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Organizational capabilities and new market entry processes: laying the grounds for empirical investigation

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Abstract

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ABSTRACT

This is a conceptual paper that addresses the question of organizational capabilities in the context of firms entering markets that are new to them. The purpose of this work is to outline the theoretical debate on the topic, and propose avenues for empirical investigation.

1. Introduction

What is the role of organizational capabilities in the process of new market entry? Resolving this research question is not a simple task since, prior to undertaking empirical work, some challenges need to be addressed. First, an appropriate operationalization of this concept is challenging, given that organizational capabilities are not directly observable for what they are, but for what they do instead. Organizational capabilities have elements of a tacit nature that prohibits codification per definition. Thus, it is a prerequisite to assign indicators that point to their existence, in order to ensure a systematic investigation. Therefore, the purpose of this paper is to contribute to the literature on organizational capabilities with a particular emphasis on how to operationalize organizational capabilities for empirical analyses.

In the domain of innovation studies, we are particularly interested in innovation of the 'new markets' type, following Schumpeter's taxonomy[1]. We argue that there are interesting particularities in relation to the role of organizational capabilities when firms move to markets that are new to them, which deserve further consideration in the academic debate. First, new market entry offers a new context for investigating the role of organizational capabilities in dynamic contexts, given that much has been done in light of product innovation (e.g. Andriopoulos & Lewis, 2010; Henderson & Clark, 1990; Labatut, Aggeri, & Girard, 2012; Leonard-Barton, 1992). In the context of product innovation, technical-based capabilities are highlighted: yet in new markets, the role of other types of capabilities are emphasized, such as sensing opportunities and threats (Teece, 2007) and reconfiguring resources (Jantunen, Ellonen, & Johansson, 2012), for instance. Moreover, the process of entering different markets requires the stretching of capabilities to a new context, and it sometimes requires the combination of different types of innovation. An example can be the adaptation of existing offerings, or the creation of totally new ones.

Organizational capabilities are associated with competitive advantage. Nevertheless, there is some debate on the role of organizational capabilities in dynamic contexts in general, and in relation to innovation in particular. Simply put, organizational capabilities correspond to what organizations know how to do (Dosi, Nelson, & Winter, 2001) and embed an element of collective interrelationships and complementarities (Levinthal, 2001). Some scholars perceive organizational capabilities as a hindrance to the exploration of new possibilities, the main argument being that they foster stability due to path dependence and lock-in, in addition to the formation of core rigidities in organizations (Christensen, 1997; Leonard-Barton, 1992; Schreyögg & Kliesch-Eberl, 2007). Other scholars, in contrast, perceive organizational capabilities as a platform that enables innovation, with the main arguments that they stand for building blocks of new combinations (Farjoun, 2010), and that agents enacting capabilities can, in principle, trigger their endogenous potential for change (Feldman, 2000; Feldman & Pentland, 2003). These arguments will be explored in more detail throughout this paper.

For achieving the purposes of the present paper, it is structured in the following way. The next section presents the key concepts and definitions in the domains of organizational capabilities, as well as new market entry. Section 3 approaches the contrasting scholarly perspectives that regard organizational capabilities primarily as disabling or enabling mechanisms of change and innovation. We also discuss the main assumptions behind these opposing viewpoints, their main similarities and differences. Section 4 is concerned with the challenges of studying organizational capabilities empirically. We discuss matters of process studies, principles for selecting cases, and indicators for operationalization. Finally, section 5 concludes with the main implications of the present paper, and prospects for future research.

[1] Schumpeter approached innovations with the preliminary concept of 'new combinations'. According to his taxonomy, new combinations occur in one or more of five distinct domains, namely (i) new products, (ii) new methods of production, (iii) new markets, (iv) new sources of supply, (v) new organizations of industry (Schumpeter, 1934).

2. Key concepts and definitions

2.1. Organizational capabilities

Like individuals, organizations possess knowledge and capabilities, and have the capacity for learning (Argote & Todorova, 2008; Dosi et al., 2001; Lundvall & Nielsen, 2007). Studying the capabilities of organizations is not just about shifting the analysis from the individual to the firm level. If this were the case, the mere sum of the knowledge and skills of members of organizations would be equivalent to organizational capabilities, and studies at the individual level would suffice. The complementarities and tacitness of the collective character of organizational capabilities justify them as an independent unit where knowledge is stored (Argote & Ingram, 2000; Levinthal, 2001).

The study of organizational capabilities is relevant for several reasons. First, a unique combination of different organizational capabilities is what makes firms different from one another (Nelson, 1991). Second, capabilities play an important role both in current and future firm performance, through mechanisms of exploitation and exploration, respectively (Farjoun, 2010; Gupta, Smith, & Shalley, 2006). Third, organizational capabilities are built incrementally over time, and future options for action depend on capabilities acquired in the past (Dosi et al., 2001; Helfat & Lieberman, 2002; Kaplan & Tripsas, 2008). In other words, newness of all kinds rely on a recombination of existing knowledge and resources (Schumpeter, 1934), i.e. organizational capabilities.

