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**Identifying the Dimensions of Dynamic
Capabilities and Entrepreneurial Orientation for
Success and Failure in Organizational
Adaptation to Changing Environments**

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ABSTRACT:

Organizations face continuous change within the business environment and organizations must adapt accordingly to unexpected external changes, like the Covid-19 pandemic. Organizations must keep and gain competitive advantage to remain relevant when facing change. Dynamic capabilities (DC) help organizations adapt to rapid change and reorganize both internal and external competencies, while entrepreneurial orientation (EO) determines the extent which an organization has entrepreneurial dimensions in its operations. Both DC and EO drive organizational adaptation when facing external change, hence the aim of the thesis is to explore the theories in this context. The probability of successful adaptation to sudden change is analyzed through DC and EO, and the theoretical dimensions that lead to failed adaptation are identified. Additionally, the aim is to determine how DC and EO appear in the data.

The objective of this thesis is to identify the dimensions of DC and EO that lead to successful adaptation and to identify the characteristics that organizations lack in failed adaptation in rapidly changing environments. The theoretical framework draws from the research streams of dynamic capabilities and entrepreneurial orientation in a change context. This thesis aims to discover similarities and differences between DC and EO in organizational adaptation process. The thesis focuses on the Finnish restaurant and hotel sector and the data is gathered through five expert interviews conducted using an unstructured interview approach. The interviews were analyzed by using the Gioia-method, and the data was compared with the literature review of this study.

There were identified five aggregated dimensions that lead to successful adaptation and four aggregated dimensions that lead to failure during rapid environmental change. The five found capabilities or dimensions leading to success are organizational change capability, innovation capability, leadership capability, cultural capability, and market stability. The four dimensions that relate failure are absence of leadership capability, organizational change rigidity, resource rigidity, and limited entrepreneurial culture. The findings indicate that managerial abilities affect greatly on successful adaptation and that leadership capabilities outweigh resource-based capabilities. The findings suggest that DC and EO have a positive impact on organizational adaptation amid change.

KEYWORDS: Dynamic Capabilities; Entrepreneurial Orientation, Adaptation Capabilities,

VAASAN YLIOPISTO**Johtamisen akateeminen yksikkö**

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TIIVISTELMÄ:

Yritykset kohtaavat jatkuvaa muutosta liiketoimintaympäristössä ja odottamattomat ulkoiset muutokset, kuten Covid-19-pandemia, vaativat yrityksiä sopeutumaan vastaavasti saavuttaakseen vakauden ja kilpailuedun epävakaaassa markkinaympäristössä. Dynaamiset kyvykkyydet (DC) auttavat yrityksiä sopeutumaan nopeisiin markkinaympäristön muutoksiin ja uudelleenjärjestelemään sekä sisäisiä että ulkoisia resursseja. Yrittäjämäinen orientaatio (EO) puolestaan määrittelee yrityksen kyvyn tunnistaa ja hyödyntää uusia mahdollisuuksia markkinaympäristössä. Molemmat DC ja EO tuovat tärkeää kilpailuetua ja edesauttavat yrityksen muutoskykyä nopeasti muuttuvassa liiketoimintaympäristössä. Tämän tutkimuksen tavoitteena on tarkastella näiden kahden teorian merkitystä sekä tarkastella miten yritykset ovat sopeutuneet onnistuneesti ja epäonnistuneesti äkilliseen liiketoimintaympäristön muutokseen.

Tutkimus pyrkii määrittelemään sekä onnistuneen että epäonnistuneen muutoskyvykkyyden teoreettiset ulottuvuudet. Tarkoituksena on löytää ne ulottuvuudet ja dimensiot, jotka ovat hyödyllisiä yrityksille liiketoimintaympäristön muutoksessa. Tutkimusasetelma mahdollistaa myös niiden ulottuvuuksien tunnistamisen, jotka johtavat todennäköisesti yrityksen epäonnistuneeseen mukautumiseen nopeassa muutoksessa. Tutkimuksessa tarkastellaan miten DC ja EO ilmenevät tutkimusaineistossa. Lisäksi tunnistetaan teoreettiset erot DC:n ja EO:n välillä sekä selvitetään ne teoreettiset yhtäläisyydet, jotka edistävät yritysten sopeutumiskykyä. Tutkimus toteutetaan kvalitatiivisella tutkimuksella käyttäen epämuodollisia haastatteluja tiedonkeruun lähteenä. Haastattelut toteutettiin suomalaisille ravintola- ja hotellialan ammattilaisille. Haastattelut analysoidaan käyttäen Gioia-metodia ja tuloksia verrataan teoreettiseen viitekehykseen.

Tutkimusaineistosta käy ilmi, että viisi teoreettista ulottuvuutta eli dimensiota edesauttavat yrityksiä mukautumaan onnistuneesti liiketoimintaympäristön nopeaan muutokseen. Nämä ulottuvuudet ovat organisaation muutosjohtaminen, innovaatiokyky, johtamiskyky, kulttuurillinen kyvykkyys ja yrityksen markkina-aseman kestävyys. Tutkimusaineiston perusteella havaittiin myös neljä ulottuvuutta, jotka johtavat epäonnistuneeseen ympäristön mukautumiseen nopeasti muuttuvassa ympäristössä. Nämä ulottuvuudet ovat johtamistaitojen puute, muutokseen sopeutumattomuus, resurssien joustamattomuus ja yrityskulttuurin puute. Tutkimustulokset viittaavat siihen, että niin dynaamisilla kyvykkyyksillä kuin yrittäjämäisellä orientaatiolla on myönteinen vaikutus yrityksen sopeutumiskykyyn nopean muutoksen alla. Tutkimustulokset viittaavat siihen, että erityisesti yrityksen johtamiskyvykkyydet edistävät yrityksen menestymismahdollisuuksia nopeassa muutoksessa resurssipohjaisten kyvykkyyksien sijaan. Tutkimuksen tulokset tuovat uusia näkökulmia olemassa olevaan kirjallisuuteen ja täten tukevat sitä.

AVAINSANAT: Dynamic Capabilities; Entrepreneurial Orientation, Adaptation Capabilities,

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Abbreviations

DC = Dynamic capabilities
 EO = Entrepreneurial orientation
 RBV = Resource-based view

1 Introduction

Organizations operate in environments that constantly face change. The change can be gradual and can happen in such small phases that it is not perceived remarkable or even as change. Winter (2003:992) states that change often occurs by force majeure from the environment, either predictably or not, and for better or worse. As Heraclitus famously put it, “change is the only constant in life” (Helfat & Winter, 2011), therefore change arrives nevertheless.

Over the past few of years, the Covid-19 pandemic has forced organizations to respond to the change with their business decisions. The response often is fight or flight. Some organizations can answer with planned strategic actions and some hope for the best by reducing business operations. To respond to rapid external change, an organization must know how to achieve and sustain competitive advantage.

There are plenty of theories that try to explain organization’s ability to change and the adaptation capability. However, two theories have been chosen for this thesis that try to explain organization’s ability to change. The theories are complementary, but they differentiate from one another. These are the resource and capability based dynamic capabilities (DC) and the culture and attitude based entrepreneurial orientation (EO).

Dynamic capabilities help in understanding firm-level success and why certain firms acquire competitive advantage during change over others (Teece, Pisano, & Shuen, 1997). In turn Covin and Slevin (1989) explain that entrepreneurial orientation has a great role on firm performance especially in hostile environments. They argue that entrepreneurial firms sustain more likely competitive advantage than traditional and conservative firms. Dynamic capabilities and entrepreneurial orientation on surface seem similar. However, dynamic capabilities integrate and reconfigure organizations resources in a way that makes them unique and hard to replicate (Teece et al., 1997) and entrepreneurial orientation is rooted in the organizational and individual mindsets

of an organization (Covin & Slevin, 1989). Entrepreneurial orientation is understood to be true if its dimensions are practiced (Covin & Slevin, 1989; Lumpkin & Dess, 1996).

Consequently, organizations can plan for the change by investing into dynamic capabilities or to answer with non-repetitive, reactive, and passive problem solving that is called ad hoc (Winter, 2003). The latter too is a good path to response to novel external changes, however DC can offer greater flexibility and readiness for continuous changes as the business environment evolves (Teece et al., 2007). Another way to enhance firm performance in hostile environment is the level of entrepreneurial orientation in an organization (Covin & Slevin, 1989). By acquiring EO in firm performance, the firm is more likely to lead the market change rather than imitate others. Entrepreneurial firms also hold more sustainable competitive advantage over others (Miller, 1983).

Common for both theories are their beneficial use in rapidly changing environments. Levinthal (1994) explains that organizational change and firm's environmental selection are fundamentally interrelated processes of change, and not at all conflicting perspectives as they were thought to be in the early literature before 1990. Hence, this topic requires new research especially when the business environment has become increasingly unstable. The traditional business models and strategic frameworks have become rather dated in the technological business era, moreover the Covid-19 pandemic has obligated many companies to finally adapt digital solutions into their business processes and seek beyond their comfort levels. There lies interest whether there are patterns and dimensions of dynamic capabilities or entrepreneurial orientation approach exploited when adapting to the recent change.

The emphasis in this thesis is on the recent years and mainly on the effects of Covid-19 on business decisions. Even though the thesis has a focus on the pandemic, the aim of the study is to produce relevant information when explaining general adaptation during change through the dimensions of dynamic capabilities and entrepreneurial orientation.

The purpose of this research paper is to find out and analyze which factors lead to organizations fast reactivity in uncertain and changing business environments within the restaurant and hotel industry. When organization's competitive environment rapidly changes, it must engage in new strategic functions and plan carefully to adapt effectively and successfully. External and environmental changes acquire a more mundane adaptation from businesses (Saebi, Lien, & Foss, 2017). Therefore, this thesis analyses the perspective from dynamic capabilities and entrepreneurial orientation approach due to their theoretically beneficial and novel nature.

1.1 Objectives of the study and research questions

The purpose of this thesis is to analyze does organizations have practical processes which realize the dimensions of dynamic capabilities or entrepreneurial orientation when adapting to radical environmental changes. The aim is to observe how organizations manage within in order that new possibilities are sensed and possible threats are prevented. The aim is to seek which of the dynamic capabilities' dimensional factors or entrepreneurial orientation's dimensions can be identified by the processes and actions that are relevant in either successful or failed business decisions. The objective is to seek any patterns when organizations navigate through disruptive change, and to seek whether the patterns are based on dynamic capabilities or entrepreneurial orientation.

The aim is to seek evidence which supports and follows the dynamic capability view or entrepreneurial orientation. This thesis will analyze the in-depth expert interviews and examine how the professionals have perceived the rapid change in recent years. The goal is to seek how the professionals perceive what are the drivers for successful business adaptation and the drivers for unsuccessful adaptation to change.

Based on the thesis objectives the aim is to answer the following research question.

RQ 1: *How does organizations in the restaurant and hotel industry respond to the environmental changes brought by fast changing environments?*

The research question will be answered with two additional questions:

RQ 2: *How does dynamic capabilities and entrepreneurial orientation contribute to successful adaptation in the hotel and restaurant industry during rapid environmental change?*

RQ 3: *What characteristics lead to organizational failure during rapid environmental change in the hotel and restaurant industry?*

1.2 Thesis structure

After the introduction given in this chapter there is followed the literature overview, which reviews the two theories of dynamic capabilities and entrepreneurial orientation in two separates parts and a short comparison of the theories followed by that. The theoretical framework is followed by the methodology, which after the data analysis is covered in detail by going through the findings. The successful and unsuccessful adaptation are analyzed in separate chapters and the connections to dynamic capabilities and entrepreneurial orientation are examined. Finally, the discussion and conclusion chapter summarize the key findings of this thesis and discusses their significance. Conclusively, the theoretical and managerial limitations with directions for future research are discussed.

2 Literature review

This literature review builds on two theories. The first section explains the theoretical base for dynamic capabilities and its dimensions. The second part in turn explains the theoretical foundations of entrepreneurial orientation and describes its thematic dimensions. Thirdly, a synthesis of the two theories is drawn and there is a theoretical comparison of the theories. This will provide a framework, which further clarifies the gathered data.

2.1 Dynamic capabilities

Dynamic capabilities approach was introduced in addition to the research-based view (RBV) and in comparison, it stresses more the competitive survival in fast changing environment than only sustainability of competencies (Teece et al., 1997). This point of view helps an organization to integrate, build, and reconfigure both internal and external resources during rapid change (Teece et al., 1997). Dynamic capability on the other hand enables an organization to alter how it makes its revenue streams (Helfat & Winer, 2011: 1244).

When company's competitive environment rapidly changes, it must determine new strategic functions and strategic planning in its organizational adaption process to alter its operations. Unpredictable external and environmental changes require a more mundane adaption from businesses (Saebi et al., 2017) and the dynamic capability theory opens new ways for stabilization amid change. During rapidly changing environment, where the market shifts, dynamic capabilities help managers to guide internal and external competencies to address the change (Eisenhardt & Martin, 2000). Managers can integrate, build, and reconfigure firm's capabilities in order to gain sustainable competitive advantage (Teece et al., 1997). Dynamic capabilities have grown in importance because of the expansion of trade, which has caused greater

specialization and more competitive and rapid responses from businesses (Teece, 2012: 1396). Because of more information available, firms must truly understand their core competencies and their internal strengths.

One of the most important characteristics of a capability, both dynamic and competitive, is its difficult nature of replicability. Dynamic capabilities are described as something specific and unique for an organization, hence the capabilities are also difficult-to-replicate and duplicate (Teece, 2007). Consequently, capabilities change over time and they are not static, and that is where the competitive advantage is created through the sustainability and adaption ability (Teece, 2012).

2.1.1 Hierarchy of capabilities

The zero-order capabilities are thought to be the normal everyday resources through which the firm operates. As previously stated, operational capabilities (or ordinary) are the ones that enable the normal function and living in the present moment (Helfat & Winer, 2011: 1244) which can be categorized as the zero-order capabilities. These capabilities' desired outcome is to improve time and cost-efficiency and effectiveness. These are the capabilities that lean operations through functions with repetition and stability. Essentially, the capabilities adjust to the external change. These resources demonstrate the VRIN traits which cannot persist over time, hence also cannot be used as sustainable source (Wang & Ahmed, 2007). Simply, zero-order capabilities are organizations' normal business (Winter, 2003).

The first-order capabilities can deploy resources and enhance zero-order capabilities when reaching a desired goal, moreover the second-order brings in the strategic aspect in building a competitive advantage (Winter, 2003). Core capabilities on the other hand can be derived from a bundle of capabilities, like fast responsiveness, which is the sum of many capabilities and resources (Wang & Ahmed, 2007). Core capabilities are also seen as the most critical and distinctive resources a company possesses, which build from the supporting services, like HR and legal, basic systems, and critical skills. The

cutting-edge capabilities create the competitive advantage (Long and Vickers-Koch, 1995). Firm's core capabilities are often described as the organizations competencies that are unique, difficult to replicate and trade, and critical in terms of the strategic success (Teece, 2007; 2009). Subsequently, Wang and Ahmed (2007) understand the third-order as the dynamic capabilities which bodies from the layers making the whole sustainable. Below there is a figure of the hierarchy of capabilities:

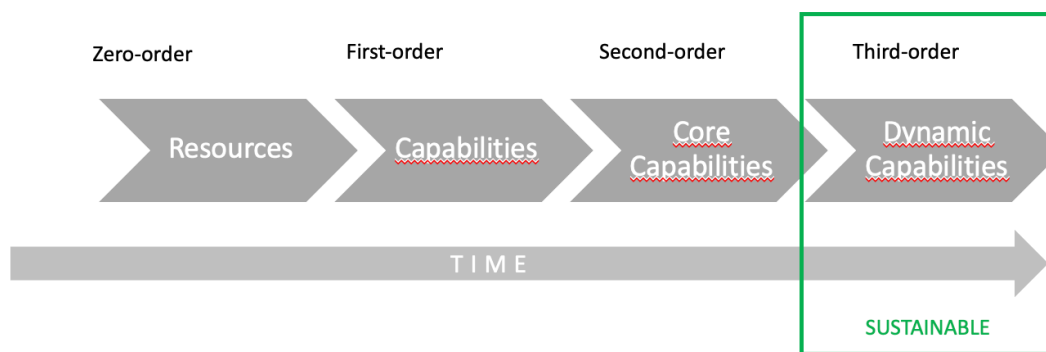


Figure 1. Hierarchy of Capabilities. Adapted from (Winter, 2003; Wang & Ahmed, 2007)

The figure is to demonstrate that not all strategically important capabilities and resources that hold competitive advantage are necessarily dynamic in the sense of Teece's (2007) dimensions. An important note is that capability enables a repeated and reliable performance of an activity in comparison to ad hoc activities (Helfat & Winter, 2001), consequently not all capabilities are dynamic. The higher-order capabilities have more flexibility that benefit during change (Winter, 2003).

The Resource-based view

The resource-based view has an inside-out perspective, which emphasizes the firm-specific resources, with the focus of possibilities and threats of SWOT (Barney, 2001). As above-mentioned, it consists of the VRIN resources or attributes. In the resource-based

view firms' resources should be valuable in the sense of opportunity exploitation, rare among its competition, imperfectly imitable, and non-substitutable (Barney, 2001). The RBV understands the time, social, and ambiguity context, which helps firms to accomplish a sustainable competitive advantage during change.

2.1.2 Development and background of dynamic capabilities

The history of the field of strategic management can be thought as swinging of the pendulum, from time to time the literature of the field has shifted from inside view to outside view of an organization. The research stream has emphasized different trends and put different emphasis on external and internal factors and environment over time. The research of the field can be traced to the 1960', where Andrews and Ansoff first tried to identify the firms "best practices". In the beginning of the research the pendulum was in the firms' internal factors and the evolutionary theory concentrated on routines and their importance on organization's adaption ability (Hoskisson, Hitt, Wan & Yiu, 1999; Nelson & Winter, 1982).

