Do firms develop dynamic capabilities differently?

THE CASE OF PROFESSIONAL SERVICES FIRMS IN NEW ZEALAND

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Abstract

Differences in dynamic capabilities (DCs) help explain firms' abilities to change. DCs research has explored what DCs might be and generic categorisations of them after they have emerged, but little light has been thrown on the specific practices that enable or inhibit their emergence. This study explores *how* DCs emerge and *why* firms might develop DCs differently under the same market conditions.

This thesis sought to understand these questions and respond to calls for longitudinal empirical studies to extend DC theory by studying the paths of four professional services firms in New Zealand over three decades. Using a multi-case study design and thematic analysis, this research applied Teece's (2007) framework of sensing, seizing and transforming capabilities to identify the presence of DCs within each case, before attempting to identify the enablers and inhibitors influencing the development of such capabilities. While elements of each generic class of DC were evident in each case, the findings suggest that in order to utilise DCs to adapt effectively to environmental changes, a firm must deploy all three classes of capabilities at the same time.

This research contributes to the DC literature by proposing a prioritised typology of antecedents that may help stimulate Teece's sensing, seizing and transforming DCs, while identifying the rigidities that could inhibit their development. The empirical results reported on in this thesis suggest that similar firms' development of DCs may be different because of idiosyncratic leadership and culture that can limit a firm's ability to perceive the importance of DCs. Other characteristics that inhibit the development of DCs include centralised, non-participative cultures and high internal (or inward looking) orientation. These results extend current theory about triggers for developing DCs by identifying that the strongest triggers may be either serious macro-economic events or internally driven by firm-defined goals or strategies.

Key words

Dynamic capabilities, professional service firms, sensing capability, seizing capability, transforming

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While I wrote this thesis, family life carried on. Jobs have changed; houses have been bought, renovated and sold; children have moved home, left home and moved home again (and vice versa); pets have gone to heaven and new ones have arrived.

One day, while so absorbed in my study I failed to notice that my husband, Ant Simon, had painted our house a dark grey. It had been white in the morning. Thus, the single-mindedness of the PhD student.

For four-and-a-half years my weekdays have been consumed with paid work as the Chief Operating Officer of a law firm, and weekends and holidays with academic work. Ant and my children, Olivia and Christian Servanté-Freeman, and wider family, while not exactly enthusiastic cheerleaders, have tolerated my “hobby”. It will be a shock to the family dynamic for me to reassimilate into real life.

Staying steady throughout have been my supervisors, Stephen Cummings and Urs Daellenbach. With the perfect complement of styles, I consider myself extraordinarily fortunate to have had such high calibre guidance, friendship and academic rigour. There would often be long gaps between meetings, during which time I would have toiled away on my own and exhausted my love of the thesis. But I left every meeting with Steve and Urs feeling motivated and propelled to go on. They made each step along the path seem logical and achievable — and for that I cannot thank them enough.

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Undoubtedly, the most challenging part of this research was securing firms to agree to participate as case studies. I called on the extended network I have built working in the legal industry in New Zealand over the last 25 years, but gaining participation was more difficult than I expected. The reluctance I encountered makes me even more appreciative and respectful of the brave firms that were willing to give me access to their stories via people and

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List of figures

Figure 1: Evolution of strategic management theories	17
Figure 2: Actions of DCs	23
Figure 3: Adapted from Wang & Ahmed (2007), Madhavaram & Hunt (2008) and Wang, Senaratne & Rafiq (2014)	31
Figure 4: Dynamic capabilities (Teece, 2007, p. 1342)	33
Figure 5: Summary of antecedents to DC development	47
Figure 6: Summary of research design	63
Figure 7: Summary of critical milestones.....	70
Figure 8: FirmA's idea evaluation process	107
Figure 9: FirmA's decision process	108
Figure 10: Emergence of commercial strategies common to Firms A, B and C	189
Figure 11: FirmA's 'stage-gate' process	193
Figure 12: FirmB's 'stage-gate' process.....	194
Figure 13: DC development factors	207
Figure 14: Summary of factors stimulating or inhibiting the development of sensing capabilities	208
Figure 15: Summary of factors stimulating or inhibiting the development of seizing capabilities	216
Figure 16: Summary of factors stimulating or inhibiting the development of transforming capabilities	222
Figure 17: Summary of mechanisms stimulating or inhibiting the development of DCs	226
Figure 18: Visualisation of Teece's (2007) sensing, seizing and transforming framework.....	230
Figure 19: New visualisation of Teece's (2007) DC framework	231
Figure 20: Hierarchy of antecedents.....	232

List of tables

Table 1: Analysis of key DC definitions.....	21
Table 2: Typologies of capability hierarchies	30
Table 3: Summary of empirical research on DCs	41

Table 4: Typology of rigidities.....	57
Table 5: Summary of research methodology.....	60
Table 6: Case study participants' characteristics.....	67
Table 7: Description of critical milestones	71
Table 8: Research techniques	72
Table 9: Participant group and data collected	73
Table 10: Summary of interviewees' roles	73
Table 11: Examples of interview questions mapped to Teece's (2007) framework	74
Table 12: Available archival data by case	76
Table 13: Summary of analytical phases	81
Table 14: Summary of FirmA's responses to critical events	101
Table 15: FirmA's framing of external problems, options considered and decisions	109
Table 16: Triggers for FirmA's development of DCs	113
Table 17: Summary of FirmB's responses to critical events.....	123
Table 18: FirmB's framing of external problems, options considered and decisions.....	129
Table 19: Triggers for FirmB's development of DCs.....	134
Table 20: FirmB's expansion path	135
Table 21: Summary of FirmC's responses to critical events	150
Table 22: FirmC's framing of external problems, options considered and decisions	155
Table 23: Triggers for FirmC's development of DCs.....	161
Table 24: FirmC's primary drivers of decisions	167
Table 25: Summary of FirmD's responses to critical events.....	177
Table 26: FirmD's framing of external problems, options considered and decisions	182
Table 27: Triggers for FirmD's development of DCs	184
Table 28: Summary of common sensing capabilities	196
Table 29: Summary of common seizing capabilities.....	199
Table 30: Summary of common transforming capabilities.....	202
Table 31: External triggers for DC development	203
Table 32: Internal triggers for DC development.....	206
Table 33: Conclusions relating to key DC definitions	230
Table 34: Mechanisms underpinning each category of antecedent.....	234

Table of contents

Abstract.....	ii
Acknowledgements	iii
List of figures.....	v
List of tables	v
Table of contents	1
1 Introduction	5
1.1 Research questions.....	8
1.2 Research objective.....	8
1.3 Significance of this research.....	8
1.4 Thesis structure.....	8
2 Dynamic capabilities (DCs) in the context of strategic management theory	10
2.1 From SWOT to DCs.....	10
2.1.1 SWOT — due for a product recall?	10
2.1.2 Porter — external search for opportunities.....	11
2.1.3 Core competence theory — an initial inside-out approach	12
2.1.4 The resource-based view — VRIN resources in a static environment.....	13
2.1.5 DCs — recognition that change is constant.....	15
3 Dynamic capabilities.....	18
3.1 Chronology of definitions.....	18
3.1.1 What do DCs change?	22
3.1.2 How do DCs change these objects?	23
3.1.3 Who enacts the change?	25
3.1.4 Why deploy DCs to change?	26
3.2 Dimensions of DCs	29
3.2.1 Hierarchies of capabilities	29
3.3 Teece's classes of DCs	32
3.3.1 Sensing.....	33
3.3.2 Seizing	35
3.3.3 Transforming	37
4 What is left to be studied?	40

4.1	Relevance of the DC concept to PSFs	40
4.1.1	Characteristics of PSFs	41
4.1.2	What are a PSF's resources?	42
4.2	What do we know about PSFs' DCs?.....	43
4.3	Triggers for development of DCs.....	44
4.4	How do firms develop DCs?.....	46
4.4.1	Learning	48
4.4.2	Leadership.....	49
4.4.3	Integrative capabilities.....	53
4.4.4	Path dependency	54
4.4.5	Culture and climate.....	55
4.5	What inhibits firms developing DCs?.....	56
4.6	Research gap	58
4.6.1	Research questions	59
5	Methodology.....	60
5.1	Research philosophy	60
5.2	Research methodology	63
5.3	Case studies.....	64
5.3.1	Multiple case studies.....	65
5.3.2	Sampling approach.....	65
5.3.3	Time dimension	68
5.4	Research techniques.....	71
5.4.1	Data gathered from multiple stakeholders.....	72
5.4.2	Triangulation approaches.....	76
5.4.3	Validity.....	77
5.4.4	Human ethics.....	78
5.5	Methods of analysis	78
5.5.1	Preparation and coding of the data.....	79
5.5.2	Data analysis process.....	80
6	Case context	83
6.1	Importance of professional services to the economy	83
6.2	PSFs and entrepreneurship.....	83
6.3	Isomorphism	85
6.4	PSFs and governance, management and leadership	85
6.5	Legal services as classical professional services.....	87
6.6	Changes in the legal services industry.....	89

6.7	A history of the New Zealand legal services industry	91
7	Case studies	95
7.1	Case study FirmA	95
7.1.1	Case description	95
7.1.2	Presence of DCs.....	102
7.1.3	Triggers for DC development.....	112
7.1.4	How did FirmA develop DCs?.....	113
7.1.5	Conclusion	118
7.2	Case study FirmB	119
7.2.1	Case description	119
7.2.2	Presence of DCs.....	123
7.2.3	Triggers for DC development.....	134
7.2.4	How did FirmB develop DCs?	134
7.2.5	Conclusion	142
7.3	Case study FirmC	145
7.3.1	Case description	145
7.3.2	Presence of DCs.....	150
7.3.3	Triggers for DC development.....	160
7.3.4	How did FirmC develop DCs?	162
7.3.5	Conclusion	168
7.4	Case study FirmD	170
7.4.1	Case description	170
7.4.2	Presence of DCs.....	177
7.4.3	Triggers for DC development.....	184
7.4.4	How did FirmD develop DCs?.....	185
7.4.5	Conclusion	187
8	Discussion	188
8.1	Similarities and differences in the presence of DCs	188
8.1.1	Similarities and differences in sensing capabilities.....	188
8.1.2	Similarities and differences in seizing capabilities.....	197
8.1.3	Similarities and differences in transforming capabilities	199
8.2	What prompts firms to develop DCs?.....	202
8.2.1	External triggers for development of DCs.....	203
8.2.2	Internal triggers for developing DCs	205
8.3	How do firms develop DCs?.....	206
8.3.1	What mechanisms stimulate or inhibit the development of sensing capabilities?	208
8.3.2	What mechanisms stimulate or inhibit the development of seizing capabilities?	216

8.3.3	What mechanisms stimulate or inhibit the development of transforming capabilities?	222
8.4	Are some stimuli or inhibitors more influential than others?	225
8.5	Theoretical insights	227
8.5.1	Definitions of DCs.....	228
8.5.2	Reinterpreting the visualisation of Teece's framework.....	230
8.5.3	A typology of antecedents.....	231
8.5.4	Rigidities actively work to inhibit the emergence of DCs.....	235
8.5.5	Triggers most effective when macro	235
8.5.6	PSFs can possess DCs	236
9	Conclusions.....	237
9.1	Why was this research important?	238
9.2	Research questions and answers.....	239
9.2.1	How do PSFs develop DCs?.....	239
9.2.2	What similarities and differences are there in the ways that PSFs develop DCs from what is expressed in the literature?	240
9.2.3	Do firms operating in the same market and under similar conditions follow different DC development paths?	241
9.2.4	What factors influence similarities and differences?.....	242
9.2.5	Other findings	242
9.3	Contributions.....	244
9.3.1	Summary of contributions to DC management theory.....	244
9.3.2	Contribution towards unified DC definitions	248
9.4	Limitations	249
9.5	Implications for management	250
9.6	Areas for future research	251
9.7	Concluding statements	252
Appendix One.....	254	
Indicative interview schedule	254	
Appendix Two	257	
Detailed archival and secondary data accessed for each case	257	
Appendix Three.....	260	
Coding guide for Teece's DC classes	260	
Coding guide for DC stimuli	265	
Coding guide for DC inhibitors.....	267	
References	269	

1 Introduction

The world loves a good TV show about law firms and lawyers. The courtroom dramas! The mind-twisting legal questions! The office intrigue! But TV show producers rarely hint at the effort going on to run these multi-million-dollar businesses. Or, a related question, are law students attracted to the practice of the law because of a desire to run a successful business?

Illustrating a perennial problem for professions is the tension between the doing of the professional role and the less visible role of being the owner of a complex business. Professionals' first love is their professional work. Few have the training, appetite or ability to masterfully lead the strategy of the firm — in return for the uncertain rewards and questionable status of a senior leadership role.

For decades, many professional services firms (PSFs) have enjoyed high profits and constant flows of work, largely insulated from the disruptive environmental factors that are buffeting so many industries. Many owners of PSFs continue to do mostly what they've always done. However, commentators predict threats to fundamental, taken-for-granted aspects of PSF businesses such as law firms that are seeing shifts in client behaviour, the application of production technologies, 'new law' business models that threaten — or provide opportunities for — traditional PSF services, and moving from a sellers' to a buyers' market (Georgetown Law Center for the Study of the Legal Profession, 2013). To thrive in the new world order, PSFs need to be able to change and adapt.

The importance of a firm's ability to flex to its environment is highlighted by Leonard-Barton's work (1992), which describes how capabilities that have led to success (including specialisation, proven strategies, strong leadership and enmeshed corporate cultures) can also cause decline when environmental conditions change. In dynamic environments, narcissistic organisations are likely to be impaired because of their reluctance to constantly scan markets and technologies and reinvent themselves to match the new demands of their context (Teece, Pisano, & Shuen, 1997). Successful firms risk extending and amplifying the strategies and competences they believe underpin their success, becoming 'exaggerated caricatures' of

themselves (D. Miller, 1992, p. 24) and possessing capabilities no longer relevant when market needs change. Core rigidities may hold back previously successful firms from sensing environmental change and adapting resources.

Therefore, an important theme in the field of strategic management is how organisations respond to change in their environment, and specifically how they organise or structure resources optimally given the context that they operate in. The examination of dynamic capabilities (DCs) looks at how firms change, develop and sustain competitive advantage to succeed within their ever-changing environments (Ambrosini & Bowman, 2009).

DCs are a set of specific and identifiable processes, such as those for product development and strategic decision-making (Eisenhardt & Martin, 2000), that can be used to manipulate resources into new productive assets in changing markets and environments (Galunic & Eisenhardt, 2001). They include the capacity to sense and shape opportunities and threats, and seize opportunities in order to maintain competitiveness through the orchestration of the firm's intangible and tangible assets (Teece, 2007).

DCs are argued to enable firms to detect and evaluate changes in their environment more quickly than their competitors, readily make changes to their operating routines to meet new environmental requirements, and expand the range of strategic options available to them (H. Wilhelm, Schlömer, & Maurer, 2015). DCs enable firms to respond to the need for change or to pursue new opportunities (Easterby-Smith, Lyles, & Peteraf, 2009), taking many forms, including the transformation of organisational processes and allocations of resources and operations.

Teece's ubiquitous sensing, seizing and transforming model of DCs suggests a sequential, linear progression of routines (Feiler & Teece, 2014; Teece, 2014a). Sensing new opportunities requires managers to scan, learn, create, and importantly to interpret information to understand latent demand (Teece, 2007). Sensing requires managers to undertake a broad search horizon and utilise problem-solving skills to resolve complex problems posed by the market.

Teece's second class of DCs involves mobilising resources to develop new products, processes or services once a new opportunity has been sensed (Teece, 2007). Seizing capabilities are

founded on making high-quality, interdependent investment decisions about strategic paths and how to capture value (Hodgkinson & Healey, 2011).

Teece describes the third class of DCs as the transforming capability, which enables the firm to recombine and reconfigure tangible and intangible assets and organisational structures in order to maintain competitiveness and guard against, or to 'soften' (Teece, 2011, p. 1), the core rigidities that can lock a firm competing in a changing environment into an unfavourable path (Leonard-Barton, 1992; Teece, 2007). The speed at which the firm can realign its resources to be consistent with its strategy, and current and future changes in the environment, determines the strength of its transforming DC (Teece, 2014b).

DC research has explored what DCs might be and produced generic categorisations of them once they have emerged, but little light has been thrown on specific practices that enable or inhibit their emergence. A small body of literature describes the broad categories of antecedents and enablers of DCs, including leadership, learning processes, integration skills and path dependence (Easterby-Smith & Prieto, 2008; Jiang, 2014; Ma, Zhou, & Fan, 2015; Teece et al., 1997; Zollo & Winter, 2002), but no typology of antecedents exists. Further, the connection between antecedents and their relative effect on the emergence of Teece's sensing, seizing and transforming classes of DCs is opaque. Similarly, there is little empirical research on what triggers firms to develop DCs, either general or specific types of triggers, despite conceptual studies' arguments that environmental dynamism is the primary source (Eisenhardt & Martin, 2000; Teece, 2007; Wang & Ahmed, 2007; Zollo & Winter, 2002). To address these questions, among others, scholars call for more longitudinal studies focusing on the development of DCs (Barrales-Molina, Martínez-López, & Gázquez-Abad, 2014; Easterby-Smith et al., 2009; Jantunen, Ellonen, & Johansson, 2012; Jantunen, Tarkiainen, Chari, & Oghazi, 2018) and how they emerge in practice (Ambrosini & Bowman, 2009).

There is a relatively small body of empirical studies on DCs, and the research that does exist has usually studied 'dynamic industries' (Easterby-Smith et al., 2009, p. S8), such as semi-conductors or biotechnology and manufacturing (den Hertog, Wietze van der, & de Jong, 2010). However, PSFs are highly successful examples of knowledge-intensive businesses (KIBs), which are under-represented in the body of DC empirical work. Yet KIBs are likely to feature prominently in future economies, which makes understanding the nature of their managerial challenges particularly useful for practitioners as they grow in significance. This research explores the factors that could make one PSF more likely to develop DCs than

another. It also looks at how PSF owners and managers sense environmental changes and make decisions on the acquisition and configuration of resources. Because the concept of DCs is important for firms' sustainable performance (Teece, 2014a), managers will benefit from understanding how firms develop such capabilities.

This thesis aims to deepen the understanding of *how* PSFs develop DCs should they wish to, *why* some firms may develop DCs differently under the same market conditions, and factors that may enable or inhibit their emergence.

1.1 Research questions

- a. How do PSFs develop DCs?
- b. What similarities and differences are there in the ways that PSFs develop DCs from what is expressed in the literature?
- c. Do firms operating in the same market and under similar conditions follow different DC development paths?
- d. What factors influence the development of these similarities and differences?

1.2 Research objective

The objective of this study is to develop a deeper understanding of how PSFs develop DCs. The findings should be able to be used or implemented across similar firms, while also contributing to the development of the theory of DCs.

1.3 Significance of this research

The objective of this study is to develop a deeper understanding of how firms develop DCs and what stands in their way. The research adds specifically to the body of knowledge on PSFs, and in doing so links DC theory to the PSF industry. The findings are able to be applied in similar firms, while also contributing to the development of the theory of DCs.

1.4 Thesis structure

This thesis is structured into nine chapters, including this introductory chapter.

The literature review is comprised of chapters two to four. Chapter two charts the evolution of strategic management theory from industry-based models of competitive advantage through to the DC model, which places the firm's adaptive capabilities at the centre of competitive advantage. Chapters three and four detail the theoretical framework used in this study. First, the DC literature is explored, including an in-depth discussion of Teece's (2007) definition of DCs. The following chapter summarises and discusses the limited literature available on how managers should develop DCs, should they wish to, and also positions the relevance of DCs to PSFs.

The research approach and context for the study is detailed in chapters five and six. The reasoning behind the interpretivist methodological approach and qualitative, multiple-case study methods are outlined with reference to research precedents in the DC field. Professional services, as the context for the study, are justified along with the sampling approach, data collection and process of analysis.

The four case descriptions and empirical findings are set out within chapter seven. Through each case study, a firm's history is described, followed by an analysis of whether DCs are evident, the triggers for developing DCs and analysis of the stimuli and inhibitors. Chapter eight undertakes a cross-case analysis to find similarities and differences in the presence of DCs, triggers and development paths for the cases. The findings support discussion of not only the stimuli and inhibitors of DCs, but also whether some stimuli or inhibitors are more central than others. Teece's model of DCs is revisited based on the empirical findings of the study.

The final chapter outlines the contribution of this thesis to both the DC and PSF literature by summarising the thesis' findings concerning the research questions. While the theoretical conclusion that PSFs may demonstrate DCs is clear, insights into the practical question of how managers can stimulate DC development and avoid inhibitors are also discussed. In light of the conclusions, chapter nine identifies further areas of research that could build on this DC scholarship.

2 Dynamic capabilities (DCs) in the context of strategic management theory

This chapter sets out to position DCs in the evolution of strategic management theory. Starting from industry-based models of competitive advantage through to the DC model, the field of strategic management can be divided into two main perspectives: the industry-based view and the resource-based view (RBV) of the firm. The following section documents the path from industry-based view models of competitive advantage to models that reflect current thinking around the RBV given dynamic environments.

2.1 From SWOT to DCs

Over the last four decades the field of strategic management has seen the emergence of several important theories. While this thesis requires a review of the literature relating to DCs, it is useful to place the DC theory in context by understanding how it emerged from preceding theories to become a theory enjoying rapid growth within the current strategic management literature (Barreto, 2010).

2.1.1 SWOT — due for a product recall?

Early strategic management frameworks designed to evaluate strategic options began by identifying the opportunities and risks in the environment. Andrews (1971) describes a firm's environment as the pattern of external influences that affects its operations and evolution.

One of the most well-known and enduring frameworks is SWOT analysis. An acronym for strengths, weaknesses, opportunities and threats, SWOT analysis is used to help managers deal with, identify and analyse strategic options. SWOT analysis asserts that firms can implement strategies to leverage their internal strengths by responding to environmental opportunities, neutralise external threats and avoid their internal weaknesses (Barney, 1991).

The origination of SWOT analysis is unclear. One view is that the framework evolved from a study funded by a group of *Fortune 500* companies in the 1960s that set out to understand why corporate planning failed between the analysis and implementation phases. The framework that emerged from the study was referred to as SOFT analysis, which categorised

environmental factors into satisfactory, opportunity, fault and threats for the present and future (Cummings & Angwin, 2015).

SWOT analysis is ubiquitous in businesses undertaking some form of strategic analysis (P. Jarzabkowski, Giuliatti, & Oliveira, 2009), and is widely taught by academics despite serious criticism of its theoretical underpinnings (R. Agarwal, Grassl, & Pahl, 2012). Critics argue SWOT analysis too often produces 'shallow misleading results' (Valentin, 2001, p. 54) and generates superficial extemporaneous inventories that are as likely to detract from understanding sound strategic choices as to illuminate them.

Generating long lists of factors under each category seems easy. However, in the absence of deeper analysis about which factors are critical and which are peripheral, which factors (such as market leadership) are sustainable or transient, and which can be verified, a SWOT analysis does not explain the promised predictive insight. Hill and Westbrook's (1997) study concluded that SWOT is not a rigorous analytical tool at all, but simply leads to generalised subjective descriptions of factors that are relevant at a point in time. Hill and Westbrook (1997) agree that the SWOT tool is so flawed that it is due for a 'product recall', given that it was developed in a time of relative market stability that is rarely experienced in modern markets.

2.1.2 Porter — external search for opportunities

Porter's five forces framework (Porter, 1980) established the paradigm of the industry-based view. The industry-based view emerged out of industrial economics and its focus on the industry structure as the key determinant of firms' profitability and the basis for competitive strategy.

The paradigm of strategy exemplified by Porter's five forces framework was that the success of a company's competitive strategy depends on how it relates to its environment (Porter, 1980). The five forces model provides a way for firms to assess the potential profitability of its industry and its competitive position by analysing the threat of new entrants, substitute products, and the power of buyers and suppliers to the industry, as well as the intensity of competition within the industry. The combination of these forces determines the profit potential in the industry.

The model reflected the patterns of competition among manufacturers in the US in the 1970s (Peng, Sunny Li, Pinkham, & Hao, 2009) in a time of relative market stability. Although Porter

concedes that industry structure will 'gradually' change over time, and that firms will be uniquely positioned to respond to such changes (Porter, 1980), this is secondary to the core of the theory.

Porter argued that the underlying structure of the industry — as represented by the five forces — is enduring and should be differentiated from short-run factors such as economic conditions that have tactical but not strategic significance. Strategic decisions should be based on an industry analysis to identify the attractiveness of the market, and whether or how a company could compete in that space (Chakraborty, 1997), in particular by identifying where the competitive forces can be best managed or be influenced positively (Porter, 1980). Based on the findings of the analysis, firms could develop competitive strategies of cost leadership, differentiation or reconfiguring resources to produce superior performance (Stonehouse & Snowden, 2007).

Despite being widely regarded by scholars as 'the centrepiece of the competitive positioning school' (Stonehouse & Snowden, 2007, p. 257), the five forces concept has been criticised because the unit of analysis is the industry rather than the firm. This view assumes a homogeneous set of resources held by firms within an industry (or strategic group) and that adopting a generic strategy will be equally successful for all firms.

Criticism of the five forces model has centred on the model ignoring the idiosyncrasies of organisations and the innate complexities of their context. Scholars argue that in reality, firm-specific 'endowments and actions' are considerably more important to a firm's performance than industry dynamics (Rumelt, 1991, p. 167). Later empirical studies further undermined the value of the framework by their findings that a firm's membership of a particular industry accounts for only 20% variance in financial performance (Powell, 1996), which emphasises the importance of firm-specific capabilities in achieving strong firm performance.

2.1.3 Core competence theory — an initial inside-out approach

In the 1990s, the core competence theory emerged, which claims that organisational growth depends on the ability of firms to restructure, cultivate and exploit their core competences (Prahalad & Hamel, 1990). This approach supplemented the traditional outside-in approach to strategy and was popular at the time due to significant interest in strategies for firm diversification as the path to growth (Ljungquist, 2013). The theory was based on gaining competitive advantage by capturing profit arising from firm-level efficiencies.

Core competences describe the collective learning of the organisation, and the ability to coordinate and integrate knowledge coupled with strong communication of management's commitment to work across organisational boundaries (Ibid). Comparing firms' success in choosing and implementing diversification strategies, the theory argues that a portfolio of competences can be utilised across many businesses to generate competitive advantage.

Core competence theory proposes that firms must know what their core competences are in order to fully exploit their resources to achieve competitive advantage (Javidan, 1998). In contrast, firms that do not understand their fundamental strengths may adopt strategies that diversify too far away from their core competences, facing a high risk of failure.

Scholars' main criticisms of core competence theory are that it fails to account for the dynamism that affects the firm internally and externally (Ljungquist, 2013). Today's world is significantly different to when the concept was introduced, in that the speed and aggression of competition in many industries has intensified. D'Aveni and Gunther (1994, p. 217) describe this phenomenon as 'hypercompetition', defined as 'an environment characterised by intense and rapid competitive moves'. External environments significantly impact a firm's internal choices, implying that the content and range of a core competence is in constant flux (Ljungquist, 2013).

The vagueness of the concept has been criticised, and some scholars go so far as to render it 'deficient for practical application' (Ljungquist, 2013, p. 454) and its ambiguity may negatively impact a firm's ability to flex to the environment. The relatively common yet overly-simplistic interpretation of the core competence concept is to concentrate on what you do well and you will be successful, but this ignores the warnings set out in the core rigidity theories (Leonard-Barton, 1992; D. Miller, 1992).

2.1.4 The resource-based view — VRIN resources in a static environment

The popularity of the RBV grew in the 1990s, following publication of Barney's influential article (Barney, 1991). RBV theory (and its derivative theories) argue that a firm's competitive advantage is based on its unique resources that are valuable, rare, inimitable and non-substitutable (VRIN). The term 'resource' is defined as activities and capabilities that allow the firm to generate rents (Barney, 1991), i.e. firm-specific resources generate rents that lead to sustainable profitability.

The RBV takes an inside-out approach to understanding the characteristics of high-performing firms (Rouse & Daellenbach, 2002). Seeing the firm as a bundle of resources that dictate which external circumstances offer opportunities and which pose threats (Valentin, 2001; Wernerfelt, 1984), the RBV sets out to determine how firms accumulate, develop and combine unique resources in a way that leads to sustainable competitive advantage at a point in time. The central argument of RBV theory is that for firms to achieve sustainable competitive advantage, they must acquire and control VRIN resources and capabilities. They must also have an organisational structure in place that is able to absorb and leverage them (Barney, 1991) and operate within an environment that is concrete, impacted by events that are predictable and can be accurately perceived and measured by managers (Tarek El & Trott, 2014).

The RBV model has been criticised by scholars as being tautological (Connor, 2007), in that 'if a resource is valuable and rare, then it can be a source of competitive advantage'. This is true by logic, provided valuable resource and competitive advantage are synonymous (Priem & Butler, 2001, p. 58).

Critics of the RBV theory argue that it too lacks a managerial prescription of how to create and develop VRIN resources and creates an illusion of control that does not exist in practice (Kraaijenbrink, Spender, & Groen, 2010). Eisenhardt and Martin (2000) assert that the RBV does not attempt to explain how and why some firms are able to respond to unpredictable situations in a timely way. Critics also claim that commonly used definitions of a resource are overly-inclusive to the point that they are problematic, particularly where they do not distinguish between resources held by the firm and the capabilities necessary to deploy them (Amit & Schoemaker, 1993).

Similar to criticisms of Porter's five forces framework, an important flaw in the utility of the RBV view is that it fails to incorporate that environments change, therefore potentially rendering previously valuable resources irrelevant. Critics of the theory question the assumption that static resources provide competitive advantage that is sustained beyond the short run (Kraaijenbrink et al., 2010), and argue that it takes a backward look at performance. In today's dynamic markets, it is unlikely that a firm can complacently rely on sustainable competitive advantage by doing what it has always done. When a firm's context changes, bundles of resources that have previously provided differentiation and competitive advantage

risk becoming obsolete. Leonard-Barton (Leonard-Barton, 1992) describes obsolete resources as inhibiting organisational evolution, generating inertia and stifling innovation.

2.1.5 DCs — recognition that change is constant

Although static resources can lead to sustainable competitive advantage in static environments, dynamic environments require DCs (Helfat et al., 2007). The concept of DCs blossomed in the early 2000s in response to the flaws in the RBV theory. The theory of DCs studies the constant reinvention of firm-specific capabilities as its environment or market begins changing so fundamentally that the resources previously relied on no longer offer competitive advantage.

In contrast to the RBV theory, which argues that controlling the right resources leads to sustainable competitive advantage, DCs enable the firm to change the way it makes its living (Eisenhardt & Martin, 2000; Teece, 2007; Winter, 2003), including changing its resource base or operational capabilities. Where the RBV model was limited by failing to take account of important dynamic factors, such as knowledge creation, learning and innovation, DC theory is underpinned by such capabilities.

In contrast to SWOT, Porter's five forces framework and core competence theory (which consider the industry characteristics of the firm as critical in deciding a strategic pathway), in DC theory the environment represents a much broader community of organisations, institutions and individuals that impact the firm, its customers and suppliers (Teece, 2007).

DCs enable firms to detect and evaluate changes in their environment more quickly than their competitors, readily make changes to their operating routines in order to meet new environmental requirements, and expand the range of strategic options available to them (H. Wilhelm et al., 2015). DCs respond to the need for change or to pursue new opportunities (Easterby-Smith et al., 2009) and they take many forms, including the transformation of organisational processes and the allocation of resources and operations.

Some scholars argue against what they claim is the tautology of defining a capability as an ability (Zollo & Winter, 2002). They offer a contrasting definition of DCs as structured and persistent learning mechanisms that combine learning by doing with articulating and codifying knowledge. These processes work to generate and modify operating routines for the purpose of improving a firm's effectiveness.

But founding work on DCs theorises a positive correlation between the value of DCs and the rapidly changing nature of the environment (Teece et al., 1997). Dynamic environments are characterised by international competition and global markets, affected by rapid technological change requiring the development of complex new products and under-developed markets for the exchange of managerial know-how (Teece, 2007). In dynamic environments, success is determined less by the accumulation of locked-in resources and more by a firm's capability to discover opportunities and to renew and refresh its unique asset base. Rapid change in the environment quickly erodes advantages created by resource creation, and therefore the ability to refresh and renew resources becomes critical to the ongoing success of the firm. The logic is that turbulent environments create a heightened need for the continual reconfiguration of resources and enhance the value of DCs (Pavlou & El Sawy, 2011). However, other scholars argue that firms need DCs even when the environment is relatively stable (Ambrosini, Bowman, & Collier, 2009; Eisenhardt & Martin, 2000).

Therefore, it is argued that DCs enable firms to derive significant value by being able to sense environmental changes that require the mitigation of risk or the reconfiguration of resources, evaluate a broader range of options, and more quickly and more extensively renew capabilities than competitors (H. Wilhelm et al., 2015). Although similar capabilities are valuable in environments exhibiting moderate to low dynamism, because they are exercised less frequently, it is argued that they deliver less value relative to the investment in building them (Ibid).

In summary, Figure 1 sets out the researcher's interpretation of the evolution of strategic management theories over the last 50 years.

Figure 1: Evolution of strategic management theories

This chapter charted the evolution of strategic management theory from industry-based models of competitive advantage through to the DC framework, which places the firm's adaptive capabilities at the centre of competitive advantage. The next chapter explores the DC literature in depth, including discussing Teece's (2007) DC framework, which provides an analytical basis for this thesis.

3 Dynamic capabilities

Chapter 3 reviews the literature relating to the DC theory and identifies scholars' different perspectives on key elements of the theory. This chapter also details Teece's (2007) DC framework, which is the theoretical framework used in this study.

3.1 Chronology of definitions

Emerging in the late 1990s, Teece et al.'s definition of DCs as 'the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments' (Teece et al., 1997) is widely regarded as the most influential in the DC research papers (Di Stefano, Peteraf, & Verona, 2014). DCs are behaviours that are learned and repetitious (Winter, 2003), and are therefore different to the concept of ad hoc problem-solving that organisations carry out in response to an external challenge.

Subsequently, DCs have been defined and continue to be redefined by conceptual researchers in an attempt to achieve a common understanding of the framework. Table 1 cites important definitions and shows similarities and differences in key components of the definitions. It produces a useful structure for examining the evolutionary path of DC theory over the past 22 years.

Study	Definition	What is changed?	How changed?	Why change?	Who enacts the changes?	What triggers DCs?
Teece, Pisano & Shuen (1997)	The firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments. (Teece et al., 1997, p. 516)	Internal and external competences	Integrate, build and reconfigure	To address changes in the environment	The firm	Rapidly changing environments
Eisenhardt & Martin (2000)	The firm's processes that use resources — specifically the processes to integrate, reconfigure, gain and release resources — to match and even create market change. Dynamic capabilities are therefore organisational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die. (Eisenhardt & Martin, 2000, p. 1107)	Resources	Integrate, reconfigure, gain and release resource	Match and create market change	The firm	
Zollo & Winter (2002)	A dynamic capability is a learned and stable pattern of collective activity through which the organisation systematically generates and modifies its operating routines in pursuit of improved effectiveness. (Zollo & Winter, 2002, p. 340)	Operating routines	Generates and modifies	Improved effectiveness	The organisation	
Winter (2003)	Dynamic capabilities operate to extend, modify or create ordinary capabilities. (Winter, 2003, p. 991)	Ordinary capabilities	Extend, modify or create			Responses to highly dynamic environments
(Zahra, Sapienza, &	Dynamic capabilities are about the ability 'to reconfigure a	Resources and routines	Reconfigure	Align with principal	Principal	

Davidsson, 2006)	firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker(s). (Zahra et al., 2006, p. 918)		decision-makers	decision-makers
Helfat et al. (2007)	A dynamic capability is the capacity of an organisation to purposefully create, extend or modify its resource base. (Helfat et al., 2007, p. 1)	Resource base	Create, extend or modify	Achieve a purpose An organisation
Teece (2007)	Dynamic capabilities can be disaggregated into the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, (3) to maintain competitiveness through enhancing, combining, protecting and, when necessary, reconfiguring the business enterprises intangible and tangible assets. (Teece, 2007, p. 1319)	Intangible and tangible assets	Enhancing, combining, protecting and reconfiguring	Sense and shape opportunities Seize opportunities Maintain competitiveness
Wang & Ahmed (2007)	A firm's behavioural orientation is constantly to integrate, reconfigure, renew and recreate its resources and capabilities and most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage. (Wang & Ahmed, 2007, p. 35)	Resources and capabilities	Integrate, reconfigure, renew and recreate	Respond to environment and achieve sustainable competitive advantage Firm's behavioural orientation
Ambrosini & Bowman (2009)	Dynamic capabilities describe intentional efforts to change the firm's resource base. (Ambrosini & Bowman, 2009)	Resource base	To change	Intentional effort to change Ambiguous

Helfat & Winter (2011)	A dynamic capability is one that enables a firm to alter how it currently makes its living. (Helfat & Winter, 2011, p. 32)	Silent	Alter	Alter how the firm makes its living	A firm
Leih, Linden & Teece (2014)	Dynamic capabilities are high-order capabilities that an organisation uses to shape and deploy ('orchestrate') its resource base to meet the current and anticipated needs of the market. To a large extent, such capabilities reside at the level of the top management but they also involve the entire organisation. (Leih, Linden, & Teece, 2014, p. 3)	Resource base	Shape and deploy	Meet current and anticipated needs of the market	Top management — and entire organisation

Table 1: Analysis of key DC definitions

3.1.1 What do DCs change?

The basis of DC theory is that to achieve a sustainable competitive advantage, firms can no longer rely on ownership of difficult-to-replicate assets. Firms' ability to constantly renew and refresh their resources and capabilities to adapt to changing customer and technological opportunities is critical to sustaining competitive advantage in the long run.

However, as shown above, scholars are not unanimous about exactly what DCs should work to change. Although Teece et al. (1997) prefer the term 'firm-specific assets', the terms 'resource' and 'resource base' are tightly woven into definitions of DCs as the object of the action. Resources are firm-specific assets that are: difficult (if not impossible) to imitate (Teece et al., 1997); difficult to transfer between firms because they are at least partially tacit in nature; and physical, human and organisational assets that can be used to implement value-creating strategies (Eisenhardt & Martin, 2000, p. 1107).

In contrast Zollo and Winter's (2002) definition clarifies the effect of DCs on operating routines, which they describe as: the implementation of known routines for the purpose of generating revenue and profit in the present; and patterns of interactions that provide proven solutions to specific problems (Teece et al., 1997) that include the basic routines used by a firm to ensure operational functioning throughout its value chain (H. Wilhelm et al., 2015). They represent stability in task performance, and such reliability may be the source of competitive advantage but can also lead to core rigidity if not modified to respond to new environmental trends.

Winter's (2003) definition of DCs proposes their effect on the broader concept of ordinary capabilities: behaviour that is learned and stable; founded in tacit knowledge; permits a firm to make a living; has daily routine operations that generate short-term results; and maintains the status quo (Helfat & Winter, 2011).

Tangible and intangible assets are the object of Teece's later definition (2007) of DCs. Diverging from many scholars' work at the time, which was skewed towards the study of manufacturing-based industries, Teece's definition emphasises knowledge assets over physical assets as the key drivers of competitive advantage and the main basis of competitive differentiation in many sectors. Competences, he argued, are tangible and can be durable due to the routines that support them at the organisational level.

A third category of object is the more generalised capabilities referred to in Wang and Ahmed's 2007 work. Capabilities refer to a firm's capacity to deploy resources, or combinations of resources, and identify and capture both the tacit and explicit processes and elements embedded in the processes (Wang & Ahmed, 2007, p. 35). This definition brings together several elements of the diverse definitions referred to in other important work.

3.1.2 How do DCs change these objects?

Figure 2: Actions of DCs

The actions of DCs fall broadly into three classes — building, integrating and reconfiguring the routines and capabilities outlined in the section above. Figure 2 summarises the main categories and sub-categories of actions as included in the key definitions.

Several early definitions refer to building, generating and creating routines and competences (Teece et al., 1997; Winter, 2003; Zollo & Winter, 2002). Helfat et al. (2007) are more explicit than other scholars in defining how DCs create a whole or partial resource base. While they include all forms of resource creation, including acquisition and alliancing, and development through innovation and entrepreneurial activity, the link with DCs is only explored in terms of

search and selection aspects. Fundamentally, they argue, the creation of resources regardless of the path leading to creation requires firms to search for opportunities and scrutinise options to select.

Key definitions published post-2007 exclude creation from the actions that DCs are said to influence, focusing more heavily on the actions of modification, reconfiguration and renewal. Whether this exclusion reflects a deliberate honing of the concept or an evolutionary shift in focus is not clear. However, Zahra et al.'s (2006) position on the matter is clear — the ability to develop a new product requires a new ordinary capability but DCs enable a firm to change or reform such a capability. DCs can reconfigure or alter operational capabilities (Winter, 2003), the resource base of the firm (Helfat et al., 2007), aspects of the competitive environment (Teece, 2007), and the allocation and use of resources (Easterby-Smith et al., 2009), including human capital (both managers and employees), technological capital and knowledge-based capital. Specific transformative capabilities include selectively phasing out old products, adjusting communication structures, changing business models and the deliberate shifting of organisational culture (Leih et al., 2014).

Regardless, the reconfiguration theme (and its synonyms) is strongly woven throughout all key definitions. It is universally agreed that a core purpose of DCs is to modify, alter and shape routines and capabilities (Helfat & Winter, 2011; Leih et al., 2014; Winter, 2003; Zahra et al., 2006). Reconfiguration of the nature of the resource base should be distinguished from both incremental adaptation (Ambrosini et al., 2009) and ad hoc problem-solving (Winter, 2003) in that it is a patterned, directional and repetitious routine. Profitable growth and 'evolutionary fitness' rely on top management's ability to recombine and reconfigure resources as the customer's needs change, structures grow and markets change (Teece, 2007).

Teece (2007) concludes that the managerial skills required to successfully 'sense' are different from those required to successfully reconfigure. Although all capabilities require an entrepreneurial approach, he suggests that it is unlikely that individual managers will be strong in all three areas, and therefore the CEO must ensure that all bases are covered. In contrast, the concept of resource integration, coordination or a combination as the action of the DCs is not deeply explored in the literature. Early definitions point to how effectively and efficiently internal or external resources can be integrated (Leih et al., 2014) as the measure of integrative capability. Eisenhardt and Martin (2000) provide examples of DCs that integrate capabilities, including product development routines that draw together managers' diverse

skills, knowledge and backgrounds to create products and services. Managers' ability to pool expertise that results in strategic decision-making is also an example of integrative capabilities.

The definitions of DCs have become more generalised as the literature on the subject has matured. For instance, Helfat and Winter's (2011) definition simply states that DCs enable a firm to alter how it currently makes a living, and categorises DCs into market access capabilities and integrative capabilities.

3.1.3 Who enacts the change?

In contrast to some aspects of the DC construct that have converged to reach a form of agreement in the literature, scholars continue to have divergent views about whether the manager or organisation is the primary agent of DCs. The basis of the debate is whether managers can strongly influence the fit of the firm with its changing environment through strategic decisions and actions, or whether the firm's resource constraints, paths and institutionalised norms are the key determinants of the firm's ability to flex to its environment (Wiersema & Bantel, 1993).

Content analysis shows scholars generally favour organisations in the pivotal role (Di Stefano et al., 2014), which is consistent with definitions by Teece et al. (1997), Eisenhardt and Martin (2000), Zollo and Winter (2002), Helfat et al. (2007) and Helfat and Martin (2011). This view is that DCs are distinctive competences embedded in processes at the firm level and depend on the firm's paths and asset position (Eisenhardt & Martin, 2000; Teece et al., 1997; Zollo & Winter, 2002), excluding management decision-making as a relevant factor.

Others argue that interest in the manager's role is warranted because a firm's DCs are not shaped in isolation. Strategic decisions are not made by a 'disembodied decision-making process' that takes place at the top of an organisation (Adner & Helfat, 2003, p. 1012), as such decisions are made by the people who manage the firm.

Building on this logic, Zahra et al.'s (2006) definition was among the first academic work to credit managers with having a role to play in DCs. Rather than explicitly placing managers as the agent of DCs, their definition ties the direction of the capabilities to the opinions of the principal decision-maker, whose perceptions of resources within the firm, knowledge of the external opportunities, motivations, willingness and ability to change shape the creation and

use of DCs (Ambrosini & Bowman, 2009; Zahra et al., 2006) and constrain or enable the firm's growth (Ambrosini & Bowman, 2009; Aragón-Correa & Sharma, 2003; Penrose, 1959).

Managers use DCs to redefine the growth and scope the boundaries of the firm and reposition it in response to changes in the environment. So while much of the literature refers to firms' DCs, it is acknowledged that individuals, and their choices and actions, make a difference (Ambrosini et al., 2009) because their perceptions of the internal and external environment may not always be accurate and may lead to the inappropriate deployment of DCs.

Wang and Ahmed's (2007) research model of DCs defines the firm's 'behavioural orientation' as central to the utilisation of DCs, although they do not go on to explore the concept any further. The *Merriam-Webster Dictionary* definition of the word orientation refers to 'general or lasting direction of thought, inclination or interest' (Merriam-Webster, 2015). Coombes, Morris, Allen, and Webb (2011) describe a firm's behavioural orientation as a fairly stable collective tendency towards certain behaviours. Although some researchers may see orientation as a representation of the firm's culture, others see orientation as an adaptive mechanism (Hakala, 2011).

Teece's more recent collaborative work (Leih et al., 2014), however, is explicit that DCs reside at the level of top management, in contrast to his earlier definition that referred to 'the ability of an organisation' (Teece, 2000, p. 42). A significant body of literature supports the claim that DCs are high-order capabilities that reside at the level of the top management team (Leih et al., 2014), are grounded in top management's skills and that managerial choice must be the focus of any robust discussion about DCs. More research on the influence of managers' beliefs, thought processes and state of mind about the use and development of DCs is warranted (Ambrosini & Bowman, 2009; Easterby-Smith et al., 2009).

3.1.4 Why deploy DCs to change?

The literature does not present a unified view about whether DCs' primary objectives are to deliver sustainable competitive advantage, achieve a strategic purpose or to facilitate changes in response to the external environment (Di Stefano et al., 2014). As acknowledged by Andersén (2011), the step from possessing a strategic resource (such as a DC) to seeing evidence of the impact on firm performance is complex and cannot be singularly responsible for creating and ensuring performance advantages.

Early definitions stress that the purpose of DCs is to achieve 'congruence with the changing business environment' (Teece et al., 1997) and 'match and create market change' (Eisenhardt & Martin, 2000, p. 1107).

Eisenhardt and Martin (2000) argue that DCs can drive the reconfiguration of resources into competitive advantage, but do not alone provide competitive advantage. DCs can be generic 'best practices' within an industry, which therefore afford no advantage to a particular firm over its competitors.

Peteraf and Barney (2003) take a more qualified stance by arguing that the extent to which DCs contribute to competitive advantage should be evaluated against their contribution to value creation, rather than financial returns. Winter (2003) is sceptical that DCs automatically lead to sustainable competitive advantage. The cost of developing a DC relative to the opportunity to use the capability can limit its benefit and put the firm at a financial disadvantage to its competitors who have not committed to a similar investment. The link between DCs and firm performance is complex and path-dependent, but DCs can only lead to better firm performance if aligned with the firm's chosen strategic direction. Furthermore, some scholars suggest that DC development is not likely to result in improved firm performance immediately and warn that firms should tie capability efforts to a consistent long-term vision and not give up at the first sign of failure (Simon et al., 2015).

Although Zollo and Winter's (2002) definition is clear that DCs result in improved effectiveness, the effectiveness gains depend on the features of the operating routines being modified. For instance, modifying heterogeneous tasks that are carried out relatively infrequently may be more beneficial to the organisation than investing in the knowledge codification of frequently used operating procedures. Such arguments must be balanced against the cost of developing capabilities that are infrequently exercised, or they simply become a cost burden (Winter, 2003), or they become rusty due to lack of practice.

But Zahra et al. (2006) clarify that most studies examine DCs post-hoc, inferring their existence from successful outcomes, including profitability and growth. This view makes it almost impossible to separate their existence from their effects. They argue that DCs do not guarantee organisational success or survival, but rather enable firms to pursue opportunities

in new and potentially more effective ways than they had when relying on their existing resources and routines.

Zahra et al.'s (2006) definition of DCs adds to the principle of changing an existing routine by qualifying that the modification must be aligned to the priorities of senior management. This conveys a deliberate directional dimension to the development of DCs that was then taken further in Helfat et al.'s (2007) definition, which specifically refers to the purposeful creation, extension or modification of the resource base. Wang and Ahmed (2007) further clarify the role of firm strategy in steering the development of DCs, and the inevitable trade-off that firms make when choosing to follow one strategic path over another.

The post-2007 wave of definitions specifically mentions competitive advantage as the aim of DCs. This qualification in the literature recognises that marketplace leadership relies not only on its resources, but also on a firm's ability to respond swiftly to the market with new products and the redevelopment of competences.

DCs in and of themselves do not provide sustainable competitiveness as they are always at risk of being superseded by competitive actions, including higher-level capabilities (Collis, 1994). Advantage is sustained through the continual alteration of the capabilities of the firm to create resources that enable it to outperform competitors. Competitive advantage is achieved through 'a continuous sequence of temporary short-lived advantages' (Ambrosini & Bowman, 2009, p. 43).

Illustrating that there are not two opposing views as to whether DCs do or do not lead to improved firm performance, Ambrosini and Bowman (2009) provide four possible outcomes along a continuum. At one end, DCs lead to sustainable competitive advantage if the resource configuration remains unique for some time and profits are sustained. The advantage may be temporary in hyper-dynamic and competitive markets, DCs may grant a firm the ability to operate effectively rather than comparatively, and the use of DCs may cause a firm to fail if the capabilities no longer bear relevance to the market conditions.

3.2 Dimensions of DCs

3.2.1 Hierarchies of capabilities

A picture is emerging from the literature of capabilities as hierarchies and their relative roles. It is important to distinguish between the subset of 'ordinary', 'first or zero order' and 'substantive' capabilities, and their 'dynamic' capability relatives.

The literature seeks to clarify the ambiguity around capability types, their contribution to competitive advantage, the ability to change and mechanisms of action (Hine, Parker, Pregelj, & Verreynne, 2014). Scholars generally agree that a difference between lower-order capabilities and DCs exists, but they have a less commonly shared view of the outputs and performance contribution of higher-order capabilities. As shown in Table 2, other scholars propose more granular hierarchies of capabilities that are not uniform about what the definition of each level of capability is.

	Collis (1994)	Winter (2003)	Wang & Ahmed (2007)	Ambrosini et al. (2009)	Hine et al. (2013)	Teece (2014)
Third order	Strategic insights that enable the firm to recognise the value of resources or develop novel strategies before competitors.	Dynamic capabilities that change the product, production process, scale or markets served.	Dynamic capabilities: constant pursuit of renewal, reconfiguration of previous three orders of capabilities to address environmental change. Conductive to long-term performance.	Regenerative dynamic capabilities impact the previous two set of dynamic capabilities.	Dynamic learning capabilities: focus on creating new capabilities and acting through existing capabilities to impact outputs and performance. Relevant in high-velocity environments.	Dynamic capabilities involve activities that enable a firm to reorient its ordinary activities and toward high pay-off endeavours. This requires orchestrating the firm's resources to address and shape rapidly changing business environments
Second order	Capabilities leading to dynamic improvement of the firm.		Core capabilities: Bundle of resources and capabilities that are strategically important at a point in time. Can provide competitive advantage or become a core rigidity.	Renewing dynamic capabilities: Refresh, adapt and augment the resource base.	Dynamic functional capabilities: Change focused-capabilities that are directly responsible for outputs and performance in dynamic environments.	
First order	Capabilities to perform the most basic functional activities of the firm more efficiently than competitors.		Capabilities: Ability to deploy resources to achieve a goal. Can improve performance.	Incremental dynamic capabilities: Continuous improvement of firm's resource base.	Ordinary capabilities: Not change-focused.	
Zero order		Capabilities used in a stationary process — how we earn a living now.	Resources: Can be a source of competitive advantage when demonstrating VRIN traits, but do not provide sustainable competitive advantage.		No impact on competitiveness.	Ordinary capabilities involve performing administrative, operational and governance-related functions necessary to accomplish tasks.

Table 2: Typologies of capability hierarchies

Collis's (1994) early work first split DCs into four categories, with the lowest category reflecting the ability to perform the basic functions of the firm, but his work was largely ignored until Winter (Winter, 2003) conceptualised the contrast between ordinary or zero-level capabilities and DCs in 2003. Winter proposed that researchers rely on the heuristic to distinguish zero-level capabilities from DCs as those used by a firm when it continues to earn a living by 'producing and selling the same product, on the same scale to the same customer population over time' (Winter, 2003).

Wang and Ahmed (2007) take a more granular approach to categorising capabilities. They classify capabilities into a hierarchy of four, ranging from 'zero-order' resources that provide the basis of the firm's operation through to 'third-order' capabilities that encapsulate how a firm renews itself to meet the needs of a changing environment. As shown in Figure 3, the hierarchy can be seen as a wedge, with the scarcest and arguably competitively most valuable third-order DCs at the tip.

Figure 3: Adapted from Wang & Ahmed (2007), Madhavaram & Hunt (2008) and Wang, Senaratne & Rafiq (2014)

Jiang presents the four-level hierarchy in a pyramid (Jiang, 2014, p. 26), reflecting third-order capabilities as the most scarce of capabilities. He draws on Madhavaram and Hunt (2008) work to argue that as a firm's capabilities ascend the hierarchy, the greater the effect on the strategy of the firm, the greater the sustainability of competitive advantage, the greater the cost and time of acquiring or developing capabilities and, ironically, the more difficult it is to

measure. It is important to note that each level of capability requires the lower-order capabilities to be managed successfully (Hine et al., 2014) in order to realise value from the next level capability.

Despite arguments for a hierarchy of capabilities, Teece (Teece, 2014b) asserts that little is to be gained from a granular typology, and that distinguishing between ordinary capabilities and DCs is adequate analysis. Regardless of attempts to delineate categories of capabilities, Helfat and Winter (2011) stress that the lines are unavoidably blurry — even when the categorisation is limited to operational capabilities and DCs. Their reasoning is that change is always occurring at some level over some time period, so operational capabilities can never be truly static. Referring to the radical nature of change often associated with higher-order DCs, they argue that DCs often support far from radical changes in the short run. To therefore categorise capabilities as ordinary because of the absence of observably radical shifts may miss their potential benefits to the firm (Helfat & Winter, 2011).

Further, firms' external environments can moderate the value of DCs, particularly the effects of environmental dynamism, uncertainty, complexity and munificence (Aragón-Correa & Sharma, 2003; Barreto, 2010). Adding to the complexity of developing clear delineation, conceptual distinctions depend on DCs' role in influencing change within a particular firm (Makkonen, Pohjola, Olkkonen, & Koponen, 2014).

