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W.P. No. 2009-02-02
February 2009

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Integrating Resource-Based and Rational Contingency Views: Understanding Design of Dynamic Capabilities of Organisations

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Abstract

Resource-based view of organisation emphasises that no organisation can be self sufficient and it will always be dependent on the environment for the fulfillment of resource needs. Further, this interaction with the environment can take various forms including manipulation, which is manifested through mergers, acquisitions and other inter-organisational relationships. The rational contingency view of organisations emphasises the goals that an organisation has, which are not clearly brought out in the resource dependence view. It is attempted here to integrate perspectives from the resource-based and rational contingency views of organisations to assess how the dominant coalition would view its role in an organisation with respect to building dynamic capabilities after analysing an array of goal-resource linkage possibilities.

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The authors wish to acknowledge Prof. Abhishek Mishra for his comments on an earlier draft of the paper

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Introduction

Organisations are entities with ever increasing degree of complexity (Hall and Tolbert, 2006). Hence, understanding organisations has been focus of a large number of research genres that led to the development of different schools of thought (also termed as models), each attempting to analyse the organisation from a different lens.

One such genre is the **Resource-based View**, which focuses on organisational decisions & actions and suggests that such decisions & actions are taken within the ambit of organisational boundaries. Since these decisions are taken by organisational actors who are essentially human actors, the element of internal politics creeps in (Hickson, Hining, Lea, Schneck and Penning, 1971). The decisions that are being referred to here are the ones which help organisations to deal with their environment better. Wherever possible, attempts are made to actively manipulate the environment with an underlying goal of dealing with the environment better (Jacobs, 1974). The resource-based view of organisation places a lot of emphasis on decisions that need to be taken and actions that are urgently pressing the organisation. An organisation's lack of ability to sustain itself presents before it numerous choices, and the organisation has to then determine which of the choices will suit it best (Donaldson, 1987). This choice is contingent not only upon the environmental dynamics but also on the degree of alignment of internal functions (Venkatraman, 1990). Thus the choice actually becomes a strategic choice. In the resource dependence view of organisations, internal power arrangements and external demands are important, and idea of goals is not significant (Hall and Tolbert, 2006).

Manipulation of the environment in achieving strategic choice (Chandler, 1962) could include mergers, cooperation and movement of personnel. While strategic choice is linked to pressures that the environment exerts, power differentials are equally important. Autonomy of managers and decision makers is a mechanism through which strategic choice becomes feasible. The way in which the environment is perceived and evaluated

becomes a way in which strategic choice is operationalised. Over a period of time, in the organisational context, perceptions become reality (Hasenfeld, 1972).

Legal and economic barriers and the reality of dominant players being present in market impose a restriction on strategic choice (Zook and Allen, 2003). Such legal and allied barriers act through institutional mechanisms to act as restrictions. In such circumstances, it may not be possible to alter the environment in any way. In tactics that are used to operationalise strategy, many retention devices may be used to retain successful strategies. Some of these retention devices are bureaucratisation, socialisation and screening, and filtering people as they move to leadership positions (Perrow, 1979). Finally, in the resource-based view, resource acquisition is emphasised and there can be instance, wherein urge for such acquisitions take a precedence over the very paradigm of goals.

As evident, the resource based view does not give any cognisance to the existence of goals within organisational purview. This is despite the fact that goals are so intricately intertwined with organisational setup that they not only become a part of culture of the organisation but also affect and constrain strategic decision making (Peterson and Lewin, 1998). The **Rational Contingency Model** factors in not only the presence of goals but also acknowledges that organisations are characterised by multiple goals which are often conflicting. Within the ambit of environmental constraints coupled with conflicting goals (Langston, 1984), organisations understand that there is no one best way of doing things and taking decisions (Schoonhoven, 1981). Organisational members take decisions based on bounded rationality and in an attempt to chalk out precedence of the goals and otherwise, dominant coalition emerges from within and amongst the organisational members (Thompson, 1967).

