

# **Dynamic Capabilities of Media Entrepreneurial Firms**

## **—A Case Study of Chinese New Media Startups**

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**Abstract:** Organizational capabilities greatly affect the performance of media firms in an uncertain and fast-moving environment. As such, media firms especially those new ventures should develop strong capabilities that would enable them to sustain competitive advantages and adapt to the changing situation. This study addresses some of the challenges faced by Chinese media entrepreneurial firms in adapting to the uncertain market. To address this problem, this study explains the organizational capabilities creation in a Chinese social media entrepreneurial firm —T company. This study adopts the Dynamic Capabilities (DC) framework (Teece et al, 1997) as the theoretical proposition and conduct a qualitative research based on a case study to obtain in-depth insights. As a result, 4 research gaps related to dynamic capabilities were filled: 1) insufficient attention to the DC of new ventures; 2) lack of attention to the creation of DC; 3) need for more literature on media management of DC; 4) lack of theoretical depth based on the context of Chinese media. At the end of the study, it was observed that leaders' cognition, perception, human capital, social capital and leadership all positively contribute to the creation of dynamic capabilities, and the entrepreneurial instinct and expectation of entrepreneurs also facilitate the formation process. Meanwhile, for some specific elements, venture capital triggers sensing of the external environment, and the mobility of managers also serves as a guarantee.

*Keywords: organizational adaptation, organizational capabilities, media entrepreneurship, media management.*

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## Introduction

The Chinese economy has entered a “new normal” as the economy faces a downward pressure. In order to boost the economy and find a new growth point, in the year 2015, the "Thirteen Five" planning proposals claimed till 2020 suggested that the cultural industry play the role of a pillar industry for the national economy. (Guang Ming Daily, 2015) According to the target of the "Thirteen Five" planning proposals, the future value of cultural industries should be at least 626.3 billion euros (RMB 5 trillion), and an average annual growth should be maintained by at least 13% or more. (Guang Ming Daily, 2015) "Media Blue Paper: China's media industry development report (2016)" shows that going by the policy, China's media industry in 2015 grew by 12.3%, which made the overall market size to reach 159.7 billion euros (RMB 1.27503 trillion). (Media Blue Paper, 2016) However, the traditional media suffered from the shrinking revenues, while the new media is steadily booming and numerous brand-new firms have been established. The second half of 2015 witnessed more than a dozen brands of new media achieved venture capital. However, a survival report showed a less optimistic result about the current situation of these new firms, in addition to few success brands, only 50% of new media startups have made profits. (Media Blue Paper, 2016)

Regardless of the greater development, the capability of building the core competence and sustaining the competitive advantages is the key driver for new ventures to maintain successful development. Moreover, considering the rapid development of modern technology and rapid change in audience behaviors, as argued by Audia and some other scholars “failure to address major environmental changes can negatively affect the firms’ performance” (Barreto, I., 2010). The dynamic capabilities can help firms to sustain its competitive advantages by addressing changes in the external environment, (Teece et al, 1997) as such, the skills and competencies must be updated and dynamic capabilities need to be established to sustain organisational adaptation for adjusting the environment, in order to achieve successful development (Zahra et al., 2006). Therefore, this study emphasizes the creation of dynamic capabilities within those media startups so that reference advices are generated for better performance.

Since Teece defined dynamic capabilities in 1997, this view has generated an impressive flow of researches. However, there are still some research gaps. Firstly, most scholars pay attention to the dynamic capabilities of mature firms, only few takes the new ventures into consideration. Though some assume new firms are dynamic by nature, Sapienza et al. (2006) argued that the new ventures also need dynamic capabilities which “allow them to survive, achieve legitimacy, and reap the benefit of their innovation”. (Sapienza et al., 2006) Secondly, existing researches focus mainly on the application of dynamic capabilities rather than how they are created, which neglects the root of how

dynamic capabilities come into existence and how they help firms gain comparative advantages at the initial stage of management. (Zahra et al., 2006) Thirdly, the literature on dynamic capabilities take little consideration to the field of media management, especially in the context of Chinese media industry, which has been booming in recent decades. Fourth, the Chinese media firm's organizational capabilities somehow have not paid much attention, especially the media entrepreneurship which has potential to promote the development of the cultural industry. Yu Guoming argued that the existing literature on Chinese media economy have some methodology defects and lack theoretical value. (Yu Guoming, Hu Yangjuan, 2015)

Therefore, this study aims to fill those research gaps as mentioned above. By a single case study, this research applies DC creation process model using literature review as theoretical propositions so as to explore how dynamic capabilities are created within a media entrepreneurial firm in China. Specifically, this study asks two research questions 1) how managerial behaviors influence the creation of DC in the media firm, and 2) what are the crucial aspects for DC creation in the context of entrepreneurial firms?

This is a qualitative study based on content analysis of interviews with 5 respondents who are senior managers in a Chinese media startup T company in 2017. The new venture, T company, experienced a significant adaptive change within the firm from 2015. And the managers, who were selected as interviewees, are involved in that organizational change and hold relevant positions, which provide this crucial first-hand information for this empirical study.

This study observed that the leaders' cognition, perception, human capital, social capital and leadership all contribute to the creation of dynamic capabilities. In addition, the entrepreneurial instinct and expectation as well as entrepreneurs' spirit also positively facilitate the creation of dynamic capabilities, especially at the sensing and seizing stages. As some reported "the new ventures and established companies might be of advantage when it comes to developing and harvesting dynamic capabilities" (Zahra et al., 2006). This study also finds in the context of China, venture capital which play the role of an external force during the adaptive transition period, particularly, the change in its flow forced new ventures to sense their products, market reaction, business model and capabilities for monetization purpose so as to allocate resources properly, thereby, seizing business opportunities. Meanwhile, the mobility of managers facilitates the company's quick recognition of opportunities and its smooth transition.

Besides, since this study is a single case study, the explanation-building findings of this study will not end conclusively but provide a foundation for further researches (Yin, 2014). This foundation

will require more cases to validate them. Finally, further research directions which are mentioned in this study will require deeper insights into the DC approach.

## 1. Literature review

Since the fast development of technology and the rapid change in audience behavior, media firms now suffer from the fast-changing environment and are faced with external uncertainties. Since the uncertainty of external environment, rapid management responses and coping mechanisms as well as entrepreneurial proclivities are required (Teece, Leih, 2016). Audia et al., in their study reported that “failure to address major environmental changes can negatively affect the firms’ performance” (Barreto, I., 2010).

This case study explains how media startups sustain the core competence, which was defined by Teece as “competencies that define a firm’s fundamental business” at the initial stage of management when facing the external uncertainty (Teece, 2007); by addressing the fast-moving environment, dynamic capabilities are also crucial for media firms to gain competitive advantages, which was clarified by Porter (1985) as “the fundamental basis of above-average performance in the long run”. (Sapienza et al., 2006) Moreover, Lawton and Rajwani (2011) reported that “dynamic capabilities are the bridge between firm resources and business context” (Oliver, 2014), thus, dynamic capabilities framework will provide a solid theoretical foundation when looking at the adaptive capabilities of media firms. However, four research gaps will be clarified in this chapter based on literature review, they include “insufficient attention to the DC of new ventures”, “lack of attention to the creation of DC”, “need for more literature about DC on media management”, and “lack of application of the DC approach in the Chinese media context”. Thus, this study aims to fulfil these research gaps using empirical research.

Aiming at providing a solid theoretical foundation for data collection and analysis, according to the existing literature, this chapter will clarify the definition of dynamic capabilities in this study, studies embed dynamic capabilities in entrepreneurship, the model and mechanisms that influence the creation of dynamic capabilities, as well as the studies that apply dynamic capabilities into media management. As such, the rationality as well as the theoretical propositions have been defined as a theoretical root of this study.

### 1.1 What are Dynamic Capabilities?

The concept of dynamic capabilities (DC) was defined by Teece et al. (1997) in the article “Dynamic Capabilities and Strategic Management”, and defined as “the firm’s ability to integrate, build, and reconfigure internal and external competencies to address the rapidly changing environment”. (Teece et al, 1997) The work of Teece et al. (1997) is believed to be “the most influential study on this topic” by many scholars (Barreto, I., 2010). Also, following Teece et al.’s (1997) tradition, researches



related to dynamic capabilities increased rapidly. According to Barreto (2010), a total of 1,534 articles applied “dynamic capabilities” from 1997 to 2007 (Barreto, I., 2010). It should be noted that based on the Scopus database, there are about 2,605 literature associated with the dynamic capabilities from 2007 to 2017 in the area of business, management and accounting, decision sciences, social sciences, as well as economic, econometrics and finance. Under those subject areas, the volume of articles rose from 135 in 2007 to 374 in the year 2016, which almost tripled. Nowadays, with the technological innovation and changing customer tastes, the uncertainty of the business environment has become an increasingly prominent force for business “failures”, as such, in the fast-changing environment, adaption has become more and more crucial for success in the long run. The dynamic capabilities framework “views the enterprise as both adapting to its environment, and in some cases, even shaping that environment”, (Mie Augier et al., 2008) which probably reveals the main reason scholars pay increasing attention to the dynamic capabilities approach.

Thus, there are different definitions of dynamic capabilities as defined from different perspectives. As earlier mentioned, the nature of the concept is viewed as “abilities” by Teece (1997). According to Barreto’s review, followed by Winter (2003), Zahra, Sapienza, Davidsson (2006), as well as Helfat’s (2007) works, which are all under this tradition, viewed the nature of dynamic capabilities as “abilities” that operate “to extend, modify, or create ordinary capabilities” or “resource base”, and “abilities” that operate “to reconfigure a firm’s resources and routines in the manner envisioned and deemed appropriate by its principal decision maker(s)” (Barreto, 2010). It was also argued that dynamic capabilities are routines or processes, and Eisenhardt and Martin’s study (2000) is remarkable under this tradition, they regard dynamic capabilities as processes rather than abilities, and they defined it as “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 thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die.”(Eisenhardt, Martin, 2000) Likewise, based on Barreto’s review, Zollo and Winter (2002) also argued that dynamic capabilities are “learned and stable patterns of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness.”(Barreto, I., 2010)

To better understand dynamic capabilities, there is need to mention the theoretical base. Dynamic capabilities approach has been regarded as a viewpoint that is rooted in resource-based view (RBV) (Barreto, 2010). Teece (2008) in his later work reported that the RBV approach was associated with Penrose’s (1959) work which saw the business enterprise as “possessing bundles of fungible resources, generated in part from its prior activities, and by deploying these resources, the firm can produce a variety of final products” (Mie Augier, Teece, 2008). However, from Teece’s view, this

framework lack consideration on how the firm update its resources for further successful business. (Mie Augier, Teece, 2008) Though dynamic capabilities framework are generated on this theoretical base, by explaining how sustainable competitive advantage is gained by resource restructuring when facing a changing external environment, it consists of a richer description of features than RBV. (Mie Augier, Teece, 2008)

Relying on this theoretical base, dynamic capabilities thus intend to understand the reallocation of the firms' resources for addressing changes in the industry (Wang, Ahmed, 2007). In the work of Teece et al. (1997), "the core building blocks of dynamic capabilities under the tripartite rubrics of processes, positions, and paths" were identified. (Teece, 2014) Accordingly, resources of the firm especially the intangible assets were identified as the position of one firm, meaning resources provided the base of one firm's capabilities including dynamic capabilities, which is obviously rooted in the RBV. However, from the perspective of dynamic capabilities, which laid emphasis on adaptation, positions should go hand in hand with both paths and processes. Paths refer to the way one firm comes from the past and goes into the future, in other words, it simply means strategies that provide guided policies for firm's transformational activities to gain competitive advantages, for instance, it determines the final products, target customers, resources transformations, as well as transformational timing. Under the guide of paths (strategy), organizational processes embed the firm's business model into employees' daily routines, three classes of processes/ managerial functions, coordination/integration, guided learning and reconfiguration/transformation, are relevant (Teece, 2014). From this viewpoint, it is clear that dynamic capabilities based on its assets and being embedded in the management's scope (strategy making, processes management) of the firm to "design, develop, implement, and modify these assets by routines", thus the managerial capabilities can be viewed as the crucial driver of competitive advantage (Teece, 2014). In other words, managerial design and processes matter in this framework.

From this perspective, both "abilities" and "processes" view are unilateral, thus, similar with Wang et al.'s view, dynamic capabilities are "abilities" embedded in "managerial processes" rather than simply "abilities" or "processes". (Wang, Ahmed, 2007) Since this study emphasized the creation of dynamic capabilities, associated with a complicated mechanism especially influenced by "positions and paths" that will be discussed in the next section, thus a rounded definition and understanding of dynamic capabilities is crucial for this research. As such, this study views dynamic capabilities as the abilities embedded in managerial processes which enable one to sense opportunities and change the resource base to suit the fast-changing environment. Thus, this study will focus on the capacities along with managerial perspectives.

In addition, though those definitions from literature are based on different viewpoints, they clarify some main characteristics in a general sense which need to be highlighted and is crucial for this study. Firstly, dynamic capabilities are about organizational adaptation, which restrict the scope of this study, meaning this study only consider changes associated with seizing new opportunities and adjusting to the external environment. Secondly, since dynamic capabilities are abilities embedded in managerial processes and managed by managerial behaviours guided by strategy, all these “embody a company’s history, experience, culture, and creativity (Gratton, Ghoshal, 2005)” which make them become difficult to be imitated by others over time. (Teece, 2014) Thus, these processes, resources and strategies which are relevant to a firm’s managerial decisions can be built. These viewpoints that dynamic capabilities can be managed thus provide rationality to this study for exploring the creation and establishment of dynamic capabilities.

## **1.2 Dynamic capabilities as an entrepreneurial management approach**

### *Studies embed dynamic capabilities in new ventures*

Though dynamic capabilities are difficult to describe, there are common characteristics related to organisational processes, meaning that “there are more or less effective ways to execute particular dynamic capabilities such as strategic decision making and knowledge brokering” (Eisenhardt, Martin, 2000). Wang and Ahmed (2007) reported that there are three main component factors of dynamic capabilities, namely “adaptive capability”, “absorptive capability” and “innovative capability”. According to their work, “adaptive capability” is defined as “a firm’s ability to identify and capitalize on emerging market opportunities” by scholars (Chakravarthy 1982; Hooley et al. 1992; Miles and Snow, 1978); scholars (Cohen and Levinthal, 1990) also identified “Absorptive capacity” as “the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends ... the ability to evaluate and utilize outside knowledge is largely a function of the level of prior knowledge”; and they themselves (Wang, Ahmed, 2004) reported that “Innovative capability” refers to “a firm’s ability to develop new products and/or markets, by aligning strategic innovative orientation with innovative behaviours and processes”. (Wang and Ahmed, 2007)

Likewise, based on the concept definition and “the core building blocks” as already noted, Teece (2007) further reported that the mechanism of dynamic capabilities, that is, “sensing”, “seizing”, and “transformational/ reconfiguring” must be applied to address the changing environment (Teece, 2007), meaning the processes involved in observing external opportunities, capturing business opportunities and transforming the internal resources base through processes and activities. This work therefore is very vital. Figure 1 clarifies the application framework of dynamic capabilities by Taina

Eriksson based on the original study of Teece, which has been exemplified below for better understanding.

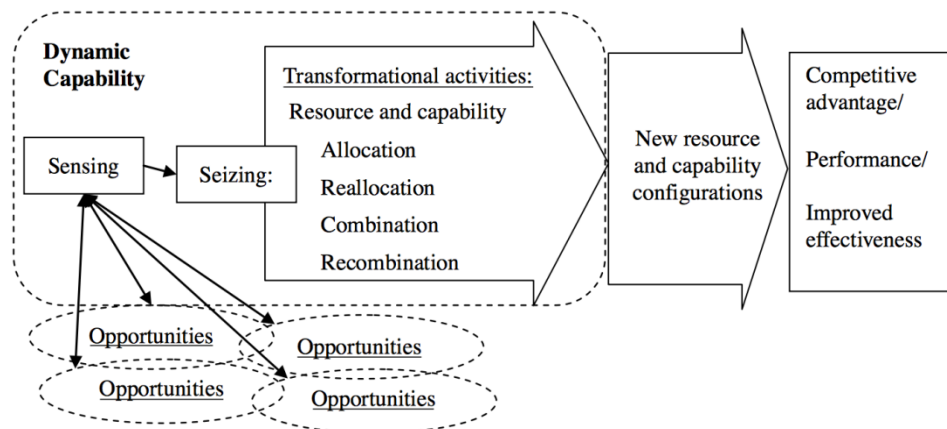


Figure1: DC framework (Taina Eriksson, 2013)

Though these two models have different expressions, the core logic is the same. However, it is divided into three main aspects based on how dynamic capabilities are used : 1) recognize the challenges and opportunities from the changing market (“sensing”); 2) evaluate and capture the opportunities based on internal path and position (“seizing”); 3) take action to renew the resources base for releasing new products or services to adjust the external environment (“transformational/ reconfiguring”).

As these three main factors are supported by most scholars, some further argued that dynamic capabilities are “not in the capabilities themselves”; they are developed by managerial behaviours and processes (Kathleen, Jeffrey, Martin, 2000). In Teece’s words, they are “processes and entrepreneurial/managerial orchestration activities” (Teece, 2014) that operate the dynamic capabilities framework, “sensing contains a strong element of diagnosis, which is important for strategy; seizing needs to be connected to both a guiding policy and coherent action; and transforming is value protecting and enhancing which requires a guiding policy and coherent action”(Teece, 2014). These activities require the firm’s management and “entrepreneurial management is especially relevant to the firm’s ability to be prescient and sense opportunities and threats (both market- and technology-related)” (Teece, 2014). Then, at this point, entrepreneurial management can be taken as a crucial aspect of dynamic capabilities.

