really are. Furthermore, some resources may be *socially complex*. For example, organizational culture (Barney, 1986a) or reputation are complex phenomena and therefore hard to copy. A classic example of a success story are Disney animation films. The Walt Disney Company has managed to leverage and exploit its corporate resources to sustain a competitive advantage (Collis & Montgomery, 2008). The long learning process has created a resource base, such as a transnational brand (Gershon, 2006), that is socially complex and ambiguous and therefore hard for other companies to copy.

2.2. Later developments and critique

During the last decades, the RBV has become an important stream in strategic management research. It has been applied using both qualitative and quantitative methods (Barney & Arikan, 2008; Newbert, 2007). In addition to the strategic management studies, the RBV has been applied in other related disciplines, such as human resource management, product development, marketing, finance, etc. (Barney & Arikan, 2008).

Over the years, the RBV has undergone an evolution toward a more dynamic approach emphasizing not only the role of resources as such but also their exploitation. Recently, Barney (2011, pp. 134–135) added to his original VRIN framework the *organizational context* and stressed the importance of structures, management control systems, and compensation policies. The findings of Newbert's (2007) analysis of the empirical RBV studies confirm the relevance of the organizational context and suggest that the firm's unique ways of organizing its activities seem to be more essential for its success than having a bundle of superior "static" resources (Newbert, 2007, p. 142).

The evolution of the resource-based model towards a more dynamic approach can be seen as a reflection on debates around the RBV (Kraaijenbrink, Spender, & Groen, 2010; Peteraf &

Barney, 2003; Pitelis, 2007b; Priem & Butler, 2001a, 2001b, see also Barney's (2001) answers to the critique). One of the main arguments of the critique has been the claim that the RBV is partly tautological and retrospective (Lockett et al., 2009; Priem & Butler, 2001b). According to the critique, tautology arises from the logic of explaining a firm's competitive advantage by the resources it possesses. As Kraaijenbrink, Spender, and Groen (2010, p. 357) put it: "Because the value of a resource and the sustainable competitive advantage it generates is defined in identical terms, the *explanans* and the *explanandum* of the RBV remain the same". Priem and Butler (2001a, p. 33) criticize the RBV for not explaining how competitive advantage is generated: "the processes through which particular resources provide competitive advantage remain in a black box". As an example, one can look at the smartphone markets in the beginning of the year 2007. Nokia dominated the market and had a market share of about 40 %. Following the RBV logic, one could have said that Nokia really had superior VRIN resources (e.g., the ability to orchestrate global value chains and superior signal processing technologies). However, by the end of 2007, the situation had totally changed. Apple iPhones dominated the market with their new superior VRIN resources while Nokia lost its leading position and disappeared within a few years.

The critique and debates can be seen as a natural and necessary part of the development process of any young research tradition. The critique is needed to challenge the theory and enforce its further development. As for RBV, later developments have shown its vitality and sustained its relevance as a theory. The new research has extended the analysis more to the organizational context (Newbert, 2007) and managerial practices (Ndofor, Sirmon, & He, 2015; Sirmon, Hitt, Ireland, & Gilbert, 2011).

2.3. Implications for media management

The RBV provides a useful frame for analyzing the media sector. Currently, media companies are constantly challenged to stay competitive by renewing their internal resources. The intrinsically creative nature of the media (Küng, 2017) emphasizes the strategic value of internal skills and competences required to boost new ideas and innovations. Creativity is required in all spheres of the organizational life, e.g., in products, work processes, and management. The value creation logic in the media is based fundamentally on creativity. As Küng (2017, p. 26) expresses, "The act of content generation is the sector's fundamental activity and *raison d'être*, and their

requirement for creativity is constant. (…) This, combined with the fickle nature of customer demand, means there is an incessant need for novelty. The higher the levels of creativity, the greater the potential for competitive advantage, and thus the primacy of creativity as an organizational resource". The ability to create novel product innovations and new business models is especially relevant in turbulent times, as Schumpeter (1912/2017) realized already at the beginning of the 20th century. On the other hand, in the media, work processes and skills are based on complex combinations of creativity, expertise, and accumulated tacit knowledge. This may serve as an effective isolation mechanism against rivals.

