



Open your mind. LUT.
Lappeenranta University of Technology

WHAT DRIVES INNOVATION IN THE MAGAZINE PUBLISHING INDUSTRY?

FINAL REPORT 2013

Table of Contents

1	INTRODUCTION	3
1.1	Background	3
1.2	Objectives	3
1.3	Research Team.....	4
2	THEORETICAL POINTS OF DEPARTURE	5
2.1	Capabilities.....	6
2.2	Dominant logic	7
3	PHASES OF RESEARCH	9
3.1	Qualitative study	9
3.2	Quantitative study.....	9
4	FINDINGS	10
4.1	Dominant logic and dynamic capabilities – findings from qualitative study	10
4.2	Descriptive information of the sample magazines	11
4.3	Revenues.....	13
4.3.1	Current distribution of revenues	13
4.3.2	Future distribution of revenues	14
4.4	Competitive advantage and strategic environment	15
4.4.1	Intra-organizational sources of competitive advantage	15
4.4.2	Extra-organizational factors affecting strategy	16
4.5	Innovations and renewals.....	17
4.5.1	Innovation activity, amount and types of renewals made.....	17
4.5.2	Business relevance of innovation activity	18
4.6	Organizational practices and routines related to renewals	18
4.7	Impact on business.....	20
4.8	Academic publications.....	22
4.8.1	Publications, qualitative	22
4.8.2	Publications, quantitative.....	24
5	REFERENCES.....	26

1 INTRODUCTION

1.1 Background

Clearly, innovation has become a key element of the industry and publishers are constantly looking for novel solutions in the print magazine, in their marketing, on the websites, on mobile phones, or in their partnerships, in how their work is organized and managed. In other words, the field of innovation includes marketing, managerial and organizational innovations in addition to product innovations.

Indeed, innovation seems as the only way out in the current economic situation and the rise of digital platforms. The game is changing and some magazine executives are taking the driver's seat in setting the pace while others are more cautious and rather follow the footprints of others.

"And while some magazine executives have collapsed under the pressure by shuttering their publications or trying to cut their way out to profitability, the tougher, more imaginative, more visionary publishers and editors have used these hard times to challenge themselves and their staff to change the game or surrender." (Wilpers, 2010, p. 19)

Even though there is no unclarity about the importance of innovation, most of the related articles both in the academic field and within the field, focus on the outcomes of innovations, i.e. new print or online products. However, we still know very little about the organizational factors that drive innovation within this industry. What, in fact, distinguishes the innovative magazine organizations from their competitors? Do they possess unique knowledge or capabilities, or a different outlook on the future? What drives innovation in the magazine publishing industry? How do they effectively search for novel ideas and bring them into reality?

The purpose of this research project is to explore the organizational factors driving innovation in the magazine publishing industry.

1.2 Objectives

The objectives of this research project are:

- 1. Explore how different organizational factors affect (drive or hinder) innovation in magazine publishing organizations*
- 2. Explore the differences that exist in innovative activities and outcomes between different market areas*

1.3 Research Team

LUT School of Business's research activities have a strong focus on firms' capabilities and how companies are impacted by technological change. Thus, there is a solid stream of research projects focusing on innovation and related capabilities since mid-1990's. Media industry has also been involved in the projects since 2003.

Research team

- Dr. Ari Jantunen, Professor of strategy research. LUT School of Business. Expertise in capabilities and innovation research, the focus being in dynamic capabilities.
- Dr. Hanna-Kaisa Ellonen, Professor of strategic management of innovations. LUT School of Business. Expertise in capabilities research, the focus being in magazine publishing industry.
- Dr. Olli Kuivalainen, Professor of international marketing. LUT School of Business. Expertise especially in the international activities of knowledge-intensive companies.
- Dr. Anssi Tarkiainen, post-doctoral researcher. LUT School of Business. Expertise in statistical methods, survey development and cross-cultural studies. Dr. Tarkiainen will take the project manager duties of the project.
- Doctoral Student Päivi Maijanen-Kyläheiko, M. Sc. (Techn.), Lappeenranta University of Technology, 2010; Master of Social Sciences (Journalism and Mass Communication), University of Tampere, 1990. LUT School of Business. She has many years of expertise in the field of electronic media, especially in the Finnish Broadcasting Company, as a journalist and as the head of the regional unit of Turku.
- Doctoral student Victoria Tikhonova M.Sc. (Econ. & Bus. Adm.). LUT School of Business. Her area of expertise is Innovation Management in Russia.
- M.Sc. (Econ. & Bus. Adm.) Hanna Silvennoinen. LUT School of Business.
- M.Sc. (Econ. & Bus. Adm.) Jaana Suurhasko. LUT School of Business.
- Master's student (Knowledge management) Jenni Järvelä. LUT School of Business.
- Master's student (Strategy research) Salla Juutinen. LUT School of Business.
-

Researchers at Media Management and Transformation Centre (Jönköping International Business School) have been acting as external experts providing us a firm understanding of media business. Dr Ellonen holds a research associate position at MMTC and has been co-operating with MMTC researchers since 1996.

- M.Sc. Anette Johansson, doctoral candidate. Jönköping International Business School, Media Management and Transformation Centre. Expertise especially in the entrepreneurial culture of magazine publishers.

2 THEORETICAL POINTS OF DEPARTURE

The core of the innovation is novelty (Van de Ven, 1986, 591-592). In this research project we apply Schumpeter's classical approach towards innovation by recognizing that innovation's novelty may be in the product or service itself, but also in the markets or industry structure; production, marketing or distribution processes; internal organization or even ways of thinking. Thus, innovation does not have to be new to the world, but may be new in the industry, inside the company or to the customers. We acknowledge the context specificity of innovation, and based on Van de Ven (1986, 591) define innovation as "the development and implementation of new ideas by people who over time engage in transactions with others in an institutional context". Hence, we are interested in new ideas and their implementation both in the magazine publishers' activities and as the outcomes of their work.

In order to get a thorough view of the innovation activities and outcomes in the magazine publishing industry, we are interested in different types of innovations: both incremental and radical. This means that the level of novelty may vary from incremental development work to fundamentally new solutions. This project builds on the streams of strategic management and innovation management. Thus the project incorporates several complementary factors affecting innovation:

1. innovation-related organizational routines and practices (ie. different types of resources and capabilities)
2. motives and drivers towards innovation (proactive/reactive behavior)
3. shared conceptualization of business conditions (management cognition, dominant logic)
4. partnerships (ie. complementary knowledge and capabilities)

Figure 1 below depicts our approach:

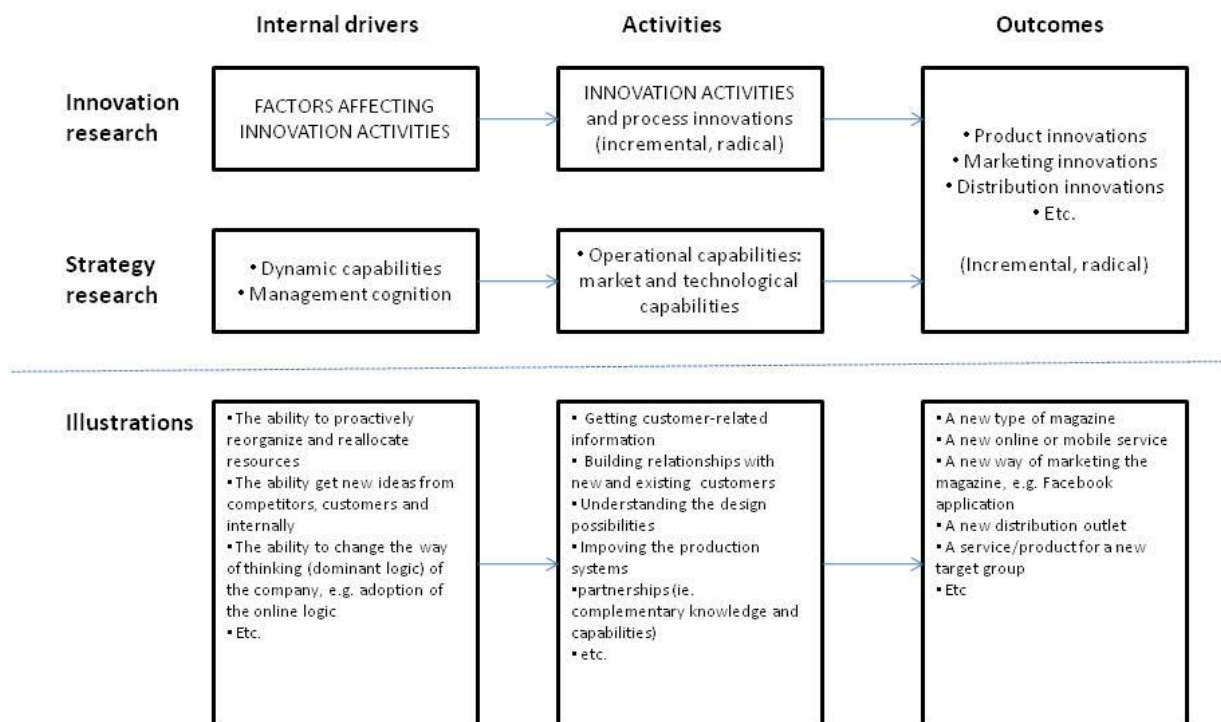


Figure 1. Theoretical points of departure.

