# The Role of Creatives' Everyday Work in the Creation of a Competitive Advantage in the Advertising Industry

AALTO SCHOOL OF ECONOMICS                                    **ABSTRACT**
Master's Thesis in Marketing
Karla Louhelainen

**Objective of the study**

This study aims at understanding which elements of the creative personnel's everyday work contribute to creation of a competitive advantage of an advertising agency. To achieve this understanding, I will explore the employees' individual and organizational creativity and ability to learn, the workers' experience and personal characteristics, and their interaction with colleagues and clients. Since the study seeks to consider both the individual's intent and cognition, and unconscious routinized practical action, the research combines elements of traditional strategy content research and practice theory.

**Research method**

The study is a qualitative case study, a suitable method for understanding and describing complex social phenomena. The case study organization chosen is a medium-sized Finnish advertising agency. Six in-depth semi-structured interviews were conducted with the organization's creative personnel, and ethnographic analysis was also incorporated. This data was analyzed using hermeneutics as an approach to interpreting the data. The goal of hermeneutics is to create meaning and achieve a sense of understanding, when simultaneously being aware and accountable of one's history-specific preconceptions.

**Findings**

The main findings of the study are fivefold. First, creative workforce's prior experience influences their work both unconsciously through habitus, and consciously as they aim at learning and developing themselves. Second, the creative personnel's intrinsic motivation and creative self-efficacy contribute to the creation of a competitive advantage. Third, routinized practices appear to be the foundation of creative work. Fourth, organizational environment affects the performance of an advertising agency; interaction with one's partner and other colleagues, and organizational support affect the quality of creative work. Fifth, cooperation with clients impacts the success of both the advertising agency and the client company.

**Keywords**

Competitive advantage, resource-based view (RBV), practice theory, creativity, advertising

AALTO-YLIOPISTON KAUPPAKORKEAKOULU                                      **TIIVISTELMÄ**
Markkinoinnin pro gradu –tutkielma
Karla Louhelainen


**Tutkimuksen tavoitteet**


Tämän tutkielman tavoitteena on selvittää, mitkä tekijät luovan henkilöstön jokapäiväisessä työssä vaikuttavat mainostoimiston kilpailuedun syntymiseen. Tämä ymmärrys pyritään saavuttamaan tarkastelemalla erityisesti työntekijöiden ja organisaation luovuutta ja oppimiskykyä, työntekijöiden kokemusta ja henkilökohtaisia ominaisuuksia, sekä vuorovaikutusta työtovereiden ja asiakkaiden kanssa. Koska tutkimuksen tavoitteena on huomioida sekä yksilön tietoisten ja kognitiivisten tekojen että tiedostamattoman ja rutiinien saneleman käytännön toiminnan merkitys, tutkielmassa hyödynnetään sekä perinteistä strategian sisältötutkimusta että praktiikkateoriaa.


**Tutkimusmenetelmä**


Tutkimus on laadullinen tapaustutkimus. Tämä menetelmä soveltuu monimutkaisten sosiaalisten ilmiöiden ymmärtämiseen ja kuvailemiseen. Tutkimuksen kohteena oleva organisaatio on keskikokoinen suomalainen mainostoimisto. Tutkimuksessa haastateltiin kuutta organisaation luovaa työntekijää. Lisäksi tutkimuksessa hyödynnettiin etnografista analyysia. Hermeneutiikkaa käytettiin keinona jäsentää ja tulkita aineistoa. Hermeneutiikan tavoite on luoda merkityksellisyyttä ja saavuttaa ymmärrystä. Tulkitessaan aineistoa tutkijan tulee olla tietoinen omista ennakkokäsityksistään, ja olla vastuussa näiden vaikutuksesta aineiston tulkintaan.


**Keskeiset tulokset**


Tutkimuksessa ilmeni viisi päälöydöstä. Ensinnäkin, luovan henkilöstön aiempi kokemus vaikuttaa heidän työskentelyynsä sekä alitajuisesti habituksen kautta että tietoisesti siten, että he pyrkivät oppimaan ja kehittymään. Toiseksi, luovan henkilöstön sisäinen motivaatio ja usko omaan kykyyn tuottaa luovia ratkaisuja vaikuttavat yrityksen kilpailukyvyn muodostumiseen. Kolmanneksi, rutiinin tahdittamat praktiikat muodostavat luovan työn kivijalan. Neljänneksi, työympäristö vaikuttaa mainostoimiston menestykseen; vuorovaikutus työparin ja muiden työtovereiden kanssa sekä organisaation tuki vaikuttavat luovan työn laatuun. Viidenneksi, yhteistyö asiakkaiden kanssa vaikuttaa sekä mainostoimiston että asiakasyrityksen menestykseen.


**Avainsanat**


Kilpailuetu, resurssiperusteinen näkökulma, praktiikkateoria, luovuus, mainosala

# Contents

# 1 INTRODUCTION

## 1.1 INTRODUCTION

The performance of a firm is dictated by a multitude of factors, ranging from organizational elements to factors of its external environment, and occasionally, sheer luck. With creative organizations, often associated with small size, ambiguous organizational structure, and insubordinate employees with a yearning for autonomy (Andriopoulos & Gotsi, 2000; Powell, 2007), it makes sense that the key to success lies in the competence of the workforce, and the novel ideas and processes they provide. The topic raises several questions, namely about the nature of the creative work, the creative employees' interaction with colleagues, clients, and the external environment, the significance of prior experience and the ability to learn, and the routines that pace the work.

I decided to focus my research on the advertising industry, a field for which I have a passion. The industry is an intriguing combination of knowledge work and craftsmanship, and the constantly evolving consumer needs and preferences push the creative workforce for continuous self-development. The agencies always need to be a few steps ahead of their time to survive; in turn, this pressure inspires the creative workforce to excel. Fast pace and increasing client and consumer demands also contribute to the challenging environment.

## 1.2 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS

The aim of the research is to understand how competitive advantage is achieved in the advertising industry. The issue is approached by studying the work and perceptions of creative employees in an advertising agency. In order to understand performance differences between firms, I will discuss previous literature on the external and internal environment of the firm. It involves untangling the concept of competitive advantage. In addition, I will discuss the nature of the advertising industry, and the role of individual and organizational creativity and learning in the performance of an advertising agency. I will also examine the role of the unconscious in the creative work; this involves research on social practices and routines in the workplace.

The research questions are:

- Which elements of the creative workforce's everyday work contribute to the creation of competitive advantage in the advertising industry?
    - How does the internal environment of the organization affect the creative work?

o    What is the role of practices in the creative work?

## 1.3 KEY CONCEPTS

The key concepts of the study, presented here briefly, are competitive advantage, the resource-based view of the firm, creativity, learning, and practices.

**Competitive advantage** is defined as a state of a firm where it exceeds the average performance level of its industry (Grant, 2008). The fundamental objective of each firm should be the creation of competitive advantage that can be sustained for a significant period of time.

**The resource-based view of the firm** sees a firm as a bundle of specific strategic resources and capabilities that are heterogeneous between firms and not perfectly mobile across firms (Barney, 1991), and have a rent-generating potential.

**Creativity** can be defined as the ability to generate novel ideas, processes, and concepts aimed at solving a certain problem.

**Learning** is defined here as the organization-wide process of improving actions through better knowledge and understanding, resulting in associations, cognitive systems, and memories that are developed and shared by members of the organization (Fiol & Lyles, 1985).

**Practices**, examined from the viewpoint of the practice turn in social theory, are routinized patterns of consistent action that are not necessarily conscious to the actor involved in doing (Chia & Holt, 2006; Schatzki, 1996; 2002).