Dynamic capability is a framework which suggests how an organisation, especially a business enterprise in a turbulent environment, can achieve sustained competitive advantage (Teece, Pisano and Shuan, 1997). The concept may be seen as a natural extension of the concept of core competency suggested by Hamel and Prahalad (1990). Focus of this framework is the development of management capabilities and a

combination of closely linked technological and functional skills in such a way that they are inimitable. The attempt to such a development is to address rapidly changing environment, and continuous learning and subsequent integration of the learning is an essential component in the development of dynamic capabilities (Leonard, 1995).

Dominant Coalition and Resources

Organisational capabilities not only represent the ability to utilise resources effectively in specific environmental contexts but also the possibility of attempting to determine linkages of technology, operational procedures, and managerial frames which align organisational actions to the environment (Drazin and Van de Ven, 1985). For leadership position to be retained, the organisation needs to ensure that such capabilities which lead to competitive advantages are constantly updated and altered in a way that other players are unable to imitate them; such capabilities are hence dynamic in nature (Peteraf, 1993). Capabilities are not independent of environmental context and need to be seen in light of the organisation's constant attempt to adapt itself to the ever changing environment (Tan and Litschert, 1994). However, adaptation might not be the exclusive imperative that determines the dynamism of capabilities (Bogner and Thomas, 1993). Many times, a reading of symptoms and signals can lead to a misinterpretation of the paradigm of change operating in the environment. Therefore, even before adaptation, recognition of change is important. Then and only then, can an organisation decide whether the change is transient or permanent and design an appropriate response to the change. Even if the change is permanent, sometimes there may not be a need for fundamentally altering the existing capabilities. The re-drafting of capabilities is a decision that arises out of an understanding of the competitive shifts in context of the industry.

For an organisation to change/ enhance its capabilities, it is important to recognise genesis of those capabilities. Often, the capabilities are a result of endowments procured by the organisation (Barney, 1991); however, for these capabilities to give sustained competitive advantage, these should be interlinked within the organisational boundaries in such a way that co-specialisation of those assets lead to synergistic effects (Caves, 1980). These interlinked assets, once they start contributing to the paradigm of the

organisation, are engulfed within the ambit of resources (Andrews, 1971). Resources are amenable to control by organisational agents and this control leads to emergence of power centres and politics (Nord, 1978).

The power centre in the organisation is comprised of the dominant coalition. This power centre (dominant coalition) decides the strategic choices with reference to the organisation. Accordingly, paradigm of an organisation in terms of its goals, vision, mission and technology are largely influenced by and sometimes even contingent upon composition of dominant coalition existing in the organisation.

Proposition 1: Capabilities of an organisation are decided by resource endowments within the organisational boundaries and the resource endowments are in turn contingent upon dominant coalition and associated politics in the organisation.

Essentially, capabilities and resources have to be placed within idiom of purposive functioning of organisation. Later, we will speak about this purposive functioning itself occurring within the realm of bounded rationality. Even with the constraint of bounded rationality, there does emerge need to have some sense of goals and the resources required for achieving them in an organisation. As the dominant coalition has its interest in articulating a goal-resource linkage, which is of utility to it, it will tend to play a role in considering various goal-resource possibilities.

Goal and Resource Acquisition

There exists a whole host of opportunities in environment and an organisation should constantly strive to scan the environment for tapping such opportunities- at least the ones which can be effectively levered upon using either the existing set of capabilities or new capabilities which can be acquired (Tan and Litschert, 1994). However, acquisition of new capabilities is constrained by the access to resources available in task environment of the organisation (Duncan, 1972). Awareness of the environment is an imperative that keeps an organisation informed of realms of possibility in either retaining strategic formula derived from understanding the goal-resource linkages or think of amending it in light of new environmental realities. Goals are instruments through which an organisation

