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# Book reviews

David J. Teece, *Dynamic capabilities & strategic management – Organizing for innovation and growth*, Oxford: Oxford University Press, 2009. 272 pp. £18.99. ISBN 9780199545124

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Nearly two decades after first introducing the notion of dynamic capabilities in 1990, David J. Teece, doubtless one of the most prominent voices in strategic management research today, presents a review of his recent work in the above volume. In it, Teece offers a well-crafted overview of the last 20 years of his research. That is at least one reason why the book is a 'must' for scholars, researchers and practitioners who are interested in the micro-foundation of enterprise performance.

While strategic management research still struggles with the question of how some firms succeed in creating wealth for their stakeholders while others do not, the dynamic capabilities view has been widely recognized as one of the most promising approaches to explain above-average return rates. Extending the resource-based view of the firm, the main thesis of the dynamic capabilities view is that the ownership of difficult-to-replicate assets is not sufficient for superior performance in the long run. Organizations have to continuously create, extend, upgrade and protect their asset bases. Dynamic capabilities are necessary to create, integrate and commercialize a continuous stream of innovation consistent with customer needs and technological opportunities.

The book mainly presents a collection of articles that were published in scientific journals and hence provides texts with a concentration of high-quality research. It is divided into three major sections, with the first part, simply named 'Dynamic Capabilities', constituting more than half of the book. Chapter 1 outlines the book's basic conceptual structure in laying out the underlying model and the nature and micro-foundations of dynamic capabilities.

They can be disaggregated into the capacity to sense and shape opportunities and threats, to seize opportunities and to reconfigure organizational assets to adapt to continuous change. The basis of dynamic capabilities is the ability to sense business opportunities, which is a highly entrepreneurial process. Both managers and entrepreneurs must be able to understand latent customer needs and the evolution of technologies, industries and markets. As the recognition of opportunities can be a highly individual skill, it must be grounded in organizational processes. Scanning and interpretative and creative processes must be embedded inside the organization. Equally important is the ability to seize opportunities through new products and services. Heavy investments in particular technologies and designs are necessary to stay ahead of the competition once a dominant design emerges. Thus managerial decision-making skills under uncertainty take on great significance in such contexts. Another key element to sustained profitable growth is the ability to adjust to organizational and environmental changes and to reconfigure the assets and structures of an enterprise. Corporate renewal is therefore an important managerial function as core capabilities may become core rigidities in dynamic environments.

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At the heart of the framework is an effort to define management systems and organizational designs that will keep the organization alert to opportunities and threats, enable it to seize new opportunities, and then constantly morph to stay on top. Dynamic capabilities enable organizations to create, deploy and protect the intangible assets that support sustainable competitive advantage.

Chapter 2 outlines the role of the manager within the dynamic capabilities framework, a role which has been largely underestimated in economic theory. Teece identifies seven distinct functions that can be assigned to management: (1) orchestration of co-specialized assets; (2) selecting organizational/governance modes; (3) designing business models; (4) nurturing change (and innovation) processes/routines; (5) making investment choices; (6) providing leadership, vision and motivation to employees; and (7) designing and implementing controls and basic operations.

Chapters 3 and 4 discuss the intellectual roots of the dynamic capabilities framework, drawing on insights from Edith Penrose and others to explain how enterprises can gain a competitive edge. The dynamic capabilities view as an integrative, interdisciplinary framework draws on several streams of research in social sciences, including entrepreneurship, a firm's behavioral theory, organization theory, transaction cost economics and evolutionary economics. The chapter shows the relationships between these research fields and the behavioral foundations of the dynamic capabilities framework. Afterwards, implications for research on strategic processes and renewal are outlined.

Chapter 5 gives an overview of classical theories on multinational enterprises (MNE) and on how a dynamic capabilities framework can inform the management of such enterprises. The author first points to the shortcomings of classical theories that have to be adjusted due to an international business setting that is characterized by cross-border offshoring and outsourcing. Whereas the internationalization school regarded MNE activity as being mainly driven by market failure, the dynamic capabilities framework identifies capability and knowledge transfer as central to successful competition at an international level. It is not enough for an MNE to have dynamic capabilities; it must be able to transfer them across national and cultural boundaries.