Later, Porter's (1985;1990) frameworks of competitive advantage give a lot attention to the external factors. The emphasis of this research stream gained some critique (Foss, 1996) that the external frameworks lacked an inside viewpoint and had too much emphasis on the industrial organization (IO), in which the competitive position and industry structure were the focus. The firm's performance was thought to be a product of an environment and the outside factors were given major attention.

The lack of focus in the firm's internal and individual resources woke again the interest to develop more firm-specific models to understand the competitive advantage and therefore the firm-specific capabilities. Consequently, the pressure and criticism (Foss, 1996; Fahey & Christensen, 1986) towards the external competitive advantage frameworks resulted in richer literature in the field, and the focus shifted towards the

internal and intangible factors of the firm. However, Porter's influence and the overall input on external frameworks cannot be bypassed, and the external factors remain important in understanding the general view firm's operational environment (Campbell-Hunt & Colin, 2000). This aspect becomes even more relevant as the firm's environment faces disruptive changes, such as the Covid-19.

Consequently, the "pendulum swing" was back to the internal factors and the focus was on how firms' competencies can be exploited in gaining competitive advantage (Hoskisson et al., 1999). Organizations must understand what their competitive advantage is and what is unique for their success. To answer to the shift in the research stream the Resource Based View (RBV) was introduced by Barney (1991). As the environment changes, firm's capabilities need to become more dynamic as the firm purposely responds to change. Capabilities shift from tangible to intangible, which requires sustainable resources to attain long-term competitive advantage.

In consequence of, Barney (2001) introduced the VRIN framework which consist of valuable, rare, imperfectly imitable, and not strategically non-substitutable resources. These resources are understood as firm's capabilities and can be divided into three groups: physical, human, and organizational capital (Barney, 1991). When these inimitable resources are acquired, a competitive strategy can be created. Therefore, dynamic capability in the RBV perspective is not a resource, hence the framework is forward looking.

It is seen that firms should have core competencies that they focus on. Core competencies create a unique, integrated system that reinforce fit among the firm's diverse production and technology skills (Prahalad & Hamel, 1991). Later core capabilities were added to the concept, which were understood as the combination of core competencies and strategic processes. These capabilities are the most critical, distinctive, and difficult to copy resources in firm's value chain (Long & Vickers-Koch, 1995). The logic associates with Barney's (1991) VRIN model, where the unique

capabilities are inimitable and enhance the competitive advantage. Because core competencies do not diminish with use, it creates valuable competitive advantage (Prahalad & Hamel, 1991).

Teece, Pisano & Shuen (1997) add dynamic capabilities as an extension to the RBV. Compared to RBV, which stresses sustainable, dynamic capabilities concentrate more on the competitive survival in changing environment. The theory is approached from the viewpoint where the external environment changes rapidly. Capabilities refer to the current operations and dynamic capabilities refer to the ability to change the operations due to external changes. Dynamic capability approach allows firms to be prepared to rapid changes, despite that if the change is created by the firm itself or by environment. Hence, dynamic capability perspective takes into consideration both inside-out and outside-in approach, that is why it is extremely useful. Teece et al. (1997: 512,515) explain the main terminology such as:

- *Dynamic*: Situations where there is rapid change in technology and market forces, and the firm has capacity to renew competences to answer to the changes.
- *Capability*: Emphasizes the key role of strategic management when adapting to rapidly changing environment with sensing, seizing, and reconfiguring both with internal and external organizational skills, resources, and functional competencies.

2.1.3 Dynamic capabilities definitions

The dynamic capabilities approach is built on other similar approaches that have researched the area of competitive advantage. The competitive forces approach by Porter (1980) and the strategic conflict approach by Shapiro (1989) have been dominant paradigms focusing on the external environmental models in the field according to

Teece et al. (1997). Also as earlier explained, the resource-based view has been strongly associated with dynamic capabilities, as the RBV theory originated from Barney's (1991) article "Firm Resources and Sustained Competitive Advantage". The RBV model focuses on internal analysis of firm's strengths and weaknesses in contrast to the firm's external analysis of opportunities and threats with Porter's (1980) competitive advantage (Barney, 1991).

Despite the other perspectives explaining dynamic capabilities Eisenhardt and Martin (2000) saw incompleteness in those theories and saw that it lacked an organizational and empirical lens. For example, Barney (1991) understands RBV from the economic viewpoint with formal modelling and assumptions that resources are not perfectly mobile and the firms within an industry may not be heterogeneous within strategic resources.

Therefore, Eisenhardt and Martin (2000) explain that dynamic capabilities consist of detailed strategic and organizational processes. By processes they mean product development, alliancing, and strategic decisions making. Through these processes and dynamic actions, an organization can increase and create value by manipulating the resources into new value-creating strategies (Eisenhardt & Martin, 2000: 1106). Dynamic capabilities are seen as the "heart" of RBV model, but having greater equifinality, homogeneity, and substitutability across organizations than the RBV implies (Eisenhardt & Martin, 2000). Their perspective also supposes that dynamic capabilities display differently in different types of markets. Eisenhardt and Martin (2000) suggest that there are two types of markets: moderately dynamic and high velocity. The first market has frequent changes which follow predictable patterns and paths with set industry structures. The latter market has more indistinct industry structures which transfer into less-predictable changes and non-linear compared to the other.

Capabilities can also be thought to be in orders or layers (Winter, 2003; Helfat & Winter, 2011) as previously explained. From this viewpoint capabilities are described as an

extension or modification to the ordinary (or zero-level) capabilities. Dynamic capabilities are organizational capabilities that are collection of routines (Winter, 2003). Routines in this context are understood as behavior that is learned and highly patterned, repetitious, and founded in unspoken knowledge (Winter, 2003:991)

Core capabilities become crucial for organization in a changing business environment where the strategy requires adaptability and fast reactivity. In a fast-changing environment firm's capabilities need to be renewed and redeployed in order to stay competitive. The term dynamic refers to the firm's capacity to renew competencies and the term capabilities highlights the key role of strategic management in adaption, integration, and reconfiguration of both firm's internal and external organizational skills, resources, and functional competences to match changed business environments (Teece et al., 1997).

Managerial dynamic capabilities try to explain the managerial decisions that lead to heterogeneity in organizational performance (Adner & Helfat, 2003: 1012). Moreover, dynamic capabilities were defined by Helfat et al. (2007: 4) as the capacity of an organization to actively develop, extend, or adjust its resource base.

Table 1. Definitions of Dynamic capabilities.

Author(s)	Definition
Teece, Pisano, and Shuen 1997: 516	Ability to integrate, build, reconfigure internal and external competencies to address rapidly changing environments.
Eisenhardt and Martin 2000: 1107	Processes that use resources to match or create market change. Integrating, reconfiguring, gaining, and realising resources. Organizational and strategic routines.

Winter 2003:991	Capabilities that operate to extend, modify, or create ordinary (zero-level) capabilities.
Adner and Helfat 2003: 1012	Dynamic managerial capabilities that managers build, integrate, and reconfigure organizational resources.
Helfat et al. 2007: 4	The capacity of an organization to purposefully create, extend, or modify its resource base.
Teece 2007: 1319	Analytical framework divided into (1) sensing and shaping opportunities and threats, (2) seizing opportunities, and (3) maintaining competitiveness through enhancing, combining, protecting, and reconfiguring firm's assets.

For an organization to succeed in market and to hold its market position, it must hold some strategic value in its operations, processes, product, or services. Amid environmental change and especially during rapid and sudden change, organizations must be able to renew those valuable competencies to thrive. Dynamic capabilities approach has its focus on how specific organizations can both exploit their internal and external firm-specific capabilities while also develop new ones. Dynamic capabilities try to understand how developing, renewing, and exploiting competencies can be used to respond to environmental and market shifts.

2.1.4 Dynamic capabilities framework

To understand more profoundly how sustainable competitive advantage is created and to clarify the sources for it, Teece (2007) introduced a dynamic capabilities framework. The framework helps to understand how capabilities can be continuously created,

extended, upgraded, protected, and kept relevant by the organization. It classifies the capabilities into different categories and clusters when adapting old and seeking new capabilities. The framework is sectioned into sensing opportunities and threats, seizing the opportunities, and maintaining competitiveness to transform and continuously reconfigure (Teece, 2007: 1319).

Teece (2012) emphasizes that the three dimensions must be expertly performed in order to stay and retain its sustainable competitive advantage. These clusters include those capabilities that are hard to replicate, and which differ from the ordinary capabilities that organizations hold (Teece, 2012).

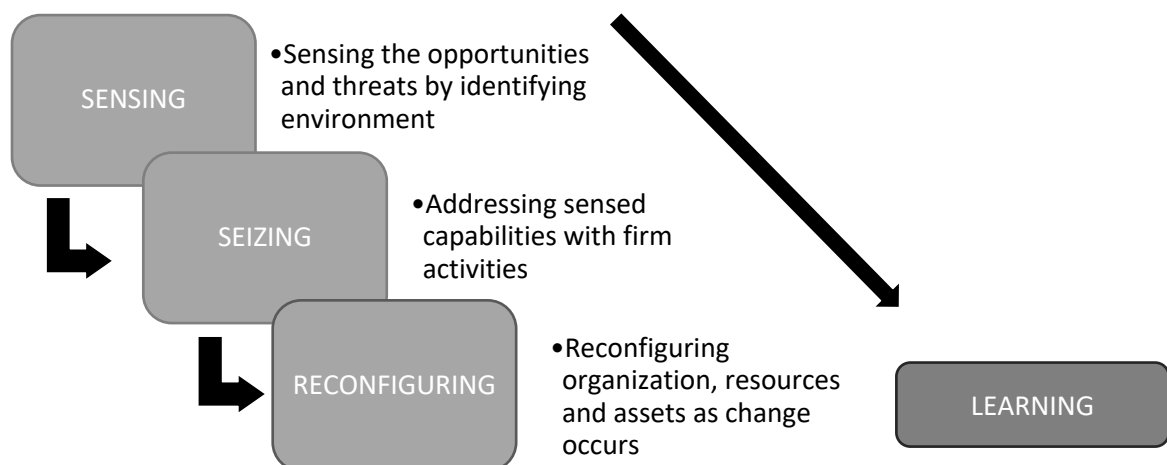


Figure 2. Dimensions of dynamic capabilities framework adapted from Teece (2007).

Sensing

To recognize the opportunities as well as the threats that the business environment, Teece (2007) states that sensing and shaping the opportunities is a great tool in recognition of the possible new capabilities. Sensing is about identifying and assessing the possibilities of the environment (Teece, 2012). Sensing helps to see the threats that might face a changed environment and it helps to see the opportunities in the threats and beyond.

Sensing opportunities might mean exploring technological possibilities and developments to enhance the product or service. Innovation and out of the box thinking also can bring new opportunities for the organization when during rapid change. The management (Teece, 2012) can either validate or reject the opportunities. The organization must develop different hypotheses of different scenarios and then decide which to execute. Collaborations with competition and unexpected cooperation's hold major opportunities as well. Hence, strong network and deep business connections to partners can facilitate in the sensing face. Teece (2012:1396) highlights the possible opportunities in co-creating processes within economic systems.

In this class of dynamic capabilities, the managers engagement is crucial when recognizing new opportunities and pursuing them (Teece, 2007). Entrepreneurial mindset and competencies are important part in market creation and shaping. Creating new markets are strategic and non-routine by their nature (Teece, 2012), thus managers must master entrepreneurial mindset when sensing new opportunities. The evaluation and recommending changes remain as top managements and leaders' responsibility. Even though the character of entrepreneurial action is non-routine, there are some underlying principles and routines in enterprise-level dynamic capabilities (Teece, 2012: 1397).

Roughly the sensing dimension can be divided into accessing new knowledge and creating new opportunities (Schumpeter, 1934) and into accessing existing information and using it in favor to market changes (Kirzner, 1973; Teece, 2007: 1322). The managements' role in the sensing dimension is emphasized by Teece (2007), as whether the market changes and business development are interpreted right, the top management must have the competence to do so. The management must know which ventures to pursue and how to interpret different nuances in the market. This decision determines the organizations path in aligning its strategy to the rapid external change. Entrepreneurs and managers must assess how technologies evolve and how their

customer base is reacting to that (Teece, 2007: 1322). With that information they must be able to adjust the organizational vision and actions to align with the market changes and customer trends.

An important factor in the sensing dimension is that the ability to sense and create opportunities lies greatly on the individuals own managerial cognition and creative capabilities (Adner & Helfat, 2015:831; Teece, 2007: 1323). The capability to understand soft skills and understand the market and customers is not a given trait, which gives the dimension a cognitive psychology perspective. Also, Adner and Helfat (2003) have acknowledged that some managers possess the “dynamic managerial capabilities” with the ability to sense, seize, and reconfigure the organizational resources.

However, sensing and seeking for new opportunities, can be transformed into the organizational context from the rather unexplored cognitive perspective (Eggers & Kaplan, 2013). The organization must have the resources and capabilities to constantly seek for market changes and predict them. R&D and other similar activities that are proactively used to be aware of the business surroundings are crucial when using dynamic capabilities to rapidly changing environments. Individuals’ extant knowledge and capabilities can be transferred into organizational capabilities, as the individuals working are part of the organization itself (Teece, 2007: 1323).

R&D activities must be built in the organization in a way that they are not too local, and thus miss large number of global market information. Teece (2007) highlights that focusing on the ecosystem as well as the core of the organization, helps to see potential collaborations outside their immediate environment. Consequently, looking at the bigger picture benefits firms to be more agile and responsive during rapid change.

Seizing

Seizing is the second dimension of dynamic capabilities, and it addresses the capabilities that were sensed during the initial phase. Teece (2012:1396) explains seizing as

mobilization of resources in order to address the opportunities and thus capture value from doing so. Seizing requires firms' initiatives and investments in R&D, development activities, technological competences, and commercialization activities (Teece, 2007), to implement the capabilities into the firm's decision-making. The response to sensing is seizing, hence it means the reactions to the sensed opportunities. The reactions and actions can be the creation of new services, products, or processes (Teece, 2007), or they can be modification or adjustments into the product itself or supportive activities.

Organization's strategy and business model affect greatly into how it reacts and seizes opportunities. Also, the seizing stage has a great emphasis on the manager and their competences. It is noted that a too fixed organization that follows path dependencies and grounded routines, is unable to adapt to the sensed market opportunities and threats (Teece, 2007). Hence, it is important for the organization to be agile and flexible enough in its business model and commercial strategies in order to have internal change. However, seizing might not always result reconfiguration, consequently seizing capabilities might just create new paths and resources (Helfat & Peteraf, 2009).

As the seizing phase transfers the sensed opportunities into decision-making on managerial level, it holds some limitations. Change resistance and personal biases towards decisions can affect greatly on how effectively an organization can move from sensing to seizing. Teece (2007) notes that firms hierarchic and bureaucratic rules and features might suppress innovative tendencies. Thus, the manager should be able to see past the set rules and structures while seeing beyond the persistence. Consequently, Teece (2007: 1329) states that it is not uncommon for business to sense a business opportunity but fails to invest. One major reason for firms to fail is to favor incremental improvements over larger investments and innovations is due to managers relying on path-dependencies that respond to routines and strategies that were made for existing technologies (Teece, 2007: 1328). The emphasis on path-dependencies can cause one to justify continuous unprofitable investments due to commitment to existing technologies (Hodgkinson & Healey, 2001).

Reconfiguring

The third classified cluster of dynamic capabilities is the organization's continuous renewal and transformation process in which the organization aligns and realigns both intangible and tangible assets (Teece, 2012; 2007). By sensing and seizing opportunities firms can create a competitive advantage through transformation. To have a sustainable competitive advantage, organizational reconfiguration and transformation are crucial. The organizational reconfiguration can be done in variety of ways through transforming processes or realigning processes with the help of learned information. As Teece (2007: 1334) states, organizational growth and profitability can be achieved by the successful identification of technological and market opportunities, the strategic selection of technologies and product attributes, the design of business models, and the financial commitment of resources to invest opportunities. Here, the key is to continuously and assertively to follow the market change and adjust the organizational path-dependencies to it, subsequently that the enterprise can evolve and have profitable growth (Teece, 2007: 1335).

Managerial dynamic capabilities as a part of the dimensions

One notable aspect in reconfiguration dimension is the role of good and capable management who can answer accordingly to change (Teece, 2007). An important note is that some managers have the managerial dynamic capabilities through which they can personally build, integrate, and reconfigure organizational resources, hence some managers have more effective capabilities and skills over others when facing rapid change (Adner & Helfat, 2003: 2014). Also, Zahra, Sapienza, and Davidsson (2006) state the importance of manager's skills and vision when developing and managing capabilities.

Another aspect is the management's ability to interact with the employees i.e. the individuals. The individuals in an organization are required to access both to information as well can reorganize, sense, and shape development in order to create and/or uncover

opportunities (Teece, 2007). Adner and Helfat (2003:1020) propose that dynamic managerial capabilities stem from three underlying factors that are the managerial human capital, managerial social capital, and managerial cognition. The important note here is that all these factors are interlinked to one another. Managerial human capital is built through learned knowledge which effects on how the manager is perceiving the market and building their social capital. One's personal beliefs and routines effect one's decision-making, knowledge input and output (Adner & Helfat, 2003). Accordingly, managerial dynamic capabilities can be thought as an underlying force and influence behind the dimensions of dynamic capabilities (Adner & Helfat, 2003).