## 1.4 PREVIOUS RESEARCH

A firm's quest for competitive advantage has been an affluent field for strategy scholars (Wernerfelt, 1984; Barney, 1986, 1991; Porter, 1980; Grant, 1991; Hall, 1992). Grant (1991) states that a firm's ability to earn a rate of profit in excess of its cost of capital depends upon two factors: the attractiveness of the industry in which it is located, and its establishment of competitive advantage over rivals. During the time span of the last four decades, academic discussion has been focused on both the internal (Wernerfelt, 1984; Barney, 1986) and external (Porter, 1980; Grant, 2008) environment of the firm. A key concept of the internal environment of the firm is the much discussed resource-based view of the firm (Wernerfelt, 1984; Baney, 1991; Dierickx & Cool, 1989).

In addition, significant emphasis has been put on researching creativity in organizations (Amabile et al., 1996; Mumford et al., 2002; Tierney & Farmer, 2002). Studies have focused both on individual employee creativity (Mumford et al., 2002; Tierney & Farmer, 2002; Powell, 2007) and a more holistic organizational aspect (Amabile et al., 1996; Woodman et al., 1993). Learning, both at the individual and organizational level, has been thoroughly discussed in organization and strategy research (Narver & Slater, 1995; Liebeskind, 1996; Grant, 1996).

In addition to the research topics that have dominated the academic discussion for decades, a much more recently emerged practice perspective on strategy has been introduced in the late 20th century (Whittington, 1996). It can be seen simultaneously as criticism and as an extension to the resource-based view of the firm (Johnson et al., 2003; Ambrosini et al., 2007). The practice perspective is a feasible academic field for the research topic, since it highlights the importance of the social and the unconscious, both great contributors to studying the work and interaction within creative industries.

## 1.5 RESEARCH GAP

Creativity, as well as various societal, organizational and cognitive factors affecting it, has been comprehensively discussed, whereas studies that combine research on creativity with research on corporate strategy, and competitive advantage in particular, have been scarce. Powell (2007) studied the relationship between employee creativity and corporate brand reputation, using a detailed case study approach. His paper triggered my willingness to study creativity as a contribution to an advertising agency's performance. Yet it seems that the phenomenon of creativity in the advertising industry context has also been a fruitful field (Ensor et al., 2006; Verbeke et al., 2008); thus I decided to incorporate additional elements from the contemporary strategy research, namely the strategy-as-practice approach that is currently gaining ground. This approach fits the research agenda well, since a great deal of the creative employees' work in an advertising agency involves unconscious social interaction, and practices dictated by prior experience. Additionally, within creative organizations, there are no studies in the wider sociological context of practices. My research aims to combine strategy content research, research on individual and organizational creativity, and the practice perspective on strategy in order to provide an interpretative study of an advertising agency's creative workforce and their contribution to firm performance. In addition, I will address the importance of knowledge and learning in organizational performance, due to their substantial significance within creative organizations.

## 1.6 STRUCTURE OF THE STUDY

In the first chapter, I have presented the research objectives of the study, along with the research questions derived from the objectives. I have also briefly discussed the key concepts of the study. Relevant literature has also been presented, and the research gap consequent from extant literature has been described.

In the second chapter, I will present the theoretical background of the study. I will begin with discussing the external environment of the firm. Then I will focus on the internal environment of the firm. Derived from these, I will discuss competitive advantage. Next, the advertising industry is discussed. Then I will examine the concepts of knowledge and learning. After that, the emergent practice perspective on strategy is discussed. Finally, I will present the theoretical framework combining the material elements from previous literature discussed.

In the third chapter, I will present the methodology of the study. I will briefly discuss the notion of qualitative case study research, and the case study organization in question. Then I will explain the data collection phase of the study, and subsequently I will describe data analysis methods employed, concentrating on hermeneutics as an approach to interpreting the data collected.

In the fourth chapter, I will present the findings of the case study. These issues emerged from the study, i.e. the factors that affect the creatives' work and hence the performance of the organization, include experience, the creatives' personality traits that most affect their work and hence the organization's performance, routines and practices that constitute and pace the work, organizational support for creative work and interaction with colleagues, and interaction with clients.

In the fifth chapter, I will analyze and discuss these findings in the light of the previous literature presented. This analysis is divided in four sections. First, I will discuss habitus as an orchestrator of the creative workforce's action. Second, I will discuss the routinized practices of the workforce. Third, the role of organizational support for creative outcomes is discussed. Fourth, I will discuss the key personality traits of the creative workforce, namely intrinsic motivation and creative self-efficacy.

The sixth and final chapter concludes my research on the subject, along with providing limitations and suggestions for future research.

# 2 THEORETICAL BACKGROUND

In this chapter I present previous literature relevant on the research topic. In order to answer the research questions set previously, I will first examine the environment in which the firm operates. This environment sets the stage for the creation of a competitive advantage. First, I will briefly study the external environment of the firm, focusing on the five forces model and market boundary reconstruction. Second, in more depth, I will examine the internal environment of the firm. The resource-based view of the firm is highlighted, with attention on strategy formulation based on a firm's pool of resources and capabilities. The emphasis on the internal environment is justified by its major impact on firm performance. Third, derived from the research on the firm environment, the notion of competitive advantage will be discussed, along with its sustainability.

Fourth, I will briefly present the advertising industry, focusing on the characteristics that affect the creation of an advertising agency's competitive advantage. The vitality of individual and organizational creativity, a major source of superior performance within the industry, will be discussed. Fifth, since creative workers are, in essence, knowledge workers whose expertise relies on constant learning, it makes sense that the role of knowledge and learning in the performance of a creative organization is addressed.

Sixth, in order to highlight the importance of prior experience in creative work, as well as the role of the social and the unconscious, I will discuss the emergent strategy-as-practice approach and its divergence from traditional strategy research, along with its applicability within the framework of the empirical study. Seventh, I will present the conceptual framework of the study, derived from the literature discussed.

## 2.1 EXTERNAL ENVIRONMENT OF THE FIRM

In this subchapter, I will explain in brief the competitive forces that a firm must face from its external environment, the concept of dynamic rivalry, and the notion that industry structure can be reconstructed by the actions and beliefs of industry players.

### 2.1.1 THE FIVE FORCES MODEL

The firm's external environment i.e. the industry it operates on consists of customers, competitors, and suppliers (Porter, 1980; Grant, 2008). Industry attractiveness is determined by the value of a firm's product to its customers, the intensity of competition, and the bargaining power of the firm's suppliers. Porter

(1980) presents the much cited five forces framework in analyzing industry attractiveness. It distinguishes horizontal (substitutes, entrants, and rivals) and vertical forces (suppliers and buyers) that present the firm with competitive pressure. The weaker these forces are collectively, the greater the opportunity is for superior performance. Every industry has a fundamental structure, or a set of elementary economic and technical characteristics, that gives rise to these competitive forces. The five forces can be used in underlining the critical strengths and weaknesses of the firm, describing the positioning of the firm in its industry, clarifying the areas where strategic changes may result in performance improvements, and recognizing the places where industry trends affect the firm as either opportunities or threats (Porter, 1980). Knowledge of the firm's capabilities and of the causes of the competitive forces will highlight the areas where the firm should confront competition and where avoid it.