Media scholars (Chan-Olmsted, 2006; Küng, 2017; Mierzejewska, 2011) have highlighted the applicability of the RBV as an insightful framework to study what lies behind the success in the media sector. According to Chan-Olmsted (2006, p. 178), RBV approaches including also the KBV "provide a fertile foundation through which to empirically investigate the behavior and performance of media firms". A number of studies have applied the RBV to media issues to analyze, inter alia, knowledge-based and property-based resources in Hollywood (Miller & Shamsie, 1996), the rise of network TV (Eilein Landers & Chan-Olmsted, 2004), media reputation (Deephouse, 2000), partnerships between traditional TV and the internet (Liu & Chan-Olmsted, 2003), newspapers' adoption of a multiplatform strategy (Doyle, 2013), and data economy analyzing how data can be a source of competitive advantage (Doyle, 2018).

Besides its applicability in media research, the RBV also provides valuable implications for media practice (Barney & Arikan, 2008). The framework may serve as a toolkit for managers to be more aware of their own strategic strengths. For instance, it might help to exploit those resources that are at the core of the competitive advantage today, and to identify those resources that have the potential to create competitive advantage tomorrow. Correspondingly, the resource-based framework may also help managers to identify the sources of strategic disadvantages. In addition, the resource-based logic can be used as a tool for benchmarking with rivals, to analyze the strategic resources of the firms with a superior advantage and how the firm's own resources compare to them. However, due to the ambiguous and complex way how VRIN resources create competitive advantage (see above), it might be hard for managers to identify the relevant assets.

3. Knowledge-based view

3.1. Ideas behind the knowledge-based view

The knowledge-based view (KBV) will here be analyzed as a special but important extension of the RBV that emphasizes the strategic role of knowledge as the most relevant value-creating resource of modern firms. As for today's industries, knowledge-based assets are particularly relevant in the media industry where products are based on individual and organizational creativity and know-how (Chan-Olmsted, 2006; Küng, 2017). Traditionally, the firms in economics were characterized as being simple production functions with capital and labor as their main resources. The first scholar who took knowledge assets seriously was perhaps Edith Penrose (1959) who stressed the idea of combining heterogeneous resources so that their services would allow for creating competitive advantage. She emphasized the entrepreneurial role of management and the managers' ability to know how to combine different resources. In a way, she was dealing with a "know-how" type of knowledge as a strategic resource.

However, the two influential economists Nelson (1959) and Arrow (1962) took a different stance as to the role of knowledge assets. They emphasized *non-rival* and *non-excludable* features of knowledge assets, thus interpreting them as codified "know that" information (often in the form of blueprints, chemical formulas, computer software, etc.) that can be transmitted once decoding rules are known. This blueprint metaphor suggests that anyone with access to relevant information can also utilize knowledge. Hence, codified knowledge has high levels of applicability and transferability but low levels of appropriability. Non-rivalry means that a piece of knowledge does not lose its value even if many users are using it. Hence, knowledge assets can create positive externalities and are therefore useful for society. For example, if I drink a glass of wine (a rival good), nobody else can have it anymore. However, if I am using Pythagoras' Theorem, anyone else can use it as well if she/he has enough absorptive capacity (Cohen & Levinthal, 1990). When knowledge assets are codified information goods, their production results in a market failure. It is advisable for society to produce more knowledge goods, but single firms have no incentives to produce them, since they cannot profit from them because of non-excludability[2]. This market failure outcome resulted in national technology policies, i.e., in the idea to promote research and development activities of companies by subsidizing them or giving them temporary legal protection.

[2] In some cases, of course, intellectual property rights such as patents and copyrights can make protection possible.

However, from the strategy perspective, the interpretation of knowledge as codified information was misleading, since it omitted the dual nature of knowledge assets. They can also be *excludable* because of their *tacit* "know-how" nature. The Hungarian sociologist Polanyi (1962, 1966) first made this finding by differentiating between the explicit, i.e., codified "know that" type of knowledge, and the tacit "know-how" type of knowledge. In fact, learning processes are normally based on tacit knowledge that offers procedures on how to do something even if one cannot codify it. Since tacit knowledge is embedded into the social knowledge production context, it necessarily contains *collective* organizational elements. Hence, there is *no* general *access* to tacit knowledge bases. This, in turn, makes it possible to build up new capabilities and upgrade old ones so that *rent-creating* entrepreneurial acts become possible. Tacit knowledge is hard to articulate and transfer but easy to protect. Teece (1998, p. 63) states succinctly: "The fact that we know more than we can tell speaks to the tacit dimension". Polanyi's very important distinction proved to be the starting point for knowledge-related strategy research. Evolutionary economists, especially Nelson and Winter (1992), used the idea of routine-based cumulative learning in their innovation models.