3.3 Teece's classes of DCs

Teece's ubiquitous sensing, seizing and transforming framework (2007) of DCs suggests a sequential, linear progression of routines (Feiler & Teece, 2014; Teece, 2014a), as shown in Figure 4.

offering similar products in similar geographic markets (Peteraf & Bergen, 2003). Other cognitive biases include bounded rationality and inconsistent risk aversion because framing interacts with existing capabilities to reinforce biases and limit the boundaries of search for innovation (Teece, 2002). Such biases lead the management to interpret the competitive environment narrowly, restricting the options considered by decision-makers and limiting the optimal scanning required to search for important shifts in market dynamics (Ibid).

Learning

The organisational learning literature is extensive, largely because a firm's learning orientation has been shown to have a direct and positive influence on performance, market share, financial results and new product success (Argyris, 1978; Celuch, Kasouf, & Peruvemba, 2002; Che-Ha, Mavondo, & Mohd-Said, 2012). Calantone, Cavusgil, and Zhao (2002, p. 516) describe a firm's learning orientation as an 'organisation-wide activity of creating and using knowledge to enhance competitive advantage'. A firm's learning orientation is a capability (Celuch et al., 2002) that encapsulates what information is gathered, and how it is interpreted, evaluated and shared (Calantone et al., 2002).

Other scholars include the extent to which a firm's values encourage the critically evaluating impact of the status quo on organisational performance and open-mindedness (Argyris, 1978; Sinkula, Baker, & Noordewier, 1997) as indicators of learning orientation.

Interpreting

Interpretation and problem-solving skills are critical to help managers make sense of market changes, no matter how subtle the shift. Such skills usually reside in top management, who must find ways to 'peer through the fog and gain insight' (Teece, 2007, p. 1326).

Problem formulation or framing is well established in the literature as a critical activity in strategic decision-making (Shrivastava & Grant, 1985; Thomas, 1984) because it determines what problem is being addressed. However, because strategic problems are often unstructured and ill defined, the solution depends on the interpretation of the problem, as it determines the search parameters and therefore the opportunity to create valuable solutions.

Impediments to correct problem formulation include the management's bounded rationality and biases such as anchoring, groupthink, confirmation bias and primacy, which limit the definition of the problem and can lead to the wrong problem being solved (Nickerson, Yen, & Mahoney, 2012).

Creating

Many scholars agree with Teece that strategy-making is an inherently creative process (Dewett, 2004; Kuhn, 1988; Smircich & Stubbart, 1985). Creativity is defined as the production of novel and useful ideas by an individual or small group of people working together (Dewett, 2004; Woodman, Sawyer, & Griffin, 1993). Arguably, the ability to create a hypothesis about how a trend is likely to transform into an opportunity is most valuable and most difficult to replicate.

A creative outcome comes from synthesising information drawing on intuition, creativity and learning, in contrast to traditional strategic planning, which scholars argue relies on *analysis* of information (Geissler & Kryz, 2013). Kuhn (1988) clarifies that for strategic management to be 'strategic', by definition it must be 'creative' based on either the personal creativity of specific managers or by managers who are adept at fostering creativity in others.

Dewett (2004) describes constraints to creative decision-making by top management teams. At an individual level, he argues that managers may be affected by a framing bias in that they are more likely to see issues as threats than opportunities, which limits the type and number of solutions generated. This naturally flows through to the dominant paradigm of the group. The political climate within the management team also affects the process of generating strategic alternatives, suggesting that the risk people feel within a group outweighs the benefits of diverse cognitive input into solutions.

3.3.2 Seizing

The second class of capabilities involves mobilising resources to develop new products, processes or services once a new opportunity has been sensed (Teece, 2007). Seizing capabilities are founded on making high-quality, interdependent investment decisions about strategic paths and how to capture value (Hodgkinson & Healey, 2011).

Evaluating

Before a firm can deploy value-capturing capabilities, it must be able to evaluate sensed opportunities and threats and have robust decision-making processes to consider investment path options given multiple choices. To do so, firms must 'unlock dysfunctional fixations with existing strategies' and put in place processes to overcome biases and shortcomings associated with heuristics (Hodgkinson & Healey, 2011). Teece (2000) also argues that the capability to make unbiased, high-quality investment decisions with imperfect information is rare.

Deciding

Teece (2007, p. 1327) describes managers' ability to override dysfunctional features of a firm's decision rules and resource allocation norms as an important class of DCs. In well-established firms, such dysfunction can be rooted in hierarchical decision-making processes that are biased against innovation.

Beck and Wiersema (2013) argue that management decisions form the firm's strategy, and differences in decision-making ability partially explain why firms' financial performance varies. Although initial market positions and paths open or constrain managers in adopting some options, management decisions affect the composition of the resource portfolio, as well as how resources are deployed now and in the future.

Behavioural finance theory helps explain flaws in managers' investment decision-making behaviour. The literature is extensive on the effect of bounded rationality, heuristics and biases for the quality of decisions relating to investment choices. In contrast, the contemporary neuroscience literature claims that emotion is central to skilled decision functioning (Hodgkinson & Healey, 2011), and calls for managers to harness both reflexive and reflective abilities, while drawing on complementary implicit and explicit cognitive and emotional processes to make strategic decisions.

Designing

Selecting product architectures and business models that deliver value to customers and shareholders is the micro-foundation of the seizing capability and 'foundational to DCs' (Teece, 2007, p. 1330). Academic interest in innovation in business model design is increasing (Casadesus-Masanell & Zhu, 2013; Hacklin & Wallnöfer, 2012) because the same idea or product delivered through two different business models will yield two different economic yields (Chesbrough, 2010). Designing a new business model requires managerial creativity, insight, information about customer needs and behaviours, the capabilities of competitors and suppliers, and the ability to turn data into intelligence.

Business model design makes assumptions about revenues and costs, and competitor and customer behaviour, to develop a profitable approach to going to market. Companies commercialise new ideas and technologies through their business models (Chesbrough, 2010). Their functions include: articulating the value proposition; identifying the target market; defining the structure of the value chain; detailing the revenue mechanism; estimating the

cost and profit potential; and formulating the competitive strategy that captures and maintains competitive advantage.

3.3.3 Transforming

Teece describes the third class of capabilities as 'managing threats', 'asset orchestration', 'reconfiguring' and 'transforming' interchangeably throughout his published work. His most recent publications settle on 'transforming' as shorthand. The transforming capability enables the firm to recombine and reconfigure tangible and intangible assets and organisational structures in order to maintain competitiveness and guard against, or to 'soften' (Teece, 2011, p. 1), the core rigidities that can lock a firm competing in a changing environment on an unfavourable path (Leonard-Barton, 1992; Teece, 2007). The speed at which the firm is able to realign its resources to be consistent with its strategy, and current and future changes in the environment, determines the strength of its 'transforming' dynamic capability (Teece, 2014b).

Innovating

Superior resource allocation routines result in scarce resources, such as capital being moved from central points in the hierarchy to activities supporting innovation. In contrast, routines that restrict resource allocation may stifle potentially disruptive innovation (Thomond & Lettice, 2006), usually arising from path dependencies that lock the firm into satisfying existing stakeholders.

Reconfiguration of resources includes routines for the replication and brokering of knowledge-based assets in particular, drawing on recombining internal and external knowledge to create value. Called 'co-evolution' (Eisenhardt & Martin, 2000, p. 1107), such capabilities are particularly important for path-breaking ideas, which require quickly amassing co-specialised and complementary assets to create new markets (Pitelis & Teece, 2010). Co-creation results from collaboration with suppliers, customers, and other stakeholders to combine property and knowledge resources to innovate with the intent of creating economic rents (Kim, Song, & Triche, 2014).

Absorptive capability focuses on evidence of learning from external information, being able to integrate new learning into firm-embedded knowledge (Wang & Ahmed, 2007), and the ability of the firm to reflect on failure, success or experimentation (Ambrosini & Bowman, 2009). Such learning processes support firms converting their external knowledge into innovations, by mobilising the combinative capabilities that describe how the firm systematises, coordinates and socialises new knowledge (Zollo & Winter, 2002).

Acquiring

Karim and Mitchell (2000) argue that firms use acquisitions as a catalyst for substantial change to their business that may not be possible with incremental internal resource reconfiguration. Their empirical work found that firms predominantly acquire new resources to reinforce existing skills, or for leaps into new skill-sets, but rarely for an incremental move away from existing skills.

Teece (2007) emphasises the role of acquisition in relation to accumulating co-specialised assets. The value of a co-specialised asset is when it is used in combination with existing resources to produce unique cost savings or differentiated products. The DC is in the management's ability to identify, develop, and combine assets, either built or bought.

Integrating

Integration capability relates to the firm's ability to integrate its assets and resources to produce new value-creating resource configurations (Ambrosini et al., 2009).

Strong integrative capabilities are founded on effective communication and coordination across intra-firm boundaries. Ambrosini and Bowman (2009) highlight the role of managers in effectively facilitating the acquisition, integration and release of resources. Managers' internal and external networks provide channels for sharing information, collaboration and problem-solving that helps others understand resource reconfiguration.

Woiceshyn and Daellenbach's (2005) empirical study found that strong internal integrative capabilities are supported by the firm's knowledge system, including supportive values and managerial systems that promote learning. Such firms usually demonstrate strong commitment to external integration activities (search routines), which improve internal integration (through communication, data collection and problem-solving), and strategic commitment to the investment.

The ability of the CEO and top management team to transform and reconfigure assets depends heavily on their ability to persuade others to adopt different courses of action and view the environment through a different lens (Leih et al., 2014). Key leaders play a critical role in putting in place systems that encourage and support individuals to develop new ideas, 'build energy' for those ideas throughout the organisation, and recognise and reward adaptable behaviour (Gibson & Birkinshaw, 2004). Without such support, new ideas risk failing to be supported with adequate resources and strategic coherence may be compromised.

4 What is left to be studied?

Chapter 4 brings together the literature on the application of the DC theory to PSFs and provides a summary of the extant literature on important elements including the triggers, antecedents and inhibitors of DC development. This chapter concludes with a discussion of the research gap that will be addressed in this thesis.

4.1 Relevance of the DC concept to PSFs

The DC view is well explored in the mainstream strategy literature and does not show a bias towards the application of the DC construct in either product or service-based industries. However, empirical research has to date been heavily skewed towards studies of how DCs are deployed in industrial and consumer product firms. Very little DC literature focuses specifically on the service firm context (den Hertog et al., 2010; Salunke, Weerawardena, & McColl-Kennedy, 2011).

As shown in Table 3, few empirical studies to date have studied business-to-business products or services, and even fewer have addressed the role of DCs in PSFs. Yet PSFs play a significant role in the economy as suppliers of knowledge-based solutions for business challenges (Huggins & Weir, 2012).

Scholars acknowledge that the tasks, characteristics and challenges of PSFs render much of the traditional organisational theory not directly applicable (Greenwood & Suddaby, 2006b). Furthermore, PSFs are highly successful examples of knowledge-intensive businesses (KIBs), which are likely to feature prominently in future economies. Understanding the nature of their managerial challenges will be useful for practitioners as KIBs grow in significance.

An opportunity exists to test elements of key DC definitions in the under-researched professional services context. Assessing the extent to which the DC frameworks transfer into PSFs, and what sub-elements are most prominent, will be a significant addition to the strategic management literature.

Study

Verona and Ravasi (2003)

Industry focus

Hearing-aid industry

Pandza and Holt (2007)	Nanotechnology
Døving and Gooderham (2008)	Accounting firms
Danneels (2008)	Manufacturing firms
Ellonen, Jantunen, and Kuivalainen (2011)	Publishing
Pavlou and El Sawy (2011)	New product development teams in manufacturing and consumer products industries
Jantunen et al. (2012)	Magazine publishing
Protogerou, Caloghirou, and Lioukas (2012)	Manufacturing firms
Aramand and Valliere (2012)	Software development firms
Doordarshi, Jaspreet Singh, and Inderpreet Singh (2013)	Manufacturing firms
Kindström, Kowalkowski, and Sandberg (2013)	Product-centric firms' transition to service firms
Naldi and Wikström (2014)	Audio-visual production
Sune and Gibb (2015)	Airline industry
Jantunen et al. (2018)	Media industry
Rodrigo-Alarcón, García-Villaverde, Ruiz-Ortega, and Parra-Requena (2018)	Agri-food industry

Table 3: Summary of empirical research on DCs

4.1.1 Characteristics of PSFs

PSFs are distinct from other firms — even service firms — and demand distinctive theories of management due to their unique environments (Greenwood, Li, Prakash, & Deephouse, 2005; Hinings & Leblebici, 2003; Von Nordenflycht, 2010). Characteristics of PSFs include: a heavy reliance on their expert workforce to determine performance (McClean & Collins, 2011); their high knowledge intensity, low capital intensity, asymmetry of expertise between professionals; and their non-expert clients (Von Nordenflycht, 2010). The outputs are 'intangible services encoded with complex knowledge', making it difficult for clients to evaluate their competence (Greenwood et al., 2005, p. 661), and a high dependence on their 'human assets' results in unusual organisational structures designed to retain qualified people who possess strong relationships with clients (Greenwood et al., 2005; Starbuck, 1993).

A particular characteristic directly relevant to the DC framework is the challenge of retaining and directing professionalised employees (Von Nordenflycht, 2010). Possessing substantial human capital that is both scarce and transferable across firms, such employees are in a strong bargaining position relative to the firm. They also have a strong preference for autonomy and may resist direction, supervision, and formal organisational processes (Greenwood & Empson, 2003; Starbuck, 1993). Further unique characteristics of PSFs include

the partnership structure as an incentive for loyalty and normative controls used as the basis of control of professionals.

Døving and Gooderham's (2008) empirical study of accounting firms suggests that in highly-regulated professions such as accounting (or law), human resources (HR) are homogeneous across firms. Therefore, they argue, the production of standard accounting advice can be classified as zero-order capabilities under the DC model. Higher-order capabilities in this context are based on the process of altering the service portfolio, as well as selecting, developing and deploying the HR necessary to deliver the services.

Unlike manufacturing companies, PSFs, and law firms in particular, are not known for their focus on research and development (R&D) policies and codified processes. Service companies tend not to commit specific resources for investment in R&D, because innovations are usually reactive to changes in client demand or the availability of new delivery methods such as ICT (Ettlie & Rosenthal, 2011). Therefore, to detect DCs in law firms, it is important to focus on management behaviours and tacit elements such as know-how and leadership rather than searching for more codified mechanisms that are unlikely to exist.

4.1.2 What are a PSF's resources?

The definition of resources that DCs modify is set out in section 3.1.1. In summary, a firm's resource is the firm-specific assets that are difficult to imitate (Teece, 2007). While a great deal of the DC literature focuses on resources such as technological know-how, a different set of resources must be bundled and leveraged within PSFs to achieve competitive advantage (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006). Three such important resources for PSFs are knowledge, human capital and relational capital. A PSF's tacit knowledge is usually embedded in uncoded routines (Liebeskind, 1996). Many scholars argue that knowledge is one of the most critical competitive assets that a PSF possesses (Hitt, Bierman, Shimizu, & Kochhar, 2001).

Knowledge resides within the partners and staff of the firm and is based on their legal expertise and experience, and also on their ability to deliver customised solutions for each client's unique situation. Starbuck (1993) describes knowledge as the most important *input* for PSFs — providing the basis for the *output* that is highly-customised complex knowledge for client problems.

Human capital is a PSF's most valuable resource (Hitt et al., 2001). Human capital is defined as 'law firms' ... professional employees' accrued expertise and experience' that is leveraged to provide 'information, knowledge and advice related to legal questions' (Hitt et al., 2006, p. 1138). The professional workforce is a critical resource of the PSF because it embodies, operates and translates the firm's knowledge resource into valuable output.

The workforce is also pivotal because it is the vehicle through which client relationships are built and retained. Therefore, the firm's ability to recruit, retain and motivate professionals is a critical competence of the successful PSF. While the primary resource for professional service delivery is the knowledge that resides in the human capital (partners and other professionals) within the firm, it is important to acknowledge that legal services is also about the business of relationships according to Spar (1997), and relational capital is one of the most important assets of the firm.

According to academics, another important capability held by PSFs is the capability to develop effective, long-term relationships with clients (Greenwood et al., 2005; Hitt et al., 2006; Zander & Zander, 2005). Relational capital, also referred to as social capital, is knowledge embedded in relationships with external stakeholders and is difficult to codify (Mention, 2012), making it a valuable and impossible-to-replicate resource.

4.2 What do we know about PSFs' DCs?

Salunke et al. (2011) study of project-based service firms found that the most innovative service firms build and nurture a set of DCs that enable them to demonstrate higher levels of innovation than their competitors over a sustained period of time. The three DCs of the service innovation model developed by Salunke et al. include dynamic client-focused learning capability, episodic learning capability and relational learning capability. They argue that managers should consciously invest in building and strengthening these learning capabilities, together with a conscious orientation towards innovation.

The literature is unequivocal that a critical DC necessary for service innovation is the firm's (and its managers') ability to engage and manage networks in order to co-produce across internal and external boundaries (Renu Agarwal, Selen, Sajib, & Scerri, 2014; den Hertog et al., 2010). Alliances is a common theme in the mainstream DC literature (Eisenhardt & Martin, 2000; Schilke, 2014), but in the service context the importance of relationship capital (Renu Agarwal & Selen, 2009) as the enabler of collaboration is heightened.

For PSFs, diversification into innovative service areas is a key mechanism by which firms adapt to changes in their environment and to shifts in their resource base. Such diversification usually requires structural adjustment to the firm manifested through new practice groups formed to pursue market share. In order for the firm to successfully innovate and diversify into new areas, proponents of diversification must be skilled in convincing insiders that opportunities exist and that influential outsiders also support change (Anand, Gardner, & Morris, 2007). According to Døving and Gooderham (2008), DCs are necessary for PSFs that seek to diversify beyond a narrow, regulated set of services. DCs are required to undertake internal professional development of employees in order to ensure that human capital continually evolves. Their study specifically addresses the importance of PSFs having processes for developing alliances with complementary service providers to augment the firm's service portfolio.

A study that illustrates how a firm deliberately learns from experience in international expansion by selecting managers to lead new foreign offices shows an iterative approach to developing, revising and finalising its requirements for human capital (Bunz, Casulli, Jones, & Bausch, 2017). The study finds that PSF decision-makers can develop the DC of experiential learning by understanding the limits of their existing knowledge, developing criteria for strategically important decisions, and making a deliberate choice to regularly review and update these criteria in the light of real-world experience.

4.3 Triggers for development of DCs

Most of the conceptual literature is positive that external factors act as triggers for the development of DCs (Eisenhardt & Martin, 2000; Zollo & Winter, 2002). Few empirical studies have addressed the relative triggering effect of external or internal factors (T. Eriksson, 2014). External factors that act to trigger DCs include turbulence in institutional, industry, market, or technological factors in a firm's context (Donada, Nogatchewsky, & Pezet, 2016).

Zahra et al. (2006) introduce alternative reasons for a firm developing DCs aside from environmental turbulence, although they are one of the few groups of scholars to acknowledge non-environmental drivers. They argue the legitimacy of developing DCs in response to internal pressures towards change, a perception of external change that may be incorrect, or learning about external conditions for the first time. Other internal factors or conditions that prompt DC development include social drivers such as a firm-level market

orientation (Jantunen, Puumalainen, Saarenketo, & Kyläheiko, 2005) or top managers' entrepreneurial orientation (Boccardelli & Magnusson, 2006). Managers' beliefs about the success of their organisation and their perceptions of dynamism in the firm's environment influence their decisions to develop DCs (Ambrosini et al., 2009). Managers' perceptions of predictability and the stability of the environment (whether affected by cognitive biases or correct) determine whether the firm develops and deploys DCs (Adner & Helfat, 2003).

The literature is consistent that the generation of DCs will usually only happen when extremely necessary because of the costliness and potential to undermine the performance of the firm if used unnecessarily. Barrales-Molina et al. (2014) study found that managerial perception of environmental conditions, albeit potentially flawed, determines whether DCs should be deployed or not. Renewal processes begin only when managers correctly perceive changes in the firm's competitive situation and believe that change is warranted, even if the environment is — or has been — dynamic as determined by a number of objective measures (Eisenhardt & Martin, 2000; Helfat et al., 2007). Further, how managers perceive the complexity, uncertainty and munificence of competitive dynamics affects the decisions they make about developing DCs (Aragón-Correa & Sharma, 2003). Therefore, a firm's success reflected the degree of alignment between the management's perception of the environment and the objective reality, and a poor match will be detrimental to the firm's long-term performance because of the influence that management decision-making has over the development and deployment of DCs.

Teece is unequivocal in his claims that DCs are necessary to sustain superior performance in environments characterised by rapid technological change (Teece, 2007, 2012; Teece et al., 1997). Wang and Ahmed (2007, p. 40) propose that the more dynamic a market environment, the stronger the drive for firms to exhibit DCs in light of external changes because of the necessity to frequently change their operating routines to meet environmental requirements.

Environmental dynamism describes unpredictable change that increases managers' uncertainty (Dess & Beard, 1984), and is affected by a range of market factors including market life cycle stage, customer preferences, industry concentration, technological sophistication and barriers to entry (Hine et al., 2014; H. Wilhelm et al., 2015). Eisenhardt and Martin (2000) explain that the non-linear and unpredictable nature of change in high-velocity markets means that linear, time-consuming problem-solving and decision-making processes are not adequate for firms competing in such markets. DCs in such environments rely less on

existing knowledge and more on using simple routines to create new knowledge that responds to the dynamics of the situation at hand.

One of the arguments for building and developing DCs in response to a burning platform for change relates to the costs associated in order to significantly benefit from DCs (Schilke, 2014). However, very few scholars refer to the direct costs associated with market scanning, developing new resources and reconfiguring existing resources, making it difficult for managers to fully understand the cost implications and for academics to validly argue that costs may outweigh benefits. The few studies that do refer to the costs of DCs mention: the costs of the disruption of existing capabilities (Winter, 2003); imitation and experimentation costs, which include acquiring, understanding and assimilating new know-how (Zott, 2003); the cost of transforming knowledge from an individual into codified manuals and other process-specific tools (Zollo & Winter, 2002); and the costs of reconfiguring activities, which includes change and opportunity costs for business interruption (H. Wilhelm et al., 2015). Helfat and Winter (2011) point out that much of the upfront cost of developing DCs is likely to be sunk, and therefore revenue gains from new and improved products and services must be used repeatedly to justify the outlay.

The cost of developing DCs for infrequent use outweighs the advantage over ad hoc problem-solving according to Winter (2003). Therefore, firms competing in relatively stable environments may benefit less from the development and maintenance so DCs, as strategic choices and goals, remain in place for relatively longer timeframes (H. Wilhelm et al., 2015).

However, in an incrementally changing environment, misalignment between a firm's capability and the requirements of the environment takes longer to detect, which also puts the firm at risk of becoming irrelevant. Firms competing in less dynamic environments, particularly if they have enjoyed considerable success, risk reinforcing the competencies, capabilities and cultures to which they credit their success (Cyert & March, 1963; D. Miller, 1992), and fail to detect when they become 'too much of a good thing' (D. Miller, 1992, p. 31).

4.4 How do firms develop DCs?

Empirical studies about how DCs emerge is limited (Bowman & Ambrosini, 2000; Felin, Foss, Heimeriks, & Madsen, 2012), despite Schilke, Hu and Helfat's (2018) recent content analysis finding 80 articles calling for greater elucidation of the antecedents of DCs. To answer this

call, Schilke et al. (2018) bring together existing literature to build a typology of antecedents at organisational, individual and environmental levels.

A body of literature suggests three primary foundational capabilities that help firms develop DCs: learning, leadership, and integrative capabilities (Easterby-Smith & Prieto, 2008; Jiang, 2014; Ma et al., 2015; Zollo & Winter, 2002). In addition to these capabilities, the firm's path — its experience, investments and routines — shape the trajectory of its future behaviours and choices (Schilke et al., 2018; Teece et al., 1997). More recently, Schilke et al. (2018) cite 19 studies that identify characteristics of organisational culture, including intraorganisational communication and external orientation that affect the development of DCs. Figure 5 summarises the extant literature on the antecedents to DC development.

Figure 5: Summary of antecedents to DC development

Less clear is the relationship between the core rigidities that stifle the emergence of DCs and the factors that stimulate their emergence. Leonard-Barton (1992, p. 118) is clear that core rigidities are not neutral, but that they 'actively create problems'. Rigidities actively work to resist change and prevent the development of new products and processes (Delmas, 2002), and constrain adaptation, even when faced with the threat of discontinuous change (Gilbert, 2005). Factors such as structural inertia, no ability to un-learn obsolete routines, escalated commitment of leadership and locked-in resources may hold back previously successful firms from sensing environmental change and adapting resources.

This section aims to deepen the understanding of how DCs emerge and the factors that may stimulate or inhibit their emergence.

4.4.1 Learning

Learning is the process that uses experimentation and practice to improve how quickly and well a task is performed, and to identify new opportunities (Teece et al., 1997). Learning mechanisms are critical to enable a firm to understand environmental dynamics and modify its routines (Zollo & Winter, 2002), and lead to the development of DCs in that they enable a firm to recognise dysfunctional routines and challenge its tunnel vision (Teece et al., 1997). Furthermore, organisational learning helps adapt managerial mindsets related to sensing and seizing new opportunities, and commitment to achieving a new purpose and identity that better fits the environment (Zollo, Bettinazzi, Neumann, & Snoeren, 2016). However, organisational learning is fundamentally a political process that can be frustrated or accelerated by the inertia of the organisation or by the acts of individuals (Lawrence, Mauws, Dyck, & Kleysen, 2005).

Zollo and Winter (2002) outline three learning mechanisms that are positively related to the development of DCs — the accumulation of experience, articulation, and the codification of knowledge. Knowledge codification expresses knowledge through documented tools, reports, or work programmes. Recognising and codifying the know-why as well as the know-how allows firms to develop a shared understanding that allows it to review and improve its embedded routines. Knowledge articulation importantly includes sharing knowledge through collective discussions and debates, information-sharing forums and processes for evaluating performance. Barrales-Molina, Bustinza, and Gutiérrez-Gutiérrez (2013) argue that knowledge articulation should involve employees' proposals and participation in collective discussions. Accumulated experience describes accumulation of knowledge built through experimentation, which may include hiring experts who provide new ideas, solutions and perspectives. Of the three mechanisms, Barrales-Molina et al.'s (2013) study found that knowledge codification has the strongest influence on the DC development process.

Strategic planning is defined as 'organizational activities that systematically discuss mission and goals, explore the competitive environment, analyse strategic alternatives, and coordinate actions of implementation across the entire organization' (Andersen, 2004, p. 1275). The exercise of reflecting on past experiences, particularly as part of the process of codifying

knowledge into manuals and 'rule-books' (Zollo & Singh, 2004), can help improve the way firms understand cause and effect relationships. Systematic group reflection on experiences, and sharing interpretation of events through discussion, can be useful to cross-check assumptions that individuals may make through their own narrow framing of problems (Fischhoff & Macgregor, 1982). Hodgkinson and Healey (2011) argue it is important to harness 'visceral reactions to strategic alternatives' when negative reactions outweigh positive ones because it is unlikely that decision-makers will commit fully to pursuing the developments in question — even where more objective analyses are favourable. Such reactions can be usefully assessed during group planning forums.

Cepeda-Carrión, Leal-Millán, Ortega-Gutierrez, and Leal-Rodriguez (2015) argue that firms can gain competitive advantage through their ability to unlearn and reorient core values and assumptions that guide behaviours, as well as search for new opportunities. It follows, therefore, that a firm's inability to unlearn may hold it back from developing DCs. Learning, by its nature, is recursive, which means it can also act as a barrier to adaptation, flexibility and change (Schreyögg & Kliesch-Eberl, 2007) so the willingness, ability and insight to unlearn (Sinkula, 2002) and remove obsolete routines are important in the emergence of DCs. Unlearning may be difficult for long-established firms, as it requires 'unshackling bureaucratic and power relationships' (Teece, Peteraf, & Leih, 2016, p. 29).

Ironically, learning that focuses on refining and exploiting existing capabilities makes a firm less likely to engage in the explorative learning that may lead to the emergence of new capabilities. Firms competing in less dynamic environments, particularly if they have enjoyed considerable success, risk reinforcing the competencies, capabilities and cultures to which they credit their success (Cyert & March, 1963; D. Miller, 1992), and fail to detect when they become 'too much of a good thing' (D. Miller, 1992, p. 31). Building an 'unlearning' context can help firms escape the inertia that locks them into unhealthy rigidities.

4.4.2 Leadership

The development of the firm's DCs is inhibited or stimulated by the senior management's leadership, their managerial and entrepreneurial abilities, and their interactions as strategists (P. Jarzabkowski, 2005; Teece et al., 1997). A firm's management team possesses the operational, entrepreneurial and leadership skills to adjust to changing environments (Teece, 2014a) because they are responsible for recognising the need, allocating resources and

implementing the changes necessary to embrace new opportunities. Rosenbloom (2000, p. 1102) suggests that leadership may be a 'central element of dynamic capability'.

Dynamic managerial capabilities focus on the role of top managers, as opposed to organisational processes, as a micro-foundation of DCs (Fainshmidt & Frazier, 2017). The role of the CEO cannot be under-played in the successful development of DCs. Several studies have found that heterogeneity of top management cognition is linked to different strategic change efforts and effects (Helfat & Peteraf, 2015). Helfat and Peteraf (2015) argue that CEOs with stronger cognitive capabilities for sensing and seizing may be more likely to invest more wisely and establish more effective business models that will lead to a longer first mover advantage than those with inferior skills. Successful reconfiguration of strategic assets is most likely to be achieved by CEOs with effective communication skills and a high level of social cognition.

Management abilities are difficult to learn if they are not developed naturally, which suggests that a firm's ability to develop DCs is inherently limited or enhanced by its management team's natural talents. Managerial capabilities involve the mental models and beliefs, and mental processes and emotions, that managers use to filter information about market changes and the choices available to the firm, and their effect produces statistically significant differences in firm performance (Adner & Helfat, 2003; Helfat & Martin, 2014). Helfat and Peteraf (2015) define the concept of management cognitive capability as 'the capacity of individual managers to perform mental activities' (Helfat & Peteraf, 2015, p. 832). Cognition is defined as 'conscious mental activities: the activities of thinking, understanding, learning, and remembering' (Merriam-Webster, 2015).

Cognition shapes managers' beliefs and assumptions about a particular firm, and is influenced by previous experiences, successes and failures. Management researchers have considered CEOs' heterogeneity of cognitive ability as an important determinant of firm performance for some time. Many qualitative and quantitative studies have examined the variance in firm performance attributable to top management cognition, but according to Helfat and Peteraf (2015) few have explored managerial cognition with respect to how knowledge and information underpins the DCs of managers. Their own study maps the specific cognitive capabilities of the DCs in sensing, seizing and reconfiguring, and explains their impact. Unsurprisingly, they found that some cognitive capabilities are more important for certain DCs

than others, and that managers do not necessarily possess superior cognitive capabilities in equal measure.

Teece (2016) maps the different roles of management to his typology of DCs, arguing that while management's operational role is most akin to ordinary capabilities (doing things right), the entrepreneurial role is required to sense and seize opportunities by orchestrating resources and creating new business models (doing the right things). 'Leadership' capabilities map the transformation of DCs, which are required to galvanise the firm towards a strategic vision and build the will to realign itself.

Although transforming a business in response to environmental contingencies is the responsibility of top management, the rest of the organisation's ability and willingness to implement change can undermine transformational success. The CEO and top management's ability to transform and reconfigure assets relies on their ability to persuade others to adopt different courses of action and view the environment through a different lens. Leaders must put in place systems that encourage and support individuals to develop new ideas, 'build energy' for those ideas throughout the organisation, and recognise and reward adaptable behaviour (Gibson & Birkinshaw, 2004). Without such values, culture and systems, new ideas risk failing to be equipped with adequate resources and strategic coherence may be compromised.

Kor and Mesko (2013) explore the relationship between the management team's capabilities and the renewal of the firm's competences and resources (Kor & Mesko, 2013), and argue that a dominant logic forms the bridge. Dominant logic is described as the way that managers conceptualise the business and make critical resource allocation decisions (Prahalad & Bettis, 1986, p. 490), and a management team's shared mindset or worldview that dictates the types of information that is considered in decision-making (Lampel & Shamsie, 2000). Further, managers' dominant logic evolves to become the *firm's* dominant logic, which is made up of expectations, beliefs, and priorities embedded in the firm's routines, procedures and resource commitments (Maijanen-Kyläheiko, Jantunen, & Hujala, 2012, p. 236). The firm's dominant logic provides efficiencies by filtering information and competencies that help guide managerial and employee decisions and actions in configuring the firm's resources and competencies. This in turn strongly influences the firm's paradigm in searching for growth, diversification, and innovation opportunities that change the firm's resources and capabilities.

While the firm's dominant logic helps managers interpret strategic opportunities through a single lens, it also risks locking the firm into core rigidities. A dimension of a firm's dominant logic is the beliefs held about the firm's relationship to the external environment (Zahra, Hayton, & Salvato, 2004). Firms with a high external orientation place value on interpreting signals from their external environment, including clients, suppliers and competitors. Firms demonstrating an internal orientation emphasise the development of intellectual capital within the firm's boundaries, but over time it may evolve into inertia that stifles entrepreneurship (Ibid). Managers can become socialised into deeply-held belief systems that do not question current capabilities and may resist signals that change is needed. Such belief systems are deeply-held and so much part of the fabric of the organisation that they are practised unquestioningly (Schreyögg & Kliesch-Eberl, 2007).

Social psychological scholars describe the tendency for people to avoid confrontation in preference to the group's collective position on an issue (Tripsas & Gavetti, 2000). Furthermore, 'groupthink' is likely to commit a group to a path once agreed, because the importance of a cohesive, harmonious group is seen to outweigh group members' inclination to initiate robust debate (Janis, 1983). 'Escalating commitment' also stabilises capabilities when decision-makers escalate their commitment following negative results, rather than backtracking or making changes that may signal a previous error in strategy or resource allocation (Staw, 1977).

While resource commitment can lock a firm on a trajectory that no longer produces competitive advantage within existing market conditions, so too can the confidence and complacency of managers whose good results reinforce their preconceptions and more firmly lock them into doing things 'the way they have always been done'. Success can turn to failure if the environment shifts, rendering proven strategies, confident leadership, strong cultures and the relationships between these factors a liability (D. Miller, 1992). Success can make managers over-confident, gain a stronger focus on subjective needs than customers' needs, focus on (Zahra et al., 2006) maintaining their status, and be more prone to reinforcing monolithic cultures and skills dominated by top-performing employees and teams. In dynamic environments, narcissistic organisations are likely to be impaired because of their reluctance to constantly scan markets and technologies and reinvent themselves to match the new demands of their context (Teece et al., 1997).

4.4.3 Integrative capabilities

Antecedents for developing DCs include possessing well-developed integration skills that neutralise inherent fear of change (Zahra et al., 2006). Jiang (2014) asserts that integrative capability is the strongest mechanism for transforming capabilities that result in new DCs and superior firm performance. Firms with integrative capabilities are better equipped to solve problems and navigate difficult situations than those without.

Integrative capability is defined as competence in integrating knowledge from multiple sources inside and outside the organisation. An organisation's integrative capabilities are measured by its ability to recognise valuable external knowledge and combine the firm's existing knowledge stock for commercial purposes (Cohen & Levinthal, 1990; Yoon, Kim, Vonortas, & Han, 2017). It refers to a firm's ability to understand its own knowledge resource's potential and limitations, and to maintain a fit between what the firm offers and what the environment requires (Liao, Kickul, & Ma, 2009; Miles & Snow, 1978).

Such capabilities emerge from managers' memory and prior knowledge, coupled with diverse backgrounds and expertise within a firm — partially overlapping knowledge is complemented by non-overlapping diverse knowledge (Cohen & Levinthal, 1990, p. 128). Building integrative capabilities requires 'learning by doing' and investment in internal processes (Zollo & Winter, 2002).

In contrast, inertia is defined as the 'a persistent organizational resistance to changing architecture' (Hannan, Polos, & Carroll, 2002, p. 3). Inertia positively signals reliability and accountability, which makes an organisation with a certain degree of inertia more likely to survive (Hannan & Freeman, 1984). However, the inertial properties that help an organisation survive may have the unintended consequence of making it resistant to change. Le Mens, Hannan, and Pólos (2015) introduce the concept of age-related structural inertia, whereby older organisations find it more difficult to change their architecture than newer firms. The reasons for the decline in integration abilities as an organisation ages are that both its internal and external stakeholders develop an embedded 'taken for granted image' (Le Mens et al., 2015, p. 758) and prefer the status quo. To change organisational configurations or to innovate imposes serious costs that a mature organisation is unlikely to accept.

4.4.4 Path dependency

Firms' ability to persist in their strategic orientation and develop capabilities is shaped by their unique evolutionary path; their history — failures and successes — and decisions taken to develop specialisations or enter specific markets affect potential opportunities in the future (Eisenhardt & Martin, 2000; Schreyögg & Kliesch-Eberl, 2007; Teece et al., 1997). According to Vergne and Durand (2011), path dependence describes how a firm evolves along narrow trajectories that result in a somewhat limited set of choices, even though its selection choices may be constrained by the environment that it operates within.

Firms begin with different conditions and the capacity for developing new capabilities, and follow different paths (Eisenhardt & Martin, 2000), but may arrive at the same place. A firm's path is shaped primarily by learning mechanisms, such as repeated practice and the refinement of strategic activities, the codification of experience, or mistakes that prompt managers to reflect. Optimal pacing of change allows managers to consolidate their learning, as experiential episodes that occur too frequently can overwhelm them, and infrequent experiences risk firms forgetting what they learned before.

A firm's path, and particularly the reinforcement of its capabilities, can provide a competitive advantage due to its uniqueness. However, paradoxically, it can also threaten the sustainability of that advantage if the currency of the capabilities is eroded due to a change in environmental conditions. Although the sources of change-disabling forces are unique to each firm, scholars attribute groupthink and fixed cognitive maps as being among them (Sydow, Schreyögg, & Koch, 2009).

Path dependence helps explain how some organisational capabilities persist over time, independent of their utility (Vergne & Durand, 2011). Sydow et al. (2009) conceptualise the process of path dependence into three stages: a) singular contingent events; b) these events trigger firms to choose a path which at least initially leads to increased returns and transform themselves into self-reinforcing dynamics; c) this path eventually results in lock-in and inertia. Although it is possible for managers to overcome lock-in, such paths simultaneously render alternative paths less attractive, narrowing the strategic possibilities.

Routines that are a source of competitive advantage generate positive feedback loops and emerge as self-reinforcing processes (Schreyögg & Kliesch-Eberl, 2007), which may result in a locked strategic orientation to the exclusion of any other path. Regardless of whether firms'

choices are constrained by external forces, a firm's path dependence is a rigid, potentially inefficient action pattern arising from the unintended consequences of previous decisions and positive feedback processes (Sydow et al., 2009, p. 696).

4.4.5 Culture and climate

Several recent scholarly articles have noted the role of organisational culture as an antecedent for DC development (Schilke et al., 2018), but little research has investigated the DC-organisational culture relationship (Wilden, Devinney, & Downling, 2016).

Fainshmidt and Frazier (2017) argue that workplace climate for trust importantly underpins the development of DCs in that it facilitates the adaptability and coordination that is necessary for developing sensing, seizing and transforming DCs and may also help overcome rigidities. Their study explores the social micro-foundations of DC development, which has until recently been relatively unexplored in the literature (Helfat & Peteraf, 2015; Wilden et al., 2016). Fainshmidt and Frazier (2017) differentiate 'climate' from 'culture', in that climate is the current manifestation of organisational cultural values that capture observable social attributes and inform sense-making and interpersonal actions. Culture, on the other hand, represents underlying assumptions and values that guide life in organisations (Schneider, Ehrhart, & Macey, 2013). They recommend managers establish controls and incentives to facilitate a trusting environment.

Wilden et al. (2016) include a supportive organisational culture as an enabler of DCs. DC deployment, they argue, rests on the behaviour, willingness and ability of firm members to act. For instance, firms with flexible and informal organisational values are able to innovate by fostering risk-taking, lateral thinking and interactive organisational learning (Carrillat, 2004). Although few studies have sought to identify which types of firms are most likely to develop DCs, Rindova and Kotha's (2001) study found that non-bureaucratic, decentralised organisations with shallow hierarchies are most effective for agile decision-making and rapid information flow between the market and top management (Teece, 2000). Further 'organic organisational structures' (Wilden, Gudergan, Nielsen, & Lings, 2013) may provide an environment for better strategy-making as a result of greater employee participation in decision-making (Schminke, Ambrose, & Cropanzano, 2000), creativity and flexibility.

Several studies state that a market-oriented culture encourages employees to acquire information that forms that basis for understanding markets. A market orientation

encompasses fundamental characteristics including customer and competitor orientation (Slater & Narver, 2000), as well as generating, disseminating and responding to information about the market (B. Jaworski, Kohli, & Sahay, 2000).

Lucas and Goh (2009a) describe the struggle between employees wanting to develop DCs to bring about change, and those inhibited by core rigidities. They describe culture as encompassing the beliefs of employees, the way the firm organises itself, and the nature of interactions that play a role in facilitating, managing or providing a barrier to change. The organisational culture, in the case of Kodak's demise, acted as a barrier to building the effective DCs necessary to respond to disruptive technology. Its 'monopoly' mindset about the status quo, risk aversion, incorrect predictions about growth of the market for new technology and the cultural values placed on hierarchy and harmony spelled disaster for the business.

Acknowledging the difficulty in developing and deploying DCs, Schoemaker, Heaton, and Teece (2018) outline the strong cultural values of risk-taking, experimentation, learning and tolerance of failure as underpinning the emergence of DCs.

In large established organisations, transformation is more difficult but not impossible. It requires breaking conventional modes of thinking. It often takes a crisis to effect significant change, and the role of good leadership is to articulate the need and direction of change and achieve momentum in doing so, irrespective of whether a crisis exists. Change is much easier if a culture exists that embraces change. Sometimes, however, change may not be possible because of entrenched interests, human stubbornness, or deep misunderstandings about the need and desirability for change (Teece et al., 2016).

4.5 What inhibits firms developing DCs?

When core competencies become dysfunctional and inhibit the innovative ability and growth of a firm, they can reduce its ability to compete effectively and lead to 'incumbent inertia' (Lieberman & Montgomery, 1988). In the context of first mover advantage, inertia may render the incumbent vulnerable through: a) locked-in fixed assets; b) a reluctance to innovate and 'cannibalise' its existing product range; or c) it may become organisationally inflexible (Ibid).

Long-term employees are more likely to exhibit core rigidities (Lucas & Goh, 2009a) and, logically, older organisations are more likely to fall into comfortable patterns of repeating

strategies that have served them well in the past (D. Miller & Chen, 1994; Thornhill & Raphael, 2003). As shown in Table 4, scholars argue that there are a number of paths to rigidities.

Absence of	Locked-in	Presence of
Monitoring the external environment*	Outdated technical routines+ #	Production orientation *
Prioritising investment in key markets*	Managerial routines, particularly incentives and rewards + @	Opportunistic and reactive management style *
Gaining access to financial resources*	Excessive exploitative learning ~	Centralised and non-participative organisational culture*
Specific knowledge bases*		
Embodied entrepreneurial values +		
Non-dominant skills and knowledge @		

Table 4: Typology of rigidities

* (Baden-Fuller & Volberda, 2003)

+ (Dimitratos, Slow, Johnson, & Ibeh, 2009)

(Leonard-Barton, 1992)

@ (Lucas & Goh, 2009a)

~ (Gibson & Birkinshaw, 2004; Wang, Senaratne, & Rafiq, 2014)

Dimitratos et al. (2009) present a taxonomy of rigidities that inhibit the ability of multi-national enterprises (MNEs) to achieve international growth, drawn from case study analysis of 15 Scottish firms. Firms' failure to monitor market dynamics and environmental changes, prioritise the most attractive market opportunities or secure adequate financial resources present as rigidities that constrain growth. Furthermore, an emphasis on production orientation over a marketing orientation, and an opportunistic and ad hoc management approach, is coupled with present barriers to growth and success. Firms with a centralised, hierarchical and non-participative organisational culture will be less likely to develop a successful response to environmental change, particularly if the organisational culture values harmony above debate (Dimitratos et al., 2009; Lucas & Goh, 2009a).

Core rigidities are similar to organisational inertia, which is characterised by structures and routines built over time that eventually prevent them from responding to environmental shifts. Baden-Fuller and Volberda (2003) warn that various traps, rigidities and inertia in organisations severely constrain managers' choice and efficacy. Organisational inertia may arise from specialised production facilities and expert personnel, the deeply-held beliefs of employees, the mindset of top managers and a fixation with competitive game playing. They

classify core rigidities into four dimensions: missing knowledge bases, rigidities in technical routines, rigidities in managerial routines and missing embodied values.

4.6 Research gap

As demonstrated in this literature review, it is important to add to the body of knowledge and progress an empirically-based understanding of how DCs emerge in practice. Scholars such as Ambrosini and Bowman (2009) call for a deeper understanding of how DCs are created in practice and the concrete activities that are linked to strategic outcomes in order to overcome debates in the literature. They specifically suggest further research that addresses whether the deployment of DCs differs across industries and across firms.

DC research has explored what DCs might be and produced generic categorisations of them once they have emerged, but little light has been thrown on specific practices that enable or inhibit their emergence. While Schilke et al. (2018) draw together extant literature to provide a typology of antecedents of DC development, it warrants further depth and empirical testing in a variety of contexts, including PSFs. Another body of literature describes the broad categories of antecedents and enablers of DCs, including leadership, learning processes, integration skills and path dependence (Easterby-Smith & Prieto, 2008; Jiang, 2014; Ma et al., 2015; Teece et al., 1997; Zollo & Winter, 2002), which supplement the thinking in Schilke et al.'s typology. Further, the connection between antecedents and their relative effect on the emergence of sensing, seizing and transforming classes of DCs is opaque, which is surprising given the ubiquity of Teece's (2007) framework in the DC literature.

Similarly, there is little empirical research on what triggers firms to develop DCs, either general or specific types of triggers, despite conceptual studies' arguments that environmental dynamism is the primary source (Eisenhardt & Martin, 2000; Teece, 2007; Wang & Ahmed, 2007; Zollo & Winter, 2002). To address these questions, among others, scholars call for more longitudinal studies focusing on the development of DCs (Barrales-Molina et al., 2014; Easterby-Smith et al., 2009; Jantunen et al., 2012; Jantunen et al., 2018) and how they emerge in practice (Ambrosini & Bowman, 2009).

Situating DC theory within the PSF context provides an opportunity to sharply focus on the role of DC within a relatively homogenous setting. PSFs are not only under-represented in the body of DC empirical work, but are examples of knowledge intensive businesses that are likely to feature prominently in future economies.

4.6.1 Research questions

This study sought to contribute to our understanding of *how* DCs emerge and *why* firms might develop DCs differently under the same market conditions by answering the following research questions.

- a. How do PSFs develop DCs?
- b. What similarities and differences are there in the ways that PSFs develop DCs from what is expressed in the literature?
- c. Do firms operating in the same market and under similar conditions follow different DC development paths?
- d. What factors influence the development of these similarities and differences?

5 Methodology

The research gap at the end of the previous chapter and the specific research questions set out in section 1.1 were addressed using the approach set out in this chapter. The research approach identifies the research paradigm, case study techniques, sample industry and analytical approach to answer the research questions. Table 5 summarises the approach.

The researcher	ACTIVE PARTICIPANT
Theoretical paradigm	Interpretive
Ontology	Constructionist (multiple realities)
Epistemology	Subjectivist (knower and respondent co-create understanding)
Methodological procedures	Qualitative
Research strategy	Longitudinal case studies (30 years, 4-5 critical events)
Number of cases	Four research sites
Methods of collection and analysis	Semi-structured interviews Artefacts, documents and records
Analytical approach	Cross-case analysis
Validity	Internal and external, reliability

Table 5: Summary of research methodology

5.1 Research philosophy

The nature of the subject matter in the relevant literature helps inform the philosophical underpinnings of the research (Creswell, 2011). The DC literature is based on organisations’ perceptions of the competitive environment and their corresponding patterns of collective activity (Zollo & Winter, 2002) and capacities to behave in a certain way (Teece, 2007; Wang & Ahmed, 2007).

According to key management scholars including Burrell and Morgan (1979) and Pfeffer (1982), organisations can be seen as socially constructed systems of shared meaning. Smircich and Stubbart (1985, p. 727) define the organisation as *the degree* to which its members share beliefs, values and assumptions that encourage them to make mutually reinforcing interpretations of their own and others’ acts. These definitions of organisations are consistent

with an interpretive philosophy (Smircich & Stubbart, 1985), in that members of organisations interact to establish the foundation of their organisational reality.

Based on the definition of the organisation noted above, this research adopts an interpretivist paradigm. Burrell and Morgan's classic definition of the interpretive paradigm describes research as seeking to 'understand the world as it is', and does so through the lens of subjective experience (Burrell & Morgan, 1979, p. 28). This paradigm rejects the positivist concept of an independently knowable reality that leads to the discovery of universal laws, and instead assumes that no single 'truth' exists — people perceive their environment subjectively, so a person's interpretation of their context is critically important to good research (Willis, 2007, p. 6).

While it would be possible to classify this study as traditional post-positivist multi-case study, it is interpretivist in the sense that the researcher does not accept the existence of a single reality that is obvious to any interpreter (Yin, 2014). In keeping with the interpretivist paradigm, broad themes emerged, even though a different researcher may have surfaced different detailed insights.

Drawing from the sociology literature, it is argued by Schutz (1972) that the necessary precursor to the researcher understanding the social world is to understand what the social world means for the 'observed actor' (Schutz, 1972, p. 269) and what influenced him/her to adopt specific attitudes towards her/his environment. Therefore, as an interpretivist researcher, this study seeks to extend theory by reflecting an understanding of the meanings of the world constructed by the people who participate in it (Creswell, 2011; Willis, 2007), while acknowledging the researcher's ability to interpret is shaped by their own experience and background (Willis, 2007). As one person's interpretation is unlikely to provide a rich enough account of reality, the research set out to study the social realities created by *multiple* individuals as they interacted in an environment (Gall, 2007). The triangulation of multiple perspectives on a topic provides a deeper interpretation of any shared 'truth'. However, under the interpretivist paradigm, it is important to clarify that only greater understanding can be achieved, as to find the truth implies that it can be exported to other contexts and directly applied (Willis, 2007).

Ontology concerns the existence of and relationship between people, society and more generally what is where in the world (P. Eriksson, 2008). Due to the complexity of the DC

concept, researchers must gather rich contextual data in order to understand the influence of the context on changes in resources and capabilities (T. Eriksson, 2013), so the researcher's ontological position is important. My core ontological assumption is that reality is subjective, and the actors produce understanding through social interaction. Adopting a constructionist ontology for this research assumes that reality is constructed through the interpretation of individuals or a group (Yanow & Schwartz-Shea, 2014), cannot be perceived identically by two knowers, is heavily influenced by context, and understandings may change over time through social interactions (T. Eriksson, 2013; Reed, 2005; Westwood, 2001).

In addition, this research adopts a subjectivist epistemology, which is underpinned by the belief that the knower and researcher co-create understanding. An epistemological position tells us about the nature, sources and limits of knowledge (P. Eriksson, 2008; Pernecky, 2012) and defines the researcher's assumptions about the ability to accurately describe the 'real' world (Nicolson, 2013). The researcher's epistemological position influences the processes used to collect what we determine to be warranted and reliable knowledge of the world (Johnson & Duberley, 2000).

The challenge for the strategic management researcher is to provide a rigorous and relevant account of organisations. Following Heil and Whittaker's (2007) argument that an appropriate way to develop a 'truthful' account of the world according to its creators is to draw on their narrative, this study used the narratives to capture the meanings of managers' experiences in their own terms. This approach is corroborated by Gioia (2014, p. 6) who describes managers as 'knowledgeable agents' who know what they are trying to do as well as being able to articulate their thoughts, intentions and actions to the researcher.

5.2 Research methodology

Figure 6: Summary of research design

Good quality research requires methodological alignment between the research questions, the literature review, data collection and analysis and the contribution to the literature (Edmondson & McManus, 2007). Qualitative studies have several strengths that make them suitable for the study of DCs, including the ability to develop descriptions of underlying processes in order to understand the role of management and the interaction with the environment (Easterby-Smith et al., 2009, p. S6). Although quantitative studies tend to generate precise definitions and stronger generalisability across samples (Ibid), the nature of the research questions is better suited to qualitative methods because of the focus on how decisions were made, not just the outcome of the decision process (Narayanan, Colwell, & Douglas, 2009).

Consistent with the research philosophy and nature of the research questions, this research drew on the participants' narratives in order to understand a chronology of events and probe into experience. Fittingly, narrative accounts allow the researcher to explore the past, present and future of people and events, the emotions and aspirations of participants (and the researcher herself), the social context of participants' experiences and the places where they took place (Clandinin & Huber, 2010). Narayanan et al. (2009, p. S28) adopt narrative accounts in their process perspective on DCs, arguing it is one of the best approaches for capturing the 'synchronic-diachronic characteristics of the capability building process'. Davies, Dodgson,

and Gann's (2016) empirical work looking at how DCs are developed to support management of complex projects uses a narrative chronology for analysis and as a 'validation tool' (Langley, Smallman, Tsoukas, & Van De Ven, 2013).

5.3 Case studies

This study drew on a series of interpretive case studies that used descriptive data to 'illustrate, support or challenge theoretical assumptions held prior to the data gathering' (Willis, 2007, p. 243). Piekkari, Welch, and Paavilainen (2009) define the case study strategy as one that 'examines, through the use of a variety of data sources, a phenomenon in its naturalistic context, with the purpose of 'confronting' theory with the empirical world' (Piekkari et al., 2009, p. 569). Case study designs commonly fall within the interpretive paradigm and are particularly justifiable when the objective of the study is to describe, interpret and explain a phenomenon rather than understand how widespread its use is (Fitzgerald & Dopson, 2009).

Fitzgerald and Dopson (2009) provide recommendations about when case studies are a suitable strategy. This study met all the criteria: the organisations were embedded in complex contexts; the historical perspective was necessary in order to study the emergence of processes over time; the questions required a depth of understanding rather than breadth; and multiple sources were available for analysis.

As the research questions specifically seek to answer how DCs emerge within a specific context (PSFs), a case study approach was suitable. This choice reflected scholars' general agreement that in-depth case studies provide the best opportunity to understand the 'interaction between a phenomenon and its context' (Dubois & Gadde, 2002, p. 554).

The researcher considered historical method as a research design, which relies on primary and secondary documents as well as artefacts to provide evidence of what happened over time. However, for this study a critical source of evidence was available, i.e. interviews with the people involved in the events being studied. Gaining insights from the people involved fulfils the case study method's unique differentiator from historical accounts, while also drawing on the historical method's approach to handling archival documents.

This was an inductive study that addresses whether and how firms develop DCs differently when presented with identical market conditions. The inductive approach suggests that categories, themes and patterns emerge from the data (Janesick, 2003) and in contrast to

deductive research, which tests theory, inductive studies are best suited to fundamental research questions that have previously not been addressed adequately in the literature (Eisenhardt & Graebner, 2007). As explained in the literature review, the question of how PSFs develop DCs differently has not been explored in depth, despite considerable scholastic energy being devoted to the framework.