Organizational capabilities correspond to the capacity of organizations to mobilize resources of various types, tangible or otherwise, for achieving a particular end (Helfat & Lieberman, 2002). They are collectively constructed, and embody cognitive and behavioral elements, which provide the organization with the ability of performing a given set of activities (Argote & Todorova, 2008; Levinthal, 2001). Cognitive elements concern knowledge, while behavioral elements concern routines (Argote & Todorova, 2008). Capabilities at times also involve material elements that can feed into routines and interact with knowledge. Dosi et al. (2001) illustrate this with the example of a customer database. In itself a customer database is an asset, but combined with knowledge, routines and the actors involved in the process, generates a marketing capability in the firm. More research is needed in relation to clarifying what exactly organizational capabilities are, in less abstract terms. An example of an empirical study of (dynamic) capabilities is Jantunen et al. (2012), who compare capabilities in different organizations in the same sector. They propose more concrete illustrations of capabilities, for instance carrying out internal R&D, processes to tap technological developments, managing complements and platforms, and processes related to the reconfiguration of resources to name a few – still, at the same time, the authors acknowledge the difficulties in assessing when a given practice can actually be considered a capability (ibid.). Naturally, given that organizational capabilities are what characterize differences between firms (Nelson, 1991), they are context dependent and therefore, unique. Due to this fact making an archetypical list of capabilities is not only inappropriate, but ineffective both for researchers and managers (cf. Woodruffe, 1993).

Given the definitions above, we claim that the concepts of capabilities, knowledge and routines are deeply connected (Argote & Todorova, 2008; Becker, 2004). Knowledge is stored, combined and enacted in routines (Argote & Todorova, 2008; Becker, 2004; Nelson & Winter, 1982). As a consequence, studies concerning organizational knowledge and organizational routines are relevant to the concept of organizational capabilities, as the latter encompass the first two per definition. On the one side, studies of organizational knowledge identify 'members', 'tools' and 'tasks', as well as the networks formed between the three, as the basic elements that store knowledge in the organizational context (Argote & Ingram, 2000). On the other side, studies of organizational routine have evolved in the separation between structural and agency elements that form routines as a duality, and are labeled as ostensive and performative aspects, respectively (Feldman & Pentland, 2003).

Dosi, Nelson and Winter (2001) provide us with a useful terminology that differentiates concepts that are commonly associated with organizational capabilities. Differentiating these terms has the purpose of bringing clarity to the discussion and embedding certain meanings specific to each concept. Skill, for example, is a term better fitted for the individual level. Although the skills of members of organizations are involved in the carrying out of routines, they belong to the domain of individuals, not the organization (ibid.). Competence, on the other hand, is a concept that was made popular in the early 1990s (cf. Prahalad & Hamel, 1990) and is very much involved in the discussion of outsourcing (see Cantwell & Piscitello, 1999; Cantwell & Mudambi, 2005; Contractor, Kumar, Kundu, & Pedersen, 2010). The main distinctive element is that competence usually refers to hard technological aspects (Teece, 1986), while capabilities tend to have a broader scope, and include a more detailed analysis (Dosi et al., 2001). Finally, routines are defined as *"units or 'chunks' of organized activity with a repetitive character"* (ibid., p. 5). This reinforces that routines are involved in organizational capabilities, though they are not the only element. Routines are not the same as habits. Although both deal with a repetitive response to a given stimuli, habits are mindless activities that have to do with behavior, and preclude the selection of a more appropriate choice in a particular situation (Ashforth & Fried, 1988; Gersick & Hackman, 1990). Therefore, habits include routinized behavior, but routines do not necessarily include habits.

2.2. New market entry

Reasons for organizations to engage in entering new markets are numerous. It often has to do with intense competition or a search for larger profits (Kim, Min, & Chaiy, 2014). Nevertheless, intrinsic motivations are also relevant. That is the case of firms seeking to maximize the use of existing resources and capabilities, firms complementing their portfolio of offerings, as well as firms pursuing a smooth transition to a market that can become central in the future (ibid.). As proposed by Helfat and Lieberman (2002), pre-existing organizational capabilities influence not only which markets the firm enters, how and when, but also how successful they are in this process.

The distinction between terms such as industry, market, segments etc. can be somewhat blurred, especially because these are flexible, and changeable. Markets can be defined in the perspective of supply or demand. We adopt in this work a supply perspective because the focus of our discussion lies in the supplier's viewpoint, i.e. the capabilities of firms as suppliers of a product or service. A demand perspective may be appropriate for other purposes, such as in the context of anti-trust regulation (cf. Baker, 2007). Therefore, for our purposes, a market refers to a specific type of product or service offered for a particular application (Helfat & Lieberman, 2002). We claim that a sector is broader than an industry, and both comprise several parallel markets. Moreover, although the label may imply so, the term industry is not limited to manufacturing.