Teece et al, viewed the dynamic capabilities framework as “an approach for having the entire organization operate in an entrepreneurial fashion” (Abdulrahman, Al-Aali, Teece, 2014). As concluded by them based on other remarkable studies (Sarasvathy, Dew, Velamuri, Venkataraman,

Knight and others), entrepreneurship (e.g., Shane, 2003) refers to (1) the procedure of obtaining new opportunities, for example, demands which have no supply can be matched (2) the recognition of unmatched aspects of existing supply and demand, and (3) the formation of a new business which have the tendency of becoming future demands and supplies. (Abdulrahman, Al-Aali, Teece, 2014) In general, Teece argued that entrepreneurship is about “exploring and creating new opportunities, and mobilize resources to address the most promising ones” (Abdulrahman, Al-Aali, Teece, 2014). Entrepreneurial management accordingly involves the capacities to sense the external environment for new business opportunities, to allocate resources for better performance and more profits, and to develop adaptation strategy and plans to make the firm’s business model to be of competitive advantage (Teece, 2012). These functions, which in a way cater for the need of dynamic capabilities (the abilities for sensing, seizing, and reconfiguring) and in Teece’s words, they are “core elements of the dynamic capabilities of the firm” (Teece, 2015; 2016).

In detail, Teece argued that there are two classes of capability of firms, which are “ordinary capabilities” and “dynamic capabilities” (Teece, 2015; 2016). According to Teece, “Ordinary capabilities” require “the performance of organisational activities to match current objectives”, while “dynamic capabilities” are “higher-level” and upgraded capabilities than the ordinary capabilities, which aim at “developing differentiated products and services that address new markets, or existing markets in new ways” (Teece, 2015; 2016). In achieving this, organizations should cultivate the capability to constantly sense, seize, and transform, which requires “a prescient assessment of the business environment and technological opportunities, complex managerial orchestration, and a change-oriented organizational culture” (Teece, 2015; 2016). Figure 2 shows “the differences between ordinary and dynamic capabilities”, which clearly emphasized the importance of “entrepreneurial asset orchestration, leadership, and learning” as managerial elements. (Teece, 2015; 2016). The entrepreneurial management is quite different from those of the ordinary management, as Teece argues that the ordinary manager usually emphasizes on the current efficiency of existing procedures: the business model and the set of products and services are clarified. The operating management of an existing business goes relatively ahead. While in hyper-competitive and fast changing environments, a fixed business is at a higher risk of going extinct. Entrepreneurial management, the crucial aspect that differentiates dynamic from ordinary capabilities, is more

focused on mapping the future opportunity or challenging the current business for adaption rather than maintaining existing processes and standardised managerial routines (Teece, 2012)

Some differences between ordinary and dynamic capabilities.  
Source: adapted from Teece (2014).

	Ordinary capabilities	Dynamic capabilities
<b>Purpose</b>	Technical efficiency in business functions	Congruence with customer needs and with technological and business opportunities
<b>Tripartite schema</b>	Operate, administrate, and govern	Sense, seize, and transform
<b>Key routines</b>	Best practices	Signature (upgraded) processes
<b>Managerial emphasis</b>	Cost control	Entrepreneurial asset orchestration, leadership, and learning
<b>Priority</b>	Doing things right	Doing the right things
<b>Imitability</b>	Relatively imitable	Inimitable
<b>Result</b>	Technical fitness (static efficiency)	Evolutionary fitness (ongoing learning, capability enhancement, and alignment)

Figure 2: Some differences between ordinary and dynamic capabilities (Teece, 2014)

The services of entrepreneurial managers are then employed to guide the organization in both creating and capturing value (Teece, 2015; 2016). Adaption and changes will not happen automatically by themselves, they are often based on “strategic choices”, which “include, the selection of products and services to offer customers, the market segments to address, the business models to employ, the appropriate level of diversification, and organizational structures as well as policies and practices needed to coordinate activities” (Teece, 2009). Thus, entrepreneurial managers who update their abilities from ordinary to dynamic play a key role and become not only resource allocators, but also leaders who can constantly sense, shape, and exploit opportunities (Teece, 2012).

Since dynamic capabilities embed entrepreneurial management as a natural attribute, DC framework is regarded as a potential theoretical approach to understanding entrepreneurial firms (Zahra et al., 2006). Entrepreneurship offers the initial idea of a new business, and the entrepreneurial management can make the new firm create its core competence by establishing a reasonable business model. By playing at the very early stage that along with the firm’s existence, dynamic capabilities “evaluates the firm’s fitness not only for the current business environment, but also in the light of high-probability opportunities and threats. Those evaluations may lead to investment decisions that support the development of new resources and assets, a shift in business model, or the establishment of alliances” (Abdulrahman, Al-Aali, Teece, 2014). In return, dynamic capabilities go hand in hand with entrepreneurial logic as earlier stated (Newey, Zahra, 2009).

Though entrepreneurship and dynamic capabilities are closely related by nature, literature showing dynamic capabilities in the context of entrepreneurial ventures is relatively limited. Teece is one of the pioneer researchers who viewed dynamic capabilities in an entrepreneurial fashion, in the year 2012, by applying the differences between ordinary and dynamic capabilities. He argued that entrepreneurial management is regarded as a crucial element of dynamic capabilities, which involves

not only the practice and improvement of existing routines but also the creation of new ones (Teece, 2012). This work focuses more on conceptual study rather than empirical research. Thus, the relationship between dynamic capabilities and entrepreneurial management is still not clear in a real business context. In 2012 and 2014, by emphasizing the multinational enterprise, Teece and other researchers took capabilities perspective to deepen an understanding of global capitalism and internalization. They applied the viewpoint of capabilities in order to understand entrepreneurial management and transformational leadership, by which their study intended to explain “how entrepreneurial management and dynamic capabilities determine firm-level sustained competitive advantage in global environments” (Teece, 2014). In Teece’s study, entrepreneurship was considered in a general sense and focused more on mature companies based on the context of internalization, meaning that entrepreneurship in Teece’s study mainly refers to branch firms with a strong mother enterprise. Teece claimed dynamic capabilities which ensured the entrepreneurship in a new off-sea market was strongly related to the background of its mother company. Thus, the dynamic capabilities of entrepreneurship in this case is, indeed, associated with that of the mother company rather than the understanding of dynamic capabilities creation of new ventures. Likewise, Svante Andersson and Natasha Evers also emphasized international entrepreneurial firms from a dynamic capabilities perspective and pictures a framework explaining how entrepreneurs employ their managerial capabilities and behaviours to make dynamic capabilities come into existence as well as exert effects when facing the need for international growth. (Andersson, Evers, 2015) This is more of a conceptual work rather than an empirical study.

However, studies related to dynamic capabilities in the context of new ventures are still insufficient, especially the empirical research that emphasizes how dynamic capabilities aid the survival of Chinese startups, how they use the innovation to their advantage and establish their core competence. Zahra et al., (2006) reported the numerous benefits of startups and mature firms in dynamic capabilities. As mentioned by Zahra in his work (2006), further studies are needed to better understand the dynamic capabilities of new ventures, for instance, “is it reasonable to assume that the routines of younger firms are relatively more malleable?”, “What causes these routines to calcify in later stages? ” and “Do established companies have unique advantages in developing dynamic capabilities? ”. (Zahra et al., 2006)

Thus, this study is an empirical study that focuses on new ventures from the perspective of dynamic capabilities and it focuses mainly on the managerial aspects that are relevant to the dynamic capabilities.

### 1.3 The creation of dynamic capabilities

#### *From a dynamic managerial capabilities perspective*

Since entrepreneurial firms are newly established, they have no long history, no complete culture, and even no sufficient resources. It is worth noting under entrepreneurial management, how dynamic capabilities are built and survive at the very early stage that help the new venture to figure out its business model, products and services that cater for the market needs. Though the model on how dynamic capabilities are applied (sensing, seizing, transformational) is somehow clear, some scholars find out that “most focus on the definition of dynamic capabilities or on the role of managers in their deployment”(Ambrosini et al., 2009) and “a model that integrates findings on the various activities associated with the evolution of these capabilities is lacking”(Zahra et al., 2006).

According to Ambrosini and Bowman’s review, Zollo and Winter’s (2002) study about deliberate learning and the evolution of dynamic capabilities is “one of the very few to focus on the creation of dynamic capabilities” (Ambrosini et al., 2009). They applied a “knowledge evolution cycle” to explain how dynamic capabilities has been built on knowledge management. In detail, they claimed “dynamic capabilities emerge from the coevolution of tacit experience accumulation processes with explicit knowledge articulation and codification activities,” and “knowledge codification (and to a lesser extent knowledge articulation) activities become superior mechanisms” (Zollo et al., 2002). Though, Zollo and Winter studied dynamic capabilities creation in detail, they only focused on a knowledge management perspective, which is not enough to understand the complicated mechanisms that influence the creation of dynamic capabilities, including other internal and external forces that will be discussed later in this section.

Ambrosini et al.’s research focused on the whole scope of the creation of dynamic capabilities. They argued that the formation of dynamic capabilities largely depended on organisational experience and learning. They identified from literature that positions and paths (Teece et al., 1997) are “internal and external forces that enable and constrain dynamic capabilities”. (Ambrosini et al., 2009)

In the figure 3 and according to literature review, some aspects of dynamic capabilities creation processes were identified and the internal “paths and positions” exerts a direct influence on the dynamic capabilities creation, which include managerial behaviour and the conditions of current assets and resources; while the external environment exerts a moderating affection, especially on the linkages between the deployment of dynamic capabilities and competitive advantage. (Ambrosini et al, 2009)



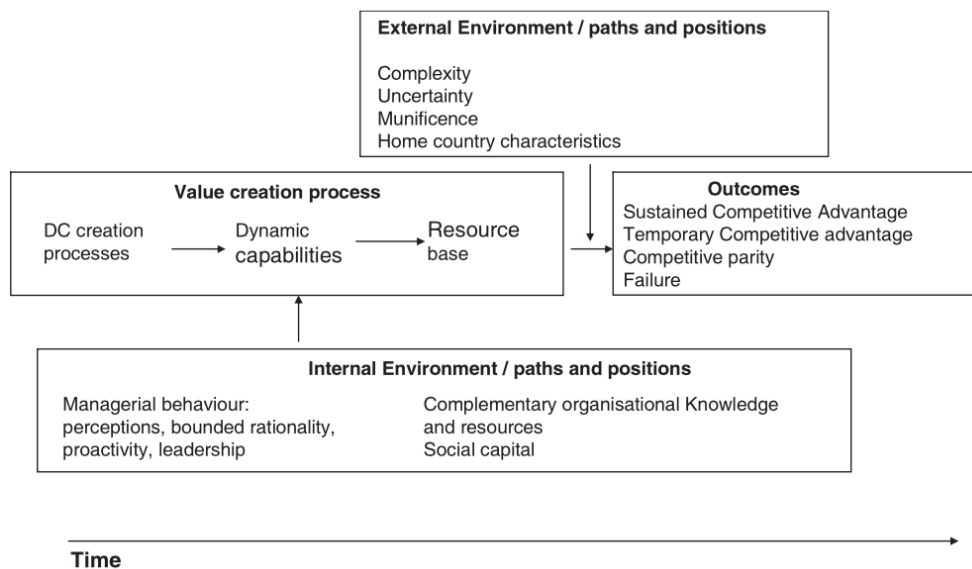


Figure 3 (Ambrosini et al, 2009)

Still, as earlier mentioned, most researchers laid emphasis on the meaning of dynamic capabilities rather than on how they have been created, it is still unclear “how dynamic capabilities are created”. While if we understand how dynamic capabilities are created, it would enable us develop guidance for managers on how they can deliberately develop dynamic capabilities (Ambrosini et al.,2009). As such, this study aims to fill this research gap which explore how dynamic capabilities are created by empirical studies in an entrepreneurial firm context.

Since this study take entrepreneur firms as the research sample, as earlier reported, entrepreneurial management is an essential aspect of dynamic capabilities. Therefore, when exploring the creation of dynamic capabilities, the top management should also be thought of as a crucial element, by “shaping the organization's structure and its culture, which plays a crucial role in determining whether the organization as a whole is able to act entrepreneurially” (Teece, D. J., 2015; 2016). Generally, new ventures easily conform to adaptive changes and have the capability of quick testing and transforming entrepreneurial ideas and business models which are not suitable, these efficient changes require unusual leadership skills (Abdulrahman et al., 2014). As Teece argued later based on literature (Chesbrough et al., 2002; Augier et al., 2009), the entrepreneurial manager, likewise, are usually capable of creating new ideas and business models, which determine the architecture of a new firm’s business, the quality of an organization's managers therefore is central to the strength (or weakness) of its dynamic capabilities. (Teece, 2015; 2016)

Since the role of managers in sensing and reconfiguring which are important for entrepreneurial management has been highlighted, the concept of “dynamic managerial capabilities”, which has a direct relationship with entrepreneurship need to be considered. According to Helfat and Martin’s review which based on Adner and Helfat's (2003) early work, there are three core aspects of dynamic managerial capabilities which directly related to restructuring of the firm’s business: 1) managerial cognition (Huff, 1990) which refers to knowledge structures and mental processes that influence managers to anticipate market changes, understand the implications of different choices, and ultimately take action (Garbuio, King, & Lovallo, 2011); 2) managerial social capital (Burt, 1992), meaning the relationships, both formal and informal, that managers have with others and can use to obtain resources and information (Adler and Kwon, 2002); and 3) managerial human capital (Becker, 1964), which refers to learned skills and knowledge that individuals develop through their prior experience, training, and education. (Helfat, Martin, 2014) The details of these three main elements are described in Figure 4 by Helfat and Martin.

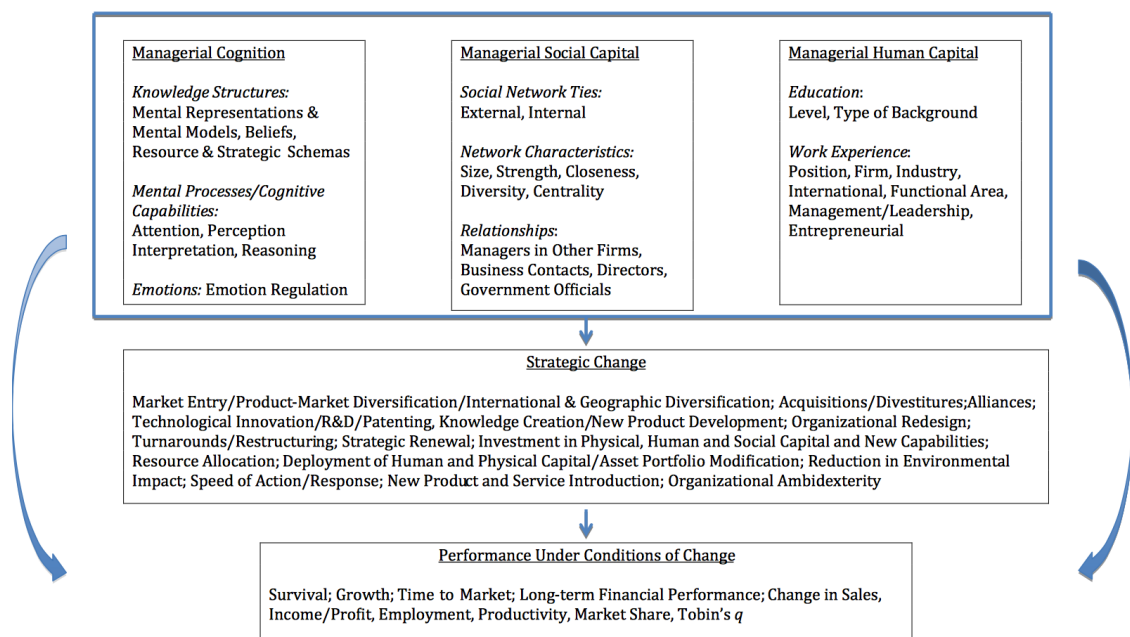


Figure 4: Core underpinnings of dynamic managerial capabilities  
(Helfat, Martin, 2014)

These three aspects are in line with the creation model as earlier mentioned by Ambrosini and Bowman and it is based on the most influential works of Teece et al. (1997). It provides a list of aspects that takes different perspectives into consideration. According to Ambrosini and Bowman’s (2009) review, managerial behaviors firstly include perceptions of managers, meaning managers’ capacities on how accurate they sense changes and seize the business opportunities by reconfiguring both tangible and intangible resources (Harreld et al., 2007); secondly, bounded rationality need to

be taken into consideration, which refers to managers' history, expectations, as well as probabilistic judgments (Moliterno, Wiersema, 2007); thirdly, leadership, as Rosenbloom (2000) stated the "ability to make and break commitments, to take risk and to create an organizational learning culture" that have impact on dynamic capabilities as well; lastly, social capital, the "valuable internal and external social ties allow for information sharing, innovation and novel ways of thinking", is also a valuable factor to be considered (Ambrosini and Bowman, 2009). As such, these important elements related to "managers" provide a comprehensive list for this study. Thus, this research will apply Ambrosini and Bowman's dynamic capability model as a foundation, and in this article, combine the model of dynamic managerial capabilities as earlier stated, in order to enhance a conceptual framework of dynamic capabilities creation (Figure 5) that relate most to entrepreneurship in order to guide the later empirical study.

As shown in Figure 5, five main elements have been considered as the triggers of dynamic capabilities creation in the context of start-ups:

- 1) cognition: manager's knowledge structure and their way of thinking;
- 2) perception: how managers present what they have sensed and what actions will they take to address that;
- 3) human capital: managers' skills and knowledge from their previous experiences and education;
- 4) social capital: managers' social ties with others that help them obtain (or analysis) information and resources;
- 5) leadership: the ability to guide followers to achieve transformational targets in the uncertain environment. This study will test these elements and build a model which release main formulation on how dynamic capabilities are created through empirical research.