5.3.1 Multiple case studies

In order to explore the nature of DCs in practice and to compare their emergence across firms, this research adopted a multiple case study approach. In multiple case study research design, each case must be understood as a stand-alone entity (Eisenhardt, Graebner, & Sonenshein, 2016) in order to identify and explain the differences in processes or outcomes relating to the phenomenon under study. Although single case studies can reveal rich descriptions of a phenomenon, multiple case studies provide a better grounded, more robust and accurate, and more generalisable basis for theory building (Eisenhardt & Graebner, 2007; Herriott & Firestone, 1983; Yin, 2014).

Further, it is argued that multiple case studies are appropriate when the research problem focuses on comparing a small number of specific variables (such as sensing, seizing and transforming DCs) and which then benefits from increasing the number of observations to compare (Dubois & Gadde, 2002).

This research used the collective case study method, which involved four cases chosen by theoretical, rather than statistical, sampling. Stake (2003, p. 138) explains that under this method, cases are chosen because the researcher believes that understanding them leads to deeper comprehension and theorising about a more extensive collection of cases.

5.3.2 Sampling approach

As suggested by Rouse and Daellenbach (1999), it is important to control environmental variation by choosing cases from the same industry. As well as reducing extraneous variations (Eisenhardt, 1989a), specifying a narrow population helps bound the generalisability of the findings.

In order to answer the research questions, it was necessary to select firms that fell within the parameters of PSFs. Individual law firms were chosen as cases for two reasons: first, because 'the firm' is the unit of analysis for this study, and second, law firms were chosen as the

context because they are widely regarded as being 'canonical examples' of PSFs (Von Nordenflycht, 2010, p. 155). These case characteristics defined the boundaries for inviting participants to join the study.

Sample selection required intentional design choices while acknowledging the practicalities of gaining access to research sites (Pettigrew, 1990; Ployhart & Vandenberg, 2010). This study adopted a theoretical sampling approach, whereby the sample was chosen purposefully, based on the characteristics of the firm (T. Eriksson, 2013). Theoretical sampling is the approach preferred by key scholars in the strategic management research field (Eisenhardt, 1989a; Eisenhardt & Graebner, 2007; Yin, 2014), and is particularly suited to the study of DCs because extremities of sample selection are likely to make DCs more observable, given the usual difficulty in observing and capturing them (T. Eriksson, 2013).

Given the dearth of publicly available data about privately-owned law firms in New Zealand, the sampling approach relied on externally visible characteristics of firms to guide selection, such as size, location, length of time in business, top-level management structure, and service offerings. These characteristics were available on the firms' websites. Law firms (or cases) were chosen to be invited if they operated from offices in one (or more) New Zealand city, had been in business at least since 1985, and were owned by six or more partners.

5.3.2.1 Why law firms?

Rouse and Daellenbach (1999) set out a framework for selecting appropriately comparable firms to include in multiple case study research. Two criteria for selection include that the firms operate within a single industry and are clustered according to strategic groupings. Law firms in New Zealand operate within a single industry, are affected by the same market conditions, and share core characteristics of organisational culture, which helps control extraneous variations in findings (Eisenhardt, 1989a). Gordon (1991) argues that organisational culture is important because it is influenced by industry-driven assumptions about the competitive environment, customer requirements, and societal expectations from which a homogeneous industry corporate culture emerges.

New Zealand law firms are appropriate as case studies of DCs for several reasons. First, due to the long average length of tenure at law firms, key decision-makers with long institutional memories were available (Bingham, Heimeriks, Schijven, & Gates, 2014).

Secondly, the commercial legal services industry is heavily influenced by government policy and regulation, which provide milestones at which to collect data (Pettigrew, 1990).

Thirdly, having 30 years' experience working in PSFs in New Zealand, the researcher has industry knowledge and a network that she was able to access to secure participation in the study. Where data may be seen to be commercially sensitive, it is more likely that a researcher who is 'known and trusted by the respondents' (Stone, Woodcock, & Wilson, 1996, p. 675) will be able to gain access.

5.3.2.2 *How many cases and in what sequence?*

Eisenhardt (2014) claims that although single case studies can be useful in building theory, a larger number of cases — ideally between four and 12 — is usually more powerful, particularly for addressing research questions that have little empirical evidence. This study included four cases in the sample.

The logical approach to sequencing the collection of data from cases is to conduct a pair of case studies before moving on to the next set. This assists the comparative nature of the study and provides opportunities for incremental fine-tuning of the research design. Conducting a pair of case studies at a time allows for a review of the data after each set.

5.3.2.3 *Characteristics of the firms selected*

	Years in business	No. offices	Full- service	Specialist focus	Professional mgmt.	Number of equity partners*
FirmA	90	3	■		■	>10
FirmB	170	4	■		■	>20
FirmC	150	2		■	■	>15
FirmD	85	1	■			>6

Table 6: Case study participants' characteristics

Once potential firms were identified, a letter was sent to initiate contact and gauge interest. For firms that were interested in being involved, the primary contact was invited to identify partners and managers who would be agreeable to participating. Partners (old, new and laterally hired) and managers have different roles, motivations and perspectives on change and the capabilities necessary to adapt, as summarised in Table 6, which contribute to the richness of the narrative. Overall, more than 10 firms that fit the criteria were approached by email. Four firms agreed to participate.

5.3.3 Time dimension

A limited number of researchers conducting empirical studies into the domain of DCs have used longitudinal case studies. DC scholars explicitly call for researchers to conduct more longitudinal studies that identify changes in a firm's processes in order to provide insights into the practice of DCs (Easterby-Smith et al., 2009; T. Eriksson, 2013; Weerawardena & Mavondo, 2011).

As DC research by definition addresses change in organisational settings, it is important to incorporate time in the design of empirical work in order to 'disentangle its origins' and identify patterns (Pettigrew, 1990, p. 270). Suddaby and Greenwood (2009) clarify that the goal of the longitudinal method is to understand the processes by which organisations 'emerge, self-maintain and erode'.

Ployhart and Vandenberg (2010) define longitudinal research as having two characteristics: emphasising the study of change and containing at least three repeated observations on at least one of the primary focal constructs. In any question of how complex phenomena (such as DCs) emerge, it is important to allow the change process to reveal itself temporally and contextually (Pettigrew, 1990), which allows intentional behaviours to emerge (Salvato, 2003). Therefore, it is appropriate to gather data on the sequence of events (Andrew H. Van de Ven, 2007) in order to capture the change process and avoid relying on cross-sectional data (T. Eriksson, 2013)

Pettigrew (1990) acknowledges the role of time as a frame for the research, but provides no prescription for how long is long enough, leaving the researcher to make pragmatic judgements about the timeframe informed by the research questions, context and resources (Ployhart & Vandenberg, 2010). Early work by D. Miller and Friesen (1980) on organisational adaptation and transition found that, on average, complex organisational change following a

critical incident emerged between 18 months and 20 years later, with the average change cycle taking around six years.

This study covers the period from 1985 to 2015. The risk with any longitudinal research, particularly over a 30-year period, is the hindsight bias of the respondents, which may result in 'inappropriate rationalisations, over-simplifications, faulty post-hoc attributions and simple lapses of memory' (C. Miller, Cardinal, & Glick, 1997, p. 189). It can also result in the biased reporting of decision-making intentions supporting actual outcomes, possibly motivated by respondents wanting to present a positive image of themselves or their organisation (C. Miller et al., 1997; Pieters, Baumgartner, & Bagozzi, 2006).

This study adopted Miller et al.'s (1997) advice to encourage respondents to admit that they do not remember, if that is the case (rather than being forced to answer all questions), as this approach increases the accuracy of retrospective data. The study also adopted Miller et al.'s (1997) other recommendations including using multiple informants per firm to cross-check responses, asking about concrete events or simple facts rather than opinions or beliefs.

To supplement interviewees' responses, firm-specific archival data such as memos, internal newsletters, strategic plans and minutes of meetings were used to enrich the narrative. Case sites provided varying levels of access to firm-specific data. Some had well-organised document archives covering some or all of the studied period, but others had little documentation relevant to their histories or critical events (in particular).

5.3.3.1 Critical events

One of the objectives of choosing a longitudinal study is to benefit from a series of critical events that each provide a clear data collection point (Pettigrew, 1990). Critical events or 'social dramas' (Pettigrew, 1990, p. 275) define trigger points for observable organisational transformation. Critical events may lead to fundamental change, which should provide an opportunity for the firm to deploy its DCs. Pettigrew (1990) is also clear that any changes must be studied in the context of changes at other levels of analysis, including sectoral and economic change.

To qualify as critical events, they must be seen as sufficiently engaging of the 'minds and actions' of the participants in the context under study (Pettigrew, 1990). Taking a similar approach to Haider and Mariotti's (2016) selection of critical events in relation to

management decisions surrounding critical events, the researcher analysed the NZ Law Society (NZLS) newsletter archives and secondary media sources to identify critical events. The NZLS newsletter, in particular, provided rich evidence of historical milestones affecting the profession and the way the profession framed certain events. Further, having worked in the New Zealand legal services industry for a significant part of the studied period helped the researcher identify critical events that provided insight into important issues for the profession.

This study collected data at five distinctive points that represent economic, regulatory, buyer behavioural and reputational crises for the New Zealand legal services industry. These critical events provided a basis for interview questions that were further explored with participants during the primary research phase of the study.

The critical events that occurred during the 30-year period are summarised in Figure 7.

Figure 7: Summary of critical milestones

Year	Description
1985	Removal of barriers to competition. Before 1984, lawyers in New Zealand were not permitted to market their services to the general public for fear of misleading consumers. However, in 1984 the NZ Law Society's Council approved new ethical rules (NZLS, 2013) that allowed lawyers restricted ability to use conventional strategies to attract new business. Simultaneously, the published scale fees that had previously inhibited competition within the profession were removed.
1991	The 1991 New Zealand recession resulted in a severe annualised decline in real GDP of 6.1% (Hall & McDermott, 2014). The legal profession was not immune from the 'severe financial pressures' (Balls, 1991, p. 125) of the recession with partners' incomes dropping, on average, 20% in that year (Ross, 1991), largely due to the decrease in commercial activity across the New Zealand economy.
1997	Late in 1996, the NZ Law Society's President, Austin Forbes QC, referred to the legal profession as 'bending under the weight of negative publicity' (NZLS, 1997, p. 7), having slumped from 45% to 14% in public trust in the profession. The President described a profession in crisis due to increasing competition, reduction in market share and 'fighting the challenge' of diversification (Ibid).
2008	Following a drawn-out period of consultation with the profession, the Lawyers and Conveyancers Act 2006 came into force on 1 August 2008. According to Webb (2007), the Act intended to shift the legal

profession towards consumerism and away from professionalism. The Act explicitly states that one of its seven purposes is to protect consumers in relation to legal and conveyancing services, putting lawyers' duty of care to their clients' front and centre ("Lawyers and Conveyancers Act 2006," 2006).

2011 The Government Procurement Reform Programme set out to establish a single supply agreement between approved suppliers and the Crown for the supply of specific goods and services (Mainline, 2012). In 2011, the Government tendered for external legal services and selected a panel of 39 firms across seven areas of law. Eighty-seven of the 125 firms that participated in the tendering process were unsuccessful, with many losing access to the pool of government work. The firms that secured a place on the panel expressed frustration at the Government's procurement people intermediating between firms and their clients, downward pressure on fees and 'clunky' reporting processes (NZ Lawyer, 2015).

Table 7: Description of critical milestones

More detailed descriptions of each milestone are set out in section 6.7 of this thesis.

5.4 Research techniques

In keeping with Fitzgerald and Dopson (2009) prescription, this study included factual data on the context of each case, data from a range of stakeholders, triangulation of data from multiple sources and multi-factorial analysis. The purpose of the data collection was to piece together firms' interpretation of events, decisions and strategies at critical junctures. A summary of the research techniques is set out in Table 8.

The research was conducted in a three-step process. First, secondary data was collected to piece together a narrative of each firm's journey over 30 years. Secondly, data was collected from partners and managers within each firm, supplemented by archival data such as strategic plans, meeting minutes etc. Thirdly, case study histories were drawn together from the various data sources to form a rich narrative.

Type	Purpose	Data source
Factual data on the context	Profile of each firm — history, position, size, current strategy	Semi-structured interviews
	Historical timelines for each firm	Industry publications and rankings
	Description of critical environmental events	Documented histories
Data gathered from multiple stakeholders	Participants' perspectives on how the firm responded to critical environment events	Semi-structured interviews

Triangulation from several sources	Archival data that verifies narratives	Strategic plans, reports, memos, minutes, newsletters Quantitative benchmarking data
Multi-factorial analysis	Cross-case synthesis	Raw data

Table 8: Research techniques

5.4.1 Data gathered from multiple stakeholders

Semi-structured interviews are consistent with the interpretivist approach to research (Rubin & Rubin, 2005). The purpose of the semi-structured interview is to gather both retrospective and real-time perspectives of the representatives experiencing the phenomenon under study (Cassell, 2009; Willis, 2007).

Selection of participants is an essential consideration for credibility in interview design, shaped primarily by the nature of the research questions (Cassell, 2009; Rubin & Rubin, 2005). Therefore, interview participants included problem creators/subjects and problem owners (Jonker, 2010), selected on the basis that they may present different views to avoid slanted findings (Eisenhardt & Graebner, 2007) and had experience first-hand and were knowledgeable about the research problem.

Partners and managers have different roles, motivations and perspectives for change within law firms and the capabilities necessary to adapt. In the context of this research, participants representing the groups shown in Table 8 were selected to meet these guidelines.

Participant group	Data collected
Partners of the firm who have been with the firm for 30 + years	First-hand experience of historical events and strategic decisions, longstanding beliefs and values (Empson, Cleaver, & Allen, 2013; Fischer, 2011), ownership perspectives of change (Chambliss, 2009)
Current partners	Examples of common practices, currently-held beliefs and values (Chambliss, 2009), insight into cognition
Professional managers	Perspectives on environmental changes, detailed practices, the business background to decisions, responsible for consulting, persuading the partnership to adapt (Angel, 2007; Empson et al., 2013), access to archival data

Table 9: Participant group and data collected

The researcher accessed interview participants through the primary contact point for each firm. Although ideally the sample from each firm would have included representatives from each group identified in Table 9, in practice, it was not possible for the researcher to select specific individuals to participate. The primary contact was asked to nominate four interviewees that met the criteria and gauge their willingness to participate. Table 10 sets out the participants' details.

	No. interviews	Job titles of interviewees
FirmA	4	Managing partner (A2) Partners (A3 and A4) General manager (A1)
FirmB	4	Partner (B4) Consultant/Former partner (B2) Consultant/Board member (B3) Financial controller (B1)
FirmC	4	Partner (C1 and C4) Consultant/Former partner (C2) Chief Financial Officer (C3)
FirmD	3	Partners (D1, D2 and D3)

Table 10: Summary of interviewees' roles

In two cases, consultants were interviewed. Consultants, in the law firm context, are usually former partners that are either semi-retired or have chosen to relinquish ownership of the firm in favour of being an employee. In both cases, the consultants interviewed had been members of the partnership for most of the 30-year period under study, and provided longitudinal data that the research questions demanded.

Professional managers, with varying job titles, were interviewed at three of the case study firms. Firm D does not employ professional managers, so interview participants were restricted to current partners.

The interview guide is provided in Appendix One of this thesis. The interview guide was structured around the critical events set out in section 5.3.3.1, with further questions at each

juncture mapping to operationalisation of Teece's (2007) sensing, seizing and transforming DC framework. For instance, the sub-questions sought to draw out the firm's interpretation of events, how the firm decided to respond and finally, how the firm changed (if at all). Table 11 shows selected questions and the related DC constructs.

DC constructs	Sample of interview questions
Sensing "Analytical systems (and individual capacities) to learn and to sense, filter, shape, and calibrate opportunities" (Teece, 2007, p. 1326)	<ul style="list-style-type: none"> • What impact did you think the removal of barriers to competition would have on your firm, before it happened? • What was the biggest problem you faced during the recession? • How did the crisis become noticeable to your firm?
Seizing "Enterprise structures, procedures, designs and incentives for seizing opportunities" (Teece, 2007, p. 1334)	<ul style="list-style-type: none"> • What if anything did your firm decide to differently after the removal of the barriers? • How did the partnership decide what to do?
Transforming "Continuous alignment and realignment of specific tangible and intangible assets." (Teece, 2007, p. 1340)	<ul style="list-style-type: none"> • How did the firm change after the removal of barriers to competition? What was significant about those changes? • How did you implement changes?

Table 11: Examples of interview questions mapped to Teece's (2007) framework

It became apparent to the researcher during the first interviews that it was necessary to allow interviewees to describe what they perceived as milestones in their firm's history, many of which were driven by internal objectives. Therefore, the interview guide was revised as the interviews progressed, reflecting the 'twists, turns and roller-coaster rides' (Gioia, Corley, & Hamilton, 2013) associated with an inductive approach. Gioia et al. (2013, p. 19) emphasise that interviews must change as the interviews progress, as the researcher is obliged to follow where representatives lead.

All but two interviews were conducted face-to-face; with one conducted by video conference and one by telephone. No discernible differences were noted between the data gathered from interviews conducted in person and remotely. Interviews were recorded, and to give full attention to the interviewees, the researcher chose not to take notes during the interviews.

This approach worked well for all but one interview that was interrupted mid-way through and the recording of the second half of the interview failed. Given that time is money for partners of law firms, interviews were less than one hour and took place at the firms' offices to avoid imposing travel time on participants.

As it was necessary to gain insight into the firm's perceptions (sensing DC), decision processes (seizing DC), and changes to the resource base (transforming DC), the research ideally required access to archival data. The researcher sought archival data that most directly addressed the real-time firm's perceptions and response to critical events and significant milestones in the firm's history. It was decided that strategic plans, minutes of partnership meetings, memos between partners about specific strategic issues and internal newsletters (which frame the partnership's response to events for general staff) would meet this criteria.

Case study firms provided different levels of access to archival data that was used in the research to validate data collected from interviewees, fill in gaps in historical timelines and provide contextual insights. A summary of data accessed for each firm is set out in Table 12. A schedule detailing the number and type of documents accessed for each firm, and the year they were created, is set out in Appendix Two. Archival documents relating to the early part of the studied period were rarely available, and strategic plans, for example, were usually available for only a few of the years covered in the study.

	Archival data descriptions
FirmA	Strategic plans
	Discussion papers for partners' retreats
	Minutes taken from partners' retreats
	Strategic options papers
FirmB	No access
FirmC	Internal newsletters
	External newsletters
	Situation analyses
	Strategic plans
	Emails between partners
FirmD	Historical record of the firm
	Internal newsletters
	Papers for partners' offsite meetings
	Discussion papers
	Board report

Table 12: Available archival data by case

To supplement the archival data sourced for each firm, the researcher also sought publicly available secondary data in the form of media reports and books that specifically mentioned the case firms. The timeline and volume of secondary data is also set out in Appendix Two.

5.4.2 Triangulation approaches

To reduce the chance of misinterpreting the data (Gioia et al., 2013), it is recommended that qualitative case study researchers use triangulation procedures (Gioia et al., 2013). Triangulation recognises the subjectivity of perceptions and therefore is a process that uses multiple participants’ perceptions and different sources to clarify meaning. In so doing, it increases the validity of the researcher’s interpretation (Stake, 2003). In practical terms, triangulation includes a constant cross-check on theories, data, participants and the researcher herself in order to reduce the effect of biases and increase the reliability and validity of the findings.

This research incorporated multiple forms of triangulation. First, five critical events served as collection points for data during each interview. Second, participant triangulation was used to build the narrative of each firm’s idiosyncratic path.

Finally, data triangulation occurred through the use of interview data gathered from interviewees, archival data (see Table 12), and any publicly available secondary data for FirmA, FirmC and FirmD.

Data triangulation for FirmB was not as complete, in that the researcher was not able to access archival data from the case firm. However, three of the interviewees had been employed by the firm for most or all of the period under study, which strengthened participant triangulation covering the 30-year period. In addition, as set out in Appendix Two, 29 pieces of secondary data were able to be accessed, and which contributed to building the insights into the firm’s perceptions, and changes to the resource base in particular.

5.4.3 Validity

For case study research to meet quality tests, the design must adequately deal with construct, internal and external validity as well as reliability (Willis, 2007).

Construct reliability requires quality measures of the subject matter to ensure the researcher avoids making subjective judgements (Yin, 2014). Gibbert, Ruigrok, and Wicki (2008) recommend adopting specific tactics to increase the construct validity of this research. First, using multiple sources of evidence to establish convergent lines of enquiry was achieved by drawing on interview data alongside archival data. Key participants were also given the opportunity to review transcripts. Secondly, a clear chain of evidence is presented to enable readers to follow the evidentiary process underpinning the logic between the research questions and the conclusion (Yin, 2014).

Internal validity describes the causal link between the data and the findings. The plausibility of the argument and strength of the logic should be compelling enough to defend the researcher's conclusions (Eisenhardt & Graebner, 2007). This research achieved internal validity by adopting the DC framework set out by Teece (2007) where the researcher looked at how firms develop sensing, seizing and transforming capabilities differently when faced with the same environmental conditions.

In contrast to single case studies that can limit generalisability (Yin, 2014), multiple case studies were used for this research to augment external validity, as they can produce theory that explains success or failure by identifying similarities and differences in case data. As this study conducted a cross-case analysis between four cases, it falls within Leonard-Barton's (1990) range of requiring four to 10 cases of analytical generalisability between the findings and the theory. Chapter 6 of this thesis provides a full description of the case context to help readers understand the choice of cases, further strengthening the external validity of the study by Eisenhardt (1989a).

The fourth dimension required to meet tests for methodological rigour is the reliability of the findings, achieved through transparency of procedures and the organisation of data to support the replication of the case study findings (Gibbert et al., 2008). Documentation of the procedures was supported by a specific case study protocol that followed Yin's (2014) approach, and data was stored systematically within NVivo.

5.4.4 Human ethics

The Victoria University Ethics Committee approved the design of this study.

Any research involving human subjects requires specific ethical consideration (Eisenhardt, 1989). Steps were taken to protect privacy and confidentiality and protection from harm arising from the research, including gaining informed consent from the most senior person within the firm to participate in the study, and from interviewees in order to secure voluntary participation. Signed documents were then stored securely on university servers.

The anonymity of the participants and the firms they represent was paramount in the reporting of the data, given the competitive sensitivity of the subject matter. No individuals' or firms' names, office locations, or any identifiable data is included in this thesis. These steps to maintain confidentiality are particularly necessary given the small size of New Zealand's legal services industry.

Interview recordings and transcriptions were kept in a secure electronic location, and are accessible only to the researcher for the duration of the research. Interview recordings, archival documents, notes and transcripts will be stored on the Victoria University secure workspace for six years after the publication of the thesis, but will be removed from the researcher's personal computer.

5.5 Methods of analysis

Given that qualitative analysis is interpretive by its nature, it is important that researchers seek to ensure consistency of their interpretations. Looking for regularities within the data is an important step towards achieving such consistency (Paula Jarzabkowski, Paul Spee, & Smets, 2013).

A common method in case study research is to look for emerging themes and relationships in the empirical evidence that answer the research questions and develop theory (Bingham, Heimeriks, Schijven, & Gates, 2015). Because multiple case studies produce vast amounts of data, Eisenhardt and Graebner (2007) recommend developing theory in sections, each supported by case evidence presented in visual devices and the evidence from each case study summarised in tables to avoid over-emphasising description over theory building.

Many longitudinal multiple case study researchers have claimed to have taken the grounded theory approach to analysis, as they cycle between theory and data to induce theoretical arguments, including the following authors (Kale & Singh, 2007; Mitchell, 2015; Pablo, Reay, Dewald, & Casebeer, 2007; Sune & Gibb, 2015). However, Eisenhardt and Graebner (2007) warn against labelling research as 'grounded theory building' unless actually adhering to Glaser and Strauss (1967) original intent, which involves the construction of theories through methodical gathering and analysis of data.

Therefore, this research avoided the grounded theory label and used techniques prescribed by Eisenhardt (1989a) and Yin (2014) to search for cross-case patterns in the data. The research identifies similarities and differences between the cases in order to avoid what Eisenhardt (1989a, p. 541) describes as 'simplistic frames'. A valid approach is to let patterns, insights and concepts emerge from the data (Yin, 2014) assisted by structured manipulations, including categorising the data into a matrix of categories, creating data displays and tracking the frequency of different events or behaviours.

The data was analysed in five consecutive phases, following a similar process to that used by Jantunen et al. (2012), which drew on Laamanen and Wallin (2009) analytical process.

5.5.1 Preparation and coding of the data

The longitudinal nature of the study required the research to assemble the evolution of multiple events over time.

All interviews were transcribed in full and imported into NVivo. Any archival data (as detailed in Table 12) that had been provided to the researcher in electronic form was also imported into Nvivo. However, many of the documents were in hard copy forms, or had been captured in photographs, it became apparent that it was necessary to manually type additional relevant excerpts and phrases.

It was essential to understand the path that each firm had followed during the studied period, as capability development is seldom context-independent (Laamanen & Wallin, 2009). Therefore, the secondary data for each case was arranged in chronological order to build case frameworks that were then enriched with transcribed interview data to establish an in-depth contextual case study for each firm in the sample.

A coding schema was developed in Nvivo, with parent nodes reflecting Teece's first-level classes of DCs, second level nodes representing the micro-foundations of each class, and the third level identifying categories of evidence underpinning that class. The coding schema is attached as Appendix Two of this thesis.

The researcher searched each case study for quotes and excerpts to identify the presence of different classes of DCs using the operationalisation of Teece's framework. This was a two-part process, starting with coding each interview transcript separately to ensure full familiarity with the data, followed by re-coding of the data contained in the full contextual case study to validate earlier coding interpretation. Coding required labelling extracts of data that aligned with the mechanisms underpinning Teece's classes of DCs.

Parent codes were also set up for each of the critical events identified in section 5.3.3.1, to provide opportunity for cross-case analysis at a later stage. During the coding process, it became apparent that the data offered insights and themes that did not fit into the initial coding schema for Teece's framework. For instance, a theme emerged about the role non-professional management played in DC development, which was specific to the PSF context. Separate nodes were set up where similar themes warranting further analysis emerged.

The coding process described above reduced the quantity of data being carried forward to the next stage of analysis. After completing all four case study analyses, the researcher exported the coded data into spreadsheets to allow the beginning of cross-case analysis. Coded sections maintained the source of the data. The spreadsheets helped provide an initial view of the similarities and differences in DCs present in each case and ensured consistent application of coding.

5.5.2 Data analysis process

The researcher then wrote up the first two sections of each case study, namely the case description and analysis of the presence of DCs. Completing a thorough analysis of the presence of DCs was necessary before interpreting the data for presence of stimulants or inhibitors.

After identifying the presence (or absence) of DCs in each, on a case by case basis, the cases were examined for evidence of stimulants or inhibitors, drawing on the operationalisation of these constructs set out in the coding guide in Appendix Two. Similar to the coding pattern

used to identify the presence of DCs, themes that emerged that were not identified in the coding guide were established and relevant text was recorded against these. In addition to recording stimulants or inhibitors that related to DCs generally, each was attributed to one or more of Teece's classes of DCs.

Cross-case analysis was carried out to compare both the DCs identified in each case, and evidence of stimuli and inhibitors. The cross case comparison started with exporting coded data from NVivo into spreadsheets so they could be displayed in an array and analysed as a set. The intention was to pinpoint similarities and differences in the cases to generate patterns that fit with the evidence (Eisenhardt, 1989b).

After comparing the stimuli and inhibitors relating to each class of DC, the researcher was able to understand the mechanisms that seemed to influence the development or inhibition of DCs, with reference to answering research question d. about the factors that influence similarities and differences in DC development. Table 13 summarises the different analytical phases of this study.

Analysis phase	Analytical objective	Analytical process used
Phase 1	Describe the path followed by each case	Document history of the firm, enriched by interview data, to reconstruct the 30-year path of each case.
Phase 2	Identify a) presence of DCs, b) triggers for their development, c) themes in stimulants or inhibitors for DC development	Thematic analysis. Deductive coding of DCs using the research framework.
Phase 3	Assess similarities and differences between the presence of DCs across case studies	Cross-case comparison using spreadsheets to highlight matching and different patterns in DCs.
Phase 4	Assess similarities and differences in developmental mechanisms relating to each class of DC	Cross-case comparison resulting in distinctive sets of stimulants or inhibitors relating to Teece's three classes.
Phase 5	Identify relative importance of antecedents depending on their influence on DC classes	Overlay inhibitors and stimulants of each class of DC to identify the mechanisms that affect more than one class of DC Consider different explanations in the literature in order to explain the mechanisms that affect DC development.

Table 13: Summary of analytical phases

Insights into antecedents of DCs, stimuli and inhibitors and their underlying mechanisms emerged from this analysis.

6 Case context

It is important to understand the context for the PSFs, and specifically law firms in New Zealand, which are the focus of this research. This chapter describes the importance of PSFs to the economy and structural features of PSFs, explains why law firms are considered classical PSFs and the changes affecting the legal services industry, and provides an overview of the New Zealand legal profession's history.

6.1 Importance of professional services to the economy

PSFs are critical members of a modern economy. In 2013, the management consulting, accountancy, legal and architectural sectors employed 14 million people worldwide and generated US\$1.6 trillion (Empson, Muzio, & Hinings, 2015). Their knowledge and technical expertise shape competitiveness, growth and innovation across the economy. Sharma (1997, p. 758) claims that 'business as we know it would come to a grinding halt if it were not for the cadre of professional service organisations'.

Employees of PSFs are highly trained and qualified, and in New Zealand earn 40% more than the average salary earner (MBIE, 2014). In 2013, 2.6% of New Zealand's workforce was employed in professional services (Ibid), after a brief decline in numbers following the 2008 Global Financial Crisis (GFC).

Empson et al. (2015) maintain that PSFs are worth studying because of the insight they offer into complex interpersonal and organisation dynamics evident in knowledge-intensive firms. While many empirical management studies have focused on manufacturing firms, there is only a limited body of research that can help inform organisations as they increasingly move into knowledge-based ways of working.

6.2 PSFs and entrepreneurship

Entrepreneurship in PSFs or 'new practice development' relates to how new forms of expertise are created, embedded and used. New practice development is important to ensure service offerings align with market demand, to build a reputation as innovative, and improve the delivery and value of their services to their clients (Heusinkveld, Benders, Berg, Reihlen, & Werr, 2012).

Heusinkveld et al.'s (2012) case study research into PSFs' processes of market sensing found that this is not an independent activity, but instead is seen as an integral element of every phase of new practice development. Learning processes begin through discussions with clients in the professional's network and are supplemented with general information about market needs. Concepts may be tested at the client assignment level and through reactions from larger-scale communication of detailed plans within the firm.

The innovation literature also stresses the importance of strong market orientation to convert client information into new services (Adams, Day, & Dougherty, 1998; Heusinkveld et al., 2012). Market orientation in a PSF manifests itself in the internal organisational capabilities to generate and process market data. The organisational capabilities necessary to understand and use information include the firm's ability to deal with internal tensions and overcome potential barriers. Senior management plays a role in fostering a culture that encourages risk-taking and accepts failures, and commitment to overcoming the political systems and status structures that lock in the status quo.

However, such processes do not exist in a socio-political vacuum. Processes require a champion to convince internal stakeholders (senior managers and leaders of other practice groups) of the legitimacy of the new area of expertise and its commercial application.

Innovation literature suggests that developing new products is a linear process that requires moving through different stages, starting with idea generation and ending with the successful market release (Rogers, 1995), and it is supported by others within the firm throughout the process. But several studies (Anand et al., 2007; Timothy Morris & Empson, 1998) argue that although new practice development activities in PSFs possess some commonalities, individual firms' practice development approaches are idiosyncratic. This is largely because the development of new practices is highly contested and often encounters substantial internal challenges to accepting new ideas (Heusinkveld et al., 2012). Internal challenges may include criticism and disbelief about the value of a new idea, and therefore require significant effort in securing internal legitimisation before a market launch.

6.3 Isomorphism

For PSFs, more than for firms led by managers with more diverse academic backgrounds (DiMaggio & Powell, 1983), pressures exist that draw competing firms towards possessing homogenous capabilities. DiMaggio and Powell's (1983) important work on institutional isomorphism describes in detail the normative pressures that stem from professionalism. Institutional isomorphism describes the process of groups of firms adopting similar organisational forms and practices as they compete for power and legitimacy (Leicht & Fennell, 1997). They argue that the common education of a group of professionals (for instance, lawyers), coupled with the normative rules of their professional organisations produces 'a pool of interchangeable individuals' (DiMaggio & Powell, 1983, p. 152). Consequently, as many lawyers occupy similar positions within firms, their similar cognitive frames and dispositions mean they tend to view problems in the same way, see certain organisational solutions as normatively sanctioned and approach decisions relatively homogeneously (Ibid).

6.4 PSFs and governance, management and leadership

Leblebici and Sherer (2015, p. 10) define governance in the PSF setting as the legal and non-legal rules, norms, conventions, standards and managerial practices that enable coordination and conflict resolution among its 'critical constituencies'. Laura Empson and Chris Chapman (2006) view governance as an interpretative scheme, which is manifested through the organisation's legal form.

The partnership model is the most common organisational form in the professional services sector and is a particularly successful model for managing knowledge workers (Greenwood & Empson, 2003). The partnership binds together multiple owner-managers by unlimited personal liability for the actions of their partners and staff. In contrast to the asset partitioning that is present in private companies, there is no separation between the assets of the partnership and the personal assets of the partners, which leaves them fully exposed to liability arising from the misconduct of their colleagues. Partners wholly share both risk and profits and do not require any external ownership.

In contrast to the positional authority evident in corporations, partners in professional partnerships enjoy day-to-day autonomy, but decision-making is a group-based activity where all partners have an equal say. A formal voting system underpins the equal authority held by partners (Greenwood, Hinings, & Brown, 1990).

Greenwood and Empson (2003) write that partnerships incur internal agency costs when they reach a certain critical mass and delegate management to a centralised group of partners. Typically, such a group is made up of older partners whose interest in short-term rewards may be at odds with their younger colleagues' interests in long-term investment (W. Wilhelm, 2001). However, internal agency costs are likely to be relatively lower than in a publicly-managed organisation structure because partners are knowledgeable about the business, which enables them to monitor their partners' behaviour. Their proximity enables them to influence stakeholders, and managers are aware of the scrutiny of their colleagues so they are less likely to behave in ways unacceptable to the majority.

The nature of the PSF business is that professionals apply complex knowledge to solve clients' non-routine problems (Greenwood & Empson, 2003). Many scholars argue that the customised knowledge applied by highly-educated professionals is likely to render formal hierarchies and bureaucratic control structures unsuccessful (Tolbert & Stern, 1991; Wallace, 1995). Reasons for traditional organisational controls being less effective in the PSF context include professionals' expectation of a high level of autonomy (Von Nordenflycht, 2010) and the high costs involved in supervising non-routine work. Therefore, partnerships that use collegial controls rather than hierarchical ones are more likely to optimise professionals' job satisfaction, discretionary effort and, importantly, retention. Furthermore, when professionals hold knowledge and relationships with clients that are critical to the firm, the opportunity to invest in its ownership, reap financial rewards and participate in decision-making helps lock in the knowledge-generating assets of the firm.

Susskind (2015) sets out several shortcomings of the partnership model as a business vehicle. Susskind argues that partnership fosters confusion between equity interest and management, the communal decision-making can result in paralysis, and it is a compromised mechanism for accessing capital for investment. As professional work becomes more decomposed and reconfigured, the partnership will no longer be the business model of choice. In recent decades, many larger PSFs have adopted a 'corporatised partnership' model (Empson, Cleaver, Allen, 2013), which is characterised by more explicit and hierarchical governance structures, the adoption of management systems and a new focus on measurable aspects of partners' performance (Cooper, Hinings, Greenwood, & Brown, 1996). Academics define the increasing importance of business-like behaviour and values as representing the archetype of the managerial professional business archetype (MPB) (Brock, 1999; Cooper et al., 1996). The MPB archetype places value on commercial orientation and features dominant and assertive managers with an influential role in

ensuring the firm's business success. Since the late 1990s, large law firms, in particular, have employed senior management experts, giving managers more status than traditionally bestowed on non-lawyers within law firms. The most senior management professional usually works closely with the Managing Partner, exploiting their different endowments of formal authority, specialist expertise and social capital to bring about institutional change.

Pinnington and Morris's (2003) case study of British law firms found that while the operating control dimensions of the firm have been subject to managerial disciplines, the interpretive scheme of the partnership remains, in that partners continue to control decisions about the pursuit of opportunities, the selection of clients and the governance of the firm. They challenge the assumption of a radical change away from the traditional values and governance method of the PSF partnership model.

PSFs are usually owned by a partnership, and have traditionally been characterised by the decentralised power and control across the partners due to professionals' high need for autonomy (Anand et al., 2007). However, more recently, changes in the business environment for PSFs such as increasingly complex client demands and heightened competition due to globalisation have led to an emphasis on efficiency, productivity and growth strategies (Tim Morris, 2008) that this model no longer suits. Such forces have led to the separation of professional and management roles and the emergence of the 'managed professional business' (Tim Morris, 2008, p. 152), but the underlying archetype of dispersed power across the partnership, particularly due to their proximity to clients, limits the ability of management to exercise absolute control over the strategic choices affecting the direction of the firm.

6.5 Legal services as classical professional services

The industry selected for this study is specifically law firms, which are widely regarded as being 'canonical examples' of PSFs (Von Nordenflycht, 2010, p. 155).

Von Nordenflycht (2010) describes a taxonomy of PSFs, categorising professional services into four groupings based on the characteristics of knowledge intensity, low capital intensity and professionalised workforce. Classical PSFs, such as law and accounting firms, reflect the 'archetypal view of professions' (Von Nordenflycht, 2010, p. 165) because they possess all three characteristics.

Classic PSFs are characterised by high knowledge intensity in that their output relies on the complex knowledge (Starbuck, 1992) and personal judgement of the intellectually skilled experts delivering the service (Løwendahl, 2005). Classic PSFs do not require significant capital assets such as inventory, equipment and manufacturing plants to deliver their services. As well as increasing PSF employees' bargaining power because of the centrality of their skills to producing outputs, historically low capital intensity has meant PSFs do not require the external investment that would require a share of the equity. Therefore, many PSFs are able to structure themselves as privately-owned partnerships.

A further feature of classic PSFs is the professionalised workforce. Although there is some debate in the literature about the definition of a 'profession' (Buhai, 2012), Von Nordenflycht (2010) settles on three features in his definition: a specific knowledge base; control of that knowledge base through regulation; and an ideology embodied in professional codes of ethics.

Some of the ambiguity in what is encompassed in professional services stems from a lack of clarity of about what falls within the bounds of a profession. Bowie (1988) argues that the most important characteristic of a profession, and the legal profession, in particular, is its 'altruistic spirit'. Business management, for instance, does not meet the threshold of being a 'profession' because according to economic theory, business people's motives are to maximise their self-interest. This 1988 perception of a profession as primarily altruistically motivated over personal wealth has become outdated. Buhai (2012) questions Bowie's argument, claiming that while some lawyers may be 'professionals', most do not meet the altruistic threshold even though they are required to put 'principle before profit' (Bowie, 1988, p. 742).

Nevertheless, law firms are widely regarded as being a canonical example of a professional service (Von Nordenflycht, 2010, p. 155). A structural feature of law firms is the professional partnership, which according to scholars such as L. Empson and C. Chapman (2006), is the most suitable governance structure given the characteristics of extreme knowledge intensity work.

However, the practice of law produces a homogenous set of pessimists. It is considered a legal duty to identify risks and flaws in proposals — no matter how 'outlandish' — to protect clients (LexisNexis, 2011, p. 5). Such a mindset can become ingrained in individual lawyers' personalities, undermining the ability to take a balanced approach to risk in their own businesses.

6.6 Changes in the legal services industry

Futurists predict the legal world will change more in the next two decades than over the last two centuries (Susskind, 2015). The legal profession, in general, has experienced change at a pace not experienced before. Academics such as Empson et al. (2013), Susskind (2008), W. D. Henderson and Bierman (2009) paint a picture of an industry at a cross-road.

'This phenomenon of 'consensual neglect' seems a particularly apt description of the strategic posture of many (if not most) law firms in today's rapidly changing market for legal services. Ignoring strong indicators that their old approaches — to managing legal work processes, pricing, leverage, staffing, project management, technology, and client relationships — are no longer working, they choose to double down on their current strategies rather than risking the change that would be required to respond effectively to evolving market conditions.' (Georgetown Law, 2018, p. 3)

Law firms are currently undergoing an unprecedented and divergent change, which breaks with the profession's prevailing institutional logic (Greenwood & Suddaby, 2006a). Laura Empson and Chris Chapman (2006) argue that changes in the legal services market, combined with the increasing scale and complexity of law firms, has given rise to a 'new logic' that is more consistent with a corporate model than a partnership.

Georgetown Law (2018) analysis of the market for legal services paints a concerning picture of declining growth in key metrics. The market has been flat to negative every year from 2008, despite a recovery in the rest of the economy after the 2008 GFC. The greatest pressure on traditional legal services is cost, which has made legal services increasingly unaffordable to both consumers and global businesses (Susskind, 2015).

Client relationships

Traditionally, partnerships secure relationships with commercial and private clients that would sometimes last for generations. Clients were loyal to one firm that they used to meet all their legal needs. Currently, large corporate clients are more likely to procure their legal services in the same way as they purchase other commodity purchases — through competitive tendering processes and the retaining of preferred providers on a contracted panel. Panels decrease transaction costs and often produce cost savings for the client because of the competitive pricing required to secure a place on the panel.

A 2010 report by one of the largest global law firms states that the balance of power has shifted to clients as the legal sector modernises and morphs into a client-led market (Eversheds, 2010). The role of General Counsel as leaders of legal teams inside organisations is growing in status and power and supplanting external law firms as trusted advisors at governance levels. As knowledgeable clients and sophisticated buyers of legal services, they are increasingly looking to external law firms for piecemeal specialised advice.

New ownership models

External ownership of law firms was allowed in Australia from 2007 and 2011 in England. The first law firm was listed on the Australian Stock Exchange in 2007 as an incorporated law firm. However, the strength of professional norms and the values of lawyers has not led to a rush to list. Under a corporate model, some lawyers see a drop in personal status from partners to employees as being unpalatable, as well as undermining professionalism through the inevitable adoption of standardised practices and top-down decision-making by corporate owners (Chaffey, 2011).

Technology

Technology has affected legal work processes resulting in the faster speed of production, the ability for professionals to work remotely, and increased managerial oversight as practices become more automated, generic, measurable and accountable.

Furthermore, technology allows clients access to information that had previously been restricted to law firms. They can access legislation themselves through free databases of legislation, have greater input and provide earlier feedback on legal opinions through document sharing, reducing lawyers' professional prerogative to form independent and possibly opaque opinions.

But technology has not only transformed the work of lawyers. In a 2010 report, 58% of clients said they were considering technological solutions to streamline and standardise their in-house legal processes (Eversheds, 2010). With the boom in in-house legal teams, this suggests a reduction in the amount of work available for external law firms — a trend that is showing no sign of abating.

Substitutes

Since 2008, demand for US law firms' services has been flat to negative, despite an overall increase in spending by corporate clients (Georgetown Law, 2018). This suggests that law firms have been losing market share in the face of an increase in substitutes for their services.

In-house legal teams are on a growth trajectory, both in headcount and budget, which means more legal work is being done inside clients' organisations than by external law firms. In New Zealand, the proportion of lawyers practising within in-house teams has been growing for years and currently sits at 21.3% (NZLS, 2016).

Non-traditional legal service providers now include accounting and auditing firms, legal process outsourcing firms, managed legal services and contract lawyers, adding up to US\$8.4 billion in revenues that had formerly gone to law firms (Georgetown Law, 2018). Start-up legal service providers observe that traditional law firms' complacency in responding to the needs of their market has provided significant opportunities for new models (Ibid).

6.7 A history of the New Zealand legal services industry

One of the objectives of choosing a longitudinal study is to benefit from a series of critical events that each provide a clear data collection point (Pettigrew, 1990). Critical events or 'social dramas' (Pettigrew, 1990, p. 275) define trigger points for observable organisational transformation. Critical events may lead to fundamental change, which should provide an opportunity for the firm to deploy its DCs. Pettigrew (1990) is also clear that any changes must be studied in the context of changes at other levels of analysis, including sectoral and economic change.

This study aimed to collect data at five distinctive points that represented economic, regulatory, buyer behavioural and reputational crises for the legal services industry in New Zealand. The data collection points were identified by researching NZLS newsletter archives that provide insight into important issues for the profession.

At the start of the study period, in 1985, New Zealand had only 4,770 lawyers in practice, or one per 681 people, but by 2016 this had increased nearly three-fold to 12,124 lawyers in practice, or one per 384 members of the public (NZLS, 2016).

The critical events that occurred during the 30-year period under study, and which are summarised in Table 7 in section 5.3.3.1 are set out in more detail below.

1984 was an important year for New Zealand in that the Muldoon protectionist government was removed from power. In the years immediately afterwards, successive governments adopted free market philosophies in a bid to drive down costs so as to become internationally competitive. The

economy, which had been subject to subsidies and a protectionist regulation, was freshly exposed to new forces of competition.

Before 1984, lawyers in New Zealand were not permitted to market their services to the general public for fear of misleading consumers. However, in 1984 the NZLS's Council approved new ethical rules (NZLS, 2013) that allowed lawyers a restricted ability to use conventional strategies to attract new business. Simultaneously, the published scale fees for conveyancing services that had previously inhibited competition within the profession were removed, creating new opportunities for new entrants into the market and for downward price pressure. Conveyancing had previously been a source of significant profits for firms, as the scale fee bore little relationship to the cost of offering the service.

With the downturn in conveyancing work and increasing competition from new sources, the size and shape of law firms began changing radically from the traditional partnership of generalist lawyers with an average of three partners (Arcus, 1991) and usually focusing largely on services for private clients. By 1991, lawyers in some firms had begun specialising in narrower areas of the law, particularly for government and commercial clients. Large firms with multiple offices throughout New Zealand had emerged, some even with international connections.

According to the outgoing NZLS President in 1991, the profession was 'reeling' from the onslaught of legislative change that occurred after the Muldoon government was removed from power in 1984 (NZLS, 1991a). Profitability was being eroded by competitive pressures, the historical over-reliance on conveyancing and the weakening of client loyalty. Trying to bolster the confidence of the profession in a time of change, the President passed the mantle to the new President with the hope that she would be able to 'convince both the profession and the public that 'the god of competitiveness does not mean dragging all to the lowest common denominator but rather raising all to the highest common factor' (NZLS, 1991a, p. 17).

Despite the increased competition from within and outside the profession, a survey of business people conducted by the NZLS in 1991 found few lawyers were taking advantage of growing opportunities to service the private business sector. Accountants were winning the battle for market share of small business advice. Survey respondents perceived lawyers as 'narrow', 'expensive', 'providing poor service' and 'should be dealt with as little as possible' (NZLS, 1991c).

Struggling law firms were warned by the NZLS that they must dramatically improve the management of their firms, and do away with the archaic view that 'good management is not something which is relevant to law offices' (NZLS, 1991b). The NZLS formed a committee and committed to educating law firms about good practice management. Firms were counselled to adopt the language and strategic planning processes of the clients they advised (Shieff, 1991).

The 1991 New Zealand recession resulted in a severe annualised decline in real GDP of 6.1% (Hall & McDermott, 2014). The legal profession was not immune from the 'severe financial pressures' (Balls, 1991, p. 125) of the recession, with partners' incomes dropping, on average, 20% in that year (Ross, 1991), largely due to the decrease in commercial activity across the New Zealand economy. Firms laid off staff, counselled out solicitors unlikely to be on the partnership track, and stopped recruiting. In an unprecedented move, the NZLS started offering a telephone counselling service for lawyers suffering from stress.

Late in 1996, the NZLS President, Austin Forbes QC, referred to the legal profession as 'bending under the weight of negative publicity' (NZLS, 1997, p. 7), having slumped from 45% to 14% in public trust in the profession. The President described a profession in crisis due to increasing competition, reduction in market share and 'fighting the challenge' of diversification. In 1997, lawyers saw the public perception of lawyers as the top issue facing the profession, and 93% felt it was important for the NZLS to commit resources to improving the public's trust and confidence in the profession (Ibid).

In 1997, the Trans-Tasman Mutual Recognition Act came into force, which was designed to promote trade between Australia and New Zealand and enable lawyers to work relatively easily in either country. It also increased the pool of competition, particularly for MNE corporate business — a sign of things to come under increasing globalisation of the law.

Simultaneously, multi-disciplinary practices emerged combining legal, accounting and consulting advisors under brands strongly associated with Big 4 accounting practices. The value proposition to clients was fully integrated business and legal advice. Academics warned law firms to 'be worried' (M. Henderson, 1998) by accounting firms muscling in on the legal business, competing for clients and staff. Research conducted by the Auckland District Law Society at the time showed that 40% of clients would leave a firm when their primary lawyer left the firm, meaning law firms could no longer afford to believe that firm name alone would keep clients loyal (Ibid).

Following a drawn-out period of consultation with the profession, the Lawyers and Conveyancers Act 2006 came into force on 1 August 2008. According to Webb (2007), the intent of the Act was to shift the legal profession towards consumerism and away from professionalism. The Act explicitly states that one of its seven purposes is to protect consumers in relation to legal and conveyancing services, putting lawyers' duty of care to their clients' front and centre ("Lawyers and Conveyancers Act 2006," 2006). Another purpose of the Act was to enable the profession to adapt to more modern business conditions. The Act removed lawyers' monopoly over providing conveyancing services, with the intent of further driving down the cost of the service.

Ironically, when the rest of the New Zealand economy was suffering in the aftermath of the 2008 GFC, New Zealand law firms' profitability per employee increased by 10% in 2010 (Krause, 2011). This did not correspond with a boom in employment prospects for young lawyers — many larger firms in particular laid off staff, cut equity partners, reduced their headcount by attrition and froze intakes of law graduates and summer clerks following the GFC. The worst affected firms were those with large commercial property and merger and acquisition practices, but others flourished as they reallocated resources to refocus on recession-boom services such as insolvency, infrastructure, insurance and litigation.

The Government Procurement Reform Programme set out to establish a single supply agreement between approved suppliers and the Crown for the supply of specific goods and services (Mainline, 2012). In 2011, the Government tendered for external legal services and selected a panel of 39 firms to be across seven areas of law. Eighty-seven of the 125 firms that participated in the tendering process were unsuccessful, with many losing access to the pool of government work. The firms that secured a place on the panel expressed frustration at the Government's procurement people intermediating between firms and their clients, downward pressure on fees and 'clunky' reporting processes (NZ Lawyer, 2015).

7 Case studies

7.1 Case study FirmA

7.1.1 Case description

FirmA's growth had largely come about through mergers. From early in the 1980s, seeing that the fastest path to growth was through critical mass, its Managing Partner scanned the 'local pond' for peers who he knew could add value to the firm through mergers and boost its capabilities in complementary practice areas.

The mid-1980s were an exciting time of opportunity and growth for FirmA — new offices, new partners, new staff and a bigger operation. People 'were up for change' and saw the prospects of a better and larger firm, maintaining and attracting more top clients, and being able to pursue areas of expertise rather than just those basic areas.

After the scale had been abolished, new competitors for conveyancing work entered FirmA's local market. Several 'cut-price merchants' set up in competition offering conveyancing transactions for as little as \$400 in comparison to the scale equivalent of \$1000. Competition flourished, and although the market didn't fall away immediately, many new clients favoured lower-priced firms instead of FirmA's more traditional model.

The entrepreneurial Managing Partner, along with a partner of a mid-sized firm in a different city, constructed the concept of bringing together a formal group of mid-sized law firms to share knowledge and build strength in numbers. Driven by a concern that increasingly the larger firms with greater resources were raiding the best clients of mid-sized firms, the idea of the group was to give member firms access to specialist resources and people, and the ability to share best practices and to network. The membership criteria were that firms must want to do better, improve their businesses, offer great services, and retain and win high-quality clients.

Buoyed by the excitement of the time, FirmA saw the opportunity to extend its services into selling property. One of the partners went on a research trip overseas to see how lawyers selling property worked in other jurisdictions, and other partners investigated the market in New Zealand. The result was New Zealand's first lawyer-run property brokering company. However, the

new business was short-lived. The firm suffered a backlash from independent property agents who stopped referring conveyancing clients to them.

Despite this setback, the firm continued to grow, merging with a 10-person firm in 1987. The stock market crash in October of that year caught everyone by surprise, but the firm did not experience negative economic effects until the recession of the early 1990s when its overall performance was 'pretty lean'. Despite tough times, there was no expectation of downsizing, particularly within the partnership itself. Considering the partnership to be 'all in this together', they were committed to soldiering on. The partners valued collegiality, and so the expectations of financial return were adjusted accordingly.

1989 was a year of entrepreneurial activity. The firm entered a joint venture with an investment design company to establish a new revenue stream and offer clients financial planning and investment advice. It also established a property search agency, with the goal of providing 'the most efficient search and registration service possible' for clients.

The firm's mission statement in 1990 was to be the best law firm in its area. To help it navigate towards its goal the firm introduced a 'logical and efficient' planning system within the firm:

'... so that the planned course of action generates the desired growth and results, and that through integrated planning, appropriate staff and resources are available to meet the firm's needs'. (FirmA Archive)

Holding an annual retreat for partners to reflect, plan, and bond became a firm policy.

From the early 1990s, the firm saw the benefit of developing deeper specialisations to attract more valuable long-term clients. It saw itself in the difficult space occupied by many medium-sized firms, where it required a lot of partners, staff and resources to carry out the high-volume and resource-hungry transactional work, but it had few highly-profitable clients to cover fixed costs.

Seeing opportunities to help New Zealand companies win building contracts in Asia, FirmA entered a joint venture with two provincial firms in September 1992. The head of the joint venture firm said, at the time, that the move into international work was in response to clients' desire to get more major work offshore.

In 1995, the litigation team 'delaminated' from the firm. The split came about after it became clear there was a divergence between the financial performance and client bases of the commercial and litigation practices. Internally, it was noted that:

'The proposal shook the partners at first, but a consensus had emerged that there are currently two distinct philosophies active in the firm. These are manifest particularly in the time of financial pressure.' (FirmA Archive)

At the time, FirmA acted for many developers who had a 'pretty blasé, negative, abrasive attitude towards lawyers'. They used the mid-1990s slump in confidence in the profession to give the firm 'a bit of a hard time'. There was no effect on the firm's relationship with loyal clients, but new clients perceived lawyers more suspiciously.

With a staff of 42, and earnings flattened due to the challenging economic times and growing competition, the firm began to look at ways to make sure it priced its services at a level that clients still regarded as good value. The partnership often discussed the question of how to add value. It saw the opportunity to develop software that would help it provide a better service to clients and to create internal efficiencies that would improve the bottom line. After researching the market and finding no products available to suit their needs, it developed its own specialist conveyancing workflow platform.

