

H A R V A R D | B U S I N E S S | S C H O O L

In Search of Dynamic Capabilities? Resetting the Research Agenda

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Why are some firms more profitable than others?



More structurally attractive industries (Porter 1980)



But what explains intra-industry differences in profitability (Rumelt 1974)



Because of firm-specific differences in “resources” (Teece 1982, Wernerfelt 1984)



But what explains firm level differences in competences?



The Dynamic Nature of Firm Capabilities:

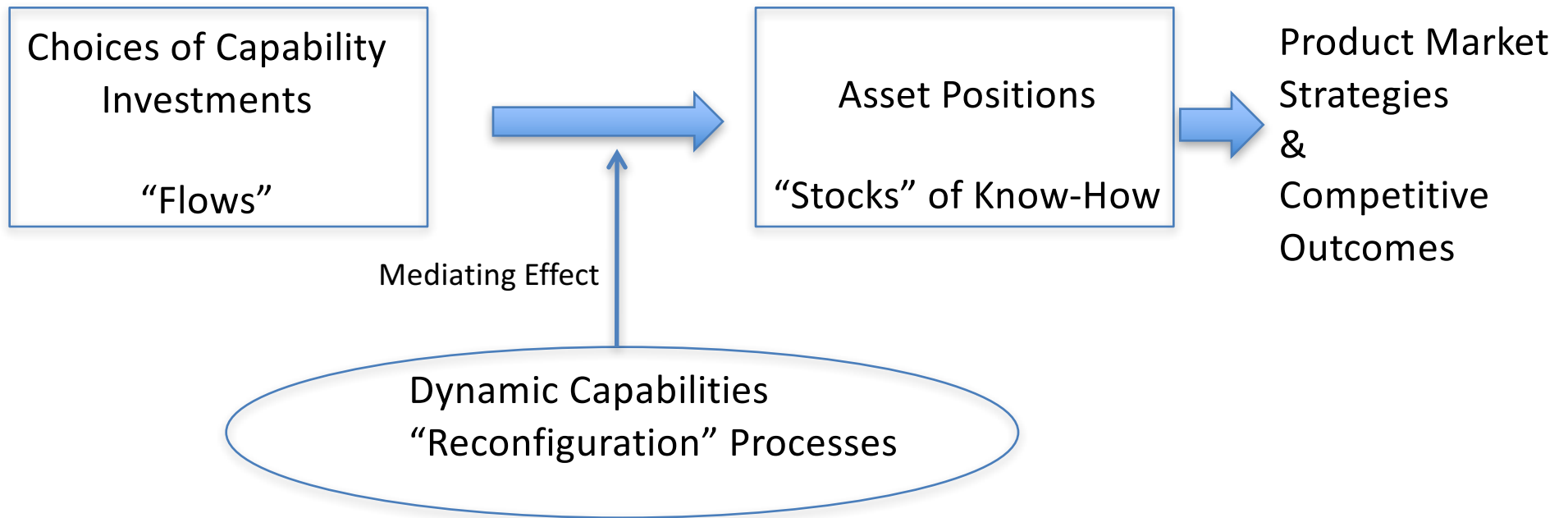
Teece and Pisano (1994) and Teece, Pisano, and Shuen (1997)

Capability differences stem from:

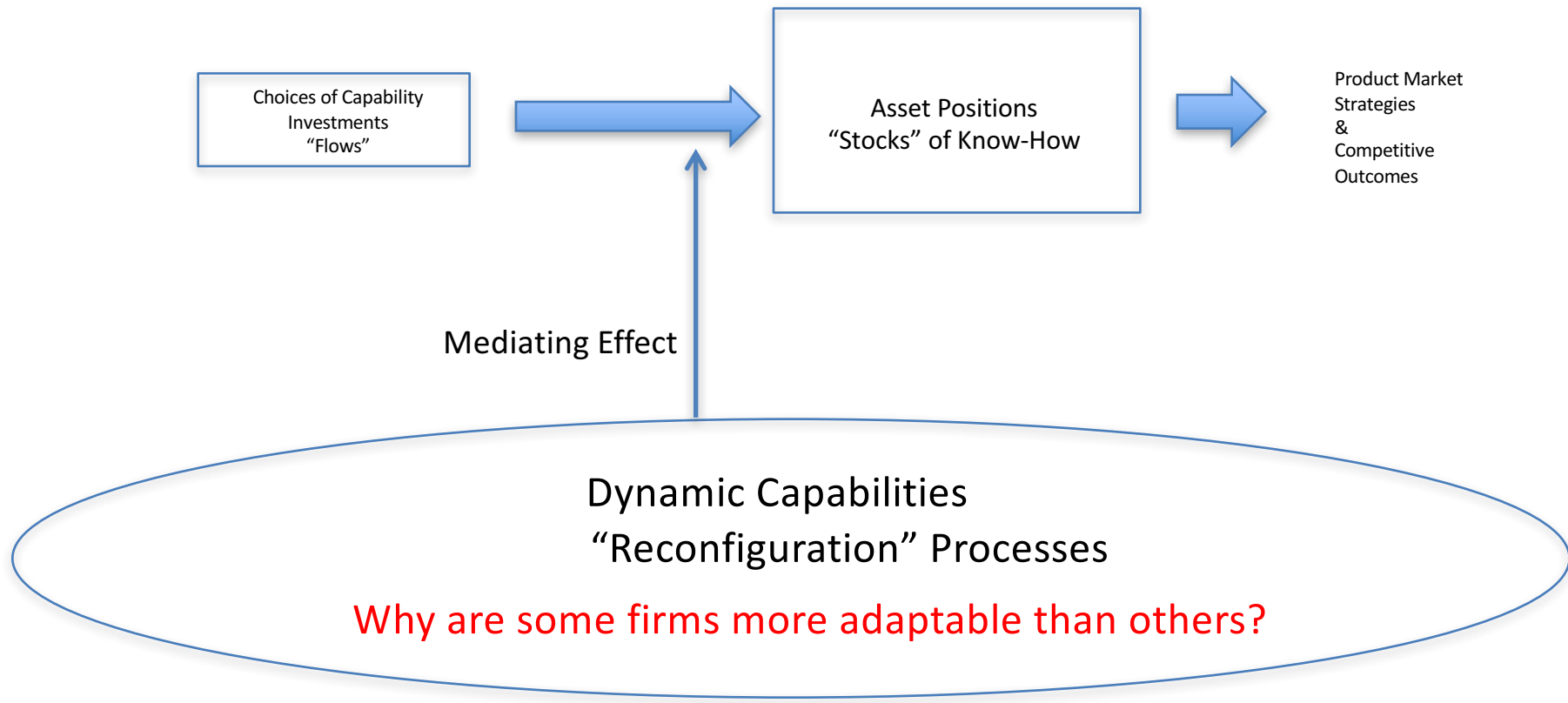
1. POSITIONS: firms have different starting points which constrain their choices (*path dependence*)
2. PROCESSES: firms have different high level processes to reconfigure assets and develop new competences (*“dynamic capabilities”*)
3. PATHS: firms make different choices about capability commitments (**strategy**)

Dynamic Capabilities Framework

(Teece and Pisano 1994, Teece, Pisano, and Shuen, 1997)



Where did the literature go from there?