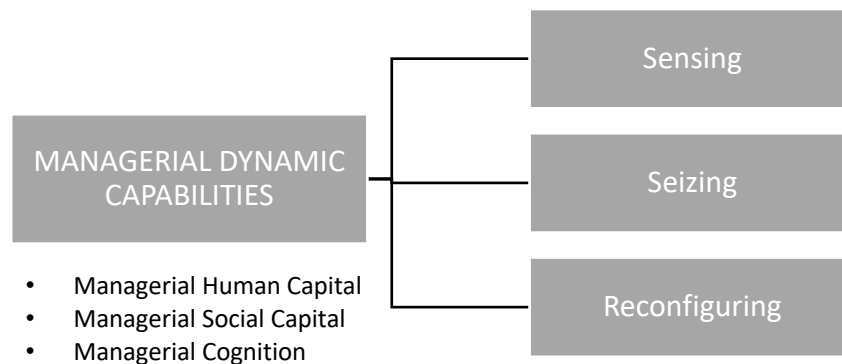


Figure 3. Managerial dynamic capabilities as part of the dimensions adopted from Adner & Helfat (2003).

The capacity to detect possibilities is influenced by individual's competencies and prior knowledge, particularly concerning user demands in connection to existing and novel solutions. Often, the individual's knowledge and learning capacities are the organizations to which they belong, and therefore uses them by default (Teece, 2007: 1323). Hence, the more dispersed the knowledge and decision-making are in the organization, the better it is managing threats and transforming. Teece (2007) furthermore notes that more decentralized organizations with greater local autonomy are more likely not to be blindsided by market and technological developments.

The information flow and its transparency, and dispersed decision making are ways to minimize possible information decay in an organization (Teece, 2007). Correct procedures that are firm-specific can help to create open organization in which the management is not isolated from the lower-level communication. Organizational openness can also lead away from the unfavorable path dependencies (Teece, 2007).

It is noted that routines can help to maintain consistency till the environment changes. However, changing routines is costly, and Teece (2007) notes that putting too much pressure on change right at once is unwise. Hence, an incremental innovation or incremental changes to routines and structures is often performed. However, when radical changes occur, incremental approach is not practical and routines and structures often require entirely new form (Teece, 2007: 1335).

Teece (2007) states that there are several managerial mistakes that can lead to failure. For example, great fixed assets can limit organization's tendencies to innovate new due to existing. There can also be difficulty to see potential in radical new innovations and so called "anti-innovation bias" and "anti-cannibalization bias" that can cause manifestation of incentive and structural problems that can obstruct innovation in organizations. These biases explain why some sense business opportunities but fail to invest in them. Strong leaders can overcome such tendencies and biases with cognitive managerial capabilities (Teece, 2007). Notable is also that risk aversion can lead to biased decision making and limit the probability of organizations radical innovations (Teece, 2007).

Decentralized structures in organizations that facilitate near decomposability are likely to assist in achieving reconfiguration (Teece, 2007: 1339). According to Teece (2007: 1338) management's entrepreneurial capabilities have a great role in co-specialization of assets and building sustainable competitive advantage. Essentially, management's ability to identify needs and opportunities and invest in co-specialized assets are

fundamental to dynamic capabilities. Co-specialization is understood as own product development or astute purchases (Teece, 2007:1338).

The importance of dynamic managerial capabilities arises as very crucial part of the dynamic capability theory. It implies that the importance of managerial competencies might outperform the other factors, when adjusting to rapid change. Managerial dynamic capabilities are highlighted as most quick decisions-making, risk-taking, and continuous sensing, and seizing fall on top of the management. The question is whether DC can explain the emergence of dynamic managerial actions in rapid external change or does the organization have rooted entrepreneurial orientation in their practices, philosophies, and firm behavior, which then manifests in organization adaption capability.

2.2 Entrepreneurial orientation

Entrepreneurial orientation (EO) is critical to organizations growth and even to countries' economic growth (Chen, Du, & Chen, 2011). Entrepreneurial orientation can be used as a tool to discover opportunities and risks in a changing environment both with organizational and individual managerial level. Like dynamic capabilities, EO can help organizations both sense and seize new opportunities and threats. Many studies have found that organizations that adapt entrepreneurial orientation perform better (Wiklund & Shepherd, 2005; Zahra & Covin, 1995). As discussed, dynamic capabilities focus more on organization's ability to adapt and change in response to the rapid changes, entrepreneurial orientation on the other hand focuses on organization's willingness to pursue new opportunities and take risks.

Moreover, the concept of entrepreneurial orientation is a strategic construct that reflects to which extent firms are innovative, proactive, and risk taking in the organizational decisions (Anderson, Covin & Slevin, 2009: 218). EO demonstrates how

an organization incorporates entrepreneurial acts in firms processes and methods to succeed (Lumpkin & Dess, 1996). Entrepreneurial companies can choose certain combination of the EO dimensions when executing entrepreneurial behavior (Kuratko, Marino, & Weaver, 2002). Additionally, forward-thinking firms are more likely to detect and uncover new opportunities before others when they emphasize EO (Knight & Cavusgil, 2004). Important note with the term orientation is that entrepreneurship is embedded in the practices, beliefs, and attitudes that organization has, Dess and Lumpkin (1996) suggest that EO means “being entrepreneurial”.

One notable definition of EO is that there are entrepreneurial firms and non-entrepreneurial or conservative firms, which mainly differ from one another with the management style (Covin & Slevin, 1998). Characteristics of entrepreneurial management and EO model are the openness for innovation, actively searching for new opportunities, having bold and risky decision-making process, and making proactive innovations and adjustments (Mintzberg, 1973; Miller & Friesen, 1982; Miller, 1983). EO can lead to new entries by one or more of its dimensions (Lumpkin & Dess, 1996:136).

Many academics believe that EO is an important aspect of a company's performance, regardless of its size. (Miller, 1983; Covin & Slevin, 1988; Lumpkin & Dess, 1996). It is noted that firms that do exhibit entrepreneurial behavior generally outperform firms that are more conservative (Andersen et al., 2009) and that entrepreneurial posture will positively affect the firm performance in a hostile environment (Covin & Miller, 1998).

According to many studies EO is proven to effect positively on sales growth, firm performance, and survival (Soininen et al, 2012: 619-620; Covin, Green, & Slevin, 2006; Lumpkin & Dess, 1996). Great amount of the general research is between EO and firm performance due to global pressure on maximizing process efficiency (Miller, 2011). Furthermore, EO is stronger in more stable environments, and with limited resources and limited capital because it forces innovative and proactive decision-making and actions to survive (Wiklund & Shepherd, 2005).

2.2.1 Development and background of Entrepreneurial orientation

The original roots can be traced back to Mintzberg's (1973) work of theorizing strategic decision-making (Covin & Wales, 2012: 679). It is considered that the concept of continuous change and its affects to organization's planned strategy makes strategy inherently emergent. In addition, the importance of learning process has long before raised the importance of quick decision-making and proactiveness amid external change (Mintzberg, 1978). The emergency of a strategy has been long acknowledged.

According to Jantunen et al. (2005) the term entrepreneurship has many definitions. Knight (1921) understood it as successful coping with market and technological uncertainties, whereas Schumpeter (1934) described it as a creative destruction, creating new products, and making process combinations when facing market changes. Kirzner (1997) furthermore highlighted that the lack of information and incompleteness amid change generates entrepreneurship through the risen opportunities.

Correspondingly, entrepreneurial orientation has been researched from a variety of perspectives and entrepreneurship research has been quite fragmented. EO has been studied from both individual (Gimeno et al. 1997) and organizational perspectives (eg. Covin & Slevin, 1989) and as before mentioned, most of the studies have concentrated on its relation to firm performance. There is also a conceptual division with EO whether the dimensions of EO should be interlinked to one another to have impact on firm performance or can the dimensions independently affect to have entrepreneurial orientation (Lumpkin & Dess, 1996; Covin & Slevin, 1989).

2.2.2 Definition of Entrepreneurial orientation

Consequently, despite that EO has been greatly studied it lacks a specific coherent definition mainly concerning its links to firm performance (Miller, 2011). However, the main definition and general accepted conceptualization come from Miller (1983) and Covin and Slevin (1989) and Lumpkin and Dess (1996). Miller/Covin and Slevin (1989)

recognize three dimensions of EO that is the one-dimensional construct. In this aspect the three dimensions of EO need to be simultaneously and equally contributing to firm's EO. Hence with their construct, the dimensions are co-dependent, which restricts the use of the dimensions separately and thus cannot explain the concept of EO just by the three dimensions (Covin, Green, & Slevin, 2006).

Lumpkin and Covin (1996) on the other hand raised a multi-dimensional aspect by understanding that the dimensions can independently of each be recognized in an organization in order it to have entrepreneurial orientation. They suggest that the dimensions are not co-dependent and that they can independently contribute to firm's entrepreneurial orientation. This also allows that some dimensions might be greater than others and some dimensions might have a very minimal effect on the EO (Lumpkin & Dess, 1996).

The multi-dimensional view has gained support in contrast to the one-dimensional view due to its less limited nature (Kreiser, Marino & Weaver, 2002), hence this thesis will concentrate on the dimensions with multi-dimensional point of view. Because the dimensions can explain both internal and external factors (Lumpkin & Dess, 1996), the multi-dimensional view can seek beyond why and how certain firms use the dimensions amid environmental change. Below are some definitions of entrepreneurial orientation and their different objectives explained in more detail.

Table 2. Definitions of Entrepreneurial orientation.

Author(s)	Definition	Objective
Miller 1983:770	A process by which organizations renew themselves and their markets by pioneering, innovation, and risk-taking	Competitive advantage

Covin and Slevin 1989:77	The extent to which the top managers are inclined to take business-related tasks to favor change and innovation to obtain a competitive advantage for their firm, and to compete aggressively with other firms.	Competitive advantage
Lumpkin and Dess 1996:2	Key entrepreneurial processes, practices, and decision-making activities that lead to new entry.	New entry
Wiklund 1998:65	The CEO's strategic orientation reflecting the willingness of a firm to engage in entrepreneurial behavior.	Better performance

Entrepreneurial orientation has been studied from both dispositional and behavioral constructs, and whether EO exists in either of those phenomenon (Covin & Lumpkin, 2011: 857). When EO is seen as a dispositional construct, it leads an organization to engage in behaviors like innovation, risk taking, proactiveness, competitive aggressiveness, and autonomy, that lead to change in an organization or marketplace. (Voss, Voss, & Moorman, 2005:219). EO as a behavioral construct refers to a set of behaviors that are related to entrepreneurship (Pearce, Fritz, & Davis, 2010:219). Pearce et al. (2010) argue that EO is made up of distinct but related behaviors that are characterized by the dimensions and that EO is a set of behaviors that are crucial for entrepreneurs when increasing competitiveness and growth.

Covin and Lumpkin (2011) argue that there lies merit in studying the EO construct from a particular phenomenon such as the dispositional or behavioral. Consequently, in this thesis EO will be analyzed and addressed from more of a behavioral perspective and model. This is chosen, because entrepreneurs are not defined by their psychological

profile but through their actions (Covin & Lumpkin, 2011: 858). Furthermore, this thesis will not analyze the scales that measure EO, for example the Miller/Covin and Slevin (1989) Instrument, due to its uncommon usage.

2.2.3 Dimensions of Entrepreneurial Orientation

The premise of entrepreneurial orientation is that all firms can be positioned along an entrepreneurship continuum ranging from conservative to entrepreneurial firms (Covin & Slevin, 1989; Covin & Wales, 2012). To be entrepreneurial and have entrepreneurial orientation there is considered the three dimensions that construct the orientation, which are innovativeness, proactiveness, and risk-taking (Covin & Slevin, 2012). The first three dimensions have the one-dimensional viewpoint where they codependently effect firms' number of entrepreneurial acts.

Later, Lumpkin and Dess (1996) suggest the two additional variables into the entrepreneurial orientation dimensions that are the competitive aggressiveness and autonomy. In this multi-dimensional view, a firm can have entrepreneurial orientation if they have one or more of the dimensions. These dimensions can be used to determine the level of EO on an organizational level or an individual level (Dess, 1996).

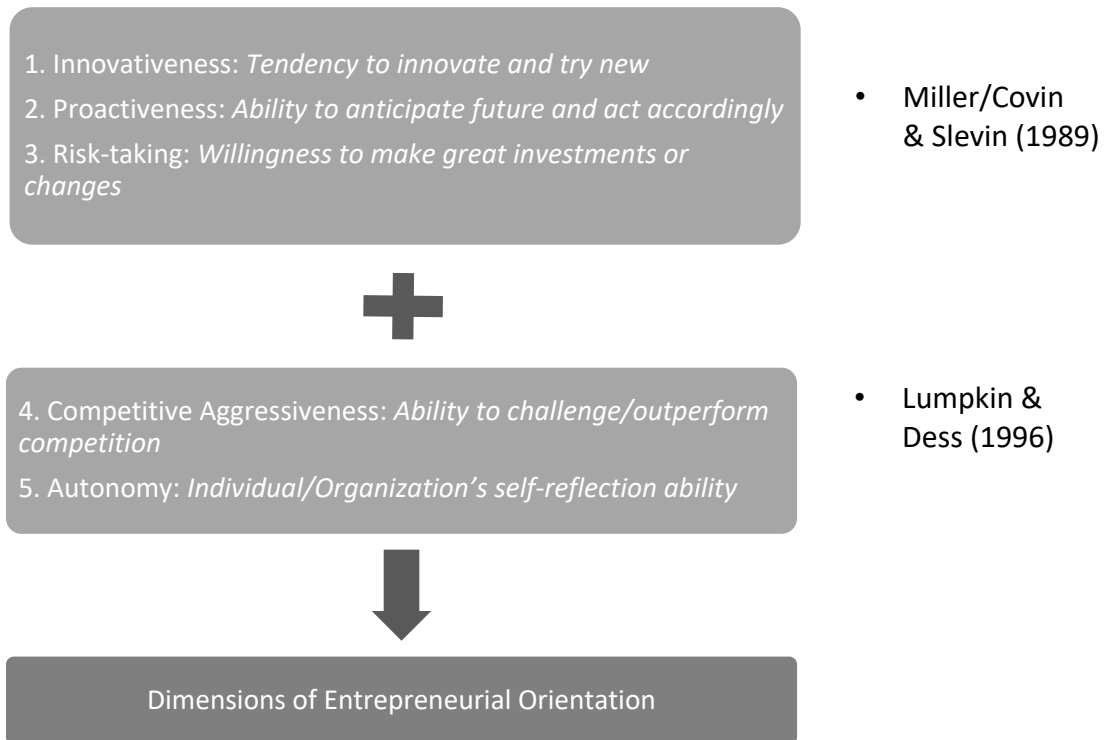


Figure 4. Dimensions of entrepreneurial orientation (Lumpkin & Dess, 1996; Miller/Covin & Slevin, 1989).

Some have argued (Kreiser et al., 2002) that the two additional dimensions are not that value adding to EO. The three original dimensions have also been shown to have the strongest link to firm performance (Hughes & Morgan, 2007). However, because the multi-dimensional view of EO allows the dimensions to be independently used to have EO, all the dimensions will be theoretically explained. As EO is not unambiguous, the broader outlook on the dimensions of EO will allow more fruitful outcome in this thesis.

Miller (2011: 878) highlights the division between the components. It is stated that to understand entrepreneurial behavior it is important to understand the differences. For example, risk taking is more essential with startup businesses and innovation might be more needed in high-tech context. Below are the components of EO explained in more detail.

Innovativeness

This dimension roots back to Schumpeter (1942) who presented the idea of creative destruction. Since innovativeness as an entrepreneurial characteristic has been important factor. Innovativeness refers to organization's tendency to both create and support new ideas, experiment them, and turn them into new creative processes or offerings (Lumpkin & Dess, 1996: 142). The creation of new may vary from a simple willingness to try something new or venture into something radical with passionate commitment (Lumpkin & Dess, 1996). It can be either a new product or service line, new process development, technological adjustments or anything that is a new creative thought or experimentation (Soininen et al., 2012). Innovativeness often goes hand in hand with change. Hence, rapid external change may push organization for innovative decisions. Innovative companies can generate extraordinary economic performance and even be seen as engines for economic growth through creating and introducing new technologies, services, and products (Wiklund & Shepherd, 2005: 75).

Proactiveness

Proactiveness emphasizes the willingness to take the initiative in innovative and risky decisions (Lumpkin & Dess, 1996). Generally, being proactive means that one anticipates the future and has a forward-looking outlook on decisions. Lumpkin and Dess (1996) suggest proactiveness continuum from passiveness to reactivity. Passiveness in this sense means an inability to seize opportunities or lead the market. Reactiveness on the other hand suggests a response to competitors as proactiveness involves taking the initiative to shape the environment rather than just passively adjust to it (Lumpkin & Dess, 1996). Hence, it refers to the tendency to anticipate future changes and needs, and pioneer in new methods to address them (Lee et al., 2001). This can create first-mover advantages, target premium market segments, charge higher prices, and the ability to 'skim' the market ahead of competitors (Wiklund & Shepherd, 2005: 75; Zahra & Covin, 1995). Proactiveness also includes the firm-level proactiveness which includes the managers tendency to lead over following trends (Lumpkin & Dess, 1996; Covin &

Slevin, 1989). Proactive companies can control the market by dominating distribution channels and building strong brand recognition. Proactiveness, opportunity seeking, and innovativeness are closely related to each other (Lumpkin & Dess, 1996).

Risk Taking

As Lumpkin and Dess (1996: 144) note, the term risk has various meanings depending on the context, and acknowledge that Baird and Thomas identified three strategic risk types: venturing into the unknown, committing a relatively large portion of assets, and borrowing heavily. The beforementioned three dimensions have strong link to firm performance unlike with risk taking (Wiklund & Shepherd, 2005: 75). Nevertheless, risk is always present in firm's decision-making and organizations must understand that it is part of reaching goals (Miles, 1993). The dimension of risk taking represent to which extent one is willing to go to achieve wanted results and goals.