The differences between the concepts can be illustrated using the energy sector as an example. The energy sector comprises several different technologies that serve the purpose of generating and distributing energy, such as hydroelectric, solar, wind, geothermal, nuclear among others. These technologies shape the organization of markets in the sector, which have different representativeness and development levels. Different market segments develop in each market, according to special needs of customers. Market segments can be classified in different ways that are usually dependent on the particular context. For example, small scale solar panels for individual households are a different segment than large scale solar plants that feed the electricity grid. A market niche denotes a very specialized segment in a market. At times, niches develop to the extent that they create an entirely new market. This has been the case of offshore wind, which started as a niche in the wind power market, and has developed special characteristics that enable it to be independent from the original, which is now known as onshore wind (Andersen, Drejer, & Gjerding, 2014).

In this paper we discuss new market entry in terms of markets that are new to the firm. A market is considered to be new when the application of products and services offered by the firm is different, i.e. a supply perspective as mentioned above. This is a general definition, and Helfat and Lieberman (2002) provide a taxonomy for entrepreneurial opportunities in new markets. The first group is 'new to the world industry', which concerns innovations that fit the disruptive model (Christensen, 1997) and set the path for the creation of new industries. It refers to what is labeled as blue oceans, where competition is irrelevant (Kim & Mauborgne, 2005). The second group concerns 'new product-market niche' (Helfat & Lieberman, 2002). In this case, the offerings of a company are adapted for serving a new market segment, or a niche of customers. This is generally associated with incremental product innovation. The third group concerns 'different geographic location'. In this case, firms may sometimes have to make changes in its products or services to fit the context and cultural aspects of this new market, even though the overall concept is essentially the same. Finally, the fourth group refers to 'established product-market', in which firms decide to enter a market that has an established tradition, but which is new to them.

In this work, we employ Helfat and Lieberman's taxonomy, with the exception of geographical diversification as a new market. Even though internationalization can bring entrepreneurial opportunities, as well as challenge organizational capabilities, it does not fit the proposed scope of supply-oriented markets, especially in globalized markets. In a geographically new market, the nature of the challenges capabilities are subject to are different, for instance in relation to cultural and regional aspects. In line with the energy sector example, an illustration of new market entry is a company that is active in onshore wind market, and wishes to take part in the offshore wind market as well. Adaptations to the offer may be more or less required, depending on characteristics of the specific products or services.

Helfat & Lieberman (2002) also discuss different types of potential entrants in a new market. They propose the following taxonomy: diversifying entrant (same legal entity); parent-company venture (joint venture, spin-off); and de novo entrant (start-up, entrepreneurial spin off) (Helfat & Lieberman, 2002). This work is concerned primarily with diversifying entrants, and to some extent parent-company venture. De novo entrants fall out of the scope because, given that these are new organizations, their capabilities are being constructed together with the firm, and therefore not applicable to the question of whether existing organizational capabilities can primarily act as disablers or enablers of new market entry.

3. Different perspectives on organizational capabilities

3.1. Organizational capabilities as disabling change

Theories that predict organizational capabilities to function as mechanisms disabling change, and by extension, process of new market entry, are well-known in the literature. Authors subscribing to this view perceive organizational capabilities as hindrances based on a range of arguments, all of which conceptualize capabilities as primarily stability enhancing. This is because this group of scholars acknowledges the importance of capabilities in efficiently dealing with recurrent situations (Gersick & Hackman, 1990; Leonard-Barton, 1992), even though it is this very advantage that may compromise the firm's ability to rejuvenate and reinvent themselves (Christensen, 1997; Christensen & Raynor, 2003; Leonard-Barton, 1992) - a crucial ability for long-term survival and success. This represents, therefore, a tension between stability and change.

The tension between stability and change has been present in several research traditions, of which James March's exploitation versus exploration paradox (March, 1991) is one of the most influential. Grounded in the field of organizational learning, March explored the trade-offs and challenges of pursuing either one of these approaches. In this perspective, organizational capabilities are perceived as hindrances to new market entry because they belong to the domain of exploitation, which is incompatible with the new knowledge necessary for successfully entering a new market (exploration).

The rationale is that exploitation and exploration compete for organizational resources and this leads firms to make choices between them. Both strategies are self-reinforcing, in the sense that investing in exploitation leads to a path dependence that promotes more exploitation; and the same happens in reverse. Therefore, one drives the other out, and organizational capabilities cannot, under such perception, be conceived as enabling new market entry. The main challenge here is that while exploration and exploitation are equally fundamental to the firm's survival and performance, they cannot coexist. March's model fulfilled an important purpose by shedding light to this discussion, and providing a simple, clear conceptualization of the issue. Its conceptual straightforwardness, associated with the antithetical terms in which the elements are presented, can be accounted for its popularity.

In the disabling viewpoint, organizational capabilities are conceptualized as the result of a series of selection processes that aim for reliability and reproducibility, which causes organizational inertia (Hannan & Freeman, 1984). The combination of the self-reinforcement nature of exploitation, the predominant inertia of organizations, and its fundamental value-system leads to the formation of core rigidities that prevent firms from pursuing different directions (Leonard-Barton, 1992). Core rigidities are regarded as a hidden side and a weakness of core capabilities.

