Chapter 8
Managing Knowledge through Dynamic Capabilities

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ABSTRACT

The aim of this chapter is to provide an insight into the interaction of innovation and learning through an integrative view of knowledge management and dynamic capabilities approaches. Firstly, theoretical foundations of the dynamic capabilities perspective and knowledge management are presented. The chapter further explores the existing theoretical linkages between knowledge management and the dynamic capabilities approach, as well as their potential impact on organizational performance, within the framework of human resource practices, relevant for achieving successful knowledge transfer. The existing theoretical foundations are used to provide a generalization, leading to an integrative theoretical model, which should serve as a basis for further empirical verification.

DYNAMIC CAPABILITIES IN AN ORGANIZATION

According to Teece, Pisano and Shuen (1997), a *dynamic capability* refers to an organizational ability Alpha ability to integrate, build and transform internal and external competencies. They can help an organization to achieve innovative forms of competitive advantage by responding to changes in the environment. Eisenhardt and Martin (2000) define dynamic capabilities in a similar manner, i.e. in the context of achieving organizational change, aligned to the external pressure: namely, these capabilities are perceived as business processes that use resources – specifically the processes of integrating, restructuring, acquiring and releasing resources – to adapt or create market changes. Dynamic capabilities are especially helpful in explaining the sources of competitive advantage in extremely volatile markets (Macher, Mowery, 2009).

Dynamic capabilities are determined by organizational and managerial processes, positions and paths. The organizational and managerial *processes* refer to *routines,* i.e. current practices in an organization, such as coordination, integration,

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learning, transformation, etc. This is especially important, since most organizations engage in repetitive processes, such as production and/or service delivery, which require standardized performance of specialized tasks, in order to achieve adequate performance (Becker, 2002). Routines have developed over time and, at the moment of analysing an organization, they represent successful solutions to common problems.

Organizational knowledge, accumulated through learning activities, results in new routines, which can, nevertheless, be shaped by future decisions and development directions. In the dynamic capability perspective, the strategic alternatives available to an organization are referred to as *paths*. The notion of *path dependence* indicates that future of an organization depends on its current position (which includes current resources, capabilities, routines, etc.) and potential development paths. Although the future behaviour of an organization is shaped and limited by the current decisions and routines, there is no path that 'must' be followed, as to achieve a certain objective. There is a multitude of potential outcomes, which can be reached as a consequence of the same strategic decision, depending on a range of initial positions and the circumstances taking place in the environment. Once the development of a strategic situation in an organization takes place (by following a certain path), the social interactions are becoming 'frozen' in the form of *'recurrent patterns'* (Becker, 2002), representing the routines. They are collective social phenomena, which are very difficult to understand and replicate or transfer, which is in line with the fundamental Resource Based View (RBV) tenets (Barney, 1991; Grant, 1991), although its initial theoretical foundations were built upon the notion of strategic resources. Current competitive advantage can be achieved through routines, i.e. processes that are shaped by company's positions and paths (Teece, Pisano, Shuen, 1997), but organizational innovation and change should be also explained in the same manner. Namely, by using the notion of an organizational process/routine, researchers are able to discuss the behaviour of an organization in a profound manner, since routines encompass both internal and external drivers of change, as well as drivers leading to the stability (Becker et al, 2005).

Eisenhardt and Martin (2000) define dynamic capabilities as an organizational ability to gain, integrate, transform, and release resources, in order to adapt or to create market changes. This, once again, emphasizes the role of dynamic capabilities in activating/coordinating strategic resources as 'lower level' constructs within the RBV theory of strategic management. In this theoretical framework, dynamic capabilities are believed to consist of specific strategic and organizational processes (new product development, creating strategic alliances, strategic decisions ...), which can create value for an organization. In this context, capabilities demonstrate the *equifinality* as the inherent characteristics of the path development, meaning that the similar competence can be developed by using different (development) paths, from different (strategic) resource bases.

According to the same authors (op. cit.), the effective forms of dynamic capabilities may change, depending on the degree of market volatility. If markets are moderately dynamic, dynamic capabilities resemble the (stable) routines, while, in highly volatile markets, these capabilities are simple, experimental and unstable processes, developed from new knowledge, formed in the short term. This is also accepted by Zollo and Winter (2002), who notice that the necessity of dynamic capabilities develop on the stability of the markets and other elements of the external environment. In swiftly changing environments, characterized also by low predictability, dynamic capabilities should be continually upgraded. This enables organizations to adjusting to the environment in a creative, but a rather unstructured way, which, nevertheless, differs from the ad-hoc approach to adaptation to the environmental change (Winter, 2003).