

THE ROLE OF DYNAMIC CAPABILITIES IN THE NETWORK APPROACH OF  
STRATEGIZING

Mária MAGYAR (corresponding author)  
Budapest University of Technology and Economics  
magyar@mvt.bme.hu

Tibor MANDJÁK  
EM-Normandie (Normandy Business School) Le Havre  
tmandjak@em-normandie.fr

Zsuzsanna SZALKAI  
Budapest University of Technology and Economics and Corvinus University of Budapest  
szalkai@eik.bme.hu

Edit NEUMANN-BÓDI  
Corvinus University of Budapest  
edit.bodi@uni-corvinus.hu

Judit SIMON  
Corvinus University of Budapest  
judit.simon@uni-corvinus.hu

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## ABSTRACT

The aim of this conceptual paper is to provide a better understanding about dynamic capabilities in the network approach represented by IMP. Within the framework of this article the concept of dynamic capabilities as improvement of the resource-based approach will be shortly presented, then the theoretical background of strategy, strategizing in network perspectives will be discussed.

The theoretical framework for this article is provided firstly by experts' works from the dynamic capabilities (including Teece et al., 1997; Eisenhardt et al., 2000; Teece, 2007; Katkalo et al, 2010), on the other hand most relevant literatures published by the IMP Group in connection with dynamic relationships and strategizing (Håkansson and Snehota, 1995; Håkansson and Ford, 2002; Gadde et al., 2003; Baraldi et al., 2007). The paper also applies the concept of dynamic 'relationship' capabilities noted by Vilmányi et al (2014).

After theoretical review the authors illustrate the interpretation of dynamic capabilities through a case study about a successful Hungarian electronic products supplier company, assuming that the existence and proper way to use the dynamic capabilities are basic conditions for the company's success. The authors highlight the fact that the effective strategizing is based on perfect knowledge of the companies' dynamic capabilities, which are necessary for the companies to find the favourable network position through managing relationships.

Keywords: dynamic (relationship) capabilities, business networks, strategizing

# THE ROLE OF DYNAMIC CAPABILITIES IN THE NETWORK APPROACH OF STRATEGIZING

## INTRODUCTION

In rapidly evolving, knowledge-intensive industries with uncertain business environment the preservation efforts in competitive advantage, and researches related to changes have taken place as a result of corporate strategy development theories. The company's management decision-making flexibility has become an important value-adding factor.

The present conceptual paper tries to show the role of dynamic capabilities in companies' strategic planning process in IMP's network approach. Within the framework of this article the concept of dynamic capabilities as improvement of the resource-based approach will be shortly presented, then the theoretical background of strategy, strategizing in network perspectives will be discussed. The theoretical framework for this article is provided firstly by experts' works from the dynamic capabilities (including Teece et al., 1997; Eisenhardt et al., 2000), on the other hand most relevant literatures published by the IMP Group in connection with dynamic relationships and strategizing (Håkansson and Snehota, 1995; Håkansson and Ford, 2002; Gadde et al., 2003; Baraldi et al., 2007). The authors have chosen to examine the dynamic capabilities' concept taken from Teece et al (1997), Teece (1998, 2007), Eisenhardt and Martin's (2000), Katkalo et al (2010) and Vilmányi et al (2014) models cause the terms determined as dynamic capabilities are fundamental in this topic and all of them appear in the strategic management and in the IMP literature as well, but in different treatment. Hence, the aim of this paper is twofold: analysing the different concepts of dynamic capabilities using the two theoretical approaches based in a case study.

Therefore after the theoretical review the authors illustrate the interpretation of dynamic capabilities through a case study about a successful Hungarian automotive supplier company. Furthermore the paper deals with specific features of CEE countries, especially with the discussing cultural and economic context of Hungarian pathway influenced on examined company's operation and success. The authors focus on illustrating the dynamic capabilities through two of company's important customer relationships and presenting how they developed from the economic historical background.

## BUSINESS NETWORK IN STRATEGIC CONTEXT

The interaction and interdependence are determining in the strategic approach of IMP Group (Håkansson et al., 1982). The IMP perspective is fundamentally based on the business relationships of a firm that are embedded in a business network (Håkansson and Snehota, 1989; Håkansson and Ford, 2002; Gadde et al., 2003; Ford and Mouzas, 2008; among others). The strategy focuses on the ability to build and maintain the relationship between business entities (Gadde et al., 2003). It is important to note that the strategy and the strategy development of the IMP approach is far resulted in more similar definitions, such as the formulation of strategy in management is well known Chikán (2000, p.472), who said that "the strategic planning, strategy and feedback integrated units based management". Hamel (1996) describes strategy development (strategizing) as discovery, almost as art and planning as programming of technocrats. According to that we can note the planning such a rigid, repetitive process, as opposed to flexible, malleable creations. It is no coincidence that the IMP group never speaks about planning, but the terms of creation and development are used in the context of the strategy.

In recent years, however, the IMP researchers dealing more and more with the question of strategy development/strategizing (Baraldi et al, 2007;. Ford and Mouzas, 2008; Ford, 2011). The network structure next to the network processes built from interactions, network position and network picture are essentials to understand Mouzas and Ford's (2008) approach on strategy development. The network picture is a picture about the connected network created in the minds of managers who are active in the network, and the network position shows the position of a company in the network (Gelei and Mandják, 2011). Based on these Mouzas and Ford (2008) examine changes in the system of relationships in a network in a similar context to Ansoff matrix. It is important to emphasize that the strategy is also not linked in any company, but in the network structure and changes in processes is interpreted on network level.