The Research Program After 20 Years

- ***Illusive search for “dynamic capability” —why are some firms more adaptable than others?***
 - *Is that really a strategy question?*
 - *Where are the choices? Where are the trade-offs? Where are the commitments?*
- ***Obsession with creating new terminology:***
 - capabilities, dynamic capabilities, dynamic routines, static capabilities, combinative capabilities, cognitive capabilities, competences, etc.
- ***Relatively little deep empirical work***
 - Primitive understanding of the very thing we are building a theory around
- ***NO PRACTICAL IMPACT ON PRACTICE***

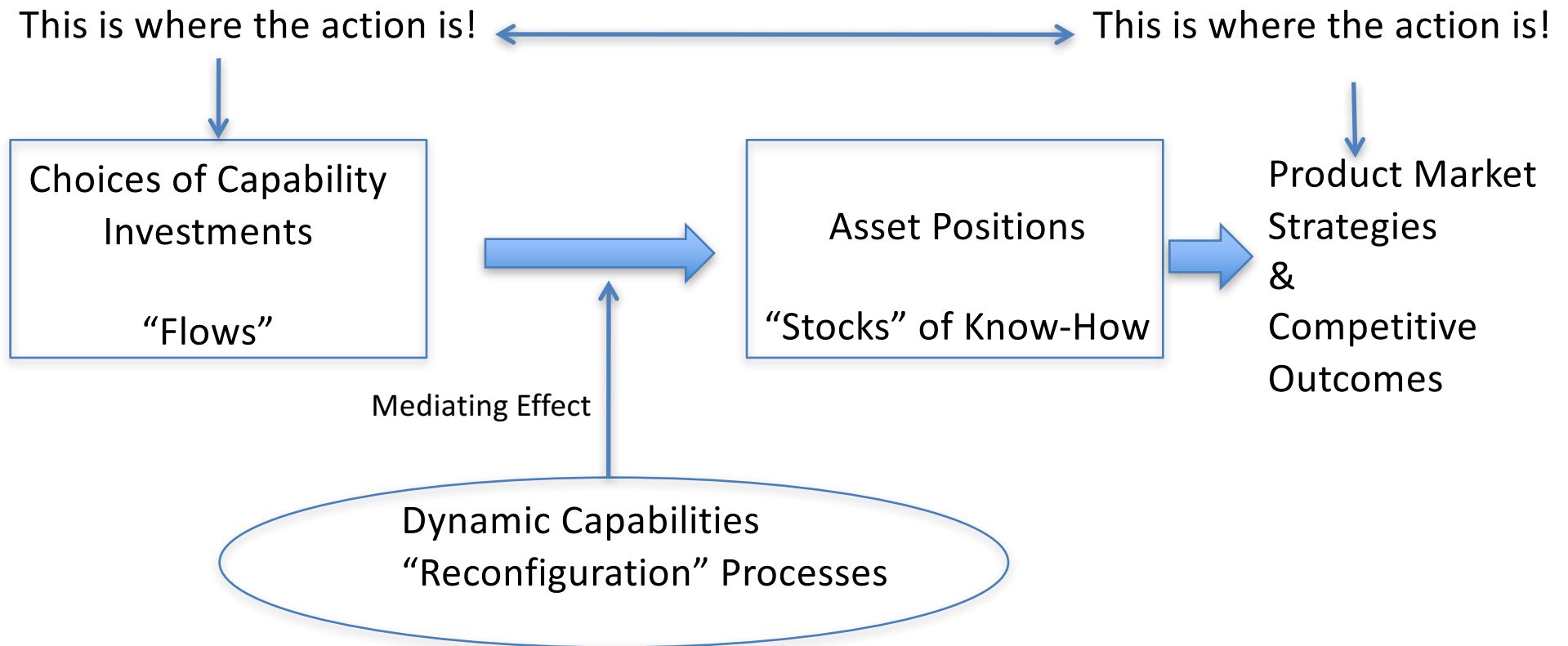
Getting Back to Basics

What questions should a capabilities-based theory of strategy be trying to answer?