The threat of entrants can be reduced by barriers of entry (Porter, 1980; Grant, 2008). Those include requirements, economies of scale, absolute cost advantages, product differentiation, access to channels of distribution, and retaliation, yet it is said that the only effective barriers of entry are governmental and legal barriers. These include intellectual property rights such as licenses, patents, and copyrights, and environmental and safety standards. The presence of barriers to entry is a fundamental prerequisite of market power (Grant, 1991). Substitutes that deserve the most attention strategically are those products that are subject to trends improving their price-performance trade-off with the industry's product or are produced by industries earning high profits (Porter, 1980). Porter (1980) also states that the competitive pressure of rivals is related to the presence of several factors: if competitors are numerous or are roughly equal in size and power, if industry growth is slow, if the product or service lacks differentiation or switching costs, if fixed costs are high or the product is perishable, if capacity is normally augmented in large increments, or if exit barriers are high.

A key feature of rivalry is its dynamic and interactive nature. Chen (1996) argues that each firm has a unique market profile and resource endowment and that a comparison with a given competitor along these two dimensions will help to illuminate the competitive relationship between them and to predict how they may attack (or respond to) each other in the market. Three essential factors that underlie organizational action are the awareness of inter-firm relationships and action implications, the motivation to act, and the capability of taking action. An action is defined as a specific competitive move initiated by a firm, such as introducing a new product or entering a new market that may lead to the firm's acquiring its rivals' market shares or reducing their anticipated returns; a response is a specific countermove that a firm takes to defend or improve its share or profit position in the industry. Research shows that competitive actions and responses matter to performance: the greater the number of competitive moves a firm initiates, the better its performance.

The five forces model is juxtaposed with the assumption that industry attractiveness derives ultimately from the ownership of resources, further linking the analyses of a firm's external and internal environment (Grant, 2008).

## 2.1.2 RECONSTRUCTING MARKET BOUNDARIES

Sometimes market boundaries can be unclear. A market's boundaries can be defined by substitutability on the demand side and the supply side, i.e. to what extent customers are willing and able to substitute products beyond boundaries, and to what extent suppliers are willing and able to divert their output (Kim & Mauborgne, 2005). To broaden the scope of their operations, firms often extend their brands to pursue new customers. However, line extensions rarely focus on fulfilling the needs of non-customers: they primarily provide existing customers with more choices. Furthermore, they do not ease the competitive pressure that a firm must face when it sees the world through the same lens as the rest of the industry.

Kim and Mauborgne (2005) present the reconstructionist view in which industry structure can be altered by industry players. The reconstruction of market boundaries is derived from looking at familiar data from a new perspective. A highly illustrative approach is to challenge an industry's conventional perception of who the target buyer is, whether it is the purchaser, the user, or the influencer.

In most industries, the fundamental strategic differences among industry players are captured by a small number of strategic groups where most companies focus on improving their competitive position within a strategic group (McGee & Thomas, 1986). The notion of strategic groups is based on the observed similarity of behavior of the firms within a strategic group. The strategic-group approach states that there are different groups of firms within an industry and that firms are homogeneous within groups, along a set of strategic attributes, and heterogeneous between groups (Chen, 1996). When a firm chooses to enter a specific strategic group, it selects the members of that group as its competitors (Chen, 1996; Barney, 1991). The key to creating new market space across existing strategic groups is to understand which factors determine customers' decisions to trade up or down from one strategic group to another (Kim & Mauborgne, 2005).

Grant (1991) implies that an externally-focused orientation does not provide a secure foundation for formulating a long-term strategy, because of volatile customer preferences, changing customer identity, and continually evolving technological requirements to serve customers. Furthermore, Dierickx & Cool (1989) justify the focus on internal environment in explaining differences in firm performances by stating that firms may obtain above normal returns only when they have superior information, when they are lucky, or both; for this reason firms should focus their analysis mainly on their pool of unique skills and

resources rather than on the external competitive environment. Therefore the firm's own resources and capabilities are a much more stable basis on which to define its identity and analyze its opportunities for superior performance.

## 2.2 INTERNAL ENVIRONMENT OF THE FIRM

In this subchapter, I will focus on the internal environment of the firm as a basis for competitive advantage. I will present the resource-based view of the firm in order to explain performance differentials across firms. The notions of resources and capabilities will be discussed, as well as their importance in strategy formulation and analysis.

### 2.2.1 RESOURCE-BASED VIEW OF THE FIRM

During the last three decades, scholars have placed emphasis on the resource-based view (RBV) of the firm as an explanation for performance differentials between firms (Wernerfelt, 1984; Barney, 1991; Grant, 1991). The resource-based view examines the link between a firm's internal characteristics and performance (Barney, 1991). RBV is based on two main assumptions: the model assumes that firms within an industry may be heterogeneous with respect to the strategic resources they control, and that these resources may not be perfectly mobile across firms. Firm resources comprise all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney, 1991). A firm's resources at a given time can be defined as those tangible and intangible assets which are tied semi-permanently to the firm (Wernerfelt, 1984). The resource-based view argues that a firm's ability to acquire and exploit some resources depends upon their place in time and space (Barney, 1991). Barney (1991) also argues that not all aspects of a firm's physical, human, and organizational capital can be regarded as strategically relevant resources; in fact, some of these attributes may even prevent firms from implementing valuable strategies. The optimal growth of a firm involves a balance between exploitation of existing resources and development of new ones (Wernerfelt, 1984).

In order for a firm's resources to create sustainable competitive advantage, those resources need to be valuable, rare, inimitable, nontransferable, and nonsubstitutable (Barney, 1991; Eisenhardt & Martin, 2000; Dierickx & Cool, 1989; Prahalad, 1993; Peteraf, 1993). These attributes of firm resources can be seen as empirical indicators of how heterogeneous and immobile a firm's resources are and thus how useful these resources are for generating sustained competitive advantage (Barney, 1991). Resources must be valuable in the sense that they exploit opportunities and/or neutralize threats in a firm's environment; resources are

valuable when they enable a firm to conceive of or implement strategies that improve its performance. They must be rare (i.e. limited in supply) among a firm's current and potential competition; firms can enjoy superior performance only if their resources cannot be expanded freely or imitated by other firms (Peteraf, 1993). Moreover, if a certain resource is possessed by several firms within an industry, each of these firms have the capability of exploiting that resource in a similar way, thereby implementing a common strategy that gives no single firm a competitive advantage.

Valuable and rare organizational resources can only be sources of sustained competitive advantage if firms that do not possess these resources cannot obtain them (Barney, 1991). Therefore the resources must also be inimitable and nontransferable. Socially complex resources, such as trust and reputation, are time-consuming and expensive to imitate (Dierickx & Cool, 1989). Resources are imperfectly mobile when they are somewhat specialized to firm-specific needs; because immobile or imperfectly mobile resources are nontradeable or less valuable to other users, they remain bound to the firm and available for use over the long run, and can be a source of sustainable competitive advantage (Peteraf, 1993). Resource substitution tens to render the existing resources obsolete, because they no longer create value to the buyer (Dierickx & Cool, 1989). The availability of substitute resources will depress returns to the holders of a given resource (Wernerfelt, 1984). Barney (1991) states that substitute firm resources do not need to have exactly the same implications for an organization in order for those resources to be equivalent from the point of view of the strategies that firms can implement. The existence of strategically equivalent resources suggests that other current or potentially competing firms can implement the same strategies, but in a different way, using different resources. In the presence of such substitute resources, the original firm resources no longer create the foundation for sustainable competitive advantage.