After realising the value of the workflow in its own business, it set up a separate company to market the software through an innovative business model, which also differentiated the firm from its competitors. A 1998 paper written by the partner leading the development said:

'I believe with our expertise and our systems we are well placed to take on outside competition. I have commissioned a marketing consultant ... to advise us from the perspective of a first home buyer. We are now working on a strategy that will promote a conveyancing service as a division of FirmA rather than as FirmA ...' (FirmA Archive)

A significant milestone in FirmA's history was the decision to open an office in a nearby city. Despite being the strongest commercial firm in its home market, the largest clients did not consider it a serious contender for commercial work because of the perception that it was 'suburban' firm. The expansion was driven by the partners' goal for the firm to be seen as a credible commercial law firm, with the expertise and resources to service large commercial clients. They perceived that they needed to have an office in the nearby city to be taken seriously.

The strategy for building up business for the new office involved 'just getting out there'. Supporting the opening of the CityX office as a new era for Firm A, the offices themselves represented a different way of operating. Because an advertising agency had previously occupied the premises, the fit-out was open plan, 'funky and cool', with an integrated reception area. There were no offices — partners and staff worked alongside each other — with no obvious physical barriers. The newfound philosophy of openness extended to getting alongside clients and forming trust as equals. This approach formed an important basis for the new branding that was adopted to emphasise a sense of excitement, create a vibrant atmosphere for the firm's business development, and to 'show people that we would be creative and provide excellent legal advice'.

An objective of the rebranding exercise was to:

'... challenge ourselves, be a little brave, energise our business and have some fun with clients in the practice of law. We wanted a brand that would generate positivity and personality — create a real sense of value and excitement internally for ourselves and our staff as we did all these things'. (NZ Business, 2003)

The new millennium saw FirmA enter the competitive mortgage broking market. It set up its property division to take advantage of the 'impending deregulation of the property conveyancing industry', believing mortgage broking was an area that could expand. It based its decision on research that showed that in 2000, only 20% of home buyers had a mortgage negotiated by a broker, while in the US the figure was 80% (Bedford, 2000).

FirmA acquired a small firm with a strong base of commercial and private clients in 2001. The new firm's target market was small to medium-sized businesses, but it also had a significant private client practice. The proposition was to leverage the acquired firm's client base by being part of a 'better-resourced environment'.

Internally, the partners were feeling buoyant about the future. Notes from the partners' retreat told a positive story.

'FirmA can be described as a 'small mega-firm': it has the advantages of the type of resources and quality of people available in larger firms, but at the same time it has the perceived advantages of size, culture and personality of a smaller firm ... While the firm has a significant history, in the last few years new energy and innovation in the management and direction of the firm have come from the partners. Partners have sought to establish

FirmA as a progressive commercial law firm; a firm that while small compared to larger firms in the area has some people doing genuinely specialised and dynamic legal work.' (A2)

Around the same time, the partners reviewed the management structure of the firm and put in place a hybrid model with:

'... a fully involved General Manager (GM) — not quite CEO model'. (FirmA Archive)

Partners set the GM's expenditure authority; the Chairman of Partner's role was re-defined by the current Chairman, and an Executive Committee, with as many powers as it could assume from the partnership, was set up to undertake all management-related functions on behalf of the firm.

The partners considered the possibility of expanding to another large city in 2005 but concluded:

'We need to be the best in our area before we move to other regions of New Zealand. This does not exclude opportunities outside the region if they help maximise our returns in our own region.' (FirmA Archive)

It also considered alliances with a business coach and building in-house business broking capability. The firm was doing well, with partnership retreat papers recognising:

'... we are truly on track and the strategies we put in place 4- 5 years are paying off'. (FirmA Archive)

While other firms in the Law Association were struggling through the 2008 GFC, FirmA's agility was paying off. Seeing an opportunity to quickly scale up to provide mortgagee recovery services to the banks, a partner put forward the case to actively pursue that burgeoning area of work. With the blessing of the partnership, the firm quickly began providing mortgage recovery services to large financial institutions using a bespoke workflow system. The volume of transactions was 'massive', and the technology underpinning the workflow meant the service was highly profitable. The team grew to 10 people providing mortgagee recovery services.

However, as the economy improved, the mortgagee recovery work fell away quite quickly. To fill the void, the firm again considered strategies for growth. Seeing older practitioners with good firms but little or no succession planning, it decided to corral together good practices with complementary client bases. The strategy was to absorb small firms and manage the transition so well for the client that their loyalty transitioned to FirmA as a whole. It carried out due diligence on several firms and acquired a specialist property firm with an 'excellent client base'.

For several years, the firm had been targeting government agencies on the basis that:

'Government are the biggest spenders in CityX, and we need to have a plan to get this work.' (FirmA Archive)

When the government invited tenders from law firms wanting to secure a place on its legal service panel, FirmA saw the significance of the opportunity to put considerable resources into preparing its response, but its participation did not end well. Despite paying for external advice to help prepare the firm's response, and huge time and effort from the internal team, FirmA's tender was unsuccessful.

Not only was the loss demoralising, but it had a serious financial effect due to the loss of existing government clients. The partners also felt the reputation of the firm was dented because it had worked for some significant government entities and the All of Government (AoG) contract prevented it from continuing those relationships. It felt that pricing in the market generally was affected by the reduction in prices driven by the AoG process.

Around 2012, partnership relationships were showing signs of strain following the loss of the AoG work and the 'difficult exit' of the firm's Chair. Compounded by a slow economy, tensions between equity and salaried partners, and the dislocation between the suburban and city offices, the partners chose to move forward with a new Chairman at the helm.

Despite internal distractions, a 2013 independent review of FirmA found it 'impressive'. The report said:

'It is a modern firm with a strong client base, a good reputation, very profitable and a great place to work ... Other firms could learn from your systems.' (FirmA Archive)

However, identifying areas for development, the report found:

'It is very much a 'steady as she goes' programme without any specific plans for taking the firm to the next level ... There was limited emphasis on plans to move ahead.' (FirmA Archive)

In 2013, in response to falling profits, the partners agreed to explore further geographic expansion. They agreed:

'... a merger or acquisition opportunity should only be progressed if it enhances FirmA's competitive advantage, i.e. creates value by way of access to new or better clients, services, geographic markets and lawyers that enhance revenues and profit'. (FirmA Archive)

The result was the merger with a provincial firm in 2015. Seeing synergies between the new firm's technical specialisation and one of FirmA's major clients, as well as a good 'people fit', the merger went ahead.

Year	Quote encompassing the firm's narrative
1985	<i>'The removal of the scale ... well I suppose that was the start of much greater competition and ... We were particularly subject to that because we had some cut-price operators spring up reasonably quickly. We had to respond to that — and we had a good share of the market already — but we were drawn to some extent to compete on price so we couldn't be so far away from what was being offered by cut-price merchants.'</i> (A2)
1991	<i>'We had the ability to do pretty much — to a good level — anything that came in. That's good and bad ... but it enabled us to have some flexibility during the harder times to say yes, we can do this stuff. We can be adaptable.'</i> (A2)
1997	<i>'There was a bit of a flat period in terms of confidence and belief and all that sort of stuff. It was because as a result of that also the economic times weren't that flash either, so you weren't earning as much as you wanted so there's a whole lot of issues of uncertainty I suppose around that period. And in those times people starting to find out a bit more about the law themselves and probably the law profession as a whole didn't react [well] to retain that public confidence.'</i> (A2)
2008	<i>'With the mortgagee recovery work, the partner had to put the case forward, and they said yep, give it a go! It's quite funny because sometimes you think they're going to spend hours and hours discussing and debating it and then all of a sudden — 'just do it!''</i> (A1)
2011	<i>'There are two different schools of thought post-that. There were those that thought it established that you don't pay a consultant to do something that you think you can do yourself, and I think the other school of thought is that we just hadn't interrogated enough what was going on and what the outcome was going to be. And maybe it was the wrong choice of people with people who were fronting it for us.'</i> (A4)

Table 14: Summary of FirmA's responses to critical events

7.1.2 Presence of DCs

7.1.2.1 Sensing capabilities

For sensing to become elevated to a firm level, it must become an organisation-level routine. With an attitude of 'let's just give it a go', FirmA's culture is open to new opportunities and actively supports the pursuit of entrepreneurial activities. FirmA's early leadership had valued new ideas and supported innovation, and the success of some of those ventures positively impacted the partnership's openness to exploring new opportunities and experimenting.

The 'driving force behind the growth of the firm in the 1980s' was a visionary and entrepreneurial partner who created a culture where:

'People were up for change and saw the prospects of a better firm, improving the firm, maintaining excellent clients, attracting more, and being able to pursue areas of expertise rather than just those basic areas.' (A3)

He instilled a desire to expand the size of the firm and shift from servicing a primarily private client base to a balanced client base with more commercial work. The goal to move into commercial work was based on his intuition, but he could inspire the rest of the partners to make a conscious choice to pursue that area of work.

Eventually, the entrepreneurial spirit transcended the Managing Partner's leadership and became an essential part of the culture. The partnership continues to value new ideas, and the dominant paradigm is to be creative and try different ways to grow the business. The ambitions and the 'just do it' values that underpin innovation have continued to be evident in the firm's appetite for experimentation into adjacent services. It was noted:

'And the thing about FirmA is that we are up for it. We try stuff, and we will do stuff.' (A2)

FirmA learned from external sources as part of its involvement in a network of similar law firms that facilitated knowledge sharing, benchmarking and access to international thought leaders. It searched for knowledge outside its boundaries for business development opportunities. Given its entrepreneurial Managing Partner's founding role in establishing the Law Association in the mid-1980s, this set the tone for the partnership to continually look outside its boundaries to learn. This was adopted as a value that remained in place throughout the studied period. They saw power in collaboration and access to 'best practices'.

'If you look at the biggest value of [the] Law Association, it's ... information sharing, knowledge sharing.' (A1)

Through the Law Association, FirmA regularly exposes itself to external review and benchmarking of its KPIs against similar firms. The most recent, in 2013, was a qualitative review but referred to benchmarks undertaken by another consultant.

'The firm is well managed with an efficient and respected team in that role. You appear to be getting on top of the issues that forced the recent changes to be made. You have the advantage of a group of collegial partners with properly devolved management systems ...'
(FirmA Archive)

But the firm had been participating in inter-firm comparisons since the mid-1980s, which it saw as 'providing a good vehicle to reflect on our current position'.

Since the mid-1990s, FirmA has held annual business planning forums where it reviews competitor analyses, discusses market trends and opportunities, looks at its strengths and capability gaps, and documents commitment to actions. The General Manager (who has been with the firm for 17 years), supported by the firm's Managing Partner, prepares supporting documentation and ensures that the forums are organised. More frequent forums supplement annual planning for open discussion about developments and opportunities.

'It's an annual retreat. There's a pre-meeting prior to that ... That's where the discussion starts. Where are we lacking? What do we want to do?' (A1)

All firms in this study demonstrated searching that was primarily exploitative, in that they looked to build on the firm's existing markets, products, and abilities (Lisboa, Skarmeas, & Lages, 2011), which provide advantages for current performance. Firm A, however, demonstrated relatively strong explorative search capabilities, which challenge existing ideas and focus on new knowledge about new markets, products, technologies, and skills to ensure a firm's renewal. Since the late 1980s, FirmA has had the benefit of a particularly entrepreneurial partner with technology skills who has identified several opportunities and helped shape the firm's enthusiasm for new business ventures. Although there will come a time when he retires from the firm, his influence on the culture of the partnership is likely to outlast him. This partner led the firm to develop horizontal services and standalone businesses and was able to help the partnership avoid temporal myopia by pursuing longer-term business outcomes. For example, he was the 'architect' of the conveyancing workflow that was developed to strip cost from conveyancing when barriers to

competition were removed and he went on to sell the service to other law firms before the product was sold off as a separate company.

FirmA requires its partners to accept that it is in a changing world in its Code of Responsibility.

'The Future

I live in a time of change

I am open to change in the way which I operate at Firm A.' (FirmA Archive)

Its partners were encouraged to continually scan the market for opportunities to innovate, both technologically and for gaps that could be exploited by acting quickly. For instance, FirmA saw an opportunity to exploit post-GFC mortgagee sales when its competitors were floundering due to reduced demand for their standard services. FirmA knew demand would be short term, but it could see the potential for a bespoke workflow to help its clients manage the peak in mortgagee sales.

'For a firm our size there is a requirement for people to find clients all the time. We've put a lot of our staff through marketing programmes, to give them the tools.' (A2)

FirmA attempted to validate opportunities through learning from similar markets overseas, engaging external consultants, and eventually by developing its own due diligence model for acquisitions.

FirmA's problem framing was not always correct. In a significant setback for the firm, it did not win a position on the potentially lucrative AoG legal services panel despite its best efforts. It had identified the opportunity to win more government work several years before the 2011 procurement process. It engaged an external consultant to help it prepare a competitive proposal, but missed out because they misinterpreted the decision criteria.

'We came up with what we thought were great ideas, innovative ... [but] we missed out ... because we didn't know it was going to be cost-cutting. We went in at a lower price, but other firms went in lower than us ... We thought we were competing against the large firms when in fact we were competing against sole practitioners.' (A1)

In contrast to its competitors, FirmA demonstrated considerable creativity at various junctures in the way it interpreted environmental events as opportunities rather than threats. For instance, in the mid-1980s it invested in commoditising conveyancing when competitors walked away from it. When it sensed the threat of larger firms' resources as giving them a significant advantage in

access to knowledge, it proactively led the formation of an alliance of law firms to provide the critical mass necessary to afford the development of precedents and access to thought leaders. When other firms were retrenching due to the 2008 GFC, FirmA expanded when it sensed the opportunity to scale up and offer a mortgagee recovery service. Seeing opportunity when others see threat is a relatively unusual capability and is embedded in the firm's culture. It has created an environment where new ideas are welcomed, and while providing some checks and balances and business case analysis, these are approached with an open mind and an understanding that it needed to make decisions quickly.

An important part of FirmA's growth strategy was to acquire and expand through a series of mergers and acquisitions. Consequently, throughout the studied period, it searched for potential merger candidates that had complementary expertise. The firm's strategy was to bring in expertise rather than develop it from scratch. Drawing on the social networks of the partners, candidates were identified for the potential synergies and possible fit with the existing culture.

'So the mergers weren't just 'let's go and pick them off'. We looked and said what do we need to get — what specialties, who has got it and who knows who? The cultural fit was really important.' (A1)

Discussions about skills gaps begin at the annual retreat, followed by discussions about which partners know candidates with appropriate expertise or similar operational style. Personal approaches are made to gauge interest before moving into the due diligence phase.

Towards the end of the studied period, the firm's approach to identifying potential acquisition candidates became more structured with the Managing Partners describing the New Zealand legal market, its position within the market, SWOT analysis, description of the firm's financial metrics and a presentation of strategic options. The firm engaged a corporate finance advisor to help collate the relevant information to consider potential merger candidates and lead the partners through an objective decision-making process about which option to pursue.

7.1.2.2 Seizing capabilities

FirmA demonstrated well-developed seizing capabilities. Throughout the period under study, FirmA seized opportunities to open offices in new geographic markets, develop new technologies, spin-off businesses, and horizontal services, and to acquire firms with complementary assets.

As noted already, FirmA had been led by a visionary and entrepreneurial partner who was the 'driving force behind the growth of the firm in the 1980s'. The growth was a period of excitement, when 'people were up for change and saw the prospects of a better firm, improving the firm, maintaining excellent clients, attracting more, and being able to pursue areas of expertise rather than just those basic areas'. The ambitions and the 'we are up for it, we try stuff, and we do stuff' values that underpin innovation have continued to be evident in the firm's appetite for experimentation into adjacent services. Consequently, the partnership shares the mindset that business model experimentation positively contributes to the firm's overall performance and is complementary to the law firm's traditional basis of fees revenue.

The annual retreat, which began in the early 1990s, provides a forum for discussion and strategic decision-making. Following an agenda that includes a reflective 'checking in' section, each partner articulates their concerns, objectives and perception of opportunities to the group. The remaining agenda links back to the firm's business plan, focusing on discussion and agreement about the work action plans necessary to achieve goals. At some retreats, a forum is dedicated to 'lateral thinking' opportunities to grow the bottom line.

'What we have is a partnership of 13 as I said, and the partnership makes decisions at partnership meetings. Our structure is that we have an annual planning weekend, we call it our retreat, so that happens February/March period and that is a three-day thing with sessions but also a lot of playtime and bonding and all that sort of thing as well. It's certainly not all based solely on planning. But that's a good opportunity to do that. And then we have four other partnership meetings during the year but what we have instituted now that we have three sites, is that we have a Monday morning lunchtime catch up at which partners bring their lunch with them to the table. We link up the three offices, and it's an excellent opportunity for the GM to run through any points she wishes to bring up to get a feel for things and in addition to that ... so that's an hour, and I also use that as an opportunity to get feedback on issues that I want some feedback from partners on.' (A2)

From the time that the GM joined the firm in the late 1990s, it had used strategic management tools to help analyse the market and develop strategy. These analyses formed part of the annually reviewed business plan that was tabled by the GM at the planning retreats. Models used to analyse the firm's position include the maturity model, Johnson and Scholes' Cultural Web, SWOT analysis and evaluation of its core competencies.

FirmA overcame the risk of passive disagreement within the partnership by having an embedded understanding of the complementary value of entrepreneurs' enthusiasm, and those that 'challenge and interrogate' any decisions. The partnership understands the benefit of discussion and divergent perspectives in evaluating opportunities and investment paths.

'There are number of entrepreneurial people within the partnership ... and those more like me who are more conservative and so that allows the entrepreneurs to have checks and balances ...' (A4)

While individual partners' intuition identified many opportunities, the others robustly test whether to invest in pursuing a path.

'I think we have ... we've got some big brains and they ... are a good foil working in a team together to challenge and interrogate any decisions.' (A4)

'Challenging' and 'interrogating' decisions were routinely carried out and accepted by protagonists as a standard feature of any investment decision. Partners did not expect to be able to make unilateral decisions individually.

Furthermore, FirmA developed and refined decision tools and financial modelling to help the partnership evaluate options before committing to investment. In the latter years of the studied period, FirmA's approach to decision-making became more scientific. After having been through several acquisition processes, it refined its processes and appointed external experts to lead an objective analysis of the acquisition options. Evaluation and decision-making capabilities are consistently applied and underpinned by a form of stage-gate process.

Figure 8: FirmA's idea evaluation process

FirmA put in place a 'Partners' Code of Responsibility', which set out expected behaviours. Partners had to understand and agree to the Code. The Code includes clauses reinforcing the value of debate.

'I will honestly and openly put issues on the table. I will have an open mind on all issues affecting FirmA. I am entitled to discuss and debate issues at the partners' meeting, and I respect the right of others with my view.' (FirmA Archive)

As the firm has acquired several firms over the past three decades, it has developed a due diligence process for evaluating firms to acquire potentially. The GM has documented and fine-tuned the template for the due diligence process. The partners understand the process and know what to expect.

Figure 9: FirmA's decision process

'I have a very thorough template and a very thorough timeline as well of when things have to be done, who's going to do them. But in the due diligence, the first part is really at the high level, and that is done by some of the partners and Managing Partner and 'can we work with them'? Do we like them? It's the 'do we like them' test! And once it gets past that, then all the due diligence really starts going. And throughout that, there's always these points — that 'is this what we want to do?'. A lot of modelling goes into it. Financial modelling because they focus on what it's going to add and it has to stack up both sides, and we're very open with that. I've got a model and put it all in and say this is what it's going to do to your bottom line. So, much thinking that has happened over that to where we say yes, this is an idea, so yes, let's take it to the next step.' (A1)

One particular partner of FirmA led the firm to create business models that were novel for a law firm. This was from the late 1980s when it created a workflow tool that it used internally, then recognised that there could be a revenue stream from licensing it to other firms. It tried to monetise the workflow further by securing a venture with a property sales website, whereby firms that used its workflow tool would receive referrals from the high traffic site. Eventually, the workflow software was spun out into a separate company and sold off. The firm also attempted several other ventures, including joint ventures and diversifying into providing horizontal services such as mortgage broking. They also developed a creative revenue model for the mortgage recovery services offered after the GFC.

External problem	Framing	Solutions canvassed	Decision
1985 — Scale removed/advertising allowed	Cut-price merchants drove down the price	<ol style="list-style-type: none"> 1. Meet the market 2. Educate clients 3. Use technology to commoditise 4. Enter horizontal markets (e.g. mortgage broking) 	1, 2, 3 & 4
Increasing competition for clients from better-resourced large firms	Needed access to specialist resources and best practices to compete	<ol style="list-style-type: none"> 1. Form a network of similar non-competitive firms to share costs for access to knowledge 	1
1991 — Recession	Things were pretty lean	<ol style="list-style-type: none"> 1. Soldier on, we'll work through this together 2. Make people redundant 	1 & 2
1996-97 — Loss of public confidence in the legal profession	Public were giving lawyers a hard time	<ol style="list-style-type: none"> 1. Do nothing 	1
2000 — Local commercial work being briefed to city law firms	Not perceived as being a credible provider of commercial advice because of 'suburban' label	<ol style="list-style-type: none"> 1. Open an office in CityX 2. Re-brand 3. Acquire small firms with commercial client base 	1 & 2
2008 — Lawyers and Conveyancers' Act	Saw exceeding the basic requirements as an opportunity to differentiate itself	<ol style="list-style-type: none"> 1. Develop alternative pricing models 2. Hold training sessions for staff about client care 3. Design new processes focused on client care 	2 & 3
2011 — Consolidation of government's purchasing power of legal services	An opportunity to grow its revenue base	<ol style="list-style-type: none"> 1. Find a creative way to access the pool 2. Walk away 	1
2013 — Falling profits	Economic slowdown combined with over-capacity	<ol style="list-style-type: none"> 1. Fine-tune the business 2. Grow organically 3. Grow via strategic alliances 4. Grow via mergers and acquisitions 5. Combinations of options above 	4

Table 15: FirmA's framing of external problems, options considered and decisions

As demonstrated in Table 15, FirmA can frame opportunities and threats creatively, avoiding the single lens that some firms apply to problems. Its framing of problems, in particular, did not constrain it to take a tried and true path. In all cases, the firm was animated towards taking action instead of retrenching in the face of threat.

Although FirmA had developed seizing capabilities, they used an external corporate financial advisor to apply a decision framework to assess merger and/or acquisition opportunities in 2013. Seeing the significance of the merger decision, it understood that it needed to go beyond its usual due diligence process when considering options. FirmA had invited external evaluation and advice throughout the study period, but the evaluation in 2013 was the most significant example of recognising the value of overcoming cognitive biases as part of the decision-making discipline.

The desire to be taken seriously as a commercial law firm was escalated when it decided to open a new office in CityX to give it credibility as a city firm. Led by a few partners who were passionate about building the commercial practice, the partners decided to lease a space that 'was set up like an advertising agency'(A2) — a contrast to the firm's main office. The physical change combined with a fresh re-brand energised the partners and staff and helped build commitment to the change.

7.1.2.3 Transforming

The successful entry into the CityX market to attract more commercial work was primarily driven by the leadership's ability to create excitement about renewing the firm's brand. The protagonists role-modelled energy and commitment to developing a client base, social network and expertise to attract the commercial clients they sought.

'[The partners] just got out there. They just went out there. X would give lots of presentations ... got alongside target clients.' (A1)

They acquired a firm with commercial expertise and clients to bolster their credibility, and continued to place weight on growing its share of the market in the annual business plan.

FirmA has codified its know-how in carrying out due diligence into potential acquisition targets. It applies the same capability in 'systematising' processes to other transforming activities, such as integrating new firms once acquired. As described by the interviewee below, the firm has learned from its experience and can integrate assets quickly.

'So, because there's a history of doing these things now, we have been able to implement systems and processes so that there are checks and balances, but it costs out a lot of the time that would otherwise ... people know how these things operate now. You know what to expect. You know what decisions are going to be made. I think we're very good at systematising. When we find something that we think will work, we then spend the time doing the systematisation of it so that you can replicate it — which is one of our strengths. It's not just doing the job and moving on. It's doing the job, analysing it, and then using the information to be able to do it the next time more efficiently.' (A4)

FirmA has a strong action orientation — it can act on decisions quickly, in contrast to other firms that ruminate over decisions for some time. The firm's mid-market position, which it sees as a weakness, propels it towards re-shaping itself when it believes the opportunity or threat warrants it. For example, when three partners sensed the opportunity to provide workflow-based mortgagee recovery services after the GFC, within a few weeks it was able to build on the small base of work they had to provide credibility to potential clients that it could handle the significant volume flowing from the recession. It scaled up its technology platform and staffing support to fulfil a market need within weeks.

'With the mortgagee recovery work, the partner had to put the case forward, and the partners said yep, give it a go! It's quite funny because sometimes you think they're going to spend hours and hours discussing and debating it and then all of a sudden — 'just do it!'
(A1)

The firm's capability in transforming itself to benefit from the opportunity was in stark contrast to other firms in the Law Association benchmarking in 2009, whose financial performance had suffered significantly in the years after the GFC.

The longstanding GM, in particular, has developed an approach for absorbing smaller firms into the FirmA systems and culture, while leveraging the synergies that the transaction promised. The annual retreat provides an opportunity for the partnership to reflect on the success of integrations and modify its approach if necessary.

'At the retreat, we'll have a closer look at that and say what have we achieved, what haven't we achieved? We'll say with the mergers, what do we need to do to get that added value? I think we have still got a lot of added value in [acquisition] to get, but we've all been too busy doing the doing, rather than taking a step back and saying where to from here?' (A1)

The firm's strategic assets include technology platforms that they have been able to modify to provide differentiated and efficient services at several points over the study period. Whereas other firms' strategic assets are primarily their people and reputations, FirmA has taken risks in developing workflow platforms that complement the expertise of their people. From the late 1980s, the firm had automated work processes that other firms had continued to provide manually. Throughout that time, it had built know-how and tolerance of risk to develop workflow platforms where others had failed to capture.

Having a strong external focus, the firm invests in building their staff's skills to help sustain the business development it strives for. It claims that every partner and staff member must play a role in marketing.

'There is a requirement for people to find clients all the time. We've put a lot of our staff through marketing programmes, to give them the tools.' (A2)

Furthermore, the firm was attuned to changes in its environment and discussed it in order to maintain the momentum for change.

'The speed with which the legal services market is moving around the world is unprecedented. To prosper FirmA needs to be proactive in respect of business innovation and must lead market changes. Speed is of the essence to meet or exceed the firm's short-term market expectations.' (FirmA Archive)

However, while it had capabilities in scaling up, FirmA had less-developed capabilities in scaling down when necessary. Although its mortgagee recovery work had fallen away 'dramatically', the partners struggled to make the commercial decision to scale down the team. Instead, they put off restructuring as long as possible by relying on natural attrition to reduce costs.

'It was about 18 months [after we started to bleed]. We were talking about it beforehand and saying 'we need to restructure, we need to restructure'. And it probably hit home when we got the results and thought 'umm, that's not a good year was it?'. Partners' return wasn't as good as it was in prior years. So, we did restructure ... And it was a tough time.' (A4)

7.1.3 Triggers for DC development

In contrast to the majority of the literature, which argues that DCs develop in response to dynamism in the external environment, FirmA's strongest triggers were a mix of external events and internal perceptions. Leaders' perceptions of internal weaknesses (e.g. ability to compete with larger, better-resourced firms, and insularity), changes in market structure (e.g. consolidation of

government procurement), and falling performance (e.g. falling profits) prompted the firm to strengthen and deploy its DCs.

Two 'critical' events failed to trigger DCs at all, particularly the 1990 recession, which saw the firm relying on its ordinary capabilities and hunkering down to survive the economic downturn. Table 16 summarises FirmA's responses to internal and external change.

Change	Internal (I)/ external (E)	Strength of triggering effect	Outcome
1985 — Scale removed/advertising allowed	E	Strong	Built sensing, seizing and transforming capabilities
Perceived increasing competition for clients from better-resourced large firms	I	Strong	Built explorative learning capabilities
1991 — Recession	E	Moderate	Relied on ordinary capabilities
1996-97 — Loss of public confidence in legal profession	E	Weak	Relied on ordinary capabilities
2000 — Perceived misalignment between abilities and market perception	I	Strong	Built transforming capabilities
2008 — Introduction of Lawyers and Conveyancers Act	E	Weak	Relied on ordinary capabilities
2011 — Consolidation of government's purchasing power of legal services	E	Strong	Built sensing and seizing capabilities
2013 — Falling profits	I	Strong	Built seizing and transforming capabilities

Table 16: Triggers for FirmA's development of DCs

7.1.4 How did FirmA develop DCs?

7.1.4.1 Stimuli

The emergence of FirmA's DCs may be explained by the following factors.

Entrepreneurial leadership (Leadership)

The firm's early leadership set the tone for the firm's continuous search for growth opportunity and the supporting tolerance for risk. The Managing Partner in 1985 led the strategy of growth through mergers and was the architect of the Law Association, which has had an enduring impact on the firm. Successive Managing Partners or Chairs retained that emphasis, for example, taking leadership roles within the Law Association, which the Managing Partner in 1985 had been

instrumental in founding. FirmA is characterised by its leaders actively choosing paths and solutions to business problems, in contrast to other firms in this study.

Partners are encouraged to identify opportunities, whether based on intuition or evidence. Examples of partners' entrepreneurial ideas are evident throughout the case study period. The 'just do it' culture that the current Chairman describes may in part be due to the long tenure of partners at the firms and therefore the prolonged exposure of a prospective Managing Partner to the actions and behaviours of the incumbent. Of course, this pattern could result in a negative cycle as much as it possibly results in a virtuous cycle within Firm A.

Regular strategic episodes (Learning)

Since 1990, the firm had in place a planning system that it identified would help deliver the growth and profitability it desired. The lynchpin of the planning system was the annual retreat that forced partners to focus on the business strategy, but four other in-person partnership meetings complement this through an annual cycle. Weekly video-conferenced lunches focus on operational matters and two-way feedback between the executive and the partners. Each partner completes a personal development plan annually, which are tabled at the annual retreat to 'provide absolute transparency and awareness about what people do'.

Regularly prioritising time out of the business to reflect and refocus has helped FirmA step back and identify what has changed in both the external and internal environment and reassess whether its current strategies are fit for purpose. It also takes the opportunity to recommit to long-term strategies that require perseverance in order to realise benefits and to gain commitment for significant investment or changes that will reshape the firm such as acquisitions or mergers.

The success of the retreats hinges on an agenda that reflects the state of the business, and the preparation of comprehensive discussion documents by the Managing Partner and GM and any other partner who is leading an initiative. All partners have the opportunity to express their views about how the firm is tracking in an open forum. The agenda is structured into a general review discussion, a review of the previous year's 'retreat action plan', marketing, promotions, operations, future expertise and staffing arrangements and budget sign-off.

The partners of FirmA are encouraged to continually scan for opportunities, and in so doing avoid the complacency that is a feature of some of its competitors' businesses. The firm is aware of its

vulnerable position in the market, having no advantage of scale or specialisation, and demonstrated a constant restlessness to try new things in order to remain relevant. As well as holding regular forums to reflect on the status of the business and prioritise for the next year, the forums facilitate discussion about market opportunities and weaknesses. As the primary annual forum to turn attention to the firm's strategy, partners are encouraged to be creative as well as openly discuss sacred cows.

The partnership of more than 10 also valued its members' different perspectives and was comfortable with the robust discussion that is necessary for strong seizing capabilities. This debate placed an onus on the entrepreneurial partners to develop a compelling business case for investment, but had the effect of creating group buy-in to the decisions once made because all voices had been heard. This group testing process is a behavioural norm for FirmA's partnership and results in unified decisions.

Learning orientation (Learning)

The norm for FirmA is to learn from (and with) non-competing peer firms. Since the mid-1980s it had participated in a university-led annual law firm benchmarking report that compared financial and non-financial indicators with others. This allowed them to identify strengths and weaknesses within their practice and support management decisions, budgeting, and goal-setting. Seeing value in learning from peers, FirmA was one of the founding members of the Law Association, which extended learning opportunities beyond benchmarking performance data into professional development, market intelligence etc.

At various points, FirmA understood that it had limited expertise internally and engaged external consultants to advise on specific projects. Examples included using a marketing consultant to help market its conveyancing workflow, assistance in preparing tender responses, and using an investment advisor who brought discipline to its most recent merger/acquisition decision.

FirmA also demonstrated an openness to entering into alliances and joint ventures with others with complementary assets, such as its forays into property and mortgage broking. These arrangements were not long term, but provide further evidence of an appreciation of others' value and a comprehensive search horizon.

FirmA understands its limitations and seeks expertise from those more qualified or experienced. This learning capability, which is the antithesis of arrogance, was demonstrated by the 1985 Managing Partner and became the norm for successive Managing Partners to continue.

Professional management (Leadership)

FirmA appointed a GM in 1998 and adopted a hybrid model with 'a fully involved General Manager (GM) — not quite CEO model'. The GM and a small team were governed by an Executive Committee led by the Managing Partner. The GM had been with the firm for 17 years when interviews for this research were undertaken.

The development of DCs may be stimulated by longstanding managers who can evolve the management of the firm by codifying what they learn building on their prior knowledge. The corollary is that when a top manager turns over every few years, although they may introduce fresh knowledge, it may take some time for them to reach the level of knowledge held by the previous manager. While the new manager is catching up on knowledge, the firm may be in a holding pattern unable to accelerate its organisational knowledge base. To a certain extent, they are only able to evolve the firm in line with their own knowledge. FirmA's GM has deliberately learned from the firm's experiences and codified knowledge relating to firm processes such as due diligence and integrating new acquisitions. Also, given that the need to trigger these capabilities only occurs every few years, her long tenure means she has been through several transactions and has embedded the lessons in the firm. Without a dedicated manager to consciously consider processes and draw on both the firm's and her own previous experience, the firm is likely to have needed to reinvent knowledge each time it needed it. The partners, who are primarily focused on their client work, are less likely to recognise the replicable nature of some knowledge, let alone see that value in codifying it.

FirmA demonstrated both passive experiential learning, and deliberately codifying knowledge to improve processes such as due diligence on potential acquisitions and integration of acquisitions. As the partners and GM have been with the firm for decades, they have been through multiple, but relatively infrequent, acquisitions to be able to fine-tune their processes. This is in contrast to firms with higher turnover of key staff who would be learning on the job per acquisition, rather than the firm benefiting from the direct experience of its longstanding partners and managers.

Furthermore, the firm demonstrated an openness to learn from its failures, including failing to secure two lucrative contracts. In both cases, it sought feedback after missing out, although in these cases it also justified its losses by claiming the influence of factors outside its control.

7.1.4.2 *Inhibitors*

The development of FirmA's DCs may be inhibited by the following factors.

Previous failures (Culture)

FirmA suffered a severe setback when it failed to secure a contract on the AoG panel. It had invested both internal and external resources to develop its pitch strategy and had been confident that it had put its best foot forward. On finding out they had not been selected for the panel and therefore lost some important client relationships, it 'left a bitter taste'. The internal narrative about the loss was that they hadn't understood the rules properly, and neither did the consultants they hired to assist. They felt the firm's reputation had suffered as a result of being excluded from the panel.

'There was a lot of navel gazing about whether we have done it correctly or taken the right advice ... it was somewhat of a fraught process.' (A4)

The effect of the loss was that the partners lost their confidence for a period and turned their focus inwards. The explanation was that 'maybe it was the wrong people fronting it for us'.

Escalated commitment (Leadership)

The partners of FirmA feel a very strong obligation to their staff, arguably to the extent of acting as 'paternalistic leaders' (Guillen, 2016). Although the creative aspect of the transformation capability is an embedded value of the firm, the corollary — to be able to scale back and exit a venture in a timely way — was entirely at odds with the firm's values. This contributed to the firm delaying restructuring its mortgagee recovery team once the work had dropped off, even though it 'was bleeding'.

'It was about 18 months [too late] ... And it probably hit home when we got the results and thought 'umm, that's not a good year was it?' ... So, we did restructure ... It was not nice to tell people that 'I'm sorry, but your job's not going to be here'.' (A1)

'We have always very much focused on trying to support people and so having to then make people redundant ... people lose trust so quickly ... It was just awful to be doing it

ourselves and ... I think you would say some of them have never quite recovered that trust and confidence.' (A4)

7.1.5 Conclusion

FirmA has a rich history of strong leaders focused on entrepreneurial activity. Through mergers, acquisitions, experiments in adjacent services and quick responses to market opportunities, FirmA's partners are committed to investing time and resources into adapting to their environment. One of the most striking features of FirmA is its cultural emphasis on forward momentum and 'just doing it'.

A unique feature of FirmA is that the partners confirm their commitment to change when they sign the partners' Code of Responsibility acknowledging that they live in a changing world and agreeing that they are open to change the way they operate. This commitment partially explains the firm's strong DCs. The firm's strong sensing capabilities are underpinned by taking time to work toward its strategic goals, collective framing of opportunities and threats and openness to risk. FirmA trusts its instincts — within reason — and has developed back-up measures including decision-making frameworks and a partnership that embraces the balance of devil's advocates to enthusiasts. It has capabilities in acting quickly and creatively developing business models that differentiate it from its competitors. FirmA has developed routines for ensuring that it delivers on the transforming commitments it makes, and provides management capacity to support systematic and/or swift transformation.

Both internal and external drivers motivated the firm's leaders to trigger the development of DCs. Having relatively strong sensing capabilities helped the firm detect changes in its external environment that required action, in contrast to the more internally-oriented firms in the study.

Consequently, there was the emergence of FirmA's DCs, inter-generational entrepreneurial values, routine reflection on the business through its varied forums, openness to learning from sources outside the firm and management that facilitated all three classes of DCs. In contrast, barriers to effective DC development include paternalistic leadership or escalated commitment, and the loss of confidence after an unexpected failure.

7.2 Case study FirmB

7.2.1 Case description

In 1985, FirmB was a relatively small firm comprising one office, around 60 people, and it was tightly held by a partnership of 11. The firm had significant goodwill due to having been entrenched in its local market for over 125 years. It had a solid reputation and a large private, rural and commercial client base. The client base 'was ripe to allow others to leverage off that' (B3) and increase the size of the firm accordingly.

'It was like a spring that was waiting to be let go.' (B3)

In 1985, a significant proportion of FirmB's income came from conveyancing. When the scale was removed, price competition became intense for the first time in its history. Its strategy was to 'educate' its clients that there was a difference in quality and service and that 'you don't get quality and service if somebody's right at the rock bottom and there's no margin for them'. The firm deliberately didn't meet the lower end of the market, but inevitably did work for less than it would have under the previous scale. FirmB chose not to compete geographically, but felt it had little choice but to meet the market to a degree after the conveyancing price war broke out.

Simultaneously, the NZLS's advertising rules slackened. The legal fraternity, and in particular the older partners of FirmB, 'didn't like the thought of advertising' so it was some years before it became part of the legal landscape.

The 1980s saw the beginning of the concentration of corporates in New Zealand's largest city. When some of FirmB's largest clients decided to decamp to CityY, as well as another six clients, FirmB chose to follow. The partnership didn't consider a merger with a CityY firm, simply preferring 'to go it alone'. However, timing was not on FirmB's side. The sharemarket crashed within a year of the new office opening. But 'the moment we went to CityY, we weren't going to close it'.

By the early 1990s, the older generation of partners who had held the reins for decades was starting to retire or reduce their influence in the firm. A new generation saw change would be necessary for the firm to survive in a more commercial era. The partners felt they had to reposition the firm or risk becoming less relevant in the market.

One strategy was to take the administration and governance of the firm to a more professional level, out of the days of being ruled by the senior partner, into a more structured way of governance and management. The partnership appointed a GM who modernised internal business practices to move away from practices like the 'billing once a year syndrome'. Sharpening their act both internally and externally, the firm was getting more conscious of having to work *with* their clients as opposed to *for* their clients and 'being savvy about the marketplace'.

In the late 1980s, the firm moved to new offices in one of the recently built multi-storied buildings. The firm was ambitious about the amount of space it committed to in the new building, so there was a strong commercial imperative to grow the firm to mitigate the financial exposure. Future-proofing the office space for growth proved to be problematic given the economic times. For defensive reasons, it merged with a smaller firm who could fill up the spare offices and 'bulk up the firm'.

FirmB's entry into a provincial market in 1991 was due primarily to the personal relationship between the Chairman and the principal of a small but successful firm. Not all partners agreed with the decision at the time, feeling that the decision had been made first followed by justification.

Initially, a large insolvency practice emerged from the early 1990s recession. By late 1992/93, insolvency work was drying up and revenues were falling. The partnership started looking at other strategies for growth. They decided to 'take a risk' by bringing in new partners to get some more youth and vibrancy into the partnership. The traditional 'stand-offish' relationship with clients was at odds with the newer partners' approach, which was to get to know their clients, as they believed that enabled them to give the best advice. This approach represented 'quite a philosophical change from the old conservative legal retainer'. The new approach was successful in growing the client base.

When the legal profession was perceived as being in crisis in the mid-1990s due to increasing competition, reduction in market share and 'fighting the challenge' of diversification, FirmB considered itself lucky. Its long-established, loyal client base and good reputation left it relatively unscathed. Despite the lawyers' reputation having 'taken a hit', clients reported that 'my man is okay'.

In the late 1990s, the firm took on more professional managers including a finance manager and an IT manager. These managers put in place regular reporting, robust processes and systems, but were somewhat removed from the partners.

'The partners had big offices, and they'd have their secretary sitting outside. You had to liaise through that ...' (B1)

By the late 1990s, the firm saw itself as having a gap in its market coverage and its offerings. It had no government networks, no government agency connections, and no access to the market for legal services generated by government clients based in CityX. The partnership felt that to be credible as a national firm, it must have a foothold in public law in CityX. So, in 2000, the firm identified a potential suitor in the CityX market that it hoped to acquire eventually. At first, FirmB's CityX staff operated out of the offices of the potential acquisition's offices and relocated one of its staff to build relationships and provide succession. The model was successful, and the CityX office has grown into a strong commercial and government practice.

On the back of its success establishing offices in three new geographic markets in New Zealand, the partners were 'inspired' by their Chairman to look further afield for growth opportunities. With steps towards greater integration between New Zealand and Australian markets, many New Zealand businesses were expanding across the Tasman and the firm was referring work on behalf of its clients to CityH firms. The Chairman identified a CityH practice based on a personal relationship with the principal and convinced the partnership to acquire it in 2003. From the outside, the expansion into CityH gave FirmB a point of difference in the marketplace, and it established it as a credible national brand. Behind the scenes, however, the operation wasn't going well. The firm found the market was tougher and more adversarial than New Zealand's, and with disappointing recruitment choices, the firm tried four or five different iterations, 'exporting money' the entire time.

By 2006, FirmB was ranked New Zealand's 10th largest law firm by annual billings and was an 'influential national and trans-Tasman practice' with five offices, 29 partners and 160 staff. Each office planned separately given their different stages of development before being meshed together to form the short-term operational plan.

Just a few months before a significant natural disaster, tension had arisen between offices, and the partners of the firm's original office considered breaking away. No decision had been made at the time the 2010 disaster occurred, which damaged the original office and tested the firm's disaster

recovery plan. When a second disaster hit the city several months later, having capable offices in other parts of the country paid off. The office received support from other national offices and had had all its files and systems backed up so it 'did not miss a beat'. Partners and staff were able to continue working remotely and continue to service clients. Having partners from other parts of the country take over some critical business decisions helped relieve the partners who were dealing with the day-to-day reality of post-disaster.

The firm's property workload exploded. Staff were working on 40 or 50 settlements each and they were 'stressed to the max'. The extra work bolstered FirmB's profitability in the time after the disaster, despite the personal issues that partners and staff were working through. The firm established a specialist team to help clients navigate the complex legal issues around the commercial property, planning and taxation issues, challenges and opportunities presented by the disaster.

Later that year, the firm was appointed to the Government's legal services panel.

The CityH office was finally acquired by another firm after FirmB had persevered with it for more than a decade. FirmB had not been able to exploit the trans-Tasman presence as much as it had hoped and was finding it distracting from its core business. The partners had discovered that differences between the CityH market, business practices and systems, and the practice of law was very different to New Zealand, and anticipated synergies had not been achieved.

YEAR	QUOTE ENCOMPASSING THE FIRM'S NARRATIVE
1985	<i>'We had to meet the market to a degree. We also had to educate our clients that there was a big difference in quality and service and that you don't get quality and service if somebody's right at the rock bottom and there's no margin for them. We deliberately didn't go and meet that bottom end of the market. But i think we had to be quite sharp.'</i> (B4)
1991	<i>'The years after the crash, the early 90s were particularly hard for us. For lawyers generally. Everything was flat-lining, there wasn't much business activity. All pretty tough ... We didn't have to lay anyone off. I was the Chairman at the time, but I do remember having quite significant discussions with the staff as a whole about what the firm's predicament was. Didn't have to make anyone redundant which was good, but we just had to hunker down and work a bit smarter. We were slightly insured against those times because we did do a lot of insolvency work over that period. That was a good source of fee revenue in terms of transactional, corporate transactional activity.'</i> (B2)
1997	<i>'I had a client ... who commented that they were deriding lawyers ... but he said oh well, lawyers generally taken a hit in their reputation but my man's okay ... So even though there is a pack of ratbags in there as well, my man's all right. It was a hard time for the Law Society. We all had to put our hands into our pockets, and the reputation wasn't great. But in CityX we were lucky. We had a very long established, loyal client base ...'</i> (B2)
2008	No change.
2011	<i>'We've got good people in there doing far more commercial stuff, and we're making some good inroads into the public sector work. Getting into the AoG panel. Getting a partner across who previously had been at one of the big firms doing government work with connections into government and government agencies — that's what you need to do to succeed in CityX ...'</i> (B3)

Table 17: Summary of FirmB's responses to critical events

7.2.2 Presence of DCs

7.2.2.1 Sensing capabilities

With its traditional roots, the partnership of FirmB's culture and values transformed over the study period from a tightly-held, deeply conservative firm with a 'traditional following' to a more modern, commercially-oriented firm holding its own in the New Zealand market. Its sensing capabilities evolved in three phases.

In the first phase in the mid-1980s, FirmB saw itself as a collection of professionals, operating appropriately at arm's length from its clients. Displaying the characteristics of lawyers at the time, the partnership held the view it was not business, but a PSF serving the good folk of its

community. Consequently, the firm historically had little interest in their clients or market changes and regarded any efforts to leverage its reputation as deeply unprofessional.

'Senior partners ... who were old practitioners who took a very much more stand-offish ... view as to their clients. They were there to provide independent advice and not to fraternise with them and become their best mates.' (B4)

With 'professional' versus 'business' values having been embedded in the firm for over a century at that stage, it is understandable that the firm's sensing skills were under-developed. FirmB's awareness of the need to compete began to change around the late 1980s and into the recession of 1991, due to the promotion of a younger generation of partners with more interest in the growth of the business, the need to retain clients in tough economic times, and the liberation of the New Zealand economy more generally.

Starting from a zero base of sensing capabilities and routines, the new era of partners set a strategic direction that guided its sensing activities, albeit in an unsystematised way. In the late 1980s, the firm employed a GM, prepared a basic business plan, and began taking a more structured approach to governance and management, which was a move towards:

'Getting more conscious of having to work with their clients as opposed to for their clients, and just being savvier about the marketplace.' (B3)

Its renewed energy fed the ambition of the firm to become the first national law firm with offices in several centres throughout the country. The strategy was rooted in a desire to be seen as 'credible' and to improve its standing compared to the top tier firms it aspired to emulate. This strategy became the dominant paradigm of the partnership that guided its sensing activities for several decades.

Although it is not clear from the data at precisely what point the geographic expansion strategy became the unquestioned reference point for the partnership, it provided the lens through which search activities were viewed. Search activities centred on identifying business models for entering other geographic markets where it could offer identical or similar services. The board also decided to seek growth by selling existing services to existing clients and looked for opportunities on a client-by-client basis to deepen relationships through cross-selling.

As shown by the following quote, the firm also decided to offer a full range of legal services. The motive is not driven by market needs but by the partners' desire to occupy a position in the market.

'For FirmB the answer to the question 'Do we want to remain a full-service firm?' is always a resounding 'Yes!' They see it as a strength, and they like being that type of firm.' (FirmB Secondary)

The purpose of highlighting these examples is that the firm set boundaries around its trajectory — to be national, full-service and serving primarily existing clients — and its search and interpretation of market changes were constrained within those narrow bounds.

Despite dawning commercial awareness among a group of partners, phase two of sensing capabilities resided with the Managing Partner and a small group of other very senior partners for much of the next 15 years. The younger partners perceived that if they continued managing the firm in a traditional way without any strategic direction around it, it would be difficult, so they supported change — in whatever form. The most senior partners had the political power to impose their perceptions as truths. For instance, the Managing Partner was the 'visionary and architect' of the strategy to become a national firm. He led the search for potential business models and persuaded the partners to back opening new offices through formalised business cases arguing for investment. Business models for three of the firm's four new offices were based on the Managing Partner's social network — and identifying candidates that he felt would be a good fit. Justification or interpretation of market data to support establishing offices where his 'mates' were located followed.

Examining the processes for sensing opportunities to open each of its four offices highlights themes in the way sensing activities are conducted, and by whom.

Its first expansion, into a major city, was based on the partnership's shared disappointment in the move of a significant client to that city. They perceived that more large clients would move too. However, the Managing Partner's perception of the impact of the trend carried significant weight in activating the partnership to move.

'When one of the firm's major clients — XXX — decided to move its Head Office to CityY, the Managing Partner went to his fellow partners and said they had two options. The first was to let them go and lose a valuable client; the second was to open an office in CityY.' (FirmB Secondary)

The firm's second expansion, this time into a provincial town, was also based on the Managing Partner's informal search for growth opportunities. The Managing Partner's interpretation of profitable synergies became the basis for the expansion. Despite other partners' doubt that the fit between firms was ideal, no-one opposed the merger even though the underground disagreement with the Managing Partner's view was felt strongly. They felt that the Managing Partner's justification of the market opportunity masked his true motivation, which was to buy a mate's practice.

'He was fostering a relationship with XXX with a view to bringing him into the partnership. He just happened to be in YYYY, so there wasn't much strategic thinking about that at all. It was about the man, not the location ... The planning was all after the event. The decision was made, and then the planning around it was 'how do we justify having an office in CityP?'' (B2)

'One of the senior partners who was very influential at that time had a mate that had a practice in CityP that he wanted to get out of. Very hard to say no ... That was a bit of a dog, unfortunately.' (B3)

The firm's entry into a third geographic market was also primarily driven by the Managing Partner, who saw it as a logical next step towards achieving its goal of having a national presence. Once the decision to enter the market was made, and initial research conducted into firms to acquire, the partners' informal processes of evaluating competitors' positions and interpretation of where market opportunities began. Most research was drawn from partners' social networks, who helped identify potential acquisition candidates and provided intelligence about the market.

The Chairman was 'passionate' about opening a new branch in the fourth location.

'It was probably the Chairman's passion to open a branch in CityH. So, he did all the work on it and probably it inspired the rest of the partners to give it a go ...' (B4)

Although the firm externally rationalised opening the foreign office because it was referring a reasonable amount of work to practitioners in that market, there is little evidence of intelligence about a systematic approach to detecting untapped need or consideration of the already competitive new market.

'CityH was pure ego. It was this major dominant partner who had another friend who was retiring, and he wanted to sell his practice, and so the Managing Partner decided we would buy it. So, completely and utterly unstrategic.' (B2)

In summary, the firm's sensing processes in this period were ad hoc and primarily based on a small powerful group's intuition rather than embedded processes, but only one of the offices founded in this period has subsequently failed. Even though the search routines were concentrated within a few forceful leaders, at the time in the firm's development the structure propelled the firm to expand. It is possible that it would have taken a more conservative approach to expansion had it not had such leaders.

'He is the luminary of the whole thing and where we are today is attributable to him as much as to anyone ... XYZ is, and I am sure will continue to be, the firm's macro-progressive thinker, and he with AA and BB with the support and encouragement of the partners and our practice adviser, have provided the motivation and enthusiasm to see the firm grow so successfully and have taken it from a well-established and leading local firm to what it is today, a major national firm.' (FirmB Secondary)

In the third phase of the firm's evolving sensing capabilities, the functional managers took on more responsibility in the mid-2000s. Having four offices operating in different geographic markets and a growth in the number of partners provided the impetus for the firm to adopt formalised sensing routines as part of business planning processes. FirmB began developing five-year business plans, which combined each office's one-year operational plans and three-year aspirational plans. Each office is required to evaluate their place in their market, given how long each has been in its market and the competitive landscape.

Sensing capabilities are also embedded in the programme of the partnership's annual conference, where partners from all offices get together to discuss the direction of the business. The conference shifts the focus from the day-to-day practices to the strategic direction of the firm and 'issues of the day'. Similar issues are discussed at quarterly face-to-face full partnership meetings, with agendas set by the Chair and CEO and widely circulated for comment beforehand.

Between 2000 and 2015, the firm's board introduced annual strategic planning and reporting, with objectives that cascade into individual partners' plans. Having four partnership meetings each year and one annual conference allows discussion about 'issues of the day' following an agenda that is set after extensive socialisation across the partnership. Functional managers have a limited voice

at the planning forum, and no staff beyond the partners provide input. Papers are penned mainly by the CEO and board Chair.

Ad hoc sensing activities allow partners to share their perception of market trends if they choose to do so. Processes for socialising perceptions and ideas begin with informal discussions amongst the partnership to find out whether they share an interpretation and a critical mass of support is built.

Even though the firm’s sensing capabilities developed over the period under study, one interviewee maintained that even at the end of the period the firm remains relatively apathetic and disinterested in market trends and opportunities.

‘You know the apathy that pervades the place due to the fantastic client base that they’ve all inherited through the wise forebears ... The apathy around the need to continue to be very market aware, very nimble, being able to move with the times, changes ... So the firm has not done well historically at responding to competition. Inward-looking and not very nimble ...’ (B2)

FirmB has relatively weak embedded learning capabilities, with little evidence of deliberately seeking external knowledge to assimilate for improved performance, innovation or service delivery. The exception is (as mentioned earlier) building a team of functional managers with specialist expertise in finance, HR and reporting to a GM or CEO. The influence of functional experts was limited by structural hierarchy and lack of participation in ‘strategic’ decision-making, and instead they were acting more as internal service providers than as drivers of change.

As mentioned earlier, the strength of the internal orientation and what the firm wants or needs obscured routinised identification and framing of market problems. As Table 18 shows, FirmB’s problem framing does not indicate a systematic approach to forming problems, or to developing a broad set of solutions. It appears that the partnership collectively interpreted problems based on their opinion of the problems, which may have been correct, and temporal myopia helped generate short-term strategies.

External problem	Framing	Solutions canvassed	Decision
1985 — Scale removed	‘Price war’	1. Meet the market to a degree 2. Educate clients about quality	2

1986 — Relocation of major clients	Clients disappearing	1. Lose clients	2 & 3
	Opportunity to follow clients and enter a new geographic market	2. Follow clients	
		3. Set up a new branch office	
1991 — Recession	Tough times for the firm	1. Lay off staff	2 & 3
	Bleeding because of high lease overhead	2. 'Hunker down' and work smarter	
		3. Defensive merger to fill space with fee earners specialising in insolvency work	
1996-97 — Loss of public confidence in the legal profession	Never had a great public image	1. Status quo — ignore	1, 2 & 3
	In the abstract — don't take too seriously	2. Rely on the firm's good reputation to weather it	
		3. Rely on an individual client's positive experiences	
2003 — Referring increasing amount work offshore	Opportunity to extend the brand to new offshore market to meet new demand from NZ clients	1. Acquire a small firm and rebrand	1
	Friend selling a practice in the offshore market available for acquisition		
2010/2011 — Natural disaster closed offices	Keep office functioning for staff and clients	1. Follow the disaster recovery plan and enable staff to work remotely	1, 2 & 3
		2. Find temporary premises	
		3. Refer work to other offices to complete	
2011 — Consolidation of government's purchasing power of legal services	Procurement process	1. Pitch	1

Table 18: FirmB's framing of external problems, options considered and decisions

7.2.2.2 *Seizing capabilities*

The firm's seizing capabilities are shaped by the strong cultural features of collegiality — and hierarchy. As a 'conservatively managed' firm, maintaining a collegial partnership culture remains an overriding value in decision-making.

