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Ordinary Capabilities as well as Dynamic Capabilities can deliver Growth: Evidence from two Turkish Multinationals

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1. Introduction

Although the strategic concept of dynamic capabilities (DCs) has proved a key focus for many scholars, empirical evidence has largely focused on new industries and technologies rather than more mature markets (see, for example, Eisenhardt and Martin, 2000; Fainshmidt, Pezeshkan, Frazier, Nair and Markowski, 2016; Karna, Richter and Reisenkampff, 2016; Zollo and Winter, 2002). DCs developed out of earlier work related to what is now referred to as the ordinary capabilities (OCs) of the firm (Barney, 1991; Wernerfelt, 1984). Given the recent emphasis on DCs (Peteraf *et al*, 2013), it has been argued by some scholars that OCs are no longer significant contributors to growth in the firm (see, for example, Teece 2014: 18). The prime purpose of this paper is to revisit the concept of OCs in mature markets and consider whether they, as well as DCs, contribute to the growth of emerging market multinationals (EM MNEs).

In both theory and practice, this distinction is ‘blurry’ (Helfat and Winter, 2011) with this lack of clarity supported by empirical evidence (Karna, Richter and Reisenkampff, 2016). However, this paper assumes that it is possible to distinguish, broadly at least, between OCs and DCs (Teece, 2014).

For reasons which will be explained in a full paper, we have selected the strategic context of Emerging Market Multi-National Companies (EM MNEs) in their competitive battle with Developed Market Multi-National Companies (DM MNEs) in two related semi-global and relatively mature industries - namely domestic appliances (refrigerators, freezers, etc.) and televisions and researched two successful EM MNEs from Turkey.

2. Brief literature review and propositions

2.1 Defining the dynamic and operational capabilities of EM MNEs

In summary, OCs enable ‘a firm to perform an activity on an on-going basis using more or less the same techniques on the same scale to support existing products and services for the same customer population’ (Helfat and Winter, 2011: 1244). By contrast, DCs extend the concept to the ‘higher level’ abilities of firms to seize market opportunities and cope with changing markets through the re-configuration of the firm’s assets (Barrales-Molina *et al*, 2014; Fang and Zou, 2009; Helfat and Winter, 2011; Teece, 2007). Thus DCs deliver the growth objectives of the firm while OCs do not (Eisenhardt and Martin, 2000; Teece, 2014)..

2. 2 Development of the research propositions for OCs and DCs

Over the last thirty years, the DM MNEs have spearheaded globalisation when the latter is measured by higher Foreign Direct Investment (FDI) and increased international trade (Dunning and Lundan, 2008). Scholars have sought to explain why EM MNEs that lack the

firm-specific competitive advantages of DM MNEs have been successful from multiple theoretical perspectives (Buckley and Hashai, 2014; Kogut, 1991). Part of the reason for EM MNE success rests on the institutional and structural support provided by the governments of developing countries (Porter, 1995; World Bank, 2015). From a locational perspective (Dunning and Lundan, 2008), emerging market countries have competitive advantages that may benefit EM MNEs such as natural resources, low energy costs, low wage costs and institutional support (Sheth, 2011). Thus, EM MNEs have the potential to exploit the governmental, natural and economic resources of their home countries (Lynch and Jin, 2016). Moreover, some EM MNEs have large home-country markets that will provide basic market knowledge and cash flow to support overseas expansion (Porter, 1995; Rugman and Verbeke, 2004). In summary, these considerations about the home markets and the operational resource strengths of the EM MNEs support the following proposition for OCs:

P1: Home country operational capabilities are positively associated with stronger international growth in EM MNEs.

Teece (2007: 1320) identified four strategic market criteria that particularly support dynamic capabilities, namely (1) linkages to rapid technological change, (2) technologically advanced products that meet customer needs, (3) well-developed global markets and (4) the international expansion strategies of EM MNEs. These criteria are particularly linked to the possession of the entrepreneurial capabilities of the firm to sense, seize and reconfigure assets (Teece, 2007: 1319). Although such skills are not unique to EM MNEs, we argue that they are particularly relevant to EM MNEs. The reason is that such companies will have neither the resource inertia that inhibits change (Rumelt, 1995), nor the sunk cost effect of the heavy commitment to an existing technology (Besanko, Dranove, and Shanley, 1996). The dynamic capabilities process is typified by knowledge acquisition and learning (Eisenhardt and Martin, 2000). In addition, entrepreneurial skills are essential to the fostering of innovation that is the essence of DCs (Rothaermel and Hess, 2007; Zhu *et al*, 2011). Equally, entrepreneurs will seek entry into new industries and products (Cepeda and Vera, 2007; Karimi and Walter, 2015; King and Tucci, 2002; Zahra *et al*, 2006).. Such attributes lead us to our second proposition for DCs:

P2: Knowledge, learning and entrepreneurial dynamic capabilities are positively associated with stronger international growth in EM MNEs.

Note: a fuller version of this paper a more robust justification.

3. Research Methodology

Given the ‘blurry’ distinction between DCs and OCs, we argue that a qualitative and process-based research study within a defined context is essential (Eisenhardt& Martin, 2003). This research adopts such an approach (Yin, 2003), following a replication logic with multi-source data collection as suggested by Eisenhardt (1989) and Woodside and Baxter (2013). In summary, this paper presents evidence from over 30 interviews with senior managers at two leading Turkish EM MNEs - Arçelik and Vestel – plus interviews with senior Turkish industry and government officials, industry research reports and over 20 years of historical data. Full details are given in a longer version of this paper.