Over the long term, the competitive advantage of a firm and the returns associated with it are eroded both through the depreciation of the firm's resources and capabilities, and through imitation by rivals (Grant, 1991). Resource similarity is defined as the extent to which a given competitor possesses strategic endowments comparable to the firm (Chen, 1996). Firms with similar resource bundles are likely to have similar strategic capabilities as well as competitive vulnerability in the marketplace. However, if a firm acquires valuable and rare resources because of its unique path through history, it will be able to exploit those resources to implement value-creating strategies that cannot be duplicated by other firms (Barney, 1991). Figure 1 illustrates the relationship between resource characteristics and sustainable competitive advantage. It is important to note that resource heterogeneity and immobility are essential, but not sufficient, preconditions for competitive advantage.
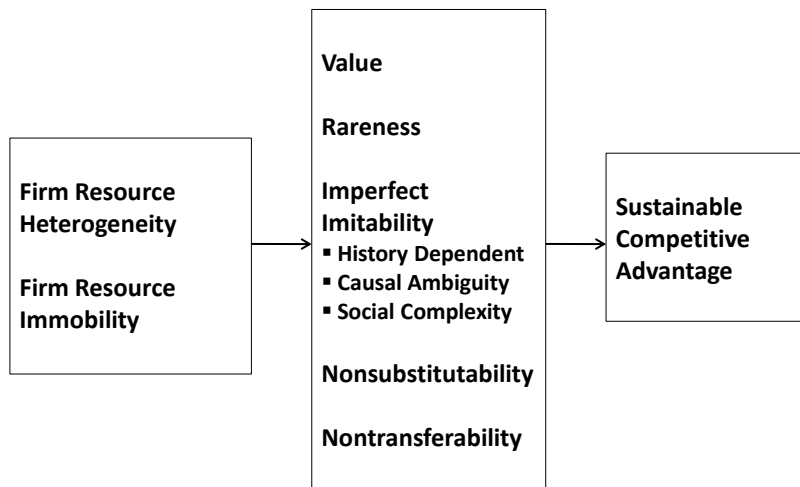
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│ Heterogeneity    │→│ ▪ History Dependent │→  │ Competitive  │
│                  │ │ ▪ Causal Ambiguity  │   │ Advantage    │
│ Firm Resource    │ │ ▪ Social Complexity │   └──────────────┘
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└──────────────────┘ │ Nonsubstitutability │
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**Figure 1: Relationship between Resource Characteristics and Sustainable Competitive Advantage (adapted from Barney, 1991)**

Throughout the years, there has also been some criticism facing RBV: for example, Teece et al. (1997) and Eisenhardt & Martin (2000) argue that RBV does not work as such in situations of rapid and unpredictable change – in these situations the organization's dynamic capabilities become the source of sustained competitive advantage. Dynamic capabilities are defined as the organizational and strategic routines by which firms achieve new resource configurations as markets change; they consist of specific strategic and organizational processes that create value for firms operating in dynamic markets by manipulating resources into new value-creating strategies (Eisenhardt & Martin, 2000). In addition, dynamic capabilities define the firm's path of evolution and development (Zahra & George, 2002).

Furthermore, Dyer and Singh (1998) criticize RBV for overlooking the importance of the network of relationships in which the firm is embedded. They suggest that productivity gains in the value chain are possible when trading partners are willing to make relation-specific investments and combine resources in unique ways; this indicates that firms who combine resources in unique ways may realize an advantage over competing firms who are unable or unwilling to do so. To the extent that an organization develops a broad and active network of internal and external relationships, individuals' awareness of others' capabilities and knowledge will be strengthened (Cohen & Levinthal, 1990; Narver & Slater, 1995). A firm's dependence upon skills possessed by highly trained and highly mobile key employees is particularly

important in the case of professional service companies where employee skills are the overwhelmingly important resource (Grant, 1991).

Priem and Butler's (2001) criticism on RBV is concerned with the fact that it is viewed as a theory; they argue that its foundations do not meet the "lawlike generalization" standards of a theory. Also, RBV makes implicit assumptions about product markets, similarly as the earlier environment-based models criticized by strategy scholars made implicit assumptions about resources.

### 2.2.2 CAPABILITIES AND STRATEGY ANALYSIS

If resources are the productive assets owned by the firm, then organizational capability (competence) can be seen as a firm's capacity to deploy these resources for a desired end result, i.e. what the firm can do (Grant, 2008). A capability is, in essence, an organizational routine, or a number of interacting routines (Grant, 1991; Mahoney & Pandian, 1992). Most organizational capabilities require integrating the specialist knowledge bases of the organization's individual members (Grant, 1996). As a firm gains experience and manages its routines more effectively, the costs associated with capability development decrease over time (Grant, 1991; Zahra & George, 2002). Organizational capabilities also improve as members of the organization become more aware of the overall performance implications of their actions; hence it is a direct consequence of the members' cognitive efforts (Zollo & Winter, 2002).  The complexity of capabilities is particularly relevant to the sustainability of competitive advantage. In order to create and sustain a competitive advantage, a firm's strategy must be aligned to resource allocation that enables an organization to maintain or improve performance (Grant, 1991; Rowe & Barnes, 1998). Besides their complexity, a key feature of organizational capabilities should be the firm's ability to manage, leverage, and exploit them within the market to create superior outcomes (Grant, 1991; Rangone, 1999).

Grant (1991) defines strategy as the match an organization makes between its internal resources and skills, and the opportunities and risks created by its external environment. Mahoney and Pandian (1992) state that the normative basis for strategy formulation is the continuing search for above-normal rates for return (i.e. rents). Firms generate rents through differences among firms in information, luck, and firm-distinctive capabilities. A key dimension of strategy formulation may be identified as the task of making appropriate choices about strategic expenditures with a view to accumulating resources and skills (Dierickx & Cool, 1989). Thus the key to creating competitive advantage is not solely the firm's superior resources, but the strategy that allows the firm to make the most of its resource base (Mahoney & Pandian, 1992).  Wind & Robertson (1983) affirm that marketing should provide inputs to strategy generation and the evolved strategies should be tested against the reaction of customers, competitors, and other stakeholders.