Kogut and Zander (1992, 1996) and especially Grant (1996a, 1996b) were the first ones who used the concept of *the knowledge-based view (of the firm)*. Kogut and Zander (1992, p. 391) introduced a special form of tacit knowledge called "know-why". It tries to answer questions of how to create Schumpeterian "new combinations" on the boundary between a firm's own idiosyncratic knowledge base and more codified knowledge dictated by the technological trajectory used in the industry. "Know-why" knowledge is utilized through combinative capabilities that include parts of tacit "know-how" and codified information. As empirically shown by Foray (1993, pp. 128–132), many innovations today really are incremental recombinations around existing technology trajectories.

Kogut and Zander (2000) used their knowledge-related views when trying to lay the foundations for the KBV of the firm. As Håkanson (2010) shows, the basic idea was that firms as epistemic communities are able to economize on knowledge-related costs, i.e., they are able to create capabilities more efficiently than through market transactions.

Grant (1996a, 1996b) focused on the analysis of individual knowledge assets. Non-rival elements of knowledge are able to create value, whereas tacit elements make it possible to protect the value created. Organizational capabilities enable a firm to integrate the specialists' individual knowledge more efficiently than markets could ever do. Grant emphasizes that the most important

function of management is to coordinate and integrate individual knowledge. Thus, he conceives the KBV more as a framework that focuses on the strategic role of knowledge assets rather than as "a theory of the firm in any formal sense" (Grant, 2002, p. 135).

Teece's seminal article (1998) highlighted the importance of the so-called *appropriability regime* as a method to profit from knowledge. Teece analyzed the market imperfections that relate to the markets of knowledge assets, especially to know-how and intangibles. As is well known, the ability to utilize market imperfections is a starting point for most theories of strategic management. Following the lead of his celebrated article "Profiting from innovation" (Teece, 1986), Teece stressed the role of *replication* and claims that the harder it is to replicate know-how-based capabilities the better are the chances to profit from knowledge assets. Of course, legal means of protection, such as patents, trademarks, and copyrights, also play a role in some industries where intellectual property rights are effective. The question of the importance of the appropriability regime is interestingly touched upon in a famous media-related article by Miller and Shamsie (1996) where the authors take a closer look at the nature of different resources used in Hollywood film studios. They empirically show that during stable and easily predictable years, property-based resources securing legal protection based on long-term contracts (actors, distributors, technologies, etc.) are the main sources for profits, whereas during more turbulent periods, knowledge-based resources – such as skills, expertise, teamwork – guarantee financial performance. Property-based resources are more static whereas knowledge-based resources enhance flexible adaptation to changes in the business environment.

3.2 The rise of platform-based digital companies and the media

Teece's (1998) article also anticipated how important the peculiarities of knowledge assets would be in the rise of digitalization in the 2000s. Teece stressed the importance of demand-based increasing returns, i.e., the network externalities and the compatibility standards as well as high first copy costs and very small marginal costs that that potentially lead to the rise of "winner-take-the-lion's-share" companies that are able to exploit the first-mover's advantage. Network externalities are demand-related positive externalities that result in increasing willingness to pay, i.e., increasing demand curves, since the more valuable the network is, the more users there are (just think about Facebook or Uber). Together with large up-front costs and very low marginal

costs leading to decreasing supply curves, this constellation results in a situation where companies first have to reach the critical mass of users. After this point, the willingness to pay is higher than marginal costs. This situation often results in a first-mover's advantage where the firms have a dominant market share and can keep the competitors out of the market.