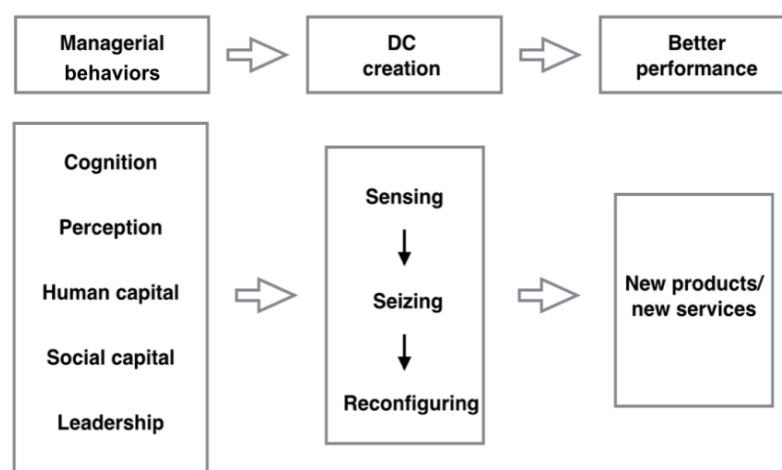


Figure 5: Dynamic capabilities creation processes (Yiying Wu, 2018)

Therefore, this study will apply this model to explore the creation of dynamic capabilities within the target case firm, clarifying how these factors work as influential triggers.

#### **1.4 Studies on dynamic capabilities in the field of media management**

Some western scholars focused on media industrial level capabilities, Lampel and Shamsie (2003) selected the motion picture industry of the United states to better understand the industry's capabilities and in terms of addressing the changing industrial environment, they found out that "mobilizing capabilities consists of routines needed to identify most of the resources, particularly in the form of various forms of creative talents" and "transforming capabilities that comprise routines that drive and regulate the process of using this bundle of resources to obtain a finished product of a desirable quality" (Lampel, Shamsie, 2003). When media industries are faced with digitalization and disruptive innovation, more scholars tend to apply DC framework as a foundation to understand adaptive transformation within the industry. Oliver (2014) examined the notion of dynamic capabilities existing at industry level and argued that the UK Media Industry provided a challenging environment where the majority of firms believed that they were not adapting fast enough to the challenges that they faced, particularly in terms of protecting their core revenue streams (Oliver, 2014). Karimi and Walter's work indicated the role of dynamic capabilities in the performance of response to digital disruption in the US newspaper industry, arguing that dynamic capabilities are positively associated with building digital platform capabilities, and that these capabilities impact the performance of response to digital disruption (Karimi and Walter, 2015) Jantunen et al., explored how different configurations of dynamic capabilities and operational-level changes are related to performance outcomes in the print magazine industry of Finland and Sweden, and observed that when dynamic capabilities interact with operational-level changes, higher performance outcomes can be achieved (Jantunen et al., 2018).

Some other researchers also took the media organizational level capabilities into consideration. Oliver (2014) examined the theory of "dynamic capability" in two UK television broadcasters, and stated that Dynamic Capability Theory provided media management studies with a useful lens to examine organizational adaptation and Financial Operating Ratios is a reliable measure of superior firm performance that is indicative of dynamic capability. While micro and small companies where financial operating ratio analysis would not be possible should be take into consideration in further studies (Oliver, J., 2014). Johansson et al., studied the relationship between decision-making logics and dynamic capabilities. They researched on two Finnish and two Swedish magazine publishers, and argued that despite both decision-making logics and DC are crucial for innovation, there seems to be no direct link between the preferred decision-making logic and strength in genetic capabilities (Johansson et al., 2012). Maijanen and Jantunen's (2015, 2016) case study highlights the

organization's capacities to sense, seize, and reconfigure themselves, and how they relate to each other within the Finnish Broadcasting Company, arguing that the dynamic capabilities differ between the organizational sub-units by the quantitative survey (Maijanen, Jantunen, 2016). Maijanen et al. later took the Finnish Broadcasting Company Yle as a case study, and combined the concepts of dynamic capabilities and ambidexterity that refers to an organization's capacity to simultaneously exploit current assets and mature markets as well as to explore new opportunities opened up by new technologies, business models and markets. They suggested that even if the top management clearly recognizes the need for renewal, there are several constraints that commonly hinder their attempts to seize the opportunities, which led to managers falling back to the old learned ways of taking decisions (Maijanen, Virta, 2017)

Although, some studies pay attention to the DC of media firms, the level to which they paid attention is not enough to generate a comprehensive understanding of the subject.

With the global trends, the digital media, social media, media convergence and industry convergence changed the market structure of Chinese media industry as well, (Yu Guoming, 2012, 2015) as such, the Chinese media field appears to be undergoing a "managerial revolution". (Walder, 2010). In terms of literature on organizational adaptation within media firms, most focus on the transition of traditional media firms, especially their organizational change for addressing high velocity markets. For instance, organizational reforms of the listed media companies (Chen and Hu, 2015), the establishment of flexible and viral organization (Chen, 2010; Wang, 2012; Chen, Shang, 2015) as well as the Production Process Reengineering (Zhou, 2012; Gao, Bo, 2012; Ran, 2010; Sun, 2014; Fan, 2016).

Though, some researches look at dynamic capabilities on organizational level within Chinese media industry, the number of literature available is few, and existing literature largely emphasize studies on strategic path of the organization (especially traditional media organizations), on organizational adaptation, firms' capabilities for adapting to the changing environment did not draw too much attention. In terms of dynamic capabilities, only few studies applied this framework in their research approach. One valuable work was conducted by Luo Zhongwei et al, the study built a theoretical framework based on the interaction between the dynamic capabilities, technological paradigms and innovative strategic behaviors employed a popular social media (Tencentwei-chat) as the case study and explored the mechanism of wei-chat's innovation strategy. The study found that this mechanism can be summarized as "supporting by powerful dynamic capabilities, the organization seizes the strategic opportunity of technological paradigm change and through the effective earning process within the firm, along with the solid cross-border integration capabilities, the organization executes

innovational activities and constantly renew them over time” (Luo et al., 2014). It is clear that this research explains the importance and supporting mechanisms of dynamic capabilities for innovation strategy, meaning that dynamic capabilities indeed is beneficial to new products and services creation, which provides the rationality of this research topic.

However, generally, Yu Guoming noted that in the last 10 years, the research on management of Chinese media organizations lack theoretical depth as most studies have no clear guiding methods and are stuck at a superficial level. (Yu Guoming, 2015) Likewise, according to Zeng Qiong and Zhang Jinhai, studies on micro-operation level are scarce due to lack of the establishment of microeconomics research paradigm, which makes the study lack deep insight. (Zeng and Zhang, 2014)

Since the study of media management started from the west, literature from western scholars always embedded solid theoretical approaches, which provide reference directions to this study. As mentioned, the DC approach have been approved to be an ideal theoretical proposition used to explain organization adaptive abilities. Researches showing the interaction between media management and dynamic capabilities is needed to generate deeper insights. Furthermore, in order to fill the research gap of lack of theoretical depth in the context of Chinese media, this study apply dynamic capabilities framework as the theoretical approach especially its creation mechanism to gain deep insight.

In conclusion, according to existing literature, some key elements have been clarified: firstly, within the media industry, dynamic capabilities are the crucial forces of new products and innovation which is important for entrepreneurship. Thus, this research topic has proven to be rational; secondly, dynamic capabilities approach is indeed a useful tool to examine the organization’s adaptation and change performance in empirical research context, which provide solid supports for the theoretical choice of this study; thirdly, there are research gaps that cannot be filled by literature on dynamic capabilities in the field of media management, especially micro companies and new ventures in particular need to be considered in further studies. Thus, this study mainly focuses on small scale new firms as a case study. In addition, as earlier mentioned, this study also aims to fill the research gap which literature on management of Chinese media organizations lack, that is, theoretical depth and clear guiding methods.

## **Summary**

Based on literature about dynamic capabilities, Dynamic capabilities framework from literature has been observed to be a useful tool in testing the adaption capacity of firms in media industry, and an essential framework for entrepreneurial firms in establishing competitive advantages by sensing and

seizing external opportunities. This study views dynamic capabilities as the abilities embedded in managerial processes which enable one to sense opportunities and allocate its resources to adjust the fast-changing environment. Ambrosini and Bowman's creation model, which draw together different perspectives, provide a solid theoretical foundation for this study, especially the "managerial behaviors" elements, which go hand in hand with dynamic managerial capabilities theory and that relates directly to entrepreneurship. They are therefore considered to be the crucial framework of this study.

Thus, this study finds solid theoretical foundation. However, there are also research gaps under this tradition. As mentioned in the sections above, the gaps are as follows:

<b>Order</b>	<b>Research gaps</b>
1	Insufficient attention to DC of new ventures
2	The application of the DC approach rather than the creation of DC
3	Need more literature about DC on media management
4	Lack of theoretical depth in the context of Chinese media researches

Thus, to fulfil these research gaps, this study will:

- 1) use a media entrepreneurial firm as the case study, involving in-depth interviews to collect data in order to get deep insight into contextual organizational capabilities, which will fill the gap of lacking researches on new ventures;
- 2) focus on the model of how dynamic capabilities are created rather than what they are, which explains another aspect of the theoretical framework;
- 3) explanation from a managerial DC perspective in the context of media firms, which shows interaction between the DC theory and the media management;
- 4) embed dynamic capabilities model as theoretical framework within the context of Chinese media industry, which makes the study have theoretic support.

## 2. Methodology

This chapter clarifies the research question of this study, which is aimed at explaining how DC are created in a media startup context. And according to the research question, this study asks a “how” question, and relates it to complex contextual conditions. Thus, the case study enables us gain in-depth insights in a real-world situation and fill the research gap that calls for more attention to qualitative studies.

The research design used in this study is in accordance with the work by Yin (2014). The unit of analysis, the theoretical proposition that guide the direction of findings, data collection methods, analytic strategy and techniques will be discussed in this chapter and it is aimed at providing a solid methodology to ensure the validity and rationality of this study.

### 2.1 Research questions

As clarified above and from literature review, there are four research gaps relating to DC studies. This study will be conducted in China and will take the perspective of dynamic managerial capabilities in the context of media firms. As such, the gaps on “lack of application of the DC approach in the Chinese media context” and “limited literature about DC on media management” are already filled. Thus, research questions here are designed mainly to focus on the creation of DC, as well as the interactive relationship between entrepreneurship and DC creation. Therefore, because dynamic managerial capabilities relate directly to entrepreneurship, this study will explain how dynamic capabilities come into existence from the managerial DC perspective.

1. How managerial behaviors influence the creation of DC in the media firm?
  - a. How managers go about sensing for entrepreneurial purposes and interpreting what they sense?
  - b. How managers act on these opportunities and threats?
  - c. How managers apply their leadership qualities to enact changes that cater for the adaptation to external environment?
  
2. What are the crucial aspects for the creation of DC in the context of entrepreneurial firms?
  - a. What enable managers to understand the current external situation?
  - b. What influences managers’ response to changes?
  - c. What facilities changes successfully occur during adaptation?



## 2.2 Qualitative methods used in media management researches

In terms of management research in general, the special issue “Qualitative methods in management research” published on *Management Decision* (Vol. 44, No. 2) in 2006, widely discussed the rationality and advantages of qualitative research in the field of management (Evert Gummesson, 2006). As a tradition in the management field, qualitative research can provide in-depth insights into complicated industrial or organisational phenomenon. Gummesson reported that the research in management field always involved complexity, context and persona, which makes the quantitative approach become difficult to handle, whereas a qualitative approach allow researchers to deal with all that realities as well as the various factors, relationships and fuzzy phenomena (Evert Gummesson, 2006). To get an in-depth insight into media organizational capabilities along with its complexities, multi factors and relations, qualitative approach is the most suitable choice.

Furthermore, since the mid-1990s, researches that applied qualitative methods in the field of media management and economics experienced a rapid increase, among which case studies were the most frequently used approach, and interviews (about 23%) appeared to be the most consistently used method for generating primary data (Albarran et al., 2006: 578)

Since this study ask a “how” question, and its aimed at exploring how dynamic capabilities are created with relevance to organizational changes and being embedded in a complex contextual situation, it may be difficult to obtain enough evidences and details using the quantitative method. Thus, the qualitative approach is the preferred method to obtain multi factors and in-depth insight. Following the tradition of qualitative researches, the case study is used to describe an intervention and the real-world context in which it occurred (Yin, 2014). This study takes advantage of the case study to generate data in a real-world context in order to test the theoretical model and generate a new insight. (Flyvbjerg, B., 2006)

## 2.3 Methods applied by studies on dynamic capabilities of media

Dynamic capabilities have attracted the attention of scholars since the most influential work by Teece et al. (1997). Based on literature reviews, Eriksson reported a fairly equal number of quantitative and qualitative studies (Eriksson, T., 2013). A look into DC related literature in the field of media management, there are both quantitative and qualitative researches as well.

Oliver’s works are one of the most influential researches which applied dynamic capabilities into the media industry and organizations. In 2013, Oliver conducted a survey that sampled 24 UK media executives who were responsible for strategizing and handling other functional areas of their business in order to understand and explore the competitive dynamics of media organizations (Oliver, 2013).

Later in 2014, Oliver used a quantitative survey as well to examine the notion of dynamic capabilities existing at the media industry level. (Oliver, 2014) The sampling frame was populated with 60 media executives (26 responded) who were responsible for developing and implementing strategy for firms like: BBC, BSkyB, ITV, Virgin Media, Fremantle Media, Viacom, PBS, Fox International, NBC Universal, UKTV, Discovery Networks, Endemol and The Walt Disney Company amongst others (Oliver, 2014). Another work that embedded dynamic capabilities into media organization is Päivi Maijanen\* and Ari Jantunen's study, by means of a quantitative survey for all personnel, the study focuses on how the organization's capacities to sense, seize, and reconfigure manifest themselves in a Finnish Broadcasting Company, and respondents were asked to evaluate the sensing, seizing, and reconfiguring capacities and the change performance in their own work units. (Päivi Maijanen et al., 2014). Another work of Jantunen, which studied how different combinations of dynamic capabilities and operational changes relate to performance in the magazine industry of Finland and Sweden used the quantitative approach as well. (Jantunen et al., 2018). A total of 78 magazines were surveyed by emails, of which 41 are from Finland and 37 from Sweden (Jantunen et al., 2018). Karimi and Walter's research on the role of dynamic capabilities in response to digital disruption in the newspaper industry also conducted a research using the quantitative method, and a total of 148 responses were collected after three rounds of e-mail data collection (Karimi, Walter, 2015).

Though these scholars employed the quantitative method to examine or explore dynamic capabilities in the media industry or media organizations, they emphasized the need for a general understanding of dynamic capabilities in contextual media practice. When looking at it from an organizational level, researchers such as Maijanen applied the qualitative approaches as well. The study, as mentioned in the literature review chapter, analyses the fact that the kinds of tension ambidexterity that exist between managerial operation and dynamic capabilities is a qualitative case study based on content analysis of semi-structured interviews with 14 executive level and strategic-level managers in Finnish Broadcasting Company Yle between 2013/14 (Maijanen, Virta., 2017). The study which explored the relationship between the preferred decision-making logic and strength in dynamic capabilities conducted by Johansson and others in Finland and Sweden is also a qualitative study. A total of 32 interviews that focused on the particular online innovations were conducted (Johansson, Ellonen, Jantunen, 2012). The multi-method approach was applied by Oliver in his later research in order to get a more in-depth insight within the media organization. He examined the theory of "dynamic capability" in two UK television broadcasters, BSkyB and ITV in 2014, and used the quantitative method to analyze financial operating ratios and combined it with a qualitative method (content analysis) to analyze the Annual Reports (Oliver, 2014). Following Helfat's statement (2000:958), Oliver reported that the identification of dynamic capabilities in fast moving markets, like the media, could be difficult to identify as they tend to be "less structured and less complex", that's the reason a

qualitative method was needed to get in-depth insight (Oliver, 2014). Likewise, Morgan, Smircich (1980) and Patton (1975) reported that quantitative techniques do not always support, as well as qualitative work, the understanding of complex, dynamic, and multi-dimensional “wholes”, while qualitative methods help provide a rich description of phenomena and also help transfer inquiry for more meaningful explanations (S Sofaer, 1999).

Based on literature review and due to the differing aims of qualitative and quantitative research, nearly all the studies providing descriptive insights or frameworks/models are qualitative (Eriksson, T., 2013). This research also aims at providing a creation model for DC and aid understanding of the DC phenomena within a complex contextual process that is difficult to be investigated by statistic survey. Using qualitative approach to make description and explanation is more reasonable.

## **2.4. Research design of this study**

This study uses the qualitative case study as the method. Some reported that case studies especially single case study have the limitation for generalization. However, Bent Flyvbjerg stated that “it is a misunderstanding, especially in social science study, where social science has not succeeded in producing general, context-independent theory and has thus in the final instance nothing else to offer than concrete, context-dependent knowledge and the case study, is especially well suited to produce this knowledge.” He believes the strategic choice of the case may greatly add to the generalizability of a case study (Bent Flyvbjerg, 2006). Dyer and Wilkins further stated that the single case study will help researchers obtain an in-depth understanding of the study object (Dyer, Wilkins, 1991).

As such, this study will be based on a single case study, and the design will follow Yin’s influential research design, that is, “Case study research: Design and methods (5th Edition)” will be the guide book.