Prahalad (1993) recommends that strategic intent be a shared competitive agenda throughout the organization: it provides a basis for stretching the imagination of the total organization and a focus for developing "barrier-breaking" initiatives. Figure 2 describes a resource-based approach to managerial strategy analysis, linking resources, capabilities, competitive advantage, and strategy. A key factor is the identification or resource gaps which need to be filled, through resource accumulation and development, and capability leverage. The corporate strategy should be primarily concerned with constantly developing its strategy and adapting it to the external environment by capitalizing on and investing in its resources and capabilities.
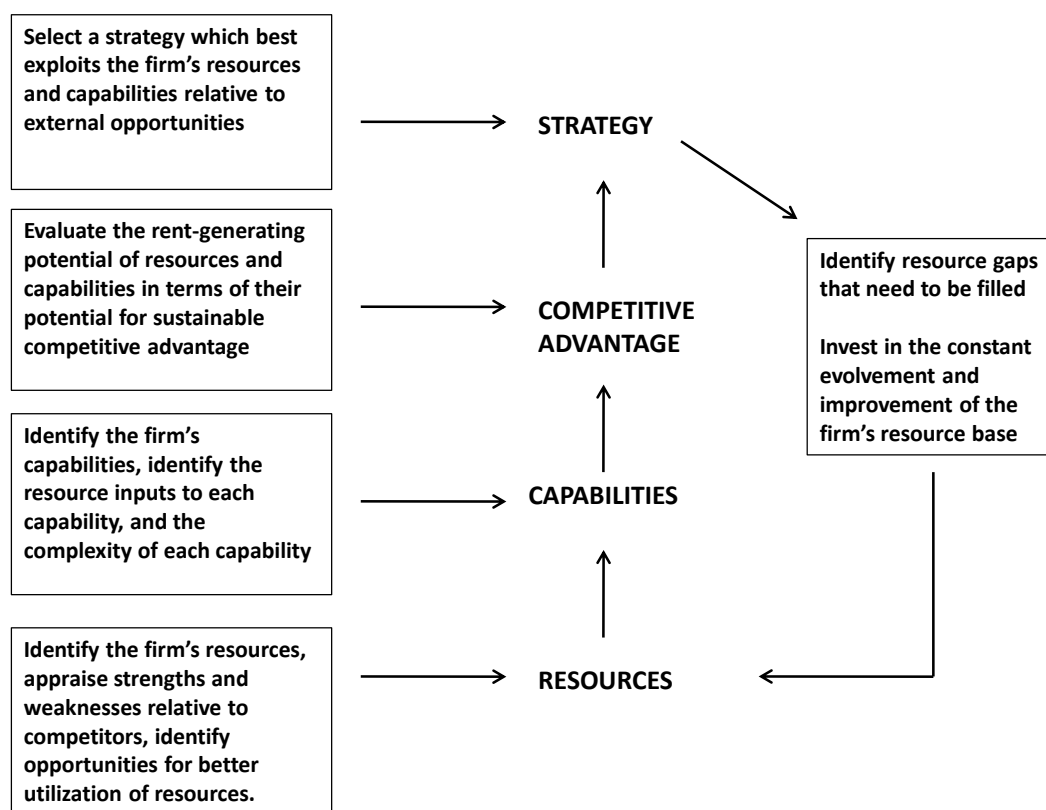
**Select a strategy which best exploits the firm's resources and capabilities relative to external opportunities**

**STRATEGY**

**Identify resource gaps that need to be filled**

**Invest in the constant evolvement and improvement of the firm's resource base**

**Evaluate the rent-generating potential of resources and capabilities in terms of their potential for sustainable competitive advantage**

**COMPETITIVE ADVANTAGE**

**Identify the firm's capabilities, identify the resource inputs to each capability, and the complexity of each capability**

**CAPABILITIES**

**Identify the firm's resources, appraise strengths and weaknesses relative to competitors, identify opportunities for better utilization of resources.**

**RESOURCES**

**Figure 2: A Resource-Based Approach to Managerial Strategy Analysis (Adapted from Grant, 1991)**

In the interrelationship between resources and capabilities, the primary determinant of capability is not the size of the firm's resource base, but the firm's ability to leverage its resources throughout the organization (Grant, 2008). An internal capacity to leverage resources is also a prerequisite for inventing new businesses (Prahalad, 1993). Those resources that particularly enhance profitability when leveraged include resources such as brands and trademarks, and employee know-how. Leverage is rendered possible when a firm has

secured its position in its original business and may look for opportunities of diversification (Priem & Butler, 2001). However, Eisenhardt & Martin (2000) somewhat disagree with overemphasizing leverage as a strategic logic, since in dynamic markets it makes sense that the strategic logic of managers is rather opportunity.

## 2.3 COMPETITIVE ADVANTAGE

In this subchapter, I will examine further the concept of competitive advantage, along with its sustainability.

A firm has competitive advantage when it exceeds the average performance level of its industry (Grant, 2008). A competitive advantage that is the consequence of superior capability in relation to a single performance variable is easier to identify and comprehend than a competitive advantage that involves multiple capabilities conferring superior performance across several variables; thus, it is easier to imitate, and unlikely to be the source of a sustainable competitive advantage (Grant, 1991; Barney, 1991). Conner and Prahalad (1996) argue that the resources that contribute to above-normal earnings and therefore may be a source of competitive advantage are those that affect materially the quality of managerial as opposed to employee judgment such as the organizational culture, and those that reduce the cost of implementing flexibility. Barney (1986) states that firms with sustained superior financial performance are typically characterized by a strong set of core managerial values that define the ways to conduct business; it is these values that foster innovativeness and flexibility in firms, and when they are linked with management control, they are thought to lead to sustained superior financial performance.

Scholars suggest that only those organizations that build strong, close, positive relationships with their customers have the potential to develop a sustained competitive advantage (Rowe & Barnes, 1998; Narver & Slater, 1990). Staying close to the customer can result in timely market information, joint product development activities, and intense brand loyalties; these benefits result in high sales and increased margins, and thus have a direct positive financial impact on a firm (Barney, 1986). Reed and DeFillippi (1990) specify that the source of a competitive advantage is always internal to the firm, and competence is produced by the way a firm utilizes its internal skills and resources, relative to the competition it faces. Specificity, i.e. the commitment of skills and resources to the requirements of individual customers, can also generate competitive advantage; central to the idea of specificity is a symbiosis between the firm and the customer that produces mutually profitable, long-term relationships that have the effect of denying the customer to competitors (Reed & DeFillippi, 1990; Woodruff, 1997). Woodruff (1997) specifies that firms should understand the consequences that customers want (or want to avoid) and the goals to which those

consequences lead, and thus further link customer learning and satisfaction to a firm's competitive advantage. An organization benefits from customer value learning when learning shifts managers' mental models of their customers, and when these mental models guide actions taken to achieve superior customer value delivery performance.

Competitive advantage emerges alongside with internal or external change (Grant, 2008). Markets are becoming increasingly turbulent, and consequently the importance of responsiveness to external change as a source of competitive advantage has increased. Internal change is generated by innovation, which besides creating competitive advantage, provides a basis for overturning the competitive advantage of other firms. Classical competitive strategies based on a two-by-two matrix of strategic advantage (cost leadership vs. differentiation) and strategic target (industry-wide vs. a particular niche) ignore the fact that all markets are heterogeneous and thus a non-segmented strategy is inevitably suboptimal (Wind & Robertson, 1983). Moreover, scholars (Caves, 1984; Kim & Mauborgne, 2005) also suggest that cost advantage strategy and differentiation strategy are not mutually exclusive.

Kim and Mauborgne (2005) state that the classic differentiation strategy ('offer more for less') is not profitable in the long run. Instead, they present the concept of value innovation, i.e. creating a leap in value for both the firm and its customers.  In value innovation, cost savings are made by eliminating and reducing the factors an industry competes on, whereas buyer value is lifted by raising and creating elements the industry has not offered before. Eliminating and reducing are concerned with dropping a firm's cost structure in relation to its competitors. Raising and creating provide the firm with insight into how to lift buyer value and create new demand. Value innovation is consistent with Woodruff's (1997) notion of linking the quest for improved customer understanding through constant customer learning to sustainable competitive advantage.

To complement the theory on competitive advantage, Rancone (1999) presents a resource-based view of the competitive advantage of a small and medium-sized enterprise (SME), streamlining the complexity of the RBV directed toward large, hierarchical corporations. He argues that an SME's sustainable competitive advantage is based on three capabilities: innovation capability, production capability, and market management capability. An SME puts its strategic focus on one or more of these basic capabilities. A firm's competitive advantage depends on its resource alignment with its strategic intent. Prahalad (1993) states that, in order to improve performance, strategic intent must cause a "misfit" between aspirations and current resources, and current approaches to using resources. Moreover, resources must have strategic value and be consistent in order to contribute to creating competitive advantage (Rancone, 1999).