Competitive Aggressiveness

Competitive aggressiveness refers to organization's ability to directly and intensively challenge its competitors to achieve new market entry or improve it by outperforming them (Lumpkin & Dess, 1996: 148). It is closely related to other dimensions like responsiveness and fast reactivity. Competitive aggressiveness can for example be lowering prices, challenging industry leaders, improve value-adding features or adapting new unconventional tactics (Lumpkin & Dess, 1996).

Autonomy

Autonomy, having an independent spirit, is crucial part of being entrepreneurial. It refers to an independent action which is carried out from a vision to completion (Lumpkin & Dess, 1996). In another words it refers to the level of independency of group or individual to innovate an idea and then execute it. The organizational size affect to which extent autonomy is exercised and how centralized or delegated it is. For example, Miller (1983) found that entrepreneurial firms have autonomous leaders and

management. Conclusively, the more autonomy the employees have the more freedom they have to take risks, be creative and innovative.

2.3 Dynamic capabilities and Entrepreneurial orientation

Dynamic capabilities and entrepreneurial orientation are concepts that are closely related. They both focus on the importance of adapting to changes in the environment and seek long-term success. Below are both the similarities and differences clarified.

For decades, the field of strategic management has focused on developing analytical and rational models when explaining the causes of sustainable firm performance (Hodgkinson & Healey, 2011). However, it is acknowledged that there is a growing trend of understanding the human psychology behind strategic business decisions (Hodgkinson & Healey, 2011). When the research focus shifted from the firms' external factors to the firms' internal capabilities, the cognitive and behavioral processes naturally gained more attention. Hodgkinson and Healey (2011) acknowledge the impact of this shift in understanding capabilities that promote organizational learning, adaptation, and performance.

To recognize new opportunities, seize them, and implement them, an organization must have the ability to orchestrate change and achieve reconfiguration (Teece et al. 1997). The dimensions of EO are innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressiveness which are expressions of organizational behavior. Subsequently, EO is based on organizational beliefs and attitudes, hence it can be understood as having an entrepreneurial attitude towards decision-making. In contrast, DC refer to organization's ability to exploit and transform existing resources and create new ones. The theories have underlying differences in change adaptation but similar characteristics in their dimensions.

Whether entrepreneurial attitude and underlying entrepreneurial behaviors are also reflected in dynamic capabilities is in question. Additionally, it is worth of considering whether dynamic capabilities increase factors that do not emerge in entrepreneurial orientation. Below are outlined the theoretical differences and similarities of DC and EO.

Table 3. Conceptual comparison of dynamic capabilities and entrepreneurial orientation. (Teece, 2012; Eisenhardt & Martin, 2000; Covin & Slevin, 1989; Lumpkin & Dess, 1996; Barreto et al. 2014; Zahra et al. 2006)

	Dimensions	Elements	Definition
Dynamic Capabilities (DC)	Sense, Seize, Reconfigure	Cross-functional R&D teams, R&D, new product development routines, quality control routines, technology/knowledge transfer routines, performance measurements, investment choices	Firms' and managers' ability to change or reconfigure existing capabilities and transform and invest in additional capabilities.
Entrepreneurial Orientation (EO)	Innovativeness, Risk taking, Proactiveness, Autonomy, Competitive aggressiveness	R&D, introduction of new products, changes to current products, competitive positioning, imitativeness towards competition,	Corporate entrepreneurial processes and practices. Management's methods & decision making. Entrepreneurial attitude embedded in employees

Dynamic capabilities and entrepreneurial management are greatly interlinked to each other as dynamic capabilities indicate the ability to sense, seize, and reconfigure. Value can be created through the entrepreneurial opportunity and proactive strategic orientation as well as sustaining value through disciplined strategic management, are both essential elements in dynamic capabilities framework (Jantunen et al. 2005: 226).

There are great similarities with the two theories as the dynamic capability approach raises the importance of managerial dynamic capability like earlier discussed (Teece, 2007). The line with managerial dynamic capability and entrepreneurial orientation is quite minor as dynamic managerial capabilities is thought to outweigh the other factors when adapting to fast changing environments. The notion of that some managers have the ability to handle rapid change better than other is also highlighted by Adner and Helfat (2003) which suggests that some have more entrepreneurial orientation to begin with. Wiklund (1998:66) suggest that entrepreneurial orientation brings more competitive advantage and better competitive positioning in the market than other firms. Generally, EO has a proactive approach as it involves exploring and pursuing new opportunities.

The conceptual theory and objectives behind DC and EO differ. Dynamic capabilities seek to find unique and novel combinations of its resources when facing rapid change or anticipating it. DC view recombines and reconfigures existing internal and external capabilities and learns from it (Helfat et al., 2007; Teece, 1997). Dynamic capabilities are more often seen as more defensive as they involve protecting organization's existing resources. Entrepreneurial orientation on the other hand includes organizations and/or individuals risk taking, proactiveness and innovation ability in addition to being competitive aggressive and having autonomy. In EO the dimensions represent the strategic processes that make an organization entrepreneurial, which brings great advantage amid external change (Covin & Slevin, 1989; Lumpkin & Dess, 1996). Entrepreneurial orientation has more general disposition which guides firms' overall approach to risk-taking and innovation.

On a theoretical level entrepreneurial orientation and dynamic capabilities have differences when it comes to the dimensions and factors. Dynamic capabilities concern how organizations resources can be aligned and realigned to match the environmental opportunities and threats (Teece, 2012: 1395). Dynamic capabilities help especially the top management in developing conjectures, validating, or rejecting them, and then

realigning assets as necessary (Teece, 2012: 1395). This aspect of DC is quite close to EO in this managerial sense, however, entrepreneurial orientation includes the attitude of making and thinking entrepreneurial acts.

2.3.1 Framework of dynamic capabilities and entrepreneurial orientation managing organizations adaptation to change

The outcome of the theoretical framework is designed to demonstrate both the similarities and differences between the two theories, as well as the capabilities and features that facilitate both successful and unsuccessful adaptation. The figure demonstrates that cultural and attitude-based aspects like the importance of managerial and leadership capabilities, change capability, innovativeness, and risk-taking that drive for entrepreneurial orientation. The figure shows that dynamic capabilities focus on firms' specific capabilities and resources, and that the characteristics are similar to entrepreneurial orientation. Furthermore, the framework presents the dimensions and themes discovered in this thesis that contribute to successful adaptation to change while recognizing the dimensions that lead to failure.

The figure recognizes that change is inevitable and that either dynamic capabilities, entrepreneurial orientation, or a combination of both, can be utilized as a strategic tool in responding and adapting to it. Below in Figure 5 is demonstrated that the success of adaptation is not guaranteed, and that change adaptation can conclude in either successful or unsuccessful change adaptation. The framework demonstrates that change is a continuous process, and that the two theories facilitate organizational adaptation to unexpected external changes. Moreover, this thesis will focus on the experts' opinions and knowledge of adaptation. Consequently, it is expected that some answers might arise that are not covered by either of dynamic capabilities or entrepreneurial orientation.

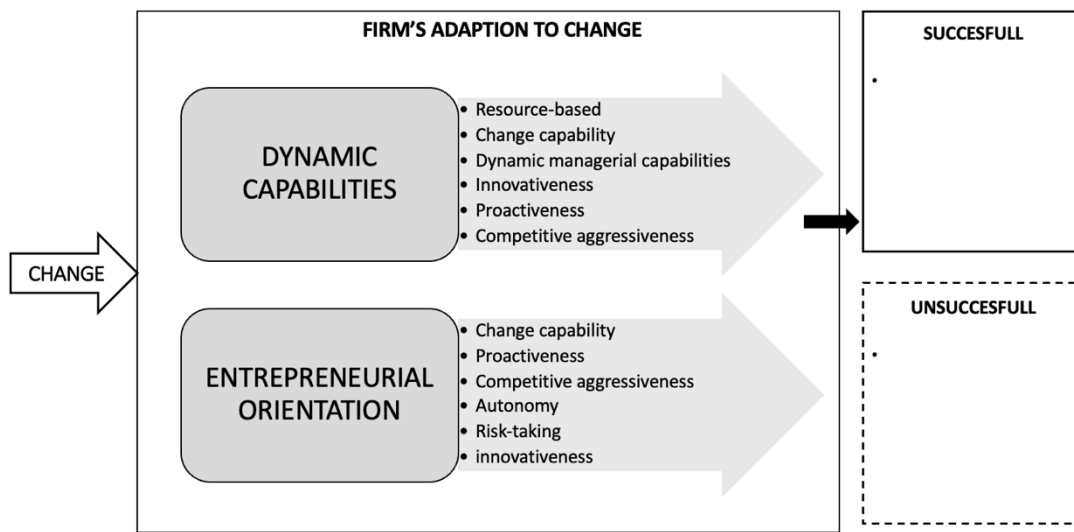


Figure 5. Theoretical framework of firm adaptation process through dynamic capabilities and entrepreneurial orientation.

Innovativeness is a strong characteristic in both theories. Acting quickly, finding new ways, and realigning the firm's assets require innovative and flexible organization and management. In entrepreneurial orientation, the management's ability to think outside the box and make innovative decisions also depend on their level of innovativeness. Accordingly, the two theories are greatly interlinked regarding the innovation dimension, and the ability to be flexible and proactive is related to the change capability in an organization. Competitive aggressiveness and risk taking are also prominent in both theories, which are related to entrepreneurial behaviors. Managerial dynamic capabilities strongly suggest that managers' individual knowledge and learning capabilities have a positive effect on organizational performance, and that managers' personal decision-making is critical to reconfiguration during change. This characteristic is distinctly similar to the premises of entrepreneurial orientation, therefore, the innovation dimension is greatly similar between the theories. Nevertheless, the difference again rises with the entrepreneurial attitude that is embedded in an organization and between the capabilities that enable firms to acquire managerial dynamic capabilities.

Nevertheless, strong leaders and entrepreneurship are highlighted in both theories' leadership capabilities (Barreto et al., 2014; Teece, 2007). The managers or entrepreneurs' vision and integration skills have great impact on directing the development of capabilities in DC (Zahra et al., 2006: 944). Competitive aggressiveness is present in both DC and EO, as adapting to sudden environmental changes require fast reaction ability, reactivity, and anticipation for future changes. This goes hand in hand with proactiveness and being ahead of competition, which also is reminiscent in both DC and EO.

As discovered, the main differences with dynamic capabilities and entrepreneurial orientation are that DC is related to firm specific capabilities and EO is a firm level strategic orientation which has entrepreneurial nature in its behaviors (Anderson, Covin, & Slevin, 2009). Zahra et al. (2006: 943) assert that dynamic capabilities are costly, and they may sometimes serve improper purposes if they are mistakenly used. They also emphasize how the quality of organization's knowledge base affect dynamic capabilities' effect on performance. In EO the conceptual domain concentrates in management-related preference, beliefs, and behaviors, which are conveyed among top managers (Soininen et al., 2012), which creates certain organizational culture that drives entrepreneurial actions and lead to EO.

Soininen et al. (2012: 619) state that the increased attention on EO, has linked practical entrepreneurial research and contemporary strategic management. Because of the stronger link between the studies, EO can be regarded as an operationalization of the main characteristics of dynamic capabilities of the organization, like sensing the weak signals and seizing the opportunities through investments (Soininen et al., 2012: 619; Teece, 2007). Hence, EO and DC overlap in some ways but have differences in their theoretical framework, as one is an orientation and the other concentrates on firm's capabilities. The theories have been examined in different contexts and their connection together on firm's adaptation capability amid environmental change has not been much

studied comparatively. Therefore, this thesis tries to find some alignments with the theories and with the successful and unsuccessful adaptation of an organization.

It is expected that the interviews and the gathered data will modify this framework and demonstrate how the successful and unsuccessful adaptation differ in the theoretical characteristics and dimensions. Consequently, there will be analysis of which dimensions drive for adaptation and which characteristics and elements lead to failure in this specific context.

3 Methodology

The purpose of this chapter is to describe the methodological choices that were made in study. Moreover, the research methods, ontology, epistemology, and methodology are explained and discussed, which offers profound understanding of the research process and the perspective in this thesis. Followed by this, the data collection is further explained with a data analysis.

3.1 Philosophical assumptions

Social sciences in philosophy are divided into five categories which are ontology, epistemology, methodology, paradigm, and methods. Understanding how you interpret the data you collect depends on your philosophical assumptions about the nature of reality (Saunders, Lewis, & Thornhill, 2019). Understanding the fundamental concepts and nature behind dynamic capabilities and entrepreneurial orientation brings better understanding of their strengths and limitations.

This thesis both ontologically and epistemically is based on subjectivism. The purpose of ontology and epistemology is to observe various research ideologies through research assumptions. Simply put, epistemology is used to explain how we come to know something, what is the reality or truth, and how knowledge can be shared with others (Saunders et al. 2019: 133; Eriksson & Kovalainen, 2008). Ontology refers to reality and the assumptions people make to believe that something makes sense or is real. Ontology enables one to examine the nature of being, existence and reality, and relationships between people and society (Eriksson & Kovalainen, 2008). Therefore, ontology helps to understand the relationships between organizations and individual leaders regarding managerial decisions. EO emphasizes the importance of opportunity seeking, hence it is a subjective experience, which is shaped by individual observations of the environment. Entrepreneurship is built on ontological assumptions that individuals are agents of actions and change, and that opportunities are a central

construct (Shane & Venkataraman, 2000: 219). Hence, this thesis views the data from the viewpoint that entrepreneurial behavior can be learned and developed through individual and collective experiences in addition to some having innate entrepreneurial traits.

While DC focuses on organizational learning and ontologically there is an objective reality to which a firm adapts to. Also, Lumpkin and Dess (1996: 142-147) touch the subject that opportunity seeking is subjective, and they emphasize the importance of individual perspectives and social context in entrepreneurship. Therefore, the ontological assumptions are that there are multiple realities, world is socially constructed, and the nature of reality is socially constructed. This assumption can be applied to this thesis due the nature of the data collection.

Epistemology on the other hand focuses on topics such as how we know something, what is the truth or reality, and what are the limits and sources of knowledge (Eriksson & Kovalainen, 2008). It also helps one to ask factual questions of the truth and what counts as knowledge and to question how we know something is true. Eriksson and Kovalainen (2008) explain that within epistemology there is subjectivist direction, which views reality as being socially constructed. Meaning that knowledge is available only through social actors (Eriksson & Kovalainen, 2008:13-14). There are different types of knowledge, ranging from textual to numerical data, and from opinions to facts (Saunders et al., 2019: 133). Hence, epistemology plays important role in both DC and EO as it brings an understanding on how knowledge is created and applied. The epistemological assumptions are based on opinions, textual data, individual meanings, and it adopts the assumptions of the arts and humanities (Saunders et al., 2019: 135-145).

It is important to acknowledge that good entrepreneurs and leaders are more prone to identify and capitalize on opportunities which other may overlook. This can be identified as intangible capability of a firm and as a knowledge which is hard to imitate by competitors due its subjective nature. Knowledge is personal and learned through

different experiences and beliefs. Regarding to this study, it is important to understand that the interview answers are based on personal experiences and insights, and that measuring the data objectively can be tricky. Teece (2007: 1329) argues that qualitative focus like sense-making and interpretations generate more tacit knowledge and encourage learning, experimentations, and exploitation. Therefore, this study focuses on these aspects when interpreting the qualitative interview data.

Abductive approach allows the research to move back and forth between data and theory, which gives flexibility to this thesis (Saunders et al., 2019: 155). The chosen research philosophy is mostly interpretivist while also noting the moderate constructionism view. The research philosophy of this thesis falls on subjectivism end on the objectivism-subjectivism continua. These philosophies and approaches were chosen because of the nature of this thesis. The context is to hear people's experiences and allow the data arise naturally through qualitative research method and abductive approach. Especially, entrepreneurial orientation concerns managements subjective and personal abilities to recognize opportunities and threats and seize them, hence the chosen philosophies are justified (Eriksson & Kovalainen, 2008).

In the context of this study, when organization or an individual manager catches social queues from the environment and changes within a business environment, this study concerns with social actors as well. Understanding social actors is related to interpretivism which is considered with subjective and shared meanings. Interpretivist perspective focuses on how individuals or groups interpret and understand social settings. The perspective understands that there are multiple perspectives and attitudes, and that reality is subjective (Eriksson & Kovalainen, 2008: 19-20). Interpretivism philosophy carries out in in-depth interviews and the interviewer and researcher are part of the research as their interpretations bring key contribution to the study (Saunders et al., 2019: 145).

In addition, Järvensivu and Törnroos (2010: 101) explain that moderate constructionism define truth as community-based and derived from empirical data. This approach fits

together with the qualitative and abductive methods of this thesis. Moderate constructionism allows to see truth and new knowledge from multiple perspectives. Truth exists as dialogue, critique, and consensus in different communities, usable knowledge, as well as empirical evidence (Järvensivu and Törnroos, 2010: 101).

Consequently, the thesis has mainly an interpretivist perspective due to the before mentioned reasons. The philosophical assumptions steer the study to test the theory development and factuality further. Here so the above-mentioned methods are justified in this thesis. The thesis focuses on finding the ways which hotel and restaurant industry answer to the environmental changes caused by the pandemic. As the data is gathered and conducted by interviews, the interviewees establish their own individualistic interpretations of successful and unsuccessful actions during environmental change. In addition, the author has their own interpretations of the interviewee's answers.

3.2 Research method

The thesis was conducted by interviewing experts from the Finnish restaurant and hotel industry. This specific industry was in midst of the pandemic change as the global lockdown forced organizations stop their physical service offerings and business operations. There were collected views from different experts to ensure a multifaceted perspective. For this thesis qualitative data methods were used for empirical research which allows holistic understanding of complex phenomena (Gummersson, 2005: 312). In addition, there is no hypothesis as the study concentrates on the individual experiences that the interviewees have had.