The strategic management also recognized that the social networks between organizations play important role in the strategy as resources (Madhavan et al., 1998), but the basic difference compared to the IMP approach is that in strategic management (1) the network is made up of relationships between actors in the industry, and (2) the relationships and so the network can be controlled by managers. In contrast according to the IMP perception the network is a web of relationships, not tied to industry, and the relationship and the network is not controlled by a single actor. The inter-organizational relationships within the network therefore are important resources, but none of these are owned by companies. Consequently, the business activities - see strategy development/strategizing – are not limited to one or the other party in a dyad (Ford, 2011), or in the network.

Table 1 Comparing the strategy and strategizing in strategic management and IMP network approach

<b>Subject of comparison</b>	<b>Strategy and strategizing</b>	
	<i>Strategic management</i>	<i>IMP network approach</i>
<i>Unit of analysis</i>	market (company)	network
<i>Participants</i>	seller, buyer etc.	actors
<i>Centre of strategy</i>	seller, buyer etc.'s relation to the market	the relationship between the network operators
<i>Company's dependence</i>	independence	dependency
<i>Nature of the strategic planning process</i>	prescriptive	evolving
<i>Development of strategy</i>	analysis of external and internal business factors, evaluation of strategic alternatives	formed by the interactions of individual business relationships at the network level

Source: Håkansson and Ford, 2002; Baraldi et al., 2007; Lynch, 2007; Ford and Mouzas, 2008; Ford, 2011

The key difference between the IMP and strategic management approach in the perception of strategic development/strategizing is that while the former assumes an independent company (Achtenhagen et al., 2013), the latter talks about actors embedded in business network through its business relationships, so they are in mutual dependence. Therefore, the strategic planning process, its individual steps, like the environmental analysis (e.g. STEP, STEEPLE etc.) or the SWOT analysis, which are tied to a particular company, they are not applicable in the IMP approach. This is due to the fact that the interaction with the others is "limiting the managerial freedom and ability of strategy-making regardless of others" (Ford, 2011, p. 238).

## THE CONCEPT OF DYNAMIC CAPABILITIES

Defining dynamic capabilities should begin with clarifying the strategy in the resource-based theory context. The organization according to the Resource Based View (Wernerfelt, 1984) is a collection of special physical, human and organizational assets or liabilities. If these tools or resources are valuable, rare, inimitable and non-substitutable, can be used for value-creating strategies what provide a sustainable competitive advantage for the company (Barney, 1991). Teece (2007) highlighted that dynamic capabilities enable business enterprises to create, deploy, and protect the intangible assets that support superior 'long-run' business performance. He stressed that the enterprises with strong dynamic capabilities are intensely entrepreneurial cause they not only adapt to business ecosystems, but also shape them through innovation and collaboration with other enterprises and institutions (Teece, 2007, p. 1319). Together with this basic framework the dynamic capabilities are also actually interpreted as a response to these challenges (Balaton et al., 2014).

According to the critics of the theory (Zollo and Winter, 1999; Rindova and Kóthay, 2001), the dynamically changing environment and knowledge-intensive markets are not enough to maintain competitive advantage of resources for a particular batch. Instead, the company must re-configure, acquire and shall separate the resources to meet the needs of a constantly changing market. This led to the formation of dynamic capabilities concept, which capabilities can be determined as the organization's processes which "integrate, configure, strengthen and select the company's resources to meet the market changes" (Eisenhardt and Martin, 2000, p. 1107).

Teece et al (1997) suggest that dynamic capabilities are unique to each company and reflect the individual (corporate) characteristics and their particular path dependence (see later the comparison with the concept of network position). According to them in fast-growing, knowledge-intensive industries is not enough to collect and accumulate resources, but also to develop and improve in order to maintain their competitive advantage. So to maintain the competitive advantage the company also requires capabilities that can help respond to market challenges (Balaton et al., 2014).

Révészné and Vilmányi (2012) examined relations context, the existence and necessity of corporate strategy-setting process dynamic capabilities. They examine dynamic relationship capabilities "as a whole of all the resources and activities that help companies be able to change their relationships, or their activities, their solutions and processes used to manage their networks" (Révészné and Vilmányi, 2012, p. 80). Furthermore, the effect of dynamic relationship capability on B2B loyalty was investigated by Vilmányi et al. (Vilmányi, Hetesi and Prónay, 2014). They assumed that the dynamic relationship capabilities meant "not only opportunities, but also bottleneck for relationship". They also presumed that the dynamic relationship capabilities affected critically the perceived relationship quality and contributed to partner loyalty.

As required for each market, the dynamic capabilities change in rapidly changing markets compared with their manifestation in the stable markets (Eisenhardt and Martin, 2000). On these stable - no rapidly changing- markets are depths, analytical and stable processes that are similar to the traditional perception of routines (Wilson and Daniel, 2007). In contrast to the rapidly evolving markets the dynamic capabilities become simple, experiential and fragile processes with unpredictable results. The simplicity of capabilities means in this case that there are little routine or structure regulations which managers can rely on. As the rate of market changes increases, it becomes more difficult for these processes to maintain, and draws attention of the fast-growing industries to "the threats that competitive advantage come

not only from the outside of the company, but insidiously from the inside through the crash of the dynamic capabilities" (Eisenhardt and Martin, 2000, p.1113).