2.1 Capabilities

Research on capabilities is grounded in the theory of the resource-based view of the firm (RBV). The central tenet of the resource-based view is that a firm is a bundle of idiosyncratic resources and capabilities, and in order to gain competitive advantage a firm has to use its valuable, rare, imperfectly imitable and non-substitutable resources and capabilities effectively (Wernerfelt, 1984; Barney, 1991; Peteraf, 1993). According to Amit and Schoemaker (1993) resources are stocks of available factors that are owned or controlled by a firm; capabilities, in contrast, refer to a firm's capacity to deploy resources. In practice capabilities constitute of routines (or collection of routines), i.e. repetitive patterns of actions (Nelson and Winter, 1982), to execute and coordinate the variety of tasks to perform an activity (Helfat and Peteraf, 2003, p. 999).

The current literature recognizes the hierarchical nature of company capabilities, and distinguishes between first-order operational capabilities and second- or higher-order capabilities that are needed for changing operational routines (e.g., Zollo and Winter, 2002; Winter, 2003; Helfat and Peteraf, 2003; Ambrosini et al., 2009; Ambrosini and Bowman, 2009). First-order capabilities, such as market or technological capabilities, are essential to the daily operations of the firm (see e.g., Collis, 1994; Danneels, 2002; Cepeda and Vera, 2007), whereas dynamic capabilities come into play in processes of organizational renewal. Therefore, *dynamic capabilities* could be considered higher-order organizational capabilities that facilitate learning about new domains, create new

asset combinations and build new capabilities in order to match market (perceptible and latent) needs (Collis, 1994; Teece *et al.*, 1997; Winter, 2003; Wang and Ahmed, 2007; Helfat *et al.*, 2007; Danneels, 2008; Ambrosini *et al.*, 2009; Newey and Zahra, 2009). Helfat *et al.* (2007, p. 4) define dynamic capabilities as “the capacity of an organization to purposefully create, extend, or modify its resource base”. This capacity to ‘orchestrate’ assets (Teece, 2007) is needed especially in highly dynamic environments (Wang and Ahmed, 2007). Such capabilities comprise the knowledge, structures, processes and practices that allow the sensing and seizing of new market opportunities (Jantunen, 2005; Teece, 2007). The firm’s ability to exploit opportunities that arise may often be highly dependent on its capacity to successfully build, integrate and reconfigure intangible and tangible organizational assets.

Operational capabilities, such as market or technological capabilities, are essential to the daily operations of the firm (Collis, 1994, Danneels, 2002, Cepeda and Vera, 2007). In this project, we follow Laamanen and Wallin (2009, 953) and define operational capabilities as ‘*repeatable patterns of action in the use of assets to create, produce, and/or offer products to a market*’. The general understanding is that product innovations require both market and technological capabilities (e.g. Garcia and Calantone, 2002, Nerkar and Roberts, 2004, Renko *et al.*, 2009, Dougherty, 1992). *Market capabilities* can be considered a bundle of practices and routines related to customers and markets. *Technological capabilities* constitute technically related resources, processes and knowledge. (e.g. Abernathy and Clark, 1985, Day, 1994, Danneels, 2002). In addition to market and technological capabilities, also different types of *organizational capabilities* are critical for innovation.

Prior research indicates that both operational level capabilities and dynamic capabilities affect innovation outcomes. *In this study, we aim to explore the manifestations of the different types of capabilities in magazine publishing companies and explore their impact on the innovation outputs.*

2.2 Dominant logic

According to the top-down theory of information processing individuals create knowledge structures to help them process information and make decisions (Walsh 1995). These structures are known as mental models (e.g., Porac *et al.* 1989; Knight *et al.* 1999), schemas or cognitive maps (Walsh 1995). The concept of knowledge structure refers to “a mental template that individuals impose on an information environment to give it form and meaning” (Walsh 1995, p. 281). These mental models may also be formed on the group level. Shared knowledge structures, i.e. interpretive schemes on the group or organizational level, act as lenses through which environmental data is organized and analyzed in making sense of organizational stimuli (Daft and Weick 1984). Shared mental models also promote responses to external signals and events. Prahalad and Bettis (1986) term the shared conceptualization of business conditions dominant logic. A firm’s dominant logic thus refers to the mindset of the business in which it operates, and incorporates elements such as core beliefs about its role in its operating environments (Prahalad and Bettis 1986; Tripsas and Gavetti 2000).

These elements of *organization-level mental models* (shared knowledge structures, beliefs, and interpretative schemes) do not give the full picture however. Different subgroups may share

divergent dominant logics (Klimoski and Mohammed 1994; Walsh 1995; Labianca *et al.* 2000), and this is a potential source of misunderstanding and tension between groups. Even though shared mental models facilitate efficient and effective collective action, they may also expose the organization to the risk of cognitive entrapment. As Bettis and Wong (2003) note, over time the dominant logic becomes embodied in the organizational structure, processes and culture. The organizational system, in turn, reinforces the existing dominant logic:

"The structure, systems, and processes designed largely to conform to the dominant logic now provide information, controls, incentives, values and decision rules that mirror the dominant logic to a substantial degree ... the entire organization becomes a reinforcing system built largely around the dominant logic." (Bettis and Wong 2003, p. 347)

Especially in conditions in which operating environments change the existing dominant logic may become obsolete and the need for change becomes evident. For example, technological advances may have radical effects on the industry structure and change the rules of competition, and incumbents may lose their leading position if they fail to adapt their way of operating to the new situation (Teece *et al.* 1997; Tripsas and Gavetti 2000). Hence the ability to recognize the need for change in the operating logic and to realize the changes is a fundamental challenge to firms whose operating environments are in a state of flux. Labianca *et al.* (2000) argue that resistance to organizational change often stems at least partly from difficulties in revising existing shared mental models. The mental models thus represent the shared understanding on issues like *"Why does this company exist?"* and *"What is expected of me as a media professional?"*. These fundamental beliefs naturally guide the actions and ambitions within the company, and thus are linked with innovation, as well.

In this study, we aim to open up the logics behind innovation-related decision making in magazine publishing companies. Our previous results demonstrate that the operating logics and the general outlooks towards change vary across publishing organizations. In this study, we aim to uncover these differences and link them with innovation outcomes.

3 PHASES OF RESEARCH

This project carried out both *qualitative case-studies*, which increase our understanding the *internal drivers and innovation activities* in magazine organizations, and a *cross-cultural survey* on factors affecting *innovation outcomes* the magazine publishing industry.

3.1 Qualitative study

During May-July 2011 we collected interview data from Finland (n=8), Russia (n=11), the Netherlands (n=7) and Hungary (n=10). The interviews were semi-structured and the key informants were the editors-in-chief of consumer magazines.

The themes in interviews include:

- innovation outcomes in the magazine publishing industry
- decision-making logic
- process and management innovations
- dynamic capabilities
- market and technological capabilities

3.2 Quantitative study

Based on the interviews of the qualitative research, we developed a quantitative questionnaire, which was used to collect survey data from Finland, Sweden, and Russia. The questionnaire items were composed in English in order to capture all the vital elements presented in prior academic research. The items were then translated into Finnish to make the answering to the survey as easy as possible for the informants. Items for operational level change and innovation outcomes were constructed in Finnish. The final survey instrument was pretested on three key informants that were interviewed in the earlier phase of the research project. Feedback from the pretesting led to some revisions that improved the clarity and the readability of the measurement items. Adaptations to make the items more suitable to the context were also made.

The sampling frame for Finnish survey was drawn from the Finnish Periodical Publishers' Association member listing from 2011. Population selection included Finnish consumer magazines, so trade and organizational magazines, and customer magazines were left outside the scope. When comparing the number of FPPA consumer magazine members to the listing from The Finnish Audit Bureau of Circulation (2010), the population is well presented in the sample: circulation audit from 2010 included information from ca. 140 magazines. The survey questionnaire with a cover letter describing the purpose and objective of the research was e-mailed to 126 chief editors in early spring 2012. A total of 41 responses were received, yielding a response rate of 32.5 % (41/126).

The sampling frame for Swedish survey was bought from Jönköping International Business School, Media Management and Transformation Centre. A total of 33 responses were received, yielding a response rate of 13 %, (33/253).

The sampling frame for Russian survey was obtained from listing of TNS survey and the organization of periodical press in Russia. A total of 20 responses were received, yielding a response rate of 10 %, (20/200).