Melewar and Jenkins (2002) recognize the identity of a corporation as a strategic resource and a source of competitive advantage; it is interpreted as an organization's ethos, aims and values that create a sense of individuality which differentiates a corporate brand (Harris & DeChernatory, 2001). In essence, corporate identity is the reality and uniqueness of an organization which is integrally related to its external and internal image and reputation through corporate communication (Balmer & Gray, 1999). Effective management of corporate identity can serve to address the needs of the firm's important stakeholders by, for example, motivating employees, and by generally inspiring confidence in the company to its target groups. In addition, people tend to respond more favorably to brands and firms they perceive as being consistent with their self-concepts. There are three distinguishing features of corporate identity: it is fundamentally concerned with reality and what an organization is, that is its strategy, philosophy, history, business scope, the range and type of products and services offered, and its communication, both formal and informal; it is a multidisciplinary field; and it is based on the corporate personality of the organization (Melewar & Jenkins, 2002). A brand's reputation is defined as a collective representation of a brand's past actions and results that describes that brand's ability to deliver valued outcomes to multiple stakeholders; familiarity with key stakeholders' perceptions is central to corporate brand management (Harris & DeChernatory, 2001). Pivotal to the credibility of the corporate brand, in particular in creative industries, are employees and organizational culture (Aaker, 2004).

## 2.3.1 SUSTAINABILITY OF COMPETITIVE ADVANTAGE

A firm has sustainable competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991). Reed and DeFillippi (1990) insist that instead of aiming at a competitive advantage, a firm's planning and resource deployment should always be aimed at sustaining a competitive advantage, and the planning should be linked to its long-term strategy. The sustainability of a competitive advantage has two aspects: one is concerned with the sustainability of the key product attributes, i.e. how easy it is for the competition to match those attributes that contribute to competitive advantage; the other is concerned with the durability of the superiority of the key intangible resources over those of the competition (Hall, 1992).

Positive reputation of a firm among its pool of customers and suppliers has also been cited as a source of competitive advantage (Porter, 1980; Barney, 1991). Reputation, a key intangible resource, is a fragile one: it is usually the product of years of demonstrated superior competence, it takes time to create, it cannot be bought, and it can be damaged easily (Hall, 1992). Teece et al. (1997) argue that reputation's key value is external, since reputation can be viewed as a summary statistic about the firm's current assets and

position, and its likely future behavior. Corporate reputation is often the antecedent of a successful strategy implementation (Dierickx & Cool, 1989). A firm that does not own a nontradeable asset, such as reputation, which it requires for the implementation of its strategy, is constrained to building this asset (Direckx & Cool, 1989).

Organizational culture, defined as a complex set of values, beliefs, assumptions and symbols that define the way in which a firm conducts its business, plays a key role in sustaining a competitive advantage through its maintenance support for capabilities through the socialization of new employees (Barney, 1986). In order for a firm's culture to provide sustainable competitive advantage, three conditions must be met: the culture must be economically valuable, the culture must be rare, and the culture must be imperfectly imitable. Barney (1986) states that even when a firm's organizational culture meets the three mentioned conditions, if a firm fails to manage other strategically relevant functions successfully, organizational culture cannot be a source of sustainable competitive advantage. Harris and DeChernatory (2001) also state that corporate culture can represent a source of competitive advantage. It is however required that the culture is appropriate, adaptive and attentive to the needs of all stakeholders.

It must also be noted that a sustainable competitive advantage might not last forever: unanticipated changes in the economic structure of an industry may make what was, at one time, a source of sustained competitive advantage, no longer valuable for a firm (Barney, 1991). Dierickx and Cool (1989) argue that all resources and capabilities erode without adequate investments in maintenance. Moreover, if a firm is operating in a rapidly changing environment, as creative organizations are, assuming that the causal structure of the past will also operate in the future would be fallacious (Mosakowski, 1998). Causal ambiguity, defined as the basic ambiguity concerning the nature of the causal connections between actions and results (Lippman & Rumelt, 1982), may make it impossible for a firm to evaluate its resources or even to identify them. While such resources may be the basis of competitive advantage, the causal ambiguity leaves little room for strategy, providing a firm with no informational advantage over competitors and little ability to leverage these resources (Peteraf, 1993).

Barney (1991) suggests that causal ambiguity exists when the link between the resources controlled by a firm and a firm's sustained competitive advantage is not understood or understood only very imperfectly. In the face of causal ambiguity, firms pursuing resource imitation do not know the actions they should take in order to duplicate the strategies of firms with sustained competitive advantage. If the knowledge of the link between a firm's resources and its ability to implement certain strategies is diffused throughout competing firms, causal ambiguity no longer exists, and barriers to imitation are reduced. Moreover, Grant (1996) argues that the greater the breadth of various types of specialist knowledge being integrated within a capability, the greater the difficulty faced by competitors in replicating that capability due to increases in

causal ambiguity. In addition, these different types of specialist knowledge should be seen as complements rather than substitutes.

Mosakowski (1998) argues that rather than studying causal ambiguity solely form an internal firm perspective, firms needs to examine the external environment to determine whether the causal structure itself is shifting or the inputs to the causal structure are changing; internal complexity is a symptom, not a cause, of causal ambiguity. She adds that strategy making throughout the firm can be best portrayed as a process in which firms take a series of "baby steps" in response to causal ambiguity.

The resources and capabilities required for creating and sustaining a competitive advantage within an organization are dependent upon the characteristics of the industry the organization competes on. A strategic architecture, i.e. a distillation of a wide variety of industry information, allows managers to identify the capabilities required to prosper within an industry (Prahalad, 1993). In the following subchapter I will focus on the distinctive features of the advertising industry, underlining the concept of creativity and its role in achieving superior performance.

## 2.4 THE ADVERTISING INDUSTRY

In this section I will briefly describe the advertising industry, the vitality of creativity, and the industry's idiosyncrasy concerning the creation of sustainable competitive advantage. As a field for academic research, the advertising industry combines elements of the creative industry and the professional services industry. In order to streamline the industry analysis, I will focus on analyzing the advertising industry as a creative one, comparable with the likes of design, architecture, and industrial arts.

Advertising agencies emerged in the mid 19th century as brokers between newspapers and advertisers; at first, the advertisers designed the ads and the agency just placed them in newspapers (Evans, 2008). The business model that eventually developed involved giving creative and marketing services away in return for the commission on the media buying.

Economic and financial details concerning the industry are that expect for a few of the very largest advertising agencies, the agencies are privately-owned partnerships. Since most agencies are privately-owned, they raise capital through debt, not through equity. The advertising industry is labor-intensive, so supply is not significantly affected by changes in the cost of capital (Jung & Sheldon, 1995). Furthermore, Jung and Sheldon (1995) state the industry's market power is small and insignificantly different from zero, and its long-run supply equation is perfectly elastic, implying a highly competitive market. As many other service businesses, the advertising industry faces the increasing competition brought about by deregulation

and declining profitability induced by recession (Quester & Romaniuk, 1997). Ethical problems can also negatively affect agency performance (Hunt & Chonko, 1987). Managers often have difficulties balancing the needs of the client against the needs of the agency; they worry about plagiarism from competitors; and they experience conflicts between being loyal to the client and not misleading the public. Most of the ethical problems do not rise within advertisements themselves, but rather from the relationship with clients, suppliers, employees, media, and other agencies (Hunt & Chonko, 1987).

Even in the dynamic world of changing consumption patterns and integrated marketing communications, demand for advertising exists. Advertising generates information because of consumer power in the product market (Nelson, 1974). Ehrlich and Fisher (1982) justify the demand for advertising by building on the assumption that it affects not only tastes, but also the opportunities under which advertised products can be acquired, alongside reducing the time price of consumption.