### **2.4.1 Study propositions**

As clarified at the very beginning, this study asks “how dynamic capabilities are created” in the context of media startup. However, as Yin argued, these “how” questions do not sufficiently point to what should be studied (Yin, 2014). Therefore, study propositions that directly relates to things that need to be examined should be clarified before data collection, because without such propositions, the study might be tempted to cover everything about the case, which is impossible to conduct (Yin, 2014).

According to literature review, the appropriate direction has already been found, that is, DC creation processes model established in the first chapter (Figure 5) gives this study an initial theoretical

proposition. Hence, this model indicates five main elements of managerial behaviors for relevant evidence, which underlie the ration and direction for explanation of how DC are created.

### **2.4.2 Unit of analysis**

Depending on the research questions of this study, a common case is needed to gain general evidences in response to this question. Therefore, an ideal case might be a media startup that has experienced or is contemporarily facing organizational adaption in order to adjust to the changing environment.

As such, a Chinese new media firm T has been chosen as the target case, which transforms a music-related social community app into an interest-oriented online music interactive learning platform within a short period for adjusting to the new customer need. The case will be introduced later on in detail.

And since this research takes the perspective of managerial behaviors, the senior managers in the firm belong to the specific analysis unit. A total of 5 respondents were present at management positions, including CEO and leaders from different departments, COO, CTO, Director of Product Design, and Director of Business Development were interviewed as the relevant group in 2017. The respondents were chosen based on the following criteria: 1) the study mainly regards managerial behaviors as triggers of DC creation, data related to managerial behaviors can be directly given by them; 2) the five respondents were involved in the whole adaptive changes within the firm, the first-hand information they have are crucial for this study; 3) the interpretation for the change environment and the action taken to adjust which is important for the study can only be given by self-reports.

As the data of this research mainly consist of interviews, it is necessary to briefly introduce the interviewees.

#### ***Zhang Jijia, CEO***

Graduated from Harbin Institute of Technology in 2005 majoring in electronic information engineering. He engaged in work involving information technology in the first two years of his career. In 2007, he worked as a team leader at Asus, mainly responsible for products, e-commerce business and management of the R&D team. The entire section of this business and its major customers were in mainland China, while the headquarters was in Taipei. Zhang's work started from the very beginning, from team building to product line and business planning.

In 2010, he changed his job and served as a manager at the middle level in Alibaba Group. He was mainly responsible for the integration of the company's internal business structure. He was in charge

of sorting out all products and users of the entire company, as well as splitting and reintegrating the business structure to match user needs. In 2012 when he was still at Alibaba, one of his colleagues left the company and set up his own e-commerce project of cosmetic products, Zhang worked there part-time and was engaged in product and operation.

In 2014, he officially founded his startup, and published “Go!musician”, an online social media platform.

### ***Han shen, COO***

After graduating from Huadong Agricultural University, majoring in CS (Computer Science), he worked at Asus on ERP software implementation. Two years later, he changed his job and worked on software implementation in a management consulting company.

From 2013 to 2014, he worked at Alibaba Group, where he was responsible for systematic analysis and software development. He stated that his thoughts had undergone some changes, from a simple IT practitioner to a practitioner of Internet industry.

At the end of 2014, he became a partner to the CEO, and he was responsible for the startup operation.

### ***Lin Yu, Director of Product Design***

Before graduation from Zhejiang University of Media and Communications in 2014, she already had accumulated experiences of part-time jobs and internships. In 2014, she worked as a visual designer at an e-commerce cosmetics company, mainly responsible for the web page design of marketing activities. In September 2014, she began working with Zhang to build the startup team, responsible for both product design and user experience. Since the product comprised of many business sections, Lin was responsible for the overall control and connection of the different sections. The detailed functions and rules of each section are made by two product managers at a lower level.

### ***Zhu xin, CTO***

He graduated from Yunnan University in 2005 majoring in Internet engineering, and worked on solutions for bank systems from 2005 to 2007. Then for a very long time, he worked on technology- and product-related issues at Alibaba group. From 2007 to 2010, he was responsible for the technological development of “Alipay”, a non-bank financing product under the financial business section of Alibaba. In 2010, he became the leader of technology team that was responsible for the settlement system of “Cainiao”, a logistics services system of Alibaba. He stated that those working experiences at Alibaba affected his way of doing things and the ability of comprehensive thinking,

including thinking of business, technology and product as a whole.

In 2015, he became a co-founder of the startup, mainly responsible for managing the Department of Technology.

***Fu kun, Director of Business Development***

Studying medicine as a major, he showed enthusiasm in music and can play over 10 musical instruments, for instance, the saxophone. He graduated from the high school affiliated to Central Conservatory of Music.

After graduation from the university in 2015, he engaged himself with the team and was responsible for business cooperation and development as an employee, he later became the director. He relates mainly with dealers of musical instruments and communicates with them to seek their cooperation.

**2.4.3 Data collection**

In order to maintain the validity of the study as Yin highlighted, the data collection should apply multiple and not just single sources of evidence (Yin, 2014). As such, this study uses interviews, documentation and direct observation as main sources of evidence.

Conducting interviews with top managers as mentioned within the target firm, the face-to-face interviews can help in understanding the opinions of participants, which is a crucial way of getting deep insight into what has happened in the firm. Since the DC creation processes model has been identified, this study will mainly rely on shorter case study interviews, meaning specific questions will be asked for the purpose to corroborate certain findings that have been established. (Yin, 2014)

In addition, the research questions have earlier been defined, with the aim of answering the following questions 1) how does managerial behaviors influence the creation of DC in the media firm? 2) what are the crucial aspects for the creation of DC in the context of entrepreneurial firms? In conducting interviews in a real-world environment, research questions can be too general and difficult to directly adopt. Therefore, based on research questions, this study refines the interview outline as instruments, which consist of research questions and are more in line with the need for data collection in an actual industry environment. The instruments are as follows:

1. What enable managers understand the current external situation? (Managers' history, expectations, the probabilistic judgments or others) Or is there any social capital that helps managers understand resource acquisition, integration and re-lease?

2. How do managers go about sensing, what choice tool or approach are used, or is it only an area of interest, or is it simply about working to stay open to new ideas based on observations?
3. How do managers interpret what they sense?
4. What influence managers' response to changes (Managers' history, expectations, the probabilistic judgments, or others)?
5. How do managers act to seize these opportunities by reallocating both tangible and intangible assets?
6. How do managers apply their leadership abilities to handle adaptation to external changes (Do they build strong leadership, or specific routines or cultures, or do other methods of taking decisions need to be executed before adjusting to adaptation.)

In addition, in order to gain other important insights, questions appearing in a conversational manner need to be conducted as well.

Therefore, a total of 5 interviews were conducted including interviews of CEO, COO, CFO, Director of Product Design, and Director of Business Development. All interviews were conducted in the target firm located in China, which is a real-world working environment of the interviewees. Since all interviews were done in Chinese, questions therefore were asked in Chinese. All interviews were digitally recorded, then translated into English language after the interviews. The average time for every interview was 1 hour.

Documentation such as business proposal and other internal records can help give insights into the overall changes that have occurred, which will also be the source of evidences of the study.

Direct observation is a method of obtaining the real-world conditions of the target case so as to provide additional information, such as meetings, the leadership style, the working atmosphere as well as the internal communication means. If the evidences gained from observation are similar with that of interviews, its validity and reliability will be strengthened.

#### **2.4.4 Linking data to propositions**

Since analytic strategy is beneficial in linking the case study data to some concepts of interest, then in order to have the concepts give a sense of direction in analyzing the data (Yin, 2014), deciding the analytic strategy in advance is crucial for the final presentation of the study.

Based on the fact that the theoretical model of DC creation has been established according to academic literature, the analytic strategy following the theoretical propositions will be applied in this

case study, so that the proposition help to organize the entire analysis, pointing to relevant contextual conditions to be described as well as explanations to be examined (Yin, 2014) In other words, the DC creation model is a guide for this study to structure the data and findings. In addition, going through all the data for the first time, there are some parts which might also be important but have not been included in the theoretical propositions. Thus, working on the data to form “ground up” are also applicable in this study. As such, as pointed by Yin, such an insight can become the start of an analytic path, leading the data to having additional relationships (Yin, 2014).

Within these general strategies, appropriate techniques should be used to maintain the rationality and validity of the study. A desirable technique, “explanation building” will be applied in this study, which refers to a pattern matching logic. As clarified by Yin, such a logic is one that stipulates a presumed set of causal links about a phenomenon, or “how” something happened, and the causal links may be complex and difficult to measure in any precise manner. (Yin, 2014) As a result, such studies always occur in a narrative form.

- 1) Making an initial theoretical statement or an initial explanatory proposition;
- 2) Comparing the findings of an initial case against such a statement or proposition;
- 3) Revising the statement or proposition;
- 4) Comparing other details of the case against the revision;
- 5) Comparing the revision to the findings from a second, third, or more cases;
- 6) Repeating this process as many times as required (Yin, 2014).

Since this study aims at answering “how” DC are created, and has had a theoretical model about DC creation as guide already, following Yin’s design, this study will compare the finding of the initial case against the theoretical proposition, and revise the model at the end (Yin, 2014). One thing to note here is that, a full explanation-building process also include further comparing of the revision to findings from a second, third and more cases (Yin, 2014). Since this study will only conduct a single-case study under this technical tradition, it will not end conclusively but provide a foundation for further researches.

## **2.5 Ethics**

For the purpose of obtaining more reliable and higher quality data, as well as protecting the interviewees from being tracked (which may lead to inconvenience and harm to their future career), the name of the target company, the names of applications the company have released as well as the names of interviewees are all pseudonyms. At the same time, the quotations used in the finding chapter also conceal the names of interviewees, which encourages them to provide more realistic statements in the interviews. By so doing, the reliability of this study is enhanced.



## **2.6. Limitations and caveats**

First of all, since this study explores the generation of dynamic capabilities from a managerial perspective, managers' behaviour such as their response to external changes, and the specific details of organizational transformation they made, can only be obtained by their self-reports. This makes this study have to trust that their statements are reliable. Therefore, the data presented in this study is more inclined to stand on the viewpoints of manager's statements, rather than standing on a broader level with a certain degree of criticism.

Secondly, because this study is a single case study, though it may have research significance for those media entrepreneurial firms who are in the same situation, it lacks the generalization value for those who are in different internal and external environment. It might also lack important reference value. Moreover, the source of data mainly relies on the interviews of managers, which makes this study lack multi perspectives. The case of this study is embedded in a unique cultural context, as such, it may lack value for those entrepreneurial firms outside China.

In addition, this study did not focus on the debate of external uncertain political impact, but emphasized on the organizational-level management and practice, which makes the study lack multi-dimensional considerations.

## **Summary**

This study, from the managerial DC perspective, ask how dynamic capabilities come into existence as the research question. In order to answer this question, a common case, a Chinese media startup which conducted adaptive changes for addressing the external environment has been chosen. Also, the DC creation processes model as clarified in Figure 5 is the initial theoretical proposition that guides the direction for data collection and analysis. Data collection then relies on multi-sources evidences. Data analysis will apply the theoretical propositions strategy and explanation building technique as reported by Yin (2014) to be the main methods for constructing findings. Thus, a clear chain of research approaches is established to maintain the validity and rationality of this study.

### 3. Case introduction

This chapter firstly gives an overview of the entire Chinese media industry, claiming though political consideration is always the central priority, Chinese media nowadays operate under more operational freedom and market-oriented situation, which provide rationality for this study to deepen organizational management practice regardless of the external uncertain political environment.

By further study of Chinese new media area, the specific market is currently facing a rapid boom, but the elimination rate is comparatively high and the life cycle is short as well. Such a situation requires operational skills to sustain competitive advantages and better market performance. This study can potentially address this problem and is relevant to operational practice by explaining organizational adaptive capabilities.

Most importantly, this chapter will also introduce the target case of this study, which is a startup shift in business from online sales of musical instruments to subscriptions of users as well as commissions received from teachers who provide online services.

#### 3.1 Study possibilities in a Chinese media context

Since the unique characteristics of Chinese media ecosystem, influenced by the paradox of complicated political, social and economic issues, there is the need to review the development and transition progress of Chinese media industry in order to find the possibility of discussing this research topic within Chinese media context.

China's entry into the World Trade Organization (WTO) raised the research trend, the reason why China's WTO entry is regarded as a watershed is that, as Hu reported, media managers, policy makers, and scholars in China "found the WTO as a much-needed excuse to turn the issue of ideology into an economic one" (Hu, 2003).

#### *Marketization and Decentralization*

At the pre-WTO stage (1978-2001), in 1978, the Ministry of Finance approved the implementation of business management in "People's Daily" and several other newspapers, the formation of "institutional organization under business management" (*shiyedanwei, qiye huaguanli*) constituted the tone of the contemporary Chinese mass media system restructuring, that is, the media were allowed to experiment with business management in certain areas – primarily, cost management and compensation system – without compromising their position as institutional organizations

(*shiyedanwei*), (Sukosd, Wang, 2013). Likewise, Zhengrong Hu and some others also claimed the marketization trend within China's media industry (Hu, 2003; Xu, 2013)

In addition, in 1983, the Ministry of Radio and Television (MRT) promulgated a far-reaching policy that introduced a four-tiered broadcasting system that referred to the four levels of administration within the government hierarchy (central, provincial, regional, and county governments), which was done in an attempt to harness local, financial and material resources to spread the central government's influence through increased television access (Zhenzhi Guo, 2003). This led to most Chinese cities having presently a competitive media market with the national, provincial and city-level titles, as well as party-oriented and commercially oriented titles, competing with each other (Colin Sparks et al., 2016), which greatly require effective operational practices to maintain an over-average performance in such a competitive market.

### ***Capitalization and Conglomeration***

At the post-WTO stage (2001- ), the 16th Party Congress Report in 2002 assigned a positive role to the market-based and profit-oriented cultural industries, foregrounding this sector as a key site for policy development (Yuezhi Zhao, 2003). In 2001, the private capital investments thrived in the media industry, for instance, Shanghai Bashi Industrial (Group) invested 6.3 million euros (RMB 50 million) in "Shanghai Commercial News", accounting for 50% of its shares, "Chengdu Business Daily" was indirectly listed on the market through its holding company (Southern Weekly 2001), (Guanjun Jin, Guanghua Feng, 2005). As such, though the news media content production is still controlled within the political and ideological framework, these media companies would like to run at operational level as a business organization and require market-oriented logic and effective management performance.

Learning from overseas experiences, the idea of forming its own broadcasting giants has emerged as a way for the Chinese government to make Chinese television larger and stronger (Xu, 2012). As Hu stated that the post-WTO stage features conglomeration, by the end of 2002, 38 newspaper groups would have been established, 12 more groups would have been established in the previous year ; 20 radio, film and television groups, 12 more groups in the year before; and 15 publication and distribution groups, 5 more groups in the previous year (interviews at SARFT 2003), (Hu, 2003) Similarly, Huang and Hu pointed out that in the competitive market, non-performance press outlets was likely to be closed down. The media groups started to move away from traditional extensive model of propaganda to an intensive and wishfully more effective model (Huang, 2007).

Thus, the internal and external market interests have indeed pushed the system to more operational freedom (Yu Hong, 2014). Particularly, since 2003, the party launched a bold reform of media operation as part of the broader “cultural system reform” (wenhuatizhigai), the CCP (Chinese Communist Party) intends to turn the media field into the new engine of economic growth without significantly comprising its ideological control. (Sukosd, Wang, 2013) In addition to party newspapers, radio and television stations, and other new agencies, “commercial cultural enterprises” (that is, production companies for television dramas and entertainment programs, film studios and exhibitors, as well as non-political publishers) should be transformed into for-profit state-owned enterprises. (Sukosd, Wang, 2013)

Therefore, all those evidences as noted above shows that though political consideration is always the central priority of Chinese media, they have certainly operated under a market situation and has pursued economic success as a major goal for quarter of a century (Colin Sparks et al., 2016). With the recent development in digital technologies, the new media experienced a fast booming period in the last decade, which compete with traditional media. Thus, a highly competitive media environment has been shaped, especially those non-news media which drive a market-oriented firm to profits. Hence, effective operational management becomes a necessity to obtaining a better market performance, which gives the space and rationality to discuss the organizational management within media firms regardless of the political interference.

### **3.2 The market environment of the case**

#### *— —the development of Chinese new media industry*

Due to the fast development in digital technologies, Chinese net users have reached 628 million people, the urban users make up more than 70% of that number (China Internet Network Information Centre (CNNIC), 2016, pp. 45, 47, 61). (Colin Sparks et al., 2016). According to Colin Sparks and some other researchers, the shift to digital news consumption has been much more rapid in China (Anon3, 2016), and the central social functions played by the mass media during the period of rapid economic growth are now better discharged by other technologies. (Colin Sparks et al., 2016) Also, due to the sinking revenue, the total number of employees in some traditional media organizations has dropped sharply since 2014, which is the result of journalists resigning voluntarily due to their low incomes (Anon8, 2016). (Colin Sparks et al., 2016) Those media professionals then joined new media firms or established their own media brands.

Certainly, the advertisers seem to accept that judgement because there has been a very rapid rise in mobile advertising, which now accounts for more or less the same amount as the total newspaper advertising revenue (Colin Sparks et al., 2016). Along with the interest of external capital, the new

media industry welcomes its spring. For instance, by June 2017, there are 565 million net video users, among them 525 million users gain access through mobile devices, and the monthly active users reach about 190 million. The market size of the live webcast rose from about 112.734 million euros (RMB 9 billion) in 2015 to about 187.89 million euros (RMB15 billion) in 2016, showing a straight-up increase by 67%. The mobile live webcast found an outbreak in 2016 and the market scale quickly reached 32.568 million euros (RMB 2.6 billion). From the perspective of the content market, entertainment related live webcasts form the absolute majority by 96%. By the end of 2016, the number of live webcast users reached 344 million, accounting for 47.1% of the total Internet users, and with the rapid development in mobile payment technologies, willingness to pay for online contents has increased significantly, in 2016, the number of paid content users in China reached 988 million (Blue book of new media, 2017).