4 FINDINGS

4.1 Dominant logic and dynamic capabilities – findings from qualitative study

We investigated four magazine publishing business units of a large media corporation situated in four different countries, namely Finland, the Netherlands, Hungary and Russia. The results imply that the dominant logics of the four units differed: The Finnish unit's dominant logic seemed to be the most print-oriented and conservative, while the Russian unit was more digitally and brand-oriented. Both the Hungarian and Dutch unit were change-oriented; for the Hungarian unit change was needed for them to survive and for the Dutch change and innovation were integral and valuable parts of the work in the "360 business". It is worth noting the four business units studied all belong to a single media corporation and as such are under the strategic guidance of the same parent company. However, they see the industry trends, and their role in shaping the industry in almost opposing ways. Prior research has noted that several dominant logics may co-exist at the same time. Subgroups may share logic of action depending on their profession or hierarchical status (Bacharach et al. 1996). Also, when operating environments of the firm change significantly, established dominant logic may be challenged by new dominant logic (Ellonen et al. *forthcoming*, see also Tripsas & Gavetti 2000; Labianca et al. 2000). The existence of multiple dominant logics may cause organizational tensions (Ellonen et al., *forthcoming*) and hinder change.

In terms of dynamic capabilities, the sensing capabilities were found very similar among all units. This is in line with Jantunen et al.'s (2012) findings and provides more support for their argument when firms face similar industry conditions they have to develop capabilities to perform similar types of functions; Sensing activity as such does not depend as much on the internal context in which it functions, and hence it is logical that it does not vary that much depending on the dominant logic. However, there were some changes in the seizing capabilities. The Finnish unit put focus on developing the content of the magazine, while the Russian unit had more focus on business planning of new ventures. The Hungarian unit, on the other hand, seemed to use their seizing capabilities to redesign current products, and the Dutch redesign also current business models. Therefore, there seems to be a considerable difference in the focus of seizing capabilities developed, i.e. do they have capabilities to capture innovation in the content, in new products, in redesigning existing products or redesigning the whole business model. The focus of the seizing capabilities seems to echo the locus of the dominant logic: In Finland, the focus is on print; in Russia, the focus is on brand and new channels; in Hungary, the focus is on customer experience and reinventing customer offerings; and in the Netherlands, the focus is on reinventing the whole

business. We argue that this linkage is no coincident but suggests that the organizational level dominant logic and dynamic capabilities coevolve, as managerial cognition steers the development of capabilities by setting “the locus of attention” (e.g. content, new product, existing product, business model) and the dynamic capabilities will then be developed to meet the needs set. This finding is in line with Laamanen and Wallin’s (2009) notion that shifts in management attention will cause different capability development paths.

On the other hand, the deployment of seizing capabilities reinforces and redesigns the dominant logic. As an example, as they continue to integrate new ideas into their articles, brand offerings, product portfolio or business models, they cognitively reinforce the original locus of attention. “This is what I am supposed to do – this is the core of the business we are in.” If they also exercise innovation on the content level, and get appraised for innovation on the content level, it is unlikely that the dominant logic will developed to support innovation on the business model level.

Also in terms of reconfiguring capabilities, we could note some changes between the four units. In Finland, they focused on knowledge sharing and also some reallocation of resources was noted. This more or less also applies to Russia, although it seemed that they had more resources for online products suggestion more cospecialization of the resources. In both Hungary and the Netherlands, the print and online were separated in different divisions and the resources were this more cospecialized. Also it seemed that they had more systematic practices supporting internal synergy and collaboration. A notable feature of the Netherlands unit is an extensive use of external partnering. Also these differences in the reconfiguring capabilities seem to be in line with the dominant logics of the units. The more broadly the business is perceived, the more radical resource reallocation and related cospecialization seemed to have happened. In Finland, the business is seen as print-business, and only minor reallocation was done, while in Hungary and the Netherland, major organizational changes had been made. Also, it could be argued that the reallocation of resources, e.g. the separate print and online divisions, have contributed to the broader definition of the business by forcing the magazine units to search for innovation and new streams of income from other than online channels. Likewise, the use of extensive partnering reinforced the “360” dominant logic.

Based on our findings, in particular in the areas of seizing and reconfiguring capabilities, we suggest that dominant logic and dynamic capabilities coevolve. They seem to have a reciprocal relationship that leads to iterative development, each reinforcing and further developing the other.

In the next chapters we describe the main findings from the cross-cultural survey. The academic publications resulted from the project are presented in the last section of this chapter.

4.2 Descriptive information of the sample magazines

It seems that consumer behaviour related to magazine readership differs between the studied countries. In Finland, the magazines’ circulation is mainly based on magazine subscriptions, leaving the single-copy sales relatively less important, whereas in Russia the single-copy sales is the dominant business model and subscriptions are relatively less important. Sweden falls somewhere

between these two extremes, but it seems that Sweden is closer to the Finnish revenue model than the Russian model. (see Figure 2.)

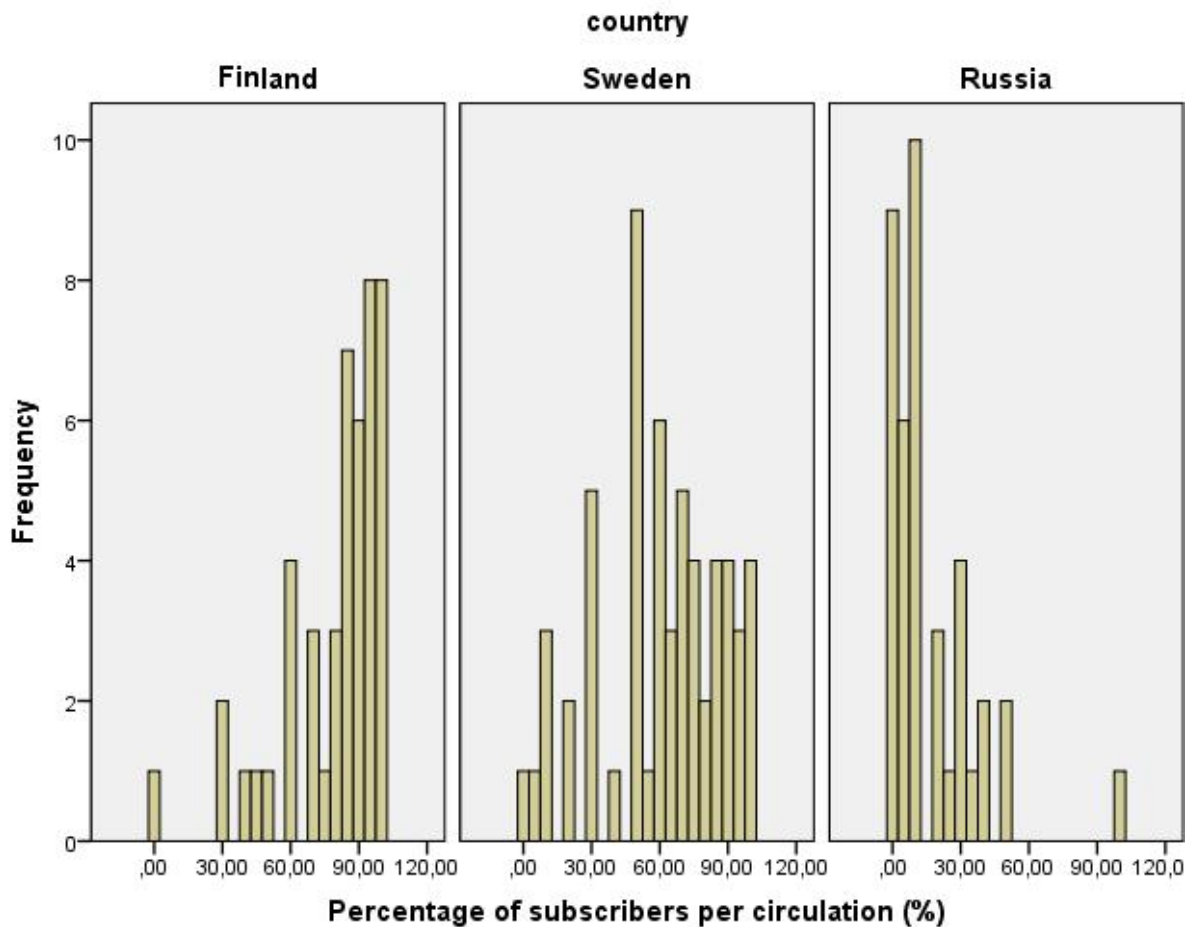


Figure 2. Percentage of subscriptions per circulation

The channels used to reach the readers have some differences between the three countries as well. In Finland and Sweden the traditional printed magazine is the most important channel, followed closely by website (see Figure 3), whereas in Russia the website has taken the leading position from printed magazine. The proportion of magazines that use mobile channels is higher in Sweden (8,11%) and Finland (7,56%), compared to Russia (3,23%). Conversely, in Russia TV is clearly more used (9,68%) than in Finland (2,91%) or Sweden (1,80%). Services offered by magazines are more common in Russia (7,37%) and Sweden (6,76%) than in Finland (4,07%).