In a similar fashion, Christensen's *'The innovator's dilemma'* (1997) became a popular book both among academics and practitioners with the argument that firms can fail *"precisely because they do everything right"* (ibid.). Doing everything right has to do with efficiency, listening to customers and other traditionally acknowledged management practices. Christensen claims that organizational capabilities are more specialized and context dependent than firms and managers like to acknowledge (ibid.). The main idea is that by placing focus on current customers and markets - and by extension existing capabilities - firms are limited in their perception of their markets. They may mistake the products by the value they provide. Therefore, firms fail to perceive entrepreneurial opportunities in new markets and do not engage in disruptive innovations, which may ultimately drive them out of business (ibid.). Following *'The innovator's dilemma',* Christensen and Raynor published *'The innovator's solution'* (2003), in which they advocate that managers can position firms to be disruptors, instead of suffering disruptions caused by competitors. Christensen and Raynor argue that *"as they* [managers] *shape their growth business to be disruptive, they must align every critical process and decision to fit the disruptive circumstance"* (ibid., p.18). This is in line with Schreyögg and Kleisch-Eberl's suggestion that the effectiveness of capabilities needs to be monitored, considering potential changes in the environment the organization is operating in (Schreyögg & Kliesch-Eberl, 2007).

Building upon Christensen's perspective, Birkinshaw & Ridderstråle developed the *"corporate immune system"* metaphor (1999). The argument is that such system seeks to detect and destroy new ideas before they become a threat to the existing ways of doing things, because the system and the individuals taking part in it are conservative, risk-averse and resistant to change (Birkinshaw & Ridderstråle, 1999). Due to this, *"rather than risk allowing a potentially-harmful initiative to gain currency, the corporate immune system would prefer to regard all such initiatives as harmful even if that means a few worthwhile initiatives are rejected"* (ibid., p. 154).

Taken together, the contributions from this strand of literature claim that opportunity seeking chiefly depends on unlearning ‘the old’ as pre-existing knowledge within the organization stifles its ability to act in an agile fashion, suited for today’s hypercompetitive environment. Hence, current capabilities, routines and resources disable organizations in the process of seeking out opportunities in new markets.

3.2. Organizational capabilities as enabling change

In contrast with the paradigm presented in the previous section, organizational capabilities have been portrayed in a more innovation oriented light in more recent studies. Scholars in this stream perceive capabilities as a platform upon which all kinds of innovation can occur. This is based on the view that capabilities, along with their elements of routines and resources, are not static and immutable, even when stability is high. This paradigm recognizes a potential for endogenous transformation that can, in theory, emerge from existing capabilities (Farjoun, 2010; Feldman, 2000; Feldman & Pentland, 2003; Pentland, Feldman, Becker, & Liu, 2012).

In the discussion regarding the tension between stability and change, Farjoun (2010) proposes stability and change to be conceptualized as a duality, instead of a dualism. This distinction may sound overly abstract, but it in fact is fundamental for addressing the paradox and moving the field forward. Even though all organizations, to different degrees, engage in attempting to balance stability and change, the prevalent dualistic view of exploration and exploitation implies that these are incompatible and mutually exclusive (cf. March, 1991). On the other hand, the duality view implies that these are two sides of the same element, without separation (Farjoun, 2010). The contribution of the duality paradigm is that, exploration and exploitation can be regarded as complementary, even though they are still conceptually different, and therefore organizational capabilities can function as mechanisms enabling new market entry. This is not simply about putting the concepts side by side. By regarding exploration and exploitation in this perspective, their mechanisms *“gradate and fold into one another”* (ibid., p.216). This is key in the argument of organizational capabilities as enabling new market entry.

Farjoun proposes a model in which both elements can function as mechanisms as well as outcomes. This indicates that, through mechanisms of stability, such as organizational capabilities, the outcome of change and adaptability can be achieved, in this case the entry in a market that is new to the firm. As exemplified by Farjoun, there are several means through which mechanisms of stability can enable the outcome of change; they *“(…) provide needed certainty and legitimacy. They supply stable building blocks for further recombination. They channel search to better uses by removing unwanted variations and limiting opportunism. They supply the background and memory for identifying the unexpected - a trigger for problem solving and potential change. Finally, they allow the transfer of scarce attention and resources from routine to nonroutine tasks"* (ibid., p. 214).

It is important for scholars in this standpoint to refute the notion of inertia. A routine, as well as capabilities, is conceptualized not as an object, but as a system instead (Pentland et al., 2012). Hence, the notion of inertia is inappropriate. Even when very little changes in a routine, scholars argue for this to be termed endogenous stability, as it describes the phenomena in a way that does not preclude the potential for change, which will also depend on other contextual conditions (ibid.). Pentland et al. propose a model in which routines – and by extension organizational capabilities – can potentially experience endogenous change, hence enabling organizational change at superior levels. Empirical support for this hypothesis has been documented by Feldman (2000).

Furthermore, King and Tucci (2002) provide empirical support to the hypothesis that organizational capabilities support incumbents entering new markets. Through an investigation of the disk-drive industry they claim that experience within an industry provides competitive advantages for firms entering new market niches (ibid.). They also advocate that incumbents can survive waves of creative destruction by transitioning across niches in one given industry (ibid.). Naturally, in this context, the strain put upon capabilities, and the need for them to stretch in order to adapt to the new market niche, is lower than in cases of disruptive innovation. Nevertheless, this knowledge is relevant in the sense of understanding the potential offered by existing capabilities, beyond efficiency and exploitation of current businesses.