However, in the early stage of the studied period, processes for evaluating potential investments and deciding whether to go ahead were led by the Managing Partner. With a small group of others, he had the political power to override others' views and impose his will in decision-making. With little objective analysis of options, the firm made significant strategic choices based on the Managing Partner's intuition and decisions. As the most powerful partner, he was able to

act relatively autocratically, particularly as the 'collegiality' aspect of the culture meant that open dissension was not well tolerated.

'Bad decisions made unanimously, based on groupthink or no-think simply because the die had been cast. This had the support of the Managing Partner and his followers, so it was going to happen. There was an air of inevitability about it.' (B2)

Decision-making was made within the bounds of the strategy to become national and remain full-service. Examples of such decisions were the choices to acquire firms that became the basis of the firm's offices in two new locations. In both cases, the other partners were aware that the Managing Partner's enthusiasm to proceed with the acquisitions was influenced by personal relationships with vendor partners, rather than robust analysis of market potential or possible business models. However, it is not possible to ascertain from the data whether he was able to progress because of his exceptional ability to convince the other partners that the decisions were correct or silence the naysayers who were not prepared to upset the collegial nature of the partnership. The processes for deciding to progress with significant investment exclude robust debate, but included strong recommendations in the form of written memos to the other partners setting out a recommended course of action.

'Early in 1986, the Managing Partner circulated a memo to all partners. It began: 'During the past year our partnership has been discussing from time to time the possibility of opening a branch office.' He went on, 'In my view, it is now time for us to address this question and to make the decision.' (FirmB Secondary)

As well as valuing collegiality, the following quote suggests the lack of rigorous processes was also due to immature business skills.

'Someone pounded the table and said 'we've just got to do this'. And we weren't as sceptical about whether it would work or not. We would have just gone ahead and done it and worried about it later ...' (B3)

Despite the Managing Partner dominating the decision processes, the mechanisms for establishing the offices suggest a higher-level capability. The models chosen for establishing each new office were different, but had a common theme of cautiously entering the new markets before fully establishing its own fully-managed and branded operation.

Except for the foray into an offshore market on an arguably weak basis for doing so, the firm has

not undertaken any risky investment. Its entry into new geographic markets was undertaken cautiously, with minimal upfront investment until proof of concept was confirmed.

Over the period under study, the firm's decision-making has evolved. The layered decision-making structure of FirmB was designed to introduce a more balanced calculation about choices than would be possible with dispersed decision powers. As the partnership became larger and geographically more disparate over time, and professional management became normalised, arguably any single Managing Partner's hierarchical or emotional influence was diluted. Similar to the evolution of the firm's sensing capabilities, its seizing processes became more formalised and elevated to the firm level. However, the following quote shows that:

'Ten or 15 years ago when they first introduced the strategic plan and then we'd start doing some reporting around it and partners would say 'I didn't realise that was in the plan. I only signed it off to get rid of it — we were sick of talking about it.' (B1)

By the end of the period under study, the firm considers its business plan a working document that provides a reference point for ongoing decisions. The business plan cascaded into individual partners' plans, resulting in widespread familiarity with and buy-in to the firm's strategy.

Although there is no evidence of routines for systematically evaluating opportunities and threats, informal routines exist where ideas (presumably solutions to problems) are socialised and canvassed among the partners before being escalated to the board to approve or veto investment. The firm is unusual in that it has an 'independent' board member, which is intended to introduce an independent perspective into the firm's decision-making. Towards 2015, the firm developed unwritten 'stage-gate' systems for seeding ideas informally to assess support, before preparing full business cases with the help of professional management to then be approved by the board. However, one board member commented:

'I think it's more satisfactory if you give the partners something to colour in the edges rather than having to try and ... and I'm not being disrespectful, but there is a fine balance between leading them and driving them, and I think we were trying to lead them.' (B3)

'If you've got something you want to push, the way in which to do it is to communicate, discuss it with other partners, see if there's a consensus. Because decisions are best made by consensus and not straight voting, so that's one of the many values you get taught if you want to push a subject — you don't batter it through. It's done by consensus. You talk to

people and see if they've got the same appetite and if you don't think there's a consensus then you let it go.' (B4)

When a natural disaster hit that severely affected the city and its own business in 2011, FirmB demonstrated a considerably more agile approach to decision-making and flexing to meet the demand for different services. It was able to scale to deliver much-needed services quickly and within a year, and develop specialist services for businesses dealing with complex legal issues arising from the disaster. It was determined to keep work within the city when many clients assumed they would need to seek services elsewhere. Decision-making was dispersed and required less of the usual socialisation that slows down the speed of decision-making in the firm.

7.2.2.3 Transforming

FirmB successfully acquired a small firm in its primary office and opened four offices in new locations within 17 years, and during that time expanded its staff count by around 260%. It built capabilities in absorbing acquisitions and creating synergies from the network.

The firm adopted different integration models for each of its acquisitions and expansion strategies into new geographic markets. Although the first and fourth offices were based on personal relationships with the Chair, the second involved establishing a new office led by an existing partner. The second involved a careful process testing the compatibility of people and culture before fully assimilating the acquired firm into FirmB. Its later careful integration with a smaller firm was driven by the desire to enter into a new geographic market that would enable it to complete its strategy to have a fully national presence.

FirmB credits its successful integration of acquisitions to embedding its strong values and core culture across all offices. In the cases of the three offices that thrived, existing partners or former senior employees headed up the new operations and 'they knew what the values are' (B4).

The partnership values commitment to its people, its clients and its 'seized' choices. FirmB was fully committed to continuing with each of its offices once it had opened them, even in the face of short- or long-term setbacks. A former Managing Partner describes pressure to review the viability of some new offices, but he resisted on the basis that the decision had been made. This was in contrast to:

'There was a lot of discussion around why are we in A? Why are we in B? Why are we in C? And people were starting to do the maths by taking those organisations off the balance

sheet. I quickly quashed that. I said we're a national firm. We made that decision rightly or wrongly many years ago.' (B2)

The firm's core values prevent it from reconfiguring its staff assets through retrenchment, instead choosing to add more or different staff to compensate. When faced with challenges such as in the mid-1980s when the relevance of the 'old guard' and their way of doing business was fading, they chose to add a more youthful cohort of partners to reinvigorate the partnership rather than retire poorly-performing partners. In the early 1990s, when the firm was struggling due to 'harsh economic times', the firm resisted retrenchment, instead choosing to acquire a small firm and add more fee-earning staff to fill offices and generate fees.

Although this strategy had a positive impact on the culture at various points, the firm's reluctance to retrench its foreign office sooner had serious implications. A slow bleed of resources into its foreign office took 10 years before it was able to recognise the futility of continuing to invest in a failing business.

'It took a lot of management, so it was burning up more in administrative support than the rest of the offices. And that affects your margin, and at the end of the day it just didn't make sense ...' (B4)

However, when most tested, the firm demonstrated an ability to realign its resources very quickly. FirmB was able to learn and adapt when faced with natural disasters that decimated its offices, affected the personal circumstances of most staff and changed the needs of its local clients. FirmB was able to draw on help from its other offices to help it access the resources it needed to respond to and recover from the disaster effectively. Its social capital, built through a longstanding position in the city, enabled it to leverage relationships with external businesses to access resources and intelligence. Further, it codified its learning in business continuity plans that will enable a swift and well-organised response to similar events in the future. In subsequent years, the firm acted to satisfy the demand for specialist disaster-related legal services that had not been required previously. Having dedicated functional managers, including a CEO, positioned the firm well to continue operating even in the near aftermath. Despite the difficulty of the environment, FirmB's business was able to recover quickly and thrive.

FirmB displayed evidence of escalated commitment by persevering with its limping offshore office for a decade.

7.2.3 Triggers for DC development

The most effective triggers for FirmB to develop DCs appeared to be internal drivers, with the exception of the natural disaster.

Change	Internal (I)/ External (E)	Strength of triggering effect	Outcome
1985 — Scale removed	E	Weak	Relied on ordinary capabilities
1986 — Relocation of significant clients	I	Strong	Built sensing, seizing and transforming capabilities
1991 — Recession	E	Moderate	
1996-97 — Loss of public confidence in legal profession	E	Weak	Relied on ordinary capabilities
2003 — Referring increasing amount work offshore	I	Strong	Deployed sensing, seizing and transforming capabilities
2011 — Natural disaster	E	Strong	Built seizing and transforming capabilities
2011 — Consolidation of government's purchasing power of legal services	E	Moderate	Built sensing and seizing capabilities

Table 19: Triggers for FirmB's development of DCs

7.2.4 How did FirmB develop DCs?

The firm's path of relatively successful geographic expansion risks it being a single strategy firm. It has capabilities in establishing new offices and has been able to adopt flexible integration approaches to accommodate the differences in each new office's situation. Yet the structures and service architecture are replicated across offices. It now has exhausted opportunities to grow because it has entered most major geographic markets in New Zealand. Future growth will have to come from newly-developed capabilities.

7.2.4.1 Stimuli

The development of DCs may have been stimulated by the following factors.

Leadership

Although FirmB did demonstrate some sensing capabilities, they tended to be embodied within individuals rather than being at an organisational level. Search processes are exploitative and

largely opportunistic, despite the 'unwritten strategy of taking the firm national'.

Action	Driver	Individual or firm
Acquisition of small firm	Threat to cost base	Individual partner
Geographic expansion 1	Threat to client base, opportunity to enter new growth market	Dominant Managing Partner
Geographic expansion 2	Opportunity to enter under-serviced new market	Dominant Managing Partner
Geographic expansion 3	Opportunity to enter market for new type of work	Firm
Geographic expansion 4	Opportunity to enter market for new type of work	Dominant Managing Partner
New service	Opportunity to fill market gap	Unclear

Table 20: FirmB's expansion path

Although Table 20 above suggests that one dominant Managing Partner was able to galvanise the firm towards taking action, arguably the partnership's emphasis on collegiality meant decisions were made through less of a democratic than a dictatorship style. One dominant partner could impose his will on the partnership, who were unwilling to challenge his view.

The partnership's natural entrepreneurial talents were not evident, except for the dominant Managing Partner. Despite forcefully wielding his power, at least he had the vision and tenacity to lead expansion into several new geographic markets and to realise the firm's unwritten strategy. Although it is not clear, the unwritten strategy of becoming national may have originated from the dominant partner to eventually become the firm's dominant logic against which strategic decisions were tested. Strategies for diversification or investment in innovation were not entertained.

The dominance of the Managing Partner, who drove most of the geographic expansion, was a double-sided sword. Although his decisions were not necessarily driven by a strategic imperative, he nevertheless had a vision, was decisive and implemented growth, despite lack of consensus in the partnership. Without the force of his character, it is possible that the firm would be a shadow of its current self, not having had the courage to seize opportunities to move into new geographic markets.

Interestingly, since his influence has diminished, the firm has not implemented any similarly bold strategies. His sensing skills were underpinned by intuition rather than evidence, seizing skills through political influence and outshouting dissenters, and transformational skills through flexibility and perseverance.

He was able to secure the resources to extend FirmB beyond its comfortable geographic boundaries, most of which his partners retrospectively agree was positive for the firm. Getting 'big' ideas through the partnership is not for the faint-hearted, and in the absence of such will, the firm risked standing still.

Regular strategic episodes (Leadership)

Although not unique, FirmB provided no formal forums to encourage or solicit new ideas from anyone outside the partnership. As the partnership grew and geographically dispersed, wrangling the dynamics of the partners was difficult enough. Annual planning sessions, organised by the CEO and Chair, were only partially focused on the business, with a large portion on social activities.

'And there's just a couple of updates, ones on where the firm's going, issues of the day, new partners and that sort of issue.' (B3)

Formal strategic planning evolved and was elevated by the Chair of the board in the late 1990s, but was then led by CEOs in conjunction with the board. The firm has three strategic imperatives: the partnership culture, the position in the market, and financial performance. Partners are involved, to a limited extent, in strategic planning, with the board preferring limited input.

'I think it's more satisfactory if you give the partners something to colour in the edges rather than having to try and ... and I'm not being disrespectful, but there is a delicate balance between leading them and driving them, and I think we were trying to lead them.' (B4)

The partnership understands the importance of communication and forums for reflection and planning, holding four full-partnership meetings annually, as well as planning retreats. The extent of these forums' utility in exploring market developments and ideas for entrepreneurial activity is unclear, but their existence provides value in turning attention to the business strategy and away from the day-to-day client interaction.

Natural disaster (Path dependency)

The firm's internal orientation shifted following the natural disaster that occurred in 2011. Whereas the firm had been somewhat sceptical about subtler environmental change, the

confronting nature of the changes to its home base changed the business 'quite significantly'. Partners prioritised spending time with their clients and finding out what support they needed from the firm, resulting in bolstered profitability. Also, partners from other locations were able to step in and run the firm, including doing the overflow work from other locations because of the single technology platform. In what was usually a hierarchical decision structure, decision-making became devolved to the person most able to make a quick decision.

'Probably one of the lowest paid members of the staff (he looked after stationery and all the rest of it) had contacts everywhere and in conjunction with the office manager who was also a relatively low-level person they just ordered 100 of everything — 100 desks, 100 chairs, 100 everything because first off the rank to get this stuff, got it.' (B3)

The firm credits part of its resilient response to the disaster to its business continuity planning, which included the thinking and visualisation about what events could occur and what its response might be in any 'given scenario'.

Professional management (Integration skills)

FirmB was the only firm that appointed an 'independent director' — and accountant — to its board in 1988, who immediately took on a temporary general management role. The partners saw the need to introduce structure into the business, including business plans, business development, internal systems, and to:

'... sharpen their act both internally and externally.' (B3)

The early appointment of the governance board provided a vehicle to mandate the 'unwritten strategy' of becoming a nationally represented firm. It also provided some checks and balances on autonomous and divergent initiatives that did not align to the strategy or values of the partnership. Although most socialisation of sensed opportunities and decision processes happens at a local level, it ensures coherence across the dispersed firm.

Each of FirmB's new offices were based on a different base model — from acquiring a small firm in one market, to relocating one of its own partners to another, to slowly merging with another, it was able to learn from previous experiences and adopt base models that leveraged existing relationships while integrating them into the FirmB way. They did not impose a template approach that may have been unsuitable for the specifics of the market opportunity.

As a relatively large law firm, FirmB can afford to employ a CEO and functional managers, albeit with limited influence to supplement the homogenous worldview of the partners. One reason for reaching its current size may have been its early recognition that professional managers, an independent board person and sophisticated management approaches were necessary to introduce the step change that it needed to move from a traditional parochial firm in the 1980s into the nationally represented large firm it has become. FirmB's professional management has enabled it to learn, at least in an operational way, and enabled integration and embedded planning processes.

7.2.4.2 *Inhibitors*

The development of DCs may be inhibited by the following factors.

Hierarchy that undermines diverse views (Culture)

Functional managers and CEOs appeared to have limited influence in applying their differing perspectives to broaden the partners' worldview. Despite a newly-appointed CEO in 2014 saying he would be leading change at the firm, the non-legal managers appeared to take supporting roles to the partner protagonists. One interviewee suggested that management's role in the firm would always be undermined by the partners' tendency to pull rank on managers when they tried to encourage new ways of thinking. As owners, in contrast to being mere employees, partners were able to:

'Just take their worker hat off and put on their partner hat and say 'no, I'm not going to do that' ... Managers of law firms have to be very thick skinned and their lifetime is not great.'
(B2)

The hierarchy undermined the benefits of tapping into and learning from well-paid staff with different experiences and perspectives, and who were overwhelmed by the homogeneous but stronger lens through which the partners viewed the external environment.

'One of the challenges in an organisation like this is as you are aware, you've got ... owners who are also intensely interested in both the governance and the management, and who's paying for the coffees ...' (B3)

The strength of the hierarchy that remains within the firm points to managers having limited ability to improve sensing capabilities, as their information tends to be discounted by the partners because of their status or ignored if it is not aligned with partners' worldviews.

Furthermore, there is no mention of tapping into the observations or ideas of staff outside the partnership, which reduces the surface exposed to the dynamics of the market. Staff involvement would help overcome the partnership's own need for collegiality over diversity.

FirmB's learning is based on repeating and duplicating existing capabilities rather than unlearning or unlocking any dysfunctional routines. It actively fights to suffocate the differing views and perspectives that could contribute to more explorative and innovative learning routines. Its locked-in power structures, particularly as they have been embedded in the firm for generations, shackle it to serving a close variation of its longstanding client base via the only business model it knows.

FirmB brought in outside laterally hired partners too, which could have provided an opportunity to learn from outside the bounds of the firm. However, the ability to learn from them was hampered by the ability to integrate them effectively into the firm. One acquisition that took place in the early 1990s was eventually unravelled due to a cultural wedge between the members of a small firm and its much larger owner. Lateral partners also came and went. Rather than seeking to exploit different points of view, the firm sought to bring them into line.

'They would come in as lateral hires, and they hadn't been imbibed with the process of the way this works, and they were the not ones that were calling the shots.' (B3)

Interviewees emphasised the importance of collegiality in the partnership as a driving value. However, the over-emphasis on harmony may well disinhibit diversity of thought and there is a limited ability to take a fresh approach. One interviewee stated:

'I turned into that dominant partner for a while, and the politics of practice was that a lot of young partners who were ... aggressive, who were ... looking at how they could improve the bottom line through short-sightedness and quick fixes versus long-term support for the wealth and health of the firm. So I was looking to guard the firm against that point of view ... I was forever vetoing proposals that I didn't agree with because it was undermining the whole fabric of the firm in my view.' (B3)

Neither did it provide evidence of routinely looking outside its boundaries for relevant new knowledge to help illuminate market opportunities.

Internal orientation (Culture)

A feature of the firm's leadership is that they have historically been a relatively homogenous group — ethnically, gender, education, socio-economically and parochial — although it became at least more geographically diverse throughout the period under study. The homogenous characteristics, skills, strengths and values of FirmB's partners do not necessarily map to the entrepreneurial abilities and conditions for optimal recognition of the market need and implementation of the change necessary to exploit new opportunities. The values of the partnership did not appear to encourage robust discussion, preferring peace. Such values undermine decision quality. Seeing the environment through a common lens was important.

FirmB's dominant logic, however, also constrained the firm's search for opportunities, as it did not appear to entertain or pursue any other strategies, except when deeply impacted by a natural disaster that generated market demand for different expertise. The shared orientation of the firm's partnership was internal and expansion decisions driven primarily by the firm's ambitions rather than identification of an apparent market gap. Although in broad terms an opportunity may have existed to compete in geographic markets, the firm's differentiation in those markets did not seem well defined.

FirmB had a high internal orientation for most of the studied period, seeking development of the business within the clearly defined boundaries of a traditional full-service law firm. Although at least one of the new offices was opened in response to changes in the client base's location, the firm did not appear to study competitors' strategies or routinely explore patterns in clients' behaviours or changing needs. The firm was aware of the impact of technology on business law and attempted to commoditise its conveyancing service in response to 'being told that conveyancing would disappear'. However, its attempts were not successful, and one interviewee reflected:

'And we had attempted to commoditise it, to write programmes for it and at the end of the day it's got to be, it needs skills of individual judgement and research, and so I'm a little bit sceptical about those sorts of comments.' (B4)

The firm's high internal orientation not only undermines its decision abilities, but also reinforces the effort it puts into refining its existing capabilities. It is either unaware or under-values the knowledge held in the external world (or by people with experience gained outside the firm), which means it is unable to refresh its knowledge stock and risk more tightly locking in the

routines it has practised for decades. New CEOs have joined the firm but not been able to make any meaningful, visible change to its strategy.

One interviewee alluded to the apathy that pervades the partnership because of its 'fantastic' client base that they had inherited from previous generations of partners, which dulled its:

'... need to be market aware, very nimble, being able to move with the times'. (B3)

The firm has the mindset that it should stick to its knitting. It feels confident that if it continues to 'do things right' within the bounds of its industry norms, then it will continue to succeed. There was little acknowledgement that it would ever need to reinvent itself to meet the new demands of its context. The image of the firm is locked in by people inside and outside the firm.

Centralised power (Leadership)

As the protagonist of the decision remained with the firm for the full decade, it was difficult for him to admit flawed decision-making and agree to exit. Loss of face was a motivator for persevering with the office, even when a groundswell of opinion in the partnership was to close it. In the absence of an emerging group of leaders, the dominant partner's views remained the priority rather than the ongoing viability of the offshore operation.

Bounded search strategies (Learning)

FirmB's sensing capabilities are exploitative, with no evidence of explorative searching. Such a skew towards exploiting existing capabilities and replicating them across new geographic regions might prove to be myopic if significant enough disruption were to occur. Essentially FirmB has continued to offer very similar services based on the same business model since its inception over 150 years ago. The only visible change is the adoption of technology to streamline the production of the same services and to facilitate communication with clients. The fundamentals remain the same.

FirmB has grown by entering new geographic markets — just like its competitors. The legal services industry seems to have a limited repertoire of strategies, and one that is naturally self-limiting as New Zealand has very few major cities with the critical mass to justify expansion into. FirmB is not aware that it could take a more innovative approach to expansion in its mature market.

Although it is argued earlier that the firm has demonstrated an appetite for moderate risk, its reluctance to take a significant risk means it will always pursue safe choices that are likely to

produce lower pay-offs. Its narrow search horizon further limits the chance of identifying solutions to high pay-off problems.

Having established several offices in new geographic markets, FirmB is confident in its capabilities to expand in this way. Future opportunities to establish offices into new markets are likely to be embraced as a tried and true *modus operandi*. If its competitors were interested in predicting FirmB's next steps, they could safely assume the geographic expansion of FirmB is likely.

The firm's path shows a moderate appetite for risk, which is necessary for seizing capabilities, albeit influenced by the dominant partner's tolerance of risk. The firm's approach to opening new offices within New Zealand balanced risk with certainty, which paid off. To invest in opening an offshore office demonstrated a higher-level tolerance of risk, although arguably it was naïve about the difficulty of succeeding in the significantly more complex and competitive market it chose to enter. The experience of taking a moderate risk that paid off and taking a high risk that failed is armed with a balanced approach to risk, whereas the absence of either experience could have locked it into a low-risk profile preventing it from entertaining risk/reward opportunities in the future.

7.2.5 Conclusion

Despite the descriptions of rigidities that have prevented the firm from developing strong DCs, it has been in business for 150 years and thrived particularly over the period under study. The firm risks reinforcing the capabilities that it credits its success with and failing to detect that they have exhausted the utility of that strategy and need to unlearn it.

As the younger, more commercial, cohort of partners assumed the mantle from the deeply conservative partners of the 1980s, FirmB has grown significantly. However, its sensing capabilities have resided in one or two partners based on their perceptions of either the firm's ambitions or gaps in the market. Since those partners have moved on, the firm appears to have stood still (except for the reaction to the natural disaster) either by choice or inertia. FirmB's sensing has been mainly ad hoc, but strategic planning forums and partnership meetings allow partners to share their perceptions and garner support for investment.

The embedded features of collegiality and hierarchy shape the firm's seizing capabilities. Collegiality ensures wide socialisation of ideas and input into decisions before they reach the board for sign-off. However, in the past, FirmB's seizing capabilities were strongly influenced by

the political power of the partner championing a perceived opportunity or threat, and the resulting initiative.

FirmB has a successful track record of transforming capabilities through establishing offices in new locations and absorbing acquired firms due to its non-negotiable values and the attention paid to imposing a common culture across dispersed offices. The exception was the establishment of a foreign office, which limped along for 10 years before being sold off. In that case, FirmB had under-estimated the challenges associated with the transformation, and with the benefit of hindsight, it persevered well beyond it should have.

When a natural disaster struck late in the studied period, however, FirmB's transforming capabilities escalated and it was able to respond effectively and quickly.

Triggers for FirmB to develop DCs were primarily driven by internal perceptions or ambitions — and led to the establishment of offices in new markets. However, as mentioned earlier, the natural disaster provided urgent momentum for the development of seizing and transforming capabilities.

The development of DCs was stimulated by FirmB's early strong entrepreneurial leadership. Although the leader was dominant and partners did not universally support some investments, he was able to animate the firm to act. His power was most evident in the first half of the studied period and was slowly superseded by a more formal governance structure, the appointment of management professionals and regular strategic episodes. The natural disaster propelled the firm to act decisively, and consequently thrive where others failed.

Inhibiting the development of DCs was the hierarchical structure that undermined diverse views. As a homogeneous group of individuals who value collegiality above all else, there was little room for divergent views. A feature of FirmB's history is its single strategy of becoming a national firm, which constrained its search for other opportunities. Perception of opportunities was linked to the firm's ambitions rather than analysis of environmental trends. It favoured exploitative search strategies over explorative strategies, which in time may see the firm locked in rigidities that no longer fit the market's needs.

As mentioned earlier, the dominant leadership of the firm and untested decision-making about significant investments was a double-edged sword. While it provided momentum in the absence

of it, it also led to some 'unstrategic' decisions, including one that cost the firm and caused internal disruption for over a decade. The inability or unwillingness to effectively participate in sound decision-making weakened the fabric of the firm. More recently, the informal stage decision systems that have emerged have helped recast this capability.

7.3 Case study FirmC

7.3.1 Case description

In 1985, FirmC was one of the few firms acting for as many overseas clients as New Zealand-based clients. Because of the importance of the overseas market, partners and senior executives of the firm had to travel extensively to maintain relationships with overseas suppliers and clients, and to stay up-to-date with legal developments in those jurisdictions.

As a specialist firm, it only had a small conveyancing practice. So, in 1985, when the NZLS dropped the scale charges, the firm did not feel any effects at all. The relaxation in the rules around advertising was a little more difficult. Older partners struggled to accept the idea of advertising and didn't see it as being 'proper for a law firm' to engage in marketing, even resisting the most basic advertising.

'I think there was just an old-fashioned view of the legal profession. You sat in your office and clients came along to see you in your office. That was about it ... I don't think it crossed their minds!' (C2)

The main office of the firm had been steadily growing, but its newer northern office was static, which was at odds with the city's boom in work from New Zealand-based large clients located there.

The changing economic situation of the 1980s and the New Zealand Government's policy of drastically restructuring the economy resulted in a more competitive commercial scene. This shifted the emphasis of the firm from passively taking instructions for transactional work to that of advising clients on more complex commercial and litigation matters.

In the mid-1980s, the Chinese economy and legal market were starting to take off. The firm, led by its well-travelled Managing Partner, established a presence in Asia to capitalise on work from clients in primary markets with interests in Mainland China activities.

The partners of the firm went through rough times following the 1987 share market crash. Many of the partners personally lost quite a lot of money in the market and seriously considered walking away from the business. They were held together by the resolve of the most influential partners of the time, and 'once they had decided on something the rest of the partners fell into line'. However, the share market crash prompted the partners to reflect on how they should

change. Up until then, the partners expected clients to visit them in their offices and did not consider that they should travel to visit clients at their premises. But after the share market crash, the firm realised it had an obligation to do its best to help them. It developed a plan to increase its involvement with clients.

Despite the financial toll on partners, the firm considered itself lucky in the years following. New Zealand was affected by the crash more severely than most other advanced countries in the world, but FirmC's pain was reduced because its overseas work started picking up again, quite soon strengthening its financial base. FirmC was one of the few firms thriving at the time.

'It was noticeable that we were in a much better position than other law firms, including some of the big ones, which was quite intriguing.' (C3)

The firm's growth continued through to the early 1990s, with the recruitment of a further 15 new professional staff and the appointment of the firm's first financial controller to 'administer the affairs of the office and keep a general overview on all sections'. The firm had had office managers before, but under that regime the partners still did the managing.

'Partners ran everything.' (C3)

The financial controller began structuring the business more formally and started moving partners away from the day-to-day running of the firm.

Concerning culture, the firm was dominated by men and led by strong personalities.

'[It was] more of a boys' club ... You were recruited through the rugby club.' (C1)

Although 'it was easy continuing to do what they had always done', the partners realised they wanted to diversify. They reflected on where they wanted to be and realised their exposure to the international market made them vulnerable. They decided to increase their focus on the New Zealand market.

In 1991, a small team was set up to see what the firm could 'do about our CityY office' (C2). Two young partners from CityX and the newly-appointed financial controller were designated by the partnership to draw up a plan, with the goal of reducing the number of partners in CityY by two and increasing the number of trainees and associates. The office was top heavy in partners and did not have enough staff to produce the work.

The period 1991 to 1993 was tough for the firm, affecting the 'top line' of every area of the practice. The firm cut costs wherever possible, but ensured it kept a medium- to long-term view by retaining the core people. The partnership felt it was better to make less money in the short term but to maintain the capacity for when the market picked up.

A new Managing Partner was appointed in 1991 who had travelled extensively for the firm, was 'very well connected with American law firms, Asian law firms', and had observed modern professional management structures being brought into law firms. He brought in professional management and developed capability in marketing and financial skills. He saw that with professional management in place, partners could focus on their own business and not be distracted by areas that other experts could do — they could earn more money as partners. But the firm had 'a few crusty old partners who did not like change' and made life difficult for the first professional managers.

By 1994, the firm had rebounded and was boasting about 11 new appointments. The new Managing Partner continued to make changes. He drove the firm to move out of some of the peripheral areas of law they had been practising and focus purely on its core expertise, building comprehensive teams and having scale.

The Managing Partner 'was one of the few lawyers in New Zealand or Australia that could grasp the issue around regionalisation', particularly the potential that presented itself with the Asia-Pacific market. He set up relationships with Hong Kong and Singaporean firms to get the firm's 'feet on the ground there' so it could look at establishing itself in the Chinese and Malaysian markets. His insight into international markets came through deep relationships he had built through extensive travel and attendance at conferences.

The 1996 crisis 'had little impact' on FirmC's business, although some of the New Zealand clients were 'a little bit more thoughtful at that time'. Before the crisis complaints against lawyers 'was virtually unknown', but in the latter half of the 1990s the firm received more complaints to the NZLS from unhappy clients than it had seen before. However, the firm remained confident that the partners were doing precisely the right thing and that the people they were overseeing were doing the right thing as well.

The informal relationship with an Asian firm, which had been in place for several years, was formalised as a strategic alliance in 1996. The firm was conscious of the difficulties clients faced in

China and considered the alliance would offer 'true benefits' to clients. The alliance included the swapping of staff and technology.

'The Managing Partner was keen on the regional approach relatively early on ... he was probably ahead of his time ... and it may not have been the quite the right arrangement or way of doing it but certainly the idea of doing it ... without him and his personal relationship with [the firm] it would have been difficult to get it off the ground.' (C2)

In 1998, regulations changed, allowing Australian law firms to compete in New Zealand. To compensate for the potential loss of lucrative overseas work, the firm re-energised its emphasis on building the local market. However, the partners were concerned. They perceived haemorrhaging of work was due to new competitors in the New Zealand market for overseas work and substitutes for New Zealand clients.

Having been committed to the alliance with the Asian firm for several years, the firm began exploring a similar relationship with another Asian firm. Within the partnership, there was vigorous discussion about the future for the relationship, but the arrangement failed to take off because of the inability to persuade experienced professional staff to move to Asia. Some within the firm were also wary of the move, having witnessed its largest competitor struggle after merging with an offshore firm.

'My concern [about forming an office overseas] is again watching [competitor] — they were doing so well, decided to do the offshore expansion, put all effort and energy into that, took their eye off the ball and look where they are now!' (FirmC Archive)

Despite this, the partners felt that expanding into a closer offshore market should be explored to regain ground lost to Australian firms competing in New Zealand. The GM and some older partners were pro-expansion and put forward a proposal to the partners for merging with an Australian practice. The vote was split by generation. Younger partners concluded that the expansion did not offer enough benefits. A group of partners did not see the need to expand into Australia was either urgent or self-evident. Older partners felt it was necessary to take a risk to position the firm for the future and were disappointed by the 'risk aversion' displayed by their younger partners.

'Queried is ... growth itself an objective. Unless the present partners can recover the costs of expansion and gain further profits, why expand?' (FirmC Archive)

The rift prompted a strategic review to be undertaken by an external consultant. A situation analysis showed significant change over the previous five to 10 years, but the outcome of the review was that there was 'no desire for aggressive growth in firm size'.

In 2003, the firm laterally hired a partner to build a practice in a horizontal service area, which complemented its specialist services.

By 2007, the firm's connection with the Asian firm had fallen away, unsupported by the powerful CEO. The firm was growing and highly profitable.

'The firm was doing pretty well at that point ... I suspect we hit quite a high point of things going well before that next recession came ... I think we got better and smarter. We brought in more marketing resource to bear on the situation. We got better at tendering for work. We were a lot more thoughtful about what offerings we made to the market, and we were pitching for things ... We were having to substantiate what our role was, how we were adding value, how we were partnering with clients so again I think we were sort of in response stepping up.' (C1)

However, the market was starting to change with the emergence of 'independent players' coming into the marketplace and competing for commodity work and offering lower rates for New Zealand clients. The recession of 2008 affected the firm's international income. In 2010, when a new CEO took over the reins, the business was struggling.

'Weaknesses: No sense of urgency ... most profitable work under greatest threat.' (FirmC Archive)

A planning session was held for the partnership to look at developments in its market space and agree its response. The outcome was to open its first Australian office in Sydney in 2013 — after decades of discussion about the idea. By that stage, the fractures of earlier years had been resolved and replaced with 'a very consensual partnership'.

Year	Quote encompassing the firm's narrative
1985	<i>'When the law society dropped the scale charges because they only really applied to conveyancing and we did a little bit of that, but there were probably only one or two people in the firm that did. They had to change their ways, but it didn't affect people doing specialist work at all. It was a bit of a struggle for the older partners to get to grips with the idea of advertising and it didn't see it was proper for a law firm i think.</i>

	<i>And we didn't ramp it up instantly i can tell you. The amount of marketing would have increased over many years slowly rather than dramatically in one week.'</i> (C2)
1991	<i>'They realised that they wanted to diversify a bit more. They had that significant exposure to the international market and decided to be more locally focused.'</i> (C1)
1997	<i>'I don't know if it affected our business. There was a lot of chat about it. It was like the perception of lawyers — they were down the food chain with used car salesmen. There was a lot of chat about it, but people still needed lawyers, particularly our services for IP. I don't think it affected our business whatsoever.'</i> (C3)
2008	<i>'I think we got better and smarter. We brought in more marketing resource to bear on the situation. We got better at tendering for work. We were a lot more thoughtful about what offerings we made to the market, and we were pitching for things. We were having to substantiate what our role was, how we were adding value, how we were partnering with clients so again I think we were stepping up.'</i> (C1)
2011	<i>We took it reasonably seriously. It was a very regimented process in the sense that there were particular forms to complete and there wasn't a lot of scope to produce a one off proposal that would blow them away type things so we got a team together and we produced a proposal that was pretty good we thought.'</i> (C4)

Table 21: Summary of FirmC's responses to critical events

7.3.2 Presence of DCs

7.3.2.1 Sensing capabilities

Similar to other firms in the mid-1980s, FirmC was led by partners who took a passive approach to their business.

'There was just an old-fashioned view of an old-fashioned legal profession. You sat in your office and clients came along to see you in your office. That was about it!' (C2)

As part of a global market, FirmC demonstrated a relatively broad purview that helped it manifest in strong sensing capabilities. New Zealand was isolated and the market highly regulated, but the partners of FirmC had been travelling extensively for decades, exposing them to diverse perspectives and volatile markets long before their New Zealand-focused peers. The discipline of writing 'trip reports' made up of a variety of observations about clients, competitors, and best practices, which were distributed among the partners, providing a vehicle for recording and sharing intelligence. The nature of the work fed a culture that was relatively externally-focused.

FirmC has a strong external orientation, sensing changes (albeit in an ad hoc way) and responding based on their interpretation of the problem. The partners' choices are less fuelled by ambition than a genuine belief that an opportunity or threat warrants action. The firm's strongest

entrepreneurial orientation was evident when the Managing Partner was in control from the early 1990s to mid-2000s.

The overseas client base and frequent international travel led FirmC to see opportunities for new business models in overseas markets. For instance, the Managing Partner learned from a Hong Kong-based associate firm that the Chinese market was growing, which supported his view that China was 'taking off'. The Managing Partner held strong views, and he convinced the other partners to share his view that they should attempt to get a slice of the burgeoning business. With a strong belief in the opportunity, and having developed a proposed alliance model, the Managing Partner was able to persuade the partners to invest in the opportunity.

'It was [the Managing Partner's] idea. I can't take credit for the idea but once he talked me into it, I was then a loyal supporter and believed in it.' (C2)

FirmC's sensing capabilities were often latent for long periods, but it was able to sense when significant external changes demanded an in-depth analysis of market dynamics. For instance, the firm was stricken by the 1987 sharemarket crash, and both the firm's and its partners' wealth was significantly affected. The partners 'sat down and did some planning about how we should change' (C2), although the crux of the planning was centralised with two partners:

'... and that once they had decided on something the rest of the partners fell into line.' (C1)

Similarly, when it sensed that one of its offices was under-performing, a team was established to analyse the market and develop plans that resulted in improved client care practices. The study identified several examples where small teams were formed to develop more in-depth understanding of problems and develop options for solutions.

The firm's external focus extended to working with government agencies and participating on government committees to do with its niche area of expertise. Participation provided synergies — the government could access the firm's expertise, and in turn the firm was able to learn about (and influence) market initiatives. Seeing itself as having a role to play influencing government policies, the firm ensured that it stayed abreast of proposed policies and committed resources to participate in the government policy consultation processes. Although this was required intermittently, the firm had processes in place for monitoring the legislative programme.

'One of the policies of Government in recent years has been the encouragement of innovation through small business. ... More recently there have been a number of small government initiatives — one of these has resulted in the Innovative Contracts Committee,

a programme run through the Dept of Scientific and Industrial Research. Currently, the firm's Managing Partner is the Chair of that Committee.' (FirmC Secondary)

FirmC demonstrated capabilities in learning from its competitors' experiences. For instance, it observed its major competitor take a decisive step to form a business model in an overseas market that may have saved its long-term market share, but the initiative failed miserably. FirmC learned from its competitor's mistake, however, and despite identifying the business case for establishing a presence in the same market, its partners did not have the appetite to pursue it. Further, it observed competitors establishing offices in other New Zealand locations, and struggling with quality issues and dilution of resources, so chose not to pursue similar strategies.

Similar to other firms in this study, in the mid-1990s, the Managing Partner sensed the opportunity to boost profitability by employing professional managers to do the work that had been distracting partners from earning revenue up until that point. As part of the transition from being partner-managed to being professionally-managed, the firm formed committees focusing on IT, HR and marketing, on which partners and new managers worked together. As well as adding diverse perspectives (although partners rather than lower-status managers retained the power), the managers provided the resources to undertake more routine sensing than had been possible under the traditional law firm model.

Exposure to international market dynamics neutralised the firm's tendency towards spatial myopia in the early 1990s, but was a problem for the firm when regulations changed to give Australian professionals equal access to practices in New Zealand. The firm sensed the threat but was unable to develop an effective strategy to adequately protect its market share from the well-resourced and aggressive Australian competitors.

Although FirmC's sensing capabilities were dominated by a strong and entrepreneurial Managing Partner for the first half of the study period, routines for sensing transcended them once professional management was put in place in the firm. Albeit intermittent, proactive strategic planning and occasional offsite retreats were facilitated by the GM/CEO and informed by market analysis carried out by functional marketing specialists or external management consultants.

Every few years, the firm undertook strategic planning processes, which included documenting situation analysis based on internal perceptions. SWOT analysis was the commonly used strategic tool. Such planning was intermittent, and usually in response to an internal or external trigger that

the firm felt it needed to explore and respond to. However, the firm's approach to problem formulation was not well developed, leaving partners to reach different conclusions about what the problem was. An example of an ill-defined problem was in 2002 when the partners considered a proposal to establish an offshore office. Support was split, with a group of older partners having a shared view of the necessity for the office for the long-term safeguarding of its market share, while other partners saw it as a simple acquisition to deliver growth that they had no desire for. Problem framing and leadership were inextricably intertwined as the Managing Partner was not able to convince his colleagues of the problem or the solution.

In 1998, a group of partners drafted a 'strategic plan' that set out perceptions of threats to the business and the effects of those threats, opportunities, new competitors, assets and liabilities — supported by strategies to confront identified threats. They perceived the possible loss of work due to new competitors in the New Zealand market for overseas work (Australians) and substitutes for New Zealand clients (online filing). They also saw opportunities to increase marketing in the local market and diversify into new service areas using existing technical expertise. They saw weaknesses in skills for marketing to and servicing local clients. One example that led to a significant change of strategy was when the firm recognised that it was vulnerable to uncontrollable forces in overseas markets. The firm saw the potential to invest in growing its local client base to complement its incoming international work and reduce the vulnerability to the whims of overseas markets. It adopted this strategy and successfully grew both its New Zealand client work and the overall size of the business as it adopted a more external orientation.

FirmC is more biased towards sensing threats than seeing opportunities. When its market was opened to Australian competitors, and vice versa, it felt its market would be eroded and adopted the position that it could compete on its lower cost base. Time proved that this was not a compelling proposition and the predicted erosion has come to pass. The opportunity, however, lay in gaining equal rights to compete in the much bigger Australian market, but its myopic partners vetoed that strategy.

As a specialist firm that had survived since the late 1800s, it had a relatively narrow search horizon because of its consistent reliance on a core set of skills and expertise. It was also highly profitable, which reduced its ambitions to invest and innovate for the future. It assumed minor environmental change, even in the face of declining market share. Because the market share decline began slowly and was buffered by successful financial performance driven by services not measured in market share data, the firm felt no urgency to act.

'The type of work tends to mean that we don't go out looking for larger transactions or potentially the type of work that might massively change the revenue profile of the firm. It tended to be steady state, steady as she goes, and if you win a little bit of work, it only has a little impact.' (C4)

7.3.2.2 Seizing capabilities

EXTERNAL PROBLEM	FRAMING	SOLUTIONS CANVASSED	DECISION
1985 — SCALE REMOVED/ADVERTISING ALLOWED	Conveyancing not important part of the business Advertising not 'proper'	1. Those involved in conveyancing needed to change 2. Do nothing about advertising because it wasn't necessary	1 & 2
1987 — SHAREMARKET CRASH	Personal loss of wealth (Threat) Potential loss of clients whose businesses were badly affected	1. Closing down the firm 2. Change ways of interacting with clients to be more proactive	2
1991 — RECESSION	Tough times for the firm (Threat) Overseas work slowed down	1. Cut costs without losing key people 2. Reduce reliance on overseas work 3. Introduce modern management structures to strengthen business	1, 2 & 3
EARLY 1990S	(Opportunity) Opening up of Asia provided an opportunity for a new flow of work	1. Open an office 2. Do nothing 3. Form an alliance and test the business case	3
1996-97 — LOSS OF PUBLIC CONFIDENCE IN THE LEGAL PROFESSION	Little impact (Threat) Increased distrust led to more complaints from clients	1. Continue business as usual (BAU) 2. Reinforce importance of ethical practices	1 & 2
1998 — TRANS-TASMAN MUTUAL RECOGNITION	(Threat) Australian firms would win market share from overseas clients (Opportunity) Could act for NZ clients in Australia	1. Lobby government to oppose change 2. Invest in building NZ market to reduce risk exposure 3. Establish office in Australia	2
2002 — AUSTRALIAN FIRMS TAKING MARKET SHARE	(Threat) Australian firms discounting services to win market share	1. Merge with an Australian firm and rebrand 2. Compete on cost basis	2
2011 — CONSOLIDATION OF GOVERNMENT'S PURCHASING POWER OF LEGAL SERVICES	Procurement process to retain government clients	1. Pitch	1
2013 — AUSTRALIAN FIRMS TAKING MARKET SHARE	(Threat) Australian firms aggressively marketing their services to win market share	1. Establish a new office from scratch 2. Acquire a small firm and rebrand	2

Table 22: FirmC's framing of external problems, options considered and decisions

FirmC's seizing capabilities were affected mainly by the most powerful person in the partnership or the CEO at the time. Not all voices held equal weight when deciding on a course of action. Decision processes within FirmC's business ranged from informal to highly formal, depending on the quantum of the investment at stake and the style of the Managing Partner of the time. In the late 1980s, the firm was ruled by a dominant Managing Partner:

'You had a powerful individual in charge in the form of [X], who had his particular vision it was a family sort of oriented business with [X] as the head of the family. ... It was just a very, very paternalistic approach to the whole thing.' (C1)

When the next Managing Partner assumed the mantle in the 1990s, he dispersed operational decision-making to committees, but along with the previous Managing Partner, continued to have a tight rein over major decisions.

'I suspect there was a lot of conversation between [X] and [Y] and that once they had decided on something the rest of the partners fell into line ... some of the key players would have had input, but those two were probably pretty responsible for setting the direction.'
(C1)

In later years, committees were formed to make operational decisions, and functional managers were mandated to make low-level decisions in their areas. A few significant investment decisions were made by the full partnership based on the case presented by the CEO, discussed and, if necessary, voted on.

While the Managing Partner dominated decisions through to the late 1990s, his ability to impose his view reduced as the GM/CEO's power increased. As the CEO's power increased, and the Managing Partner role became more of a figurehead in the mid-2000s, the partnership was sometimes excluded from making strategic decisions. Despite the consensus approach within the partners, the ceding of power to the CEO meant that some decisions could be made unilaterally without reference to the partners.

That Managing Partner left the firm when the CEO's power peaked, and less forceful Managing Partners stepped up, allowing the CEO to remain highly influential. For instance, the partnership prided itself on consensus decisions, but it was the powerful CEO outside of the partnership itself who was able to unilaterally withdraw resources from the Asian operation. His biases against the long-term investment and unproven model motivated him to close it down. Neither those in

favour nor those against the venture provided business cases in support of either course of action, so eventually the CEO's withdrawal of resources over time starved it to death.

By the end of the studied period, the decision processes were 'very consensual' involving all partners agreeing on a course of action.

'It's discussions at partner level, and more recently we've had retreats where we've looked at the bigger picture of what's happening in the market space, and what do we want to do about that, where do we want to be positioning ourselves in terms of price and geographic location and all of those sorts of things. I think it is a very consensual partnership. Everyone has to generally agree on a direction but, by discussing among the partnership generally is how it's happened.' (C1)

Undermining the firm's seizing capabilities was the partnership's different risk profile. Several older partners (who had benefitted from years of high profits) felt the firm needed to take risks to grow quickly.

'X and I were prepared to be risk takers to grow the business quicker and bigger. It meant going offshore, and we started with Asia and hoped that something really big would come out of that.' (C2)

However, as demonstrated by the decision not to pursue the Australian office in 2002, the values were not a given across the partnership leading to rejection of investment perceived to be too risky and ultimately retrenching the offshore arrangement.

'At that time my feeling was that maybe it was generational differences. We were baby boomers, and they were Gen X or something. But for some reason or other, we were sort of prepared to take a bigger risk, and the next generation along were a bit more risk-averse.' (C2)

In response to the Managing Partner's perception that Asia presented long-term growth opportunities, the firm seized the opportunity to establish an innovative joint venture arrangement with an Asian firm. At the time, the international regulations and tax arrangements could have been too much of a barrier of entry, but it persevered because of the force of the Managing Partner's belief in the cause and personal relationship with the proposed alliance partner's Managing Partner. It is not clear, however, what alternative business models were considered.

'In some ways given what we're now seeing with competitors, [X] was probably ahead of his time ... and it might not have been quite the right arrangement or the way of doing it but certainly the idea of doing it (was right).' (C1)

Heuristics are evident in some of FirmC's decision processes. The decision not to invest in the Australian office because lack of agreement about the ambitions of the firm provided evidence of prospect theory — where the certainty of outcome was favoured over the potentially bigger pay-off of investing in a new market. Although the situation analysis noted declining market share due to increased competition and substitutes, the partnership concluded:

'Partners did not express any need for significant change but acknowledged the need for ongoing refinement and the need to invest in the development of partners and staff.' (FirmC Archive)

On the back of the strategic plan drafted in 1998, the partners decided to increase their investment in building work from the New Zealand market. The firm's strategy to compensate for the ebb and flow of overseas work by building a solid client base in New Zealand remained the enduring vision for a decade. It was the goal against which opportunities and the seriousness of threats were measured, and partners remained unquestioningly committed to the strategy throughout that time.

'Suddenly we would compete with the Australian firms, and as part of the planning for that, it was a much bigger emphasis on making sure we had local client work coming into balance out the potential loss of international work to the Australians. We were able to work both sides of the Tasman, so there was a win for local clients in that we could ... take out some cost out for local clients.' (C1)

FirmC perceived that it was able to consider more options and 'major projects' because it had a management team that was able to resource the work. This was in contrast to its smaller competitors whose choices were more limited because of the limited people to drive forward plans.

'Partners may be allocated responsibility for doing something and trying to handle that work along with their client work and wouldn't be able to put as much effort into it, whereas having a management team, people there would be detailed with dealing with it as a major project.' (C2)

Strategic decision-making and implementation were concentrated within the very top of the firm — at the Managing Partner and CEO level — with any persuasive energy directed to the partnership rather than the firm as a whole.

7.3.2.3 Transforming

The firm was able to identify that it needed to unlock the rigidities in the type of client it pursued and the way it serviced those clients in order to achieve its shift of focus from the international market to the New Zealand market. The firm was built on overseas work that arrived by and was responded to by post without requiring anything more than minimal human interaction. When the firm decided to concentrate on building its local market, it realised that its remote approach would no longer fit the needs of its market and it needed a different client service approach, different technical skills and different marketing strategies.

Leadership came from within the partnership.

'When we lost [a client], the General Counsel said it was because we didn't have sufficient technical legal knowledge in the way the law worked. That was absolute rubbish — that was where we excelled ... What she meant was that we didn't go out and look after her, and sweet talk her. That was her real point.' (C2)

'We pretty actively recruited better and better people ... we were trying to upgrade the offering into the market.' (C1)

'We got better and smarter. We brought in more marketing resource to bear on the situation. We got better at tendering for work. We were a lot more thoughtful about what offerings we made to the market, and we were pitching for things. We were having to substantiate what our role was how we were adding value, how we were partnering with clients, so we were stepping up.' (C1)

The nature and longevity of FirmC's business meant it had weathered many regulatory changes that either generated or eroded substantial types of work. It showed an ability to realign itself multiple times without significant disruption or loss of people as the gain and loss of work usually balanced out in the medium term. The types of regulatory changes also came with significant lead times, so the firm was able to consider its response, and incrementally adjust its resources. Taking a long-term horizon to transformation drove different decisions than if it had taken a more knee-jerk approach.

'That impacted on strategies to look at cutting costs, but I intended to make sure we had a medium to long-term view because the partners were medium to long term. So, it meant retaining people, core people, the right people. It was better to make a bit less money but to maintain the capacity for when the market picked up and so that was pretty effective, I think.' (C3)

FirmC sees its people as its strategic asset along with its strong reputation, which had been built over more than a century, and which provides confidence to risk-averse overseas clients. However, the strengths of the people necessary to service the overseas and New Zealand markets were different. As the firm adjusted its strategy to focus more on local clients, it needed a different type of person to do the work. But not all partners were able to adapt their style from the arms-length technical style that had underpinned the firm's reputation with overseas clients.

The transformation capabilities were directed towards learning and practising doing things better.

'There was a lot of progress in putting professional practices in place from having professional management ingrained in the business and having professional managers responsible for HR, marketing, IT and so forth in the business.' (C3)

The objectives of the one acquisition, which was of a smaller firm, was to provide a foothold in the Australian market and to buy the connections and clients of the partner of that firm. The partner of the acquired firm had worked at FirmC some time before, so it assumed he could replicate the firm's values, culture and systems. The firm did not have integration capabilities having never needed them, which meant when its management team was given only three weeks' notice of the acquisition, it struggled to know what to do. After the new office was operational, both the staff in the new office and the 'head office' in New Zealand found the integration difficult due to a lack of an operational plan to align the practices. Much more about the systems and culture was taken for granted than was codified, which slowed the integration.

7.3.3 Triggers for DC development

Table 23 summarises FirmC's responses to internal and external drivers and shows that external factors generally provided weak impetus for developing DCs.

<i>CHANGE</i>	<i>INTERNAL (I)/ EXTERNAL (E)</i>	<i>STRENGTH OF TRIGGERING EFFECT</i>	<i>OUTCOME</i>
<i>1985 — SCALE REMOVED/ADVERTISING ALLOWED</i>	E	Weak	Relied on ordinary capabilities
<i>1987 — SHAREMARKET CRASH</i>	E	Moderate	Developed sensing, seizing, transforming capabilities
<i>1991 — RECESSION</i>	E	Weak	Relied on ordinary capabilities
<i>EARLY 1990S — PERCEIVED GAP IN ASIAN MARKET</i>	I	Strong	Deployed sensing, seizing, transforming capabilities
<i>1996-97 — LOSS OF PUBLIC CONFIDENCE IN LEGAL PROFESSION</i>	E	Weak	Relied on ordinary capabilities
<i>1998 — TRANS-TASMAN MUTUAL RECOGNITION</i>	E	Weak	Deployed sensing capabilities
<i>1999 — PERCEIVED VULNERABILITY TO OVERSEAS MARKET TRENDS</i>	I	Strong	Deployed sensing, seizing, transforming capabilities
<i>2002 — LOSS OF MARKET SHARE TO AUSTRALIAN FIRMS</i>	E	Weak	Relied on ordinary capabilities
<i>2011 — CONSOLIDATION OF GOVERNMENT'S PURCHASING POWER OF LEGAL SERVICES</i>	E	Moderate	Deployed sensing and seizing capabilities
<i>2013 — CONTINUED LOSS OF MARKET SHARE TO AUSTRALIAN FIRMS</i>	E	Strong	

Table 23: Triggers for FirmC's development of DCs

7.3.4 How did FirmC develop DCs?

7.3.4.1 Stimuli

The stimulation of Firm C's DC development may be explained by the following factors.

External orientation (Culture)

FirmC's strong connection to the outside world by the nature of its work helps prevent the deep introspection that some other firms suffer from. It also understands that it can be buffeted by external forces and provide examples where it sought to reduce the effect by building work from another more reliable market segment.

The nature of FirmC's business meant it was exposed to the international business world, which was relatively more dynamic than the local market. This infused an external orientation that helped motivate it to monitor its environment and placed priority on detecting environmental shifts that could influence the future of the business. This may suggest that some businesses could be predisposed to developing DCs because of their broader target market and client base than those with tight, narrow foci.