Figure 3. Channels used to reach target audience

4.3 Revenues

4.3.1 Current distribution of revenues

The survey mapped the distribution of current revenues between different channels. In Finland and Sweden about 90-91% of revenues come from traditional printed magazine, and the second important channel is magazine's website (4-6%; see Figure 4). The distribution for Russia seems very different from Sweden and Finland, but this finding should be interpreted very cautiously, because Russian respondents were really reluctant to answer to this part of the survey.

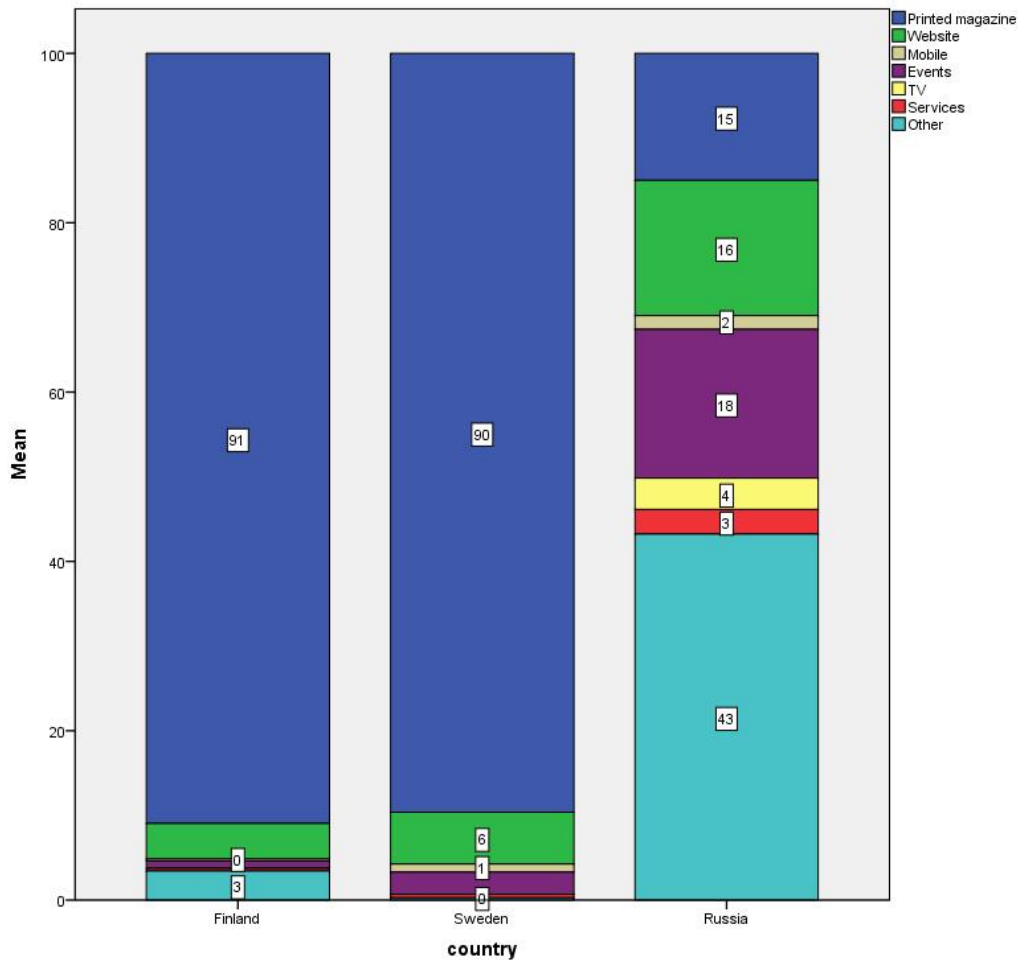


Figure 4. Distribution of current revenue streams

The respondents also evaluated how are the revenues in each channel divided by different sources (i.e. product purchases/user fees vs. advertisement sales). On average, the major source of revenue in Finland and Sweden was advertisement sales, whereas in Russia the revenues in this channel are quite evenly distributed between product purchases/user fees and advertisement sales. In the website channel, the revenue is mainly based on advertisement sales in Finland and Sweden, whereas the emphasis is on product purchases/user fees in Russia. The revenues from the mobile channel are mainly obtained from product purchases/user fees in all of the three countries. Again, the Russian revenue distributions should be interpreted with caution, because the respondents were quite reluctant to reveal this information.

4.3.2 Future distribution of revenues

The respondents were also asked to give their estimate about this same revenue distribution in the future (in 5 years). In Finland and Sweden the editors-in-chief expect that printed magazine will still be the most important channel (about 66-68%), followed by websites (about 13-15%). The expected revenue from mobile channel is expected to grow, Swedish editors estimate this proportion to be 11% and Finnish editors are a bit more cautious with the estimate of about 6%.

Overall, it seems that the editors in each countries expect a change towards digital channels also in the revenue distributions. (see Figure 5).

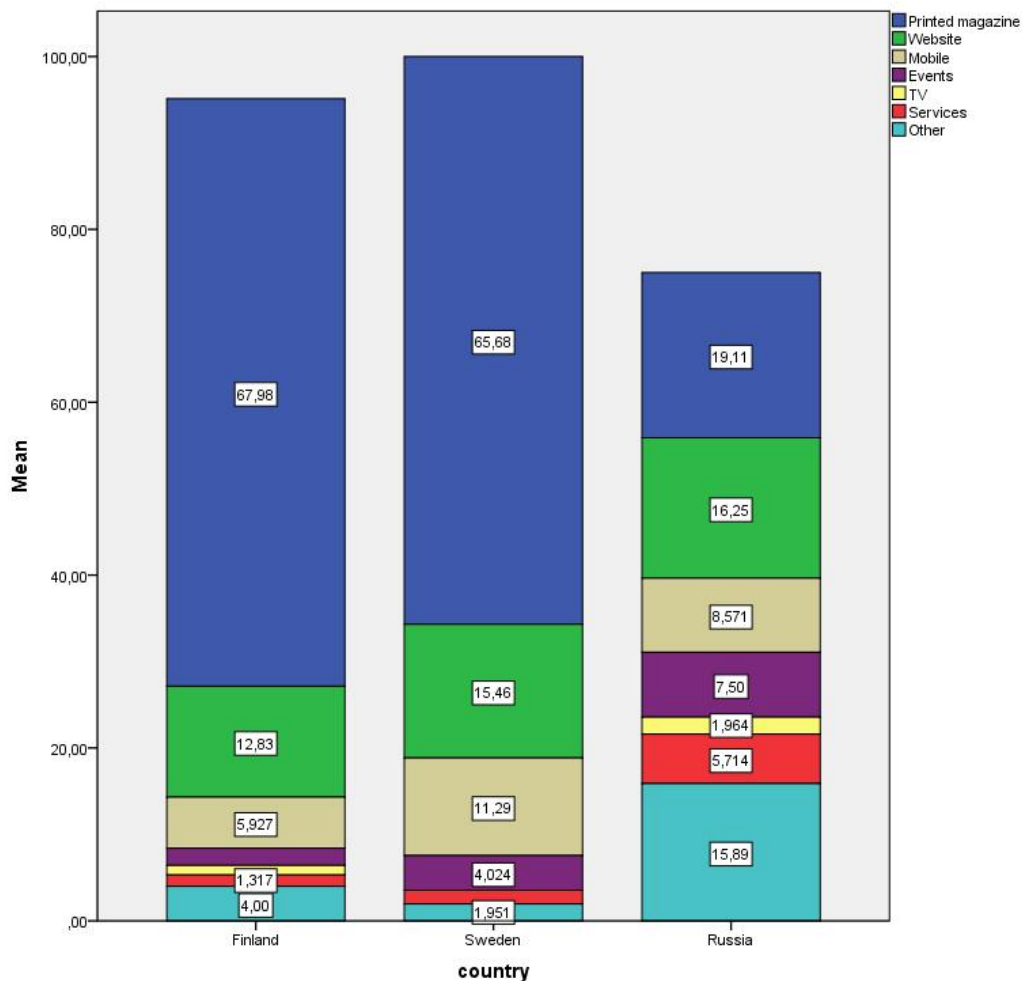


Figure 5. Distribution of revenue streams in the future (expectation of editors-in-chief)

4.4 Competitive advantage and strategic environment

4.4.1 Intra-organizational sources of competitive advantage

The respondents were asked to rank a set of intra-organizational factors based on their importance as a source of competitive advantage (Table 1). The rankings in Finland and Sweden were very similar as the most important source of competitive advantage was journalistic know-how and editorial content, followed by the printed product and magazine brand. The least important intra-organizational factors in Finland were technological know-how and interactive content, and in Sweden least important were mobile product and interactive content. In Russia, journalistic know-how and editorial content and printed magazine product were ranked as least important, while websites, mobile product and interactive content were ranked most important.