Summarizing the above discussed formulations for the conceptual clarification of dynamic capabilities we use the definition of Balaton et al. (2014) that the dynamic capabilities are all the modifiable, renewable, and in many cases multi-functional competencies of the company that ensure accommodation and catching to an unpredictable turbulence, changing environment together with creating new resource combinations. Hereinafter our investigations about dynamic capabilities as the company's resources are based on Teece et al.'s (1997) findings. Based on Teece et al (1997) dynamic capabilities can be distinguished along three groups of factors: processes, positions and paths. It can be assumed on the basis of three factors that the capabilities are embedded in the respective organizational processes. Thus, the organizational processes that have evolved over the company's asset position and the evolutionary path, explained the company's dynamic capabilities and competitive advantage in essence. Table 2 shows the triple factor of dynamic capabilities with sub-processes, positions and paths as the early statements about dynamic capabilities.

Table 2 Early statements of the dynamic capabilities

<b>Type of dynamic capabilities</b>	<b>Example</b>
<i>Processes</i>	Management and organization Coordination/integration Learning Reconfiguration and transformation
<i>Positions</i>	Technology capital Complementary capital Financial capital Reputational capital Structural funds Institutional capital Market (structure) capital Organizational boundaries
<i>Paths</i>	Path dependencies Possibilities in technology

Source: Teece et al.(1997)

It can be said that the company's dynamic capabilities are based on the company's management and organizational processes, they are shaped by company's capital (in specific situation or position), and the paths make them available. Accordingly the management and organization's three important roles are the coordination/integration, learning, and finally the reconfiguration. Teece et al (1997) therefore argue that a company's strategic position can be described not only with the learning processes, internal and external processes and incentives, but with a special property system as well. The company's special asset is considered to be for example, the company's specialized factories and equipment as they are included in the company's "difficult to sell" and complementary skills, reputation and relationship (social) capital. The third examined factor of dynamic capabilities can be explained by when a company starts it is always depending on the current position and the roads in front of it. The current position of the company is mostly formed on the basis of the paths he travelled and developmental processes in which technological possibilities of the given industry have significant influence. The 'paths' can contribute also to the optimalization process of the

company strategy and innovation which other modelling methods and research works - for instance Bíró-Szigeti (2014) - confirm.

After early basic formulation of dynamic capabilities composed by Teece et al (1997) there have been more developments, which should be taken into consideration. First of all in order to elaborate and examine dynamic capabilities more explicit we have chosen the approaches by Eisenhardt and Martin (2000) and Teece (1998). Eisenhardt and Martin (2000) list dynamic capabilities (see in Table 3), which integrate resources, others, which relate to reconfiguration of resources, and finally capabilities, which are to be used for gaining and releasing of resources.

Table 3 Types of dynamic capabilities (II)

<b>Type of dynamic capabilities</b>	<b>Example</b>
<i>Integration of resources</i>	Product development routines and strategic decision-making
<i>Reconfiguration of resources</i>	Transfer processes for replication, allocation and recombining resources, coevolving routines for creating new resource combinations, and patching processes for aligning businesses
<i>Gaining and releasing of resources</i>	Knowledge creation, new thinking, alliancing, acquisition and exit routines

Source: Eisenhardt and Martin (2000)

Dynamic capabilities, which integrate resources, include e.g. product development routines and strategic decision-making (Eisenhardt and Martin, 2000). Dynamic capabilities which focus on reconfiguration of resources include e.g. transfer processes for replication, allocating, and recombining resources, as well as coevolving routines for generating new and synergistic resource combinations with collaborative webs, and patching processes for realigning businesses. Dynamic capabilities which are used for gaining and releasing of resources include e.g. knowledge creation routines, building new thinking, alliancing and acquisition routines for diffusion of new resources, and finally exit for jettisoning resource combinations which no longer useful (Blomquist and Seppanen, 2003).

According to Teece (1998) the company is able to exhibit dynamic capabilities when it can sense the essentiality for change, and the opportunity, which is available. After the company has sensed an opportunity, it has to seize it. In order to do that, it has to have an organizational structure, which allows fast decision-making and action. Therefore the choice of the organizational form and the company's ability to strategize can be seen as dynamic capabilities (Teece, 1998, p. 72-74).

In what follows, the nature of various classes of dynamic capabilities is identified (Teece, 2006), and an effort is made (Teece, 2007) to separate the microfoundations of dynamic capabilities. For analytical reasons, dynamic capabilities can be disaggregated into three kinds of capacity (Teece, 1998; Teece, 2007): capacity to sense and shape opportunities and threats (1), capacity to seize opportunities (2), and capacity to maintain competitiveness through enhancing, combining, protecting, and reconfiguring the business enterprise's intangible and tangible assets (3). Sensing refers to the recognition of market and technological opportunities and the mobilization of requisite resources (Katkalo et al., 2010). Seizing refers to the organizational strategy and infrastructure for making appropriate decision and absorbing and integrating resources to create and capture value from opportunities (Katkalo et al., 2010).

Once a new (technological or market) opportunity is sensed, it must be addressed through new products, processes or services. This almost always requires investments in development and commercialization activity (Teece, 2009). Table 4 summarizes the completed framework of dynamic capabilities through the categories mentioned above.