During the last ten years, we have witnessed the rise of so-called platform-based companies that have effectively utilized the peculiarities of knowledge. Due to digitalization, they can also manage a huge amount of information collected from their users for business purposes. The typical way to expand is to first establish a platform that exploits the network externalities and to then extend the network of users by means of an effective information gathering system. Amazon and Alibaba are dominating the retail sector. Google, that started as a web browser, has effectively utilized its huge amount of information for different purposes while at the same time creating profits by advertisements. Facebook, Uber, Spotify, Airbnb, and Netflix are examples of platform companies profiting from network externalities, very low marginal costs, and the opportunity to utilize the data gathered from their users. It is clear that we are going to see the rise of more platform companies in many other business areas as well. Until now, the customers have mainly benefited from these giants but, of course, there is a danger that we are approaching a situation where the winner-take-it-all situation will show its darker side and companies will use their monopoly power even more.

The media sector has become an interesting battlefield where new digital business models meet old business models. Netflix has already taken the next step and started to produce its own TV series and films, thus moving towards the riskier production-based business model. Spotify has a market share of about 36 % of the music streaming market worldwide even though the company is not profitable yet. In the media field, we are witnessing how large digitalized companies with their customer information and huge financial resources are going deeper into the domain of traditional print and broadcasting media, for instance, by offering some content for free. Of course, the basic idea of the RBV still holds true. If traditional media companies are able to have resources that help create content customers are willing to pay for (valuable) and that are rare, interesting, and non-imitable, they can keep going profitably. However, if they do not manage to convince their old and potential new customers to pay for their content, they are facing a real problem, since free content is increasing rapidly and large ubiquitous digital giants like Google, Amazon, and Apple will be there with different business models. In addition, you can also find

interesting players in the media field that can use large public funding and very advanced information technologies, i.e., large public broadcasting companies that deliver content based on license fees or public broadcasting taxes. Seeing all these challenges, it is certain that traditional media companies are bound to renew their business models in a way that guarantees the production of high-quality content customers are willing to pay for and that cannot be easily imitated or substituted. It is not an easy task, and companies certainly need *dynamic capabilities* to overcome their challenges.

4. Dynamic capability view

4.1. The core idea of the dynamic capability view

According to the idea of the dynamic capability view (DCV), firms build and exploit dynamic capabilities in order to sustain their competitive advantage in a changing business environment. The purpose of dynamic capabilities is to transform and renew a firm's resource base – routines, competences, capabilities, assets, etc. – to address new business challenges successfully. The DCV can be regarded as a dynamic extension of the RBV (Ambrosini & Bowman, 2009; Easterby-Smith, Lyles, & Peteraf, 2009; Leiblein, 2011). It shares the assumptions about the VRIN resources (Teece, 2014) and, in addition, addresses the RBV's shortcomings by taking into account dynamic issues, which the retrospective RBV had not done. The DCV focuses on strategic change and the continuous renewal of resources. It aims to understand and analyze the process of how a firm generates superior value with its resources and, importantly, how a firm keeps its resource base competitive in new and different market situations. Whereas the RBV regards the valuable, rare, inimitable, and non-substitutable resources as sources of competitive advantage, the DCV attaches the VRIN criterion also to the dynamic capabilities (Teece, 2014, 2018). They are built inside the organization, thus being firm-specific, tacit, causally ambiguous, and therefore difficult for others to copy. For this reason, they cannot be bought or sold either. There are no efficient markets for dynamic capabilities.

The DCV provides a relevant approach for analyzing the current media industry, which is changing faster than ever before. Technological disruption combined with individualized customer needs and global competition is forcing media companies to take radical actions in changing their

business models. For successful renewal and performance, media companies need dynamic capabilities. Media companies need to build and deploy dynamic capabilities in order to constantly search, identify, and seize new business opportunities and to transform their resources, capabilities, and structures to successfully capture these opportunities.

4.2. Dynamic capabilities defined

The DCV took shape in the 1990s to address the challenges of an increasingly competitive and global business environment. Following the evolutionarily oriented approaches in economics (Nelson & Winter, 1992; Schumpeter, 1912/2017), the new approach emphasized a firm's ability to learn, change, and adapt to the volatile business environment. The core theoretical ideas were presented by Teece and Pisano (1994) and Teece, Pisano, and Shuen (1997). The latter article has become one of the seminal works in the DCV tradition. In this article, dynamic capabilities were defined as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece et al., 1997, p. 519).