Strong leadership (Leadership)

The dominant Managing Partner's leadership abilities left an indelible mark on the firm's capabilities. Under his leadership from the early 1990s until the mid-2000s, the firm grew significantly both in headcount and profitability. Despite his domineering style and that the firm was 'a boys' club', he built DCs that supported evolutionary fitness of the firm. He sought to modernise the firm's management and structure and created a different vision for the firm featuring a balanced focus on overseas and local markets. He built and demonstrated explorative search capabilities by identifying the benefits of entering the Asian market when its potential was only starting to emerge.

'He was one of the few people in New Zealand or Australia that could grasp the issue around regionalisation or markets and having the expertise to service them.' (C3)

However, over time his dominance diminished, and the leadership of the firm became more dispersed across the CEO and partnership. None of his successors have imprinted their vision as clearly on the firm. Except for the firm opening an office in Australia in 2013 under the leadership of its CEO, the firm has continued in BAU fashion.

The firm's early history featured dominant and decisive Managing Partners who imposed their views and didn't put effort into building support for their ideas. However, the Managing Partner who was in the role from the early 1990s until the mid-2000s possessed natural and therefore challenging-to-replicate entrepreneurial skills not evident in subsequent leaders. Unfortunately, possessing such skills in the absence of persuasive skills limited his legacy. One enthusiast's work can be easily undone if not embedded into the firm's capabilities that will continue after that champion has left.

The powerful CEO and dominant Managing Partner possessed complementary capabilities that map to Teece's 2016 typology of DCs. The CEO ensured the firm's ordinary capabilities were strong enough to springboard from into DCs.

The firm successfully reoriented itself from the 2000s to rely equally on its overseas and local clients, while growing the total size of the business. The dominant logic of the firm changed under the leadership of the dominant Managing Partner and its newly-appointed CEO. It achieved this through partially unlearning the way it serviced clients and creating a new way that better suited its preferred client base. The change was so pervasive; it could only have been achieved by the entire partnership understanding the reasons for the change, modelling new behaviours and encouraging others to follow.

Professional management (Integration skills)

Employing professional managers with different skill-sets and perspectives brought in diverse experiences and capabilities and provided more surface area for new thinking to penetrate the firm. It also relieved the partners, whose expertise was not in managing the firm, of day-to-day management enabling them to focus on relationships with clients and delivery of legal advice. Professional management meant the firm had the workforce to implement change, whereas that would not have been possible when stretched partners were responsible for managing the firm. The Managing Partner's recognition that the firm needed 'professional management and capacity in marketing and finance' enabled the firm to elevate the sophistication of the firm's management, and embed the routines at the firm level.

Learning

The best example of FirmC's learning was through the attitude and actions of its Managing Partner in the early 1990s, who actively sought to modernise the firm by adopting law firm management practices he saw overseas. The application of his learning, if it had been embedded in organisational routines, would have been an important legacy, but it remained an isolated

episode in the firm's history. However, he was responsible for identifying that the firm would be stronger for bringing in professional managers whose knowledge could supplement the partners' knowledge. Under the CEO and functional managers, the partners were also able to put effort into building new work, and the firm grew significantly during the 2000s.

'I think we got better and smarter. We brought in more marketing resource to bear on the situation. We got better at tendering for work. We were a lot more thoughtful about what offerings we made to the market, and we were pitching for things. We were having to substantiate what our role was, how we were adding value, how we were partnering with clients. We were stepping up.' (C1)

At some level, the partners understood that they needed to partially unlearn ways of doing business that had been in place for a century while its primary market had been overseas clients, and it needed to learn new ways that suited its target market and local client base. This was a conscious process that stimulated the capability to transform itself and was driven by a younger generation of partners keen to see the renewal of the firm. They accepted that the older generation might not be able to adapt to new ways of doing business, so focused on building different norms among the younger members of the firm.

7.3.4.2 *Inhibitors*

The inhibition of DC development may be explained by the following factors.

Lack of ability to gain buy-in (Leadership)

At three crucial decision points, the Managing Partner was unable to win the necessary support from partners or staff for pursuing opportunities. The first was the GM and the Asian operation, the second was younger partners and the opportunity to open the Australian office in 2002, and the third was resourcing an expanded relationship in Asia, which required HR.

A novel feature of FirmC is its ability to tolerate disagreement among the partnership, which possibly provides a basis for stronger decision-making capabilities than if it were constrained by the drive for consensus at all costs. After the partnership meeting in 2002 'failed to deliver the mandate' to pursue the unique opportunity presented by the CEO and Managing Partner, the partnership was able to regroup and continue without fall-out, despite disappointment at the top of the firm.

Strong leadership (Leadership)

Dominant leaders, in the form of the Managing Partner and CEO in the 2000-2010 period, inhibited the development of DCs because their views were so strong and the partnership allowed itself to follow rather than challenge their thinking. The partners' preoccupation with their client-facing responsibilities may have meant they surrendered too much responsibility for the strategy to strong leaders. FirmC fell into a classic 'agency problem', where the owners (partners) delegated a great deal of responsibility to the CEO (manager) who was able to choose what strategic decisions to involve them in and which to make autonomously.

Inertia (Culture)

FirmC's longevity is a credit to its ability to adapt, particularly to environmental shifts in its international market. It also demonstrates a healthy amount of inertia that supports its capabilities to persevere on its path in the face of short-term threats. Its longevity gives it confidence that it can weather storms so it need not correct its course too dramatically in response to shifts. Its successful path supports the transformational capabilities that enable it to invest when long-term pay-offs are likely.

It is possible that FirmC's success over more than a century locked it into complacency and inertia at various points. Although a healthy dose of inertia enabled it to persevere in the face of difficulties, it also led to it rejecting opportunities to take risks and removed the impetus to closely monitor and respond to changes in its environment. The slow but steady pace of change, and in particular erosion of market share, was so incremental that it did not trigger the DCs necessary to seize and transform itself.

FirmC demonstrated various DCs at various times, but did not need or use many of them very often due to the relatively slow pace of change in its industry. The incremental pace of external change, coupled with its longevity and proven ability to weather peaks and troughs in its core work, bred complacency that inhibited its development of DCs to sense and seize anything less than significant changes in the environment.

Surviving 125 years in business suggests a healthy level of inertia that prevents the firm from making short-term and knee-jerk decisions. The nature of the business is that it is affected by shallow peaks and troughs of work that are wholly affected by regulations, and it has learned to try not to react too quickly in right-sizing its staff, as its specialised people take too long to attract and train. However, this also makes the firm slow to realign its strategic assets and more likely to

accept the status quo than actively frame problems. FirmC's inertia has positively signalled to its clients that it is stable and reliable, which are characteristics attractive to clients when choosing lawyers. Its longevity supports a locked-in view of itself and an ability to make only incremental changes prompted by the potentially blinkered view of market trends.

Ad hoc planning processes (Leadership)

Although the firm's leadership at various times has demonstrated behaviours consistent with strong DCs, it had not recognised that it needed to embed managerial cognition and entrepreneurial capabilities at the firm level so that the capabilities exist beyond the term of the leader. When the entrepreneurial Managing Partner's power was diminished, and he eventually retired, his intuition and skills left with him. Given the basis for sensing, opportunities were more intuition-based than empirically-based, the firm was neither aware of the loss of the entrepreneurial skills nor able to replicate them. A lack of frequent routine planning and reflection reinforced the firm's blind spot concerning its search routines. Its enduring financial success locked it into a narrow, exploitative search horizon.

FirmC's planning routines were ad hoc and usually provoked by internal unrest or problems, but enabled the firm to carry out learning activities that helped develop its sensing capabilities. In 1987, it recognised that the growth from one of its offices was not keeping pace with the economy, so a group of partners 'did some planning about how we should change'. In 2002, it undertook a strategic review facilitated by an external consultant to consider whether to establish an office overseas, driven by concerns expressed by the partners about increasing competition from overseas competitors. In 2010, soon after a new CEO joined the firm and the partnership was 'struggling as a group' and had recognised its most profitable work was under threat, the partners met to review their strategy. The outcome was the decision to revisit establishing an office in Australia, which they ultimately did in 2013.

Planning sessions were few and far between and were the forums where the partners reflected on market trends, failures and set goals for the future. However, they were often held when the firm or partnership was in a crisis such as after the divisive decision in 2002 not to set up an office in Australia and in 2011 after a new CEO joined the firm and reported a:

'Lack of glue ... struggling as a group — a collection of separate practices.'

'Weaknesses: No sense of urgency ... most profitable work under greatest threat.' (FirmC Archive)

FirmC took an ad hoc approach to planning, reflecting and reasoning and usually did so in response to a crisis. In between, it held regular partnership meetings which provided forums for discussion and occasionally examined 'strategic' issues, but the agendas tended to focus on short-term issues rather than longer-term decisions about the business. Because of the irregular planning routines carried out at the partnership level, opportunities were usually sensed at an individual partner level and left to them to drive. This led to only the brave and powerful being responsible for driving significant change.

<i>ACTION</i>	<i>DRIVER</i>	<i>INDIVIDUAL OR FIRM</i>
<i>ALLIANCE WITH AN ASIAN FIRM</i>	Opportunity for early entry into a new market	Managing Partner
<i>THE SHIFT IN MARKET FOCUS</i>	Minimise vulnerability to overseas market	Firm
<i>NEW SERVICE</i>	Market feedback	Managers
<i>GEOGRAPHIC EXPANSION</i>	Protect falling market share	CEO

Table 24: FirmC's primary drivers of decisions

Conflicting appetites for risk (Culture)

As much as the dominant Managing Partner and some of his peers' risk profile encouraged leaps of faith, a source of tension was the differing appetites for risk that may have been associated with generational differences as outlined above. Younger partners with different personal values were happier to keep the firm on the course it had travelled, fearing short-term loss of profits. Although they had sensed opportunities, their seizing capabilities were limited by a short-term return focus that prevented them from progressing several growth investments.

Unfortunately, its withdrawal of resources from its Asian alliance was interpreted within the firm as a failed experiment, and the idea of re-entering the market in a different form has not been entertained, essentially closing off a potentially lucrative market. An unintended consequence may have been to contribute to partners rejecting the opportunity to grow through expansion into Australia in 2002 because of what they perceived as low capabilities in operating an international business. It also meant the firm did not develop integrative capabilities, which provided challenges when it decided to open a new office offshore in 2013.

Seizing capabilities requires some tolerance of risk, and the dominant Managing Partner and a few of his supportive peers' appetite for risk underpinned one-off strategic initiatives in the 1990s.

'We were prepared to be risk takers to grow the business quicker and bigger.' (C2)

The leaders' risk tolerance did not transfer into the dominant logic of the firm beyond their time at the firm, with the next generation preferring a cautious approach to investment and ambitions for growth.

7.3.5 Conclusion

FirmC is a specialist firm that is strongly influenced by its exposure to international markets. It was led by an entrepreneurial Managing Partner in the 1990s and early 2000s, who activated the firm to develop DCs that saw the firm shift its strategic focus in order to mitigate its exposure to international economic whims.

Consequently, the Managing Partner led the development of the firm's sensing capabilities, including employing professional managers to do the work that the partners had neither the appetite nor skill to do. As well as adding diverse perspectives, managers were equipped to undertake more sensing routines than the partners had done themselves. FirmC scanned for market changes, and also monitored its competitors' activities closely. However, it was biased towards sensing threats over opportunities, seeking to protect market share rather than attacking a larger market when Australasian professional regulations changed.

Its seizing capabilities were largely directed by the most influential partner or manager at the beginning of the studied period. Any persuasive energy was directed at the partnership rather than the firm as whole. Over time, seizing processes became more collective, although the divergent appetites for risk in the early 2000s saw the partners choose not to pursue an internal expansion strategy because of disagreements about the partnership's ambitions.

Transforming capabilities were evident in that the firm was capable (with appropriate political will) to persevere with strategy and the associated transformation for a long time. It understands that it needed to change its human capital and did so by hiring managers and continually raising the bar for the lawyers it hired.

The strongest triggers for developing DCs came from internal perceptions of broad trends rather than one-off critical external events. However, the firm did not act swiftly when it perceived changes, rather it chose to 'wait and see' how much of an impact the trends would have.

The stimulation of FirmC's DCs can be explained by its external orientation, strong entrepreneurial leadership and professional management. FirmC also had a predilection for learning — and unlearning — that helped develop DCs and renew the firm.

Inhibitors of DCs included the leadership's variable ability to win support for new ventures, and the interesting feature of the partnership's support being influenced by the increasing power of a professional manager over the Managing Partner. Although strong leadership is an antecedent to developing DCs, within Firm C, it also inhibited development of DCs because the partnership allowed itself to follow rather than engage in robust discussion about whether to pursue opportunities. Furthermore, the ad hoc planning processes and strategic episodes saw the firm missing opportunities to build sensing, seizing and transforming capabilities.

The firm's longevity also gave it confidence that it did not need to act when environmental changes occurred. Hunkering down and weathering the changes was a successful strategy but should not be relied on as the default response to environmental change.

7.4 Case study FirmD

7.4.1 Case description

In 1985, about 85% of FirmD's income came from residential conveyancing. The scale had allowed the firm to charge a fee that bore no relation to the time it took to carry out the work. As the highest earners, FirmD's conveyancing partners held the most influence. However, after the scale was abolished, established law firms resisted the new market-driven fee structure — but new competitors flourished, and a price war broke out. Understandably, revenue was immediately threatened because competitors started offering conveyancing for \$400, in contrast to the \$1500 fee that was typical at the time. FirmD chose to severely cut fees on the larger conveyancing jobs and increase fees on smaller jobs.

The change in the conveyancing market had several effects for FirmD. It did not see a future in pursuing conveyancing as its primary source of work, and many partners had to change their professional skills, recognising that relying on residential conveyancing was not a sustainable business platform. Many partners pursued a wholesale move into more commercial property work.

But not all partners abandoned their conveyancing practices altogether. Although commercial property work was more profitable than conveyancing, demand was lumpier than the constant flow of conveyancing transactions. Some partners chose to retain a mixed practice combining private individual conveyancing practice (staffed by junior solicitors and legal executives) while also attempting to attract commercial property work.

Some older practitioners continued to specialise only in conveyancing, but their 'star fell' within the partnership because they were no longer the highest fee earners. The power shift was challenging for partners and led to a changing of the guard within the partnership.

Before the removal of barriers to competition, lawyers referred to marketing as 'touting for business', which was subject to professional misconduct. However, from 1985, the firm was able to knock on doors, talk to people and offer to do their work. Soon after relaxation of the rules, FirmD approached an advertising agency because the partners thought 'maybe we should do something'. One interviewee reported the agency asked them 'what makes you different?'

'And we looked at each other and said what do you mean? And he said, like if you were toothpaste — do you get rid of the furry feeling? And honestly, we didn't get it! It took us a

while to understand that we thought our lease document was pretty good, but in fact, our lease document wasn't terribly different from [our competitors].' (D2)

The 1980s was the start of head offices drifting to CityY from other centres throughout New Zealand. The drift north of lucrative commercial property legal work prompted a scramble of law firms merging in order to increase their size and ability to offer specialist services while positioning themselves as national firms. FirmD's partners of the time acknowledged that CityY was growing faster than CityX and decided the firm should have a presence there too.

The Managing Partner led the charge to acquire a presence in the CityY market. The partners identified two CityY firms as potential suitors and, after a selection 'process', merged with them in 1988.

'We hooked up with people on the basis that we didn't know them, so we couldn't not like them. Whereas the ones we knew — we didn't want to be in partnership with, so we ended up with people we didn't know and found out we didn't like them anyway ...' (D2)

However, the resulting merged firm lasted only 18 months before the relationships between partners dissolved.

In 1990, the firm took on 'refugees' from another CityX firm, whose strengths were in commercial, property and litigation. Unfortunately, the growth in staff numbers coincided with the economic slump of the early 1990s, resulting in low partner earnings.

'It wasn't slave labour, but it wasn't particularly rewarding.' (D3)

Naturally, the firm wasn't hiring new staff. With a full partnership in CityX and CityY, as well as carrying several partners close to retirement whose practices had been severely affected by the abolition of the scale, the firm's headcount was relatively high. Because some of those partners had historically been high performers, they still wanted high incomes, and it was a 'very formal, old-fashioned' firm. There were:

'... too many partners for the size of the cake.' (D1)

The partnership attempted to grow its revenue base by bringing in laterally hired partners, but they didn't work out because they did not generate enough revenue to support a team. Consequently, during the 1990s there was a stream of partners exiting because the board considered they had become uneconomic.

Many clients were not doing well in the early 1990s either, but pockets of the firm were benefitting from the specialist re-focus a few years earlier. It had built a good insurance team that was working on professional indemnity claims, which was in high demand at the time. The firm's insolvency practice was also doing quite well at that stage, as it acted for some 'big companies with some big problems'.

The private client side of the firm was steady. FirmD acted for generations of family members who remained loyal. They sent their work to the firm because their relationship with the 'family lawyer' was there, and they had acted for mum and dad. The firm's reputation as a safe pair of hands continued.

Around 1993, FirmD employed a non-legal GM, a non-legal marketing manager and individual office managers. The experiment did not go well.

The marketing manager:

'... spent an entire year categorising our client base into categories and we never met one new person because of that'. (D1)

A document written by the marketing manager at the time contrasted the skills of detail-driven lawyers against those of big picture strategists. Her report written stated:

'The effect of ... has meant that any change introduced has been directionless, reactionary, based on personal opinion and often not supported by partners. FirmD is now feeling the negative effect of this. Internally the need for effective systems, teamwork and cohesion is an important element of success — as is the need to focus outwardly on the market and its clients. Partners can only do this by changing their behaviours.' (FirmD Archive)

Within a year or so, the partnership became impatient with its non-legal managers and 'sacked them all' (D1).

A new Managing Partner was appointed in 1994, alongside an elected Chairman of Partners, and they reported to a management board. At the partners' meeting, it was agreed that 1995 would represent a new phase in the firm's development. The focus would be on marketing, quality, and service, as well as creating a new culture of teamwork. Partners were appointed to develop HR

and marketing firm-wide policies, but each team was still responsible for implementing its own strategy within the firm's plan.

By 1995, only 5% of the firm's income came from conveyancing. The shift in work type had been transformational — partly market-driven, but partly driven by the partners' determination to move from residential conveyancing to more commercial property work. A time and resources analysis had driven the change.

'To carry out one residential property transaction every six years (which was the average length of time people stay in a house in CityX), you had to maintain relationships [over that time]. But you could have a relationship with a large corporate who would give you a job every day, and you only had to maintain ... relationships with a number of people — but it's maintaining one relationship for a tremendous amount of work.' (D3)

Some of the younger partners were ambitious for growth and talked to potential commercial property clients to find out what it would take to win their work. Based on the feedback they received, they developed a service guarantee that proved successful in attracting new work.

In 1996, the firm announced a second attempt to establish a presence in CityY. This time, they merged with a firm in CityY. The deal was

'..stitched together on the basis that the two offices would remain separate profit centres, separate legal partnerships and they would have to 'eat what they killed there'' (D2)

The two firms:

'... made a very nice fit, complementing each other's strengths to create a client-driven, broad-based and practical commercially focused business'.

'We will be better able to put resources into precedent and opinion resources for the benefit of our clients in both cities, and of course, we will be a lot more serious about securing work where more extensive resources and/or more specialised skill levels are important.' (FirmD Archive)

The Managing Partner at the time was strongly influenced by law firm management guru David Maister and referred to his thinking in the firm's approach to marketing. He reported to the firm:

'Some of his ideas are different. He does not believe cross-selling works in law firms!! He does not believe in spending lots of money and time on brochures. He does not believe in a

firm strategic plan but believes in partner plans instead! He does not believe in measuring performance by gross fees, but by profitability!! I think a lot of sense is behind these observations. So, watch this space.' (FirmD Archive)

In the late 1990s, one client represented around 40% of the firm's annual revenue. That client sought tenders from law firms, including FirmD, to provide legal services to the two companies. The Managing Partner advised the firm of the situation and said:

'On the one hand, it is disappointing to see that after many years of providing this service we now have to tender to re-secure the work. On the other hand, we have to recognise that these days more and more firms are doing this. The service we provide to clients is so important in relation to this.' (FirmD Archive)

The firm had little experience in tendering for work and:

'... didn't really understand what was going on. We thought we were being called over for a chat and a drink ... In actual fact they were expecting a formal presentation so ... that didn't work at all well.' (D2)

In October 1997, the client advised that it had chosen another firm. The Managing Partner's communication to the firm about the loss said:

'For reasons best known to themselves, Client X has chosen [another firm] to do its work. This is very disappointing news. The firm had done that work over the last 40 years ... On the brighter side, they will be reviewing this again in two years (or earlier if things do not work out) and we may well get the opportunity to regain this work ... It is a reminder that nothing stays the same forever.' (FirmD Archive)

Even though the loss of the client's work was significant, other positive things had been happening within the firm that allowed it to be resilient. Although 'it was a blow' the partners decided to learn from the loss and move on. Profitability was nonetheless affected.

The partners decided to hold a planning retreat in 1998. They were asked to prepare for the retreat by contributing thoughts on issues that the firm needed to address. A theme of the partners' papers was that:

'... the firm lacks an apparent 'firm culture' reflected in specific policy targets. Participants in the firm's climate, therefore, do not appear to have a clear reference frame to what the firm's focus is in most relevant areas. This means that one may feel 'lost' leading to day to

day focus on what comes to hand. This is shown in a tendency to run one's own practice rather than the firm's practice and to enhance one's own personal or, at best, team profile rather than the firm's profile.' (FirmD Archive)

During its planning in 1998, the board considered that some market changes are likely to continue. They identified that:

'... entrenched client loyalties are dissipating. Increasingly, clients shop around for their legal services, selecting the best person for the job, and if candidates are equal, by seeking competitive quotes ...' (FirmD Archive)

The board saw the firm's competitive advantage as being the ability to present a more hands-on partner approach to work without the necessity of bringing in a large team of juniors to undertake one transaction. With a smaller team involved, it argued, it could provide a better and more balanced overview.

'The conveyancing monopoly is likely to be lost, and the market is likely to become more competitive. [Our] niche should be seen as the ability to put together and drive through transactions beyond the capability of new entrants into this field because of the coordination required to prevent costly delays.' (FirmD Archive)

Around that time, the firm decided to align itself closely with local government in CityX. Recognising the firm probably wouldn't get the council's work because of its small size, it set about targeting council-owned companies that it thought it could adequately service. Its strategy was successful, cementing many relationships with people who either came into contact with FirmD or later came to be clients or saw the firm operating in that space.

The strategic direction set for the 2002-2004 period remained steady, with the partners seeing opportunities for growth from its current client base, the government's legislative programme, and strategic alliances with Chartered Accountancy firms, property consultants, other lawyers and potential referrers. By 2004, the board had been considering ways of expanding the fees base and discussed attracting partners from larger firms, which it perceived were facing much harsher trading conditions. They progressed negotiations with a potential partner but ultimately did not bring him on board.

The governance board set the policy around the firm's response to the Lawyers and Conveyancers Act and issued the protocols and the requirements for the rest of the firm. Many fee-earners saw

the Act's client care rules as something that 'they hadn't asked to be subjected to'. Older partners, in particular, resisted sending engagement documents to clients, especially longstanding clients. Some clients expressed surprise about receiving the disclosures and responded 'what am I meant to be doing with this? I know you!'

An entire team left the firm *en masse* for the bar in 2011, leaving behind vacant office space. The remaining partners, facing fixed costs and reduced revenue, decided to find a way to fill office space with fee-earners. It engaged a recruitment firm to look for any partner-level people in CityX who might be looking to move to another established firm. The recruiter identified a likely candidate in a senior associate in a firm who was working in the Māori legal area. However, once discussions continued, it appeared that FirmD was not able to absorb just one person from the team — the whole team of five or six people would need to move because of the nature of the work and the team's working style. That lateral hire of the entire new team went ahead.

When the AoG tender for legal services was released in 2011, the firm tendered for all significant areas of work, but only succeeded in getting onto one panel. Despite misgivings from some partners about participating in the process at all because of the high cost of responding, the motive was to retain some government property clients. Three years later, the partners reported that being on the panel has not resulted in:

'... a single job from a client that wasn't already an existing client of ours'. (D2)

YEAR	QUOTE ENCOMPASSING THE FIRM'S NARRATIVE
1985	<i>'So, what happened when we got rid of the scale, we had to cut our prices severely on the big jobs, right, and we had to make the smaller ones more expensive, and there was, of course, quite a lot of market resistance to that. And ... the lawyers all got in a price war with each other. It would have been okay, that sort of thing if we were talking about a uniform product. If we were talking about a biro then you can compete on price because a biro is a biro, but in actual fact every property is different, every title is different, every person's situation is different. And so, when you went out to compete, you weren't really weren't competing on an apples with apples basis, and we didn't like, we didn't see a great future in pursuing that line of work.'</i> (D1)
1991	<i>'I think it reduced workflow ... It was a period of very low partner income, and there were too many partners for the size of the cake, and they did try to bring in people laterally, but they didn't work out because they didn't generate enough money to support a team. They were basically working just for themselves and so during the 1990s there was a stream of partners exited as they became — in the eyes of the board — uneconomic.'</i> (D1)
1997	<i>'By and large, the general perception was 'Lawyers are awful people, but actually my lawyer's not bad. I quite like my lawyer.' And so I didn't see it as a big problem.'</i> (D2)
2008	<i>'If there's one thing that drives me crazy and I think all the older partners, it is the increasing levels of irrelevant bits of paper that have to be filled in and filed. I am a bit old fashioned in that sense, and I find that whole thing just really silly. But it's a necessity, so yes, that probably impacted initially in terms of just having to remember to do it, to comply with it. Another box you have to tick.'</i> (D3)
2011	<i>'Big mistake. Should never have done it. I don't know how on earth the government tender came around, and I thought it was a flawed process from beginning to end. We spent an enormous amount of time participating in that process. We were eventually on the panel, and I think we still are for property work but in spite of all their assurances, and all their promises, we have got almost no work from it whatsoever ...'</i> (D2)

Table 25: Summary of FirmD's responses to critical events

7.4.2 Presence of DCs

7.4.2.1 Sensing capabilities

'One of the most unsettling aspects of the firm's recent history is not so much the goal posts keep moving, as one might anticipate in response to changes in the market, but that no-one tells you they have moved. Worse still a whole lot of new goal posts appear, and we all kick at different ones.' (FirmD Archive)

This telling quote from its Managing Partner in 1998 highlights the firm's ongoing mystification with changes in its environment — 'no-one tells you' about the changes. Despite understanding that changes occur, FirmD has not developed sensing capabilities to help it interpret what those

changes are. Culturally, the firm is content to continue doing the work it does for the clients it advises and does not see the need to change.

Before the abolition of scale fees for conveyancing, up to 85% of the firm's revenue had been from conveyancing work. After the abolition of scale fees in 1985, FirmD's response was siloed. While some parts of the firm chose to turn a blind eye to the increasing competition and loss of profitability, a handful of less entrenched partners chose to pursue different sources of work. This way they justified moving away from conveyancing altogether, despite perceiving that the firm's services were superior to competitors rather than find ways to differentiate itself.

'We just didn't pursue residential conveyancing. We said we will do it for people, but we don't see a future in it. We're not going to become price cutters. Hopeless! The agents got rid of their scale at the same time, and they all put their rates up! They were much smarter than the lawyers.' (D2)

Sensing that the firm's future lay in developing work from a different revenue stream, commercial property, some younger partners took it upon themselves to concentrate on trying to win more profitable commercial property work. They perceived that commercial property work had been under-serviced previously because of many firms' concentration on the lucrative conveyancing market. The decision to pursue commercial work was based on intuition rather than any evidence of a search for information.

'I felt the answer was to try to retain a private individual conveyancing practice through staff and legal executives and concentrate on attracting high-level commercial work ... Some of the older practitioners just quietly carried on and their star fell because they weren't the big fee earners any more. It was an interesting challenge for some of them. There was a changing of the guard.' (D3)

However, in attempting to differentiate themselves, some partners engaged with commercial prospects in the mid-1990s to find out 'what would it take' to win their work. Clients expressed frustration at the slow service turnaround times that they experienced with their existing lawyers. FirmD undertook to use technology and streamline its processes so it could guarantee a 24-hour turnaround. The experiment paid off with the firm receiving 'great PR' and establishing a strong foothold in the commercial property market.

With the exception described above, FirmD demonstrates a low capacity for seeking knowledge from outside its boundaries. It is comfortable that its homogenous partners' expertise and

experience, which is mostly gained from within the firm, equips them with access to all the knowledge they need. FirmD had negative experiences with professional managers in the 1990s, which left the partners feeling they were better off without the overhead of management providing access to knowledge that they did not value. Their experiences of marketing management, which could have introduced systems for gathering market intelligence, lasted less than a year in the early 1990s.

Consequently, the firm was oblivious to structured competitive analysis and business planning was ad hoc, depending on the Managing Partner of the day's approach. The long tenure of the existing partners and their embedded biases against mainstream management practices means the firm is unlikely to draw on external expertise to supplement its own sensing skills in the near future. In a memo to the partners in 1993, one of the professional managers warned the partners that:

'Recognising the current need for change has drawn their attention to devising tactics rather than developing a plan or longer-term strategy. This outlook by partners has brought about a long period of little or at best-fractionated commitment to the task ahead. Any change introduced has been directionless, reactionary, based on personal opinion and often not supported by partners. FirmD is now feeling the negative effect of this.' (FirmD Archive)

FirmD's sensing and problem framing capabilities were so weak that they failed to see vulnerabilities in the relationship with a client that provided 40% of its revenue. The episode happened in the late 1990s, when it missed signals from the client that FirmD was ready to change suppliers and that the firm was in a competitive situation. The firm had not understood that it had been asked to pitch for the work, thinking they had been asked to meet for a 'chat and a drink' when the client was expecting a formal presentation. It lost the client, which had a significant effect on revenue.

FirmD held planning forums irregularly over the studied period. The most regular planning was held annually between 2000 and 2005 under the leadership of the Managing Partner of the time.

Led by a reluctant board of partners who had a mix of strategic and operational responsibilities, FirmD's search for opportunities is primarily driven by internal motivation rather than a routine search for external opportunities. There are multiple examples of the firm making strategic choices that are not informed by a great deal of information about market dynamics, but by the partners' ambitions. Examples relate to the firm's decision in the late 1980s to establish a presence in

another city because of its Managing Partner's ambition, and in the late 2000s to establish a new specialist team because it had vacant office space that it wanted to yield.

Seeing the establishment of an office in another city 'as a necessity' in the 1980s, a dictatorial Managing Partner with little buy-in (or resistance) from partners aggressively pursued finding a firm to merge with. The justification for growth was that there was 'an acknowledgement' that the city was growing faster than CityX, so the firm would have to have a presence there. There was no analysis undertaken of how the growth in the demand from the market translated to an opportunity for the firm, other than it needs to be on the ground to receive work. In explaining the firm's justification for moving into the new geographic market, one interviewee described the initiative as being led by the Managing Partner at the time whose competitive personality drove him to try to earn more than partners at a large competitor. The heady goal 'had no relevance to the rest of us', but the partnership pursued the strategy anyway.

When FirmD surveyed clients in 1997, it missed the opportunity to learn by excitedly reporting to the firms that 'all responses were positive!' (FirmD Archive), suggesting no change was necessary.

7.4.2.2 *Seizing capabilities*

The proxy for management strategising has been a governance board made up of three partners, who make decisions about the business with little interest from other partners. The current board has been in place for 16 years (half the period under study). The governance board reports to the other partners via meeting minutes. Because collegiality is valued over robust engagement in decision-making, some partners are:

'Happy for others to make the decisions and they will just do their own thing.' (D1)

Although (or perhaps because) FirmD's partnership had been distracted by internal politics for much of its history, it placed a high value on collegiality within its ranks. Unfortunately, collegiality meant that there was an unwillingness to challenge sacred cows that may have been better dealt with to improve its evolutionary fit.

'This place has always had a culture of being nice to each other, at least publicly. Because of that, however, it did not accord with the individual aspirations and agendas of some, too many issues had been inclined to be ducked under an anything for peace philosophy.' (D3)

Although the partnership does not appear to have unanimously or formally agreed to pursue commercial work over private conveyancing work in the early 1990s, a group of partners made

progress by stealth. There had not been any formal disagreement within the partnership to pursue commercial work, but a generational divide saw the older guard continuing their primarily conveyancing practices, while the younger group got on with building the firm's commercial practice. Two partners of FirmD were responsible for introducing different service standards, which differentiated it enough to build a commercial property in the early 1990s. Their commitment to delivering on the promised service turnaround, which was a stretch, helped build the firm's reputation as a specialist in the commercial property field. However, only two partners drove the transformation — it was not a strategy agreed to or even supported by the rest of the firm. The two partners' energy built momentum over a sustained period, which pivoted the firm when its traditional source of profit was being eroded through competition. The lack of an articulated strategy or full partnership buy-in did not prevent the change from being effective.

FirmD evaluates opportunities and threats in a reactive, ad hoc and subjective way. Problem framing and evaluation of decision options have been non-existent or influenced by the partners' dominant logic that unifies them in a worldview. Interviewees rationalised the firm's lack of response to market events by identifying flaws in processes or why buyer demands weren't relevant to the legal services market.

'And so ... the lawyers got into a price war with each other. It would have been okay if we were talking about a uniform product. If we were talking about a biro then you can compete on price because a biro is a biro, but in actual fact every property is different, every title is different, every person's situation is different. And so, when you went out to compete, you weren't really weren't competing on an apples with apples basis and [so] we didn't see a great future in pursuing that line of work.' (D2)

EXTERNAL PROBLEM	FRAMING	SOLUTIONS CANVASSED	DECISION
1985 — SCALE REMOVED/ADVERTISING ALLOWED	Lawyers got into a price war Bad decision because rich subsidised the poor	1. Old partners continue conveyancing 2. Exit conveyancing 3. Retire partners relying on conveyancing work 4. Pursue commercial work	1, 2 & 4
DRIFT NORTH OF HEAD OFFICES	Being in another city was a 'necessity'	1. Merger with firms they didn't know in new market	1
1991 — RECESSION	Low earnings for partners	1. Exit unprofitable partners 2. Recruit lateral hires to provide leverage	1 & 2
1996-97 — LOSS OF PUBLIC CONFIDENCE IN LEGAL PROFESSION	Had to pay extra fees to NZLS to cover Lawyers' Fidelity Fund		
1997 — 40% CLIENT PUTS WORK OUT FOR TENDER	Didn't understand the process Disappointed in client's lack of loyalty	1. Rely on relationships and loyalty	1
2011 — LITIGATION TEAM LEFT TO GO TO THE BAR	Left with empty (unproductive) offices	1. Recruit lateral partners to fill offices and contribute to cost base	1
2011 — CONSOLIDATION OF GOVERNMENT'S PURCHASING POWER OF LEGAL SERVICES	Misguided idea on the part of the Crown Tendering process is fine for commodities but not legal services	1. Submit a tender with competitive pricing	1

Table 26: FirmD's framing of external problems, options considered and decisions

Even the firm's staff lamented the partners' lack of strategy in the following memorandum.

'Lack of clear direction — both in terms of what the firm's strategic plan is, and also the communication by some partners of their vision and goals for the firm ... A feeling that business decisions are made essentially on an ad hoc basis, rather than part of a 'big picture' plan.' (FirmD Archive)

Although the firm's norm is to make decisions by default, its lack of due diligence when selecting potential firms to merge with had disastrous consequences. One interviewee described the merger selection process as:

'No evaluation other than we didn't know them so we couldn't not like them.' (D3)

On this basis, the firms merged, rebranded and committed to equal profit share. Eventually, the relationship between the firms imploded, leaving the partners of FirmD deeply cynical about any future expansion plans, in debt and with low tolerance of risk.

FirmD's 'nominal' Managing Partner decided the firm should participate in the AoG tender for legal services because it had a couple of government clients that it wished to retain. She led the preparation of the response and the pricing decisions. The result was that it was successfully appointed to the exclusive AoG panel in 2011, giving it access to a market that it had not previously penetrated. Despite this opportunity, interviewees' narratives about the experience were negative. It reflects on the process as being 'flawed', 'misguided', 'a big mistake', 'hideous' and:

'In spite of all their assurances and promises, we have got almost no work whatsoever.' (D2)

7.4.2.3 Transforming capabilities

Over the period under study, FirmD did successfully reverse its almost 90/10 conveyancing/commercial work profile. In the face of the less profitable conveyancing work after the abolition of the scale, it was able to incrementally shift to servicing a commercial sector client base from a primarily private practice. This required a sustained effort over a long period, and required the leadership to role model the strategy, even if it was not articulated as being the dominant strategy. Part of the shift was to gradually retire partners who had not been able to transition from predominantly conveyancing practices and replace them with laterally hired partners — many of whom did not succeed within the partnership.

The interviewees refer to lateral partners being hired and fired in a revolving door arrangement suggesting a lack of due diligence and/or integrative capability. Similarly, it struggled to integrate with merger partners in the 1980s and continued to manage an arm's length relationship with its co-branded firm in a different city. The negative experience of the early merger affected the later merger, not by triggering stronger integrative capabilities to ensure success, but by establishing a structure whereby it 'merged' in brand only — maintaining separate partnerships and financial arrangements.

FirmD does not demonstrate the will to renew itself, or even awareness that it may be necessary to do so at some stage. The partners' incomes have been satisfactory over a long period, insulating them against any feeling of urgency to transform. Despite negative commentary in the media about the disruption to the legal profession, the partners of FirmD feel that their ordinary

capabilities dictate their fortunes — and their history has not proved them wrong. They have a strong focus on retaining the status quo and little interest or appetite for entrepreneurial activities.

7.4.3 Triggers for DC development

Neither internal nor external drivers appear to have had a strong effect on FirmD's development of DCs.

<i>CHANGE</i>	<i>INTERNAL (I)/ EXTERNAL (E)</i>	<i>STRENGTH OF TRIGGERING EFFECT</i>	<i>OUTCOME</i>
1985 — SCALE REMOVED/ADVERTISING ALLOWED	E	Weak	Relied on ordinary capabilities
PERCEIVED DRIFT NORTH OF HEAD OFFICES	I	Strong	Built sensing and seizing capabilities — merged with CityY firm
1991 — RECESSION	E	Moderate	Built transforming capabilities — grew the commercial practice and changed the shape of the partnership
1996-97 — LOSS OF PUBLIC CONFIDENCE IN LEGAL PROFESSION	E	Weak	Relied on ordinary capabilities
1997 — 40% CLIENT PUTS WORK OUT FOR TENDER	E	Weak	Relied on ordinary capabilities
2011 — LITIGATION TEAM LEFT TO GO TO THE BAR	I	Weak	Built transforming capabilities
2011 — CONSOLIDATION OF GOVERNMENT'S PURCHASING POWER OF LEGAL SERVICES	E	Moderate	Built sensing and seizing capabilities

Table 27: Triggers for FirmD's development of DCs

As argued in the previous section, FirmD's DCs are weak to non-existent. Logically, if the firm does not have well-developed sensing capabilities, then it is not able to detect when change occurs that requires transformation. FirmD demonstrates this point.

The strongest trigger for developments of DCs was at the point in time when its leadership pursued merging with a firm in another city, but this was an internally motivated strategy. Having a loose perception that CityY would be a lucrative source of clients in the future, its Managing Partner imposed his decision on the partnership and forged ahead with the merger. With

hindsight, the trigger for exploring the new market and the merger was the Managing Partners' personal ambition for growth and profitability, but the firm's poor seizing and transforming capabilities undermined its ability to gain competitive advantage from the strategy.

7.4.4 How did FirmD develop DCs?

7.4.4.1 *Stimuli*

This research found little evidence of FirmD possessing DCs, so therefore is unable to draw conclusions about how those DCs may have been stimulated.

7.4.4.2 *Inhibitors of DCs*

The inhibition of this firm's DCs may be explained by the following factors.

Relative isolation (Learning)

FirmD operates as a self-contained business with little evidence of it seeking to be part of a broader eco-system. The interviewees did not describe seeing value in knowledge or expertise held outside the bounds of the partnership — either embodied in its wider staff group or external advisors. Again, although it has a formalised relationship with CityY bearing the same name, it has established the structure to ensure collaboration between the two firms is minimised.

Most of the current partners have been with the firm for decades, immersed within the norms and dominant logic. Without access to fresh thinking and diverse views, the firm risks being locked on its existing trajectory, regardless of changes in its environment.

Although FirmD cares deeply about its relationships with clients on a one:one basis, it does not have routines to extract intelligence about their needs that could form new business models. It does not seek to learn from external sources, or even to learn from its own successes and mistakes.

Strong internal orientation (Culture)

At its 1995 planning meeting, among the 15 questions FirmD asked itself, the following questions exemplify the firm's orientation.

'Which clients are most enthusiastic about us? What kind of clients should we seek? What kind of clients should we discourage or get rid of?' (FirmD Archive)

Complacency (Leadership)

In an epiphany in 1996, FirmD's Managing Partner was quoted as saying:

'The industry has got to understand that the profession doesn't exist just to satisfy its lawyers' lifestyles, but to provide a service to its clients.' (FirmD Archive)

The fact that he had to articulate this suggested in his experience some partners did feel a sense of entitlement about their livelihoods.

Interviewees suggest that FirmD continues to provide a comfortable level of income. The firm has continued in a stable BAU state at least since it merged (in brand only) with the partnership in CityY. Environmental events have not triggered the firm to develop higher-order capabilities — and its business has remained steady. Ordinary capabilities have served FirmD well and, consequently, the partners are not motivated to develop DCs that could help it flex to future change.

The logic among the partners is that its business is unlikely to change fundamentally, so it will continue to survive doing what it has always done.

'If you do good work, people will send you more good work.' (D2)

'I don't think anything's going to change dramatically.' (D3)

FirmD interprets its environment narrowly, interested almost exclusively in its existing client base and focusing on its ordinary capabilities. The dominant logic within the firm is that:

'There's always going to be property, and there's always going to be buying and selling it. And for the rest of my career which is only another 5-10 years, I don't think anything is going to change dramatically.' (D3)

Because it doesn't believe that the environment will fundamentally shift, it doesn't think it is necessary to develop (or invest in) capabilities that would enable it to evolve.

Risk aversion due to previous failures (Culture)

A significant event in FirmD's history was when it ventured into a new geographic market and merged with an unknown firm, which fell apart within two years. Partners of the firm felt burnt by the experience and vowed never to enter into another financial relationship with a firm. Given that several of the current partners were partners at the time of the failed merge, the dominant logic of the partnership that it is not necessary to expand remains in place.

FirmD does not participate in competitive processes to win new work either, as it feels the investment is not worth the return.

'We were invited at one stage to pitch for ClientX's work ... I said to the person ... you're not going to pick us and it's just not worth the effort.' (D1)

7.4.5 Conclusion

The longitudinal analysis of FirmD identified an absence of DCs. FirmD's path was one of BAU with a few notable exceptions during the period under study. The partnership sees little value in expending effort on its own business, preferring to focus on the day-to-day provision of legal services to its established client base.

'And in fact provision of legal services is a really simple business you know. If you do good work, people will send you more good work ... I imagine people could say we should be more strategic and we should have hours in front of a blackboard ... but we're lawyers because we like being lawyers. We like to do legal work, and it works okay.' (D2)

8 Discussion

The first section of this chapter compares and contrasts the presence of DCs within the case study firms, before going on to analyse the relative effectiveness of external and internal triggers for developing them. The second substantial part of the chapter discusses how firms develop DCs in relation to the stimuli and inhibitors of DC development across the three classes of DC, comparing the literature to the empirical evidence uncovered in this study. The final section begins to explore whether some stimuli or inhibitors affect the development of more than one category of DC, and therefore are high priorities for managers wanting to develop DCs effectively. The final section of the chapter offers theoretical insights gained from this research.

8.1 Similarities and differences in the presence of DCs

8.1.1 Similarities and differences in sensing capabilities

Sensing capabilities involve cycles of scanning, creating, learning and interpreting 'emerging trajectories' that may or may not be easy to recognise (Teece, 2007, p. 28).

The results of this analysis show that while two firms discussed routines for sensing changes in their environment, the levels of sensing activities do not reach the high bar that Teece describes as being a constant commitment of energy and resources to detecting and interpreting market dynamics. Furthermore, with the exception of FirmA, which expanded into adjacent services, all firms demonstrated narrow search horizons and a shared set of assumptions about potential strategies for growth from geographic expansion.

Firms A, B and C's strategic planning processes evolved and matured over the 30-year period under study. Firms B, C and D were very conservative and typical of law firm partnerships in the mid-1980s. The partners themselves were homogeneous — white, male and educated at one of New Zealand's three law schools. All were surprised when government regulations were removed in 1985 and competition was encouraged. Energy for growing their business was not evident in all cases until a younger generation of partners stepped up in the early 1990s.

Consequently, the firms did not practise sensing capabilities at the start of the studied period, but their environmental awareness became activated (albeit in an ad hoc way) several years later. The next phase was when dominant, ambitious Managing Partners actively searched for growth

opportunities that were aligned with the firm's single vision. The power bestowed on Managing Partners meant their perception of environmental forces carried more weight than others, even though the basis for the examples was reliant on intuition rather than evidence. In the mid to late 1990s, the firms began strategic planning intermittently and included sensing routines as part of that process. By the early 2000s, Firms A and B had embedded annual strategic planning processes centred around their partners' retreat, which brought together the entire group. FirmC's strategic planning was less routine, happening every few years.

'So, you had about four partners of about ten at the time who ... could see there were things that had to change in order for the firm to survive in a more commercial era — that is the scale going, and being in a more competitive environment. The way that the whole NZ economy was starting to be liberated around about that time. I think they felt that if they continued along their traditional way of managing the firm with the lack of any strategic direction round it, in a formal sense, that would be difficult for them.' (B2)

Figure 10: Emergence of commercial strategies common to Firms A, B and C

In contrast, 1985 was the time that FirmA's strong Managing Partner was merging together several smaller firms to build critical mass. In terms of maturity of approach to strategy, FirmA was ahead of the pack by a decade or so. When the other firms were waking up to the realities of a competitive environment, FirmA had been in that mindset for some time and had built capabilities well before its peers.

Consequently, over the same time, the opportunities for discussing market changes and challenging others' interpretations became more routine for the three firms. By the end of the period, Firms A and B had 'normalised' multiple forums for discussing market developments, including annual retreats, quarterly full in-person partners' meetings and regular meetings by video-conference.

Firms A and B, which have embedded annual retreats that they see as important to driving their businesses forward, are able to detect more nuanced changes in the environment. These firms can also react more quickly than those that do not prioritise regular analysis and discussion.

Routines for market scanning

For firms to stay ahead of their competitors, they must place importance on the continuous pursuit of information and knowledge that these competitors may not seek or understand. A firm's search capabilities are exhibited through strong market orientation and manifested in well-defined internal processes for assessing environmental change (Wang & Ahmed, 2007), coupled with the ability to objectively perceive the environment (B. J. Jaworski & Kohli, 1993). Specific centralised processes include gathering new information about technology, customer needs, supplier innovation and competitor activity (Teece, 2007).

Common to three of the firms was a strong singular and enduring vision for the firm, and market-scanning routines were bounded by these strategies. This finding aligns with Kahneman and Tversky's (1979) argument that the way a problem is framed dictates what information is noticed. FirmA sought to shift its work mix from primarily private to commercial within the CityX region to address its problem of a high volume of low-value clients. FirmB sought to be a national firm to mitigate the risk of relying on the fortunes of a single city, and FirmC wanted to balance its client base between international and local to smooth out the effects of the international economic situation and regulations. As a result, firms scanned the market for information that supported or threatened their stated goals and interpreted the results against their overarching strategies.

A similarity between all firms is their preference for exploitative scanning — and all looked at opportunities to apply their existing stock of capabilities in different geographic markets. Exploitative search routines included monitoring very close competitors' strategies and/or being inspired by competitors who were considered to be a superior firm. Paying attention to close competitors' choices may be a rational choice to minimise search costs (Peteraf & Bergen, 2003). The similarities in growth strategy across the sample were striking, despite the firms having had no apparent interaction or overlap.

Only FirmA demonstrated any capability in explorative search routines, drawing on a range of intelligence outside its boundaries through interactions and relationships with clients and using social connections. Explorative searching indicates the presence of a higher order capability (Hine

et al., 2014), and FirmA is distinct in demonstrating the 'entrepreneurial intention' that goes hand-in-hand with such capabilities.

Although, ideally firms embed opportunity discovery in firm-level routines to neutralise the risk of over-reliance on the cognitive traits of specific managers (Teece, 2007), and the cases with the strongest sensing skills used a combination of both firm and individual capabilities. Teece acknowledges that the cognitive ability to create and/or sense opportunities is not equally distributed across all managers in a team. Supporting this point, FirmA's explorative searching was largely led by one partner who had a skill-set in the intersection of law and technology and was encouraged by his partners to explore opportunities to apply these skills to develop new products and services. However, other partners played leadership roles as the firm explored opportunities to extend its expertise into other adjacent services such as financial planning, mortgage broking and offshore joint ventures. These opportunities were identified through analysis of clients' needs and information built through social connections outside the firm.

The firms' long-term financial performance influenced the effort that they put into market-scanning routines. The firms that felt comfortable with their partners' incomes appeared less compelled to prioritise learning about their environment, whereas the firm that wanted to improve its profit-share was more connected to its environment, creative and outward-looking. D. Miller (1992) warns against such complacency where a firm's good results reinforce their preconceptions and lock them into doing things the way they have always been done. The following quotes from Firms B, C and D support this point.

'Oh, we're very slow on the uptake ... you know the apathy that pervades the place due to the fantastic client base that they've all inherited through the wise forbearers. The apathy around ... being market aware, nimble, being able to move with the times, changes....' (B3)

'I imagine that people could say we should be more strategic and we should be having hours in front of a blackboard... But by and large we're lawyers because we like being lawyers. We like to do legal work and it works okay.' (D2)

'We don't go out looking for larger transactions or potentially the type of work that might massively change the revenue profile of the firm. It tends to be steady state.' (C4)

Notably, FirmD was mystified about market changes and that 'no one tells you when the goal posts have moved' (D3), yet the firm does not have routines in place to seek information about

the market. This perspective was out of step with the other firms who to some extent had routines in place for understanding environmental dynamics.

A similarity between the firms that had some degree of sensing capabilities and FirmD was that they employed professional managers whose sole focus was on the running the business. In each case, managers played a role in either organising or in preparing situation analyses for the partners to consider. Managers' involvement meant that scanning activities could transcend the ad hoc way of doing things and become part of organisational routines. FirmD did not have professional managers taking the lead on the resourcing of competitive analyses and did not see any value in diverting its partners from client work to prepare an analysis.

Forums for discussing market needs

Internal arguments about the presence and effects of changing market needs is desirable for testing beliefs (Teece, 2007). Systematic group reflection on experiences, and sharing an interpretation of events through discussion, can be useful to cross-check assumptions that individuals may make through their own narrow framing of problems (Fischhoff & Macgregor, 1982). Hodgkinson and Healey (2011) argue it is important to harness 'visceral reactions to strategic alternatives' when negative reactions outweigh positive ones, because it is unlikely that decision-makers will commit fully to pursuing the developments in question, even where more objective analyses are favourable. Such reactions can be usefully assessed during in-person group planning forums.

Partners' retreats provided a platform for working on the business. Although FirmC held retreats irregularly and usually in response to a crisis, the preparation for these meetings included a form of market scanning, including surveys for partners to document their view of and interpretation of environmental changes that would then be discussed at the meeting itself. Such analysis and discussions did not appear to take place outside of retreats.

The most common forms of scanning were through SWOT analysis as part of strategic planning, which varied in complexity and depth across the sample, and with inputs from partners' ad hoc perception of market changes. The SWOT analysis is ubiquitous in businesses undertaking some form of strategic analysis (P. Jarzabkowski et al., 2009; Spender, 2014). However, this is despite serious criticism of SWOT's theoretical underpinnings (R. Agarwal et al., 2012), in particular that it too often produces 'shallow misleading results' (Valentin, 2001, p. 54) and generates superficial extemporaneous inventories that are as likely to detract from understanding sound strategic

choices as to illuminate them. Firms B and C primarily used SWOT analysis to help understand the landscape, whereas FirmA, led by a General Manager with an MBA, used a range of tools to analyse the firm's position in the market including SWOT, the industry maturity model, Johnson and Scholes' Cultural Web and an evaluation of its core competences.

An important difference between FirmA and the other firms in the sample was the acceptance of diverse perspectives and a culture of robust discussion. The complementary contributions of entrepreneurs and conservative partners were encouraged and valued. In contrast, discussion was stifled in the other firms under the name of collegiality or being a consensus-based partnership.

'You talk to people and see if they've got the same appetite and if you don't think there's a consensus then you let it go.' (B4)

'It is a very consensual partnership. Everyone has to generally agree on a direction but, by discussion among the partnership generally is how it has happened.' (C1)

'G states that too many important issues are 'ducked' by the partners under an anything for peace policy.' (FirmD archive)

Undocumented, but regularly practised, consultation/socialisation processes exist in Firms A and B. The idiosyncratic processes are well understood by the partnerships. FirmA's process begins with group discussion and progresses from there. In contrast, FirmB's process begins with discussion and, if successful, reaches the board for ratification. FirmB's process includes more formal modelling and analysis and opportunities for group-based discussions. The diagrams below compare Firm A and B's 'stage-gate' processes.

Figure 11: FirmA's 'stage-gate' process

Figure 12: FirmB's 'stage-gate' process

Capabilities in interpreting market trends

Because strategic problems are unstructured and ill-defined, the solution to a problem depends on the definition of the problem in the first place. Top management must find ways to 'peer through the fog and gain insight' (Teece, 2007, p. 1326), but such capabilities are not universal among managers.

The firms with stronger sensing capabilities were able to see an opportunity where others saw threats. Most firms saw environmental events through the popular lens of the time, for example, the 2008 GFC as a recession that should be weathered. However, FirmA was able to interpret the GFC as an opportunity to quickly develop a unique service that filled an untapped market need. Similarly, when FirmB was seriously affected by a natural disaster, it was able to sense that it could help its community by quickly scaling up its services and developing a unique specialist service when related downstream problems occurred. In contrast, the cognitive frame of FirmD meant that it sensed changes through more negative biases, and routinely undermined external events and processes as being flawed and irrelevant to its business. Seeing environmental events through this lens may have helped justify the firm's inability to thrive in its changing market.

Detecting new information by learning from external sources

Firms demonstrating an internal orientation emphasise the development of intellectual capital within the firm's boundaries, but over time it may evolve into inertia that stifles entrepreneurship. Demonstrating a strong internal orientation, Firms B and D did not routinely seek or draw on knowledge from external sources to detect opportunities, although there were examples where FirmB drew on social networks when looking for firms to acquire, and FirmD sought knowledge from clients when reorienting its firm in the early 1990s.

External knowledge held little interest for the partners of FirmD, which may have been exacerbated by its longstanding governance board having been in place for 16 years of the 30-

year period under study. Lack of fresh leadership may have prevented the firm from changing its position on the value of external knowledge.

Sources of information considered by the more externally-oriented firms were idiosyncratic. As the exemplar in the study, FirmA considered information and knowledge from external sources including benchmarking, independent practice audits, participation in the Law Association, looking overseas for proof of concept, using consultants to supplement its own expertise and forming joint ventures with co-specialised firms.