Table 4 Elements of dynamic capabilities

<b>Type of dynamic capabilities</b>	<b>Elements</b>	<b>Overall</b>
<b><i>Sensing</i></b> (and <i>shaping opportunities and threats</i> )	analytical systems and individual capacities to learn and to sense, filter, shape, and calibrate opportunities	‘sensing’ market
<b><i>Seizing</i></b> (opportunities)	enterprise structures, procedures, designs and incentives for seizing opportunities	strategic decision skills - execution
<b><i>Reconfiguration</i></b> (and <i>managing threats</i> )	continuous alignment and realignment of specific tangible and intangible assets	combination, reconfiguration, cospecialization, and asset protection skills

Source: Teece (1998), Eisenhardt and Martin (2000), Teece (2007), and Katkalo et al. (2010)

Teece (2007) emphasizes that the key to sustained profitable growth is the ability to recombine and to reconfigure assets and organizational structures as the enterprise grows, and as markets and technologies change, as they surely will. Therefore reconfiguration is needed to try and escape from unfavorable path dependencies. The field of strategic management and the dynamic capabilities framework recognizes that strategic fit needs to be continuously achieved. The key dimension of ‘fit’ stressed by Teece (2007) in the dynamic capabilities framework is that of cospecialization. The concept of cospecialization can be of one asset to another, or of strategy to structure, or of strategy to process. Cospecialized assets are a particular class of complementary assets where the value of an asset is a function of its use in conjunction with other particular assets. It allows differentiated product offerings or unique cost savings. Management’s ability to identify, develop, and utilize in combination specialized and cospecialized assets built or bought is an important dynamic capability. In other words, the ability of management to identify needs and opportunities to invest in cospecialized assets through its own development or astute purchase is fundamental to dynamic capabilities.

The role of management - particularly top management – in the development of dynamic capabilities is essential. Hermano and Martín-Cruz (2016) highlighted top management’s prevalent role within the dynamic capabilities framework. Results of their structural equation model show that the relation between top managers and project, portfolio, and company performance is mediated by including dynamic capability building. Thus, they stressed that the building of dynamic capabilities at the portfolio level appears as the generative mechanism for top managers’ influence over company performance.

#### DYNAMIC CAPABILITIES IN COMPANIES’ STRATEGIZING PROCESS

The basic questions of strategic management: how can companies achieve and maintain their competitive advantage at the same time? Since Teece et al. (1997) study, the focus shifted to reveal the business skills that will help renew the corporate management resources and expertise (Möller et al., 2002).

The dynamic capabilities approach represents a strong break with Porter's (1980) 5 forces framework. Within the dynamic capabilities concept, the environmental context recognized for analytical purposes is not that of the industry, but that of the business ecosystem (Teece, 2007), so togetherness of organizations, institutions, and individuals that impact the company's customers and suppliers. The relevant community therefore includes complementors, suppliers, regulatory authorities, standard-setting bodies, the judiciary, and educational and research institutions (Teece, 2006). Why is it important in case of strategizing process? Whereas according to Porter the essence of strategy formulation is coping with competition (Porter, 1991, p. 11), in the dynamic capabilities approach the essence of strategy involves selecting and developing technologies and business models that built competitive advantage through assembling and 'orchestrating' difficult-to-replicate assets, thereby shaping competition itself.

This changing, dynamic capabilities approach is obviously reflected in the requirements of the network approach challenges (Håkansson and Snehota, 1995). The IMP approach focuses on the interaction and business relationships even in terms of company's resources. The 4R model identifies four types of resources: the products, the necessary production facilities, departments and organizational relationships (Håkansson and Waluszewski, 2002, quoted by Håkansson et al, 2009). The first two are tangible resources, while the other two factors are rather intangible resources. These resources typically become resources by interactions between organizations and continuously develop as results of interactions (Håkansson et al, 2009).

In conjunction with the definition of dynamic capabilities (Teece et al, 1997; Teece, 1998; Eisenhardt and Martin, 2000) and strategizing and its actions in the network context (Håkansson, 1982; Håkansson and Johansson, 1992; Håkansson and Waluszewski, 2002; Ford and Mouzas, 2007; Baraldi et al, 2007; Lynch, 2009) Table 5 shows the dynamic capabilities's strategic aspects.

Table 5 Dynamic capabilities in strategizing actions

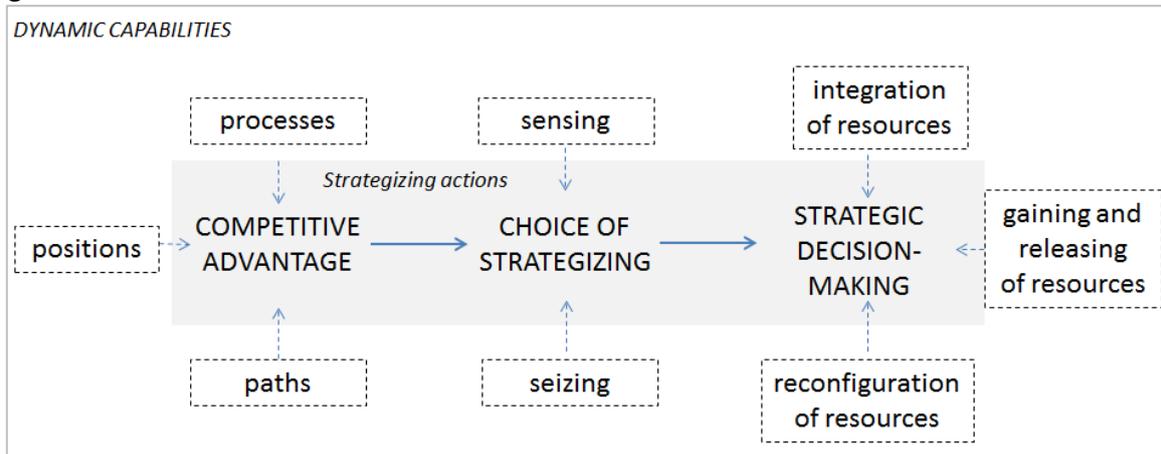
<b>Dynamic capabilities</b>	<b>Strategizing aspect</b>
<i>processes</i>	competitive advantage
<i>positions</i>	embeddedness
<i>paths</i>	
<i>sensing</i>	
<i>seizing</i>	choice of strategizing
<i>integration of resources</i>	
<i>reconfiguration of resources</i>	strategic decision-making
<i>gaining and releasing of resources</i>	