is made aware of its *raison d'être*. In this way, goals also serve purpose of the dominant coalition in weaving its actions around the espousal of mechanism through which the *raison d'être* is reiterated (Nord, 2003). But goals are accompanied by resources that need to be made available in order to achieve those goals (Peteraf, 1993). Resources are more evident to organisations (Conner, 1991) and to the dominant coalition present within them as there is an almost everyday engagement with strategic decisions pertaining to resources. On the other hand, the idea of goals is more subtle (Perrow, 1961) as formal nature of tasks that most employees are associated with makes it difficult for them to integrate their actions with the broad paradigm of a goal. The conception of capabilities in terms of its subtlety lies somewhere between that of resources and goals. Capabilities are more amenable to discourse than goals because they represent possibility of competitive advantage (Barney, 1986). Talks of competitive advantage are of interest to everyone, particularly the dominant coalition as it has opportunity of asserting its own control through projecting the achievement of such advantage (Adams and Zanzi, 2006).

Such recognition of competitive advantage can at best be based on claims of superior performance of the organisation (Teece et al., 1997), the measure of which is decided by bounded rationality. In a few instances, dominant coalition may also be capable of trying to shift the prioritisation of goals themselves if they discover that such a shift will render them long term control of the decision making apparatus. When they advocate a shift in goals, they will have to justify such shifting on the grounds of availability of relevant resources (Thompson and McEwen, 1958). Further, this justification may have to be strengthened by describing the emergence of dynamic capabilities which are perceived to be inimitable. When challenges emerge to projections of dominant coalition, they can successively upgrade the resources, and hence the capabilities, to meet those projections. Also, criteria and measures as evaluation parameters can be used for defending projections. Further, the fact that these criteria and measures and the decisions that flow from them are based on the premise of bounded rationality helps the dominant coalition to side step much of criticism by suggesting that there exists information asymmetries.

Proposition 2: Evaluation of different goal-resource linkages championed by the dominant coalition will determine the kind of resources sought and consequently, the kind of dynamic capabilities built which are inimitable within the ambit of bounded rationality.

Pursuit for resource acquisition by an organisation is not only decided by the dominant coalition but is equally constrained by choice of previous chain of resources acquired to build capabilities (Barney, 1991). Thus, there is a recursive relationship between development of capabilities and the acquisition of resources. Such a recursive relationship emerges because organisations are not memory-less systems. In fact, operationalisation of organisational vision and mission often rest on a historical legacy of successes and endeavours. Thus, most organisations have a keen sense of history and the historical pattern of resource acquisition sometimes builds-in inertia (Kochan and Useem, 1992) that even dominant coalitions do not want to do away with because they may otherwise appear *a-historical*. Yet, dynamic alignment of political interests within the organisation sometimes forces hands of the dominant coalition to bring in change (Kanter, Stein and Jick, 1992). The dominant coalition positions this change in the mechanism of acquisition of resources in form of an argument for building new capabilities and eliminating old weaknesses. In order to do so, the dominant coalition itself must make a serious attempt to establish the fact and credibility of these new capabilities (Barney, 1988). Typically such an effort follows only from connectedness to the environment (Barney, 1986). Thus, the dominant coalition will tend to include those organisational members who have multiple interactions with the environment when a change in mechanism of acquisition of resources is being proposed. The cooptation of such members makes it easier for the dominant coalition to advocate its cause within the organisation as other political poles do not have access to similar kind of information about the environment (Janssens and Brett, 2006). But effort of the dominant coalition need not always be seen from a Machiavellian manipulative perspective. It must be remembered that the dominant coalition can remain dominant only if the organisation is doing well (Kochan and Useem, 1992). Else, the dominant coalition will easily be blamed for organisational decline. Thus, it is in interest of the dominant coalition to monitor

alternative ways of acquiring resources and linkages that they have with the development of capabilities.