Thus, it seems that Finnish and Swedish editors mainly value the traditional business models, whereas Russian editors consider the new digital channels and their interactivity as the most important way to compete in magazine publishing industry. Again, it must be mentioned that the Russian editors were not very willing to share their opinions on the sources of competitive advantage, and therefore the Russian rankings should be interpreted with caution.

Table 1. Intra-organizational sources of competitive advantage

Source of competitive advantage within organization 1 = Most Important; 9 = least Important	Finland	Sweden	Russia
Journalistic know-how and editorial content	1.	1.	9.
Physical print product	2.	2.	8.
Brand	3.	3.	6.
Web pages	4.	6.	1.
Culture and practices of the desk organization	5.	5.	5.
Marketing know-how	6.	4.	4.
Mobile product	7.	9.	2.
Interactive content (produced by readers and users)	8.	8.	3.
Technological know-how	9.	7.	7.

4.4.2 Extra-organizational factors affecting strategy

The respondents were also asked to rank a set of extra-organizational factors on the basis of their importance in their strategic decision-making (see Table 2). The majority of Finnish and Swedish editors ranked consumers as the most important factor. After that Finnish editors highlighted the importance of competitors within the industry, whereas Swedish editors focused on advertisers. Finnish and Swedish editors agreed that technological development is the third important factor. They also both considered that competition arising outside from media business is the least important factor in their strategic decision-making. Again, Russian sample was clearly different from Finnish and Swedish sample. Russian editors ranked the advertisers as the most important factor to consider in strategic decision-making. The second important was competition arising outside of media business, which is interesting because Russian magazines seem to have broadened their offering to e.g. TV and Services more than Finnish and Swedish magazines.

Table 2. Extra-organizational factors affecting strategy.

Importance of external issues on strategic decision-making 1 = Most Important; 6 = least Important	Finland	Sweden	Russia
Consumers (readers, users)	1.	1.	3.
Competitors in media business	2.	5.	5.
Technological development	3.	3.	4.
Advertisers	4.	2.	1.
Partnerships	5.	4.	6.
Competitors outside media business	6.	6.	2.

4.5 Innovations and renewals

4.5.1 Innovation activity, amount and types of renewals made

The respondents were asked to indicate the amount of renewals made during past 2 years (see Figure 6). In the Finnish sample the amount of made renewals was reported to be highest and in Russian sample the lowest. This overall difference, however, could be a result of the cultural response styles. More interesting would be to compare the relationship between the types of renewals. In Finland, the most frequent renewals were related to product (first printed magazine and then websites), followed by renewals related to practices, organization and leadership. In Sweden the pattern of renewals was similar, the most frequent renewals were related to product (first websites, then printed magazine, also mobile was fairly frequently renewed), then practices and organization. Also in Russia, the product-related renewals were the most frequent (order was website, mobile, printed magazine). This was followed by organizational structure and customer/market –related renewals.

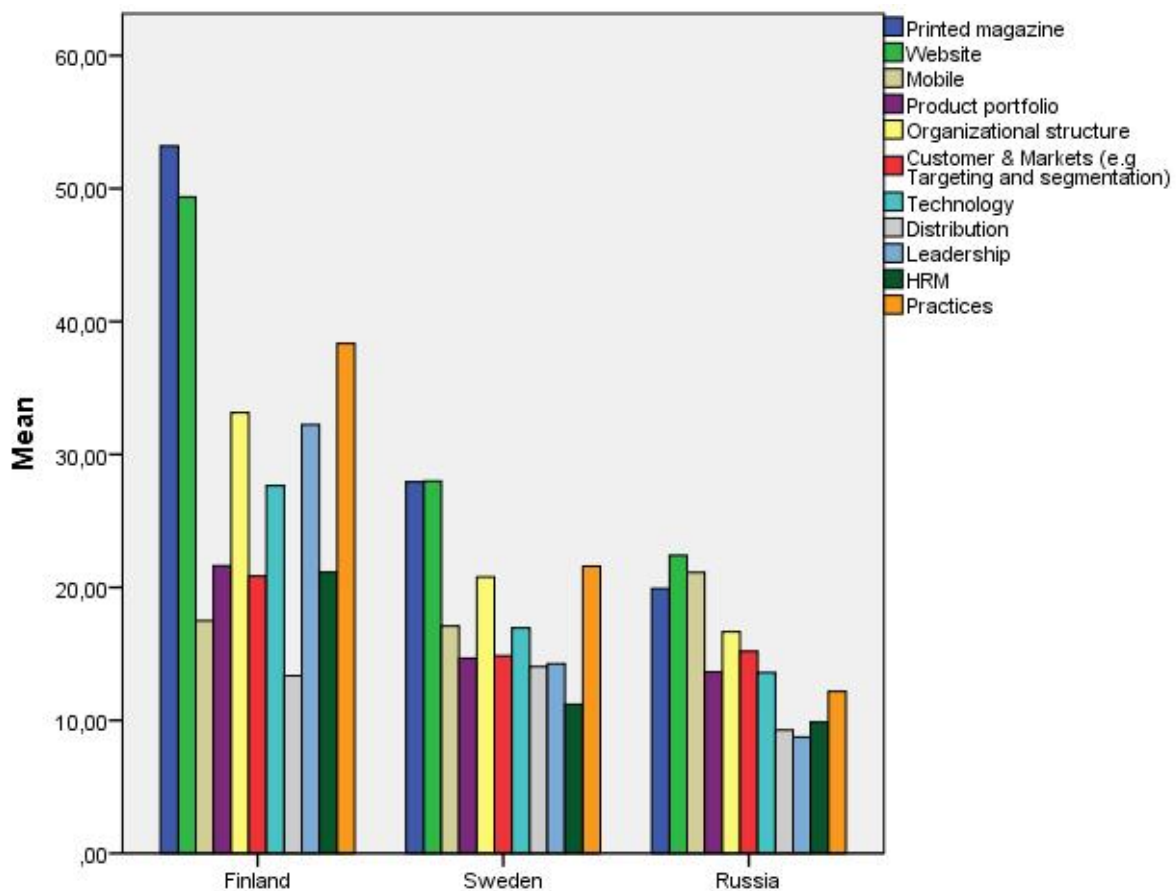


Figure 6. Renewals made during past 2 years (0 = no renewals at all; 100 = vast amount of renewals)

4.5.2 Business relevance of innovation activity

In addition to assessing just the amount of renewals made, the survey measured the business relevance of the made renewals. This means that the respondents were asked to evaluate, how much the renewals had had impact on financial performance of the magazine (0=no impact/no renewals; 100=very significant impact). The means are depicted in Figure 7.

Figure 7 shows that on average the business relevance of the renewals follows similar structure than the actual amount of made renewals. However, all of the mean scores are below point 50, which means that overall the business relevance has been moderate or little. This is in line with the findings of the qualitative stage of the project, where editors-in-chief were interviewed. The renewals that take place in the magazine organizations are typically small changes, which aim at improving the current state rather than aiming at radical changes.