Source: Teece et al, 1997; Teece, 1998; Eisenhardt and Martin, 2000

Summarizing theoretical findings mentioned above the authors assume that the company's development through its relationships is manifested in the development of its own different – dynamic – capabilities too. It means that on the "first" level the company has to own the "basic" processes, positions and paths to take advantage from its competitiveness. Then it has to possess capability of sensing and seizing to make the choice of strategizing. The strategic decision-making "level" of the strategizing activities are closely related to the integration, reconfiguration and releasing and gaining of companies' resources which are necessary for the companies to find the favourable network position through managing relationships.

Based on the theoretical background we developed a research framework – actually conceptual research model – presented in Figure 1. ‘Sensing and shaping’ activities in the framework as choices of strategizing are related to companies’s new opportunities which are very much scanning, creation, learning, and interpretive activity. Investment in such research and related activities is usually a necessary complement to these activities. Furthermore if a new (technology or market) opportunity is sensed, it must be addressed through new products, processes, or services.

Figure 1 Research framework



## VIDEOTON HOLDING AND ITS ECONOMIC HISTORICAL BACKGROUND

Before the introduction of the company it is important to deal with some insights about specific features of Central Eastern European countries. Industry events of the twentieth century might be roughly grasped as at still the end of '70s researchers talk about industrial societies and then they have discussed the post-industrial society (i.e. Touraine, 2010). One caesura in any event is the oil crisis in 1973 and the subsequent transformations, and another one is the integrated appearance and fusion of computer science and telecommunications at the 80-ies. Berend (1996) emphasizes three important characteristics of the post-industrial world as the fineness of production (machinery and equipment), the complexity, and the new division of labour at the micro level which means the emerging role of networks. All of these elements may be the features of post-industrial society, and so the novelties of today's industrial networks.

### THE HUNGARIAN PATHWAY

Hungary and other Central and Eastern European countries, however, ranging from 70-ies does not properly respond to this new challenge. What happened was that as long as these countries have made huge efforts in the late industrialization of the area and there is no doubt results are achieved in heavy industry, engineering and heavy chemical industry development, in the meantime, the Western European countries, and especially in the USA began the fifth industrial revolution, and thus, as a consequence of post-industrial society. Countries have not been able to develop the communication industries in the leading post-industrial society, especially in computer science, namely, the production of microprocessors. In addition, a serious disadvantage was underdevelopment, poor and outdated condition in the services and infrastructure. Typically, that “while the United States has 50,000 computers operated in all countries of the region can only be put together 650” (Berend, 1996).

The point is that the post-Stalinist economic structure's and management system's core rigidity clearly becomes an obstacle to development. Therefore, from the beginning of the fifth industrial revolution failure of the Central and Eastern European periphery from the centre rose again. The core-periphery concept "is interested first, and foremost, in identifying similarities and differences between the core countries of Western Europe and the nations of the European periphery [...] with respect to economic advancement or backwardness, and with special emphasis on industrialization" (Reill and Szelényi, 2011, p. 4). After the regime change the situation was changed, but it seems that the lack of a consistent policy of modernization in the past years has failed to catch up with the centre (Berend, 1996).

Regarding almost a quart century long period after the regime change in Hungary some characteristics of this process could be summed up. One important heritage of the old socialist system is a highly atomized society. There is a real lack of cooperation and of a strong civil society. Consequently, it is hard to find clear communication at the level of industrial associations, professional chambers, trade unions and governments. Emergence of cooperatives and initiations on industrial cluster level are not really present. The industrial structure has been deeply changed, some classic Hungarian high-tech industries (pharmaceutical or biotechnology) developed and some new high-tech activities like fine electronics or automotive electronics has been arrived. But the whole industry structure is developed mainly on the basis of different and sometimes unique and spontaneous decisions instead of an organic way. The emerged industrial structure is more modern than the old one but because of the lack of long term nationwide industrial strategy (Kiss, 2007; Szűcs, 2015) this new industrial structure became quite fragmented and imbalanced.

