



ILLUSTRATION 3.2

Building dynamic capabilities in a new venture

Networks and partnerships can be a source of dynamic capabilities and learning for firms and for managers.

HMD Clinical is an Edinburgh-based clinical technological new venture that seeks to make large-scale clinical trials more efficient for drug development companies. HMD initially provided bespoke services using telephony technology (for example, interactive voice recognition) to monitor clinical trials. However, this was problematic, principally due to human error. HMD therefore sought to develop a product based on another technology – radiofrequency identification. HMD felt this would also offer the prospect of market diversification, especially through international expansion. However, making changes to the company's product market domain called for capabilities to expand or modify HMD's current configuration of resources and capabilities – in other words, for dynamic capabilities.

HMD decided to partner with a large established firm, which HMD saw as a potential source of legitimacy, resources and opportunities: Sun Microsystems, a multinational corporation with a significant presence in Scotland. Co-founder Ian Davison commented, 'There's a certain cachet in being associated with a big company.' Sun was interested in HMD's product idea and within months there was progress in establishing the alliance. Davison believes that considerable benefit was derived by HMD: 'We got what we wanted out of the relationship because we managed to build a prototype using the Sun technology.' HMD's experience also illustrates the building of dynamic capabilities at various levels.

Opportunities arose for mutual learning. From HMD's perspective, the venture benefited from exposure to new technological ideas. Of particular advantage was Sun's ability to tap into its widespread resources and capabilities elsewhere in the UK and beyond (for example, Western Europe). Also, Sun's reputation opened doors for HMD. When the prototype was built, HMD made a joint sales call with Sun to a prospective international customer and a demonstration was subsequently held on Sun's Scottish premises. Such activities facilitated experiential learning about processes such as product development and sales.

There were also further benefits for HMD:

- **Product development.** In developing a prototype with Sun, HMD engaged in integrating resources and

capabilities to achieve synergies; for example, its own customer-centric technological knowledge in the clinical trials domain was combined with Sun's hardware technology architecture.

- **Alliancing.** Through inputs from a public sector intermediary, HMD gained vital knowledge about formal aspects of alliancing, such as the legalities of sharing intellectual property; equally, HMD came to appreciate the utility of informal social networking in ensuring the smooth progress of joint activity.
- **Strategic decision making.** HMD was able to build new thinking within the firm in terms of, for example, the identification of external knowledge sources as evident from subsequent decisions to expand the alliance to include a third partner.

At the individual level within HMD managers also learned 'new tricks' by engaging in informal routines such as brainstorming sessions and everyday activities such as negotiating. Managers claimed that such learning would help HMD approach its next alliance by replicating certain aspects while modifying others. Davison commented: 'In future we would approach this sort of relationship in a broadly similar manner [but] I think we would attempt to set some clearer company goals and boundaries at the outset.'

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Questions

- 1 At what levels could dynamic capabilities benefit organisations?
- 2 How do network relationships, such as strategic partnerships, potentially contribute to dynamic capability development?
- 3 What other joint activity within, and across, organisations could give rise to dynamic capabilities? How?
- 4 Can dynamic capability development be deliberately planned? How?