The article of Teece, Pisano, and Shuen was followed by various other versions, definitions, and conceptual developments during the following years (see reviews, e.g., Barreto, 2010; Di Stefano, Peteraf, & Verona, 2010; Schilke, Hu, & Helfat, 2018). Along with this, the young tradition has also been a field for harsh debates regarding inadequate specifications of the main concepts, performance criteria, and environmental dynamism (see reviews related to different understandings: Barreto, 2010; Peteraf, Di Stefano, & Verona, 2013). However, as Schilke, Hu, and Helfat (2018) show in their comprehensive analytical review of the studies on dynamic capabilities, the DCV has advanced remarkably both conceptually and empirically.

The theoretical and empirical evolution has converged the DCV into the three most used and applied definitions by the following scholars: (i) Teece, Pisano and Shuen (1997), (ii) Eisenhardt and Martin (2000), and (iii) Helfat et al. (2007) (Schilke et al., 2018). Especially the definitions by the first two groups of scholars imply two very different, even contradictory understandings of the role of dynamic capabilities. The strongly evolutionarily oriented Teecean tradition (see e.g. Helfat et al., 2007; Helfat & Peteraf, 2009; Teece, 1998; Wang & Ahmed, 2007)) emphasizes the proactive nature of dynamic capabilities, thus linking them to the entrepreneurial mindset of managers (Adner & Helfat, 2003; Augier & Teece, 2009; Helfat & Peteraf, 2015;

Nelson & Winter, 1992; Schumpeter, 1912/2017; Teece, 2007, 2012). Accordingly, dynamic capabilities are regarded as firm-specific, path-dependent, and cumulatively generated through learning processes and at the core of generating sustainable competitive advantage.

Eisenhardt and Martin (2000, p. 1107) relate more moderate attributes to dynamic capabilities by defining them simply as "the firm's processes that use resources—specifically the processes to integrate, reconfigure, gain and release resources—to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die". According to this definition, dynamic capabilities are regarded as *best practices* that can be shared by firms. Subsequently, according to Eisenhardt and Martin, dynamic capabilities can provide only temporary competitive advantage. The dynamic evolutionary nature of dynamic capabilities is almost omitted.

The third commonly applied definition of Helfat et al. (2007, p. 4) provides an integrated and most inclusive view of dynamic capabilities: "A dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource base". It highlights the purposeful deployment of dynamic capabilities and thus links them to Schumpeterian entrepreneurial thinking where innovations are of great importance. Later, also Teece (2007, 2012, 2014) stressed the role of entrepreneurial thinking when searching for microfoundations of the DCV.

The differences and contradictions of the Teecean definition and the definition of Eisenhardt and Martin in particular may cause confusion, and there have been different ways to cope with them. Some scholars have tried to create solutions for integrating these quite contradictory definitions (Di Stefano, Peteraf, & Verona, 2014; Peteraf et al., 2013). Others, e.g., Schilke, Hu and Helfat (2018, p. 408), in turn, point out that the different definitions can be seen as complementary to each other. Arndt and Pierce (2018) regard the contradictory views as representing two "schools" inside the dynamic capability perspective having origins in different theoretical foundations (see also Di Stefano et al., 2014). The definition of Eisenhardt and Martin follows the ideas of the (more or less static) behavioral theory (Cyert & March, 1963), whereas the Teecean definition is based on the assumptions of evolutionary economics (Helfat & Winter, 2011; Nelson & Winter, 1992; Winter, 2003). Eisenhardt represents the rigid view of organizational behavior to dynamic capabilities, while Teece and his colleagues regard dynamic

capabilities as the firm's ability to innovate, change, and overcome organizational rigidities. Teece also emphasizes the role of entrepreneurial behavior and non-routine-based aspects of management.

Despite their differences, both traditions can be applied in the field of media industry studies, however, for different reasons. The definition of Eisenhardt provides an approach for analyzing how best practices evolve and spread among media companies. This is a phenomenon that takes place as media companies benchmark each other in search of new ideas and business models. The Teecean framework provides a useful framework when we want to analyze media companies' ability to take entrepreneurial actions and renew their resources and business models.