#### ABOUT VIDEOTON HOLDING

Today the professional, regional, vertically integrated supplier and contract manufacturing Videoton is the largest Hungarian industrial group in local private ownership offering manufacturing and related services for industrial firms. All this contributes to the history of the company. Videoton was founded in 1938 in Székesfehérvár, Hungary as an industrial incorporated company in the military mechanics industry. Over a forty years period Videoton has been operated as one of the most important and largest Hungarian state-run companies. It has changed its profile and became a huge electronic consumer goods company covering the big part of the Hungarian market and making an important export activity to the neighbouring socialist countries and to the USSR. Their products were very popular in Hungary and in the other countries and his name became really well-known in the socialist countries. During the middle of the 1980s and at the end of the decade, Videoton became one of the most modern, best developed and biggest Hungarian state-owned companies with three main activities (consumer electronics, military electronics and computer technology) and about 20,000 employees (Mandják et al., 2015). Everything continued going well until 1989.

In 1989 the process of changing the system made great strides in Hungary which caused the collapse of Videoton. In a very short time Videoton lost its leading market position and the position of the Videoton brand declined. The overall situation of the company became totally bleak. It was obliged to fire several thousand people. Before the inevitable bankruptcy, Videoton was privatised in 1992 by a consortium led by the company's biggest creditor bank. However, the management of the company was taken over by three people who in 1995 through a management buyout (MBO) became the owners of the company. The three owners took control of affairs and immediately ceased all the loss-making activities and carefully analysed and used Videoton's capabilities to begin to rebuild a completely new industrial

complex. After privatisation the company began activity as a simple contract manufacturer (CM).

Today Videoton is capable of undertaking all the production and production design phases of the contract manufacturing business. As a result of this complex, long-lasting and ongoing organisational learning process, Videoton is now one of the world's thirty most important electronic manufacturing service (EMS) companies. 2012 was the sixth year that Videoton increased in size thereby becoming Europe's 4<sup>th</sup> largest EMS company (Manufacturing Market Insider, 2014). Videoton has now been profitable for more than ten years (Mandják et al., 2014).

## THE COMPANY'S SUCCESS DEPENDS ON THE DYNAMIC CAPABILITIES?

### RESEARCH METHOD

The results reported here are made from the outcomes of an extensive research about Videoton Holding and VT Automotive Electronics Ltd. The original case study involved an analysis of business relationship management through the development of Videoton Automotive Electronics (VT AE) Ltd., one of the most successful subsidiaries of Videoton Holding, and the major actor in the EMS activity of the company. The final choice of the particular company was not pre-planned. The authors of the paper participated in a workshop in 2011 to which one of the CEOs of Videoton was invited. The CEO was interested in being involved in a study about the success of Videoton Holding and the success of VT AE in particular.

Within the framework of qualitative research 23 deep interviews were made with middle and senior managers from Videoton between 9 and 20. November 2012, as well as with the company's two CEOs in September 2013. Each interview lasted approximately 1.5 hours, although some were longer. Interviews were voice and video recorded. Besides that the video could help us to interpret what our respondents said, the major aim of the video is educational (we use them in lectures and seminars). In most cases 2 interviewers were present at each interview. The mentioned extensive research was about the company's historical development and its business relationships, and it is also part of an ongoing doctoral (PhD) research.

For the analysis described in this paper we employ data from five interviews with management figures, including the two company CEOs, the vice president of business development, the director of international projects at Videoton Holding and the managing director of Videoton Automotive Electronics Ltd. We chose these interviews for further analysis because these respondents are responsible for the strategy-related tasks which concern Videoton Holding and Videoton Automotive Electronics Ltd. For this paper we did not use the interviews with managers on lower levels because in these conversations their personal career at Videoton was interesting, and they do not have overall picture about the strategy neither of VT AE nor about that of the Holding.

### RESEARCH FINDINGS

In the context of conceptual paper the case study try to illustrate the conceptual model of the article. At first let's take a look at the nature of Videoton's strategic planning process. Instead of traditional prescriptive strategic planning process from the strategic management approach Videoton's strategic planning process is can be characterized as evolving. As we have seen the short case study, it has been exploited developments from the previous years, also

developed competences and resources through its relationships, taken financial risk. etc. Furthermore, Videoton is not an independent company cause of its business relationships represented above and mutual dependence in the network, in the right industry.

Based on the research findings we can say that the company career is far from traditional strategic management process. The company does not have the characteristics of multinational companies strategy, formulated a vision or mission. The two CEOs share the different responsibilities of the management - such as business development, pricing, real estate development and technical development - but the decisions are always made jointly. The joint decision making is also a pillar of Videoton's strength which provides internal protection for the company. As one of the CEOs stated about leadership: *"It is sure that every time when we are discussing, we are opponents of each other. Otherwise, we start from a completely different side; the conclusion is usually pretty close to each other, so it has so far failed to find a realistic way in each case"*.

However, the executives feel about the company's strategy differently today. One of them identified company's strategy with the role of new technology (*technological capital and opportunities*), with the knowledge of buyer's position, company's own capabilities and goals awareness (*market structure, reconfiguration*) and the resource-based operation (such as dynamic capabilities pillars) as follows: *"Feel free to call strategy as looking for that business. We will see who is the buyer? What position do you have? What is this component? How much is built in? Who are the final customers? What will they buy it?"* (executives' interviews, 2013). According to the other CEO *"the company's strategy is that it has no strategy"* (executives' interviews, 2013). After the privatisation the renewed Videoton's most important task was finding new customers, which were essential to the company's reported huge human (*institutional equity*) and technical resources (*technological capital*). In practice, the existing dynamic capabilities – they were dynamic, because the resources were developed and designed by new business relationships through the customers.