Another perspective on the function of existing capabilities can be drawn from Teece (1986). He argues that organizational capabilities offer necessary conditions for a firm to capture value from innovations, as they function as complementary assets that enable the main innovation to prosper, and the firm to keep the profits (ibid.). Even though Teece was primarily concerned with product innovation, his insights on this matter can be extended to new market entry. Existing organizational capabilities provide legitimacy, and thus reduce the liability of newness in such new context (Farjoun, 2010). When a firm enters a new market, having an established system of capabilities to protect the firm in this endeavor is essential, especially when other innovations accompany the firm's move to the new market. Teece says: *"In almost all cases, the successful commercialization of an innovation requires that the know-how in question be utilized in conjunction with other capabilities or assets"* (Teece, 1986, p. 288).

Teece is strongly associated with the concept of dynamic capabilities which was introduced as a proposed answer to the question of how firms achieve and sustain competitive advantage when operating in environments of rapid technological change (Teece, Pisano, & Shuen, 1997). Teece et al. define dynamic capabilities as *"the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. Dynamic capabilities thus reflect an organization's ability to achieve new forms of competitive advantage given path dependencies and market positions"* (Teece et al., 1997, p. 516). Dynamic capabilities are related to the firm's ability to 'sense', i.e. identify and assess an opportunity; 'seize', i.e. mobilize resources to address an opportunity and capture value from doing so; and 'transform' to ensure continued renewal (Teece, 2012, p. 1396).[2]

Teece (2012) links dynamic capabilities to management and strategy, as encompassed in the notion of 'entrepreneurial management'. This involves *"calibrating opportunities and diagnosing threats, directing (and redirecting) resources according to a policy or plan of action, and possibly also reshaping organizational structures and systems so that they can create and address technological opportunities and competitive threats"* (Teece, 2012, p. 1398). Dynamic capabilities are inherently associated with change and innovation through the focus on what makes firms capable of, not only adapting to rapid changes in technology and market conditions, but of gaining a competitive edge (through innovation) in such conditions. Although the concept of dynamic capabilities acknowledge the potential of organizational capabilities in generating change, it focuses on special capabilities developed and exercised to this very end, and not the overall range of capabilities an organization may possess. In other words, dynamic capabilities refer to higher level matters than operational or zero-level capabilities, which are simply concerned with making a living (Winter, 2003). Operational capabilities are associated with efficiency and exploitation, while dynamic capabilities are meta-capabilities that enable firms to be proactive, thus associated with change and exploration. Examples of this type of high-level capabilities are ambidexterity (Kriz, Voola, & Yuksel, 2014; O'Reilly & Tushman, 2008), *"management of radical innovation"* (Kelley, O'Connor, Neck, & Peters, 2011, p. 250); *"the firm's ability to integrate, build, and reconfigure internal and external resources/competences to address, and possibly shape, rapidly changing business environments"* (Teece, 2012, p. 1395); *"processes (…) to match and create market change"* (Eisenhardt & Martin, 2000, p. 1107).

In line with March's (1991) proposed tension between exploitation and exploration, the notion of dynamic capabilities has been criticised for being a contradiction in terms because of its attempt to embrace both continuous renewal and a patterned architecture of organizational capabilities (Schreyögg & Kliesch-Eberl, 2007). Suggestions to solve this possible contradiction include introducing a dual-process model, in which recursive practicing of distinctive organizational capabilities is one process, while a reflexive monitoring of these capabilities' ongoing workability in the light of a potentially changing unpredictable environment is another, countervailing process (ibid.)

In sum, albeit sloughing off old ways of looking at market offerings and business models, organizational capabilities may very well be an important part of the process of change, and scholars ascribing to the

[2] The concept of dynamic capabilities is still under development (Teece, 2012; Vogel & Güttel, 2013), and different strands of literature with different perceptions of the concept can be identified. A seminal contribution to the dynamic capabilities literature, which challenges the notion of dynamic capabilities as the source of long-term, sustainable competitive advantage, especially in rapidly changing markets, is Eisenhardt and Martin (2000). As opposed to Teece's understanding, Eisenhardt and Martin see dynamic capabilities as a set of best practices that share important commonalities across firms, instead of being unique to each firm (ibid.). They perceive them to be synonymous to routines in moderately dynamic markets, and unstable and fragile in high velocity markets (ibid.). For an attempt to reconcile these views see Peteraf et al (2013).

standpoint presented in the current section argue that this is a too one-sided view on organizational capabilities. There is little reason to doubt the claim made by students of innovation activities and organizational behaviour that knowledge, established within an organization influence search patterns in innovation (Dosi et al., 2001; Helfat & Lieberman, 2002; Kaplan & Tripsas, 2008). However, at the same time there is ample evidence for suggesting that such search patterns are less rigorist and deterministic, than suggested in the literature on strategic innovation. Firms may deviate mindfully from existing practice or look for ways to 'sample' assemble and reassemble existing practices in new ways (Garud & Karnøe, 2005).