The advertising industry is a creative one which implies that employee expertise, experience, and know-how are the most valuable resources that can be deployed or leveraged. Also, the concept of creativity itself should be at the heart of strategy formulation, and should be treated as a core competence. Hence it is crucial to understand which working conditions lead to higher levels of creative output, and what type of local infrastructure fosters higher degrees of creative work (Tepper, 2002). Organizations rely heavily on their own employees and internal processes for enhancing creativity, which in turn enhances their creative reputation and strengthens their organizational brand (Powell, 2007). Within creative industries, there is a need for ways to better measure the value of research and development both within organizations and between organizations and sectors (Tepper, 2002). De Bono (1995) affirms that every valuable creative idea will always be logical in hindsight, stating that the creative idea must make sense and must work. Hence, creativity should be emphasized as a strategic logic, and as an asset that should be leveraged.

The creative industry comprises organizations that produce novel and appropriate ideas, processes, products or services to tackle clients' problems or opportunities identified (Amabile et al., 1996; Andriopoulos & Gotsi, 2000; Woodman et al., 1993; Perry-Smith & Shalley, 2003). Tepper (2002) explains that changes in the economy have pushed creative assets to the center of economic life, predicting that the creative economy will be the dominant economic form in the twenty-first century. The small to medium-size nature of many creative organizations leads to a common issue of the evolving nature of the organizational identity and brand as the firm grows, where both are often seen to be in a state of ongoing change (Powell, 2007).

The advertising industry is highly competitive. The industry has faced difficult times during recession periods, with falling revenues and employees having been made redundant (Jung & Sheldon, 1995). Also,

as the price of advertising increases, firms can substitute into other promotional activities (Jung & Sheldon, 1995). This implies that the industry has a slim bargaining power, if none. The industry is also characterized by project-based creative work, often with long time frames; this suggests that multifunctional, interdependent teams engaging with different communities and teams, whose memberships naturally grow and shrink over time, are more likely to be the norm than in other forms of organizations (Powell, 2007). Furthermore, research shows that some members of the creative staff indicate that they often identify more with the project team they are working on rather than their employing creative organization, especially when teams comprise individuals that are seen as equal in some ways (Powell, 2007).

Advertising agencies, alongside with other creative organizations, rarely engage in formal marketing communication activities as a means of managing their corporate brands and enhancing corporate reputation (Andriopoulos & Gotsi, 2000); they rely on more informal, internal mechanisms for enhancing creativity in their work in order to build a reputation for their creativity and hence strengthen their corporate brand, leading to the conclusion that within the advertising industry, the most important sources of sustainable competitive advantage stem from the skills, know-how, and the learning capability of employees, as well as from organizational learning and creativity (Andriopoulos & Gotsi, 2000; Powell, 2007). Andriopoulos & Gotsi (2000) suggest that creative organizations need to recognize their employees' creative output as their key asset towards successful brand building and should therefore aim to provide their employees with the appropriate environment for enhancing creativity in their work.

## 2.4.1 CREATIVITY

Creative organizations often differentiate themselves through the successful use of ongoing ambiguous operating conditions (Powell, 2007). Creative imagination emerges through the combination, recombination or transformation of existing concepts (Völpel, 2002). The prior possession of relevant knowledge and skills gives rise to creativity, permitting the sorts of associations and linkages that may have never been considered before (Cohen & Levinthal, 1990). Both domain-relevant skills (i.e. knowledge, technical skills, and talent needed to produce creative products) and creativity-relevant skills (i.e. the cognitive skills and personality traits linked to creative performance) are important preconditions for employee creativity (Woodman et al., 1993). As instant judgment is the enemy of creativity, judgment and caution are necessary tools for creative idea generation (De Bono, 1995). In the advertising industry, employees can be thought as knowledge workers, i.e. professional or expert workers who use intangible inputs to specifically produce a creative output (Powell, 2007). In this context, creative employees (or 'the creatives', as the creative workforce is known within the advertising industry) include copywriters, art directors, strategists, and planners.

Woodman et al. (1993) state that the creative behavior of organizational participants is a complex person-situation interaction influenced by events of the past as well as relevant aspects of the current situation. Group creativity is a function of these individual creative behavior inputs, the interaction of the individuals involved, group characteristics, group processes, and contextual influences. Creativity and innovation are closely linked: creativity is the seed of all innovation, and perceptions of an innovation within members of an organization enable the motivation to generate new ideas (Amabile et al., 1996). Also, a reputation for innovation enhances an organization's credibility (Aaker, 2004).

Tierney and Farmer (2002) suggest that creative self-efficacy, defined as the belief that one has the ability to produce creative outcomes, may be a key personal attribute for creativity in the workplace. Existing experience in particular field is necessary for creative success: as employees come to understand the nuances of their jobs, they are more likely to feel confident that they can be creative in their work roles. A core sense of job capability is an important aspect of employee creativity; this emphasizes the significance of training and experience opportunities necessary for employees to develop the sense of general job mastery, a foundation for successive creative work (Tierney & Farmer, 2002).

In order to enhance creativity, managers need to place emphasis on the working environment. Amabile et al. (1996) present a conceptual model of assessing the work environment for creativity (Figure 3). Factors stated to influence creativity include encouragement of creativity, freedom, resources, pressures, and organizational impediments to creativity. Creativity should be encouraged by the organization, supervisors of the certain group, and by group members themselves. Freedom and sufficient resources provided by the work environment have a positive effect on creativity, whereas organizational impediments to creativity such as internal strife, conservatism, and rigid management structures influence creativity negatively. The pressures provided by the work environment include challenging work and workload pressure, the former positively influencing creativity and the latter influencing it negatively.
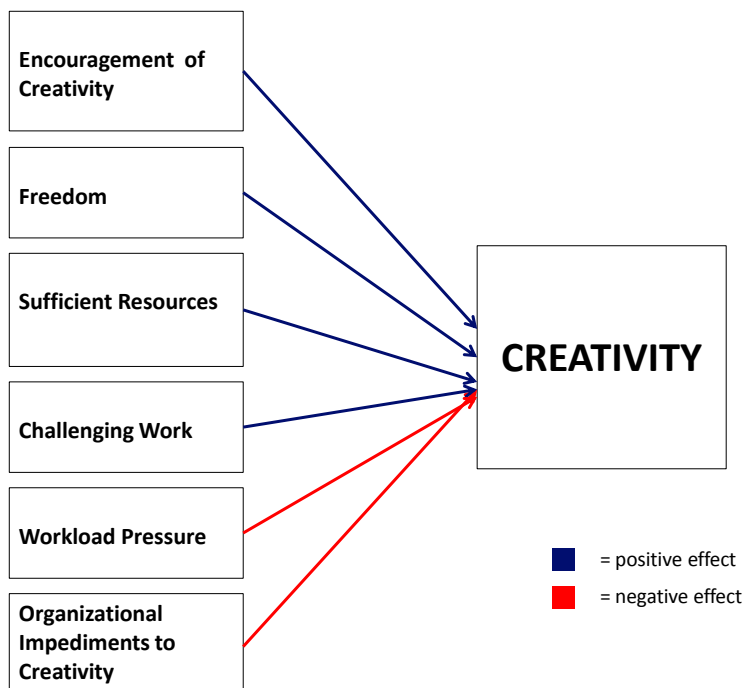
**Figure 3: Perceptions of the Effect of Work Environment on Creativity (adapted from Amabile et al., 1996)**

Participative, high-involvement work systems and cultures have a positive impact on employees' creative behavior (Woodman et al., 1993). Mumford et al. (2002) suggest that leaders of creative people must construct an environment where idea generation is likely to emerge; this may include the need to give more attention to issues of climate and culture because they provide a context for idea generation. Research shows that employees may only have a vague understanding of a creative organization's vision due to rapid growth, structural changes, and changes in ownership (Powell, 2007). Powell (2007) also states that creative organizations may find problems in the relationships with clients and others due to a lack of ways to tangibly or quantitatively predict or define the outcome for their creative processes or products beforehand.