As mentioned earlier, capabilities are equally determined by path previously traversed in building the existing capabilities. Acquisition of resources will often represent entrenched arrangements comprising formal and informal schemes of organisational coordination. These arrangements may be rehearsed so many times that they begin to represent a certain sort of strength for the organisation. However, in times of environmental change and competitive pressure, new capabilities may need to be developed (Harrington, Lemak, Reed and Kendall, 2004). The development of such capabilities may be incompatible with the old arrangement which greatly facilitated resource acquisition. In this evaluation of determining the relative importance of the manner of resource acquisition vis-à-vis the development of new capabilities, the associated cost and benefits may need to be understood.

While the dominant coalition emerges stronger, it attempts to justify its strength through the enhanced effectiveness of the organisation. Lewin and Minton (1986) provide a commentary of the literature on organisational effectiveness. Productivity is an important element of organisational effectiveness (Likert, 1961; Taylor, 1911). Increases in productivity may be matched by a sensible amalgamation of task specialisation, technical excellence (Taylor, 1911), and cohesion (Likert, 1961). At the same time, cost minimisation may appear to be another important feature of effectiveness (Taylor, 1911). Organisational researchers have also recognised the importance of an optimum use of resources, irrespective of considerations of goals (Simon, 1947; Taylor, 1911). Though employee satisfaction, loyalty and open communication (Likert, 1961) are significant factors, eventually, efficiency, whether it be in information processing (Simon, 1947) or in conceptualizing an economy of scale is vital (Simon, 1947; Sloan, 1963). Other considerations include congruence of strategy, competitive attainment, environmental control (Chandler, 1962) and divisional return on investment (Sloan, 1963). Thus, we are able to appreciate the central place of organisational effectiveness in the discourse

surrounding organisations. It is such a central place that dominant coalitions also acknowledge.

Proposition 3: Organisational effectiveness is enhanced when the dominant coalition keeps in mind the effect on capabilities while evaluating and choosing between different ways of acquiring resources.

Strategic Choice

Manipulation of environment is only one aspect of strategic choice that organisations have to make. Other aspects of strategic choice include autonomy and perception & evaluation of the environment. The fact that an organisation can make strategic choice is dependent upon the nature of decision making that prevails. If decision makers do not have autonomy in considering various alternatives, essentially there is no strategic choice that is being made because lack of autonomy ensures the prevalence of *status quo*. Kelly (1995) has suggested that autonomy is an aspect closely linked to functioning of the dominant coalition. It is those who are already in power who desire autonomy most (Michels, 1949). Secondly, those who are close to power centres also advocate autonomy because there are obvious incremental gains for them. Thirdly, those who are currently neither in power nor close to those in power but cherish aspiration of occupying one of these positions some day also advocate autonomy as it would be beneficial for them if they come to power. Perception and evaluation of the environment is another significant aspect of strategic choice as it acknowledges the fact that the environment is eventually perceived by human actors (Peteraf, 1993). These human actors then interpret their perceptions and they attempt to construct a reality of the environment as seen by them. Essentially, it is perception and its evaluation and interpretation which is subsequently transformed into a reality. The possible emergence of different conceptions of reality in this way drives strategic choice. Dominant coalition has to monitor and acknowledge these aspects of strategic choice as it may otherwise surrender the prerogative of strategy and eventually control of resources to others in the organisation (Nord, 2003). Monitoring would mean setting up different alternatives on its own and evaluating them independently to see which is in its and the organisation's best interest. Thus, the dominant coalition will have to allow for multiple perspectives to emerge. Emergence of

these multiple perspectives is a testimony to the existence of dynamic capabilities within the organisation in understanding and analysing problems from varied prisms. This dynamic capability is crucial because when changes in the environment occur, it may be necessary to look at the situation from a radically different perspective in order to remain relevant (Tan and Litschert, 1994). Therefore, it is in the dominant coalition's own interest to nurture evolution of such capabilities.