Consequently, due to the interpretivist perspective of this study a qualitative research method was chosen. The in-depth expert interviews were chosen to gather the most authentic data. As Auerbach and Silverstein (2003: 29) note, qualitative research paradigm assumes that learning about people's subjective experiences is to ask them and then listening to them carefully, is the best way. Therefore, the best way to gather

subjective qualitative data is the conversation-like interviews, where the interviewee can freely express their opinions. The gathered data is based on textual data and on the personal stories rather than numbers (Auerbach & Silverstein, 2003: 29).

An abductive research method was chosen due to its fruitful methods of discovering new and its ability to extend the previous theories (Dubois & Gadde, 2002: 559). The goal when abducting the interviews was to gather as much as authentic information for novel information to arise. This did not restrict the possibility of new dimension creation to the theories. Qualitative research is well suited with the abductive research method as it does not assume that there is one universal or absolute truth to be discovered (Auerbach & Silverstein, 2003: 31). Abductive research usually provides new knowledge hence it is suitable in a change context, and it is also more a creative theory building than deductive research approach is (Dubois & Gadde, 2002;2014). The change context of the thesis supports the qualitative and abductive methods.

Table 4. The chosen approach to theory development modeled from Saunders, Lewis, & Thornhill (2019: 153)

	Definition
Chosen approach	Qualitative and subjectivist
Logic	Abductive
Generalizability	Generalizing from the interactions between specific and the general
Use of data	To explore phenomenon, identify themes and patterns
Theory	Theory generation or modification: incorporating existing theory where appropriate to build new theory or modify existing theory

Furthermore, a qualitative approach was chosen for this study to demonstrate the theories and answer to the question in full capacity. The theoretical framework consists of two theories that are the dynamic capabilities and entrepreneurial orientation. The

qualitative research method allows to find empirical and theoretical findings and further develop the literature. It gives flexibility and allows the framework to discover unique experiences (Auerbach & Silverstein, 2003: 30-31). Moreover, qualitative research is designed to allow researchers to examine a specific occurrence in a specific setting rather than to test the theory itself (Eriksson & Kovalainen, 2008), which makes it suitable method for this thesis. The aim of this thesis is to be open to find data and facts that support existing theories and whether the found data can be recognized more profoundly in either of the theories, but also to be open to any new dimensions or factors arise.

3.3 Data collection

The data collection was done by using qualitative interviews and using the open-ended question technique. Open-ended questions and in-depth interview allow the interviewee to express their individual words, phrases, and responses of how they have perceived the research objective. Qualitative data analysis tries to maximize the value of information by transforming fragmented data into cohesive and relevant information (Eskola & Suoranta, 2000: 137).

The interview method was unstructured interview technique, however the theme and list of additional questions are from the semi-structured method. Unstructured interviews are informal, and they are used to explore a general area in depth. Hence, unstructured interviews are often referred to in-depth interviews (Saunders et al., 2007:312). The interview method was chosen for this thesis as the idea was to gather authentic information through open conversation from the experts. The aim was to hear from their honest opinion, from expertise viewpoint, and to gather information from their empirical perspective.

There were chosen two main questions which guided the interview. These two main questions were the same for all the interviewees, also the additional prescriptive and

theoretically advanced questions were predetermined in case they were needed. However, the additional questions were not used the same within the interviews. This non-directive style allows the interviewee to have the opportunity to speak freely about beliefs, events, and behavior in relation to the theme (Saunders et al., 2007: 312).

The interviews were divided into two parts: successful adaptation and unsuccessful adaptation themes. Firstly, the interviewees were asked to describe the capabilities that lead to successful firm adaptation during rapid environmental change. This question was followed by follow-up questions and deeper discussion. The second main question, or the second part of the interview, was to generally describe the firm capabilities that lead to failure during rapid environmental change. The questions were formatted to be general, which is the reason some interviewees talk from their own experience from the firms they work/worked at. This conducted the quotes from the interviews to occasionally be in different personal forms. Consequently, while the discussion was on a general level, many interviewees referenced to their personal experience and knowledge.

The follow-up questions were leading questions towards the theme of this thesis, however the discussions were not forced, which further resulted in unique and genuinely thoughtful responses. Regarding this and due to the general questions and discussion-like interview, the lengths vary. However, the two main interview themes allowed clear categories and multiple capabilities to arise from the interview data through open discussion.

Table 5. Interview table

Date	Service industry	Years in the field	Current position/last position	Length of the interview
26.10.2022	Hotel and Restaurant	Over 40	CEO for 12 years	25min

28.10.2022	Restaurant	5	Entrepreneur/restaurant owner	39min
1.11.2022	Restaurant	37	Sales Specialist	37min
7.12.2022	Restaurant	23	Restaurant/kitchen manager	38min
8.12.2022	Hotel	44	Project manager	79min

As seen in Table 5, the interviewees were taken from the different positions in the industry in Finland. Their experience and background also differ to catch versatile sampling group within the industry. Interviewee one has worked over 40 years in the hotel and restaurant field, and as the CEO of a hotel for 12 years in capital region. Interviewee two has entrepreneurial experience in the field and they have had multiple restaurant ventures in capital region. Interviewee three has over 37 years of experience from restaurant industry, and their current position is sales specialist in a listed restaurant company. Interviewee four has restaurant industry experience for over 20 years and has inside knowledge on personnel restaurants. Currently they work as restaurant and kitchen manager in one location in capital region. Interviewee five has worked the last 7 years as a project manager in a hotel chain based in Northern Finland. They also have years of experience as a service manager and as a hotel manager and in the hotel industry. Altogether, acquiring over 44 years of experience in the field.

3.4 Data analysis

As earlier discussed, the empirical data was gathered by executing unstructured interviews with a chosen theme and two main questions. The interviews were expert interviews, and the aim was to gather as genuine material-oriented data as possible with open-ended questions. The interview data was deconstructed into smaller components

and subsequently categorized into themes by using the Gioia method (Gioia, Corley & Hamilton, 2013).

Firstly, the pool of data was analyzed into first order codes by finding key words and similarities among the interview answers. The first order codes were assembled by grouping the main findings. Not all interview data was found relevant, thus the first order codes were grouped by their relevance to this thesis. The first order codes were then grouped into second order themes. These themes formed hypernyms of the codes by further grouping similarities together. Thirdly, the hypernym themes were merged into the final aggregated dimensions.

Below in Figure 6 is explained the interview data coding method using the Gioia method. The figure shows how the data was analyzed and grouped after the data collection, and how the final aggregated dimensions were drawn from the interview data.

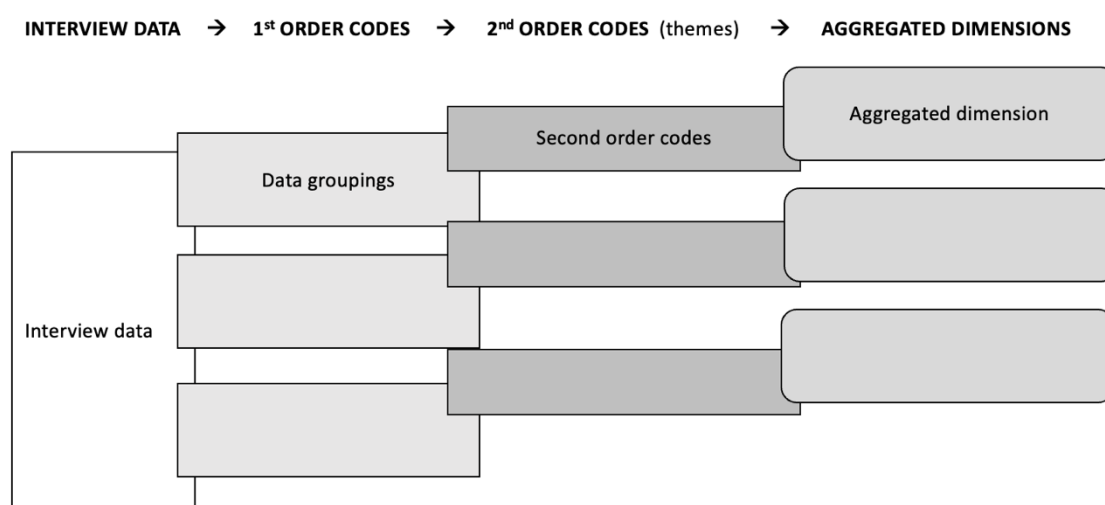


Figure 6. Phases of data analysis

The data collection was done by interviewing five people from different positions, backgrounds, and experiences within the hotel and restaurant field. This brings more diverse approach to the research paper and gives multiple perspectives from number of

experts. The wide range of other sources and different methods used increases the convergence and corroboration of this paper (Bowen, 2009).

The profound face-to-face interviews allowed to derive the data to more detailed knowledge. The interviews allowed delving into the mindset of experts and to compare the results to theories that this paper will sustain to. The expert interviews help to understand which kind of characteristics organizations acquire when adopting to sudden environmental changes in business environment. Furthermore, the interviews allow to understand what are the factors that lead to failure in changing environment, and which organizational characteristics lead to it. The information was analyzed from different sources and through different methods which reduces the biases that could potentially arise from interview data (Bowen, 2009).

The Gioia method helps to identify different themes from the interviews (Gioia et al., 2013). The classification of different themes allow to discover dimensions that are successful when sudden environmental change occurs. It also prevails the common actions that lead to failure. The classifications were divided into the dimensions of dynamic capabilities or entrepreneurial orientation in order to seek connections. The method allows to collect individual answers and key words, and form codes from each of them and putting the concepts to first and second order themes, which further helps to categorize the myriad of informant terms and codes that arose from the interviews (Gioia et al., 2013).

Moreover, like Gioia et al. (2013) state, the concepts are the precursors to constructs when making sense to organizational words, this paper will try to describe those in a flexible manner. Meaning that the data coding method has a flexible orientation that is open to communication (Gioia et al., 2013). This way the thesis is more open for innovative concepts and new solutions for managerial implications, and not constrained by the predetermined limitations. Consequently, this will allow the rise of possible new dimensions in addition to the theoretical dimensions of DC and EO theories. Data

analysis provides information whether the answers have dependency ratio with DC or EO.

The concept drawn from this thesis aims to explain and describe how successful adaptation to rapid changes can be achieved through dynamic capabilities and entrepreneurial orientation. Also, this paper aims to explore the characteristics that lead to failure in similar context. The analysis through Gioia method allows these categories to arise.

3.5 Validity and reliability

Three components make the classic criteria for good-quality research, which are validity, reliability, and generalizability. These provide the basic framework for evaluation in business research and in social sciences (Eriksson & Kovalainen, 2008: 291). According to Saunders et al. (2007:150), validity is concerned whether the findings are what they appear to be. Hence, validity concerns whether the gathered data is accurate and true, and that the research findings are valid. Truth in validity of research means that the findings accurately represent the phenomenon referred to and that the data is backed by evidence (Eriksson & Kovalainen, 2008: 293-295). Validity in qualitative research differs from quantitative research as it aims to seize the multiplicity and complexity of social life, it has unique characteristics of different situations and processes and social actions (Eriksson & Kovalainen, 2008: 295). In this thesis the validity is supported by the multifaceted data categorization by using the Gioia method, through which the unique characteristics and themes surfaced.

Reliability refers to the extent to which the data collection techniques yield reliable findings (Sanders et al., 2007). It is also a classic evaluation criterion and is commonly used in quantitative research. With qualitative research, validity and reliability depend mostly on epistemological judgements of how the thesis is developed and argued through (Eriksson & Kovalainen, 2008: 292-205). The interview data is based on the

subjective opinion and perspective of the interviewees, hence the reliability of this thesis is based on the epistemological views of the data. The epistemological assumptions were earlier explained by acknowledging the importance of individual observations, opinions, and knowledge learned through personal experiences.

Additionally, generalizability of the study, which is also referred to external validity, is essential (Saunders et al., 2007; Eriksson & Kovalainen, 2008). It covers the context to which the study can be extended and whether the results can be generalized into other studies as well (Eriksson & Kovalainen, 2008: 293). This thesis impacts the generalizability with the non-specific and open-ended research questions and conceptual framework which answers to the research objective without being too contextually dependent. Also, the findings can be used in both separately with dynamic capabilities and entrepreneurial orientation as the research questions are designed in a way that the experts answer from their subjective viewpoint. This thesis brings more data in the context of comparison and conjunction of the two theories within the context of rapid environmental change.

4 Findings

In this chapter the conclusions and outcomes of the empirical research will be analyzed and discussed. The theoretical framework and empirical findings are presented to show how the theories and practice interact. The goal is to understand and determine whether the conclusions of this thesis are consistent with the theories or whether the data provides new characteristics that either enable change adaptation or lead to failure. The information gathered from the interviews is further explained and analyzed in detail, and the research questions are reviewed in this section of the thesis.

4.1 Findings of the empirical research

Below are the data structures of both successful and unsuccessful adaptation to rapid environmental change. Firstly, the successful data structure is analyzed with interview quotes and further explanations and the second research question is examined. Secondly, the unsuccessful data structure is reviewed and analyzed, and the third research questions is explored. Thirdly, to answer in more detail to the first research question the appearance of dynamic capabilities in the research data is explored followed by the appearance of entrepreneurial orientation as a fourth point. These sections analyze the research objective and addresses the research questions.

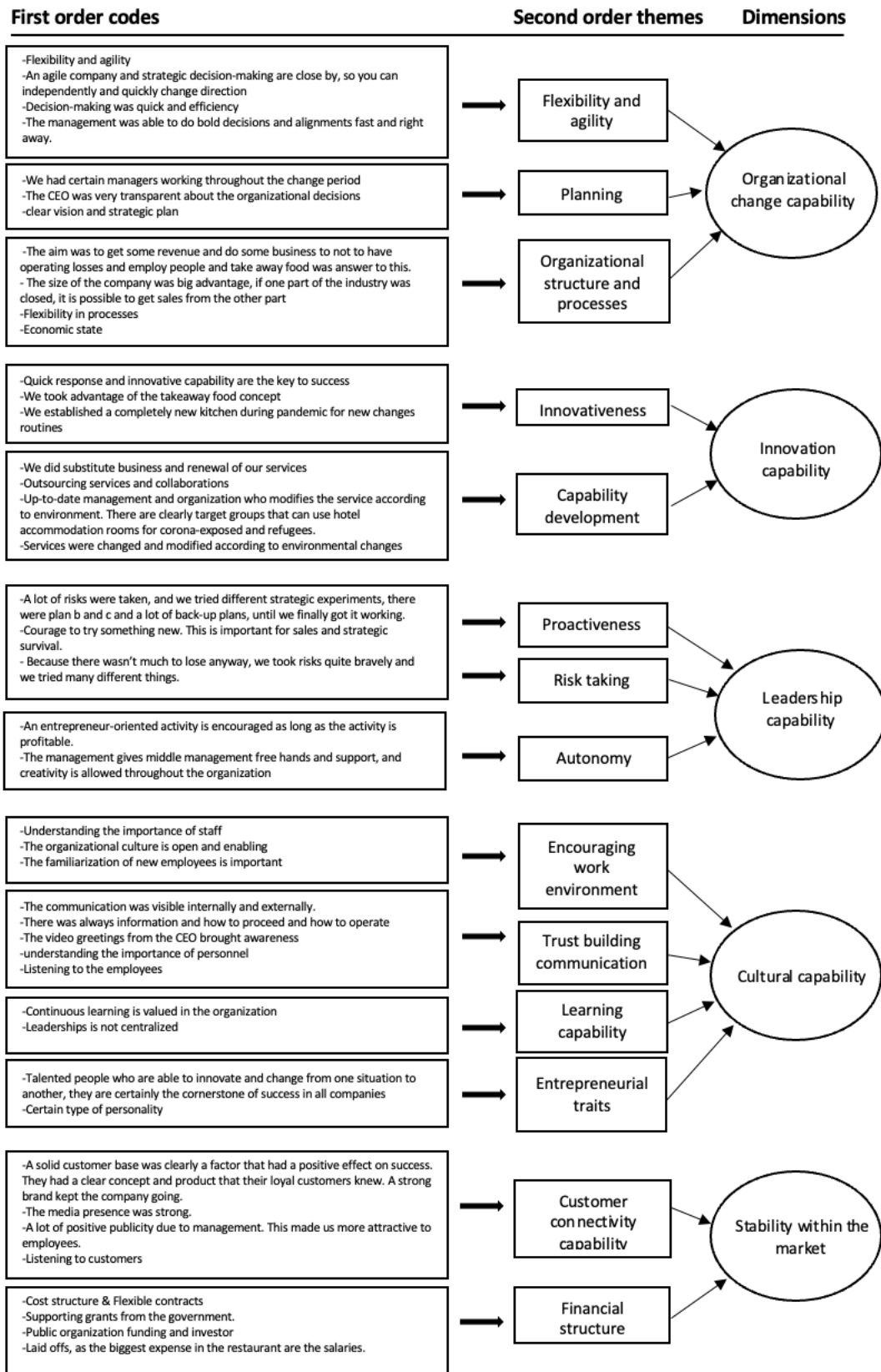


Table 6. Data structure of successful adaptation.