- **Strategy** about *choice*
- **Competitive Strategy** about choices that have consequences for **competitive advantage**
- A **capabilities-based theory of strategy** should be about **capability choices** and their consequences for **competitive advantage**

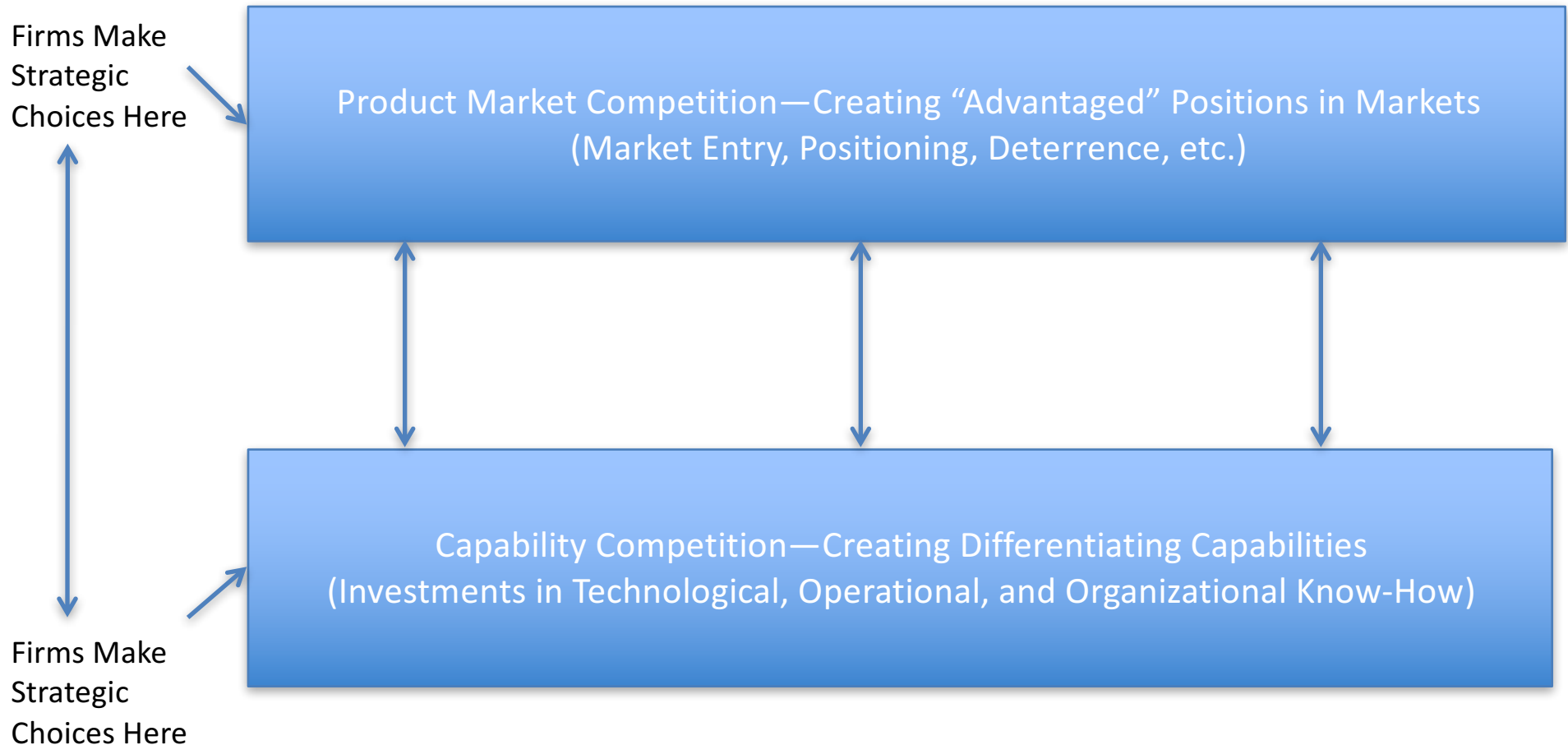
Dynamic Capabilities Framework

(Teece and Pisano 1994, Teece, Pisano, and Shuen, 1997)