If the dominant coalition remains restricted to a particular aspect of strategic choice, then it may leave room for others to capture the space with regard to other parameters of strategic choice. For instance, the dominant coalition may largely be concerned with operating strategic choice through perception and evaluation of the environment. This may leave room for those who still act as autonomous pockets within the organisation to also influence strategy through their decision making capacities. Thus, human actors representing autonomy may occupy a part of strategic space in the absence of the dominant coalition realising its importance. Instead, if the dominant coalition had focused on all aspects of strategic choice including autonomy by advocating what arenas of the organisation should be autonomous in the light of its own interest, then it would not have lost a part of the strategic space. Though the dominant coalition can afford to be political in considering the different parameters of strategic choice (Hall and Tolbert, 2006), it must remember that eventually, it has to deliver in terms of enhancing organisational effectiveness by building dynamic capabilities. Politics alone in the absence of results will fritter away its reputation within the organisation.

Proposition 4: Organisational effectiveness as influenced by dynamic capabilities through resource endowments is enhanced as attention given by the dominant coalition to strategic choice parameters such as autonomy, manipulation of environment, and perception & evaluation of environment increases.

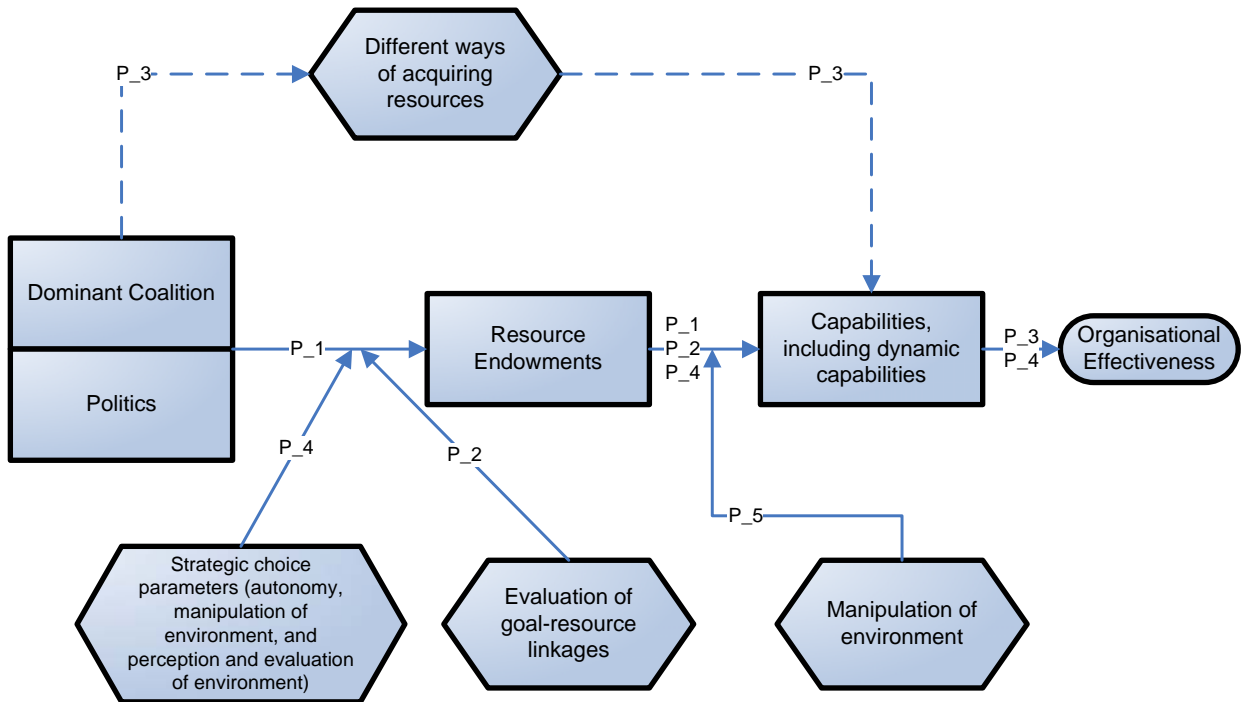
Organisations exist in environments which are characterised by complexity, dynamism and munificence (Harrington, et al., 2004). Complexity represents degree of heterogeneity that prevails in the environment and is representative of the variety of interest, stakeholders, suppliers, distributors, customers that an organisation accesses. Dynamism refers to the degree of stability or instability prevalent in the environment in