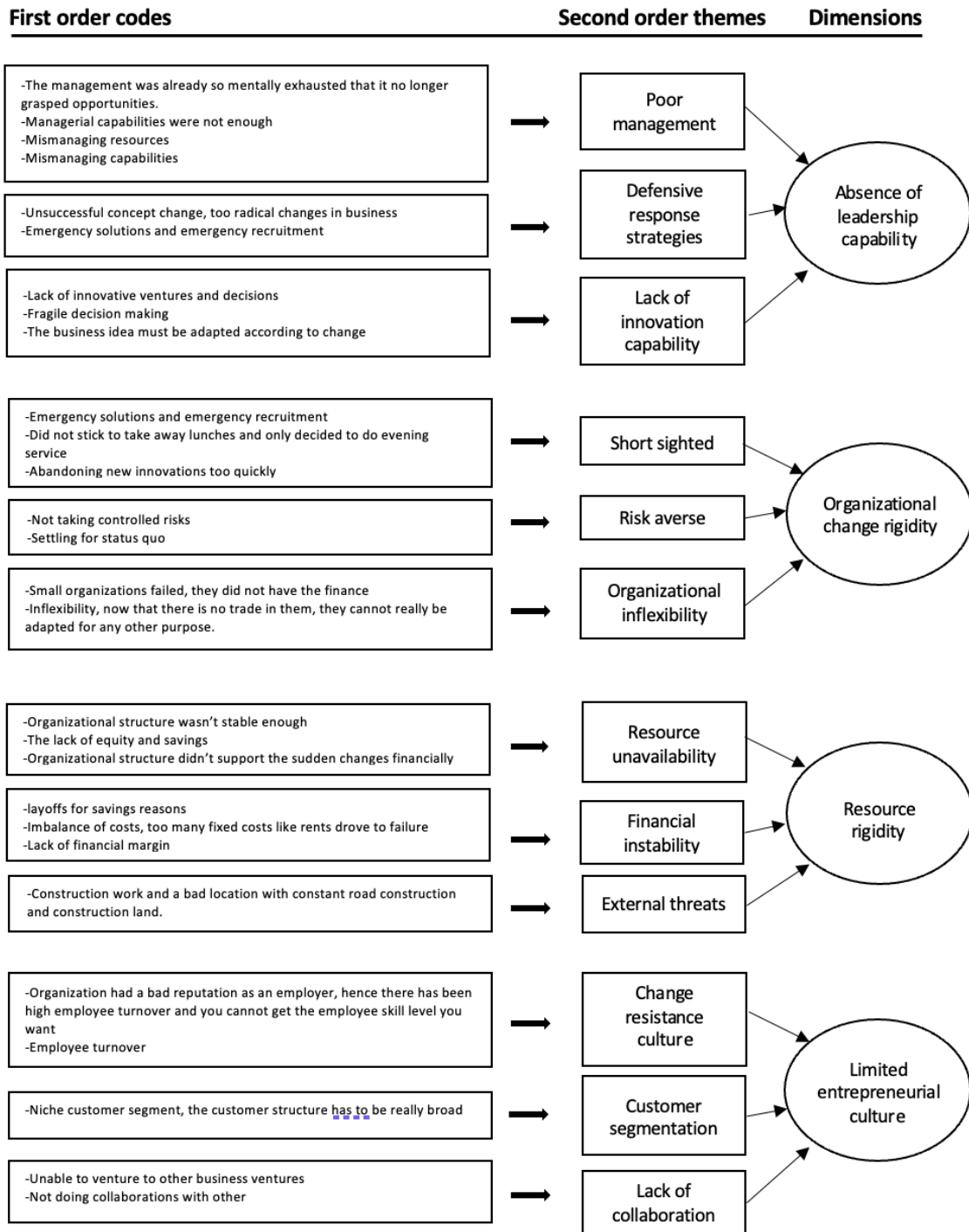


Table 7. Data structure of unsuccessful adaptation.

4.1.1 Successful adaptation

This section analyzes and discusses the Gioia data structure considering the question of what organizational capabilities contribute to successful adaptation to environmental change. The aggregate dimensions identified in the data are explained, and the interview data is conversed in detail to gain deeper insights. This section addresses the second research question.

Organizational change capability

Organizational change capability was aggregated into a successful adaptation dimension. This dimension consists of themes of organizational flexibility and agility which drive for successful change adaptation. It appeared in the data that the ability to change firm's activities and processes is useful in the sense of sudden external changes. It was noted that decision-making was related to quickness and smoothness of the change process within an organization. Not only the decision-making and its fluency, but the firms processes and capabilities must be oriented in a way that they can be re-assembled and reconfigured during change.

"Flexibility and agility, are one of the things that can quickly change firm's activities"
(Interviewee 1)

"An agile company and strategic decision-making are close by, so you can independently and quickly change direction, unlike in a large company" (Interviewee 1)

"It is easy for the entrepreneurs to make decisions together, so decision-making is quick and smooth" (Interviewee 2)

"The decision making was extremely quick" (Interviewee 4)

It was revealed that continuity within the management team was seen as an asset when having to do fast decisions. Meaning that during change period, it was a beneficial that

the top management remained the same and there was no employee turnover among top management. This could be mean more clear communication within the management and avoiding misunderstandings.

“The management were able to do even bold decisions and alignments fast and right away. The goodness of the decisions making was largely based on the management’s fast reactivity and responses.” (Interviewee 3)

“We have restaurants in other countries so that's probably where the strategic model was sought from, because I think Denmark was also closed much earlier than in Finland during the pandemic.” (Interviewee 3)

Another theme that was concluded into the organizational change capability, was the importance of planning. During the interviews it was noted that a key factor in sensing and implementing the change is an effective and capable management.

“The ability to make decisions and not to go along with all ideas and implement them, but to have the patience to evaluate decisions.” (Interviewee 2)

“We had our certain managers working throughout the change period and they were constantly thinking about how to get through different things..., they had to weight which brands to keep open and in operation.” (Interviewee 3)

The findings suggest that to have a flexible organization and to achieve organizational change, top management must have the ability to be transparent about the organizational decisions. The personal managerial abilities of management and their individualistic attitude about leading are seen to have an impact on the successful adaptation.

“The CEO was very transparent about the organizational decisions. They did video greetings to the entire staff along the way about the relevant things occurring in the organization” (Interviewee 3)

“...companies must have a clear vision of where to go, a strategy made for it, and a plan on how to get there. But the very important thing is that the plan is planned in advance. It's not something that can be done when the change occurs, that's how it's done, planning must be taken into account beforehand, especially one must be prepared for sudden changes in order to be prepared for them.” (Interviewee 5)

The third theme that was conducted into organizational change capability was theme of organizational structure and processes. It was evident that the organizational shape and overall flexibility of its processes and capabilities affect the organization's change capability when external change occurs. It was emphasized that the size of the organization plays a great part both from financial and from structural viewpoint.

By analyzing the interview data, it was evident that if the organization was big, it benefitted the adaptation process. If a firm is a subsidiary, the parent company brings certain security in the decision-making and backs up strategic decisions. Also, big organization usually have ventures in multiple branches within the same restaurant and hotel industry. For example, when night clubs were closed during pandemic, their personnel and resources were used in other parts of the parent company. This show flexibility in the firm's processes and adaptation capability within the branches. As one interviewee described:

“If one part of the industry is closed, it is possible to get sales from the other part..., if there were only one division in the restaurant chain, its closure would have resulted in a complete loss of income. However, because nightclubs where the longest shut down during pandemic, and it was possible to open the food restaurants before, so it was able to employ the night people in those restaurants” (Interviewee 3)

Hence, the structural agility within a large company and the possibility to move personnel around enables success during change. Unlike in small entrepreneur firm, large organizations can move its assets in more strategic way among its subsidiaries. The citation below demonstrates how larger organization has more room to play, unlike a small business has usually one revenue stream which is not too flexible.

“The aim was to get some revenue and do some business to not to have operating losses and employ people and take away food was answer to this.” (Interviewee 3)

“The economic state of the company is one of the carrying forces, the economic state will also follow when the employees and customers are taken care of” (Interviewee 5)

Innovation capability

Second dimension found was the innovation capability. This dimension consists of two themes of innovativeness in the organization and the service development. Repeatedly the themes of innovativeness and an innovation ability emerged from the interview data. Like in the organizational change capability, in this dimension the ability to have quick response was seen as an asset. Quick responsiveness is seen as an advantage especially when adapting product and service offerings according to changes in business environment. Innovativeness was described as a key to success and a way to adapt to change.

“Quick response and innovative capability are the key to success for both small and large companies” (Interviewee 2)

Some noted that service innovation was needed to have at least some business operations during the pandemic. Take away food concept was adapted by both small and large organizations. Important note here is that this service innovation of take out food in traditional restaurant did not work for all. It was found that in some cases the concept worked in their favor as this specific service innovation worked from them. Consequently, this concept did not necessarily work for the market followers.

“Taking advantage of the takeaway food concept” (Interviewee 3)

“Establishing a completely new kitchen during pandemic for new changes routines... from this kitchen we made all the takeout foods that the brands deliver and we were

able to order the same load for multiple restaurants. However, the kitchen was discontinued when restaurants were able to be open” (Interviewee 3)

As one described, there were invented a whole new kitchen to meet the specific need throughout the change period during the pandemic. This shows that when utilizing firms’ individualistic resources and finding new ways to answer to a novel problem, the innovations must be firm specific. When an organization acts as a market leader itself by not copying other concepts, but finds capabilities that meet their needs, they can successfully create innovative solutions. This example showed that the adaptation was temporary since the kitchen was discontinued after there was no longer need for it. Consequently, this innovation showed the firm’s ability reinvent quickly logistical problems which resulted in financial savings and strategic resource planning.

The capability development dimension includes product, service, and resource developments. The interviewees stated that organizations that had successful adaptation modified and reconfigured their services and offerings in some ways. An emerging theme was that the management team was up-to-date and were able to evaluate the environment and modify the service accordingly. Environmental observation, proactiveness and competitive aggressiveness are part of the courage to seize opportunities before others.

“We did substitute business and renewal of the services, which is different from what the normal business usually is. For instance, we turned traditional meeting rooms into long-term office spaces.” (Interviewee 1)

“Up-to-date management and organization who modifies the service according to environment. There are clearly target groups that can use hotel accommodation rooms for corona-exposed and refugees.” (Interviewee 1)

This statement shows that innovation needs to be explored outside the norm and that proactive opportunity seeking brought strategic advantage to this organization. The external threat of covid-19 and environmental change due to refugees, enabled new market opportunities. To be able to sense and seize opportunities like these, it requires

a talented and innovative management who have entrepreneurial traits and attitude in their managerial abilities.

Additionally, the ability to seek new ventures outside the business field was recognized as a theme. Outsourcing services was found relevant for saving reasons and when seeking better and more cost-effective solutions. This also requires capability development when an organization weights in collaboration options and co-innovations. In this dimension, the ability to eliminate unnecessary and costly services is crucial.

“Services were changed and modified according to environmental changes...Services were pruned and adjusted, for example the basic room services were weed out” (Interviewee 1)

“Outsourcing of services when personnel were reduced... For example, the night security was removed completely, i.e. it was outsourced to a security company.” (Interviewee 1)

“...when the restaurant was closed for breakfast, they suddenly had to order breakfast from the wholesale and made it work” (Interviewee 1)

Leadership capability

Leadership or managerial capability is crucial in both entrepreneurial orientation and in dynamic capabilities. There is an understanding that the top management maneuvers the general atmosphere and direction of the organization. To facilitate innovation, it is vital to establish a culture within the firm that values openness and creativity. There lies responsibility in creating entrepreneurial working environment among the employees and allow space for middle management to manage their teams. This dimension was merged from themes of proactiveness, risk taking and autonomy in the organization and especially among the management.

Proactiveness was recognized in the characteristics of firm’s successful adaptation, which is closely related to innovation capability as previously stated. By being proactive,

the organizations can react to the external change with environmental shaping actions rather than adjusting to it (Lumpkin & Dess, 1996). The importance to have courage and to try different and novel methods was emphasized. One organization that was perceived as a successful organization in the interviews, has strong brand recognition and strong overall market presence. This implies strongly that the company has been proactive in its firm-level actions where the management is able to lead over the trends (Lee et al., 2001).

*“Courage to try something new. This is important for sales and strategic survival.”
(Interviewee 2)*

“...open-mindedness and eagerness to experiment within the top management and among middle management.” (Interviewee 1)

As previously stated, risk taking is prominent part of business and decision-making (Miller, 1993) and it is crucial when venturing into unknown business areas. The interviewees see unanimously that risk taking is as part of doing business and understand the notion of trying different things and approving that not all risk taking is profitable. There is an understanding that without taking risks the success rate of finding profitable and innovative new ideas is limited.

*“A lot of risks were taken and there were tried different strategic experiments, there were plan b and c and a lot of back-up plans, until we finally got it working.”
(Interviewee 1)*

“Because there wasn’t much to lose anyway, they were able to take risks quite bravely and tried many different things.” (Interviewee 3)

“Has not been afraid of risk and dared to make concept change” (Interviewee 3)

It was stated in the interviews that with risk taking it is essential to have the ability to see beyond what is too risky and what is beneficial to the organization. Hence, the

management must have the capability to evaluate market opportunities and eliminate the clear threats from the pool of options. Especially during sudden change the market shifts fast, hence the risk taking ability is valuable for management.

“It's actually always in business that you have to take risks and then think carefully. It applies whether it's a recession or Corona or whatever, risk-taking is part of business. Those who take risks will be either be successful or not, but yes, it is definitely part of business. If you just waver in the middle, there's really no future in it. You always do better if you take controlled risks.” (Interviewee 1)

“The ability to make decisions and not to go along with all ideas and implement them, but to have the patience to evaluate decisions.” (Interviewee 3)

Managerial capabilities and good leadership enable autonomy in an organization. Like previously stated it is manifested by having an independent spirit throughout a company. The data revealed that the interviewees see autonomy as part of successful adaptation. Management must be decentralized enough to allow autonomy. Autonomy encourages entrepreneurial actions and thoughts through more free and open communication. Hence, in successful adaptation the firm has autonomy to some extent in the organizational structure and in their management.

“An entrepreneur-oriented activity is encouraged as long as the activity is profitable.” (Interviewee 3)

“The management gives middle management free hands and support and creativity is allowed throughout the organization.” (Interviewee 3)

Cultural capability

Organizational culture capability includes the involvement of operational and middle management, internal and external communication, encouraging and enabling

workplace culture, and empowerment. The interviewees stated many factors that are seen to influence the organizational and entrepreneurial culture of an organization.

The interviewees highlighted the importance of organizational culture and acknowledged the importance of good atmosphere within an organization. The support from colleagues and trust from management was linked to adaptation capability. A trustful work environment and a good team spirit leads to an entrepreneurial culture capability in which opportunities are easier to seize. The importance of familiarization and teaching of new employees was also acknowledged.

“The support of the colleagues was really strong” (Interviewee 3)

“... the familiarization of new people is really important, because a lot of people are entering the field at the moment who have never been in the field. It is important and really the only possibility to be able to hire people who have no experience and training in the field.” (Interviewee 3)

“The staff needs to be given that freedom, and because it gives inspiration and opportunities to make things happen, and it also creates that certain kind of feeling and people's interest in working” (Interviewee 4)

Trust within organization was highlighted, which concluded in trust building communication. Here, the fact that management communicated both internally and externally to stakeholders was seen as an asset when sudden changes occurred. This can be parallel with organizational flexibility and information flow that all create an open culture. Trust can be built through open and honest communication, this was also present in the interviewees answers.

“In all of our news coverage of the industry, our CEO was always visible in the news coverage of the industry during pandemic, and also the internal communication within the company was great and diligent.” (Interviewee 3)

“We have an intranet for the company's personnel, where there was always information and how to proceed and how to operate” (Interviewee 3)

“The video greetings from the CEO brought awareness.” (Interviewee 3)

These capabilities were seen as trust building factors toward the top management and their decisions among the interviewees. Additionally, employees are seen as key contribution amid change.

“I would see that companies that understand the importance of the staff in the production have the best possible ability to change when that change is needed in one direction or another, whether new things are introduced, or the service concept is expanded, or the concept is changed.” (Interviewee 5)

Learning capability, continuous improvement, and knowledgeable employees were highlighted as well. It was prevailed that especially in the service industry the value of employees working in the client interface is high. Many of the interviewees acknowledged that the success begins from the employees and from their willingness and motivation.

“It's important for the management to come from a higher level to that root level and think about the activity and see what the everyday work is like.” (Interviewee 4)

“The company must keep those jobs interesting, to give opportunities to train and attend courses, and further educate. Make people multi-talented and not compartmentalize people and employees.” (Interviewee 4)

One interviewee recognized the importance of two-way learning and noted important the management’s ability to manage it team in down-to-earth manner.

“Management is cooperation. Management must take place from there where the employees are, and one must manage with and according to them. And then the important part is to maintain and utilize people's know-how.” (Interviewee 5)

Moreover, the leader that can motivate its team and bring positivity and good team spirit to the workplace was noted significant. To be a good leader is quite a broad

statement, however there was an unanimity within the interviews that these good leaders have certainly a personality that is made for leading. Here the talent and personal traits of both the organization and management was seen as a contributing factor when adapting successfully to sudden change.

“The manager knows how to choose a team around him that has mutual positivity. And most importantly, what a leader has to have that positivity. Positivity creates positivity, so the team works better the more the more fun it is” (Interviewee 5)

“Talented people who are able to innovate and change from one situation to another, they are certainly the cornerstone of success in all companies” (Interviewee 1)

“But there’s no such thing as a payroll manager anywhere anymore, who just works and hires and doesn’t manage. Then you must have that kind of personality, who is suitable for that management position...” (Interviewee 1)

“It influenced a lot that the owner-entrepreneur was also in the kitchen and in the hall so they can keep the restaurant open without payment. ... they did everything, e.g. company lunches and evening bags and they had really good sales.” (Interviewee 3)

Stability within the market

In addition to the organizational themes found from the interview data, many noted that the outside factors of the firm influenced the possibilities to successfully adapt to sudden change. The brand image of the firm and financial stability was greatly emphasized. From the data there could be found collected themes of customer connectivity capability which affect the brand image of the organization.

Especially within the restaurant and hotel industry, the customer base often is in major position in terms of popularity of the firm. Hence, having a solid customer base and loyal customers were seen as assets when the market forces shift, and change occurs.