4. Research Evidence

4.1 The international expansion strategies of Arçelik and Vestel

As the flagship of Turkey's biggest conglomerate Koç, Arçelik is one of Turkey's biggest industrial enterprises. Founded in 1955, Arçelik mainly manufactures white goods, consumer electronics and air conditioners, as well as small home appliances. In its early years, the company established a strong home base. By 2015 net sales amounted to 5.2 billion dollars of which almost 60% were outside its home country. As a subsidiary of the Turkish Zorlu group, Vestel is one of Europe's top three television manufacturers, and also ranks among the top ten white goods manufacturers. Again, its early years were essentially in its home country. But by 2015, the company's net sales were around 3.39 billion dollars with around 65% outside Turkey. In summary, Arçelik and Vestel have both been successful in achieving their strategic objectives of major international profitable growth.

4.2 Qualitative evidence on OCs

Proposition 1 argues that EM MNEs benefit from their substantial resources in their domestic markets. Arçelik and Vestel have major market shares in their home market, Turkey. This market of nearly 79 million people has provided basic market knowledge, product testing and cash flow to support overseas expansion. "The home market is where we are strongest. In that way, you are able to finance your expansion into new markets," (Arçelik director). In addition, the lack of other high technology industries in Turkey has also helped the two companies. Top engineering talent that might have gone to other industries in more developed countries went to work for the home appliances and consumer electronics industries in Turkey, and, in particular Arçelik and Vestel (source: senior managers at Arçelik and Vestel). Moreover, both companies have benefited from the institutional and structural support provided by the Turkish government (source: two Turkish government industry respondents).

One of the most important home country resources possessed by both companies has been their extensive home-located R&D capability. For example, the Koç Group had more than 4,300 R&D employees in 2015. Equally, one executive from Arçelik pointed out that its R&D capability allowed the company to respond quickly to market changes (source: sales director at Arçelik). Moreover, the ability to develop high-technology products opened up more international opportunities and facilitated the progression from original equipment manufacturing to original design manufacturing and brand licensing (source: senior manager at Vestel). The evidence shows that the development of home-located R&D capabilities has proved critical to the international expansion of both firms. This would not have been possible without significant financial backing from their respective corporate-level groups and from the Turkish government (source: directors at Arçelik and Vestel).

In one sense, it can be argued that such R&D capabilities are linked to DCs. However, given the background institutional support, the strong home market and the lengthy time to build R&D capability, we argue that these are OCs as well as DCs. Hence, the above evidence supports Proposition 1.

4.3 Some qualitative evidence on DCs

Both companies engage in intense entrepreneurial opportunity strategies. One manager summed up this ability: "[Arçelik] is ready for any type of attack in foreign markets" (Arçelik R&D director). Another manager explained: "The strongest asset of the company is in its ability to foresee the needs of its customers and proactively develop solutions to best satisfy

their needs” (Vestel director). For example, one entrepreneurial skill is the ability to learn about new products region by region in world markets. Thus, early on in its international expansion Arçelik developed special models for the UK, French and German markets (source: Arçelik UK director), and then pursued the same strategy for other international markets (source: Arçelik African markets director). Similarly, Vestel also expanded its product range under license and after identifying market opportunities (source: director at Vestel).

Leadership support was an important antecedent to the exercising of such skills. One Vestel manager explained: “If [the main shareholder] believes in the [potential investment area], he says: ‘Let us go ahead!’ From that point on he opens up our path and supports us. ... You may be acting with foresight and make your preparations but you may not be able to get the necessary decision. ... The decision may be made, but it may not be supported by the requisite budget. With us, both the decision and the budget are approved,” (R&D Director Vestel).

Vestel proactively approached clients and convinced them that the company could design and produce new product lines for them. “Otherwise they would have to invest in expanding their own manufacturing facilities and establishing R&D functions. ... Plus, Vestel offers them a great(er) variety. This variety is a big convenience for clients,” (Senior manager at Vestel). Once this approach had been successfully tried on one client, “others were quick to follow suit.” The above evidence supports Proposition 2.

Note: we have more evidence and more nuanced data for a full paper.

5. Some brief conclusions

A constant theme amongst the senior managers was the need to seek and enhance various knowledge and innovation processes to deliver international growth strategies. Another response was the search for entrepreneurial opportunities, even though the companies were large and well-established. The knowledge and innovation flow was clear, claimed to be effective and constantly interactive. Senior management leadership coupled with freedom to experiment is crucial to the effective international strategies of the two companies. Such capabilities are built over many years and therefore have elements of OCs as well as DCs. Hence, we show that ordinary capabilities also deliver growth for EM MNEs in mature markets.

Currently, the strategic concept of dynamic capabilities has proved a key focus for many scholars (see, for example, Eisenhardt and Martin, 2000; Teece, Pisano and Shuen, 1997; Zollo and Winter, 2002; Teece, 2014). This study provides support for DCs, but it also suggests that OCs are significant contributors to international expansion strategies. While there is evidence to support the two propositions, the evidence also suggests that there is a broader and more complex relationship between the OCs and the DCs for EM MNEs.

This conclusion is not consistent with some recent scholarly research on DCs. Fundamentally, this challenges some of the recent scholarly research on dynamic capabilities which has argued that dynamic strategies are the main source of higher business growth (Barrales et al, 2014; Drnevich and Kriauciunas, 2011; Helfat and Winter, 2011; Teece, 2011; Teece, 2014).

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