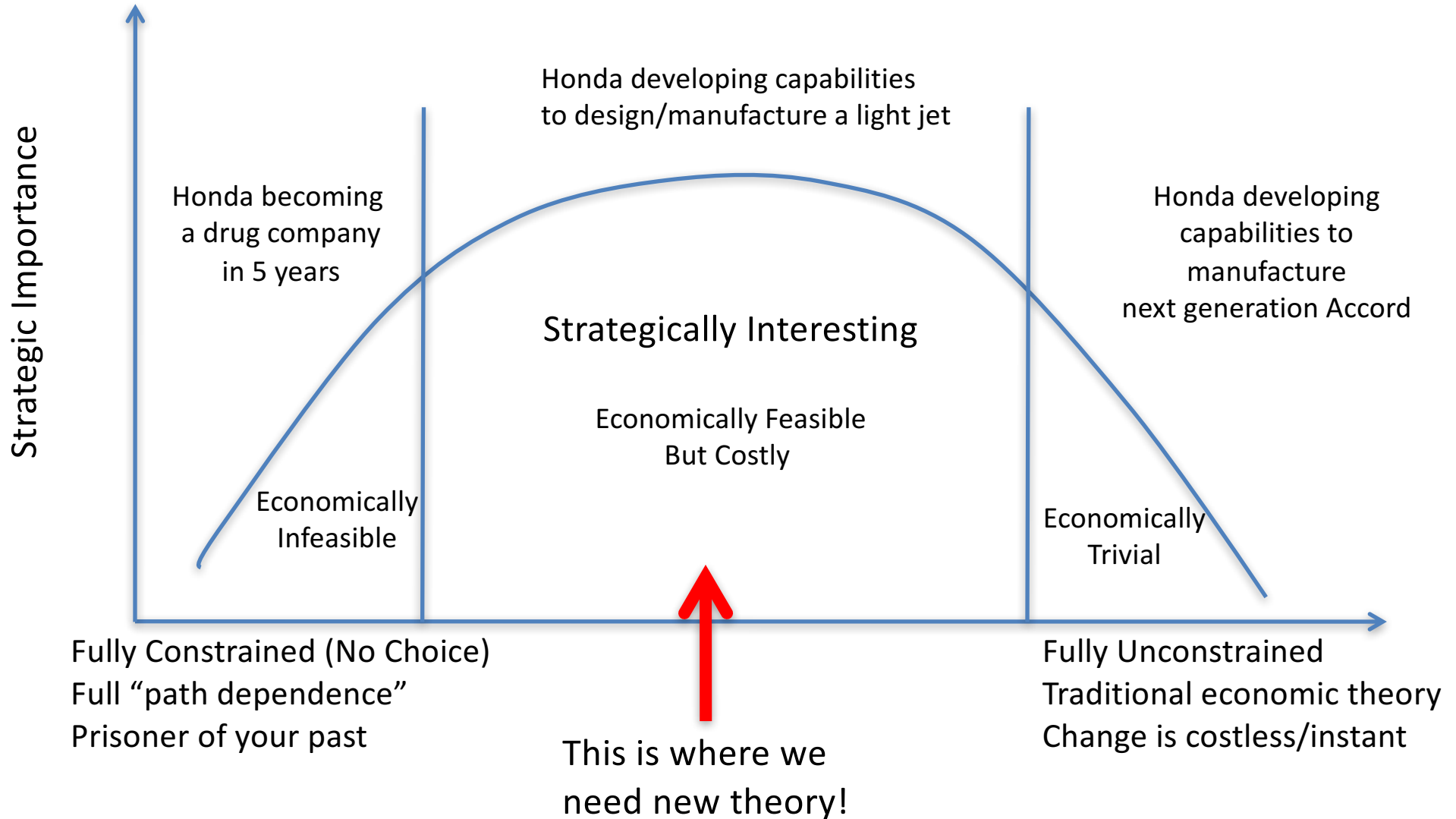
Towards a Capabilities-Based Theory of Strategy