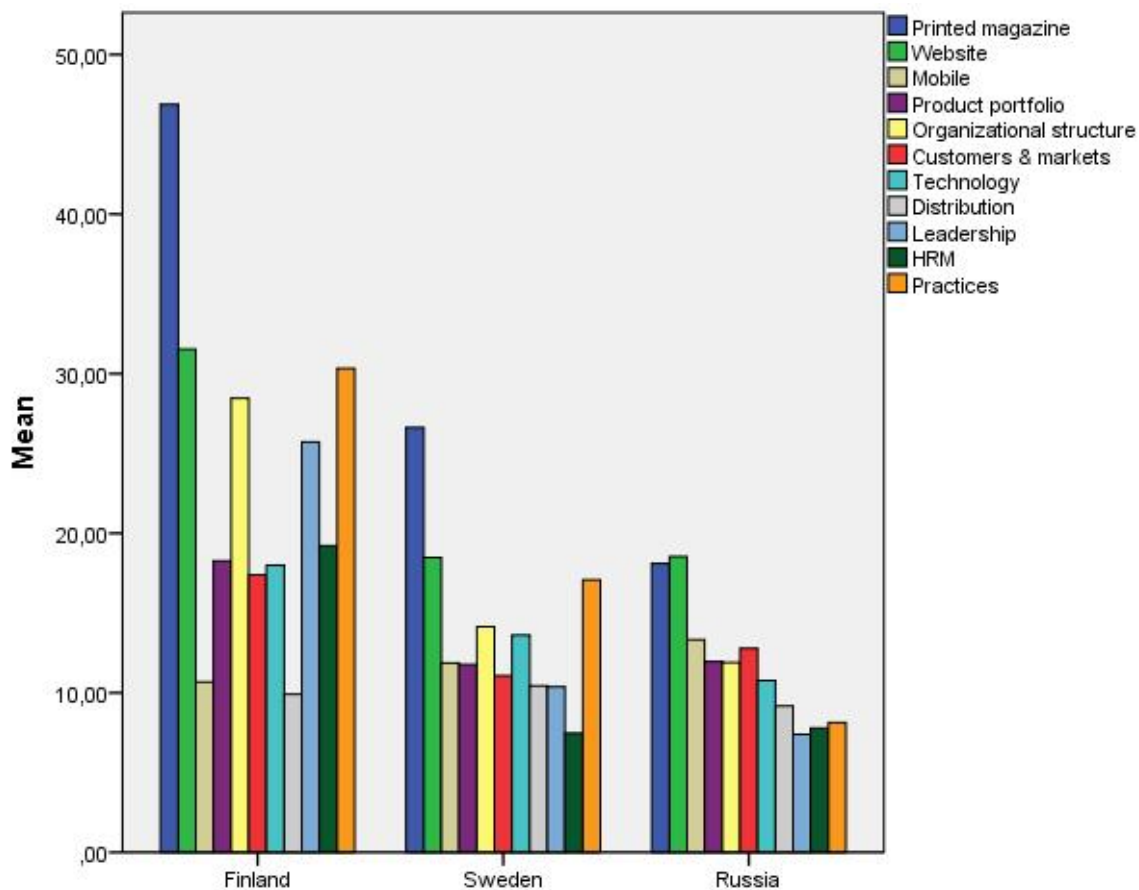


Figure 7. Business relevance of the renewals made during past 2 years

4.6 Organizational practices and routines related to renewals

In the academic literature the organizational practices and routines related to renewals and innovations are often conceptualized as *dynamic capabilities*. They could be considered higher-

order organizational capabilities that facilitate learning about new domains, create new asset combinations and build new capabilities in order to match market (perceptible and latent) needs. Such capabilities comprise the knowledge, structures, processes and practices that allow the *sensing* and *seizing* of new market opportunities. The firm's ability to exploit opportunities that arise may often be highly dependent on its capacity to successfully *build, integrate and reconfigure intangible and tangible organizational assets*.

We measured the three types of dynamic capabilities with the following multi-item scales:

Sensing (Reliability coefficient $\alpha = 0,906$)

Observing developments in the sector
 Observing technology development
 Observing trends in the topic area of the magazine
 Observing changes in people's values and lifestyles
 Observing competitors
 Looking for new opportunities in the operating environment
 Searching for new practices
 Conceptualizing new ways of doing business

Seizing (Reliability coefficient $\alpha = 0,881$)

We react to changes in our operating environment
 We always seize new opportunities
 We actively develop new ways of doing business
 We continuously build complementary know-how
 We effectively utilize available information in doing business
 We try actively influence the direction of our business sector

Reconfiguring (Reliability coefficient $\alpha = 0,912$)

Interacting with customers
 Assessing what changes in operating environment mean for your organization
 Employees rotate between tasks
 The importance of learning is emphasized in the organization
 Opportunities for learning are provided
 Knowledge and experiences are shared within organization
 Acquired know-how is integrated to the organization
 Existing resources are used in new areas and in new purposes
 Existing know-how is used in new areas

The means for dynamic capability –scales are depicted in Figure 8. Again, the actual 'amount' of each capability might not be comparable between different countries, due to the differences in response styles. However, it seems that in Finland the emphasis is on sensing market opportunities, followed by reconfiguring assets. Seizing the identified opportunities had the lowest means score. In Sweden, the emphasis is also on sensing market opportunities and also on seizing the identified opportunities, whereas asset reconfiguration is in a minor role. In Russia, in turn, the asset reconfiguration had the clearly highest means score, sensing market opportunities had the second highest mean score, and seizing market opportunities was the lowest.

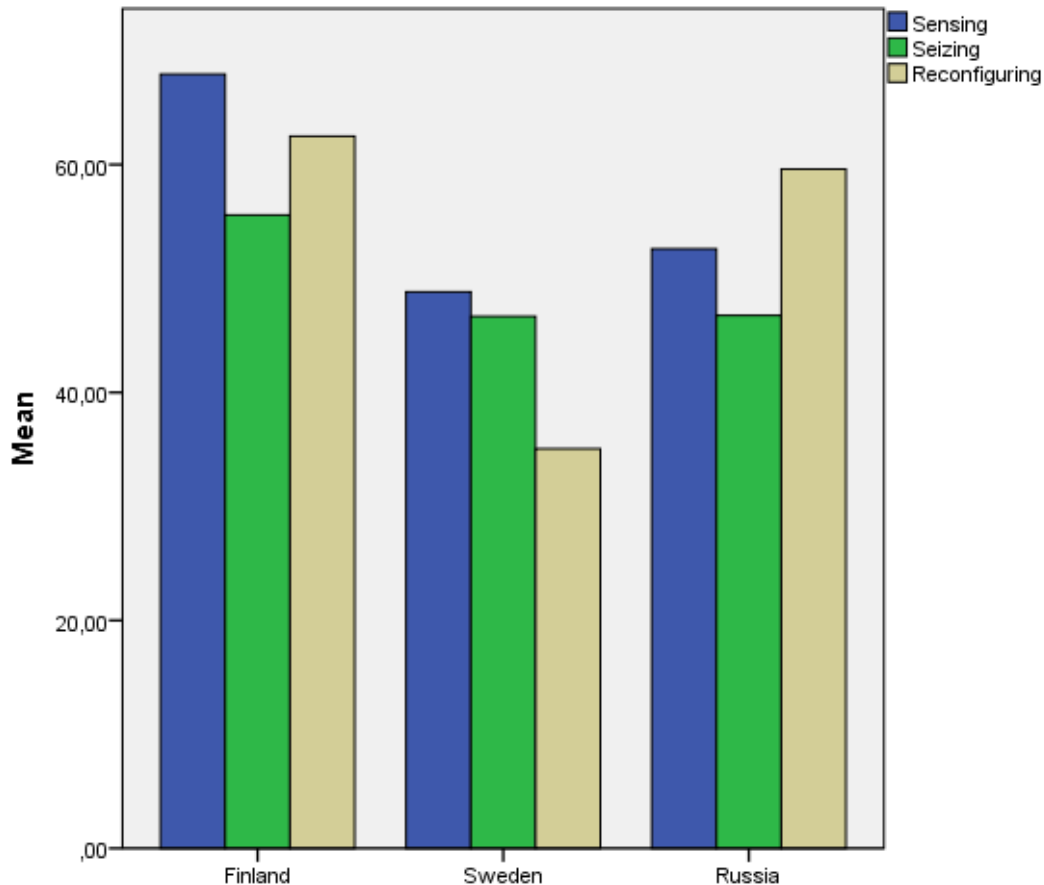


Figure 8. Dynamic capabilities in the samples.

4.7 Impact on business

The changes in business performance were measured by asking how different performance indicators have changed during past 2 years. The scale for collecting responses varied from -50 to 50 (where -50 = changed to much worse; 0 = no changes; 50 = changed to much better). Means for these scales are depicted in Figure 9.

Finnish respondents reported the generally positive scores in changes in business performance. The mostly improved performance indicators were market share for printed magazine, advertisement revenue from printed magazine, overall profitability, number of website visitors and advertisement revenue from web. Advertisement revenue from mobile applications had gone clearly worse, and also circulation had slightly gone worse.

In Sweden, the results were mixed. The most improved performance indicators on average were number of mobile users, number of website visitors, market share in web, and customer satisfaction. However, many financial indicators, such as overall profitability, advertisement revenue from printed magazine, and sales from newest products had gone worse. Also the circulation had clearly gone into worse direction.

Russian respondents reported the most positive changes in business performance, and the mostly improved performance indicators were market share in web, number of website visitors, advertisement revenue from web, and customer satisfaction.