However, the rapid expansion of market size brought about fierce competitions. As at May 2016, a new live webcast APP was born every 3 hours, of course, in reality, the elimination rate of live webcast APPs is also very high, otherwise, the number of available APPs currently will not be 200. In addition, for the overall mobile application market, up to 35% of applications are opened only once, and the proportion of users who opened an APP for 11 or more times is only 17.6%. Basically, the lifecycle of a mobile application is only 10 months on the average. A total of 85% users will delete an application from their mobile phone within 1 month (Blue book of new media, 2017). Therefore, sustaining competitive advantages through operational management is crucial in such a hyper-competitive market. Hence, from the perspective of dynamic capabilities which is directly related to organizational adaption, this study aims to provide practical significance for sustainable development by updating skills and competencies.

### **3.3 Case Overview**

The target case named T company in this study was established on September 4, 2014 with a registered capital of about 229,562 euros (RMB 1,832,685). Shareholders, Zhang Jijia and Zhu xin, accounted for 87.41% and 12.59% of the shares, and Zhang Jijia served as CEO. At the very beginning of its establishment, the entrepreneurial team consisted of 13 people, divided into product design, technology, and operation groups. Lin Yu, Zhu xin, and Han shen were leaders of the groups while the company structure was simple and flat. Due to the shortage of human resources at the early stage of the business, many cross-groups tasks were taken up in addition to that within the group.

The company launched its first product in March 2015, which is a music-related social community app. This app, originally known as “Go!musician”, provides an online interactive platform for music professionals and amateurs to meet the needs arising from the changes in audience fragmentation.

Users can upload videos of their musical performance to the app and interact with people in the online community, discussing music-related topics and sharing their experience regarding musical instruments. In its initial stage, the company's vision was to develop into the biggest social platform for music lovers in China, encouraging them to make friends through music and share their interesting music and stories. Based on this vision, the business model was designed at that time to accumulate a considerable number of users interested in music through the social nature of the app, stimulating them to buy musical instruments online, so as to make profit from online sales.

However, the app did not develop as expected. For a relatively long time, the user number of "Go!musician" was rather low and showed a very slow increase. As a result, it became fairly difficult to enhance online sales of musical instruments. Recently, a user uploaded a video in June 2015 teaching viewers on how to play musical instruments, this became a hot topic in the community with its numbers of hits, comments and sharing being far more than those of other posts. CEO Zhang Jiajia and his team members keenly identified this users' change and experimentally posted a series of articles relevant to music learning, which proved that such posts were very popular among users. Given that the music market in China had expanded visibly in recent years, Zhang Jiajia and his team observed that an enormous number of beginners in their twenties and thirties were entering this field, and so music learning would therefore become their top demand. Since these users grew up in the era of Internet, they have been accustomed to acquiring information online. For this reason, the team soon made a decision to satisfy the needs of these users and provide them with new products and services.

As a result, "Go!musician" was officially launched with a new name "Movement" on Christmas Day, 2015, which turned to be an interest-oriented online music education platform. It satisfied users'

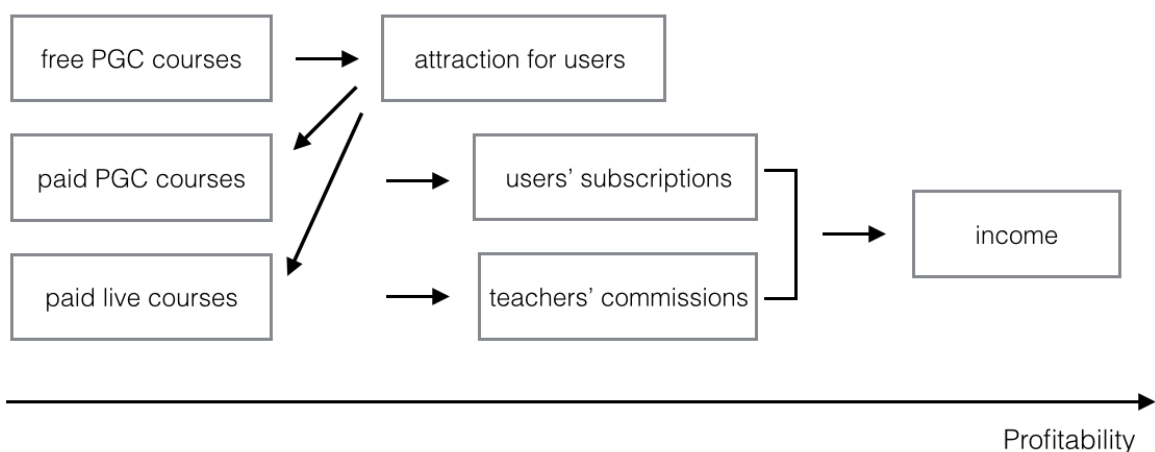


Figure 6: Business model of T company (Yiyang Wu, 2018)

different needs with online teaching videos of different musical instruments, including folk guitar, electric guitar, ukulele, drum kit, piano, cajon and vocal. The courses included not only PGC (Professionally-generated Content) courses in conjunction with music colleges, but also live courses provided by music teachers. This new product offers users free PGC basic courses, paid advanced PGC courses, as well as paid live courses provided by online teachers. Users can select courses of various levels according to their own capacity, and take the courses at the time freely chosen by themselves. Thus, users' subscriptions and commissions from teachers online became the main income of the firm.

The new product "Movement" witnessed a significant user growth. After six months of launch, it ranked among the top 10 on the music app downloading list of App Store. Till date, Movement has a total of over 10 million users, with 3 million active users monthly and over 600 teachers.

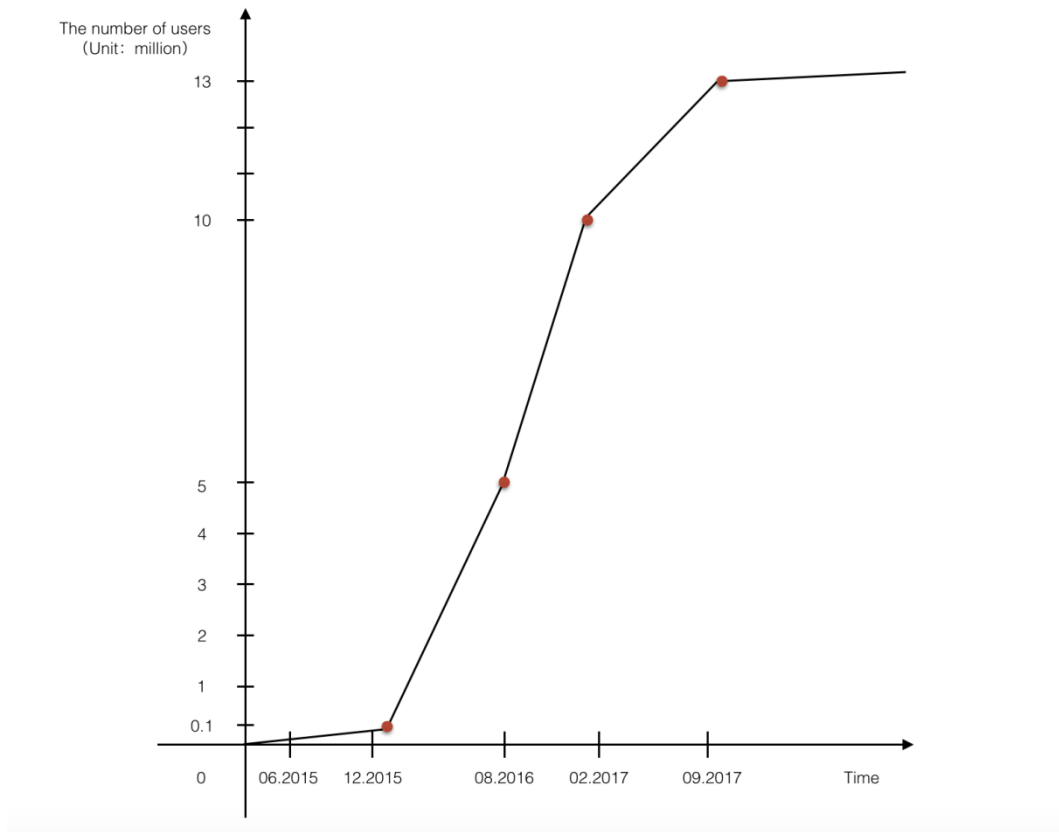


Figure 7: The users number in T company (Yiying Wu, 2018)

Furthermore, in April 2016, the firm received an A-round financial investment of 5 million US dollars from Y Capital. Before the A-round of financing, they also obtained a1,064,710 euros (RMB 8,500,000) Pre-A round of financing. At the beginning of 2018, the company achieved balance of financial revenue and expenditure for the first time, and each of its income and expenditure reached

around 1,252,600 euros (RMB 10,000,000). Expenditure has also shifted from product development investment at the early stage into investments for product operation and customer services.

At the same time of transformation, the company continuously recruits new employees that fit the needs of the transformation processes. At present, there are 65 employees in the firm, among which are 4 senior managers who are in charge of the department of product design, the department of operation, the department of technical operation and the department of business development. Though, there are different departments that manages specific business and operation sections, the organizational structure is still relatively flat without many organizational levels.

As a result, the company's vision shifted to growing up together with music lovers and becoming a first-class online platform for musical education, followed by the business model's shift from online sales of musical instruments to subscriptions of users as well as commissions received from teachers who provide online teaching. Furthermore, Zhang and his team's grasp of user needs enabled them to rapidly adjust their products and services on realization of the changes in needs, resulting in the radical shift of vision and business model and even changes in team composition towards new products and services.

*“The company's products and services have gone through complete and constant changes since we started our business, except that we always believed there are definitely opportunities in the field of music.”*

This startup has been chosen as the case study, that is, because this firm experienced a significant adaptive change in response to external changes, which provided first-hand information for exploring how dynamic capabilities are generated. Secondly, there is the possibility for accessing, which is also important for collecting data.

### **3.4 Background introduction of the entrepreneurial team**

It is worth mentioning that the CEO has several years of experiences working in a management position at Alibaba. Most of other entrepreneurs also have working experience at Alibaba. Here, we need to briefly introduce Alibaba as a background.

Alibaba Group was founded in Hangzhou, China by 18 people led by Ma Yun in 1999. Presently, it has over 40,000 employees (Alibaba Group, 2018). On September 19, 2014, Alibaba Group was officially listed on the New York Stock Exchange, and on July 19, 2018, the "Fortune" global top 500 list ranked Alibaba Group as top 300 (Alibaba Group, 2018).



Alibaba's businesses are composed of e-commerce services, non-bank financial services, logistics services, big data cloud computing services, advertising services, cross-border trade services and other Internet services. It currently has the largest e-commerce platform in China. (Ma Yun, 2015) For the fiscal year of 2018, Alibaba Group's revenue increased by 58% to 31.348 billion euros (RMB 252.066 billion), setting a new record for the highest growth rate since its listing. According to US GAAP (Gaageneral Accepted Accounting Principles), the Group's full-year profit was 10.423 billion euros (RMB 83.214 billion), which increased by 44% on a year-to-year basis over the same period with the previous year, diluted earnings per share was 4.12 euros (RMB 32.86) and the free cash flow for the year reached 12.446 billion euros (RMB 99.362 billion) (Alibaba Group, 2018).

Alibaba's corporate culture focuses on "customer orientation" and "innovative spirit." It states that "all participants, including consumers, retailers, third-party service providers and others have the opportunity to grow and benefit together. The current success and rapid growth of our business depend greatly on our respect for entrepreneurship and innovation, and we consistently pay attention to meeting the needs of our customers", meanwhile "customer first", "teamwork", "embracing change", "integrity", "passion" and "dedication" constitute the values of the company (Alibaba Group, 2018) and shape the enterprise's inner spirit and belief, all of these influence its employees. Therefore, startups founded by entrepreneurs who have left Alibaba have also been influenced to a large extent by these factors.

Moreover, with the constant development of Alibaba, many employees left the company to start their own businesses. According to the "Alibaba Alumni Entrepreneurship List" released by Chu Cheng Capital, at the end of December 2017, the number of startups with the background of Alibaba has grown to 1,004 (Chu Cheng Capital, 2017).

## **Summary**

Though political consideration is considered as a central priority for many researches, the Chinese media industry is experiencing a more operational freedom and market-oriented development, which provide rationality for this study to look into management practices. Also, the new media market in China is particularly experiencing rapid development, calling more attention to operational skills for better market performance. As such, this study addresses this problem by exploring DC creation which is crucial for a firm to adapt to the changing environment. Thus, a Chinese new venture T company has been chosen to be the target case, which involve a significant adaptive change within the firm.

## 4. Findings

Through the case study, identified by the proposed model (Figure 5), this research finds that leaders' cognition, perception, human capital, social capital and leadership all contribute to the formation of dynamic capabilities. Besides, their instinct and expectation also force the creation process. Moreover, the influence of these elements varies in sensing, seizing and reconfiguring stages, this study thus revises the creation model in a more detailed formation.

Sensing, seizing and reconfiguring are the major stages of application of dynamic capabilities. Based on this and literature review, this research proposes the following five main elements affecting the three stages:

- 1) cognition: manager's knowledge structure and their way of thinking;
- 2) perception: how managers present what they have sensed and what actions they will take to address that;
- 3) human capital: managers' skills and knowledge from their previous experiences and education;
- 4) social capital: managers' social ties with others that help them to gain (or analyze) information and resources;
- 5) leadership: the ability to guide followers in achieving transformational targets in the uncertain environment.

In this chapter, the five elements' influence on dynamic capabilities in the three stages is analyzed for two purposes, one being that this research aims to validate the reality of the model built on the basis of literature review through empirical studies, and another being that this research attempts to eventually revise the model of how dynamic capabilities are created.

### 4.1 Sensing

The sensing stage includes observations of the external environment as well as interpretation and understanding of the existing information. In July 2015, the Movement team observed a significant user data change, which is a guitar video teaching post that attracted a large number of users' attention to the platform. The number of concerns, likes, and comments are much higher than in other posts. Taking this as a breakthrough point, in the next three months, the external environment was observed and evaluated from various aspects, including music retail market, music education market, and user portraits, etc. Thus, in this study, sensing stage started from the observation of that significant user data change in 2015, including the following observing activities and end up with the interpretation and understanding of the information that was observed.

The first stage of dynamic capabilities is sensing, so the first step of DC creation is considered to be the motivational element that triggers sensing behavior and the factors that promote the strengthening of sensing ability. This study observed that the fundamental motivation for entrepreneurial sensing behavior comes from the entrepreneurial instinct of entrepreneurs and their desire for successful entrepreneurship. In addition, the changes in capital market is also another crucial force of sensing activities.

## **The motivation for sensing**

### ***Entrepreneurial instinct***

It is worth noting that the phrase mentioned severally in the interview was “entrepreneurial instinct”, which refers to the entrepreneurs’ natural mental state of always preparing to adjust strategies due to anxiety over the future as well as their strong desire to explore. The entrepreneurs consider such instinct as a basic element in the sensing of impulses and behaviors in the external environment, because they are equipped with the instinct to “constantly acknowledge the outside world and judge if they are on the right direction”.

*“I think startups have natural instincts. At the initial stage, it is difficult to make an accurate choice of business growth point. Instead, the startup needs to continuously and consciously test the responses from the market and the external environment and make corresponding adjustments and transitions, so as to develop ideal products and services and enlarge the company scale.”*

*“What is the motive behind a newly established company seeking survival and development? It must be instinct.”* Accordingly, entrepreneurial instinct is also mentioned as the original motivation that prompts entrepreneurs to constantly observe the surrounding environment. *“We have always been paying attention to the product’s user data. Despite the data size is not large, some information, such as the places where users stay the longest and where there is the highest user stickiness, is useful and always sensed by us. We instinctively wish to acknowledge users’ feedbacks, so as to decide if we are on the right direction.”*

### ***Social capital***

In consultation with different investors, entrepreneurs found that the entire capital market is changing with the pressure in macroeconomic downturn, and failure or slow growth of numerous investments in early entrepreneurial projects. Although, the Chinese capital market does have large-scale funding, the flow becomes more concentrated and investors prefer projects that are “safer”, that is, projects that are relatively mature and have the capability for monetization. Therefore, large scale projects, as well as hot projects such as artificial intelligence relates to the capital market. For projects that are

still at the stage of developing, investors are relatively cautious, and pay much attention to the startups' capabilities of achieving financial balance or profitability.

*“Changes in the behaviors of the capital market will promote changes in the operating rhythm of startups. In the past, financial balance and profitability were factors considered in the C round or D round financing, and now A round financing begins to take these factors into considerations, preferring projects that have the capacities for monetization and profitability. Although we are still a developing project, the trend in the capital market has changed, which has led us to consider the business model for rapidly achieving profitability, with the thought that the original model may have to be changed.”*

On reaching maturity and achieving stable returns, most venture companies have to depend on capital investments for survival and development. Therefore, the external pressures and changes in the capital market force entrepreneurs to reconsider their current products and business models while focusing more attention on the external environment in order to find more viable business opportunities. Therefore, this study states that social networks, especially the capital market, is also a major motivation for sensing activities.