4.3. Microfoundations of dynamic capabilities

Having a capability implies that an organization has "the capacity to perform a particular activity in a reliable and at least minimally satisfactory manner" (Helfat & Winter, 2011, p. 1244, see also Winter, 2003). A capability has an intent based on patterned and repeatable activities. Furthermore, based on the literature on organizational capabilities, capabilities can be divided into different types or hierarchical levels depending on their function in the organizational renewal process (e.g., Hine, Parker, Pregelj, & Verreynne, 2014; Winter, 2003; Zahra, Sapienza, & Davidsson, 2006). One widely-used categorization is the division of capabilities into *operational* and *dynamic* capabilities (Winter, 2003). The operational – also called ordinary (Teece, 2014), zero-level (Winter, 2003), or substantive (Zahra et al., 2006) – capabilities are needed to maintain the status quo by repeating the learned routines and activities and by exploiting existing competences, capabilities, and assets. They are aimed at short-term targets and regarded as best practices that the organization has learned through its past successes (Helfat & Winter, 2011; Teece, 2014). The exploitation of best practices and the maintenance of the status quo are sufficient as long as the external environment remains stable. As for the media industry, this was more or less the case until the mid-1990s when the digital revolution started. Dynamic capabilities are aimed at long-term success and needed when the environment changes in a way that the current business is no longer competitive. Dynamic capabilities enable an organization to break the status quo and transform its operational-level competences, capabilities, and assets in order to successfully address the changing environment (Helfat & Peteraf, 2009; Teece et al., 1997).

In addition to the categorization of capabilities into operational and dynamic capabilities, the construct of dynamic capabilities can be analyzed in terms of the processes they create. The process view of dynamic capabilities has contributed to the operationalization of dynamic capabilities and the understanding of how they affect change in practice (Schilke et al., 2018). For example, Teece, Pisano, and Shuen (1997) specify coordinating, learning, and reconfiguring processes of dynamic capabilities. From the procedural-frameworks perspective, especially Teece's (2007) model of sensing, seizing, and reconfiguring/transforming capabilities has become a widely used framework in the studies of dynamic capabilities. According to the model, dynamic capabilities can be divided into the three capacities of sensing, seizing, and reconfiguring/transforming. These three capacities form a logical and interrelated sequence of activities (Helfat & Peteraf, 2009), i.e., they demonstrate how the new knowledge is integrated into new organizational competences, capabilities, business models, innovations, etc. According to Teece, sensing is the capacity to sense and interpret opportunities and threats in the environment. It is the ability to search, identify, and interpret emerging ideas in the external environment concerning customer behavior, technologies, and new markets, for instance. Seizing is the ability to seize the sensed ideas and opportunities by making decisions on investments, new business models, or firm acquisitions, for instance. It is the ability to build such decision-making processes and cognitive capabilities (Helfat & Peteraf, 2015), which enables an organization to overcome path dependences and to enhance proactive decision-making. Transforming means the ability to continuously transform the resource base by altering, renewing, recombining, and reallocating assets and capabilities to achieve the desired targets. Transformation can be achieved either inside the firm or in collaboration with partners.

As the core question of the DCV view is about how a firm sustains its competitive advantage, a large part of the research is focused on the linkage between dynamic capabilities and performance outcomes. In this linkage, the transforming activities of dynamic capabilities are the crucial part of the successful change process (Teece, 2007). By definition, a dynamic capability is "the capacity of an organization to purposefully create, extend or modify its resource base" (Helfat et al., 2007, p. 4). What really matters for achieving strategic targets and long-term competitive advantage is the successful transformation of the resource base (Zahra et al., 2006). Sensing and seizing can be regarded as necessary antecedents for the transformation of resources (Danneels, 2016). As for the performance outcomes, they have been studied and understood in diverse ways

using both quantitative and qualitative methods. Performance has been defined and understood comprehensively, ranging from financial parameters and innovation outcomes to the ability to learn and adapt to changes (Barreto, 2010; Schilke et al., 2018).

The DCV and especially the Teecean tradition emphasize the entrepreneurial orientation and mindset of managers (Augier & Teece, 2009; Teece, 2007, 2012). Managers are the initiators and drivers of change (Zahra et al., 2006). As the recombination of assets requires entrepreneurial, experimental, and creative actions, the managers' ability to take risks, have visions, and take proactive steps is crucial for the organizational renewal.

