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Introduction to Special Topic Forum on Developing the dynamic capabilities of global companies across levels and locations

Donald Lessard; David J. Teece; Sohvi Leih

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The call for papers for this special issue of *Global Strategy Journal* noted that research on dynamic capabilities (DCs) has tended to ignore the effect of context. There is a clear need for more studies that explicitly consider the contexts in which DCs are developed and exercised. A context could be defined in many ways, such as an industry, a time period, or even a strategic orientation. One important context is the nation-state—or an equivalent economic unit, such as a regional bloc or local ecosystem—The multinational enterprise (MNE) is a natural laboratory for observing how DCs cross (contextual) borders. Yet, as the CFP observed, most studies of global firms are “based on a single country context, and typically with little or no focus on the context” as such. Put metaphorically, an increasing number of capabilities studies are telling us what makes some water creatures better swimmers, but it doesn’t tell us whether they can thrive on land.

MNEs gain their advantage from owning and controlling a core set intangible assets that are more fungible than their physical assets/activities (Teece, 1981; Kogut & Zander, 1992, 1995). However, knowledge and its applications do not move across borders costlessly, nor is there any

guarantee of success outside a home market. In other words, projecting domestically successful knowledge and capabilities across borders does not necessarily result in global competitive advantage. Investigating under what circumstances intangible assets can be profitably deployed, combined, and redeployed across contextual boundaries is a core inquiry for IB and will also be of great interest to those studying dynamic capabilities.

Dynamic capabilities (Teece, Pisano, and Shuen, 1997; Teece, 2014) help the MNE ensure evolutionary fitness. However, achieving evolutionary fitness over geographies and jurisdictions is very different proposition from expanding over time. Of course, in practice, MNEs are exposed to and linked with multiple heterogeneous business environments, but it is an open question how well their dynamic capabilities travel across geographies and jurisdictions. Does strong sensing in an information-rich context equate to strong sensing where information isn't rich such as in "less developed" settings? Likewise, does strong seizing in a highly regulated consumer market provide any advantage when entering markets with limited consumer protections?

The five articles in this special issue address important issues such as these at the intersection of global strategy and capability theory. We briefly summarize them here.

Nonaka, Hirose, and Takeda link the concept of DCs to Nonaka's well-established perspectives on knowledge, namely that tacit knowledge inevitably is embedded in a local context and that exploiting this knowledge across multiple national contexts requires a capability that will be unique to each organization. Using the cases of four Japanese multinational companies—

Fujifilm, Eisai, Mayekawa Manufacturing, and Toyota--they show that sensing, seizing, and transforming are both top-down and middle up processes, an important extension of the usual DC emphasis on top management orchestration. They also point out that face-to-face interactions are key to the middle-up-down process in Japanese firms, which may limit its applicability across countries.

Henisz analyzes MNEs dealing with stakeholder and environmental requirements, often far—in a contextual as well as a physical sense—from their home bases. He argues that the “external affairs” function as generally practiced is an afterthought that often addresses problems in the broader business environment at too late a stage. He goes on to outline a “corporate diplomacy” capability centered on the building of relationship capital with a range of external stakeholders. This is very much in keeping with the proactive sensing and seizing characteristic of strong DCs. As with other DCs, developing the underlying signature routines takes time and can be an important differentiator, even from local host-country rivals.

Williamson reexamines his work on rapid-cycle innovation in Chinese firms through the DC lens. The firms that successfully develop these capabilities have differentiated themselves from a “sea of competitors,” but it remains to be seen if these firms can successfully extend their sensing, seizing, and transforming processes into other countries, even those offering a similar emerging market context. The question takes on particular salience in this special issue in light of the other articles stressing the complexity of developing the dynamic capabilities needed to span multiple contexts.

Lessard, Teece, and Leih revisit the classic question of location advantages vs. firm advantages. They argue that as knowledge and other resources become more widely distributed, multinationals are becoming less dependent on a single home country, i.e., context-independent. As these firms decentralize authority through their network, they become meta-multinationals, sensing, seizing, and transforming internal and external resources across a number of key locations in order to create and capture value globally. This can be seen as an updating of Hedlund's concept of the MNE as a "heterarchy" (Hedlund, 1986) to reflect that an orchestrating central authority remains important, which perhaps makes it closer to the older "geocentric" model (Perlmutter, 1969). They conclude that DCs and meta-MNEs represent a "duality", with metanational DCs being a key differentiator against rival firms.

Zollo and his co-authors apply the DC framework to the deep transformation processes required to fully embed the concept of sustainability throughout an organization, effectively spanning two very different *internal* contexts. They break down the change process into an idea-generation phase and a replication/retention phase, and within each phase they separately consider behavioral and cognitive elements. Since corporate social responsibility is a relatively new area of focus by firms, it provides an excellent opportunity to observe multiple cases in which this process plays out, well or poorly, and the authors provide clear examples from companies that have already started down this path.

Looking across these articles, we see they can be classified in keeping with a simplified version of the firm-specific advantage development matrix of Rugman and Verbeke (2001). Here we focus on whether knowledge and capabilities are developed and applied in a single location or

in/to multiple locations, as summarized in Table 1. Henisz and Williamson are both writing about local knowledge applied locally. While the Chinese firms in Williamson’s article are not yet MNEs, those in Henisz conform, at least in this local embeddedness dimension, to the “polycentric” model described by Hedlund (1986). Firms following Nonaka et al.’s model fall into another category, in which local knowledge, typically from the home country, is applied globally. This is more or less the classic model of the MNE. By contrast, the articles from Zollo et al. and Lessard et al. concern more recent developments in which knowledge and capabilities developed anywhere within the firm’s network can be applied company-wide, conforming to what Lessard et al. dub the “meta-MNE” model.

	Developed in a Single Location	Developed in Multiple Locations
Applied in a Single Location	Henisz Williamson	
Applied in Multiple Locations	Nonaka et al.	Zollo et al. Lessard et al.

Table 1: Classification of MNEs by location(s) of DC “experimentation” and diffusion

Taken together, these articles help to define an agenda for analyzing cross-context dynamic capabilities. What are the capabilities required for integrating local knowledge on a global basis? What capabilities can allow a firm to become locally embedded in a distinctly foreign context? What capabilities are needed to fundamentally transform a global corporation? What are the capabilities that allow a successful local firm to extend its advantages elsewhere?

Parts of the answers can be found in this issue. However, these and related questions require ongoing scrutiny, especially as new MNEs arise in emerging markets and existing MNEs shift their activities closer to metanationality.

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