The second section, 'The Business Enterprise in Economic Development', contains two chapters. While much economic analysis focuses on stable environments with an unchanging technological basis, dynamic capabilities focus on innovation and market disequilibrium. Chapter 6 describes the role of the business enterprise, its distinct capabilities and the role it plays in economic development. Whereas economic analysis mainly focuses on macro-economic factors, the role of technological innovation and thus that of the business enterprise have not been addressed adequately so far. However, we now know that the competitiveness of nations depends to a large extent on the strength of their business enterprises and firm networks. Sources of wealth creation today are markedly different from what they were two decades ago, and the understanding of these developments requires more focus on and study of the business enterprise.

Chapter 7 extends this approach, highlighting the role of management in economic growth. The dependence between the organization and the individual within the dynamic capabilities framework is thus emphasized. In a world of sharpened competition, enterprises require a different breed of manager and more highly skilled employees. Basically speaking, it is the management that makes knowledge useful and skilled workers productive. It thus plays a fundamental role in transforming inventions into innovation. These specialists mostly seek greater workplace autonomy, and typically accept greater accountability. A traditional employment relationship does not work for highly skilled individuals anymore. As highly specialized employees are strongly dependent on each other, the firm has to be a place where productivity-enhancing team behavior takes place. In short, experts and other types of creative and highly skilled knowledge workers desire a high degree of autonomy and can be self-motivated and self-directed because of their considerable expertise. Teece focuses mainly on international companies and professional management teams;

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owner-managers of small- or medium-sized firms may well regret the absence of a more detailed focus on their own special business characteristics.

The third section of the book presents the consequences of Schumpeterian competition and the dynamic capabilities approach for competitive policy. Even though there is little empirical evidence of much direct benefit from past interventions for consumers, enforcement agencies still rely mainly on neoclassical assumptions of economic theory. However, in order to come up with prescriptions that do more good than harm, it is necessary to investigate the impact of anti-trust activity on innovation. While potential competitors are usually not included in traditional analyses, they can be of considerable importance in a dynamic context. The author also suggests that market power should not be assessed by market share but by a firm's 'upstream resources' (capabilities). Firms are more stable in their capabilities than in their products, and these are therefore a better proxy for competitive significance than a (downstream) market share. Antitrust enforcement with a focus on dynamic competition would lead to a more careful approach that recognizes uncertainty and complexity.

In this book, Teece provides a comprehensive overview of his recent and valuable research on dynamic capabilities. Most of the texts included made it through the review processes of high-quality scientific journals, thus meeting highest scientific standards. Although the book is mainly a summary of past efforts, it is a good starting point both for readers from research and practice to learn more about dynamic capabilities and strategic management.

Ruta Aidis and Friederike Welter (eds), *The cutting edge: Innovation and entrepreneurship in the New Europe*, Cheltenham: Edward Elgar, 2009,178 pp.: ISBN 9781845429744. £55.00 (hbk); *Innovation and entrepreneurship: Successful start-ups and businesses in emerging economies*, Cheltenham: Edward Elgar, 2009, 144 pp.: ISBN 9781845429737, £55.00 (hbk)

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The first of these two related edited books, *The Cutting Edge*, presents eight case studies of new small- and medium-sized (SME) enterprises in eight of the new East European member states of the EU which have succeeded in the difficult conditions of transition from central planning and, in the case of Slovenia, from Yugoslav self-management. The case study chapters are preceded by a short introduction by the editors, which summarizes the case studies and draws a number of interesting conclusions. The main points of similarity between the case study firms are that most were started from scratch, with the exception of one firm, which was developed out of a formerly state-owned enterprise. Among those which began from scratch, all but one fall into the category of 'pull' entrepreneurship, with individuals taking advantage of new opportunities opened up during transition. Only one was a case of 'push' entrepreneurship in which the founder set up his firm after being dismissed from a state-owned enterprise. Another common feature shared by most of the cases was that they were established by small teams of friends or relatives. The editors suggest that this demonstrates the importance of pooling resources, and having internal support structures in the harsh transition environment.

This transition environment was characterized by weak institutions associated with excessive government interference, corruption and informal networks, with which all case study firms had to contend in one way or another. However, the unstable environment also provided new opportunities for the firms to innovate, and develop their businesses. Financial constraints were also

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