3.3. Reconciling opposing views

It would be over-simplistic to claim that organizational capabilities either hinders or enables change, without highlighting the context and scope that causes this relationship. Part of the disagreement among scholars has to do with what their assumptions and definitions in their analysis.

First, there is a mismatch regarding what scholars perceive as innovation when outlining their arguments. Even though this is not always the case, in general, scholars in the disabling viewpoint tend to perceive innovation as disruptive, while scholars in the enabling viewpoint tend to perceive innovation as incremental. For example, Christensen (1997) recognized that existing organizational capabilities are important not only for exploitation, but also for innovations of the sustaining kind, as he defines it. These are innovations that improve the performance of current products, however radical they are (Christensen, 1997)[3]. Another example is presented by Pentland et al (2012) who take endogenous stability into account in their generative model of organizational routines, and acknowledge that routines have the potential for change, but the realization of this potential depends on other contextual factors. In other words, the extent to which organizational capabilities can enable new market entry depend on how much they need to be stretched.

As a consequence, with regards to organizational capabilities of diversifying entrants, and the type of market they aim at entering, we propose the following standardized cases of firm diversification in relation to new customers/markets:

(i) The firm offers products that can be offered to new applications. In this case the firm offers existing products to new customers, who will use them in applications different than the ones they were designed to initially.

[3] Christensen (1997) employs the term sustaining technology as the type that is concerned with improving performance of established products and addressing mainstream consumers. The majority of new technologies are of the sustaining kind, and they can be incremental or radical. Disruptive technologies, on the other hand, often entail products with a worse performance, but which offer new value propositions, to new customers. They usually compete with 'no consumption' instead of the established products. According to Christensen (1997), disruptive technologies have room for improving before competition acknowledges them as a threat, creating therefore an alternative trajectory that can ultimately become dominant.

(ii) The firm has capabilities that can be employed to adapt products/services to compete with other players in this new market. In this case the competitors act as a benchmark, and little product innovation is involved.

(iii) The firm has capabilities that can be employed to create new products/services to compete in this new market. In this case the firm is attempting to challenge competition and more product innovation may be involved.

(iv) The firm acquires or develops new capabilities that will enable them to create products/services for competing in the new market.

The stretching in organizational capabilities increases from the first to the fourth case, and this represents challenges of different dimensions to organizations. We propose that to the extent that capabilities are little stretched, they can enable firms entering new markets. On the other hand, to the extent that capabilities are much stretched, they disable firms entering new markets.

We also propose that, since new market entry is a process, the different phases of this process influence whether existing capabilities are enabling or disabling. The argument is that, in earlier phases the influence is negative, but as the process evolves, the influence becomes positive. In the initial phases of opportunity identification, the firm may be more subject to the 'corporate immune system' (cf. Birkinshaw & Ridderstråle, 1999), and the opportunities that are identified are conditioned to the views and values of the firm (cf. Leonard-Barton, 1992). On the other hand, in later stages when the opportunity has been acknowledged, firms may employ their existing capabilities for the recombination of knowledge and resources that will fit the new market (cf. Farjoun, 2010). Investigating these propositions empirically is fundamental for assessing their legitimacy. The following sessions deal with considerations and challenges in operationalization of organizational capabilities for empirical research in the context of new market entry.

4. Studying the impact of organizational capabilities on new market entry processes

4.1. Initial considerations about process studies

Studying processes in organizations calls for several considerations when it comes to selecting an appropriate research design. By a research design, we mean the planning task of selecting the procedures for empirical observation, comprising both what should be considered as data and how it should be collected and analyzed to explore a complex social reality and produce qualified insights relating to the research question at hand (Creswell, 2013; Van de Ven, 2007). The purpose of the research design is therefore to bridge the research question and underlying theory with the empirical reality. So far, studies of capabilities and how they impact organizations have primarily sought to define causal relationships between dependent and independent variables. Contributions emphasizing processual approaches, which underline the deployment of organizational capabilities, have been called for (Helfat & Peteraf, 2009; Kraaijenbrink, Spender, & Groen, 2010). The impact of capabilities on market entry processes may develop and change over time. Hence, rather than building on a more conventional 'variance-based' type of explanation, which looks for correlation (and if possible causation) between a dependent and a set of independent variables, this study draws on process type explanations of the *"temporal order and sequence in which a discrete set of events occur"* (Van de Ven, 2007, p. 145). There are several reasons to take this perspective. First, the empirical stance of capabilities is problematic as they are flows more than stocks (Eisenhardt & Martin, 2000; Williamson, 1999). We best learn about the faculties of capabilities from what they do, rather than through classification. Second, questions pertaining to how capabilities impact on market entry processes and why they may have that influence, calls for research designs that embrace more complex perspectives of causality (Van de Ven & Poole, 2005).