Competition Occurs at Two “Levels”

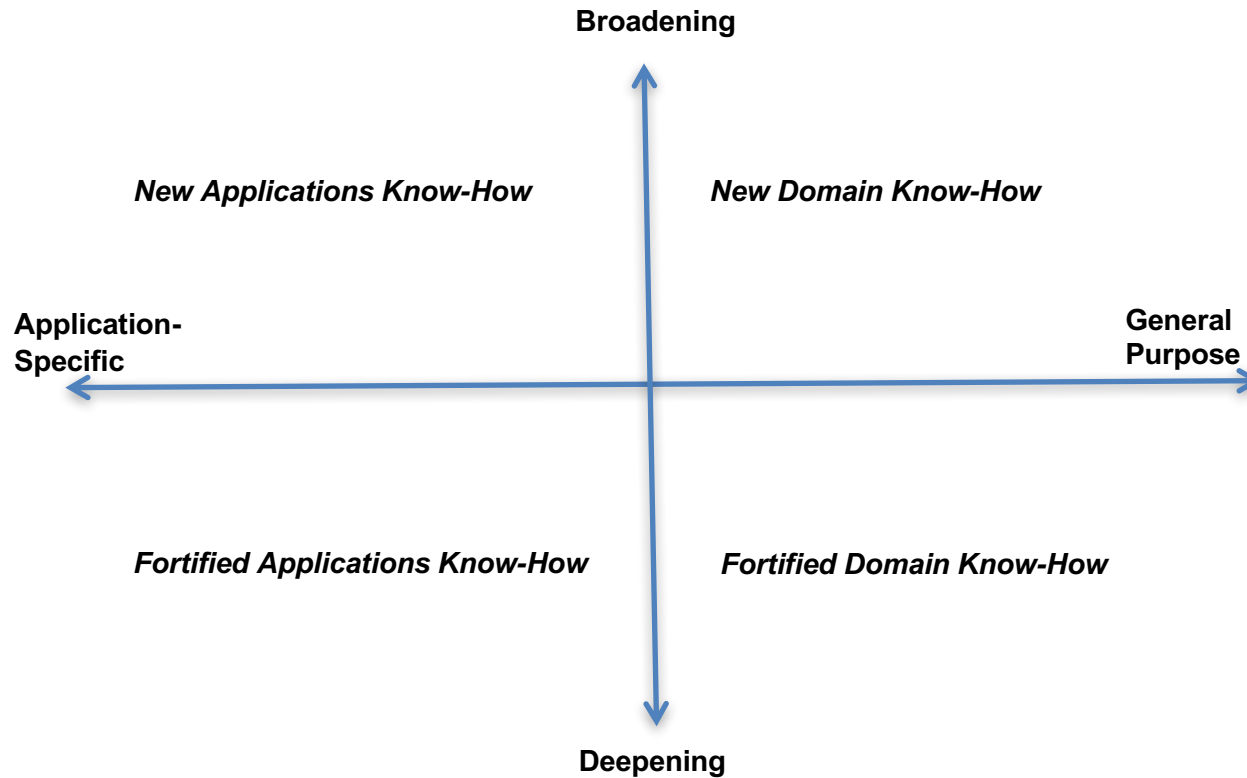


Source: “A Normative Theory of Dynamic Capabilities: Connecting Strategy, Know-How, and Competition”
HBS, Working Paper, 16-036.