FirmC had the opportunity to learn from the outside world as a result of constant interaction with overseas-based colleagues and clients. However, only one Managing Partner took advantage of the exposure to learn from similar firms in other jurisdictions and the capability waned after he left the firm. FirmC continued to purposefully participate in government consultation processes in order to gain knowledge and potentially influence legislation and government policy that could work to its advantage.

Processes for identifying acquisition/merger/joint venture partners

When seeking a business model for establishing new offices, all but FirmD looked within their partners' networks for potential candidates. The fit between the culture of FirmA and the merger/acquisition target was considered critical by all firms, so the search for targets stayed within the existing web of contacts to increase the likelihood of seamless integration into the partnership.

FirmD was the outlier in this regard, deciding to merge with a firm 'on the basis that we didn't know them, so we couldn't not like them' (D2).

Managerial cognition

The power of the Managing Partner as the formal leader of the firm was pivotal to the range of information that was considered by firms in monitoring their external environments. Because of the reliance on intuition to guide strategy, the Managing Partner's cognition carried significant weight over other partners' perceptions. Therefore, the choice of Managing Partner was critical. For Firms A, B and C, natural leaders emerged as Managing Partners. However, for FirmD, the Managing Partner was chosen for the opposite reason — because they had excess work capacity, which meant the firm potentially relied on a leader whose cognitive skills and values did not necessarily align with those of the rest of the partners.

The ability of the firms' dominant Managing Partners in the 1990s and early 2000s to sense changes and propel the partnerships forward should not be underestimated. Reflecting firms' rigid hierarchy with the Managing Partner at the peak of the hierarchy, followed by partners, staff lawyers, professional managers and administrators, in all cases the Managing Partner and some partners (although not all...) undertook sensing routines and embodied capabilities. None of the firms provided examples where any staff outside of the partnership had been involved in any market-scanning processes. According to the norms within the firms, strategising could only be undertaken by the owners of the firm and the cognition of staff was not encouraged or discussed.

A notable contrast that affects firms' sensing capabilities is the perception of environmental dynamism. FirmA, which has the strongest sensing capabilities in the samples, goes so far as to require its partners to accept that it is in a changing world in its Code of Responsibility.

Table 28 summarises the evidence of case studies' common sensing DCs.

ROUTINES FOR MARKET SCANNING	Exploitative search routines
	Common market strategy – geographic expansion
	Managers embedded scanning routines
ROUTINES FOR DISCUSSING MARKET NEEDS	Annual strategic planning processes evolved over time
	Used strategic management tools for analysis to varying degrees
CAPABILITIES IN INTERPRETING MARKET TRENDS PROCESSES FOR IDENTIFYING POTENTIAL ACQUISITION TARGETS	Based on intuition rather than evidence
	Leveraged social networks to identify the fit of potential acquisition candidates
LEADERSHIP - MANAGERIAL COGNITION	Scanning processes evolved over time
	Dominant Managing Partner drove action
	The weight given to intuitive sensing depended on the power of the person sensing

Table 28: Summary of common sensing capabilities

8.1.2 Similarities and differences in seizing capabilities

An important distinction between FirmA and other case study firms was the extent of its entrepreneurial culture, which supported experimentation and actively pursuing revenue growth. Like its sensing capabilities, the firm supports entrepreneurial initiatives and trying different things. This was unique within the cases studies.

'Good thing about the partnership is that people do understand that to pursue an area, you're not necessarily going to get a return overnight. And there's no expectation. People understand you've got to give it a fair crack. Time will tell. And if you put a good level of effort in, there's no penalty for not achieving the results that we want. There is for not trying though.' (A2)

Capabilities in developing business models

Two of the sample firms did not demonstrate any capabilities relating to developing business models beyond the tried and true traditional partnership model. In contrast, FirmA stood out because it took a flexible approach to developing business models that best suited its entry into adjacent markets. Software development, licensing spin-off, trail commissions, strategic alliances for cross-referral etc, were examples of the innovative business models that FirmA implemented during the study period. One particular partner was most responsible for FirmA's forays into adjacent areas, but he role-modelled capabilities that other partners adopted.

'It was agreed we need to be careful how many "experiments" we take on board, but if we get them right it would allow FirmA to move up the "food chain" of quality work a lot quicker.' (FirmA Archive)

Processes for evaluating investment options

A strong theme carried through all firms in the sample, and which followed on from sensing capabilities, was that significant investment decisions were usually made on the basis of intuition or gut feel. Although the firms carried out some due diligence when looking at acquisitions or mergers, none engaged in market validation exercises, instead believing that 'if you build it, they will come'.

Firms B and D entered the CityY market because of a perception that businesses would continue to gravitate to this city. FirmA opened an office in CityX because it felt it had to be in the city to be seen as a credible commercial firm. FirmC established a joint venture with an Asian FirmB because its Managing Partner perceived the market was 'opening up' and the firm must be there to capture a slice of the emerging business.

Processes for deciding which option to pursue

FirmA was unusual in that it codified and refined the due diligence process it used when evaluating potential acquisition or merger candidates. The formal due diligence process began once partners conditionally signed off the 'cultural fit' of the candidate or acquisition target. As explained in Section 7.1, the due diligence analysis forms the basis of the recommendation to the partnership and must be defensible. Having merged with or acquired several firms over the course of the study, FirmA had reason to invest in refining its knowledge. The quote from FirmA's General Manager below describes how the due diligence process came about.

'I sat down and wrote up what we needed to do. Financials, legal, staff, culture, governance — and came up with a template which I have adapted throughout the years.' (A1)

Capabilities in overcoming decision biases

A further difference between the cases is FirmA's openness to drawing on outside experts to help provide an objective approach to evaluating investment options. Although it used outside experts only once towards the end of the studied period, it suggests a further evolution in the sophistication of its seizing capabilities. Using independent investment consultants helped overcome biases that may have compromised the quality of decision-making had it remained an in-house exercise. FirmB saw the benefit in having an outside perspective at the top table with its independent board member. However, the independence was compromised due to the person's tenure over 30 years in management in governance roles.

Managerial capabilities in building loyalty and commitment

Clearly the position in the hierarchy and formal power held by the champion of an idea weighed into whether an idea would be seized. Observable in Firms B, C and D was Managing Partners forging ahead with geographic expansion — and not always with the full support of the partnership. Dominant Managing Partners also had the authority to unilaterally prevent others' proposals from progressing.

'I was forever vetoing proposals that I didn't agree with because it was undermining the whole fabric of the firm in my view.' (B2)

As the period under study progressed, FirmB opted for a less autocratic system of decision-making and its processes aligned more to FirmA's extension of the stage-gate approach. Socialising ideas informally to gauge support became an embedded routine before more formally pushing the decisions up to the board became the standard practice.

In contrast, regardless of the status of the protagonist of an idea at FirmA, all were considered on their merit. However, of note is that all decisions were taken within the partnership. The General

Manager, although instrumental in sensing and seizing, had ‘speaking rights’ but not ‘voting rights’ at its Executive Committee.

Excluding non-partners from seizing routines was standard across all firms. In all cases, seizing routines and capabilities were centralised within the partnership group, with a small and powerful sub-group usually responsible for the primary decision rights.

Similar to the evolution of top firms’ sensing capabilities, Firms A and B’s seizing capabilities strengthened over time as they transcended the Managing Partners’ power to become more embedded in routines that were well understood across the partnership. The main difference between the two firms’ approaches was that FirmA involved all partners in evaluating and choosing investment paths. FirmB, in contrast, had formal governance in its board, even though a great deal of consultation was carried on before the board’s decision rights kicked in.

Table 29 summarises the evidence of the case study firms’ seizing DCs.

CAPABILITIES IN DESIGNING INNOVATIVE BUSINESS MODELS	STAGE-GATE PROCESSES
PROCESSES FOR EVALUATING INVESTMENT OPTIONS	Intuition-based decision-making Uses SWOT analysis
PROCESSES FOR DECIDING WHICH OPTION TO PURSUE	Annual business planning processes Decision weighting influenced by hierarchy and power
MANAGERIAL CAPABILITIES IN BUILDING LOYALTY AND COMMITMENT	Dominant Managing Partner able to secure support

Table 29: Summary of common seizing capabilities

8.1.3 Similarities and differences in transforming capabilities

Across the board, each case study firm had weaker transforming capabilities than their sensing of seizing capabilities. Relatedly, this study detected fewer similarities in transforming capabilities.

Capabilities in integrating acquisitions

Interviewees referred to having a strong unified and collegial culture as being critical to the healthy functioning of the firm. Having breakaway groups or sub-cultures may destabilise the

collegiality that the partnerships prize. Consequently, Firms A and B adopted strategies of embedding existing partners, senior staff, or well-known former staff as leaders within acquired firms in new geographic locations. The integration of acquisitions based on this model was more successful than FirmD's model of merging with a firm it did not know in a different location.

FirmA stood out in that it had codified its processes relating to absorbing acquisitions and continued to fine-tune these processes as its experience dictated. The firm's General Manager was responsible for not only codifying the processes, but also designing a plan and driving the operational aspects of integration.

Although evidence of possessing capabilities in developing flexible business models was possibly most obvious within FirmB, because it expanded most through acquisition over the studied period, and it was able to choose different models for its entry into four new markets. FirmA absorbed most of its acquisitions into its main office, which made integration more straightforward. FirmA's most significant acquisition, of a firm in another town in 2014, proved more challenging to assimilate (both operationally and culturally) and tested the capabilities it had built in acquiring and absorbing smaller firms.

Processes for reflecting and learning from experience

FirmC was able to transform itself by striving to continually improve the quality of its people through attrition and recruitment, changing its skill base and knowledge stock in both its professional and management staff. Evidence of change management was absent in all but FirmA, which invests in upskilling its staff in marketing and business development skills in order to realise its ambitions and reinforce its entrepreneurial culture. Similarly, FirmD extended its service range by recruiting staff, in contrast to acquiring firms with established client bases. Compared to acquiring a firm, or purchasing machinery or technology, recruitment may be a relatively efficient strategy for transforming the knowledge base (Rizzo, Freddi, & Ramaciotti, 2015).

An important differentiator for FirmA is the way it uses its annual retreat as a catalyst for change and reflection. With a formal and well-practised agenda, it is a focal point for reflection on the previous year's strategy and implementation in order to adjust its course, if necessary. Although FirmB also holds annual retreats, it is less clear how much time is allocated to group reflection and learning. The ad hoc nature of FirmC's partners' retreats makes reflection on transforming activities less meaningful capabilities and actionable.

When unsuccessful in winning two competitive pitches for work, FirmA took the opportunity to seek feedback and spent some time 'navel gazing' following one of its failures. It leveraged this knowledge in future engagement in competitive tender processes.

Managerial capabilities in achieving momentum for change

As mentioned throughout the case studies and in this chapter, the nature of the partnership means that staff are usually excluded from sensing and seizing activities. However, for any transformation to be successful, particularly given the nature of the knowledge work, effective change management practices to align people with the vision of transformation are warranted.

The constraints of hierarchy fell away when FirmB's main office was struck by a natural disaster, and all members of the firm banded together to keep the business operating. This was a significant deviation from the usual relationship between partners and staff and was triggered by the external shock.

The common thread among Firms A, B and C was that they had employed relatively senior professional managers or a team of professional managers in the late 1990s who were better able to enact desired transformation. Having the 'manpower' to execute change plans matters. These firms had employed professional managers, which provided the impetus to implement the strategy agreed by the partners.

Capabilities in codifying know-how

Again, FirmA stands out as the only firm that codifies its know-how in relation to integrating acquisitions and assets. Developing standard processes has happened largely at the initiative of its General Manager, who joined the firm in the late 1990s with experience, having worked on a merger of two firms and having started documenting checklists relating to mergers.

FirmB's business continuity planning was a DC that enabled it to respond with agility when the major disaster occurred.

'FirmB tries to plan as much as possible for the possibility of a disaster. 'However, we always felt that we'd never quite completed the task adequately. We now know that it was an impossible task and that we'd actually done the crucial part — the thinking and visualisation about what could occur and what our response might be in any given scenario. We believe our response was successful — and, yes, we have learned a number of things and have made some changes to our systems following the disaster.' (FirmB Secondary)

Capabilities in developing innovative services/products

FirmA's culture encourages diversification and change, and it demonstrates its capability in developing innovative services through joint ventures, partnerships and a variety of other arrangements. Although not all experiments have been commercially successful, the willingness to 'give it a go' is evident as a capability.

Capabilities in building new assets

The most common form of asset that the case studies build is offices in new geographic markets. FirmB has particularly strong capabilities in opening new offices in different geographic markets, and in establishing flexible models that adopt the FirmB culture while being able to operate semi-autonomously. The ongoing operation of the offices is governed by the overall planning processes and the firm considers the idiosyncrasies of each office within the overall strategic priorities.

Table 30 summarises evidence of the case study firms' transforming DCs.

Capabilities in integrating acquisitions and assets	Embedded values and culture by planting partners/staff/former staff in newly acquired firms
Processes for reflecting and learning from experience	Annual retreat to reflect and adjust course, if necessary, hold to account Better and smarter learning
Managerial capabilities in achieving momentum for change	Professional managers facilitate transforming routines
Capabilities in building new assets	Able to resource up quickly Take a long-term view of the commitment to new ventures and strategies

Table 30: Summary of common transforming capabilities

8.2 What prompts firms to develop DCs?

Although important DC scholars are unequivocal on the impact of environmental turbulence as a trigger (Eisenhardt & Martin, 2000; Winter, 2003; Zollo & Winter, 2002), others argue that internal drivers for developing DCs include an incorrect perception of environmental change, internal pressures and exposure to market information for the first time (Zahra et al., 2006). The discussion below focuses on the relative impact of external and internal drivers for developing DCs.

Narayanan et al. (2009) show that both internal and external circumstances exist about the management's decision to develop or forget a capability. However, they also describe a process whereby a firm can passively possess knowledge but may not act on it until a 'galvanising event' takes place. Such a galvanising event or trigger may be a necessary condition for the needed shift in top management's cognitive orientation to support the development of DCs.

This study identified five critical events that each provided a data collection point for organisational transformation (Pettigrew, 1990). It was envisaged that such critical events may lead to fundamental change and provide an opportunity for firms to deploy DCs. Chapter six explains the critical events explored in this study.

8.2.1 External triggers for development of DCs

External triggers provided relatively weak to moderate impetus for the development of DCs across all cases. The findings are summarised in Table 31 below.

EVENT OR PROBLEM	1985 SCALE REMOVED	1991 RECESSION	1996-97 LOSS OF PUBLIC CONFIDENCE IN LEGAL PROFESSION	2011 CONSOLIDATION OF GOVERNMENT'S PURCHASING POWER OF LEGAL SERVICES
FIRMA	Strong Built sensing, seizing and transforming capabilities	Weak Relied on ordinary capabilities	Weak Relied on ordinary capabilities	Moderate Built sensing and seizing capabilities
FIRMB	Weak Relied on ordinary capabilities	Moderate Built sensing, seizing and transforming capabilities	Weak Relied on ordinary capabilities	Moderate Built sensing and seizing capabilities
FIRMC	Weak Relied on ordinary capabilities	Moderate Built sensing, seizing and transforming capabilities	Weak Relied on ordinary capabilities	Moderate Built sensing and seizing capabilities
FIRMD	Weak Relied on ordinary capabilities	Moderate Built sensing, seizing and transforming capabilities	Weak Relied on ordinary capabilities	Moderate Built sensing and seizing capabilities

Table 31: External triggers for DC development

The severity threshold of an event needed to be high for case study firms to trigger the development of DCs. The 1985 event, which represented a fundamental change to the New

Zealand legal profession, came at a time that law firm partners were least equipped to develop DCs. Given the absence of competition in the market until that time and the conservative, older demographic of the partnerships of Firms B to D who rejected the suggestion that they operate as a business over a profession, it is clear why they relied on ordinary capabilities through the years following the release from price regulation. The outlier is FirmA, whose Managing Partner had been leading the firm on an entrepreneurial path of growth by acquisitions *before* the barriers to competition were removed. Under his leadership, FirmA already possessed a culture that supported the development of DCs, giving it a head start in relation to its competitors.

The nature of the 1985 event was that it was high-profile, time-bound, codified, no doubt with a long lead time and the subject of intense debate within (and possibly outside) the profession. All partners knew about the change.

The recession of 1991 prompted Firms B, C and D to develop DCs, albeit in idiosyncratic ways. Clearly the effect of the recession was evident enough, for long enough, to have been noticed by all the firms. While all hunkered down and relied primarily on ordinary capabilities to weather the storm, their response ranged from diversifying services to a new client relationship management approach and acquiring a complementary firm to spread fixed costs.

The firms responded similarly to the loss of public confidence around 1996, in that the event provoked no detectable response from any of the case firms. They also all demonstrated sensing and seizing capabilities in response to consolidation of the government's legal services spend, even though their resulting transformation paths were different or even entirely absent. The nature of these two critical events may help explain the universal activation of DCs — or not. The government procurement process was highly prescriptive, potentially lucrative, time-bound and had a binary outcome. It is not surprising that the firms responded in similar ways. The loss of confidence in the profession, in contrast, was more amorphous and the firms distanced themselves from the rhetoric in the market. They felt the public sentiment was directed towards other lawyers far less reputable than themselves, and that their clients knew better.

In summary, case study firms required a high threshold of visibility of external events in order to trigger a response. Nuanced changes in the environment, or slow-creeping trends, tended not to meet the threshold that prompted action. Tautologically, however, firms with weaker sensing capabilities were not able to sense the changes necessary to develop DCs.

8.2.2 Internal triggers for developing DCs

Wang and Ahmed (2007, p. 40) propose that the more dynamic a market environment, the stronger the drive for firms to exhibit DCs in light of external changes. The relatively low dynamism in the legal services market may help explain the relatively stronger influence of internal pressures. These internal pressures, according to scholars, include top managers' entrepreneurial orientation (Boccardelli & Magnusson, 2006), response to an internal change, perception of external change that may not be correct, or perceiving change in external conditions for the first time (Zahra et al., 2006).

In contrast to external triggers for deployment of DCs, which generally provided weak or moderate impetus, internal drivers provided stronger momentum for change across all cases in this study.

	Event or problem	Response	Outcome
FIRMA	Perceived increasing competition for clients from better-resourced large firms	Strategy to become commercial – move up the value curve	Built sensing, seizing, transforming capabilities
	Perceived misalignment between abilities and market perception	Strategy to move up value curve	Built transforming capabilities
	Falling profits		Built seizing and transforming capabilities
FIRMB	1986 – relocation of major clients	Strategy to be national	Built sensing, seizing and transforming capabilities
	Referring increasing amount work offshore	Strategy to become international	Built sensing, seizing and transforming capabilities
	Natural disaster		Built seizing and transforming capabilities
FIRMC	1987 – share market crash	Strategy to improve client service	Built sensing, seizing, transforming capabilities
	Perceived gap in Asian market	Strategy to be regional	Built sensing, seizing, transforming capabilities
	Perceived vulnerability to overseas market and economies	Strategy to mitigate risk	Built sensing, seizing, transforming capabilities
	Threat of single Australasian market for core services	Strategy to be regional	Built seizing and transforming capabilities
FIRMD	Perceived drift north of head offices	Strategy to be national	Built sensing and seizing capabilities

Table 32: Internal triggers for DC development

The finding of this study is that firms are most motivated to deploy DCs at the point when the firm (and/or its dominant leader) perceive that it must act to address a particular problem or to achieve its self-defined goal or strategy. Triggers were idiosyncratic. Firms appeared to have different sensitivities to motivating factors, for instance, FirmC's DCs were developed in response to risks associated with economic factors in the 1990s. FirmB's motivation was primarily its own ambition to expand to become a national, and then an international, firm.

The strongest motivator for FirmA to develop DCs was its perception of internal weaknesses. It deployed DCs when it perceived misalignment between its abilities and market perception and when its falling profits called for action.

With the exception of FirmA, in no circumstances did the case firms deploy DCs in response to competitors' activity or inactivity. Furthermore, depending on the nature of the motivation, in some examples, only two of Teece's three classes of DCs were triggered. For instance, FirmD developed sensing and seizing capabilities in response to its perception of loss of clients to another city, so it attempted to merge with a local firm. However, it failed to develop the transforming capabilities necessary to ensure the venture's success.

8.3 How do firms develop DCs?

The literature suggests three primary foundational capabilities that help firms develop DCs: learning, leadership and integrative capabilities (Easterby-Smith & Prieto, 2008; Jiang, 2014; Ma et al., 2015; Zollo & Winter, 2002). In addition to these capabilities, the firm's path — its investments and routines — shaped the trajectory of its future behaviours and choices (Teece et al., 1997).

Culture is an antecedent to generation of DCs because it was evident cultural norms go a long way towards encouraging and galvanising individuals to apply their cognitive and creative skills to opportunity discovery or creation, particularly in knowledge-intensive firms where a formal research and development programme is unlikely to occur (Kam & Singh, 2004),

Figure 13: DC development factors

8.3.1 What mechanisms stimulate or inhibit the development of sensing capabilities?

Stimuli shown in capital letters; Inhibitors in sentence case letters

L = leadership, LP = learning processes, C = culture, IS = integration skills, PD = path dependence

Figure 14: Summary of factors stimulating or inhibiting the development of sensing capabilities

8.3.1.1 Stimuli

Leadership

The findings of this study show that a firm's leadership is one of the most important determinants of whether it will develop DCs generally and sensing capabilities specifically. This finding aligns with Rosenbloom (2000) that leadership is a 'central element of dynamic capability'. Leadership abilities are difficult to learn if they are not developed naturally (Teece, 2016), which suggests that a firm's ability to develop DCs is inherently limited or enhanced by its management team's natural leadership talents. Teece (2014b) points out that for a firm to achieve anything beyond incremental change, an entrepreneurial manager/leader must engineer and drive such change. The reliance on natural talents may be amplified in the professional services context where it is

likely that the management team (i.e. the partnership in the law firm context) has undertaken little, if any, management training.

Leadership that supports experimentation places importance on entrepreneurial behaviours and demonstrates values aligned with these activities are among the most influential factors in DC development. For example, FirmA's early leadership had valued innovative ideas and supported innovation, and the success of some of those ventures positively impacted the partnership's ongoing openness to searching for new opportunities and experimenting. Further, FirmA chose successive Managing Partners who also modelled entrepreneurial values, ensuring that the connection to the outside world transcended individuals' cognitive frames.

Teece (2007) acknowledges that individuals possess knowledge, creativity and wisdom to understand market information, but he does not acknowledge the political weighting necessary for it to be heard within a hierarchical and centralised organisational structure. In fact, he claims that professionals specifically are protected from the hazards of managerial isolation because of their proximity to clients, but this study did not corroborate his claim. Regarding managerial cognition, in the cases of Firms B, C and D, the perception of a politically powerful player filtered the firm's interpretation of where opportunities or threats existed.

Reinforcing the centrality of leadership as an antecedent of sensing capabilities was the evidence of Firms B and C's most active development of DCs being under the watch of particularly strong and entrepreneurial leadership. However, the capabilities embodied in these leaders were at a period in time, and influenced by their individual political capital, so did not provide a sustained advantage in isolation. A difference between Firms B and C, however, is that FirmB developed sensing organisational routines that complemented and survived the capabilities of the entrepreneurial leader.

Learning processes

Consistent with the strategy as practice literature (understood as something people do rather than firms having it) (P. Jarzabkowski, 2005), strategic activity is driven by 'mundane practices' (P. Jarzabkowski & Seidl, 2008, p. 1392) such as strategic planning, annual reviews and strategy workshops. Strategic episodes allow managers to step away from their daily routines, in order to reflect on routines and develop variations to strategic orientation (Hendry & Seidl, 2003), and they are particularly effective if physically separated from the participants' day-to-day working location

(P. Jarzabkowski & Seidl, 2008). However, not all strategic episodes are focused on change — equally they play a role in stabilising or positively confirming a firm's strategic orientation.

The results of this study strongly suggest that strategic episodes, in the form of partnership retreats usually held in a residential form over several days, stimulated the development of sensing capabilities. Firms A and B, which have the most evident sensing capabilities, held annual retreats that required preparation that removed the partners from their day-to-day focus on client work to dedicate time and space to contemplate their own business's position in the market. Preparation usually took the form of a documented market analysis. The market analysis was usually prepared by management with input from partners, and then discussed and debated at the retreat itself. The outcomes of the retreats either propelled ideas forward or rendered them irrelevant by the collective.

In contrast, the firms that held retreats intermittently appeared to undermine their utility in relation to developing DCs. Holding retreats intermittently due to some trigger, such as an internal crisis of leadership and following different formats, was less effective than the annual events following an almost identical format. Although the process may be useful for the partners, the results tended to be short-lived and failed to pivot the firm's strategic direction in comparison to the regular episodes that allowed routine reflection and realignment and animation.

Relatedly, FirmA's openness to collaborate with outsiders was unusual within the cases and is likely to be linked to the development of relatively stronger sensing capabilities. Not only did the firm need to identify potential collaborators but it also needed the ability to leverage relationships to access new knowledge. Such a capability was embodied within one partner, but over time the role-modelling of collaborative initiatives influenced the next generation of partners to look for similar opportunities and in turn became elevated to a firm-level DC.

Path dependence

A firm's path dependence is a rigid, potentially inefficient action pattern arising from the unintended consequences of previous decisions and positive feedback processes (Sydow et al., 2009, p. 696), which shapes a firm's future opportunities. The underlying difference between the firms in this study are the paths they have travelled, and the successes and failures experienced over decades that have affected the values and risk tolerances exhibited by the current partnerships.

The firms most likely to develop sensing capabilities had successful track records in detecting changes in the market and trusted their instincts. FirmA's tolerance for risk was determined by a history of successes in contrast to FirmD, for example, which had a history of failure that became self-perpetuating and constrained its interest in pursuing novel paths in the future. Similarly, FirmB's success in sensing opportunities for expansion into new geographic markets was reinforced and led it to repeatedly call on these capabilities.

However, this study found that firms risk developing narrow sets of sensing capabilities based on previous successes and may become overly tolerant of risk associated with a type of strategic activity. For instance, FirmB became adept at sensing opportunities for geographic expansion, but once it had exhausted the possibilities of major markets, these capabilities have become latent or possibly even forgotten. Development of sensing capabilities in relation to a narrow set of options may mean the firm was myopic in relation to other market opportunities.

Culture

Gordon (1991) argues that a firm's corporate culture is strongly determined by the characteristics of the industry as a whole, and therefore firms operating in the same industry will display similar cultural elements. For PSFs, more than for firms led by managers with more diverse academic backgrounds (DiMaggio & Powell, 1983), pressures exist that draw competing firms towards possessing homogeneous cultures. Supporting this conceptual literature, Firms B, C and D possessed many cultural similarities that align with the ideas in the isomorphism literature.

In contrast to the other firms in the study, FirmA had developed a culture that provided a fertile environment for developing DCs. Its 'can do', 'we try it' mindset gave it an advantage over the more conservative firms in the study, in that its cultural baseline played an important role in supporting DC development. The findings suggest that firms that understand the cultural norms of their industry — and where they undermine the development of DCs — can choose to develop different values and norms and may be more likely to develop sensing capabilities.

A dimension of a firm's dominant logic is the beliefs held about the firm's relationship to the external environment. Firms with a high external orientation place value on interpreting signals from their external environment, including clients, suppliers and competitors (Zahra et al., 2004). The findings of this study support the notion that firms with higher external orientation are more likely to develop strong sensing capabilities. FirmA possesses a relatively higher external

orientation than the other firms in the study, as demonstrated by its search strategies throughout the studied period. Naturally, an interest in the outside world underpins sensing capabilities, in contrast to more narcissistic firms, which see themselves as possessing much of the knowledge they need to survive and thrive.

Integration skills

An organisation's integrative capabilities are measured by its ability to recognise valuable external knowledge and combine the firm's existing knowledge stock for commercial purposes (Cohen & Levinthal, 1990; Yoon et al., 2017). It refers to a firm's ability to understand its own knowledge resource's potential and limitations, and to maintain a fit between what the firm offers and what the environment requires (Liao et al., 2009; Miles & Snow, 1978).

This study suggests that broadening a firm's 'ecosystem' supports the development of sensing capabilities because of exposure to knowledge it does not possess internally. FirmA had access to an externally-sourced market and business intelligence through its active participation in the Law Association, which was distinctive within the cases. Although a firm may not need to belong to an industry association to develop sensing capabilities, its recognition that it could learn from non-competitive peer firms and pool resources for access to market research indicates an awareness it does not possess all the knowledge it needs within its boundaries.

The study shows that firms which employed non-lawyer professional managers to manage the business are linked to developing sensing capabilities. This is because routines that are central to a firm's ability to seek new knowledge provide forums to build a shared understanding of problems and reflect on the need to shed obsolete practices. Whereas partners' primary focus is to respond to clients' needs, managers' focus is to 'identify good ideas and create an environment for them to flourish' (Empson, 2007, p. 27). Thus, sensing capabilities are affected, as well as the ability to provide impetus and momentum for new initiatives to allow seizing and transforming.

8.3.1.2 Inhibitors

Despite identifying the practices that stimulate the development of sensing capabilities, all firms also demonstrated some DC-inhibiting characteristics.

Leadership

This study shows that firms whose leadership perceives low environmental dynamism are unlikely to promote and develop sensing capabilities and may even actively resist it. It is possible that an industry with historically relatively low dynamism, such as legal services, and which has enjoyed

high profits and success for generations, can stifle its member firms' abilities to develop new capabilities. A lack of ability to develop sensing capabilities may mean a failure to detect when their culture, values and capabilities that supported previous success become 'too much of a good thing' (D. Miller, 1992, p. 31).

For instance, quotes from FirmD's partners show that they expect minor change to the industry beyond the margins, and therefore the motivation to invest in sensing capabilities is of low priority. Yet scholars such as Winter (2003) argue against the validity of avoiding the cost of developing DCs in relatively stable environments because the cost for infrequent use outweighs the advantage over ad hoc problem-solving. However, the danger for firms such as FirmD arises when it incorrectly perceives its environment to be highly stable, particularly in contrast to its competitors' understanding that the environment is changing and they develop the DCs necessary to pivot.

The findings of this study align with the literature that argues that long-term employees are more likely to exhibit core rigidities (Lucas & Goh, 2009b), although it is possible that some employee turnover can help this inhibitor of DC development. Within the cases, all had influential leaders in place for long periods, but in three cases they were tempered by the entry and exit of other partners in a larger pool. A distinguishing feature of FirmD was the smaller partnership and the tight grip of its three-person governance board that had been in place for 16 years. The results suggest that the lack of outside influence to challenge the firm's perception of a stable environment meant it saw no need to develop the sensing capabilities it would need to detect changes.

Culture

Firms demonstrating an internal orientation emphasise the development of intellectual capital within the firm's boundaries, but over time it may evolve into inertia that stifles entrepreneurship (Zahra et al., 2004). Büschgens, Bausch, and Balkin (2013) suggest that while an internal orientation reduces idea generation and gathering information from external sources, it may be useful for maintaining consistent and stable processes inside the firm. Managers can become socialised into deeply-held belief systems that do not question current capabilities and may resist signals that change is needed.

This study suggests internally oriented firms are less likely to see the need to develop sensing capabilities. For instance, Firms B, C and D demonstrated a high internal orientation, manifesting

itself in the adoption of strategies aligned to their ambitions rather than building the sensing capabilities required to detect market gaps. Such internal ambitions determined their search horizon and stifled the perceived need for sensing DCs.

Tightly-held strategising at the partnership level and the exclusion of staff inhibits firms' ability to develop strong sensing capabilities. As mentioned earlier, FirmD has a three-person governance board responsible for operational and strategic decisions affecting the firm of around 50 partners and employees. No other partners or staff were involved in discussions about strategy. But FirmD was not alone in tightly-held strategising. The hierarchical structure of law partnerships means that lower-level employees are usually excluded from strategic planning processes, including employees who interface with the external environment and could play an important role in scanning for useful complementary expertise or information and transmitting the technicalities of that information into the organisation or across business units (Cohen & Levinthal, 1990).

Learning processes

Common to the cases was the demonstration of ad hoc sensing and reactivity at various times in preference to the routines necessary to develop sensing capabilities. Individual partners' experience and intuition fueled examination and pursuit of opportunities — usually in the absence of any formal objective research validating a market opportunity. All firms spoke of dominant Managing Partners who at various stages leveraged their political capital to secure support for expansion — overriding the need for external validation of market opportunities or threats. Although the value of intuition in detecting and interpreting market changes is well documented in the literature (Green, Covin, & Slevin, 2008; Hodgkinson & Healey, 2011; Teece, 2017), all case firms relied heavily on intuition — and not just anybody's intuition — to detect opportunities and demonstrated little appreciation of the value of objectively testing a hypothesis. The problem in relation to the development of DCs does not relate to the use of intuition *per se*, but more the over-reliance on intuition in favour of routines that underpin sensing capabilities. As intuition is embedded within an individual's cognition, it is mobile and cannot become 'deeply baked into an organisation's culture' (Schoemaker et al., 2018), which is a necessary condition of a DC.

Integration skills

Eisenhardt and Martin (2000) discuss product development routines that draw together managers' diverse skills, knowledge and backgrounds to create products and services. Managers' ability to pool expertise that results in the strategic interpretation and filtering of information are examples of integrative capabilities that feed into the development of DCs. The antithesis of diversity of thought necessary for developing sensing capabilities may occur, however, when a firm is

dominated by one discipline and people in non-dominant roles are kept in their place by a self-reinforcing cycle of norms, attitudes and skill-sets that have low status and little influence (Leonard-Barton, 1992; Lucas & Goh, 2009b). This study provides evidence of a lack of diverse inputs stifling development of sensing DCs.

Many PSFs, for example, engineers, accountants and lawyers, are dominated by employees from one discipline. Firms A, B and C employed professional managers at relatively senior levels who may have had some input to sensing activities, but it is unlikely that their alternative world-view would be embraced by the lawyers. Notably an interviewee from FirmD mentioned the challenge for marketing and business development managers, frustrated at the lack of support from partners.

'Managers of law firms have to be very thick skinned and their life time is not great.' (B2)

FirmD is scathing about the contribution of non-lawyer managers to its business.

Neither example suggests embracing the organisational diversity that Schoemaker et al. (2018, p. 36) claim is necessary to ensure that 'managerial decision frames capture the full realities facing the firm', which are necessary pre-conditions to the development of DCs.

8.3.2 What mechanisms stimulate or inhibit the development of seizing capabilities?

SEIZING

Stimuli shown in capital letters; Inhibitors in sentence case letters

L = leadership, LP = learning processes, C = culture, IS = integration skills, PD = path dependence

Figure 15: Summary of factors stimulating or inhibiting the development of seizing capabilities

8.3.2.1 Stimuli

Leadership

To build seizing capabilities, leaders must put in place systems that encourage and support individuals to develop new ideas, 'build energy' for those ideas throughout the organisation and recognise and reward adaptable behaviour (Gibson & Birkinshaw, 2004). The findings from the cases in this study corroborate the theory that leadership is critical for the development of seizing capabilities.

For instance, FirmA's visionary and entrepreneurial partner was the 'driving force' behind the growth of the firm in the 1980s and his influence extends well beyond his time at the helm. The ambitions and the 'we are up for it, we try stuff, and we do stuff' values that underpin innovation

have continued to be evident in the firm's appetite for experimentation into adjacent services. Despite leaving the firm decades ago, the entrepreneurial philosophies of the founding leader loom large 30 years later and have lived on through subsequent Managing Partners' terms to nurture seizing capabilities.

FirmB had developed capabilities in building loyalty and commitment and these have evolved over the period under study. During the early part of the study, the firm made several significant decisions due to the force of the Managing Partner's will. However, over time, as the partnership became larger and geographically more disparate, professional management became normalised and arguably any single Managing Partner's influence would be diluted. However, whether this is a strength or weakness is unclear. Innovative ideas without a champion get nowhere according to Andrew H. Van de Ven (1986). Idea champions naturally become attached to ideas over time through a series of political moves undertaken with the goal of pushing their ideas into reality (Andrew H. Van de Ven, 1986).

Rather than relying on intuition, externally-oriented firms' decisions are 'theory-informed, evidence-based, and insight-driven' (Teece et al., 2016, p. 28). Seizing capabilities relies on a balance of intuition and empirical evidence. This study identifies that firms that have developed and refined their evaluation systems by putting in place semi-formal 'stage-gate' systems for important initiatives are more likely to successfully develop seizing capabilities. Firms A and B demonstrate 'stage-gate' processes for socialising ideas and gathering support for novel ideas, which have evolved over time as the firm's management has become more sophisticated. A differentiator between FirmA and the other firms is the leadership's trust in due diligence processes and the financial modelling required to help it develop seizing capabilities.

Firms A and B have consciously clarified decision processes, but for different reasons. Whereas FirmA has refined its processes in order to avoid reinventing the wheel and to help manage expectations, FirmB has structured its decision processes to accommodate a larger, more demanding and geographically spread partnership. Although such processes may be seen as bureaucratic (Teece, 2007), they have a place in a pluralistic setting like a partnership. Reasonably robust seizing capabilities have emerged from such processes.

Learning processes

As regular strategic episodes support a firm's development of sensing capabilities, annual retreats and other regular strategic episodes promote the development of seizing capabilities. They

provide a focal point for the collective interpretation of information, allow debate, and help build commitment and an agreed course of action.

Firms A and B have embedded retreats as annual occurrences, and the frequency and regularity make a difference to the value of these episodes in building seizing capabilities. This study suggests that infrequent and reactive retreats such as Firm C and D's provide little value beyond the short term because they are not able to build momentum for a strategic direction. The value arises from committing time for group strategising activities and maintaining a standard or similar structure and agenda, and allowing robust discussion to help neutralise decision biases. However, such regular and mechanistic retreats focusing on planning come with a warning — they must not undermine a firm's ability to act quickly and decisively or to interpret information in a timely way (Kenney & Gudergan, 2006). FirmA wards itself against rigidity by supplementing the retreat forums with a range of other 'episodes' that foster seizing capabilities, including quarterly in-person partners' meetings and weekly video-conferences.

Path dependence

This study finds that seizing capabilities are more likely to emerge in firms affected by natural disasters or other crises. When disasters hit, seizing capabilities enable the reconfiguration of existing resources and capabilities, so that firms can sustain a competitive advantage (Teece, 2007). FirmB was propelled to build more effective seizing capabilities than had been warranted previously when it was faced with a significant natural disaster that required quick decision-making and creative solutions.

The disaster not only affected the primary office, but it galvanised the offices in other cities in a way that was previously unseen. Partners in other offices made decisions on behalf of the affected offices without having to navigate the normal political process. Staff who were previously excluded from decision processes stepped in to show leadership, widening the pool of leaders and speeding up the pace of response. In the immediate aftermath of the disaster, the firm was able to quickly exploit its social capital to access extra resources from colleagues and friends, business networks (suppliers, customers, competitors), and public agencies. This is consistent with Martinelli, Tagliazucchi, and Marchi's (2018) findings on the role of DCs in the resilience of entrepreneurial firms after an earthquake.

Several decision-related mechanisms promote the development of seizing capabilities. In a self-perpetuating cycle, firms' previous entrepreneurial and acquisition successes give them

confidence in their decision-making and openness to risks that support the development of seizing capabilities.

FirmA demonstrated confidence in its ability to manage risk through mechanisms, such as financial analysis of the opportunity and 'interrogation of the business case' (A4), so it does not invest haphazardly. It had overcome the risk of passive disagreement by having an embedded understanding of the complementary value of entrepreneurs' enthusiasm, and those that 'challenge and interrogate' any decisions. Furthermore, FirmA developed and refined decision tools and financial modelling to help the partnership evaluate options before committing investment. In the latter years of the studied period, FirmA's approach to decision-making became more scientific. After having been through several processes, it refined its processes and appointed external experts to lead objective analysis of acquisition candidates.

FirmB developed confidence in its ability to mitigate risk associated with growth through establishing new offices in other locations. It too had developed risk management strategies that it had learned through prior experience, but they were limited to one set of entrepreneurial activities and were not applied to different sets of activities.

8.3.2.2 Inhibitors

Leadership

The most senior leader's ability to transform and reconfigure assets relies on their ability to see the environment through a different lens, build energy for new ideas and recognise and reward desirable behaviours (Gibson & Birkinshaw, 2004). Choosing the right person, with the right qualities and abilities, is therefore important in developing transforming capabilities. Although FirmD has recently stopped appointing Managing Partners in favour of a governance board, its ability to successfully develop transforming capabilities was undermined by its criteria for appointing its most senior leader. The selection criteria had little to do with the qualities of the individual, but the role was a parking space for Managing Partners with declining client workloads.

Path dependence

Demonstrating the corollary of firms with successful track records in entrepreneurial activity, this study suggests firms with a history of failed or sub-optimal outcomes from risk-taking are less likely to develop seizing capabilities.

FirmD suffered a set-back with a failed merger in the early 1990s that resulted in financial loss and no tolerance for taking similar risks in the future. The firm's dominant logic that locks it into rigidities has become that 'if you do good work, people will send you more good work. So, we haven't invested in all that add-on stuff... It's a simple business.' (D2). This logic actively works to prevent the development of seizing capabilities, in that it has adopted a locked strategic orientation to exclusion of any other path. FirmD demonstrates path dependence that is a rigid, potentially inefficient action pattern arising from the unintended consequences of previous decisions and positive feedback processes (Sydow et al., 2009, p. 696). Triangulating quotes from FirmD interviewees shows little urgency to rely on anything but ordinary capabilities.

'Decision-making has always been very ad hoc and not as terribly strategic as it could be. Part of that is because we have an ageing partner base who are thinking "I won't be here in ten years — I don't really care. I just want to make a bit of money before I have to hang up my boots." '(D1)

'We do what we need to do. I imagine that people could say well we should be more strategic, and we should be having hours in front of a blackboard. But by and large we're lawyers because we like being lawyers.' (D2)

As the partnership is a collective of individuals, with different personal risk profiles, it can be equally disadvantageous for the development of seizing capabilities if the group has divergent appetites for risk. FirmA can navigate different risk profiles by valuing the diverse contributions to better decision-making. However, FirmC's ability to develop seizing capabilities was undermined when a large group of risk-averse partners became the majority at one point in time.

Culture

When considering the effect of culture on DC development, this study found that the tendency for people to avoid confrontation in preference to maintaining the group's collective position on an issue (Tripsas & Gavetti, 2000) had a significant effect on the ability to develop seizing capabilities. All four firms value collegiality within the partnerships, as consensus, democracy and buy-in are necessary hallmarks of partnerships as a control mechanism (Empson, 2007) for aligning behaviours. Several interviewees alluded to not necessarily agreeing with significant strategic decisions, but would not express concern due to the 'anything for peace' partnership philosophy. However, the desire to prioritise consensus above robust debate about investment proposals means discussion about unproductive capabilities is less likely and reinforces a status quo that inhibits firms' development of DCs. Furthermore, with only partners participating in idea

evaluation, the lack of diverse thinking that could come from more junior members of the firms or managers with different perceptions and skill-sets limits the quality of decision outcomes.

A strong internal orientation results in socialisation that takes current capabilities for granted, and prompts cognitive and emotional resistance to critical signals that point to the necessity to develop new capabilities (Schreyögg & Kliesch-Eberl, 2007). Firms in this study with strong internal orientations were less likely to develop seizing capabilities.

For instance, FirmD's default response to external events is often to point out the flaws and poor decision-making on the part of others, rather than reflect on the need to develop new capabilities. Factions within FirmA displayed this tendency too in response to the unsuccessful outcome of a procurement process. However, this was not a pattern of response that was generalised across the firm. Demonstrating little connection to the environment, FirmD sought to grow its client base based on:

'Which clients are most enthusiastic about us? What kind of clients should we seek? What kind of clients should we discourage or get rid of?' (FirmD Archive)

8.3.3 What mechanisms stimulate or inhibit the development of transforming capabilities?

It appears that the strength of firms' sensing and seizing capabilities affect the development of transforming capabilities. That is, when a firm identifies opportunities and has systems to enable efficient decision-making, building the transforming capabilities necessary to implement the change of the strategies seems to be easier.

TRANSFORMING

Stimuli shown in capital letters; Inhibitors in sentence case letters

L = leadership, LP = learning processes, C = culture, IS = integration skills, PD = path dependence

Figure 16: Summary of factors stimulating or inhibiting the development of transforming capabilities

8.3.3.1 *Stimuli*

Leadership

Strong leadership underpins the development of transforming capabilities, both in terms of direction and sustained commitment to a new path. The development of transforming capabilities in all cases was led by the most senior partner. The importance of top management is consistent with the literature, in that they are responsible for not only recognising the need and allocating resources, but also implementing the change necessary to embrace new opportunities (Teece, 2014a). Other less powerful partners were responsible for more incremental changes, but where significant investment was required (for instance in opening a new office), Managing Partners were responsible for giving this priority over a long period to shore up its survival.

The exception to the importance of the role of Managing Partner in building transforming capabilities was in FirmC, when the professional management — a CEO — assumed greater influence than the Managing Partner and picked up the mantle of pivoting the firm's focus to the local market. However, while the nuances of the role of Managing Partner and CEO are relevant in the professional services context, both roles fall within Teece's description of top management (Teece, 2007).

Further reflection on the study's findings suggests that one clear feature of the firms with more developed DCs was the presence of another, unconventional way of looking at strategy development. In this study, the combination of top management to own a strategy — to sell the vision, get buy-in and visibly lead with dedicated professional managers to grease the operational wheels of the transformation — gives firms a capabilities development advantage. The existence of professional management was brought in to supplement the conventional legal backgrounds of existing partners in these firms. In a PSF where the owners have responsibility for their own client bases and technical expertise, they have little appetite or expertise in elevating transforming capabilities to an organisational level. Given that Firms A, B and C recognised the need to move to a model where the management of the firm was separated from the governance of the partnership, effective management was able to codify learning generated through strategic activities in order to develop transforming DCs.

Learning processes

Firms that commit regular time and resources to strategic episodes are more likely to develop transforming capabilities. Strategic episodes are influential in providing the momentum necessary for the development of transforming capabilities, in that they provide a point in time to take stock

of transformational progress, and reflect and realign, if necessary. They often also provide a platform for idea champions to be held accountable to the group.

Given the primary asset of a PSF is the knowledge and skill of its people, it seems obvious that training must be a key mechanism by which it can change its resources. Yet understanding the limits of its own knowledge and seeking knowledge from outside its boundaries was a peculiar characteristic of FirmA in relation to the other cases in this study. FirmA stood out in that it invested in training its people to equip them with the marketing skills required to help realise its desired position in the market.

Path dependence

Similar to the effect of a natural disaster on building FirmB's seizing capabilities, a natural disaster was significantly influential in FirmD developing transforming capabilities.

FirmB's most evident transforming capabilities were triggered by the natural disaster that required a fight or flight response. It jolted the firm out of its internal orientation and, coupled with the thinking in its business continuity plan, allowed it to stay in business in the immediate aftermath and quickly rebuild. It was also able to develop new services to support its local community. The disaster could not be ignored, in contrast to more incremental environmental changes, and provided the undeniable momentum to build transforming capabilities.

8.3.3.2 Inhibitors

Leadership

Leadership that is unable to secure organisational buy-in to change is less likely to develop transforming capabilities.

FirmC's alliance with an overseas firm was an example of innovation and signaled sensing and seizing capabilities. But its transforming capabilities were at the individual managerial level, as the initiative was championed by an entrepreneurial partner. However, that same partner's commitment was not shared across the partnership or senior management and resources were eventually withdrawn, meaning the alliance was abandoned. This example shows the risk of failing to embed integrative and transformative capabilities at the organisational level — one enthusiast's work can be easily undone if not embedded into the firm's capabilities that will continue after that champion has left or where broad buy-in is needed for implementation.

An inhibitor to developing transforming capabilities not widely discussed in the DC literature, but evident in some of the cases, was the capability to know when to exit an investment even when the decision is well-recognised as being sub-optimal (Staw, 1984). All firms remained committed to ventures (as is necessary for a period) and resisted signals that exit was necessary. Despite FirmA's strong capabilities, its values of 'we are family' meant it continued to support a team well after the demand had peaked. It cost the firm financially and took several years to recover. FirmB suffered a similar economic loss and the distraction of a failing office that it persevered with well beyond what an objective investor would likely do. Such escalated commitment was partially due to the dent its reputation would take from being seen to fail in a market, but it may also have been a lack of willingness for robust discussion about the Managing Partner's pet project.

Culture

A striking feature of this study was the similarly low transforming capabilities across all firms. The homogeneous nature of partners of law firms, with homogeneous prior knowledge, meant little evidence of creative business models or significant transformation within any of the firms. As mentioned earlier, the relatively low dynamism of the environment that these firms operate in has not forced them to build DCs to survive. In the practice of law, there are often counter-cycles that mean law firms thrive providing services such as insolvency when its market is under economic pressure, but it also thrives in mergers and acquisitions when the economy is buoyant, which creates confidence that the business will continue to do well despite its environment. Given the success of these firms for decades, and in some cases across centuries, there was no burning platform for transformation. The lack of input of objective information about clients' needs, little routinised access to external information and not much curiosity about them, renders law firms prone to reinforcing what they have always done rather than reinventing themselves to match the needs of a dynamic market.

8.4 Are some stimuli or inhibitors more influential than others?

To date, few scholars other than Helfat and Peteraf (2014) have brought together Teece's framework with the specific antecedents that are influential in developing each class of DC. Helfat et al. (2007) map how an individual manager's cognitive capabilities underpin dynamic managerial capabilities for the classes of sensing, seizing and transforming. They acknowledge the likelihood that some cognitive capabilities play a role in more than one class, but do not elaborate on the interrelationships underpinning more than one class. Fainshmidt and Frazier (2017) tested the relationship between a 'climate for trust' and each of Teece's classes of capabilities, and found it

has a positive and significant effect on the development of each of the capabilities, with a slightly weaker effect on seizing capabilities.

However, this study found that some mechanisms are more influential than others because they affect the development of more than one class of DC. Other mechanisms underpin the development of only one of Teece's (2007) sensing, seizing or transforming capabilities. The most influential mechanisms are shown in the centre of the Venn diagram here and are discussed below it.

Stimuli shown in capital letters; Inhibitors in sentence case letters

L = leadership, LP = learning processes, C = culture, IS = integration skills, PD = path dependence

Figure 17: Summary of mechanisms stimulating or inhibiting the development of DCs

Leadership that fosters entrepreneurial activities appears to underpin the development of all three categories of DCs. Strong entrepreneurial leadership determines whether the firm needs to monitor trends in the environment, exploitative or explorative search routines, overlays his or her own framing of problems or opportunities, leverages their political clout for support on a path and provides the momentum for change. Entrepreneurial management is distinct from other

managerial activity in that it is primarily concerned with 'figuring out the next big opportunity and how to address it' (Teece, 2007, p. 1346), rather than analysing or optimising existing operations.

Analysis of these cases uncovers that regular strategic episodes promote and develop sensing, seizing and transforming capabilities. In a partnership context, offsite retreats, complemented by more regular meetings and discussion, point to a valuing and prioritising time for market analysis, group decision processes, reflection, review and planning. Linked to strategic episodes is having dedicated employees who are responsible for preparing, organising, documenting and implementing plans that emerge from such forums.

In the case of PSFs, employing professional managers ensures the active development of sensing, seizing and transforming capabilities. Having the 'manpower' to embed processes and implement change plans matters. Firms A to C had employed professional managers, which provided the impetus to implement the strategy agreed by the partners.

Not well-explored in the literature is the role of culture as an antecedent of DC development, but this study found that the firm with a culture distinct from other firms in the profession gave it an important advantage. In this case, whereas most firms began with a non-commercial dominant logic, the firm that had entrepreneurial leadership before 1985 adopted a culture that made it considerably more open to outside knowledge, collaboration, risk and experimentation. It knew that it would not achieve its goals by relying on ordinary capabilities. That culture meant it had a baseline receptivity to DC generation that was absent in the other firms.

Inhibitors of DC development varied more between sensing, seizing and transforming capabilities, but shared a centralised, non-participative culture holding back the development of all classes of DCs. Sensing capabilities benefit from: the wide and non-hierarchical involvement of all staff in detecting changes in the environment; the involvement of a diverse group with the ability to overcome decision biases, generating seizing capabilities; and having firm-wide buy-in to transforming to underpin the development of transforming capabilities.

8.5 Theoretical insights

The aim of this research was to explore how firms develop DCs and uncover the similarities and differences in development across a relatively homogeneous group of firms. The empirical findings help extend DC theory, and in particular progress discussion of Teece's (2007) DC

framework and the processes that support the development of sensing, seizing and transforming capabilities.

8.5.1 Definitions of DCs

Table 1 in chapter three cites important DC scholars' definitions of DCs and shows similarities and differences in aspects of the definitions including what DCs change, how they change, why they change, who enacts the change and what triggers DCs. This section compares the findings of this empirical study with DC theory.

8.5.1.1 *What do DCs change?*

Section 3.1.1 discusses definitions of what DCs should work to change. Most post-2007 definitions describe resources as the object of action (Ambrosini & Bowman, 2009; Helfat et al., 2007; Leih et al., 2014; Wang & Ahmed, 2007). 'Resources' are generally defined as VRIN assets, which encompass physical, human and organisational assets. However, Zahra et al. (2006) offer a broader interpretation that includes both resources and routines. Routines, they argue, form the foundation of firms' knowledge bases and their capacity to change routines underpins DC development.

Zahra et al.'s definition resonates with the findings of this study in that both resources (for example, FirmB's capabilities in opening an office in a geographic location) and routines (for example, FirmA's diligence processes for assessing acquisition targets) are fundamentally renewed through the development of DCs.

8.5.1.2 *How do DCs change these objects?*

Key definitions published before 2007 focus on the actions of modification, reconfiguration and renewal (Eisenhardt & Martin, 2000; Helfat et al., 2007; Teece, 2007; Teece et al., 1997; Wang & Ahmed, 2007). Later definitions such as Ambrosini and Bowman (2009), and Helfat and Winter (2011), state that DCs enable a firm to alter or change how it currently makes a living. These broader definitions are a better reflection of the DCs identified in this research in both the quantum of the change and the exact nature of the change. For instance, FirmB's deployment of DCs to respond to the natural disaster changed most aspects of its business — from physical assets to decision-making processes. Limiting the change to reconfiguration, modification and renewal activities fails to recognise the breadth and complexity of the response.

Although the creating and building elements of earlier definitions fell out of favour with scholars after 2007, firms demonstrating DCs in this study deployed them to build new client bases, and

create new services and synergies through acquisitions. Therefore, the conclusion is that the DCs build and change resources and routines.

8.5.1.3 Why deploy DCs to change?

The literature does not present a unified view about whether DCs' primary objectives are to deliver sustainable competitive advantage, achieve a strategic purpose or facilitate changes in response to the external environment (Di Stefano et al., 2014). The body of literature is marginally weighted towards providing competitive advantage and responding to the needs of the market (Leih et al., 2014; Wang & Ahmed, 2007).

However, as will be discussed in section 8.5.5 about triggers for DCs, the data in this study correlates to Ambrosini and Bowman's (2009) work, which argues they are deployed to intentionally achieve a specific change to the resource base. The cases in this study were motivated more by their ambitions to change and grow, rather than responding to environmental change or the changing needs of the market. None of the cases exhibited a drive to achieve competitive advantage through DCs or any other means. They credited their performance more to ordinary capabilities, such as quality of work, rather than the ability to recognise and pursue opportunities in innovative and effective ways.