A process-based perspective seeks to understand the underlying generative mechanisms that may have sufficient influence to create the process followed and the further contingencies that allow this particular faculty of a social reality to unfold (Tsoukas, 1989). In our study of market entry processes, the interacting entities that matter for developing the explanation may be rooted inside the organization, for instance in the form of managers and employees, but they may as well have been initiated outside the organization, and integrated at some point. The phenomenon 'market entry process' is the common denominator for the event we seek to understand, and it is the effects of capabilities on how this process unfolds that comprise the underlying generative mechanism of change that we seek to examine. Process studies thus builds on an epistemology, which focus on providing event-driven explanations (Aldrich, 2001). The starting point of a process-based study is process concepts, which are taken from the theory upon which the research builds and which provide a selective and sensitizing focus for the researcher. The focus is on following the process itself over time, the entities of research, how they interact and what should be included as important for the event, understanding the event and the relationship to a generative mechanism may change as well (Dubois & Gadde, 2002). In our case, the study of a market entry process can be likened to a developmental event sequence, focusing on the progression of incidences that 'makes a qualitative difference' to the state of the phenomenon studied. Typically, process data has a longitudinal character, with some form of chronological ordering of events, forming a narrative of some sort. Data may include survey and register data, interviews with key managers and participants as well as observations, document and reports. All data, which can help deepen and detail a tapestry of the process under study. There are different approaches to developing this type of process data, ranging from the collection and study of narratives to more detailed and formalized event structures (see Langley, 1999 for an overview). An example of a process study with this characteristic is Jacobides (2005). Here, the study of change processes leading to the vertical disintegration of the industry value chain is studied through a sequence of events, in which a complex chain of causalities links the generative mechanism (transaction costing) to ordered sequences of industrial evolution.

Another important aspect is to understand the qualitative progression of the empirical phenomenon under study. In some cases events may progress in rather simple fashions, where events and qualitative progressions are aligned. An example would be an idealized decision making process of a firm where a market entry progresses through clearly delineated phases, such as problem definition, information search, comparison of decision alternatives, selection and implementation. Often, and in particular when strategic issues are at stake, this sequence is hard to re-discover in reality, unless it is forced down on the decision-making process (Cohen, March, & Olsen, 1972; Mintzberg, Raisinghani, & Théorêt, 1976). Market entry processes may have originated 'outside the realm' of a market entry aspect or may have morphed beyond an initial strategic intent of market entry. Furthermore, events may progress in alternative ways: they may diverge and converge into new event structures, merge with other processes or be the unintended outcome of a particular process.

Finally, there are different ways to analyze data generated from studying processes. Process studies are grounded by nature, as they seek to follow a naturally occurring process, albeit somewhat bounded or framed by the theoretical perspective chosen by the researcher. Processes occur in a context which influences phenomena and an important part of the researchers' field work is to explore this part further and understand how the contextual embeddedness of actions may contingent. Moving from these grounded data into more formal theory-building typically occurs in successive steps, where categorization of findings finds a more explicit and formalized form (see for instance Gioia, Corley, & Hamilton, 2012).

4.2. Principles for selecting cases of relevance

Although organizational capabilities have been studied in empirical contexts (see e.g. Kusunoki, Nonaka, & Nagata, 1998; Lorenzoni & Lipparini, 1999; Zander & Kogut, 1995), the most recent contributions to the literature on organizational capabilities, in particular the dynamic capabilities literature, have primarily been conceptual with few directions on how to operationalize organizational capabilities and study these in practice (Teece, 2012; Vogel & Güttel, 2013).

The earlier empirical studies of organizational capabilities tend to include codifiable processes and artefacts such as databases in their definition of organizational capabilities. In order for organizational capabilities to be distinct and associable with firm performance we conversely argue that they are bound to action and cannot be easily codified and transferred between organizations. This, however, makes it relatively challenging to operationalize and observe organizational capabilities, and also means that not all firms are equally suitable for studying the phenomenon in practice.

Because organizational capabilities are expressed through actions that are embedded in the organizational routines, an organizational capability is not present unless a reliable practice has evolved over time. This means that an organizational capability is a historical concept which integrates past experiences with present problem-solving activities (Schreyögg & Kliesch-Eberl, 2007). Accordingly organizational capabilities are difficult to identify in newly established firms with only a short organization-specific history. This calls for an empirical focus on established firms rather than recent start-ups in studies of organizational capabilities.

A basic argument in the present paper is that organizational capabilities can enable as well as disable change in firms as expressed through new market entry. This dual perception is related to the fact that organizational capabilities are embedded in a belief system that often takes the current capability pattern for granted. This may lead to an unconscious suppression of alternative solutions and any organizational capability therefore contains an inherent risk of turning a previously valuable capability into rigidity and thereby leaving the organization unable to adjust to changed conditions (ibid.).

A key cause of possible rigidities is that the capabilities have previously lead to successful outcomes for the organization, although under different conditions. This has further implications for the selection of cases that are appropriate settings for studying the potential enabling and disabling features of organizational capabilities in relation to new market entry.

We therefore suggest the following principles for selecting relevant cases for studying the possible enabling and disabling features of organizational capabilities: (i) the cases involve firms that have been active within a certain market for a considerable number of years; (ii) the firms have experienced some success in this market – a success which can be associated with distinct behavioral patterns (i.e. organizational capabilities); and (iii) the firms have attempted to enter a new market, although they need not necessarily to have had success in this endeavor. It is not a requirement that the cases involve firms that are still as successful in their original market as they have been previously, since a declining performance in the original market could be a motivating factor behind seeking to enter a new market.