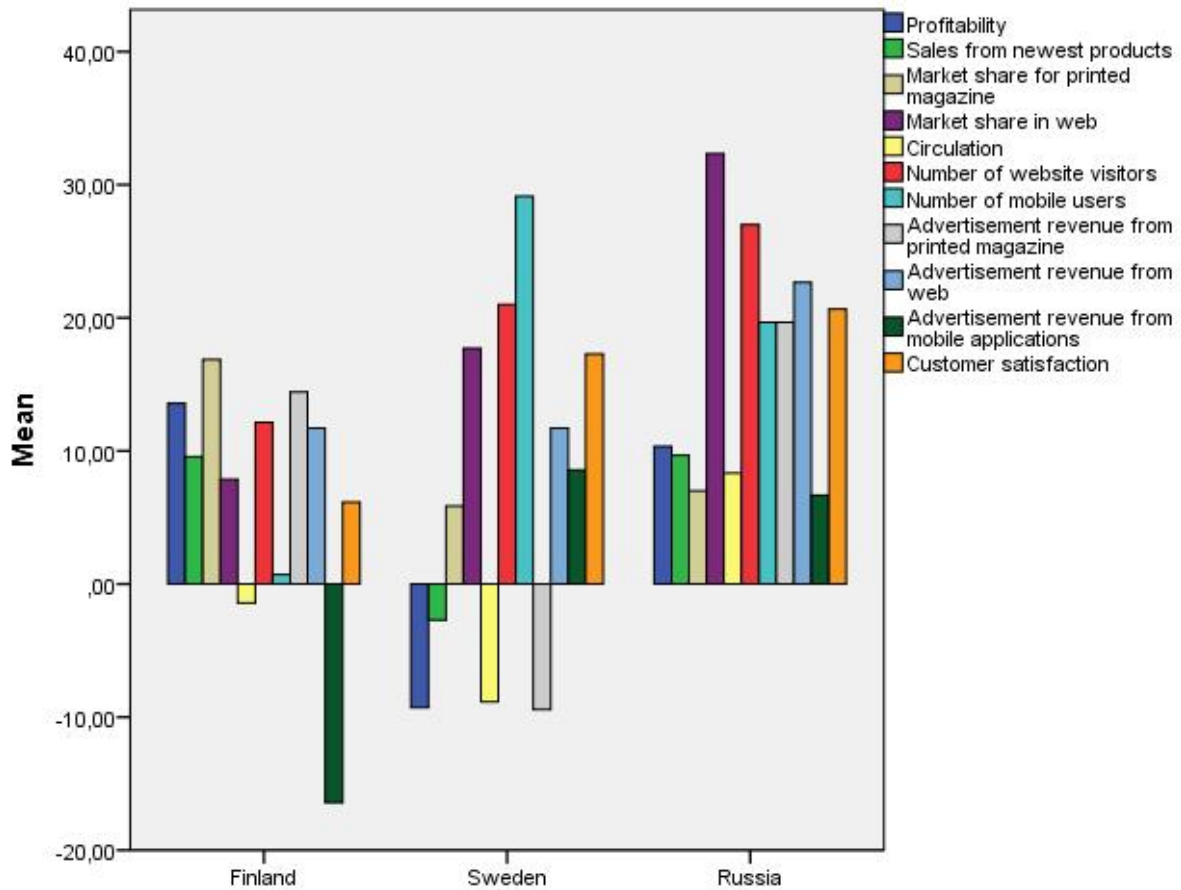


Figure 9. Development of business performance during past 2 years.

4.8 Academic publications

4.8.1 Publications, qualitative

Ellonen, H.-K.; Jantunen, A.; Kuivalainen, O. (2011). The role of dynamic capabilities in developing innovation-related capabilities, *International Journal of Innovation Management*, Vol. 15, No. 3.

Also reprinted in: Tidd, J. (ed.), *From knowledge management to strategic competence: measuring technological, market and organizational innovation (3rd ed.)*, Imperial College Press.

The purpose of this study is to explore the role dynamic capabilities have in the development of innovation-related operational capabilities. As dynamic capabilities by nature are processes and practices that advocate change, we aim to uncover the actual practices through which change strategies are implemented. Our research includes a single case study from the publishing industry. Building on a data set of interviews and secondary data we track down the development of the capabilities over the time period of five years. The results of the study imply that dynamic capabilities act as a catalyst and spark off the mechanisms of operational capability development. Our study demonstrates how different types of dynamic capabilities (sensing, seizing and reconfiguring) all have an impact of the development of market and technological capabilities.

Jantunen, A.; Ellonen, H.-K.; Johansson, A. (2012). Beyond appearances – Do dynamic capabilities of innovative firms actually differ? *European Management Journal*, Vol. 30, No. 2.

Dynamic capabilities are the higher-order capabilities needed for changing operational-level capabilities and learning in new domains, and thus they are critical for innovation activities. The aim of this study is to explore heterogeneity of dynamic capabilities in a comparative setting. We chose four innovative case firms representing a single industry, namely magazine publishing. The similarity of the cases provided a solid foundation for comparing their dynamic capabilities. Based on the results it seems that the practices comprising sensing capabilities are likely to be similar across firms within a single industry, while practices comprising seizing and reconfiguring types of capabilities may differ more between companies. Thus dynamic capabilities have both idiosyncratic and common features across an industry. These findings are relevant to practicing managers in that they illustrate that competing companies within the same industry tend to develop similar types of practices to match the changing requirement of the operating environment. Hence, managers should not be falsely comforted by the current situation within their firms, but proactively develop their unique capabilities to gain advantage over their competitors.

Suurhasko, J. (2012). Developing organizational capabilities in the magazine industry. Master's Thesis, Lappeenranta University of Technology, School of Business.

Nowadays, organizations operate in constantly changing markets. This study describes how organizations in magazine industry develop their capabilities in customer-related, technology,

daily operations and leadership field. In addition future challenges are considered. The research was carried out as qualitative study and semi-structured interview method was used as data collection. The results of the study indicate that constant renewal is part of the daily work in the magazine industry. Especially versatile data collection concerning business environment and customers were stressed. Exploiting this data and rapid reaction to changes were also seen important. Capabilities are built as flexible as possible in order to be easily adjusted to confront challenges in constantly changing markets.

Ellonen, H.-K.; Kosonen, M.; Jantunen, A. (*forthcoming*). Media professionals' perceptions of the online media – cognitive tensions related to a technological change, *Journal of Applied Journalism and Media Studies*.

A firm's dominant logic refers to the mindset of the business in which it operates, and incorporates elements such as core beliefs about its role in its operating environments. We unravel the dynamics of competing dominant logics in the publishing industry. We identify five tensions between the traditional print-oriented dominant logic and the new emerging dominant logic of the online business. We also observe differences between the mindsets of four professional groups, namely chief editors, journalists, online developers and managers. We argue that the tensions do not only exist on the operational level but also on the cognitive level and between the professional groups.

Johansson, A.; Ellonen, H.-K.; Jantunen, A. (2012). Magazine publishers embracing new media: exploring their capabilities and decision making logic, *Journal of Media Business Studies*, Vol. 9, No. 2.

Earlier version of the paper has been presented as: Johansson, A.; Ellonen, H.-K.; Jantunen, A. (2011). Magazine publishers approaching new media: Is it about what we do or how we think? A paper presented at the 20th NordMedia conference, Akureyri, Iceland, August 11-13, 2011.

New technology, such as Internet, mobile phones and more recently the new reading devices, have posed new challenges for the magazine publishing industry the last decade and will continue to do so. In this paper we explore commonalities among magazine publishers being in the forefront of integrating new media in their businesses. We approach this by combining two streams of management literature: dynamic capabilities and decision making. A case study of four innovative magazine publishers has been conducted where the practices related to business development and their underlying decision making logic has been analyzed.

Ellonen, H.-K.; Jantunen, A.; Johansson, A. (2013). The interplay of dominant logic and dynamic capabilities in the magazine publishing industry. A paper to be presented at the Emma 2013 Conference, Bournemouth, UK, June 13-15, 2013.

Within the strategic management literature, both managerial cognition and dynamic capabilities have been identified as drivers of change and transition in changing business environments. The purpose of this study is to explore the interplay of dominant logic and dynamic capabilities in the

magazine publishing industry. We investigated four magazine publishing business units of a large media corporation situated in four different countries, namely Finland, the Netherlands, Hungary and Russia. A total of 40 magazine managers were interviewed. The results imply that dominant logic and dynamic capabilities coevolve in a reciprocal relationship, and the interplay of cognition and capabilities seems to be most visible in the seizing and reconfiguring capabilities. The results of the present study also illustrate that there may be several contradictory dominant logics within a single company. For practicing media managers, this study illustrates how the current digital transformation of the magazine publishing industry may be approached. Dynamic capabilities useful to innovation processes are developed in the areas that are pinpointed by the managers as the locus of attention. Industry transition does not automatically change what companies think and do. That requires managerial attention and an active reconceptualization of the business and active development of not only day-to-day operations, but capabilities needed to change the way we work.

Ellonen, H.-K.; Johansson, A.; Tarkiainen, A. (2013). The Use of Effectual Decision-Making Logic by Innovative Managers. A paper to be presented at the 24th ISPIM Conference, Helsinki, Finland, June 16-19, 2013.

In this paper, we explore the decision-making logic of innovative managers in the magazine publishing industry. We analyze the decision-making logics of 35 innovative magazine executives using the theoretical lens of effectuation. The results show that innovative managers balance both effectual and causal logics. Causal thinking is primarily used in financial considerations and in the early stages of the development projects. Later in the process, a more effectual logic is often applied. However, executives of the most innovative units favor the entrepreneurial effectuation logic. Also, the results suggest that the traditional, causal logic may actually hinder the innovativeness of the projects.

4.8.2 Publications, quantitative

Silvennoinen, H. (2012). Dynamic capabilities' effect on operational level innovation – Empirical study in magazine publishing industry. Master's Thesis, Lappeenranta University of Technology, School of Business.

This master's thesis aims to examine the relationship between dynamic capabilities and innovations. In addition, measures for the concept of dynamic capabilities are developed. The study was executed in the magazine publishing industry which is considered favorable for examining dynamic capabilities, since the sector is characterized by rapid change. As a basis for the study and the measure development a literary review was conducted. Data for the empirical section was gathered by a survey targeted to chief-editors of Finnish consumer magazines. The relationship between dynamic capabilities and innovation was examined by multiple linear regression. The results indicate that dynamic capabilities have effect on the emergence of radical innovations. Environmental dynamism's effect on radical innovations was not detected. Also, dynamic capabilities seem to influence the emergence of radical innovations more in the non-dynamic environment.