Thus, the company has established regular meetings every week among senior managers where different departments share their sensing from different perspectives, so as to make the scattered information known throughout the company. While the acquisition of information is largely attributed to the spontaneous, fragmented sensing of every department, there is no matured model, mainly user needs and industry trends with information of macro economy and capital market as complement, through its users, social relationships, Internet and media.

In detail, for example, the Department of Product Design has a regular departmental meeting every week to conduct a comprehensive analysis of the visitor number, comment and sharing of each section of the app over the previous week. Meanwhile, the director sorts out and analyzes the users' direct feedbacks. Through the meeting, all staffs in the department are able to acquire the weekly user information and therefore produce a clearer idea about user portrait and needs, which further contributes to better optimization of products and services. The turnaround from an Internet community “Go!musician” to an online musical instrument teaching platform “Movement” originated from an unexpected discovery of user data changes.

*“A user uploaded a video teaching how to play the guitar, which attracted much more attention than other posts with its number of comments, interaction and sharing being extremely prominent, among*

*which the number of comments was 80% higher than that of non-teaching posts. The ordinary performance videos, even though the player was very excellent, were only watched by other users with an appreciating attitude and had a low rate of interaction because there were very few needs for interaction. The teaching videos, however, can stimulate users' desire to learn from them, driving the interaction and resulting in a high rate of interaction."*

At the same time, they also need to share and acquire information from each other through the regular meetings of the senior managers. As a result, information could be shared among departments and between senior managers and staffs, which brings about a more comprehensive observation of the external environment. As changes always manifest themselves in different aspects, the sharing of information in various aspects can contribute to a relatively overall understanding and affect the changing trends of environment.

At this stage, firstly, the entrepreneurs' instincts to seek survival and development drive them to constantly observe the external environment including users and market, so as to discover new opportunities and challenges on time. Therefore, entrepreneurial instinct and desire are important factors in the generation of sensing behavior, which drives the Movement team and forms a basic process for observing the external environment to confirm whether its business is developing in the right direction. At the same time, CEO's close connection with the capital market also generates the motivation for further sensing activities. Due to the contradiction between the requirements for "stable" and "profitability" of the capital market and the slow growth of the present product, the pressure of seeking monetization promotes the team to constantly observe the external environment and find a more appropriate way to advertise products or services.

### **The strengthening of sensing capabilities**

However, as mentioned above, this basic process is a relatively simple observation of the external environment, mainly focusing on direct user data observation and analysis. In addition to user data and capital market, for other aspects of the external environment, including market, technology, competitors, etc., there is no fixed and scientific observation mechanism, the observation behaviors present scattered, individual and spontaneous characteristics. Temporary observation activities are organized for specific goals only when certain signs appear. Those activities collect information from different aspects, while focusing on confirmatory observations to form a relatively accurate understanding of the external environment. Therefore, the occurrence of specific events is the trigger for the formation of centralized sensing activities. Specifically, when the product design department first observed that a teaching post attracted the user's attention, then they organized a series of activities to confirm that this user demand indeed exists.

Taking the shift from “Go!musician” to Movement as an example, upon discovery of user data changes, managers organized testing activities to further gain users' feedbacks as their first step. They consciously posted some content related to musical instrument teaching on their platform to collect user responses, finding that posts with keywords of guitar teaching, guitar learning and music leaning had longer average view time and more user interaction than other posts. At the same time, the search index for teaching-related keywords on the platform experienced a significant increase.

Secondly, they also referred to the backstage data of Alibaba, China's largest e-commerce platform, and found that the annual turnover of online sales of musical instruments had exceeded RMB 30 billion yuan and was in a trend of continuous growth, while the annual report of the music industry showed that the total annual turnover of musical instruments in 2015 was merely over RMB 37 billion yuan, indicating that the traditional offline sales only accounted for a very small portion of the total sales. This is because people had gradually been accustomed to online shopping. Furthermore, from the perspective of user portrait, both Alibaba's e-commerce data and their customers' data indicated that the dominant customers were in the age group of 15 to 35. In a more detailed classification, young people from 15 to 25, who are middle school and university students, constituted 70% of the total customers; people from 15 to 30 constituted 90%; and people from 15 to 35 constituted 97%. It can be seen that the consumers of online musical instrument sales were definitely not children (pupils and kindergarten kids) whose parents were at an age of over 35, an age group only taking up an extremely small part. Since the dominant consumers are between 15 and 35 years old, mostly between 15 and 25, the goal of consumption is self-use rather than a present for children.

In order to gain a more profound understanding of the market and confirm the basic judgement, further researches were conducted on market and users. *“We found out from some surveys that in second-, third- and fourth-tier cities, there are few excellent teachers because most of them are in first-tier cities such as Beijing, Shanghai, Wuhan and Guangzhou. The user demands for excellent teachers greatly exceed the supply of excellent teachers, which is the general situation. Besides, based on user composition, we mainly investigated white-collar young people who have little time and no fixed time learning musical instruments in specialized institutions.”*

As a result, due to these organized sensing activities, the perception of the external environment is accumulated, and a relatively comprehensive and objective overall understanding is gradually formed. Thus, it can be considered that the sensing capability is gradually strengthened in this process. This study observed that the way of thinking and the knowledge structure are closely related to the strengthening of sensing ability during that process.

## **Cognition**

First of all, during the shift from “Go!musician” to Movement, the sensing of external environment was not completed in one day, but it was based on a later approach, while constantly seeking for confirmation.

In the entrepreneurs’ opinion, the way of thinking lays a foundation for their understanding in the process of sensing and perceiving external environment. The interview shows a high frequency of key words and phrases like curiosity, sensitivity and seeking for changes, during which the entrepreneurs affirmed the significant positive role of their characteristics of thinking in their sensing of the external environment.

*“More importantly, it is necessary to be curious and pay more attention to phenomena beyond your understanding, so as to develop your own ideas. I’m responsible for technology, but I cannot just be concerned about technology, but need to know the situation of the market and operation as well.”*

*“Doubts always arise in my mind, such as whether the current mode is right or wrong. Being unable to be solved immediately, but when important inspiration hits me during the acquisition of external information, I communicate with persons like investors and dealers, obtain information from the Internet or get user feedbacks, and address the doubt. Hence, this thinking habit push me to always carry donuts in mind and to acquire information from various perspectives.”* As can be observed, a qualified manager is always in a state of “not being satisfied”, asking questions and seeking answers to them.

Zhang Jiajia considers having doubts and seeking for changes as an important way of thinking for entrepreneurs, he holds a regular tea reception of senior managers for brainstorming on different topics. *“Different things may have common key principles in places of inspiration.”* Zhang Jiajia argues, *“Usually, everybody expresses his or her ideas on a new economic phenomenon. The discussion allows the collision of ideas and plays a positive role in improving the sensitivity of thinking and deepening opinions on various issues.”* Such training on thinking is actually a kind of organizational learning behavior led by the CEO, aimed at long-term competitive advantages of the company instead of specific production.

As such, thinking mode of entrepreneurs is crucial in sensing the environment and it is comprised of maintaining curious and radiant thinking. This mode enables them to always be in the state of “acquiring information and pondering” as well as “acquiring information and confirming”, which helps them acquire information of greater richness from various perspectives, and the judgement

based on the analysis of such information is more accurate and reliable. When the opportunity signs appear, this kind of thinking practice allows entrepreneurs to consciously collect relevant information in a deeper way through specific activities, for instance, as mentioned above, they posted instrument teaching related contents to confirm users' needs. Thus, the thinking mode is the intellectual support of the sensing activities. Therefore, this research concludes that the entrepreneurs' characteristics of thinking are in positive correlation with their sensing capabilities development.

During the process of sensing activities, social networks also provide important contents for sensing, which means it is an important source of obtaining exclusive and important information. Meanwhile, different perspectives brought about by social networks also strengthen the managers' judgments and understanding of opportunity rationality. Thus, social networks can be considered as another crucial element in the formation of entrepreneurs' comprehensive and objective understanding and perception, thereby, strengthening sensing ability.

### ***Social capital***

In this case study, social networks contribute a lot to managers' sensing and understanding of external environment, especially to the startup team that lacks experience and resources.

*“The CEO Zhang Jiajia is good at social intercourse and has been constantly expanding his social relationships in work and entrepreneurial process.”*

*“During the first entrepreneurship, our sensing of a phenomenon actually depended on communication with industry insiders and on comparison and learning within the industry.”*

First of all, higher level of social networks and closer relationships bring about more accurate and high-quality information and even information that cannot be acquired by others. With some managers having the background of Alibaba, they have built close relationships with a considerable number of department leaders of Alibaba, who provided them with information (online sales of musical instruments and consumer portrait) that became crucial evidence in their sensing of external environment and market judgement. *“In the face of the data of e-commerce sales, outsiders may not discover the trend, but we know that Alibaba did not have a specialized sector for musical instrument marketing and that all musical instruments were sold in a natural manner. The continuous increase for two years under such circumstance indicated that the external market was changing and the number of consumers was increasing. The trend acted as a thermometer for the musical instrument industry and displayed the increasingly warming musical instrument market. Many beginners started to show interest in it and desired to purchase and learn a musical instrument.”* The social network of Alibaba even provided the accurate consumer portrait dominated by young people between 15 and



35 years old, laying a solid foundation for the team's judgement that "users' major motivation for consumption is to fulfil their interest.

Also, social network with richer information is also likely to strengthen the entrepreneurs' cognition of opportunity rationality. Their cognition, particularly the differences with others' cognition, contributes to their reconsiderations so that a relatively accurate judgement of a certain phenomenon is generated.

*"The biggest help might be attributed to the cognitive differences with others, especially with investors and seniors in the same industry. The former holds the perspective of investment in capital market, while the latter view things from the perspective of resource owners. Standing at different positions, they have different attitudes towards things, and some businesses that appear uncertain in your perspective might be definitely profitable from their perspective. When these people gather together and discuss, they can acquire a variety of perspectives and view a phenomenon in a more profound way to see the reason behind the appearance."* It is believed that the richness of social networks enable the entrepreneurs to develop a relatively comprehensive and reasonable understanding rather than one-sided understanding, and therefore possess values in "assisting" the entrepreneurs' viewpoints.

In general, high-quality social networks provide the entrepreneurs with crucial information that common people cannot acquire, improve their cognition and strengthen their rational judgement on opportunities, thus playing a positive and key role in the strengthening of startup team's sensing capability.

Under the influence of thinking mode and social relationship, the team carried out further observations on the external environment and mastered relatively comprehensive information. However, obtaining a rich information is not the ultimate goal of sensing. The ultimate purpose of sensing is to discover hidden trends and business opportunities. Therefore, the final completion of sensing ability also depends on the ability of being conscious of business opportunities from rich information, which greatly rely on the entrepreneur's understanding and judgment of the information in hand, that is, their perception. Accurate and precise perception can reflect the trend hidden in numerous information and provide an important basis for enterprises to acknowledge business opportunities. It is the final step to complete the sensing activities, and is also a key step that reflects the value of sensing behavior.

### ***Perception***

However, the surface cognition of data and information was not a determinant in the company's adaptive change. As generally believed by the senior managers, the managers' understanding of the acquired information and data and the manner in which the information is interpreted play a key role in the accurate sensing of the external environment. The discovery of opportunities actually rely on the correct interpretation of the sensed information and an understanding of the economic values in the information.

*“In the face of a product report or user experience report, how to understand it is the most significant thing.”*

*“Instead of the actual needs, users only tell entrepreneurs something abstract, meaning that we need to clearly figure them out by ourselves.”*

*“Actually, I think the prediction of business trend is largely based on whether you can figure out the significant point and find out where the opportunities are.”*

Since the data from Alibaba shows the age group of online music instruments consumption is between 15 and 35 years old, it is therefore interpreted as aiming at interest-based self-use by entrepreneurs.

*“People of this age group cannot live without the Internet. Based on the prominent level of interaction of teaching videos on our platform, we further conclude that online interest-based music teaching has a huge potential market, or at least, we have potential users.”*

Studies that shows excellent teachers are grouped in first-line cities, and as a general situation, the user demands for those excellent teachers greatly exceed the supply. Besides, there are also need for flexible time to learn musical instruments. Based on these information, entrepreneurs could predict a business direction.

*“There generally exists the situation whereby many people, especially music lovers in small cities, cannot find good music teachers like graduates of Manhattan School of Music, United States. If we have such excellent teachers and courses on our online platform, users will obtain a more efficient way of learning musical instruments at a reasonable price and there would be no need to go to other cities. As long as this option is available, users are much likely to accept it. Based on such prediction and the fact that paid knowledge sharing services emerged in China in 2007, we believe that it is feasible to provide interest-oriented online music interactive teaching services.”*

Thus, in addition to acquiring information about users' needs and the market situation, they devoted more efforts to considering the solutions to new supply and demand problems brought by the new group.

*“Every startup needs to explore user needs, because user report does not always tell you the correct direction and entrepreneurs need to figure it out by themselves. Though, there was no general trend directly telling us that an era of online learning would come, but based on our analysis, which covered user data changes, shift to online musical instrument shopping and user portrait’s change towards young people, we believe that interest-oriented online music interactive teaching services is a new direction for us.”*

The interpretation of information was based on the user data changes of their own product, in combination with the data changes in the entire music industry and the analysis of user portrait behind the industry, from which they were able to develop their own understanding and judgement.

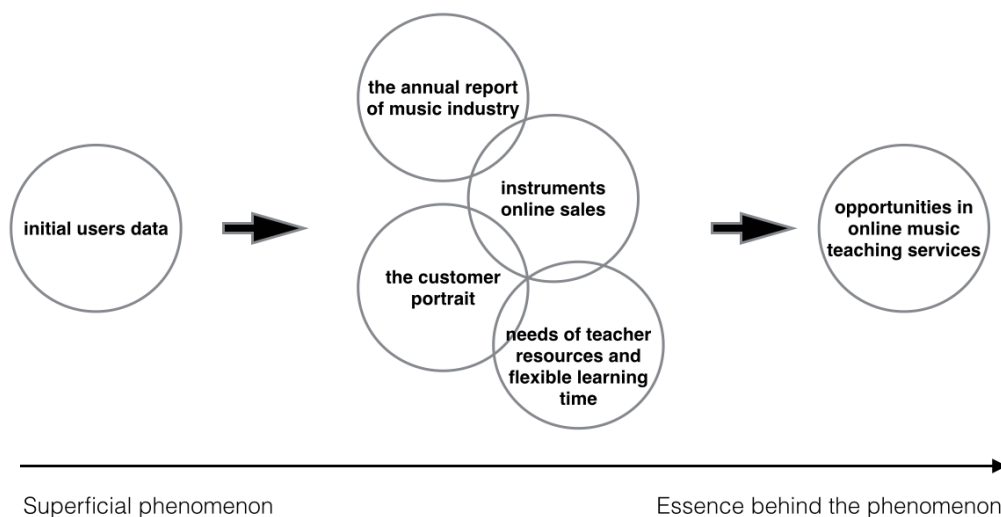


Figure 8: The perception process (Yiying Wu, 2018)

It can thus be seen that in the process of accurately sensing external environment, managers of the startup based their sensing on progressively deeper understanding of information from multiple parties, and were simultaneously and constantly thinking about it and looking for answers. They also deemed that the sensitivity in seeing through the appearance to perceive the essence is a result of constant observation and understanding of business or society, in which the accumulation of knowledge and the way of thinking play a significant role.

### Summary

Entrepreneurs’ interpretation and cognition of external environment are the preconditions of their

accurate sensing of external environment, as well as the basis for the formation of dynamic capabilities. This research holds that entrepreneurial instinct and close connections with capital market (social networks) are important internal motivations that trigger the entrepreneurs to observe the external environments. While the sensing behaviours are generally scattered and involve spontaneous activities, and focus more on simple and surface users' data, there is no matured model. Until specific signs appear, they organized further observations during which sensing capability is strengthened. Three factors, including the way of thinking developed over a long period, high-quality social networks, as well as managers' perception play a positive role in the process of sensing strengthening.

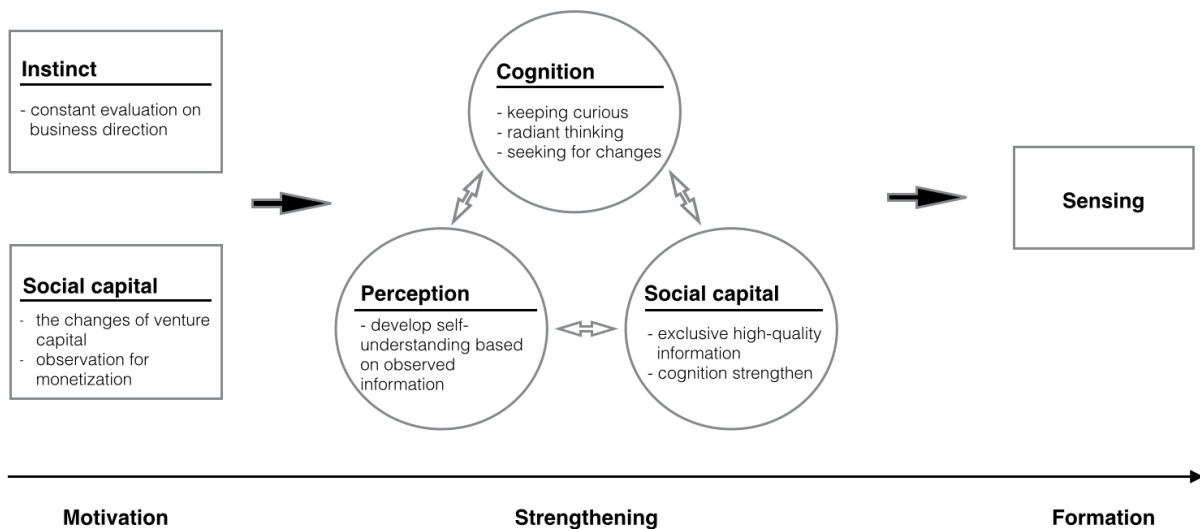


Figure 9: The creation process of sensing (Yiying Wu, 2018)

## 4.2 Seizing

Once sensing the changes in the external environment has been accomplished, the startup team needs to deal with the problem of matching their resources with new external needs so as to seize opportunities, which is a significant process of self-evaluation before the transition of product. Connecting the existing and potential resources with business opportunities play a decisive role in the decision and direction of transition, especially for startups whose resources like capital and personnel are insufficient.