In 1997, when the AFL Stribel, a German filial of a huge American multinational automotive parts supplier company, were only partner and customer of Videoton, the Hungarian company operated in form of classical simple manufacturer work. The AFL provided the technical documentation and technology, insured the delivery of necessary raw materials, often the storage, occasionally after performing Videoton's manufacturing work he provided return or onward transport of the processed product as well. *"Videoton had large amounts of manufacturing and very capable equipment and people."*(executives' interviews, 2013). However, by exploiting developments of the previous years (*developmental path, integration of resources*) and cooperation opportunities (itself a result of *the exploitation of dynamic capabilities*) Videoton has seen a much broader activity than is usual in relation to a classic simple manufacturer work. *"Within Videoton the management (two CEOs and executive officer) were very professional and had knowledge of manufacturing processes. Videoton helped with the integration of the transplants into their community, and they also helped greatly with training programs at technical schools"* (remembers of the former Executive Vice President of AFL, who personally led this process from AFL's side). When the AFL factory from Ireland installed in Székesfehérvár, he could not give technical support, help and because their procurement activity didn't depend on German company (*path dependence*), thus the procurement had to take over by Videoton immediately.

Through its partnerships – firstly with AFL, then with French Company – Videoton built and developed competences (*reconfiguration of resources*). When Videoton started not only supplying but also producing (the relocation of Videoton's early manufacturing activities

from Ireland to Hungary) (Szalkai and Magyar, 2016), the position of Videoton changed: it was able to enlarge its network with Hungarian suppliers and further develop. Resource development also occurred (*ability to sense* the opportunity and the need for change).

The strategic turning point was in 1998 when VT Automotive Electronics Ltd. concluded the first cooperation agreement with the most significant partner today, with the French Company. From the previous simple manufacturer work came forward contract manufacturer, allowing the Videoton Automotive Electronics task of assembling the product, the production process and technology through the manufacturability feedback. The extensive functions with full responsibility and the expectations of the alignment operation required the company's ongoing development of the learning process which also represented the company at the time of the withdrawal of a comfort zone (managerial interview, 2013).

When the French Company visiting first time the Videoton as a potential partner, the company has not yet had sufficient capital and liquidity, then the financial risk posed the highest risk. The managing director was restrained with the design of French connection, at the same time the two CEOs occurred supportive (*leadership and organization, financial capital, seizing*), they believed seriously in the potential for development and finally therefore could the French Company's relationship develop. First, they were negotiated about the switches and contacts then about electronic parts. In 2002 and thereafter Automotive Electronics has shipped 22 plants of the French Company (e.g. in Argentina, Brazil, Mexico, China, Turkey, Portugal, Spain, Poland, Czechoslovakia, the Czech Republic, Romania). Four years later, the automotive electronics production has become a strategic sector of the Videoton company group (about EUR 60 million) in 2013 and 50-60% of VT Automotive Electronics' sales were realizing by the French Company's relationship. Meanwhile addressing opportunities have been realized through the maintaining and improving technological competences and complementary assets and then, when the opportunity was ripped, investing heavily in the particular technologies and designs most likely to achieve marketplace acceptance.

Based on the above stated in terms of strategizing/strategy development they are not conscious, yet they act consciously on important issues. E. g., when it raised the company's expansion in the Far East, on the basis of considerations of leadership voted against it. In this issue it meant a lot to the expansion of the company's customers – there was a buyer who failed in a Mexican deal, by which Videoton also lost business - and Videoton drawn the appropriate conclusions. Their strategy is an important part of the preservation of regionalism (personal communication, one of the CEOs). Videoton until today consciously and systematically acting on risk management (*management and organization*), which from the strategic point of view, try to answer the question what the company can take yet and what the company already doesn't. Videoton Holding is a complex company, and as such, seeking to full transparency, simplicity and assume a moral authority, to ensure equity (combination of *processes and positions*). The exercise of latter is one of the basic conditions for the company's growth. Between the CEOs is full agreement that Videoton is a company, which must assume certain risks within reasonable limits. According to them they are restrained and conservative, so it is manufactured for what the demand has been observed. Deliberate and integral part of the strategy is the adjustment to possibilities (*processes, positions and paths* together, *sensing and seizing*). In many cases, the opportunity to develop new customer relationships, thus creating changes in business network have been reported (*gaining and releasing of resources*). In the story of Videoton the simple manufacturer work and the start of the contract manufacturing actually led to a strategic change that has been occurred through

the development in the processes and structure of the business network and new customer relationships to new network position.

In the following we try to present examples in details of existing dynamic capabilities in Videoton Holding through its most important relationships. Table 5 includes dynamic relationship capabilities demonstrating Videoton Holding's successful business relations based on research framework (Figure 1).