establishing behaviour and pattern underlying it of the factors mentioned earlier (Dess and Beard, 1984). Munificence refers to the support that the environment provides in terms of resources and such other aspects to the organisation. Thus, the three environmental parameters together constitute a context in which organisations function and the development of dynamic capabilities is often a strategic response to the environmental forces. These dynamic capabilities allow the organisation to achieve a better fit with respect to the three factors of environment that we just discussed. Sometimes, a decision may have to be made about which of these factors is more important to the organisation for achieving a better trade-off against which factors to be internalised. Organisational resources are scarce and an equal proportion of fit may not be possible with respect to all the three environmental factors. In such situations, a relative determination of which environmental factor is more important for the organisation leads to better allocation of resources (Eisenhardt, 1989). Typically, the dominant coalition would try to control the determination of importance of each factor and the consequent allocation of resources. Thus, the dominant coalition is located at the fascinating interaction of the environmental forces with the organisation in that it has a very important role in determining organisational response to varied aspects of environment (Drazin and Van de Ven, 1985). Dominant coalition tries to ensure that task of scanning the environment rests with an individual who is a part of the coalition. In a situation where this is not so, the dominant coalition may attempt to bring changes within the organisation which ensures that departmental or functional reallocation are engineered in a way that facilitates those departments and functions controlled by the dominant coalition to be entrusted with the task of scanning the environment. Such environmental connectedness is important for the dominant coalition as it endows it with a power on many organisational decisions. It also becomes incumbent upon the dominant coalition to read the environment accurately with some degree of consistency as a few high profile failures can lead to the dislocation of the coalition.

However, reading the environment alone is not sufficient. Sometimes, it may be very difficult for an organisation to adapt to what is happening in the environment. In such a situation, it may actually be advisable or easier for the organisation to manipulate

environment in order to suit its purpose (Harrington et al., 2004). Such manipulation of the environment could involve various forms of inter-organisational relationships such as partnerships, sharing of resources, strategic alliances and mergers & acquisitions (Hambrick and Fredrickson, 2001). These manipulations manifest themselves in the organisation building dynamic capabilities through vertical or horizontal integration. When this happens, dominant coalition becomes especially active as they have to reconcile themselves to new realities. New reality means that though dominant coalitions exist in all the organisations which are parts of inter-organisational relationships, eventually an arrangement may arise where only one of them remains active and has greatest control over a range of actions in the relationship (Penning and Goodman, 1997). This is because that dominant coalition is able to demonstrate that it has enhanced organisational effectiveness by developing dynamic capabilities which allow the organisation to manipulate the environment.

Proposition 5: Development of relevant dynamic capabilities driven by the dominant coalition can enhance an organisation’s ability to manipulate the environment for greater effectiveness.



Conclusion

Capabilities are dependent upon the resources that organisations are endowed with. The politics that exists within organisations is often driven around the resources that are essential to it. The dominant coalition attempts to gain an upper hand in this politics by projecting itself as the best possible agency in building the requisite capabilities. It has also been attempted to see how the dominant coalition protects its interest within an organisation. The dominant coalition interests exist in not only being concerned about existing resources but also evaluating the impact that new resources will have. While doing so, the dominant coalition attempts to legitimise its role by working towards the development of dynamic capabilities which are inimitable. In this process, not only are the resources central but the mechanism through which they are acquired also becomes important. However, the effectiveness of the organisation must forever be kept in mind if the dominant coalition is not to be displaced from its prominent role. The dominant coalition must ensure that it is constantly in touch with the environment in order to play a part in determining strategic choice which includes autonomy, manipulation of environment, and perception & evaluation of environment. Thus, organisational decision making pertaining to resources and goals has tremendous relevance for the dominant coalition in attempting to maintain its legitimacy by providing an impetus to dynamic capabilities.

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