“A solid customer base was clearly a factor that had a positive effect on success. They had a clear concept and product that their loyal customers knew. A strong brand kept the company going.” (Interviewee 2)

It was stated that if the company had strong media presence or some external communication from public relations, it fostered the positive brand image within the stakeholders. If the organization is able to possess this type of brand and customer connectivity capabilities, it is more likely to survive the sudden environmental changes according to the interviews.

“The media presence has been strong” (Interviewee 3)

“The CEO has his own face and name, that's what has happened, a lot of positive publicity.... Due to this the firm became an attractive employer because of the ability to take good care of the cash register during the corona period. (Interviewee 3)

“The manager must be visible to the customers, they have to do those things with them. They have to be willing to go to the restaurant to watch themselves.” (Interviewee 5)

“Listening to the customers is one of the three most important things along the side of employees and economic. To support these follows the vision and clear strategy which is planned beforehand” (interviewee 5)

In addition, the financial stability and structure were mentioned and were referred as an important factor when surviving sudden external change. The division of fixed and variable costs, flexible contracts, and financial back up from a mother company were emphasized as important. Similarly, the amount of state grants and business support during force major change, were noted as significant.

“A successful one has small fixed costs and more variable costs in business operations. Variable costs are easier, and their contracts are easy to terminate and this is more flexible” (Interviewee 1)

“State grants and business Finland funding helped... also, the opportunity to put loan repayment on hold.” (Interviewee 1)

“The advantage is that the organization is the financier in the background. Entrepreneurship definitely helps as the owner is involved in the business. But I recognize that even the entrepreneurial restaurant would not have been so successful without the financial support from the mother company...The bigger firm got loan from the bank and I believe smaller player wouldn't got that same amount” (Interviewee 3)

“The biggest reaction was naturally that the staff was laid off quickly, because the biggest expense in the restaurant are the salaries.” (Interviewee 3)

4.1.2 Unsuccessful adaptation

By analyzing the interview data, the found aggregated dimensions that lead to failure were extensively the opposite of the dimensions that lead to successful adaptation. Among the interviewees there were mostly understood that bad leadership, lack of innovation capability, risk averse behavior, and rigidity among organizational and financial structure were seen as major forces that lead to failure mid environmental change. This chapter focuses on the third research question.

Absence of leadership

The themes of lack of innovation capability, poor management, and defensive response strategies constructed this dimension. Many organizations fail to convert the sensed opportunities and awareness into actionable strategies. It was discovered that the ones that usually fail in adapting to change lack the capacity to make decisive and committed change within the organization. Noted from the data, the companies give up on the innovative ventures either too quickly or they lack the resources to keep them going. Fragile decision making was comparable with the absence of innovative capability.

Generally, bad management and poor managerial decisions were a common theme among the interviewees. For example, mismanagement of resources and capabilities, the abovementioned rushed decision-making, and lack of entrepreneurial managerial capabilities were the reason for failed adaptation. In both DC and EO, the management and their abilities are greatly highlighted. Hence to counterpart to that, the absence of it was seen as a reason to failure.

One governing theme was the link between overall poor management and unsuccessful companies amid change. Many interviewees accentuated how a great management affects the whole organization and how easily it can change the course of firm's fate.

"That's what happened when you really had to get into management problems or think about what to do instead of just reducing the staff and hoping that it's all right, because that's where it gets boring." (Interviewee 5)

"They lack that open interaction with those employees, with those productive persons who produce and do the work there in the field. The management lacks the ability to analyze what's happening in the field. They have too much directiveness and dictatorship." (Interviewee 5)

"Managing through numbers, not seeing the employees." (Interviewee 5)

"Poor management was the reason they failed..." (Interviewee 2)

"The management was already so mentally exhausted that it no longer grasped opportunities." (Interviewee 3)

"What is missing from management is the ability to analyze what those messages are when they come from the field, what they mean, how they should be dealt with. And they have too much of that directiveness, i.e. dictatorship." (Interviewee 5)

Consequently, the personality and individualistic traits of a leader affect tremendously to the way that an organization is led. The interviewees noted that most often the personal traits and lack of entrepreneurial attitude were factors in failing adaptation and

unsuccessful business. This theme can be understood as an underlying influencing factor in most of the aggregated dimensions, however it was also concluded into its own dimension.

In addition, some of the interviewees noted that the companies that struggled during the pandemic were the ones that did emergency decisions and rushed solutions. One interviewee stated that drastic concept change that changed the whole business strategy was a poor decision. This shows that the organization that failed, also failed to reconfigure the sensed and seized threats of the pandemic. Quick decisions making is almost crucial amid change, however when the decisions are rushed and not thought out comprehensively, it can damage the organization. These emergency solutions were themed into defensive response strategies. It can be understood that the defensive strategies during sudden external changes, do not drive for entrepreneurial behavior and innovative thinking.

“This one vegan restaurant completely changed their business concept, they started selling hamburgers and kebabs. There was such a mood of survival that the when the first restaurant concept clearly didn't work, and they had the pressure of rent and other payments, they had to come up with something quickly. Decision making was hurried, and the concept change was poor.” (Interviewee 3)

The overall inability to adapt a business plan and strategy to changed environment and fragile decision-making lead to the lack of innovation capability in an organization. The business concept must be adapted according to change.

“It has not been possible to adapt the business idea... The business idea must be changed when you feel something is changing.” (Interviewee 1)

Organizational change rigidity

Other common themes were short sightedness, fear of failure, risk averse behavior, and organizational inflexibility, which were aggregated into the organizational change

rigidity dimension. In DC organizational change ability reconfigures capabilities when adapting to the changed environment. In addition, EO underlines risk taking, competitive aggressiveness, and proactiveness. Without these, a firm is unable to change accordingly and sense the environment.

“They quickly ended up doing layoffs for saving reasons. It was an emergency solution for the sudden situation” (Interviewee 2)

Interviewee two also noted that one failed company abandoned too quick some innovations and decisions. For example, a failed company decided to abandon take away lunches during which they had acquired during lockdowns and continued to only do evening services. The interviewee noted that the decisions to let go of some revenue stream was not profitable in the end. Risk averse behavior was also found to be a factor that led to failure amid change. Interviewee one noted that controlled risk are crucial in business, however many noted that not taking any risky ventures during unstable environmental change, was a factor that led to unsuccessfulness. Here the companies that settled for “status quo” and freeze during a time when movement and decisions were needed, was seen as a failing factor. In addition to these two themes, organizational rigidity and inflexibility in firm’s hierarchy, departments, workforce, agreements, and collaborations were a barrier to organizational change. Short sightedness and risk averse behavior along the side of organizational inflexibility were aggregated into organizational change rigidity.

“Old properties and old hotels, many of them has had to shut down for example Korpihotels. They have no added value for the customer to go there, the luxury is missing. They were unable to adapt the properties for other purpose” (Interviewee 1)

“The smallest units and organizations did not have great success with the change, where the customer flow is not terribly large, but yet there are personnel costs. You can certainly think that it is not flexible enough... Of course, the more sales there are, the easier it is for the company to be flexible in those other costs, such as the salary side.” (Interviewee 3)

“There was a lack of caring and encouragement for people and staff, there was no communication nor appreciation. Too hierarchical organizational structure led to this.” (Interviewee 4)

Resource rigidity

In addition to organization change rigidity, the inflexibility in firm’s resources was also aggregated into a dimension. Resource unavailability such as overall lack of financial, material, and immaterial resources due to structural restrictions were seen as barriers to successful adaptation to change. Similarly firms financial instability and external threats were aggregated into the dimension.

Here the found theme links with organizational inflexibility. When organization had organizational rigidity, it reflected to its resources and to the lack of them. It is acknowledged that hotels and restaurant have constructional limits as well, which affects companies’ adaptation capability. The physical size and location of the property can act as limitation in change adaptation.

“What comes up quite often in construction is the fact that there is already an obstacle called a room that is too small.” (Interviewee 5)

The lack of savings and the absence of the so-called extra buffer with the firms’ financials was mentioned having impact on the failure with restaurants and hotels.

“Probably the biggest reason for the failing was that if you are a small firm, and you don't have that buffer, the extra money in your pocket...” (Interviewee 3)

“Bad management makes bad decisions and excessive personnel savings causes that there is no more staff, and the staff does not enjoy themselves, because they stress too much and there is too much work.” (Interviewee 5)

Interviewee five noted that excessive personnel layoffs caused rigidity in employee resources, which further affected employee happiness in many other firm aspects. It can be concluded that many of these themes and dimensions are interlinked with one another, and if there are major savings it can affect negatively to other business areas.

Moreover, financial instability was a common theme. Great fixed costs were noted as negative especially within the hotel industry. Many of the businesses have been built in a way that they lack flexibility in terms of costs from the very beginning. Below, the interviewee acknowledges the importance of noticing when something is not profitable or when to abandon some ideas that are not financially beneficial. Many times, the company may lack the financial stability when trying to adapt to change.

“There is a lot of risk-taking from the financial side.... There can be things that, okay, you would like to do something and then you realize that it is simply not worth doing financially. This sort of innovation, it must be led, guided, and acted correctly on, and you can't just pull the rug from under one's feet.” (Interviewee 5)

“Those who have large, fixed expenses, for example rent expenses, have not been so successful.” (Interviewee 1)

The above comment from interviewee one explains that on many occasions the large old schoolish hotels lack even the possibilities to change their business due to fixed financials. Also, the location limits off great number of possibilities that other industries have. A related theme to this is the external threats that were combined into a theme. With restaurant and hotel industry, the interviewees noted that locations have a lot of value to the firms. Interviewee two disclosed that one failed due to its unfavored location and constant construction outside of the restaurant.

“...and one that was unsuccessful had been in the middle of a construction site and road works for many months, and then comes the corona. The restaurant had been built with hundreds of thousands, so maybe a little too much bad luck in that case. There is certainly more than the corona that affected them, but surely these external factors have had a lot of influence.” (Interviewee 2)

Limited entrepreneurial culture

The final aggregated dimension found was the limited entrepreneurial culture capability. It came to light that the themes of change resistant work culture and environment, poor customer segmentation, and lack of collaborating with stakeholders led to unsuccessful change adaptation.

It emerged from the interviews that change resistance in the working culture acted as a barrier in firms' change adaptation process. In this theme there was aggregated the bad reputation of an employer, high employee turnover, overall lack of encouraging work culture, and poor communication within the organization. The importance of motivating employees and making the environment favorable for open conversation was highlighted, and it was noted that organizational culture really stems from the management's abilities.

"It is the job of a good manager to open the "game" and not the staff... what is often missing in this type of leadership situation when meeting and interacting with employees is that presence." (Interviewee 5)

"The communication wasn't smooth from the management." (Interviewee 4)

Here the interviewee five meant that the game of open and transparent communication is in the hands of the management, and if that is done properly, it will flourish innovative ideation and creation of new. Consequently, the absence of this aspect within an organization can serve as a barrier to change. Failure to be present and to actively listen to employees was identified as a key factor that can lead to unsuccessful outcomes.

"The entire atmosphere was toxic. Entrepreneurs have had a bad reputation as employers even before the corona. The employees were tired, which lead to employee turnover. Following that, you can't get the employee level you want." (Interviewee 2)

Within the hotel industry, overly niche customer segmentation has been identified as a significant issue that warrants attention. As the hotel business itself is fixed in terms of traditional service, many old hotels have segmented themselves too narrowly in the market. This caused poor change adaptability in major external changes according to the interviews. For instance, hotels situated in a once-popular location may not perform as well in years later. Hence, having a rigid organizational positioning was identified as a contributing factor to failed adaptation. This was understood as a lack of entrepreneurial mindset, as it suggests an inability to anticipate future possibilities and opportunities. A slow response to environmental and cultural changes can not only leave a company trailing behind its competitors, but also out of touch with its target market.

“They become difficulties when you have worked quite a long time in your company. And the customer structure must be really broad, too small customer segment will limit the business. The area was segmented too precisely, so that if it is now only segmented into the Chinese or Russians tourists, it will no longer work in the changed environment. The business idea must be changed when you feel something is changing... For example, the strategy of the East that quite a lot of hotels have. Chinese and Russians were a significant customer group, so it's as if they've been left out.” (Interviewee 1)

Similarly, the lack of collaboration was found to be part of limited entrepreneurial culture. The interviewees noted that insufficient collaborations or entering unsustainable partnerships were identified as contributing drivers for failure.

“The acquisition was a negative thing. They are not on the same map with the ground level working service people, which caused miscommunication” (Interviewee 4)

Upon analyzing the data from the interviews regarding unsuccessful adaptation, it became clear that the most significant barrier to change occurred during the sensing and seizing stages of the process. The primary obstacles to continuing with innovative ideas was the lack of financial resources and the instability of the organizational structure. It was mentioned in the interviews that small private entrepreneurs had the

most difficulties when adapting to change. Not only the financial and structural resources affect the small entrepreneur's success rate, but additionally the lack of diversity among small firm can also be negative asset. If the decision-making is greatly centralized, the ideation sharing and creation are not flourished within a company. Furthermore, the lack of many different aspects and opinions can affect the innovation levels in an organization.

Failure to transform change into a continuous process, instead of treating sudden external changes as isolated events, resulted in emergency actions that proved unsuccessful in the long term. Additionally, the research data suggested that the absence of creativity and knowledge are a capability that can prevent the organization from anticipating changes and remaining ahead of potential disruptions.

4.2 Summary of the findings

This section summarizes the empirical findings from the research data that were deconstructed in the earlier chapters. Here the interpretation of the data and the key findings are evaluated. The data is analyzed through the lens of both entrepreneurial orientation and dynamic capabilities theories. In addition, due to the purpose of finding both success and failure factors from the research data, these both aspects are evaluated. Hence, there is a viability viewpoint in explaining the found data and the intention is to have a framework for directing organizational adaptation amid rapid external change. The summary of the findings addresses the first research question and gathers the findings and reviews the objective.

The found themes and dimensions can guide organizations during environmental change. The traits that were found enable one to maximize their resources and capabilities in a way that brings adaption capability to the firm. The figure below demonstrates the aggregated dimensions found from the interview data reflected

through dynamic capabilities and entrepreneurial orientation. There were found five dimensions that were discovered to be linked with successful adaptation when reflecting to organizational adaptation capabilities amid external change. The five found dimensions are organizational change capability, innovation capability, leadership capability, cultural capability, and organization's stability within the market.

There were aggregated four dimensions that are seen to lead to organizational failure in environmental change according to the interview data. The four dimensions are the absence of leading capability, organizational change rigidity, resource rigidity, and limited entrepreneurial culture within an organization. Below is the overview of the found dimensions.

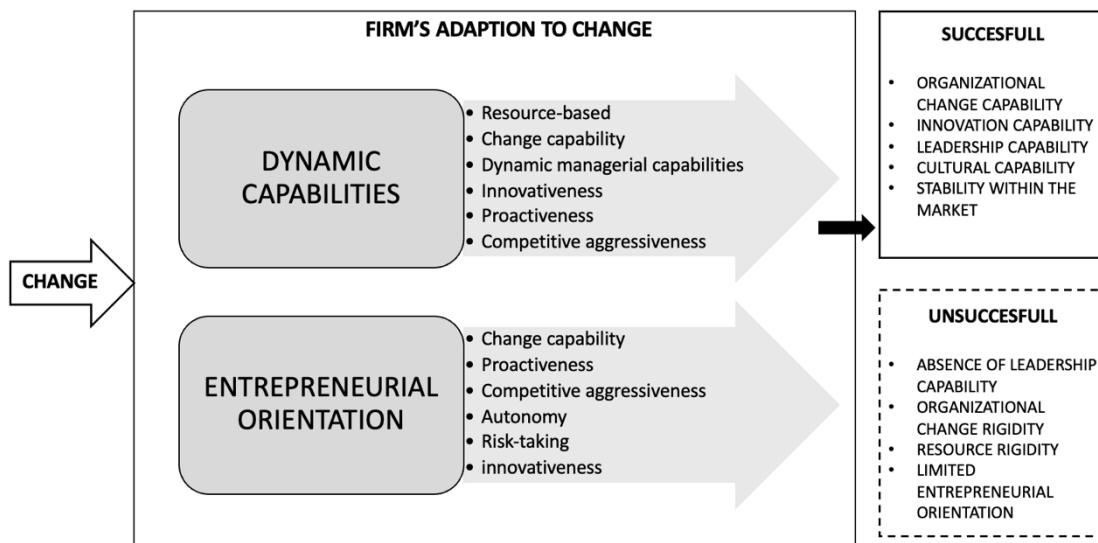


Figure 7. Summary of the findings.

The Figure 7 above shows the dimensions found from interviewing experts from the hotel and restaurant industry. It demonstrates how both dynamic capabilities and entrepreneurial orientation enable firms' adaptation to rapid external change. Simultaneously the figure shows the answer to the research objective of how the successful and unsuccessful adaptation to change differed from one another. The

research data was collected by asking two main interviews questions: describe capabilities that lead to successful firm adaptation during rapid external change and describe capabilities that lead to failure during rapid external change. The figure demonstrates the answers to these two questions and simultaneously shows the alternative aspect of the research objective. The figure does not list the three phases of dynamic capabilities that are sensing, seizing, and reconfiguring, as the categorization is in stages rather than dimensional. Consequently, the dimensions found represent the characteristics from both DC and EO.

As earlier disclosed the successful dimensions were organizational change capability, innovation capability, leadership capability, cultural capability, and firm stability. These dimensions show characteristics of both DC and EO, and these relations with the theories are further analyzed in the next two chapters. It is demonstrated that by applying dimensions from dynamic capabilities and entrepreneurial orientation, firms can successfully answer to sudden change and new opportunities.