From October to November 2015, the company managers sorted out their own resources, linked existing and potential resources to the business opportunity which was observed from sensing activities, and determined the direction of new products and new businesses. These activities are considered to be the seizing stage in this study.

Seizing capability firstly includes the ability that matches the current business, especially the enterprise's resources, with perceived business trends or opportunities. Therefore, to understand the creation of this capability first of all involves explaining the generation of the matching capability. In other words, the ability to link its own resources with business opportunities is done in order to determine the company's new business direction. This research observed that this matching capability originates from entrepreneurs' way of analysis and judgement of multi-faceted information.

### *Cognition*

At this stage, the company's senior managers re-compared and re-matched its own resources and market segmentation of music industry, evaluating the possibility of transition based on its existing and potential resources.

They found that the profit come mainly from four sections of the music industry, namely, education, e-commerce, publication and performance, each of which is very complicated. At the initial stage of the startup, due to the limited resources and capital, they did not directly engage in the four sections but built a social community based on user interest, with the hope of first accumulating user resources and then benefitting from advertising and online sales. However, as earlier mentioned, they discovered from Alibaba's backstage data that a considerable number of "new users" appeared on the market while their user number showed an extremely slow increase and fluctuated at around 100,000, which prompted them to reconsider their business mode.

Thus, they re-matched their resources with the business in education, e-commerce, publication and performance. First of all, e-commerce involves warehousing, logistics, production lines and so on, requiring favorable sites and financial support. At the same time, there were many competitors, of which Alibaba was already a giant. Even though they had wished to make a profit through e-commerce, they noticed that they did not have competitive consumer base as well as resource base due to the small number of their existing users and its slow increase. Therefore, they decided not to step into e-commerce, which is the seemingly most promising section of the music industry. Second, publication and performance were also sections monopolized by the giants. Without outstanding conditions in capital and resource, they could do nothing but fail. The remaining section on education gave them inspiration. As offline face-to-face music education was usually inaccessible and not connected to online education, while online education was scattered on various platforms with deficient information, they thus assumed that online education market was still in its initial age at that time and had relatively low requirements for access as well as for capital, human resource and other resources. After sorting out their own resources, the team reached a conclusion that it was possible for them to enter the market of music education.

*“First of all, we confirmed the existence of user needs. Second, as there were no direct competitors in the establishment of an interest-based online interactive teaching platform, there was possibility for us to quickly occupy the market and make a difference. More importantly, from the perspective of the company’s resources, we could not only easily match the capital, but also make use of talented users of “Go!musician” to contact more excellent people and make them offer courses on our platform and become tutors. Accordingly, it would be feasible to accomplish the transition to interactive teaching platform in terms of human resource.”*

Meanwhile, they regarded the fact that the emergence and maturity of online live streaming technology laid a technical foundation for the company to seize the business opportunity. *“Online live streaming developed rapidly in China in 2016 and 2017, with its techniques becoming increasingly mature. As a result, there was no need to develop our own technologies, which provided great convenience for the transition and accelerated its realization.”*

At this stage, the formation of matching is based on managers’ interpretation of information. It is their understanding and analyses that form a foundation for the connection between the company’s resources and the business opportunity. Therefore, the entrepreneurs’ ability to understand and interpret comprehensive information is the first step in the formation of seizing capabilities.

Furthermore, due to subsequent communication with external social networks, the team's capabilities of analysis and judgment have been enhanced, thus this study also reported that the external social networks strengthen the matching capability and enhance seizing capability as well.

### ***Social capital***

External social networks could affect the entrepreneurs’ comprehensive analysis and understanding of information. For startups with insufficient experiences and resources, such influence is reflected in that the company can make use of external social relationships to obtain detailed knowledge and specialized experience, meanwhile, the communication involving different opinions also helped in acquiring more accurate self-orientation.

*“Zhang’s social relationships enabled us to know ourselves better and contributed to resource matching. Those networks included senior executives of music industry and online sales platforms, and venture capitalists. Viewing the industry from a deepened and broadened perspective, they were able to provide helpful judgements and analyses that served as a basis for our choice.”*

First, for a startup, investors act as the most important source of capital and even resources, whose

information plays a decisive role in the company's development.

*“I am up to date with the capital market, even though there is no need for capital raising. Only through long-term contact can people get to understand the investors' way of thinking and the investment trend. In the process of our company's transition, more than half of the reference information came from investors and capital market, pointing out that online interactive education was still blue ocean in China. The investors also held an optimistic attitude towards online music education in the context of people's pursuit of spiritual pleasure on the basis of increasing income, which largely determined our judgment for new business direction.”*

Second, practitioners of music industry, including talented users, dealers in musical instruments and agencies of commercial performance, constitute the company's crucial social networks. They not only provided information of different industry subdivisions, but were also regarded as a part of the company's potential resource chain.

*“Through communication with some talented users, we found out that they had already uploaded scattered teaching videos on other online live streaming platforms. From their experience, such teaching services are feasible with good performance in both followership and interaction. They also expressed their will to offer courses on our specialized platform for online interactive teaching, which gave us not only a positive hint but also direct resources of teachers, increasing the possibility of our transition.”*

Besides, cross-industry practitioners also provide valuable professional knowledge and information, especially for innovative startups. When there are no direct competitors within the industry and no direct reference for the design of products and services, the knowledge from cross-industry practitioners can provide indirect solutions to product design for the company.

*“After determining the direction of transition, the next issue to be addressed was product design. The first version of Movement referred to social apps in the field of fitness, because communication with their companies, which shared similar product needs with us, provided insights for us on how to communicate with users and offer users approaches to self-improvement. This rapidly developed field, though having no direct connection with us, had much professional knowledge and experience in operation mode, playing a reference role in our seizing business opportunity.”*

It is worth mentioning that the seizing capability also includes the assessment capacity of perceived business opportunities and the evaluation of the results of matching resources, but unfortunately, this

startup did not perform very well at this point. Due to it being a new startup, the mature company structure and norms have not been fully established, therefore the company has not yet established scientific and standard evaluation mechanism for matching processes as well. Although, entrepreneurs take the views of external social networks as references, the assessment of business opportunities and the matching activities come mainly from their subjective understanding and judgment. When entrepreneurs believe that the perceived business opportunity is the only opportunity to change the status quo of the enterprise, they tend to be full of expectation regarding the new business and develop a strong passion to transform their business in the perceived direction, putting all their eggs in one basket. Therefore, entrepreneurs' mental state, that is, their high entrepreneurial expectation, is an important driving force for the formation of seizing. Although, it has certain subjectivity, this study believes that the factor of entrepreneurs' sprints and minds also led to one of the elements which create seizing.

*“As long as there is a feasible method and enough human resource and money for us to attempt, we will definitely have to try. This is actually a kind of expectation for the new product and service.”*

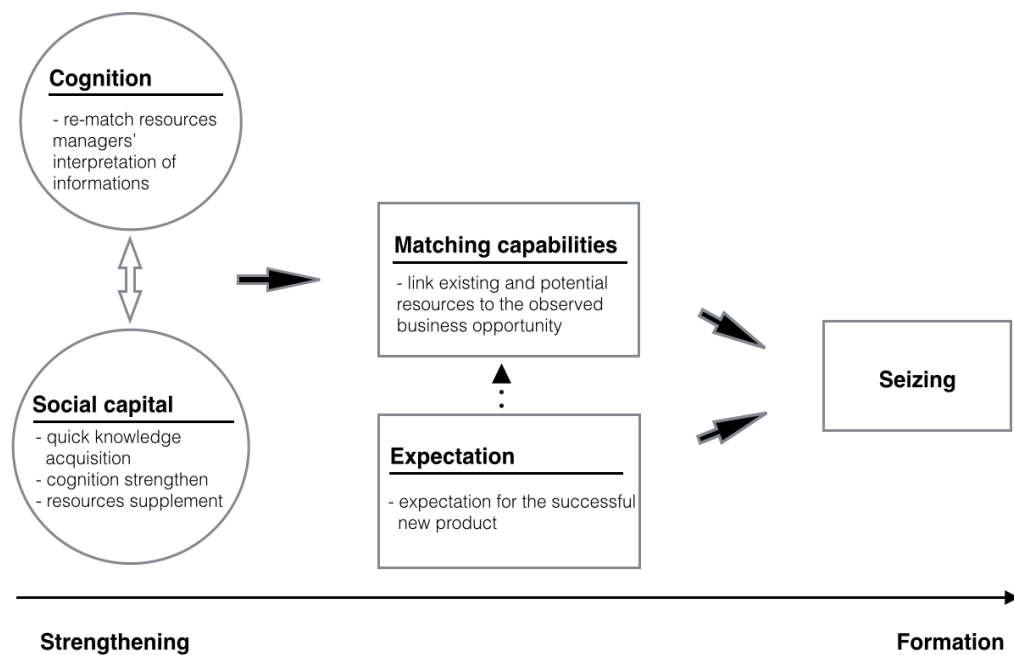


Figure 10: The creation process of seizing (Yiying Wu, 2018)

## Summary

In this stage, the significant foundation that determines the transition direction is the connection of the company's existing and potential resources with business opportunities. The development of such an ability that connect its own resources with business opportunities greatly relates to the analysis



and judgment of entrepreneurs themselves, and their expectation of the new business. Though, they take the viewpoints and specialized experiences of external social networks as important references, there is lack of scientific and standard evaluation processes and predictive assessment mechanism, showing characteristics of subjective expectations and optimism.

### 4.3 Reconfiguring

This stage consists of developing specific action plans, designing new products and services, and executing plans until new products are released. At this stage, the transition from online community of music lovers to online platform for music teaching with brand-new product and service went through a relatively quick and smooth process within the company.

*“In fact, a large amount of work was done in consideration to the action, while the action itself was relatively quick. We decided on transition at the end of October, and the new app Movement was published on December 22. That is to say, we spent only one and a half months making a new product.”*

In the target enterprise, this study found that the organizational resistance is almost non-existent, which is an important reason for rapid transforming actions. The rapid transformation begins with the development of a joint action plan and the joint efforts of the company to achieve the plan. Therefore, the creation of reconfiguring capability on one hand comes from managers’ capabilities to establish viable and efficient target plans, and on the other hand, from their abilities to minimize organizational resistance and improve employees’ performance. Leadership actually forms these two aspects of capabilities, leadership thus provides the foundation of efficiency and execution during the reconfiguration process, which is a crucial element for the creation of reconfiguring capability.

#### ***Leadership***

The quick realization of transition in this stage is largely attributed to leadership, which refers to the leader’s ability to lead the staff in turning the transition goal into actual results. Specifically, with such ability, the leader can guide the effective combination between staff behaviors and transition requirements and stimulate the potential and mobility of staff, so as to achieve the company’s strategic goal.

First of all, leadership is reflected in the establishment of a common goal within the company to make all staff understand the company’s blueprint, and in the current action strategy and goal of transition, with which staff behaviors are combined. Senior managers share with each other their information through regular meetings, such as information about the capital market, user and supplier as

mentioned above, and on the basis of acquired information, they discuss and propose the basic strategy for transition. Information synchronization like this eliminates the possible resistance against the transition at the decision-making level and builds up strong confidence and consistent goal within the level.

*“The goal of the senior managers at the time was fairly consistent. With agreement on the goal, we became more efficient in carrying out the transition, which is very important for a company to rapidly seize the opportunity.”*

Likewise, through staff meetings, the cognition throughout the whole company could be synchronized, and a consistent goal could be set. In this process, senior managers exercise their communication ability to establish existing long-term goals among the staff, and fully stimulate their mobility by exerting influence on their mind and attitude, building up the ideological basis for a fast and smooth transition without resistance.

*“For a startup, money is not a major reward that encourages the staff who might value a sense of achievement more. Visualizing the values and personal achievement brought by transition can directly influence its execution and efficiency. We did not meet any competitor in this industry subdivision at that time, which means that we can be the leaders in the industry provided we succeed. Confidence and expectation in this stage was huge encouragement to the staff.”*

Based on this, the overall goal could be divided into concrete goals in execution, that is, short-term goals for action. The short-term goal of Movement was to provide teaching videos of guitar, piano and harmonica for interns of PGC that users could acquire by subscription, and to make the learning tasks progressively deep, with system interacting with users according to the accomplishment of tasks. Specific short goals and detailed divided tasks can clarify the transition path within the company, contributing to the staff's efficiency.

*“We share our ideas between us and staffs during meetings and make them understand the reasons and blueprint for transition, so as to reach a consensus. Furthermore, it is also necessary to make clear methods and assign different tasks to different groups, making each of them clearly understand their role. For example, the business group shall efficiently find teacher resources; the product group shall design the product's interface and path; the technology team shall provide technological support; and the operation team shall be responsible for coordination and promotion. During the actual implementation, task division and short-term goal clarification can make the transition path clearer and improve working efficiency on the basis of the common goal.”*

At the same time, building up trust between leaders and staff guarantees the elimination of resistance against transition and the realization of smooth transition. The trust is not only based on the leaders' personal ability and charm, but it is also closely related with their way of communication and policies on group development and staff rewards. The fast transition of Movement was also a result of the staff's trust in leaders, especially in the CEO.

*“CEO is the backbone of a company, especially at the initial stage of startup. What kind of person he is decides what kind of people will follow him. Staff trust the CEO's judgement on business opportunity; therefore, once the decision is made, all staff will put in their best with the common faith in mind. Without the trust in CEO, it is difficult for a startup team to unite together to achieve a common goal.”*

Therefore, under the leaders' guidance, the company is able to realize the transition goal in a short time. The prominent manifestation of leadership in this respect is that leaders set up stimulating long-term goals and consistent short-term goals, establish trust between themselves and staff, build up human resource that matched the new business, which all play a positive role in the effective realization of transition goal.

However, it is worth mentioning that the entrepreneurial enterprise has not yet established a sound system, especially lack of the construction of organizational culture which is an important internal force in unearthing staff's potential and improving staff's efficiency. Also, the company's culture provides the internal logic for a company and influences the company's mode of operation through beliefs and values. In addition, incentive mechanism such as salary and assessment has also not been established. In the process of transformation, the incentive and mobilization for employees mainly rely on temporary persuasion and communication by meetings as mentioned earlier, as well as on the trust in CEO. Employees' efforts present the spontaneous characteristic, but due to the fact that there are few incentives mechanism, the risk of short-term passion and execution exists.

At the same time, in the execution process of the transformation plan, although, the organization gradually recruit the required professionals at the later stage, the new skills needed for transformation from the old business to the new one, at the initial stage of transformation, relied mainly on the self-learning ability of the employees. Staffs should quickly adapt to changes by themselves, as there is no training and learning mechanism inside the organization. Thus, the leadership mechanism at this point is relatively weak.

*“Today we have specific staff for course design, recording and video editing, but at the time of transition, we only had about 20 team members and each of them must spare no efforts in learning new things to be able to hold a responsible position. For example, team members who specialized in music are responsible for course design and making, and I took the responsibility of course design of electric guitar, including all work of script, shooting and editing.”*

*“There might be some work that we have never encountered, and then we needed to quickly correct the weakness by learning. For example, we have never designed a video player which was a requirement at that time.”*

*“The deepest impression of working in this company is that I have acquired a lot of new knowledge and skills.”*

### ***Human capital***

Managers' previous experiences and thinking mode greatly influenced the execution of reconfiguring. It should be noted that the leadership as mentioned above is not formed at the beginning of startup, but should be developed from previous working experiences. For example, in this research, the CEO had worked as a team leader for a long time before he started his own business, thus, acquiring a wealth of experience in leading the staff to accomplish goals.

In addition, the reconfiguring plan, which played the central role for guiding the execution in the reconfiguring process, is also greatly influenced by previous working experiences of managers, thus previous experiences is considered as an important force in forming the reconfiguring structure, as it is a crucial factor for reconfiguring creation.

*“I learned an important lesson from working previously with an Internet industry that technology accelerates the upgrading speed of products. In the past, the birth of a new product went through a long process consisting of collection of user needs, product design, technology design, coding, testing and publishing, which might take a total of nearly one year. After publishing, user feedbacks might show their dissatisfaction, resulting in its re-design which would again take half a year. At present, however, the biggest difference between Internet companies and traditional companies is that such processes of the former is much shorter. Methods of quick development enables quick publishing and thereafter quick adjustment based on user feedbacks. As a result, the overall upgrading speed is accelerated. Besides the realization of products, the technology team actually spends more time enhancing the speed of delivering the product.”*

Based on such experience and cognition, the company established its mode of continuously testing the market through R&D (Research and development) results and making quick adaptive adjustments. Hence, the process of realizing the transition goal is a process of optimization by continuously testing the market of products at different stages.