8.5.1.4 Who enacts the change?

The literature is not unified about whether the manager or the organisation is the primary agent of DCs. However, content analysis shows scholars generally favour organisations in the pivotal role (Di Stefano et al., 2014), which is consistent with definitions by Teece et al. (1997), Eisenhardt and Martin (2000), Zollo and Winter (2002), Helfat et al (2007), and Helfat and Martin (2011). Taking the contrasting stance, Zahra et al. (2006) argue that principal decision-makers' perceptions and opinions constrain or enable the firm's use of DCs, and Teece et al. (2016) is explicit that managerial choice must be the focus of any robust discussion about DCs.

This study supports the argument that top management determines the fit of the firm with its environment through interpretation, decisions and strategic actions. In all cases, the strong influence of top management on the development (or inhibition) of DCs was unequivocal. Distinctive capabilities were unlikely to become embedded as organisational-level processes without sustained support from top management.

Table 33 summarises the conclusions of this thesis relating to the ambiguity in key definitions presented in section 3.1 of this thesis.

What is changed?	How changed?	Why change?	Who enacts the changes?	What triggers DCs?
Resources and routines	Build and change	To achieve a strategic goal	Top management	Internal ambitions, response to economic changes, natural disaster

Table 33: Conclusions relating to key DC definitions

8.5.2 Reinterpreting the visualisation of Teece's framework

Teece's framework suggests a sequential, linear progression of routines (Feiler & Teece, 2014; Teece, 2014a) clustered into distinctive bundles of sensing, seizing and transforming activities. The horizontal and compartmentalised visualisation of the three classes of DCs presented by Teece (2007, p. 1342) and unquestioningly reinforced in the DC literature shows distinct bundles of micro-foundations and skills, and implies an equally distinct sets of antecedents. The risk of separating DCs into three separate classes is that it implies the possibility that a firm may possess one or two classes of DCs in isolation. For a firm to achieve the goal of building and changing its resources and routines to achieve a strategic goal, it is necessary to possess capabilities in all classes.

Figure 18: Visualisation of Teece's (2007) sensing, seizing and transforming framework

However, a conclusion from this research is that Teece's three classes interrelate and there is a core of stimuli (and inhibitors) that cut across all three categories, as shown in Figure 17. For a firm to possess strong DCs, it must possess capabilities in all classes. This argument is logical in that the utility of having strong sensing capabilities, for example, without the complementary capabilities of sensing and transforming, is unlikely to deliver the type of performance benefits

discussed in the literature. Therefore, this research proposes adopting the following visualisation of Teece's typology.

Figure 19: New visualisation of Teece's (2007) DC framework

8.5.3 A typology of antecedents

Most literature discusses the broad categories of antecedents and enablers and the linkage to how DCs develop without breaking the analysis down to a granular level. The literature suggests three primary foundational capabilities that help firms develop DCs: learning, leadership, and integrative capabilities (Easterby-Smith & Prieto, 2008; Jiang, 2014; Ma et al., 2015; Zollo & Winter, 2002). In addition to these capabilities, the firm's path — its investments and routines — shape the trajectory of its future behaviours and choices (Teece et al., 1997). A firm's culture underpins the development of DCs in that it facilitates adaptability or provides a barrier to change (Lucas & Goh, 2009a) (Fainshmidt & Frazier, 2017).

As this research identified the mechanisms related to each broad category of antecedents, it was able to analyse the relative weightings of the broader categories, as shown in Table 4, and identify that not all antecedents have equal influence in developing DCs. This research presents a hierarchy of antecedents determined by whether they stimulate (or inhibit) the third, second or first class of activities.

Figure 20: Hierarchy of antecedents

Leadership and culture encompass most of the mechanisms stimulating the development of DCs (for instance, entrepreneurial leadership, risk-tolerant culture). Although much of the literature, including Teece (2016), credits leadership as a core element of DCs, this study suggests that leadership in general and entrepreneurial leadership in particular may be the most influential determinants of whether firms are able to develop them. Culture plays an important but secondary role, in that it creates an environment in which DCs are likely to be nurtured and embedded.

Proponents of learning and integrative capabilities as antecedents to DC development suggest that in isolation these mechanisms can lead to the development of capabilities. Even Teece et al. (1997) claim that learning mechanisms can lead to the development of DCs in that they enable a

firm to recognise dysfunctional routines and challenge tunnel vision. Zollo and Winter (2002) outline learning mechanisms that they argue allow firms to capture, review and improve their embedded routines as micro-foundations of DC development. Similarly, scholars suggest that integrative capabilities underpin DC development because they neutralise fear of change (Zahra et al., 2006), and enable a firm to recognise external knowledge outside its boundaries and combine with its internal knowledge stock (Cohen & Levinthal, 1990).

However, this thesis challenges the assertion that either learning or integrative capabilities are likely to be present in a firm unless the leadership supports such capabilities and the culture reinforces a learning and integration mindset. It is possible that neither is likely to emerge independently of, or in contrast to, cultural values. FirmD, as the case with under-developed DCs, demonstrates this point. Its longstanding leaders shared a paradigm that the firm performs well by focusing on the day-to-day operations of servicing its clients. Without a fundamental shift in this mindset, it is difficult to see how the rest of the firm could independently develop a learning orientation or see value in learning from outside its boundaries.

Table 34 summarises the mechanisms that this research suggests map to each category of antecedent, including both stimuli (shown in bold capital letters) and inhibitors (shown in sentence case).

Leadership	Learning processes	Culture	Path dependence	Learning processes	Integration skills
<ul style="list-style-type: none">• Use of decision tools and financial modelling• Combination of top management vision and implementation resource• Stage-gate decision-making systems• Strong entrepreneurial leadership and values• Perception of low environmental dynamism• Lack of top management ability to get buy-in• Centralised non-participative culture• Escalated commitment	<ul style="list-style-type: none">• Regular strategic episodes• Collaborative capability• Ad hoc 'sensing' based on dominant individuals' intuition• Exploitative search limited to geographic expansion	<ul style="list-style-type: none">• Leadership that supports experimentation• Consensus valued above robust debate• High internal orientation	<ul style="list-style-type: none">• Catastrophic external event• Risk-tolerant culture and values• Catastrophic external event• Absence of adaptive values• Low-risk tolerance based on previous failures• Absence of non-dominant skills and knowledge• Bounded search strategies	<ul style="list-style-type: none">• Collaborative capability• Facilitated by professional business managers	

Key: Bold = Stimuli, Normal = Inhibitors

Table 34: Mechanisms underpinning each category of antecedent

8.5.4 Rigidities actively work to inhibit the emergence of DCs

The literature has not yet addressed the specific rigidities that may inhibit the emergence of DCs, even though Leonard-Barton is clear that core rigidities are not neutral but 'actively create problems' (Leonard-Barton, 1992, p. 118). Rigidities actively work to resist change and prevent the development of new products and processes (Delmas, 2002) and constrain adaptation, even when faced with the threat of discontinuous change (Gilbert, 2005).

The findings of this study support the argument that rigidities actively stifle the development of DCs. All cases demonstrated some inhibiting mechanisms, but the determining factor as to whether a firm could overcome the drag caused by inhibitors pointed to entrepreneurial leadership.

Specific inhibitors identified in this study include: (i) centralised strategy development and non-participative culture; (ii) a high internal orientation; (iii) a lack of diversity of thought due to the low status of those with non-dominant skills (i.e. non-lawyers in the context of this study); (iv) an ad hoc and intuitive interpretation of trends; (v) the leadership's perception of low environmental dynamism; (vi) escalated commitment; and (vii) long-term governance.

It should be noted that the catalogue of inhibitors suggests that inhibitors may be contextualised to the industry or environment in which firms operate, but nevertheless provide signposts for other firms to be aware of.

8.5.5 Triggers most effective when macro

External factors that act to trigger DCs include turbulence in institutional, industry, market, or technological factors in a firm's context, according to Donada et al. (2016). However, a surprising finding of this research was the weak effect of industry-specific events or problems on triggering the case study firms' development of DCs.

Although internal motivations and strategies were found to be the strongest triggers of DC development, changes that reached beyond the industry were also found to have a triggering effect. Environmental changes such as recession, or a natural disaster, prompt significant changes across a firm's entire ecosystem and are therefore difficult to ignore. Adner (2017, p. 14) defines the business ecosystem as 'the alignment structure of the multilateral set of partners that need to interact in order for a focal value proposition to materialize'. In the context of this study, the ecosystem therefore includes, clients, staff, suppliers, courts and government.

8.5.6 PSFs can possess DCs

While most empirical studies on DCs have focused on manufacturing companies, this study was conducted among law firms as archetypical PSFs (Von Nordenflycht, 2010). Given that DCs are acknowledged as important for organisational renewal, there is a surprisingly small body of literature of DCs in the PSF context, particularly as PSFs' services and advice are critical enablers of economic growth.

This study contributes to the limited existing body of literature by highlighting that while structural consequences of PSFs may give rise to isomorphism and inertia, PSFs with specific characteristics are able to build and deploy DCs to ensure their ongoing survival.

9 Conclusions

'The Future

I live in a time of change

I am open to change in the way which I operate at FirmA.'

(FirmA Archive)

This chapter refers back to the purpose of this research and the questions it set out to address. After summarising the conclusion in respect to the research questions, this chapter offers other contributions to the DC and PSF management literature. It identifies several opportunities for future research that arise from this exploratory research and, importantly, attempts to translate the academic framework and findings in actions that managers can take to help stimulate, and overcome inhibitors to, DC development.

This study set out to answer the questions of how DCs emerge in practice and why firms might develop DCs differently under the same market conditions. These questions remain under-studied and respond to scholars' calls for longitudinal empirical studies to extend DC theory (Barrales-Molina et al., 2014; Easterby-Smith et al., 2009; Jantunen et al., 2018).

This thesis sought to understand these questions by studying the paths of four PSFs in New Zealand over three decades. Using a multi-case longitudinal study design and thematic analysis, this research applied Teece's (2007) ubiquitous framework of sensing, seizing and transforming capabilities to identify first the presence of DCs within each of case, before exploring the idiosyncratic stimuli and inhibitors influencing the emergence of such capabilities. Although the DC framework has been criticised for being difficult to use empirically (Easterby-Smith et al., 2009), this study settled on the operationalisation of Teece's (2007) sensing, seizing and transforming framework to draw comparisons between the case studies. Teece's framework was chosen because it not only brings together many elements of the most cited definitions of DCs (Jantunen et al., 2012), but it also offers a granular and practical bundle of practices that make up each class of DC.

9.1 Why was this research important?

According to Teece et al. (1997, p. 515), differences in firms' abilities to 'renew competences so as to achieve congruence with the changing business environment' can be explained by differences in DCs. Consequently, the study of DCs has become an active field of research in the strategic management literature (Hodgkinson & Healey, 2011) as scholars seek to reach consensus on the definition, theory and model of DCs (Barrales-Molina et al., 2013). Debate on critical aspects of DCs, such as what DCs change, how they change, who enacts the change and the motive for deploying DCs, could benefit from insights rendered from empirical work (Di Stefano et al., 2014).

The questions of how DCs can be developed over time (Ambrosini & Bowman, 2009; Easterby-Smith et al., 2009), and whether their emergence differs across firms operating in the same industry (Jantunen et al., 2012), remains mostly unanswered. While Zahra et al. (2006) were among the first scholars to separate DCs from their antecedents and outcomes, a coherent framework has yet to emerge that groups the literature into a typology of antecedents. Furthermore, few empirical studies have addressed the relative triggering effect of external or internal factors (T. Eriksson, 2014), which are vital to the deployment of DCs.

There is little scholarly evidence of the mechanisms that managers could use to stimulate the development of DCs, or the corollary — to identify the mechanisms that inhibit their emergence. Although rigidities are understood at a conceptual level (Leonard-Barton, 1992), the literature is skewed towards building a body of knowledge about the evidence of DCs rather than seeking a deeper understanding of the mechanisms that may hold back firms from developing them in the first place.

This study is one of the first attempts to address these gaps in the literature while investigating the extent to which the DC framework transfers into PSFs. This thesis aimed to respond to scholars' calls to explore these questions by studying how firms developed DCs over time in a comparative setting.

The study, therefore, contributes to the empirical exploration and operationalisation of Teece's (2007) conceptual typology of DCs.

9.2 Research questions and answers

The primary contributions of this research relate to how PSFs develop DCs differently when operating in the same market and under similar conditions. The following discussion outlines how the findings answer the research questions set out in chapter one of this thesis.

9.2.1 How do PSFs develop DCs?

This study aimed to explore the development and heterogeneity of DC development within PSFs. The empirical findings suggest that PSFs do develop DCs, supported by evidence of all three classes of DCs within the case study firms. Of the four cases, one firm had strong DCs across Teece's three classes, two had moderate DCs across the classes, and one demonstrated weak-to-absent DCs.

This empirical study found that the most potent triggers were internal, given the identical market conditions that the case study firms operated within. Firms were most motivated to develop DCs at the point when the firm (and it/or its dominant leader) perceived that it must act to address a problem or achieve a strategic goal. Internal triggers for DC development were primarily idiosyncratic and variable in strength and success.

For external triggers to provide an impetus for the development of DCs, the trigger event needed to be high-profile, time-bound and occur at a macro-economic level. Firms were more motivated to develop DCs when significant changes affected their entire ecosystem than when changes touched only a single element contained within the industry.

This research explored the antecedents to DC development and argues that the antecedents identified in the literature and in this thesis do not contribute equally to the emergence of DCs. In fact, within the context of this study, a hierarchy of antecedents was determined by whether they inhibit or stimulate one, two or three classes of Teece's DCs. As shown in Figure 20, this thesis concludes the following hierarchy of antecedents determined by whether they stimulate: i) entrepreneurial leadership; ii) a supportive organisational culture; iii) a path that includes successful transformation; iv) an openness to learning inside and outside its boundaries; and v) an ability to integrate new knowledge.

It must be acknowledged, however, that this hierarchy may differ for firms in different contexts.

9.2.2 What similarities and differences are there in the ways that PSFs develop DCs from what is expressed in the literature?

The findings of this study align with the scholarly work that argues the importance of leadership and top management in the successful development of DCs (P. Jarzabkowski, 2005; Teece, 2016; Teece et al., 1997). The vital role of firms' unique evolutionary paths in their ability to develop DCs (Eisenhardt & Martin, 2000; Schreyögg & Kliesch-Eberl, 2007; Teece et al., 1997) is also consistent with the findings of this research.

However, two broad categories of antecedents are promoted as necessary in the literature, which emphasises learning and integrative capabilities as central mechanisms that lead to DC development (Eisenhardt & Martin, 2000; Jiang, 2014; Teece et al., 1997; Wang & Ahmed, 2007; Zollo & Winter, 2002). Even Teece et al. (1997) claim that learning mechanisms can lead to the development of DCs, in that they enable a firm to recognise dysfunctional routines and challenge tunnel vision. Zollo and Winter (2002) outline learning mechanisms that they argue allow firms to capture, review and improve their embedded routines as micro-foundations of DC development. Similarly, scholars suggest that integrative capabilities underpin DC development because they neutralise fear of change (Zahra et al., 2006), and enable a firm to recognise the external knowledge outside its boundaries and combine it with the firm's internal knowledge stock (Cohen & Levinthal, 1990).

However, the findings of this thesis suggest that neither learning nor integrative capabilities are likely to be present in a firm *unless* the leadership supports such capabilities and the culture reinforces a learning and integration mindset. Neither learning nor integration capabilities are likely to emerge independently of, or in contrast to, cultural values. This finding supports conceptual work that places managers' perceptions and leadership as central to firms' development and deployment of DCs (Ambrosini & Bowman, 2009; Zahra et al., 2006).

Although recently scholars have acknowledged the role of culture as underpinning DC development (Fainshmidt & Frazier, 2017; Lucas & Goh, 2009a; Schoemaker et al., 2018; Wilden et al., 2016), the literature is limited and primarily conceptual. A finding of this study is that a distinctive culture, and particularly the presence of an external orientation over a strongly internal orientation, may give firms an advantage in developing DCs. The relative strength of culture as an antecedent to the emergence of DCs has diverged from the expectation set by the current body of scholarship.

As mentioned earlier, the literature does not offer a well-developed typology of antecedents to DC development and therefore does not acknowledge that such antecedents may be hierarchically based on their contribution to multiple classes of DCs. That such a hierarchy may be present is an important finding of this research.

9.2.3 Do firms operating in the same market and under similar conditions follow different DC development paths?

The findings of this research suggest that firms do follow different DC development paths. The main reason for the differences tends to be different internal triggers and the strong influence of individual leaders within the context of each firm's unique culture.

Given the centrality of leadership as enabling or inhibiting the development of DCs, the different outlooks and capabilities of leaders matters. This research confirms that strong leaders with an entrepreneurial outlook can build the culture that supports the development of DCs and the specific mechanisms required to build capabilities.

Leaders also have the influence to choose to employ and empower the professional managers whose backgrounds supplement the conventional legal backgrounds of existing partners in these firms. In a PSF where the owners have responsibility for their client bases and technical expertise, they sometimes have little appetite or expertise in elevating learning to an organisational level. The management structure of the firm, and whether it facilitates the existence of a plurality of perspectives, is a factor in the emergence of DCs, but is a result of top leadership choices.

Relatedly, each firm's appetite and tolerance for risk varies, which affects the extent of their sensing capabilities and the speed of their seizing capabilities. A firm's risk profile, as determined by its idiosyncratic paths and values, predisposes the firms to develop DCs in the first place. The value of seizing capabilities is influenced by the strength of sensing capabilities — in a vacuum of environmental intelligence, seizing and transforming capabilities have limited utility. To develop seizing capabilities, the firm must have sensed enough information to trigger seizing and transformation capabilities.

The corollary is that leaders with an internal focus, or who perceive nothing 'other than around the peripheral is going to change' (D3), may fatally inhibit a firm's ability to develop

DCs. In the context of PSFs, the implication is that its choice of Managing Partners is not to be taken lightly.

9.2.4 What factors influence similarities and differences?

Mapping to the broad categories of antecedents mentioned earlier are specific mechanisms that may stimulate or inhibit the development of DCs.

Similarities between the mechanisms that inhibit the development of DCs were marked. For instance, common among inhibitors were the high internal orientation, low learning capabilities, perception of low environmental dynamism and exploitative search strategies. The basis of similarities may be rooted in institutional isomorphism, as described in chapter six. For PSFs, more than for firms led by managers with more diverse academic backgrounds (DiMaggio & Powell, 1983), the common education of a group of professionals, coupled with the normative rules of their professional organisations, produces 'a pool of interchangeable individuals' (DiMaggio & Powell, 1983, p. 152). Consequently, the similar cognitive frames and dispositions mean they tend to view problems in the same way, see certain organisational solutions as normatively sanctioned and approach decisions relatively homogenously (Ibid).

Firms led by leaders with entrepreneurial cognitive frames that vary from their competitors' more mainstream professional peers appeared more able to create cultures that support risk, and are more likely to value and embed regular strategic episodes that facilitate sensing, seizing and transforming DCs. Such leaders were also influential in employing professional managers who provide the operational capabilities to embed processes and implement change over time. Identifying these mechanisms as stimuli provides empirical evidence that supports the promotion of these characteristics for firms seeking to improve their DC development.

9.2.5 Other findings

The literature has not explored in depth the mechanisms that may actively stifle the emergence of DCs. This study found that such inhibitors were evident within all case study firms, although they were moderated to a greater or lesser extent by the presence of stimulating mechanisms. This study found that rigidities *actively* work to inhibit the development of DCs, even in the face of significant change, which aligns with some conceptual arguments, but is not well-developed in the literature (Delmas, 2002; Gilbert, 2005; Leonard-Barton, 1992). As presented in section 4.5, inhibitors may fall into three categories —

the 'absence of' a necessary antecedent such as an embodied entrepreneurial value (Dimitratos et al., 2009); the 'presence of' a rigidity such as an opportunistic and reactive management style (Baden-Fuller & Volberda, 2003), or the lock-in of a routine such as managerial incentives and rewards (Lucas & Goh, 2009a) that encourage specific behaviours. Some of the specific inhibiting mechanisms may be contextualised to the industry or environment such as organisational structures that are highly centralised and non-participative, but other rigidities such as escalated commitment may be more generalised.

While DC scholars generally agree that learning is central to understanding environmental dynamics (Zollo & Singh, 2004), to adapt managerial mindsets and build commitment to change (Zollo et al., 2016), a surprising finding of this research was the low level of learning capabilities evident across the case studies. Except for the exemplar, FirmA, other firms' individual partners' experience and intuition fuelled examination and pursuit of opportunities — usually in the absence of any formal objective research validating a market opportunity. The problem concerning the development of DCs does not relate to the use of intuition *per se*, but more the over-reliance on intuition in favour of routines that underpin sensing capabilities. As intuition is embedded within an individual's cognition, it is mobile and cannot become 'deeply baked into an organisation's culture' (Schoemaker et al., 2018), which is a necessary condition of a DC. Furthermore, most firms provided scant evidence of conscious articulation and codification of knowledge that would allow them to review and improve their embedded routines. The relatively low level of learning capabilities at the organisational level may suggest a structural or systemic barrier to learning exists within some types of PSFs.

Further reflection on the study's findings suggests that one noticeable feature of the firms with more developed DCs was the presence of another, unconventional way of looking at strategy development. In this instance, it was the existence of professional management brought in to supplement the conventional legal backgrounds of existing partners in these firms. In a PSF where the owners have responsibility for their client bases and technical expertise, they have little appetite or expertise in elevating learning to an organisational level. Given that Firms A, B and C recognised the need to move to a model where the management of the firm was separated from the governance of the partnership, effective management was able to codify learning generated through strategic activities in order to develop DCs. The flip-side of this is that firms with one dominant logic become less dynamic, as evidenced by FirmD whose mindset about growth, diversification and innovation opportunities for its business are secondary to its day-to-day relationships with clients. This mindset evolved from

the current partners' predecessors and its healthy financial performance, despite its relative insularity and locked-in routines. Therefore, the leadership and culture of the firm, and whether they facilitate the existence of a plurality of perspectives, is a factor in the emergence of DCs.

9.3 Contributions

The primary contribution of this thesis is the empirical findings showing how firms develop DCs differently over time. The following section summarises where the findings support or diverge from the DC literature.

9.3.1 Summary of contributions to DC management theory

9.3.1.1 *Similarities and differences in the presence of DCs*

Yaniv (2011, p. 590) argues that 'a theoretical construct has no value if it is not reducible to specific observations'. Therefore, the ability to draw conclusions from this data relied on the sound operationalisation of Teece's DC construct at the analytical stage of the study. The crux of identifying DCs comes from the researcher's distinction between ordinary and DCs, despite the line between being 'unavoidably blurry' (Helfat & Winter, 2011). Further compartmentalising of the operationalised DCs into Teece's sensing, seizing and transforming framework presents an additional challenge for researchers. The coding guide that was applied to both primary and secondary data in this study provided a common basis for comparing the presence of DCs and enabled theoretical insight into the similarities and differences in the presence of DCs within the cases.

This study shed light on the practices and mechanisms evident in four cases finding commonalities, particularly in firms' sensing capabilities more than the idiosyncratic mechanisms under-girding seizing and transforming capabilities. The similarity of the cases and contexts provided robust grounds for comparing the presence of DCs and supports the contribution, based on sound empirical evidence, that firms in a comparative setting do differ in their ability to deploy DCs in response to new opportunities or market changes.

Similarities in sensing capabilities were found across cases and included primarily exploitative search routines skewed towards intuitive sensing. These depended on the power of the person sensing, with differences related to the extent to which the firm had an outward-

looking orientation, top managers' perception of environmental dynamism, as well as how regular strategic planning helped facilitate sensing.

Seizing capabilities were more idiosyncratic across cases, but similarities included using a form of stage-gate process to aid decision-making, the use of SWOT analysis and the role of a person's power in influencing decision processes and outcomes, and exclusion of employees from sensing routines. Differences related to the creative ability of case study firms to develop innovative products or design business models. Where creativity was exhibited, it stemmed from individual champions who were supported by a culture of experimentation.

Transforming capabilities appeared to be weakest across the cases. Similarities included using annual strategic planning to reflect and adjust course, if necessary, and the importance of professional managers in facilitating transforming routines — differences related to the readiness of the firm's culture to embrace change.

9.3.1.2 Triggers for developing DCs

Most conceptual literature argues that external factors primarily act as triggers for the development of DCs (Eisenhardt & Martin, 2000; Zollo & Winter, 2002) and that environmental volatility is an important contextual variable in firms' decisions to deploy DCs (Teece, 2007; Wang & Ahmed, 2004). Despite conceptual studies identifying the categories of external factors that trigger DCs, external factors are not explicitly addressed in empirical studies, according to Donada et al. (2016). Few empirical studies have addressed the relative triggering effects of internal or external factors (T. Eriksson, 2014), although some studies emphasise managers' entrepreneurial orientation as influential in the development of DCs (Boccardelli & Magnusson, 2006; Bowman & Ambrosini, 2000).

The findings of this study help address this absence of empirical studies exploring both the triggering effects for DCs and specifically the role played by internal motivations and managers' perceptions of their firms' strengths and weaknesses. The prevalence in this study of firms' internal ambitions providing the greatest motivation for developing DCs, at least within an environment of low-to-moderate dynamism, extends the understanding of triggers for DCs. Firms were most motivated to develop DCs at the point when the firm (and/or its dominant leader) perceived that it must act to address a problem or achieve a strategic goal.

For external triggers to provide an impetus for the development of DCs, the trigger event needed to be high-profile, timebound and occur at a macro-economic level, such as a domestic or international economic recession. Firms were more motivated to develop DCs when significant changes affected their entire ecosystem than when they touched only a single element contained within the industry.

9.3.1.3 A typology of antecedents mapped to Teece's DC framework

Despite scholars' high interest in the origins of DCs, few studies examine the interactions between different antecedents and whether some antecedents matter more than others (Schilke et al., 2018). Most literature focuses the analysis on a single antecedent, missing the opportunity to compare and contrast various antecedents' relative effects on the development of DCs. Conceptual literature draws together themes about antecedents to DC development (Ambrosini & Bowman, 2009; Easterby-Smith & Prieto, 2008; Teece et al., 1997; Zollo & Winter, 2002), but does not offer a unified typology of antecedents that affect the emergence of DCs.

This study, therefore, contributes to the literature by identifying the presence and influence of multiple antecedents in each case and concluding that not all broad categories of antecedents have the same influence in developing DCs. A novel finding is that a hierarchy of antecedents may be determined by whether they stimulate (or inhibit) three, two or one class(es) of Teece's sensing, seizing and transforming capabilities. As mapped in section 8.5.3, the hierarchy of broad categories of antecedents evident in this study follows i) leadership; ii) culture; iii) path dependence; iv) learning processes; and v) integration skills. Entrepreneurial leadership and an innovative culture encompass most of the mechanisms that stimulate the development of DCs according to this study and provide the foundation for other antecedents to flourish.

Few scholars other than Helfat and Martin (2014) have explored the link between specific antecedents and Teece's sensing, seizing, and transforming framework (Teece, 2007). In contrast, this study analysed not only the broad categories of antecedents, but also linked the specific mechanisms in each class to Teece's framework to extend the DC literature. The most influential mechanisms affecting the emergence of DCs include (i) strong entrepreneurial leadership; (ii) regular strategic episodes; and (iii) risk-tolerant culture as influenced by previous successes.

In relation to this point, this study challenges the utility of focusing on a single antecedent, as the data suggests it is unlikely that only one antecedent will lead to the development of DCs. For instance, although the hierarchy of antecedents may be contextualised to the industry in which a firm operates, the findings of this study contrast with the widely discussed conceptual assertion that learning and integrative capabilities are the cornerstone antecedents of DC development (Easterby-Smith & Prieto, 2008; Zollo & Winter, 2002). Leadership and culture determine the likelihood of these secondary mechanisms being present. Leaders that do not place value on reflection or codification of knowledge, for instance, have the political power to undermine others' efforts to do so. The more in-depth exploration of the relationship between leadership and DCs responds to Schilke et al.'s (2018) call for research to elucidate such unexplored, yet important, antecedents.

9.3.1.4 The relevance of DCs in the PSF context

This study applied the DC framework in the PSF context, which is a relatively understudied but important industry. Limited work has been done to strengthen the theoretical foundation of PSF strategic management or contribute to existing, more general strategic management theory. PSF scholars have predominantly focused on building new theory (Skjølsvik, Perner, & Løwendahl, 2017), or on arguing that PSFs are different to other types of organisations and therefore difficult to apply traditional definitions and theories to (Greenwood et al., 2005). This research integrates the PSF context into extending mainstream strategic management through the lens of the DC construct to help address the lack of scholarly attention on the strategic management of PSFs.

A challenge for researchers is the difficulty in accessing PSFs for empirical studies because of their deeply private nature. Part of the novelty in this study lies in being able to gain insights to four PSFs through a multiple case study methodology, to conduct a comparative analysis. The empirical findings in this provide evidence of the presence of DCs in the PSF context and contribute to the progression of the DC framework from theory to empirical operationalisation. As the analysis went beyond categorising the presence of DCs into the specific stimuli or inhibitors of DC development, it deepens our understanding of idiosyncratic features and managerial challenges facing PSFs. For instance, the combination of a senior leader to own a strategy — to sell the vision, get buy-in and visibly lead — with dedicated professional managers to grease the operational wheels of the transformation gives PSFs an advantage in developing DCs.

9.3.1.5 *Visualisation of Teece's 2007 framework*

Teece's framework suggests a sequential, linear progression of routines (Feiler & Teece, 2014; Teece, 2014a) clustered into distinctive bundles of sensing, seizing and transforming activities.

A further conclusion is to propose a new visualisation of Teece's framework (see Figure 19) that recognises the interrelated nature of sensing, seizing and transforming classes. For a firm to possess DCs, it must possess capabilities in all classes, and for a firm to achieve the goal of building and changing its resources and routines to achieve a strategic goal, it is necessary to develop capabilities in all classes simultaneously.

Deploying several capabilities together generates more shareholder value than focusing on one in isolation (Dranikoff, Koller, & Schneider, 2002). Bingham et al. (2015) conclude that concurrent learning of DCs is advantageous and may be facilitated by a specific corporate function such as a Programme Management Office and codified knowledge. However, the timing and concurrency of developing Teece's sensing, seizing and transformation classes of DCs require further exploration.

9.3.1.6 *Rigidities actively inhibit DC development*

There is general acceptance in the DC literature that core rigidities (Leonard-Barton, 1992) actively work to resist change and prevent the development of new products and processes (Delmas, 2002), and constrain adaptation, even when faced with the threat of discontinuous change (Gilbert, 2005). Although the DC literature does not extensively explore the mechanisms that act as barriers to DC development, this study confirms the argument that rigidities actively work to inhibit the development of DCs, even in the face of significant change. Some specific inhibiting mechanisms may be contextualised to the industry or environment (such as the isomorphism evident within professions), but other rigidities (such as escalated commitment) may be more generalised.

Inhibiting mechanisms affecting DC development include: (i) a centralised non-participative culture; (ii) a high internal orientation; (ii) top leadership's overriding drive for consensus; and (iii) the low status of dominant skills within PSFs.

9.3.2 *Contribution towards unified DC definitions*

Table 1 in chapter three cites important DC scholars' definitions of DCs and shows similarities and differences in aspects of the definitions, including what DCs change, how they change,

why they change, who enacts the change and what triggers DCs. Table 33 shows this study's conclusions in relation to the tensions in the literature.

The results of this study support elements of: Zahra et al.'s (2006) definition that argues that both routines and resources are renewed through the development of DCs; Helfat et al.'s (2007) argument that DCs create, extend or modify; Ambrosini and Bowman's (2009) argument that DCs are deployed intentionally to achieve a specific change; and Teece (2016) and Zahra et al.'s (2006) work that managerial choice, perceptions and opinions constrain or enable the firm's deployment of DCs.

9.4 Limitations

Limitations to the reliability and replicability of the findings exist within any interpretive research that draws on a variety of participants' constructions of reality. Exact replicability of results is unlikely if conducted by a different researcher, involving different participants, or even if data is collected at a different time (Schwartz-Shea, 2012). The subjectivity inherent in this research must be acknowledged, and in particular the researcher's interpretation through the lens of her subjective experience (Burrell & Morgan, 1979). The quality of this research and the truthfulness of the findings cannot be tested after completion of the study. The quality of the research must be validated ethically and substantively by the researcher's design and execution of the study (Leitch, Hill, & Harrison, 2010).

An obvious limitation of this research is the small sample size. Ideally, the study would have included at least six cases, but the intensely private nature of most PSFs (Von Nordenflycht, 2007) presented a challenge when recruiting participants. Despite the small sample size, Small (2009) argues that hypotheses based on cases studies are not seeking to be statistically sound, only providing logical inference. This is because narrative techniques assume that the reality is truthful for its creator, being shaped by his or her personal experiences, so whether the findings are empirical is 'conceptually senseless' (Small, 2009, p. 18).

A dilemma common in qualitative studies of capabilities (Laamanen & Wallin, 2009) is the operationalisation of the DC construct and therefore the interpretative nature of deciding whether a practice meets the threshold of the DC classification described in the literature. Adding a further layer of complexity in this study is that some antecedents, such as organisational learning, appear in the literature as an antecedent to DC development, a

mechanism of DCs and sometimes a consequence of DCs (Schilke et al. (2018). Therefore, while this study provides novel insights into both DC antecedents and mechanisms, a clearer delineation in the literature would benefit similar studies' replicability.

The data gathered and analysed for this study was retrospective, which presented two challenges. First, the interviewees were asked to remember events, decisions and actions covering a 30-year period, which risks 'retrospective bias' (Hassett & Paavilainen-Mäntymäki, 2013). Further, retrospective data collection is impacted by the experiences of respondents after the focal events.

As indicated in the methodology chapter of this thesis, the researcher asked each case site for access to archival secondary data to enrich the historic narrative. However, case study firms provided access to different quantities and different types of archival documents. One firm provided no documents, and in contrast, another firm provided access to extensive and meticulously recorded archival data. In order to achieve a more precise comparison of cases, it would have been useful to have had equal depth of data to draw from.

Exploring DCs in a PSF setting may limit the application of the findings to other industries. While this research contributes to the under-studied field of PSFs, its focus on law firms as archetypal PSFs limits its generalisability to even sub-sectors of professional services. As pointed out by Von Nordenflycht (2010), advertising agencies, executive recruiters and even universities are provided as examples of PSFs in the scholarly literature. It cannot be assumed that the findings of this study would be replicated across non-archetypal PSFs that do not share the requirements of knowledge intensity, a professionalised workforce and low capital intensity that are evident in law and accounting firms.

9.5 Implications for management

If firms want to develop DCs effectively, they should be aware that their ability to change at will and be dynamic and competitive in markets requires them to embrace and promote the stimuli and reduce the inhibitors to DC generation. The findings of this thesis illustrate that PSFs are capable of developing DCs and that they can build an advantage over competitors by recognising the importance of working on their businesses, rather than solely focusing on day-to-day client-facing activities. Although the temptation is to assume good work leads to good results, which has served many PSFs well in the past, positioning the firm to thrive for future generations requires different capabilities.

A challenge for DC theorists is to translate a somewhat elusive strategic management framework into an operationally meaningful concept for managers. To help address this challenge, this study provides guidance for managers about the relevance of building DCs and the mechanisms that stimulate or inhibit their development. Managers should be aware that their leadership choices are critical, as they enable or inhibit many ingredients necessary to build sensing, seizing and transforming capabilities, and the mechanisms that underpin each class. Firms that wish to develop DCs should focus on the mechanisms identified by this study as the 'sweet spot', as shown in Figure 17, including appointing entrepreneurial leaders to create a vision, set the direction of the culture and allocate resources to DC-enabling practices. Strong leaders can help create a risk-tolerant culture that assists in expanding search horizons and improves problem-solving and decision processes. Assuming the PSF business can financially justify the appointment of professional managers, they should do so in order to systematise, codify and embed routines and drive transforming activities. A specific practice that enables the development of all classes of DCs is to embrace annual strategic planning processes, supported by annual planning sessions that turn attention outwards, encourage ideas, facilitate debate, build accountability and support reflection.

However, managers should also be aware that forces exist that can undermine or inhibit a firm's ability to develop DCs. In a PSF, the traditional partnership structure, which excludes the diverse perspectives offered by staff and managers with different technical backgrounds, can limit the quality of sensing, seizing and transforming capabilities and lock a firm in on an unfavourable path that no longer serves its environment. The high internal orientation that was evident within some of the cases in this study suggest firms risk missing the signals that change is necessary, and unquestioningly reinforce outdated beliefs about the firm's relationship with its environment. However, consciously embracing diverse viewpoints within and outside the firm, and involving non-partners in major decisions, relevant information and alternative perspectives can improve the likelihood of developing strong DCs.

9.6 Areas for future research

It would be valuable to gain a deeper understanding of inhibitors of DC development. With the active scholarly interest in the positive aspects of DCs, such as the effect on firm performance, the absent exploration of barriers to developing DCs appears to be a significant weakness. For without first addressing at least the most influential inhibitors of DC development, it is difficult to see how firms can successfully develop DCs should they wish to

do so. DC scholars have focused to date on DC dimensions, mechanisms and outcomes that help build a deeper understanding of the construct, but less attention has been given to identifying the conditions and mechanisms that prevent DCs from flourishing. This thesis refers to 'rigidities' and 'inhibitors' interchangeably, however, further longitudinal and empirical research that clarifies the similarities and differences (if any) would be helpful.

One of the themes arising from this research was the role of organisational culture in enabling or inhibiting DCs to emerge. The results of this research highlight the importance of an organisational culture that values and facilitates risk-taking, is willing to challenge the status quo, forums and norms for robust debate, encouragement and inclusion of diverse points of view, openness and flexibility. An area worthy of deeper investigation is the tension between core cultural characteristics of PSFs, and partnerships in particular, and the adoption of values and norms that support the development of DCs. A deeper investigation of how the cultural characteristics of the PSF workforce (such as a preference for high autonomy, embodiment of a professional versus commercial ideology, and high regulation to maintain standards (Von Nordenflycht, 2010)), which are necessary for them to perform their core role, can be moderated to allow strategic flexibility and creativity necessary for development of DCs. would be helpful.

A further area for PSF scholars to explore is the seemingly low level of learning capabilities demonstrated by PSFs and their senior managers. While PSFs are characterised by above average knowledge workers with specific expertise, the reluctance to learn from others' expertise seems counter-intuitive and deeply ironic. Gaining an understanding of the barriers to learning behaviours would be a useful contribution to the PSF literature, and would be particularly useful as the DC construct gains attention from a practitioner audience.

9.7 Concluding statements

'FirmA had been led by a visionary and entrepreneurial partner who was the "driving force behind the growth of the firm in the 1980s". The growth was a period of excitement, when people were up for change and saw the prospects of a better firm, improving the firm, maintaining excellent clients and attracting more... and being able to pursue new areas of expertise. The ambition and the "we are up for it, we try stuff, and we do stuff" values that underpin innovation have continued to be evident in the firm's appetite for experimentation into adjacent services.' (A2)

In conclusion, the purpose of this thesis was to explore *how* DCs emerge in practice and *why* firms might develop DCs differently under the same market conditions in order to contribute to the operationalisation of DC theory. Studying the 30-year histories of four PSFs operating in the same market through the lens of a DC framework allowed rich insights into the specific antecedents and their underlying mechanisms to emerge. Complementary to uncovering the stimuli of DC development, themes about the mechanisms that stifle firms' abilities to develop DCs and flex to their competitive environment also emerged.

This research helps explain how managers can embrace and promote the stimuli and reduce the inhibitors that influence their firm's ability to build the DCs necessary to adapt to changes in their business environment. This research contributes to the DC literature by proposing a prioritised typology of antecedents that may help stimulate Teece's sensing, seizing and transforming DCs, while identifying the rigidities that could inhibit their development. The empirical results reported on in this thesis suggest that similar firms' development of DCs may be different because of an idiosyncratic leadership and culture that can limit a firm's ability to perceive the importance of DCs. Other characteristics that inhibit the development of DCs include centralised, non-participative cultures and a high internal (or inward-looking) orientation. These results extend the current theory about triggers for developing DCs by identifying that the strongest triggers may be either serious macro-economic events or internally driven by firm-defined goals or strategies.

Appendix One

Indicative interview schedule

Do firms develop dynamic capabilities differently?

The case of professional service firms in New Zealand

Method: 60-90 minute semi-structured face-to-face interviews

Introductory questions	<p>Could you please describe your role and area of responsibility?</p> <p>How long have you been in this role? (When did it change?)</p> <p>Can you describe your firm for me?</p>
Event one: 1985 removal of barriers to competition	<p>Were you with the firm before 1985? <i>If yes, ask questions in this section. If no, skip to the next section.</i></p> <ul style="list-style-type: none">• Can you describe your firm (practice areas, size etc) before 1985? What was it about your firm that helped it succeed in the market at that time?• What do you think its weaknesses were?• What impact did you think the removal of barriers to competition would have on your firm, before it happened?• Before the removal of barriers, what would describe as your firm's strategy?• How did the firm change after the removal of barriers to competition? What was significant about those changes?• What if anything did your firm decide to differently after the removal of the barriers? How did the partnership decide what to do?• How did you implement changes?
Event two: 1991 recession	<p>Were you with the firm before 1991? <i>If yes, ask questions in this section. If no, skip to the next section.</i></p> <ul style="list-style-type: none">• Can you describe your firm (practice areas, size etc) before the 1991 recession? What was it about your firm that helped you succeed in the market at that time? What if anything, do you think held the firm back?• When did the recession start affecting your business?• What was the biggest problem you faced during the recession?• Many firms failed in this time. To what to you attribute your firm's survival?

Event three: 1997 crisis of public perception	<ul style="list-style-type: none"> • How did the firm change after the recession? What was significant about those changes? • How did the partnership decide what to do? Who was involved in the decision? • How did the firm implement changes? <p>Were you with the firm before 1997? <i>If yes, ask questions in this section. If no, skip to the next section.</i></p>
Event four: 2008 Lawyers & Conveyancers Act	<ul style="list-style-type: none"> • Can you describe your firm (practice areas, size etc) before the 1997 crisis in public perception of lawyers? How did the crisis affect your firm? • How did the crisis become noticeable to the firm? • What was it about your firm that helped you succeed in the market at that time? • What if anything, do you think held the firm back? • How did the crisis affect your business? What was the biggest problem you faced during that time? • What, if anything did the firm do differently as a result of poor public perception? How did the partnership decide what to do? Who was involved in the decision? • How did you implement changes? <p>Were you with the firm before 2008? <i>If yes, ask questions in this section. If no, skip to the next section.</i></p>
Event five: All of government tender	<ul style="list-style-type: none"> • Can you describe your firm (practice areas, size etc) before the Lawyers and Conveyancers Act came into force? How did the changes to competition and client service obligations affect your firm? • How did it affect your business? What was the biggest problem you faced during that time? • What, if anything did the firm do differently as a result of the Act coming into force? • How did the partnership decide what to do? Who was involved in the decision? • How did you implement changes? <p>Were you with the firm before 2008? <i>If yes, ask questions in this section. If no, skip to the next section.</i></p> <p>Can you describe your firm (practice areas, size etc) before the All of Government procurement process? Did your firm tender, and was it successful?</p> <p>How did you become aware of the government procurement process?</p> <p>What research did you carry out before participating?</p>

**Other events
that catalysed
change**

How did the tender affect your business? What was the biggest problem you faced during that time?

What, if anything did the firm do differently as a result of the tender results?

How did the partnership decide what to do? Who was involved in the decision?

How did you implement changes?

Looking back over the past 30 years (or since you have been with the firm), what other events external to the firm triggered change in your strategy?

How did things change?

What do you think drove the changes?

Appendix Two

Detailed archival and secondary data accessed for each case

Firma - Archive																								
	Year	1990	1991	1992	1995	1997	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	
Acquisition assessment criteria																						1	1	
Business plan						1	1	1	1	1	1	1	1	1	1								7	
Business plan for subsidiary																			1				1	
Detail of proposed acquisition							1																1	
Detailed backgrounds of acquisition targets																					1		1	
Discussion paper on client care/service culture															1								1	
Email about partnership issues																			1				1	
Email from proposed acquisition target										1													1	
Email to staff from chair																				1			1	
Introduction to partners' retreat															1								1	
Media report										1													1	
Memo about future of business venture																1							1	
Memo about major issue facing partnership																				1			1	
Memo about proposed acquisition target											1										1		2	
Memo about strategic direction of firm						1																	1	
Minutes of partners' meeting					1			1															2	
Notes from partners' retreat												1	1	1		1	1	1	1		1		8	
Partner Retreat Action List																	1	1	1	1	1		5	
Partner's Code of Responsibility																			1				1	
Partners' retreat papers																					1		1	
Practice development plan		1	1	1																			3	
Report from Firm Alliance director																				1			1	
Report from Inter-firm practice comparison																							1	
Report on recommended management structure										1													1	
Summary of acquisition targets																					1		1	
Summary of client reviews															1								1	
Website																						1	1	
Firma - Secondary																								
	Year	1992	1995	2000	2002	2006	2007	Total																
Book						1		1																
Media report		1	2	1	1		2	7																

FirmB - Secondary

	Year	2000	2002	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Book					1								1
Media report		2	1	2	5	4	4	2	7	1	1	1	29

FirmC - Archive

	Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2010	2012	Total
Email: Future of office X															1									1
External newsletter (2 - 4 per year)		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	21
History of the firm				2																				2
Memo to partners															1									1
Notes from partners' meeting																				1				1
Partners' meeting presentation																					1			1
Situation analysis															1							1		2
Strategic plan											1													1
Strategic Review															1									1

FirmC - Secondary

	Year	1996	2012	2013	2015	Total
Media report		1	2	1	1	5

FirmD - Archive

[illegible]

FirmD - secondary

	Year	1995	1996	2005	Total
Media report		1	1	1	3

Appendix Three

Coding guide for Teece's DC classes

Sensing

Sensing (and shaping) new opportunities is very much a scanning, creation, learning, and interpretive activity. (Teece, 2007, p. 1322)

Microfoundation	Teece reference	Other references	NVivo nodes
Scanning	'This task involves scanning and monitoring internal and external technological developments and assessing customer needs, expressed and latent' (Teece, 2007, p. 1324).	Opportunity discovery should be embedded in a firm's routines to guard against over-reliance on the cognitive traits of specific managers. Centralised knowledge pursuit processes include: gathering new information about technology, customer needs, supplier innovation and competitor activity. (Teece, 2007).	<p>NVivo nodes</p> <p>Filtering info and disseminating</p> <p>Detecting new opportunities from external sources</p> <p>Processes for identifying acquisition targets</p> <p>Pursuit of information competitors' do not seek or understand</p> <p>Centralised knowledge pursuit routines</p> <p>Processes for close client contact</p> <p>Employee training</p> <p>Absorptive capacity – focus on use for commercial gain</p> <p>Forums for discussing market needs</p> <p>Creating using knowledge for comp adv</p> <p>Relationships with external parties</p> <p>Deliberate learning routines</p> <p>Knowledge sharing and transfer between groups and individuals</p>
Learning	The ability to recognize opportunities depends in part on the individual's capabilities and extant knowledge (or the knowledge and learning capacities of the organization to which the individual belongs) particularly about user needs in relationship to existing as	Learning orientation encapsulates what information is gathered, and how it is interpreted, evaluated and shared (Calantone et al., 2002). Values that encourage critically evaluating the impact of the status quo on organisational performance (Argyris, 1978; Sinkula et al., 1997).	

	well as novel solutions. (Teece, 2007, p. 1323)		Learning orientation
Interpreting	'One must accumulate and then filter information from professional and social contacts' (Teece, 2007, p. 1323)	Interpretation and problem solving, problem formulation and framing.	Robust discussions about market needs Strategy making Processes for interpreting - and who does it Problem framing & solving Managerial cognition Overcoming cognitive biases
Creating	Opportunity discovery and creation can originate from the cognitive and creative ('right brain') capacities of individual(s). However, discovery can also be grounded in organizational processes, such as research and development activity. (Teece, 2007, 1323)	Production of novel and useful ideas by an individual or small group of people working together (Dewett, 2004; Woodman et al., 1993). Arguably, the ability to create a hypothesis about how a trend is likely to transform into an opportunity is most valuable and most difficult to replicate.	Hypothesis creation and testing Production of novel and useful ideas Unity of purpose to exchange ideas Synthesis of information drawing on intuition Overcoming framing biases

Seizing

The second class of capabilities involves mobilising resources to develop new products, processes or services once a new opportunity has been sensed (Teece, 2007). Seizing capabilities are founded on making high-quality, interdependent investments decisions about strategic paths and how to capture value (Hodgkinson & Healey, 2011).

Microfoundation	Teece reference	Other references	NVivo nodes
Evaluating	The proficiency with ... a new opportunity is embraced is likely to depend importantly on the quality of the enterprise's routines, decision rules, strategies, and leadership around evaluating new investment opportunities. (Teece, 2007, 1328)	Evaluate sensed opportunities and threats and have robust decision-making processes to consider investment path options given multiple choices. To do so, firms must 'unlock dysfunctional fixations with existing strategies' and put in place processes to overcome biases and shortcomings associated with heuristics (Hodgkinson & Healey, 2011).	Considering investment path options Overcome fixations with existing strategies Thinking via reasoning
Deciding	Management also needs to create an environment where the individuals involved in making the decision, at both the management and board level, feel free to offer their honest opinions, and look at objective (historical) data in order to escape from closed thinking. (Teece, 2007, p.1333)	Differences in decision-making ability partially explain why firms' financial performance varies. Although initial market positions and paths open or constrain managers in adopting some options, management decisions affect the composition of the resource portfolio, as well as how resources are deployed now and in the future. (Beck & Wiersema, 2013)	Setting goals Deciding which option to pursue Building loyalty and commitment Careful selection of executives responsible for decision-making Overcome flawed decision heuristics
Designing	Selecting product architectures and business models that deliver value	Designing a new business model requires managerial creativity, insight, information	Selecting service architectures that deliver value

to customers and shareholders is the micro-foundation of the seizing capability and 'foundational to DCs' (Teece, 2007, p. 1330).

about customer needs and behaviours, the capabilities of competitors and suppliers, and the ability to turn data into intelligence.

Innovating business models
Firm's dominant logic about how it conceptualises the business boundaries
Managerial insight, problem solving and reasoning

Transforming

The speed at which the firm is able to realign its resources to be consistent with its strategy, and current and future changes in the environment, determines the strength of its 'transforming' dynamic capability (Teece, 2014b).

Microfoundation	Teece reference	Other references	NVivo nodes
Innovating	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. (Teece, 2007, p. 1338)	Superior resource allocation routines result in scarce resources, such as capital being moved from central points in the hierarchy to activities supporting innovation.	Innovating Strategic fit Deliberate learning from external information Allocating resources to innovation Open innovation practices
Acquiring	Managing strategic fit so that asset combinations are value enhancing. (Teece, 2007, p. 1340)	The DC is in management's ability to identify, develop, and combine assets, either built or bought.	Acquiring new resources Identifying, developing and combining assets Acquiring complementary assets Learn from previous acquisitions and codify experience and know-how Reflecting, reasoning, learning Transformational leadership Busting sacred cows Articulating the need for change Achieving momentum for change Governance and structure that incentivises collaboration
Integrating	The combination of know-how within the enterprise, and between the enterprise and organizations external to it (e.g., other enterprises, universities), is important. (Teece, 2007, p. 1339)	Strong integrative capabilities are founded on effective communication and coordination across intra-firm boundaries. Ambrosini and Bowman (2009) highlight the role of managers in effectively facilitating the acquisition, integration and release of resources.	

Coding guide for DC stimuli

Microfoundation	Antecedents	NVivo nodes
Learning processes	Learning uses experimentation and practice to improve how quickly and well a task is performed, and to identify new opportunities (Teece et al., 1997).	Recognising dysfunctional routines, challenging tunnel vision Understanding environmental dynamics The accumulation of experience, articulation, and the codification of knowledge. Strategic planning Reflecting on past experiences Unlearning and reorienting core values Explorative learning
Integration skills	Integrative capability is defined as competence in integrating knowledge from multiple sources inside and outside the organisation (Cohen & Levinthal, 1990).	Understand own knowledge resources potential and limitations Ability to recognise valuable information and combine with existing knowledge stock Diverse knowledge of managers
Leadership	The development of the firm's DCs is inhibited or stimulated by the senior management's leadership, their managerial and entrepreneurial abilities, and their interactions as strategists (P. Jarzabkowski, 2005; Teece et al., 1997).	CEOs with cognitive capabilities effective communication skills and high level of social cognition Conscious mental activities used to filter information and market changes and choices Entrepreneurial capabilities to orchestrate resources and create new business models Repeated refinement of strategic activities Codification of experience
Path dependency	Firms' ability to persist in their strategic orientation and develop capabilities are shaped by their unique	

	evolutionary path; their history — failures and successes — and decisions taken to develop specialisations or enter specific markets affect potential opportunities in the future (Eisenhardt & Martin, 2000; Schreyögg & Kiesch-Eberl, 2007; Teece et al., 1997).	Reflection on failures Reinforcement of unique capabilities
Culture	Workplace culture and climate for trust facilitates the adaptability and coordination that is necessary for developing sensing, seizing and transforming DCs and may also help overcome rigidities (Fainshmidt & Frazier, 2017)	Controls and incentives to facilitate a trusting environment Willingness of form members to act Flexible and informal core values Non-bureaucratic, decentralised, shallow structures Market orientation Tolerance of failure

Coding guide for DC inhibitors

Microfoundation	inhibitors	NVivo nodes
Learning processes	Learning is fundamentally a political process that can be frustrated or accelerated by the inertia of the organisation or by the acts of individuals (Lawrence et al., 2005).	Inability to unlearn and remove obsolete routines Exploitative learning
Leadership	Managers can become socialised into deeply-held belief systems that do not question current capabilities and may resist signals that change is needed. Such belief systems are deeply-held and so much part of the fabric of the organisation that they are practised unquestioningly (Schreyögg & Kliesch-Eberl, 2007).	Management's primary focus on operational capabilities Lock-in of beliefs that do not question current capabilities and resist change Avoidance of confrontation in preference to the group's collective position Overconfidence on the basis of previous success Subjective view of customers' needs Escalating commitment
Integration skills	Inertia, the opposite of integration skills, is defined as the 'a persistent organizational resistance to changing architecture' (Hannan et al., 2002, p. 3).	Resistance to change Internal and external stakeholders' taken for granted image Preference for the status quo
Path dependence	A firm's path dependence is a rigid, potentially inefficient action pattern arising from the unintended consequences of previous decisions and positive feedback processes (Sydow et al., 2009, p. 696).	Fixed cognitive maps Risk aversion Self-reinforcing processes Lock-in and inertia Narrowed choice of options
Culture	Culture encompasses the beliefs of employees, the way the firm organises itself, and the nature of interactions	Entrenched interests Human stubbornness Deep misunderstandings about the need for change

that play a role in facilitating, managing or providing a barrier to change (Lucas & Goh, 2009a)

Risk aversion
Values placed on hierarchy
Monopoly mindset

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