4.3. Implications for media management

As mentioned already mentioned, the media industry has been facing rapid, even turbulent changes since the mid-1990s when the role of stable and path-dependent dominant logics and business models has partly lost their value-creating power. The role of the DCV has become very important for both media scholars and practitioners to explain these profound changes. Media industry provides a rich case for implementing the dynamic capability framework to study various issues, e.g., how different kinds of media firms build and deploy higher-order capabilities and how they become a patterned organizational behavior, and whether dynamic capabilities have certain more generic industry-level features. From the managerial perspective, it is relevant to study how sensing, seizing, and transforming capabilities relate to each other and the firm's performance. For example, the story of Blockbuster and Netflix insightfully demonstrates the relevance of dynamic capabilities. In both cases, the business was originally based on video sales and renting. Along with digitalization, video renting lost its popularity. Blockbuster was unable to address the challenge, but Netflix was successful in creating new competences and business models. Whereas Blockbuster was unable to renew its business, Netflix was able to build dynamic capabilities by sensing and seizing new business opportunities.

In strategic management, studies on dynamic capabilities form a rich and established body of research. In the field of media management, however, there has been an increasing interest in applying the DCV only in recent years. However, there are some interesting studies on dynamic capabilities, e.g., in relation to innovation performance in the audio-visual industry (Naldi, Wikström, & von Rimscha, 2014), renewal capacity in public media (Maijanen & Jantunen, 2014),

corporate venture capital (Hasenpusch & Baumann, 2017), and ambidexterity (Maijanen & Virta, 2017), to name but a few. The number of studies on dynamic capabilities can be expected to grow in the coming years as the competition and speed of change will increase and along with this, the understanding of the drivers and obstacles of change will become more and more crucial. This is not only relevant knowledge for media scholars but even more so for media managers. The DCV provides a useful framework to analyze an organization's internal dynamics as well as strengths and weaknesses. For example, the model of sensing, seizing, and transforming is a practical tool for managers to analyze how well a firm is able to scan the environment and how well the scanned opportunities are seized and implemented at the resource- and knowledge-based level.

5. Conclusions

In this chapter, we have studied the basic ideas and main managerial implications (especially in the media industry) of three strategic management approaches: the resource-based view (RBV), the knowledge-based view (KBV), and the dynamic capability view (DCV). They represent the modern streams of strategic management, each emphasizing the role of intra-organizational factors as the source of sustainable competitive advantage. Despite the same economics-based internal logic, the RBV, KBV, and DCV each have some important differences. Following the old Ricardian tradition, the RBV emphasizes the role and management of valuable, rare, inimitable, and non-substitutable resources as the source of competitive advantage. The complexity and tacitness of these so-called VRIN resources serve as effective isolation mechanisms against imitation by rivals, thus creating market imperfections to be exploited. The KBV goes one step further and points out that out of all resources, knowledge assets in particular are of greatest importance. Tacit uncodified knowledge cumulated over many years of experience provides a resilient protection against imitation. As for creative industries, knowledge can be regarded as a key resource embedded in the hard-to-imitate accumulated know-how and knowledge-based competences, such as creativity and talent. The DCV is linked to the RBV and KBV by highlighting how firms are able to keep their resources valuable and unique when the business environment changes. Dynamic capabilities are unique and inimitable firm-specific capabilities that enhance organizational strategic renewal and learning. The managers' entrepreneurial activities in sensing weak signals and new strategic options, in seizing these

options, and in continuously transforming the firm's resources and capabilities are the core drivers of innovative actions. In addition to resources, the (dynamic) capabilities can also be regarded as value-creating sources of market imperfections. The markets of dynamic capabilities are very thin or even non-existent. Hence, firms have to build them within the company or by networking with other companies. In order to analyze dynamic change processes, the DCV utilizes evolutionarily inclined ideas when searching for the sources of sustainable competitive advantage.

From an economics perspective, the RBV, KBV, and DCV emphasize firm-specific differences in resources and change-enhancing capabilities as the source of superior performance. The basic common idea is the ability to capitalize on market imperfections, i.e., to build and deploy such resources and capabilities that are unique and inimitable. The focus on cumulative firm-specific factors and drivers of success is highly relevant in the media industry where new technologies and global competition are changing existing business models faster than in any other industry. For media management, the RBV, KBV, and DCV approaches are regarded more as complements than as substitutes since they provide excellent tools to analyze intra-organizational dynamics of change and to detect what kinds of resources and change-enhancing capabilities media firms would need to outperform others and remain competitive.

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