*“We cannot predict the pattern of the ultimate product. What we can do is to calculate a sample product by the lowest costs and then to test and optimize. At the very beginning, there were only video courses on electric guitar, piano and harmonica, which were PGC shot by us. After putting the videos on app, we found that a standard set of courses might act as an introduction to a musical instrument, while the introduction users’ needs began to vary later on, with some looking forward to courses on music theory and others preferring techniques and skills, which made it difficult for the standard courses to satisfy different users. Besides, two-way communication was impeded and lagged. At that time, the newly emerged live webcast became our adjustment direction. We invited excellent Chinese musicians to offer courses on Movement APP, replacing the former standard one-way videos with live streaming videos that enables two-way real-time communication between teachers and students, in order to meet the personalized needs of different users. We chose electric guitar to conduct our test and received good feedbacks. Small-scale testing with user feedbacks accelerated the upgrading speech of product, and is an effective way of publishing new products and services as well as steadily realizing the transition goal.”*

In addition, social relationships provide resources and intellectual supports for transformation and also an important factor for the creation of reconfiguring processes.

### ***Social capital***

Resources lay a foundation for a company’s survival, development and competitive advantage. Only by rapidly acquiring resources and supplementing insufficient resources can a company realize opportunity values. Due to the inability to possess all resources needed in development, the entrepreneurs have to acquire resources from external sources. For this reason, the ability to steadily acquire tangible and intangible resources determine a startup’s survival and potential for development. At the same time, due to the uncertain future, a startup tends to acquire resources from familiar social networks on a long-term contact rather than unfamiliar or newly established networks. That is to say, the entrepreneurs’ familiar social networks are a major channel to acquiring resources.

For Movement, the entrepreneurs did acquire human recourse from their acquaintance and users in a short time as well as resources of professional knowledge.

*“Our initial product did make a contribution in accumulating earliest users. We mobilized some of them, who are specialized in musical instrument, to become the first batch of online teachers on our new platform. This was not based on certain shortcut, but was a result of long-term cooperation.”*

*“All staff in our company must contribute to a certain degree. They sought assistance from friends to find some musicians who gave us professional suggestions on course design and even became our teachers.”*

Meanwhile, the company obtained support for promotion from relevant companies at low costs.

*“Upon completion of course making, we mainly sought promotion through social media. After getting in touch with online dealers of musical instruments, especially those on Alibaba, we found that they have rich resources of music We-Media and popular music accounts. Since our courses can help their customers learn the musical instruments, we collaborated and acquired resources for popularization from them at low costs.”*

For companies, especially startups with insufficient capital, the capital market provides necessary capital support and indirect channel of resources for their transition. *“Any investment involve a large amount of money and cannot be given to a company through brief report. Instead, long-term contact is essential before investors trust and accept our program and team as well as provide capital and resources for us. Besides, investors’ ability to provide resources relies on their various industry backgrounds.”*

Therefore, the accumulated social networks are helpful in supplementing deficient resources in the transition process, and constitute an important part of a startup’s capacities in transition.

## **Summary**

In the process of transition, the leadership of middle-level and senior managers is not only a key factor in staff behaviors with new strategic goal, but it is also a driving force to eliminate resistance against transition and realize the successful transition. Leadership thus is a factor for promoting the formation of reconfiguring capabilities. Besides, the accumulated human capital and external social relationships serve as important elements for the company to build a reasonable action plan and gain supplements of deficient resources, which are also considered as the triggers for reconfiguring. However, compared with mature enterprises, the relative shortage of internal and external resources makes the transformation a process of optimization through continuously testing the users’ feedback

of products at different stages.

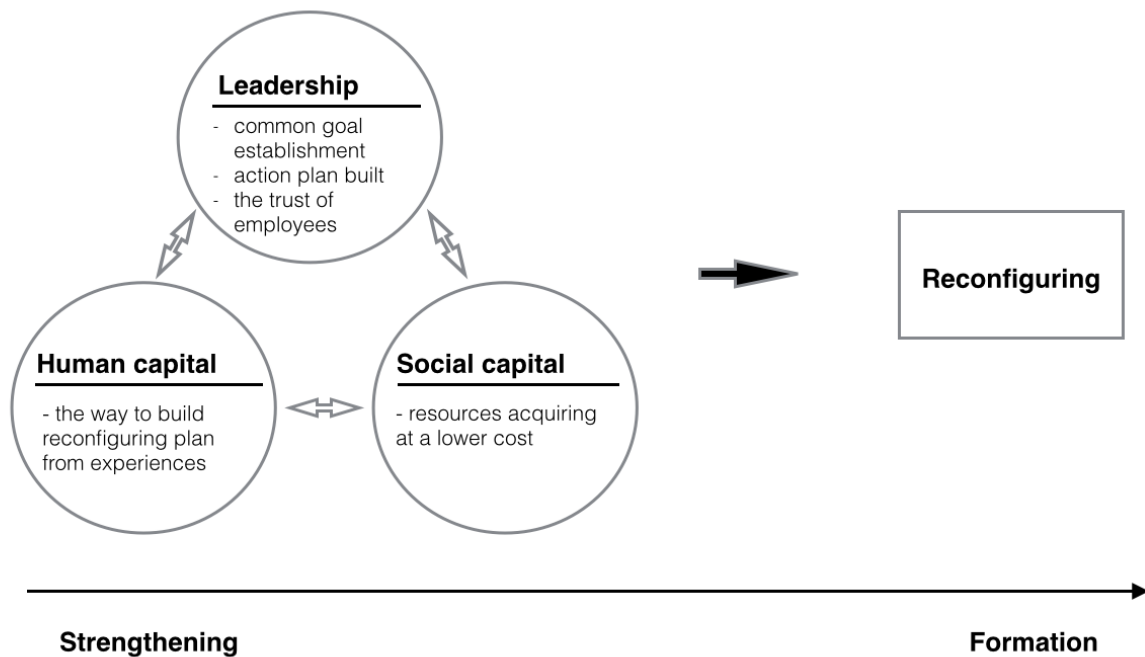


Figure 11: The creation process of reconfiguring (Yiyi Wu, 2018)

In conclusion, based on the above findings, it is concluded that the proposed model (Figure 5) for the creation of dynamic capabilities basically conforms to the realistic situation. The leaders' cognition, perception, human capital, social capital and leadership abilities all contribute to the formation of dynamic capabilities, while their influence varies at different stages of formation. The research revises and details the model, as shown in the following figure. In addition, the spirit element of entrepreneurs also work as a crucial force, including their entrepreneurial instinct and expectation especially at the sensing and seizing stages.

It is worth mentioning that at the initial stage of DC creation, in addition to the entrepreneurial instinct and capital market changes which make T company open their ears and eyes to observe the external environment, the occasional discovery played a key role rather than the planned sensing behaviors. That is to say, T company formed a series of sensing behaviors after observing changes in the user data. The ability to observe, the ability to seize business opportunities, and the ability to transform have also strengthened since then, thus DC capabilities have been created.

After this transformation, they realized the importance of observing the external environment to validate their business model and discover new business opportunities. Therefore, sensing, seizing, and reconfiguring have gradually become a continuous organisational capability after the initial

formation.

It can be seen that in the reconfiguring stage, the company first introduced PGC video courses on electric guitar, piano and harmonica which we made in order to further observe user feedbacks. Through user accumulation and observation for half a year, they found that users have more personalized needs than the standard PGC courses, for instance, some look forward to courses on music theory and others prefer techniques and skills. Therefore, based on this observation, T company added online live courses on their platform, which increased two-way communication between users and teachers through real-time courses, and presented users with more kinds of musical instrument learning options offered by different specialized teachers. It can be said that at this stage they have launched a new round of sensing, seizing and reconfiguring, and through such continuous market testing, the transformation has been achieved. Since then, the company has also adjusted and updated its products through continuous observations of capital markets, users and others.

Therefore, the sensing, seizing, and reconfiguring capabilities created by the company under the occasional opportunity have gradually become organizational capabilities, which involve updating their services and adapting to the business opportunities.

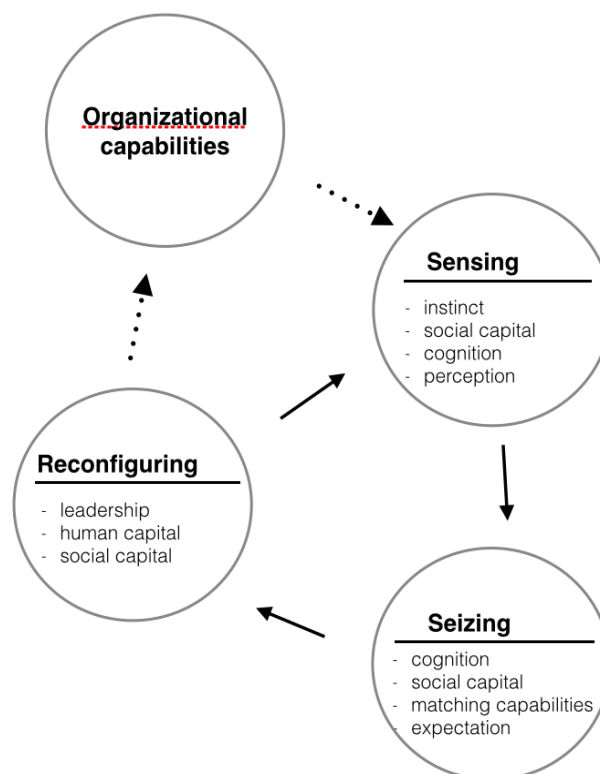


Figure 12: The creation process of dynamic capabilities (Yiyang Wu, 2018)



## 5. Discussion

Based on the research findings, this chapter elaborates on the factors unique to the formation of startups' dynamic capabilities and predicts the future directions for research.

### 5.1 Venture capital playing the trigger role

At the 2014 Summer Davos Forum, the Premier of the State Council Li Keqiang first proposed the call for “mass entrepreneurship and innovation” (dazhongchuangye, wanzhongchuangxin) to encourage people to do business creatively and drive innovation. Since then, there has been an entrepreneurial upsurge in China. As at December 31, 2016, the IT Orange Database has recorded 48,353 startup companies in China (36Kr, 2017). Venture capital has also developed rapidly, but in recent years, the capital market has been heated back. According to the data released by Yuanjing Capital and 36Kr Venture Capital Assistant in 2017, since 2015, the number of domestic financing events has continued to decline, and the investment pace of VC, personal angel investors and PE has slowed down. The data on the first half of year 2017 showed that the growth rate dropped by 30% yearly on an annual basis (36Kr, 2017). At the same time, the flow of capital is channelled towards mature projects. Specifically, although the scale of fundraising in January-May 2018 was US\$23.4 billion, showing a significant drop from US\$110.2 billion in the same period in 2017, there were many cases of large-scale capital investment, for instance, Jingdong Logistics received more than US\$2 billion, as well as Ant Financial Services belonging to Alibaba Group received US\$14 billion, meaning that head projects attracted more funding (NewSeed, 2018).

It can be seen that capital no longer pay attention to scale, but growth rate and user volume of new ventures, efficiency, execution and profitability have gradually become the focus of attention. At the same time, China's capital market is still at the developing stage. Capital has not yet formed the habit of growing together with the innovative startups which is in an early developing period. Capital prefers projects that can take the lead in forming commercial capabilities, and relatively stable projects and industries has been the direction of investments.

Therefore, in the context of Chinese market, the flow of venture capital, which has exerted pressure on entrepreneurial enterprises, is a force for startups sensing their market position and performance. Enterprises that rely on the capital investments for growth is a crucial motivation for them to sense their own products and market reactions, and quickly adjust their business to seek capabilities of monetization in order to gain investors' preference.

## 5.2 The mobility of senior managers

Another finding of this research is that the mobility of senior managers serves as an important guarantee for the company's quick recognition of opportunities and smooth transition.

Startups generally share the characteristic of simple composition with a small number of employees. Sometimes, several people can set up a startup. Different from large companies where every employee has specific tasks, the rights and division of labor are not specific in a startup. Particularly, managers often need to undertake several tasks at the same time, and this requires a lot of their comprehensive ability and ability to act on their responsibility. Employees, especially managers, can be regarded as the most important intellectual capital in a startup with deficient resources.

Startups usually feature "entrepreneurial characteristics". They describe themselves with words like "embracing challenges" and "not content with the status quo", which means they have the passion to actively observe and change the society. Such characteristic is a significant factor for the company to make use of their resources. The managers of T company take the initiative to sense, explore and predict the environmental changes and make earlier preparation than the competitors, instead of passively adapting to the environment. Their enthusiasm and strong desire for success are internal forces of mobility, and they hope to make a contribution to the startup with strong pioneering willingness. Therefore, they actively sense the industry, market and user feedbacks, study and accept new things, and always prepare for creative and innovative practices in the face of changes. Their initiative and mobility enhance the company's efficiency in sensing and seizing opportunities, and reduce the negative resistance to adaptive changes within the company.

Besides, mobility also creates favorable conditions for them to make up for their deficiencies through learning. High efficiency in learning is also significant for startups, as it can help them make quick progress and turn their improved personal ability to the company's capacities. This does not only increase the chance of sensing opportunities, but also improves the company's capacities to realize the strategic goals and achieve a high level of efficiency or innovation. Startups with a larger number of learning-type employees have more prominent intellectual resources and perform better in the face of adaptive changes. As the prior experience is likely to become a key factor in product development and promote the accumulation of knowledge and the development of ability, the managers' constant learning and accumulation can improve both their own abilities and the company's capacities in innovation and development.

Only when the company's capacities are utilized can the company obtain benefits. The role of employees, especially their initiative, allows them to cooperate sincerely and conduct practical

activities more effectively. Such initiative plays a catalytic role in the formation of dynamic capabilities.

In addition, since startups, especially innovative startups, have pioneering characteristics, they tend to exploit new markets, discover new needs and solve new problems, resulting in incomplete cognition of market, technology and target users as well as unpredictable and uncertain future. They actively observe the external environment to adjust their direction, make adaptive changes according to feedbacks and develop themselves through the repetitive practices of exploration and validation. Therefore, the pioneering characteristics brings opportunities to the creation of dynamic capabilities as well.

At the same time, due to the simple organizational structure, flat hierarchy and incomplete organizational process and convention, startups have relatively weak organizational inertia and less resistance to adaptive changes, which make the formation of dynamic capabilities more convenient. The dynamic capabilities at this stage, depend on the leaders' personal ability and mobility more than the organization process and convention. With the company's development, the dynamic capacities that used to be in a stage of "rudiment" are also becoming mature, and the hierarchy within the company is also becoming complex. As a result, dynamic capabilities will be highly affected by the organizational process and convention.

As put forward by this research, the mobility of managers' favorable conditions and the entrepreneurs' enthusiasm, wish and mental state constitute the internal motivation of the formation. However, these findings are based on a case study and might not be universally applicable, there is need for further studies to validate them. Besides, as a startup becomes increasingly mature, dynamic capabilities develop together with organization process and convention can also be a research topic.

In addition, dynamic capabilities do not remain unchanged but go through constant self-renewal with the development of the company. Understanding the self-renewal mechanism is vital for the company's conscious establishment and development. Therefore, the study of dynamic renewal mechanism is also a topic for future research.

Finally, as dynamic capabilities are a set of complex capacities in enterprise management and develop with time and environmental changes, researchers can also take "how to evaluate the company's dynamic capacities" into consideration, which will be a difficult and complicated task.

## Summary

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This study, from the perspective of managerial behaviors, uses a case study to explain the creation forces of dynamic capabilities in a Chinese media startup context. This study answered two research questions 1) how managerial behaviors influence the creation of DC in the media firm, and 2) what are the crucial aspects for the creation of DC in the context of entrepreneurial firms? By so doing, it helps to fulfil research gaps such as: 1) Insufficient attention to new ventures; 2) few attention to the creation of DC instead of the application of DC; 3) need for more literature on media management; and 4) lack of theoretical depth based on the Chinese media context.

The findings indicate that the creation of dynamic capabilities is greatly influenced by all leaders' cognition, perception, human capital, social capital and leadership, which is in line with the theoretical proposition this research has adopted based on literature review. While the influence of these managerial behaviors aspects varies in the sensing, seizing and reconfiguring stages of formation, this research maps the model in a detailed framework. At the sensing stage, entrepreneurial instinct and capital market (social capital) act as a crucial internal and external motivation that triggers the sensing of external environment. While the sensing behaviors focus much on simple and surface users' data until specific signs appear, further observations are organized during which sensing capability is strengthened. Cognition (the way of thinking), social capital (high-quality social networks), and the perception of entrepreneurs positively force the information acquisition and analysis, which become important elements for strengthening of sensing capabilities. Additionally, during the stage of seizing, the most important trigger is the matching capability to connect the company's existing and potential resources with business opportunities, which relates to the entrepreneurs' cognition, their expectation of the new business, and social capital. The weak point in the target case is insufficient scientific and standard evaluation processes as well as predictive assessment mechanism. Finally, in the reconfiguring process, leadership plays the most important role by building the common goal, as well as the trust. Social capital provides quick supplement of deficient resources for the firm. Moreover, this organisational adaption originated from an occasional observation, after that, the firm noticed the importance of sensing, seizing and reconfiguring. Thus further activities about sensing, seizing and reconfiguring were conducted, of which a continuous organisational capability was formed after the initial generation.

It is worth noting again that managers' behaviors and the details of organizational transformation which are crucial to this study can only be observed by managers' self-reports, though the findings have pointed out some weakness such as insufficient scientific and standard evaluation processes of

business opportunities, this study still have the limitation such as the lack of criticism, meaning this research has no choice but to trust their statements rather than take a broader and critical perspective.

Based on the findings, this research also claims in the context of China, venture capital, especially the reduction of investments and the changing flow of funds, plays a crucial role in forcing new ventures sensing of the environment. Besides, the mobility of decision-making executives, including their initiative, pioneering willingness and high efficiency in learning, serves as an important guarantee for the company's quick reaction in order to capture business opportunities.

This study also states the need for further case studies in order to validate the findings, and points out several research direction for future works, including how dynamic capabilities develop together with organization process and convention, the self-renewal mechanism of dynamic capabilities as well as the evaluation model of dynamic capacities.

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