Silvennoinen, H.; Jantunen, A. (2012). Dynamic capabilities and innovation in magazine publishing industry. A paper presented at the 23th ISPIM Conference, Barcelona, Spain, June 17-20, 2012.

This study examines the effect of dynamic capabilities on the emergence of radical innovation. The study contributes to strategic management literature by developing a new set of measures for dynamic capabilities and examining their role in stimulating innovation. Study draws results from a survey on organizational activities and innovation. The empirical data comprises of Finnish customer magazines. The hypotheses were tested by means of multiple linear regression analysis. The findings show that dynamic capabilities that enable sensing changes in the operating environment, interpreting future development paths, and seizing opportunities are connected to innovation radicalism. A connection between reconfiguring capabilities and innovation radicalism was not detected. In addition, the study indicates that environmental dynamism doesn't affect the emergence of radical innovation. The study provides a basis for further development by extending the scope of dynamic capabilities to the entire operational level of a company.

Bergman, J.; Jantunen, A.; Tarkiainen, A. (2013). Cognitive dimension of innovation management: empirical study in media industry. A paper to be presented at the 24th ISPIM Conference, Helsinki, Finland, June 16-19, 2013.

Increasing number of innovation and organizational researchers have suggested more emphasis on socio-psychological aspects of innovation and management processes such as managerial attitudes and beliefs, sense-making capabilities, and individual and shared representations affecting organizational decision making. It has argued that innovation is a socio-cognitive process involving social as well as cognitive aspects, including an interactive motivated social context (e.g. firm) and representations of knowledge of external reality (i.e. shared cognitions). Shared cognitive maps of the management store the dominant logic of the firm that channels attention to organizational activities, e.g. innovation activities, and shape the strategy of the firm. The main argument of the study is that the dominant logic and innovation activities do not have a direct independent impact on business performance, but their interaction has. The problem is approached by taking the relationship between the firm's dominant logic and innovation activities and further effects on innovation outcomes under scrutiny among the media industry firms.

5 REFERENCES

- Abernathy, W.J. and Clark, K.B. (1985). Innovation: Mapping the winds of creative destruction. *Research Policy*, 14, pp. 3-22.
- Ambrosini V. and Bowman, C. (2009). What are dynamic capabilities and are they a useful construct in strategic management? *International Journal of Management Reviews*, 11, pp. 29-49.
- Ambrosini V., Bowman, C. and Collier, N. (2009). Dynamic capabilities: An exploration of how firms renew their resource base. *British Journal of Management*, 20, pp. 9-24.
- Amit, R. and Schoemaker, P. (1993). Strategic assets and organizational rent. *Strategic Management Journal*, 14, pp. 33-46.
- Bacharach, S.B., Bamberger, P.A. and Sonnenstuhl, W.J. (1996). The organizational transformation process: Micro-politics of dissonance reduction and the alignment of logics of action. *Administrative Science Quarterly*, 40, 487-506.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17, pp. 99-120.
- Bettis, R.A. and Wong, S.-S. (2003). Dominant logic, knowledge creation, and managerial choice, in *Handbook of Organizational Learning and Knowledge Management*, eds. M. Easterby-Smith and M.A. Lyles, Oxford: Blackwell Publishers, pp. 343-355.
- Cepeda, G. and Vera, D. (2007). Dynamic capabilities and operational capabilities: A knowledge management perspective. *Journal of Business Research*, 60, pp. 426-437.
- Collis, D.J. (1994). Research note: How valuable are organizational capabilities? *Strategic Management Journal*, 15, pp. 143-152.
- Daft, R.L. and Weick, K.E. (1984). Toward a model of organizations as interpretation systems. *Academy of Management Review*, 9, pp. 284-295.
- Danneels, E. (2002). The dynamics of product innovation and firm competences. *Strategic Management Journal*, 23, pp. 1095-1121.
- Danneels, E. (2008). Organizational antecedents of second-order competences. *Strategic Management Journal*, 29, pp. 519-543.
- Day, G.S. (1994). The capabilities of market-driven organizations. *Journal of Marketing*, 58, pp. 37- 52.
- Dougherty, D. (1992). Interpretive barriers to successful product innovation in large firms. *Organization Science*, 3, pp. 179-202.
- Ellonen, H-K., Kosonen, M. and Jantunen, A. (*forthcoming*). Media professionals' perceptions of the online media - Cognitive tensions related to technological change. *Journal of Applied Journalism and Media Studies*.

- Garcia, R. and Calantone, R. (2002). A critical look at technological innovation typology and innovativeness terminology: a literature review. *The Journal of Product Innovation Management*, 19, pp. 110-132.
- Helfat, C.E. and Peteraf, M.A. (2003). The dynamic resource-based view: Capability lifecycles. *Strategic Management Journal*, 24, pp. 997-1010.
- Helfat, C.E., Finkelstein, S., Mitchell, W., Peteraf, M.A., Singh, H., Teece, D.J. and Winter, S.G. (2007). *Dynamic capabilities: Understanding strategic change in organisations*. Malden: Blackwell Publishing.
- Jantunen, A. (2005). *Dynamic capabilities and firm performance*. Doctoral Thesis. Lappeenranta University of Technology. Acta Universitatis Lappeenrantaensis, 221.
- Jantunen, A., Ellonen, H-K. and Johansson, A. (2012). Beyond appearances - Do dynamic capabilities of innovative firms actually differ? *European Management Journal*, 30, 141-155.
- Klimoski, R. and Mohammed, S. (1994). Team mental model: construct or metaphor? *Journal of Management*, 20, pp. 403-437.
- Knight, D., Pearce, C., Smith, K., Olian, J., Sims, H., Smith, K. and Flood, P. (1999). Top management team diversity, group process, and strategic consensus. *Strategic Management Journal*, 20, pp. 445-465.
- Laamanen, T. and Wallin, J. (2009). Cognitive dynamics of capability development paths. *Journal of Management Studies*, 46, pp. 950-981.
- Labianca, G., Gray, B. and Brass, D.J. (2000). A grounded model of organizational schema change during empowerment. *Organization Science*, 11, pp. 235-257.
- Nelson, R. R. and Winter, S. (1982). *An Evolutionary Theory of Economic Change*. Cambridge: The Belknap Press of Harvard University Press.
- Nerkar, A. and Roberts, P.W. (2004). Technological and product-market experience and the success of new product introductions in the pharmaceutical industry. *Strategic Management Journal*, 27, pp. 779-799.
- Newey, L.R. and Zahra, S.A. (2009). The evolving firm: How dynamic and operating capabilities interact to enable entrepreneurship. *British Journal of Management*, 20, pp. 81-100.
- Peteraf, M.A. (1993). The cornerstones of competitive advantage: A resource-based view, *Strategic Management Journal*, 14, pp. 179-191.
- Porac, J., Thomas, H. and Baden-Fuller, C. (1989). Competitive groups as cognitive communities: The case of Scottish knitwear manufacturers. *Journal of Management Studies*, 26, pp. 397-416.
- Prahalad, C.K. and Bettis, R.A. (1986). The dominant logic: A new linkage between diversity and performance. *Strategic Management Journal*, 7, pp. 485-501.

- Renko, M., Carsrud, A. and Brännback, M. (2009). The effect of a market orientation, entrepreneurial orientation, and technological capability on innovativeness: A study of young biotechnology ventures in the United States and in Scandinavia, *Journal of Small Business Management*, 47, pp. 331-369.
- Teece, D.J. (2007). Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance. *Strategic Management Journal*, 28, pp. 1319-1350.
- Teece, D.J., Pisano, G. and Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 18, pp. 509-533.
- Tripsas, M. and Gavetti, G. (2000). Capabilities, cognition, and inertia: Evidence from digital imaging. *Strategic Management Journal*, 21, pp. 1147-1161.
- Van de Ven, A.H. (1986). Central problems in the management of innovation. *Management Science*, 32, pp. 590-607.
- Walsh, J.P. (1995). Managerial and organizational cognition: Notes from a trip down memory lane. *Organization Science*, 6, pp. 280-321.
- Wang, C.L. and Ahmed, P.K. (2007). Dynamic capabilities: A review and research agenda. *International Journal of Management Reviews*, 9, pp. 31-51.
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5, pp. 171-180.
- Wilpers, J. (2010). Bright sparks. *Magazine World*, 64, Q1, pp. 19.
- Winter, S.G. (2003). Understanding dynamic capabilities. *Strategic Management Journal*, 24, pp. 991-996.
- Zollo, M. and Winter, S.G. (2002). Deliberate learning and the evolution of dynamic capabilities. *Organization Science*, 13, pp. 339-351.