4.3. Operationalization of organizational capabilities

As we have discussed, much has been done in outlining a theory of organizational capabilities, especially of the dynamic kind. Nevertheless, further empirical investigation of this topic is essential. There are various challenges in the operationalization of organizational capabilities for empirical studies

The first challenge refers to the fact that organizational capabilities is a latent concept, and therefore, not directly observable. Scholars can observe their elements, and the actions they perform, but not the capabilities per se. Thus, in selecting indicators to assist empirical research, we can fruitfully borrow from studies concerning the operationalization of organizational routines, as these two concepts are closely intertwined (e.g. Becker, Lazaric, Nelson, & Winter, 2005; Becker, 2005; Pentland & Feldman, 2005). In addition, studies concerning organizational knowledge also offer insights for operationalization (Argote & Ingram, 2000), often in similar ways to studies of routines.

The codifiable aspects of the routines enacting capabilities (i.e. ostensive aspects in routines literature; standard operating procedures and practices in knowledge management literature) can be relevant indicators of the intended outcomes of a given capability, as well as the different mechanisms in the process (i.e. tasks and procedures of a routine, however their level of formalization) (Argote & Ingram, 2000; Pentland & Feldman, 2005). In addition, physical artifacts can also indicate the existence of a capability (ibid.). Examples of physical artifacts are documents, rules and procedures found in organizations, such as job descriptions and mission statements. Artifacts are less reliable indicators (Pentland & Feldman, 2005), but can function well for data triangulation, which increases reliability in qualitative research (Van de Ven, 2007).

Naturally, a given capability does not necessarily match a single activity, and the more varied the purposes a capability can address, the more versatile it is. Alternatively, for the completion of a routine, several capabilities and resources may need to be mobilized. Pentland and Feldman (2005) argue that these overlaps and mismatches do not derive from bad measurement or inadequacies of the concepts, but they represent the complexity of investigating the phenomena empirically. These aspects can be isolated in theories, frameworks and definitions, but not in collecting observational data. As Teece puts it: *"The study of managerial dynamic capabilities is challenging because they are often tied to complex corporate histories"* (2012, p. 1400).

The proposed indicators account for the existence of specific capabilities in a given organizational context. Even in the case that different organizations have capabilities that share a label (e.g. customer relations), the particular elements that compose this capability are unique in each firm (Nelson, 1991). Because capabilities are context dependent (Teece et al., 1997), we argue that an empirical study concerning their role in processes of new market entry, requires that they are unpacked and described, taking into account their contextual conditions (Pentland & Feldman, 2005). In striving for generalizability, several of the recent studies have discussed capabilities in abstract terms. This abstract approach in the discussion has been useful for a general theory of organizational capabilities, but it falls short for drawing causal relationships between capabilities and performance in diverse situations, for instance new market entry. We therefore argue for the need for more complex perspectives on causality, which can be addressed by process studies.

5. Implications and future research

The present work has implications for an academic audience of different fields interested in organizational capabilities and routines. We aim at two main contributions with this paper. The first concerns how organizational capabilities are currently conceptualized in theories of innovation. We intend to unpack and highlight the relative circumstances in which organizational capabilities enable or disable firms in the process of entering new markets. This gives room for a reconciliation of these different perspectives. The second contribution refers to how empirical studies of organizational capabilities in the context of new market entry can be designed and operationalized. We propose a process-based perspective, which provides an appropriate framework for understanding new-market entry. Although targeted primarily at a scholarly audience, the discussions brought about in the present work have managerial implications as well. It adds value to a firm to clearly understand what its capabilities are and what role they play when the firm attempts to penetrate a new market. This allows managers to transfer this discussion to their specific environments and take it into account when facing the challenges brought about by the uncertain conditions of markets that are new to the firm.

Further research is expected to refer to empirical investigations of the roles organizational capabilities play in the process of new market entry, taking into account the conceptual and operational backgrounds discussed in this paper. A relevant and interesting empirical scenario for the investigation of these issues can be found in the emergence of offshore wind power. Technological advancements have enabled wind turbines to be placed offshore with many advantages. Among them are better wind resources, the possibility of installing larger wind turbines that yield greater energy per unit installed, less resistance from the population to the turbine's noise and shadows to name a few. Nonetheless, there are challenges in moving offshore. The high costs of installation and maintenance, the logistics associated with an offshore wind park, and the unknown conditions of the sea are some prominent ones. Addressing these challenges may represent entrepreneurial opportunities for a variety of firms, both in onshore wind power, as well as others, that may have developed capabilities in other sectors (e.g. oil and gas, shipping etc.), which could, in principle, be transferred to the offshore wind context. Therefore, a comparative cross-sectional research with sub-suppliers attempting to penetrate the offshore market, by means of their diverse backgrounds, profiles and capabilities offer rich opportunities for studying of the role of organizational capabilities in this process of new market entry.

6. References

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