Table 5 Dynamic capabilities in success of Videoton Holding

<b>DYNAMIC CAPABILITIES</b>	<b>ACTIVITIES</b>
<i>Processes (alone)</i>	deliberate and systematic risk management alignment with expectations continuous improvement and learning synergy within the group
<i>Positions (alone)</i>	technological background financial security huge human capital resources reputation
<i>Paths (alone)</i>	independence of procurement activity (AFL business relationship) development of years before renewed Videoton ability to innovativeness
<i>Processes and positions (together)</i>	pursuit of full transparency, simplicity, assume the moral authority to ensure fairness the role, job sharing and joint decision-making of owners awareness of the company's capabilities and goals
<i>Positions and paths (together)</i>	awareness of technology (as role) in business
<i>Processes, positions and paths (together)</i>	resource-based operation exploiting new opportunities by cooperation before the renewed Videoton the ability to adapt is deliberate and integral part of the strategy
<i>Sensing</i>	enlarge its network with suppliers and further develop
<i>Seizing</i>	taking risk with supportive leadership (French Company business relationship)
<i>Integration of resources</i>	exploiting developments from the lease work era
<i>Reconfiguration of resources</i>	developing and allocation competences (from previous era) for aligning business (with AFL, French Company)
<i>Gaining and releasing of resources</i>	knowledge creation, new thinking of leadership

Source: constructed by authors

Virtually Videoton was able to exhibit mentioned dynamic capabilities when it could sense the essentiality for change after privatisation, and the opportunity of simple manufacturer work and the start of the contract manufacturing business which was available. In order to seizing the opportunity, Videoton CEO's share the responsibilities of the management, but decisions were and are made jointly, so that the latter organizational structure element allows fast decision-making and action for the company. Following Teece (1998) and Vilmányi et al. (2014) the form of Videoton's organizational structure and ability to strategize can be seen as dynamic relationship capabilities which seem verified by the exploiting opportunities and also "bottleneck" for Videoton's business relationships.

## DISCUSSION

According to the the interpretation of dynamic capabilities through the case study mentioned above it can be assumed that the existence and proper way to use the dynamic capabilities are basic conditions for the companies' success. It can be also highlighted that the effective strategizing is based on perfect knowledge of the companies' dynamic capabilities and its development, which are necessary for the companies to find the favourable network position through managing relationships.

Our research findings support the contention that e.g. technological background from company's economic history and decision-making of the owners are basic capabilities for the Videoton by which it can take advantage. Videoton has its own capabilities to make the choice of strategizing like taking risk in important time and space. Finally the Videoton company with its relations and interactions is well illustrated and presented by dynamic capabilities and through different activities like allocation, development of competencies from the mainstream strategic management perception.

In sum capabilities of relations within group, it can be said that many potential capability also corresponds to the dynamic capabilities' triple basic partitioning test/model, which also hallmarks dynamic capabilities of the company's success. Furthermore, it can be observed that while some company-specific skills specifically associated with a particular skill group – e.g. continuous improvement and learning, synergies, other features can be two (*processes* and *positions, positions* and *roads*) or even the entire set of skill group – e.g. possibility to adapt to such deliberate and integral part of the strategy.

In the case of *sensing* and *shaping* opportunities and threats when opportunities are first glimpsed, the managers must figure out how to interpret new developments and events, which technologies to pursue, and which market segments to target. They must evaluate how technologies will evolve and how and when competitors, suppliers, and customers will respond. The sensing and shaping activities are not only involve investments in research activity and the probing and reprobng of customers needs and technological possibilities, but they also involve understanding latent demand, the structural evolution of industries and markets, and likely supplier and competitor responses. To the extent that business enterprises can open up technological opportunities through engaging in R&D and tapping into the research output of others, while paralell learning about customer needs, they have a broad menu of commercialization opportunities.

The company reflect seizing microfoundations about what customers want and how a company can best meet those needs, and get paid for doing so. It embrace the technologies and features which have to be embedded in the product and services, than how the cost structure of a business is to be designed and if necessary redesigned to meet customer needs, and the way in which technologies are to be assembled.

## CONCLUSIONS AND IMPLICATIONS

In this paper we dealt with the role of dynamic capabilities in the network approach of strategizing. The network approach of the IMP Group, which doesn't consider the company as non-independent entity, but examines in network through its business relationships, perhaps is closer to the truth, however, the traditional perception from managerial side is easier to grasp, it's a common practice (eg. environmental analysis, SWOT analysis). Videoton's example through its business relationships also shows that the in the design of the strategy is mixed by

the unconscious and conscious elements and the corporate strategy can not be understood independently of the company's relationships ignored and considered in isolation.

It can be said that it is necessary to investigate new dynamic capabilities for business network approach involving the creation of the company's strategy. More traditional dynamic capabilities such as the ability to contact and the creation and management of multi-party management and information systems requires a re-examination within the framework of the strategic network.

Maintaining dynamic capabilities requires entrepreneurial management. Entrepreneurship is about sensing and understanding opportunities, getting things started, and finding new and better ways of putting things together. It is about creatively coordinating the assembly of disparate and usually cospecialized elements, getting 'approvals' for nonroutine activities, and sensing business opportunities. Entrepreneurial management is more about sensing and seizing, it is figuring out the next big opportunity and how to address it.

Furthermore, we encourage top managers (CEOs) to assume that their involvement is a critical success factor. Moreover, top management involvement must be more than resource allocation, it has to be reflected in the establishment of work procedures and decision-making protocols that will ultimately lead to the achievement of dynamic capabilities (Hermano and Martín-Cruz, 2016). More importantly, the dynamics of (top) managers seems to be more complex than originally thought. Managers should carefully evaluate their network strength and internal resources and implement leveraging strategies accordingly (Zhang and Wu, 2016). This may involve carefully configuring the company's technology and personnel according to its influence and ability to access much needed rare resources in the business network.

In terms of the future direction of research interesting point is the generalizability. It is worth noting and takes into consideration the generalizability of interoperability between specific dynamic capabilities – mentioned in the case - of companies (Eisenhardt and Martin, 2000) reflection on Teece et al 1997 study), which has also the opportunity to examine in a widened supply chain.

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