Dimensions that lead to failure were absence of leadership capability, organizational change rigidity, resource rigidity, and limited entrepreneurial orientation. As previously stated, these dimensions indicate capabilities that are largely the opposite of those associated with success. This research objective shows that if organization's fail to have the successful dimensions in their operations, it will more likely fail during rapid external change. On contrary, these unsuccessful dimensions, can either alone or collectively, result in failed organizational adaptation, which further validates the literature analysis.

4.2.1 Dynamic capabilities for change adaptation

In alignment with Teece et al. (2007) the dimensions of dynamic capabilities are useful in firm adaptation to changed environment through integrating, building, and reconfiguring resources. A part of dynamic capabilities is determining new strategic functions and plan operations to alter them to fit into changed circumstances. The qualitative data revealed themes of flexibility with resources and firm activities,

product/service development, risk taking, innovativeness, proactiveness, and change and managerial capabilities. These themes show sensing, seizing, and reconfiguration of firm's resources. The managerial capabilities and importance of strategic planning were also prominent themes found from the data.

The findings revealed that the found dimensions in successful adaptation are indeed unique capabilities which are hard to imitate by others and are more often very firm specific. This aligns with Winter (2003) who states that dynamic capabilities create sustainable advantage through their flexible and inimitable nature. Like previously stated in the literature review, dynamic capabilities are crucial in organizational adaptation (Teece et al., 1997). There were clear connections with theory to the findings that successful adaptation requires firm specific and unique capabilities.

The findings revealed that the companies that used dynamic capabilities in adapting to external change purposefully created and modified their resources which aligns with literature review from Helfat et al (2007:1012). Moreover, the successful adaptation process recognized all three of Teece's (2007:1319) dimensions of the analytical framework. The data verified that successful firms were able to access existing and novel information and to use it in favor (Kirzner, 1973: Teece, 2007). As previously stated, sensing is about identifying the external opportunities and threats. In the context of adapting to environmental change, the data from the interviews revealed that successful adaptation is more probable when firms innovate and think outside of the norm, have a comprehensible contingency plan, and have an entrepreneurial leader who grasps opportunities but declines the ones that are unprofitable. It came through that proactive and risk-taking leader is more likely to adapt to sudden change and to its consequences. The sensing phase requires financial freedom to venture into new service developments. Hence, financial structure affects the sensing capabilities.

The data revealed that innovation capability relates with change adaptation. Innovation capability, including the capability development with product and service modifications, aligns with the previous statements in the literature review that dynamic capabilities

exploit both internal and external firm-specific capabilities while innovating new ones. The findings suggest that having the ability to simultaneously innovate and concentrate on other dimensions indicate firm's successful adaptation to change.

The found dimensions of successful firm adaptation during change strongly indicate success. Organizational change capability aligns with sensing threats and opportunities, leadership capability and cultural capability align with seizing the opportunities with existing and/or developing new ones. The discovered dimensions align with reconfiguring through multiple dimensions. The data suggests that reconfiguration process is an ongoing process which occurs simultaneously with sensing and seizing. Reconfiguring was achieved by venturing into new design of services and innovations. The successful companies during sudden environmental change were seen to be able to transform their abilities in a way that was sustainable.

The leadership capability indicated strongly successful adaptation. A competent management is crucial in all sensing, seizing, and reconfiguring firms' resources. The found data aligns with Zahra et al. (2006), Teece (2007), and Helfat et al. (2003) that managerial dynamic capabilities have a significant impact on successfully adapting to rapid environmental change. Additionally, the cultural capability suggests strongly that the individualistic managing abilities have a positive link with firm adaptation. As Adner and Helfat (2003) suggested, the data links with their statement that leadership capabilities are the underlying force behind all dynamic capabilities' dimensions. It can be drawn that management's competences and individual leaders' impact on the seizing phase is great.

In addition, the cultural capability supports the dynamic capabilities literature review. As Teece (2007) notes that information flow, transparency, and decentralized organization allow an organization to have an open culture which further minimizes path dependencies. The data revealed that firms with more open organization culture, encouraging and trustful work environment, and embracement of the organizational learning are valuable resources in adaptation. This cultural capability enables both

seizing and reconfiguring. The interviewees noted that having an open firm culture where is trust between management and employees can be more favorable in successful adaptation. Entrepreneurial working culture and communication were seen to bring more open two-way communication. Management can turn to account to employees' good ideas and innovations and sense more opportunities. Similarly, a certain awareness of own actions and ideas within an organization was seen as an asset.

Stability within the market and strong financial grounds enable the above-mentioned capability dimensions. Although, firm stability is seen as one distinct dimension, the data revealed that the dimensions are greatly interlinked. The interview data revealed that without a strong financial position, especially in the restaurant and hotel industry, the adaptation to sudden change is uncertain. The interviewees highlighted the importance of strong customer base and brand positioning especially amid sudden environmental change. It came to light that if an organization has acquired strong customer connectivity capability, their customers are more likely to forgive occasional imperfect decisions by organization. These reliefs from loyal customers give room for more deliberate decisions from the organization.

The findings revealed that dynamic managerial capabilities play a great role in achieving organizational adaption. It can be concluded from the data that acquiring dynamic capabilities as part of strategy and using them to analyze environment helps in successful firm adaptation during change. The data also shows that there are underlying firm behavior and attitude which steer the management in more dynamic practices. Dynamic capabilities approach recognized the managerial capabilities' importance in all the dimensions.

4.2.2 Entrepreneurial orientation for change adaptation

As discussed in the previous chapter, the analysis revealed the appearance of all three of dynamic capabilities' dimensions. However, the data indicated that the role of entrepreneurial orientation and managerial dynamic capabilities might be greater than

in original approach by Teece (2007). Entrepreneurial orientation appeared most significantly in the data with innovativeness, proactiveness, risk taking, and autonomy. In addition, entrepreneurial management and leadership abilities appeared in the data which also are present in entrepreneurial orientation. Here the dimensions of entrepreneurial orientation are mirrored to the findings of this thesis.

Entrepreneurial orientation was prominent in the found data and its dimensions were acknowledged in the findings. Autonomy, risk taking, and proactiveness were present in the data and these dimensions were aggregated into leadership capability with using the Gioia method. Autonomy, proactiveness, and risk taking are separate dimensions in entrepreneurial orientation. However, these dimensions showed themselves as part of managerial abilities, hence they were aggregated as one key capability which leads to successful firm adaptation. The research findings suggested that the manager and management must be oriented in a way that autonomic and risky decisions are taken. Proactiveness also showed as being part of management's abilities to be reactive. The findings of strategic reactivity and the courage to venture into new, suggests strongly that firm's proactiveness and risk-taking help in gaining success in change adaptation. As Lumpkin and Dess (1996) and Covin and Slevin (1989) note, firm-level proactiveness include managers individualistic tendencies to lead over followings trends. Hence, the found data proposes that managerial-level proactiveness and opportunity seeking are likely to lead to successful adaption when external change occurs.

Similarly, the findings suggest that autonomy in an organization enhances the possibilities of adapting successfully to changed environment. The data revealed that creativity among organization and open organization culture led to autonomy in firms, which moreover enable more fruitful ideation among top managers, middle management, and employees. This proposes that decentralized organizations are more prone to survive sudden external changes, as the ideation, innovation, thinking, and actions are not behind only a few people. Hence, the findings align with Miller's (1983) propose that organizations that have autonomous leaders are entrepreneurially

orientated. The literature analysis aligns with the found data and that successful firms have an entrepreneurial orientation.

Like in dynamic capabilities, innovation is also part of entrepreneurial orientation. Subsequently, this dimension was prominent in the data and can be linked with EO as well. The findings align with the literature review (Soininen et al., 2012; Wiklund & Shepherd, 2005) that innovation can be a strategic experimentation or even a new way of working. The data revealed that successfully adapted firms experimented with different services, new ideas, and new ways of working during the pandemic and other external changes. The data suggested strongly that capability development during change is valuable. The capability development and innovativeness were aggregated together as innovation capability in this thesis cover innovativeness in all strategic decisions, whether they are service or strategy specific. This aligns with that a creation can vary from simple ventures to radical changes (Lumpkin & Dess, 1996).

As discovered, innovativeness is understood as an important part of the adaptation process during change. Whenever sudden external change transpires, it creates a new need or room for new. The data suggests that successful companies can seize this specific situation and benefit from it through innovating and creating a competitive advantage. The findings align with the literature review that innovative organizations are even drivers for economic growth and performance (Wiklund & Shepherd, 2005: 75). Many of the interviewees referred to their personal knowledge during radical change. The findings suggest that successful organizations during change are likely to act as an example in their field, as the interviewees noted that many companies took an example from others.

The findings correspondingly suggest that an entrepreneurial spirit as an underlying attitude and as conscious decisions are part of organization's successful adaptation process. It aligns the literature review that incomplete information and unstable environment generate entrepreneurial orientation through risen opportunities (Kirzner, 1997). The data and findings also suggest that the dimensions of entrepreneurial

orientation can separately and independently affect firm performance positively during change. For example, competitive advantage dimension did not appear that strongly in the data that it would have been grouped into its own theme. This implies that an organization can acquire some dimensions of entrepreneurial orientation while adapting successfully to changed circumstances. This subsequently aligns with Lumpkin and Covin's (1996) understanding that the dimensions can be independently recognized to have entrepreneurial orientation. Moreover, the findings support the literature review and recognize Lumpkin and Covin's view of multi-dimensional entrepreneurial orientation as valid. The data revealed that some dimensions of EO indeed were more prominent in the data than others, which validates the literature analysis. The findings support that entrepreneurship is most of the time in roots of the company and the ability to adapt accordingly to change stems from entrepreneurial orientation of the organization.

5 Discussion and Conclusions

In this chapter, the research results are compared with the theoretical framework presented in the literature review. The theoretical and managerial implications are reviewed and in addition, the limitations of this thesis and topic are acknowledged. This thesis was conducted as a qualitative approach through five in depth expert interviews focusing on the restaurant and hotel industry.

The focus of this study is on two major research objectives: first to determine the successful and unsuccessful dimensions that appear when organizations adapt to fast changing environment, which was explored through the first research question and analyzed with the Gioia method; secondly, to analyze dynamic capabilities and entrepreneurial orientation in this context and to explore how the theories are present in change adaptation.

There were five aggregated dimensions found to have a positive effect on organizational adaptation in rapidly changing environments. Additionally based on the interview data, four dimensions were identified to lead to unsuccessful organizational adaptation. The findings align with the existing research on both dynamic capabilities and entrepreneurial orientation supporting the literature review. Nevertheless, some dimensions emerged, like leadership capability, more prominent than others, suggesting that prioritizing these successful dimensions during external change may lead to better performance.

The successful dimensions found differ quite unambiguously from those that lead to failed adaptation. According to the findings, the leadership capability is a critical factor in achieving success, while the absence of it causes failure during sudden change. This further emphasized the importance of effective leadership and its impact on all organizational aspects and levels. The data strongly suggests that leadership capability, or the lack thereof, contributes significantly on the dimensions of dynamic capabilities and entrepreneurial orientation. As a result, there are multiple connections between

the successful and unsuccessful dimensions, as they represent opposite ends of the spectrum. The cultural capability was found to lead to successful adaptation, while limited entrepreneurial culture was found to lead to failure. Moreover, organizational change capability includes the opposite themes from organizational rigidity capability.

Based on the research data, organizational culture has an underlying influence on performance through learning capability, open and encouraging culture, and trust building communication. This emphasizes the importance of having an entrepreneurial orientation rooted in the organizational habits and seizing an organizational atmosphere where employees feel safe expressing themselves. Correspondingly, according to the interview data innovation capability has a positive influence on successful adaptation to change among the restaurant and hotel industry. This correlates with the finding that cultural capability affects positively as well. As innovativeness was earlier described as the willingness to try something new with passionate commitments (Lumpkin & Dess, 1996), thus an organizational culture that encourages open communication and empowers employees to take risks is conducive to facilitating innovation.

Organizational change capability significantly emerged from the research data as well. The capability to change fast and make organizational rearrangements through flexible and agile organizational structures and processes drive for successful adaptation in fast changing environments. Among these, a careful planning was found to bring security and preparedness in changing environments. Inevitably, an already strong brand and customer connectivity were found to have a positive impact on successful change adaptation. The research data strongly suggested that strong financial position and structure were found to be beneficial during sudden environmental change, especially since the financial and economic state has a direct impact on both business operations and actions that are taken during change.

Four aggregated dimensions were drawn from the research data that show indications for failure during rapid change. Even though resource availability was not as prominent

in the research data when analyzing the successful dimensions, resource rigidity was found to have negative impact on change adaptation among restaurant and hotel sector. Independent external threats, resource unavailability, and financial instability affect to the overall resource rigidity and moreover to failure in fast changing environments. Additionally, organizational change rigidity was found to lead to failure as well, which is connected to the resource rigidity dimension through organizational inflexibility. Risk averse behavior and short sightedness in business operations were also found to lead to failure in change adaptation, which supports the use of dynamic capabilities and entrepreneurial orientation.

Moreover, limited entrepreneurial culture and the beforementioned lack of leadership capability indicate failure in organizational adaptation in changing environments. Unplanned and defensive strategies to change, as well as lack of innovation capability and poor management, suggest unsuccessful adaptation. Furthermore, poor management facilitates limited entrepreneurial culture with possible change resistance and poor organizational culture. Limited entrepreneurial culture was found to bring lack of collaborative ventures and too niche customer segmentation.

To conclude dynamic capabilities and entrepreneurial orientation contribute to successful adaptation in hotel and restaurant sector during rapid change. The absence of dynamic capabilities and entrepreneurial orientation in the firm characteristics that were found to be unsuccessful dimensions further verifies the importance of DC and EO. The research data revealed that both dynamic capabilities and entrepreneurial orientation were prevalent among the successful adaptation characteristics. Certain dimensions of these theories appeared to be more prominent than others as the data showed that the importance of managerial and entrepreneurial capabilities might be even greater in change adaptation than other capabilities. The findings emphasize the importance of developing these specific successful characteristics in organizations when adapting to changing environments. Also, the findings determine the characteristics that hinder successful adaptation and determine the dimensions that facilitate failure.

5.1 Theoretical implications

Dynamic capabilities and entrepreneurial orientation both have significant theoretical implication for the field of management and organizational behavior. This thesis adds to the existing literature by verifying the theoretical frameworks and validating the found dimensions leading to successful adaptation amid change. This thesis accents the grievances which lead to failed adaption.

Firstly, acknowledging the first research question, the dimensions leading to successful adaptation to change brings verifying data to the field of management through organizational learning. The found data further proves that innovative and learning organizations are more likely to achieve success amid change. Furthermore, through using the successful dimensions an organization is more likely to outperform their competitors and is more prone to adapt to the changing environment.

Secondly, this study adds to the innovation theory by recognizing the innovation capability as a successful dimension. The research data collected from the restaurant and hotel industry indicates strongly that service innovations and proactiveness help to achieve success. Both dynamic capabilities and entrepreneurial orientation are closely linked to innovation theory (Teece, 2014; Wiklund & Shepherd, 2005), hence this study suggest that innovative organizations and a proactive management might outperform its competitors. This was too suggested by the findings from both the successful and unsuccessful adaptation dimensions.

Thirdly, this study has theoretical implications on strategic management theory as it focuses on how organizations create and sustain a competitive advantage in rapidly changing environment. The successful and unsuccessful dimensions can further expand the literature on dynamic capabilities and entrepreneurial orientation as the found dimensions highlight the importance of leadership, innovation, risk-taking, organizational culture, and change capabilities. Together dynamic capabilities and entrepreneurial orientation help firms to adapt and respond to external changes.

5.2 Managerial implications

There can be drawn several managerial implications from this thesis. This thesis identified dimensions of dynamic capabilities that are relevant to organizations and understood the relevant dimensions of entrepreneurial orientation. This can bring significant managerial implications with identifying these capabilities and dimensions.

By identifying the successful dimensions from the data, managers can allocate resources to enhance those capabilities to further improve firm's performance. The data showed the importance of culture, hence managers can create and structure a culture that promotes the dimensions that lead to the cultural capability. The management should encourage environment where employees feel encouraged and safe. Additionally, managers can lead firm behavior that promotes proactive approach to opportunity seeking, innovating, and risk-taking. Hence, managers should encourage proactiveness and taking calculated risks in effort of pursuing new opportunities.

This thesis highlighted the importance of flexibility in firm processes and planning. Managers should have a clear strategic vision to ensure that organizational activities and investments align with that, so that the market stability and position are in align with the vision as well. Management should develop a strategy that is as poised to change as possible to secure successful adaptation during change.

Consequently, the managerial implications of this thesis highlight agility and flexibility, careful planning, learning, proactive approach, and continuous innovation. Managers can embrace these characteristics to achieve successful adaptation to changing environments. By acquiring these characteristics and acknowledging the dimensions found in this thesis, organizations can achieve competitive advantage.

5.3 Limitations and suggestions for future research

There are limitations in this study along the side of valuable insights. As the two theories provide important information to the field of management, it is important to acknowledge their limitations and refine our understanding of the constructs. Firstly, the difficulty in measuring the two abstract constructs dynamic capabilities and entrepreneurial orientation cause limitations. Consequently, the interview method leaves room for subjective interpretations of the answers cause possible limitations. In addition, the amount of interview samples is relatively small, however their nature brings deeper knowledge rather than statistical data.

Secondly, the generalizability brings certain limitations to this study. This study is conducted in specific context of restaurant and hotel industry, which may not apply to other industries. Thirdly, there are endogeneity and causality issues regarding both theories. As it has been discovered in this thesis, the common limitation for these theories is their difficult nature of definition. It is challenging to tell whether these constructs contribute to better organizational performance or are merely related to other success-enhancing variables. Additionally, there might be endogeneity problems, in which organizational success in change adaptation might also affect the growth of dynamic capability and entrepreneurial orientation.

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