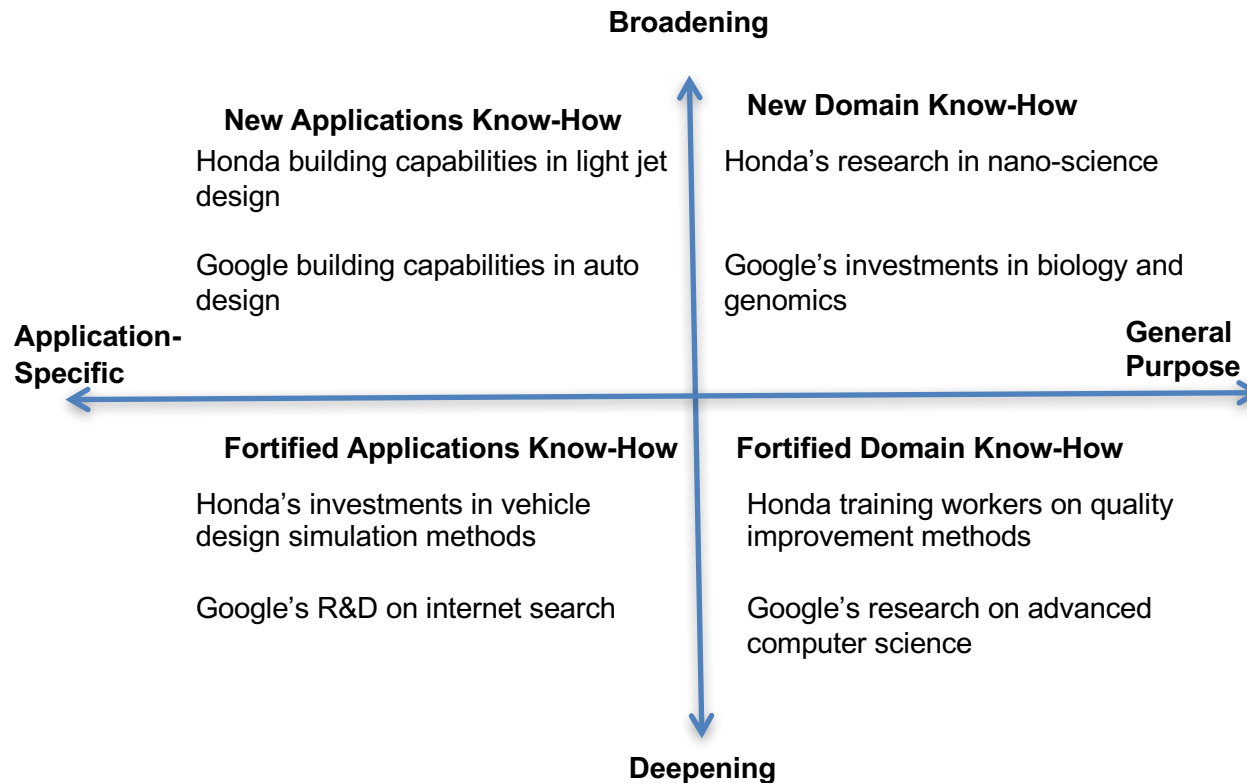
Capabilities: Choices and Consequences



Choice Space for Capability Strategy



Choice Space for Capability Strategy



A firm's capability strategy can be defined by its allocation of resources across these categories

Open Questions: Things We Don't Know But We Should

- How to distinguish “related” vs. “unrelated” diversification
 - Tend to distinguish related from unrelated moves after the fact
 - Is Honda’s entry into light jets a “related” or “unrelated” move?
- We can’t predict how a given firm might develop over the next 5 years given their existing capabilities.
 - In 2003, how many people predicted Apple would be in the phone business by 2007?
- We don’t have normative frameworks to help managers decide among alternative paths.
 - How should a company like Ford think about developing capabilities in autonomous vehicles?
- We can’t predict likelihoods of success of developing new capabilities based on what we know about the firm today.
 - Should Google try to develop its own car? Do they have “the capability”?

Summary

- No more definition papers please!
- Let's stop worrying about “adaptability”
- Dynamic capabilities is not a theory of strategy, and it won't be until it can:
 - Answer puzzles that existing theories can't
 - Provide useful guidance to managers
- Understanding capabilities requires very deep field research—can't be done from 30,000 feet
 - Go into the factory, the warehouse, the store, the engineering lab, etc.
Find out what's going on!