Creative workforce cannot be led in similar ways as other workforce, since creative people evidence a strong orientation towards autonomy and are motivated by achievement rather that power (Amabile et al., 1996; Mumford et al., 2002). Mumford et al. (2002) state that the leader of creative people cannot rely on position power, conformity pressure, and organizational commitment as vehicles for directing the work. Instead, technical and creative problem-solving skills are essential characteristics of the leader of creative people; they enable the leader to adequately represent the group, communicate effectively with group members, appraise the needs and concerns of followers, develop and mentor junior staff, and assess the implications of group members' interactions (Mumford et al., 2002). The probability of creative outcomes

in groups may be seen as being highest when leadership is democratic and collaborative, structure is organic rather than mechanistic, and groups are composed of individuals drawn from diverse fields or functional backgrounds (Woodman et al., 1993).

Powell (2007) also discusses the notion of a creative ego that complicates the interaction between a creative and a client: it seems that whenever clients attempt to control the creative process, friction would be evident between the creatives and the clients, with the creative "expert" ego seemingly under direct threat. In addition, creatives have the desire to create something new and different that leaves their own personal mark on whatever creative output they are working upon. It was also noted that aspects of previous life experiences before joining the employing creative organization, for example through similar education and career experiences, often lead to common ways of thinking among some of the creative employees, and this impacts the way they identify with one another (Powell, 2007).

A key element in creativity is an intrinsic motivational orientation (Woodman et al., 1993; Amabile et al., 1996), that is, employees are motivated by the interest, enjoyment, satisfaction, and challenge of the work itself. Mumford et al. (2002) state that in the case of creative people, leaders need not enhance motivation, since creative people are typically highly motivated. In addition, the question of whether individuals have the motivation, understanding, capability, and opportunity to interpret their environment to achieve creative outcomes requires an examination of the link between developing assimilated information into knowledge and adding it as an integral part of their daily routine: if individuals turn their attention toward the further development of information that has little impact, the learning will not be beneficial to the organization and may frustrate the creative employees (Crossan et al., 1999). Moreover, motivational interventions such as evaluations and reward systems may adversely affect intrinsic motivation toward a creative task because they redirect attention away from the heuristic aspects of the creative task and toward the technical or rule-bound aspects of task performance (Woodman et al., 1993).

Individual creativity is a function of antecedent conditions, cognitive styles and abilities, personality, motivational factors, and knowledge; these individual factors are both influenced by and influence social and contextual factors (Woodman et al., 1993). In order for individual creativity to flourish, employees need to be in an environment which allows them to approach the solution from their own perspective (Andriopoulos and Gotsi, 2000). In order to enhance creativity, management needs to inspire employees with the belief that their work will greatly contribute to their clients' success and/or will significantly influence the overall way things are done in their industry. Furthermore, creative employees need to know that they operate in an environment where failure is not penalized, as long as the process and analytical methods are effectively applied (Andriopoulos & Gotsi, 2000). Figure 4 demonstrates an interactionist

model of organizational creativity, including factors affecting individual creativity and group creativity, leading to organizational creativity and creative outcomes.
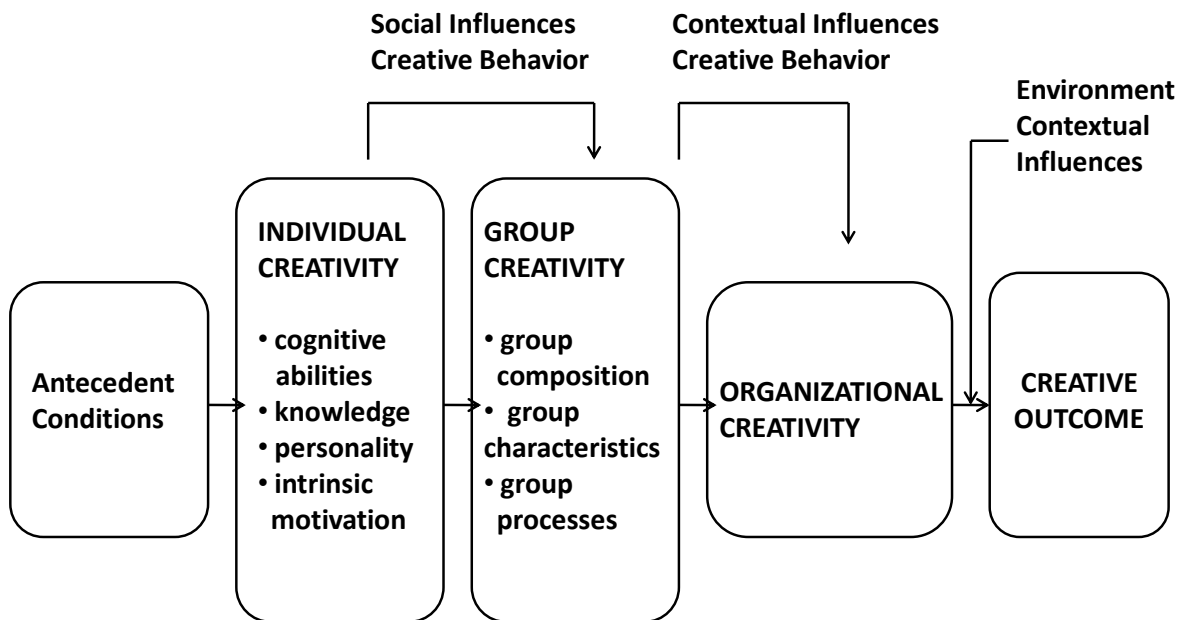
**Figure 4: A Model of Organizational Creativity (adapted from Woodman et al., 1993)**

In general, three sources of risk appear to influence creative work: that the generation of idea is not assured, that there is no assurance that a viable idea can be developed further, and that there is no assurance that a successfully developed product can be implemented fruitfully so that it will serve current market needs (Mumford et al., 2002). Organizational cultures vary in terms of the extent to which creativity is aspired and endorsed, and the extent to which there is socio-emotional support for creativity (Perry-Smith & Shalley, 2003). Woodman et al. (1993) suggest that creativity for individuals and organizations represents a dramatic aspect of organizational change that may provide a key to understanding change phenomena and, ultimately, a key to organizational effectiveness and survival.

Firms permanently operating in unstable environments possess a high capacity to develop creative and innovative intellectual capital. Völpel (2002) states that intellectual capital is created by individuals who have access to strategically relevant information, who are distinguished from the common body of

intellectual capital of the organization, and who are motivated to distribute the divergent information in the organization. Since the strategic imagination must be an organization-wide imagination, the intellectual capital creation process must not only stimulate the individual's imagination; it should also enable the transformation of the individual imagination into something that is shared. Meaning and individual imagination are communicated and shared in conversations through storytelling; this storytelling is recognized as a crucial communication challenge in strategy development (Völpel, 2002).

## 2.5 KNOWLEDGE AND LEARNING

When examining the creation of a competitive advantage within the creative industry, it is necessary to incorporate research on organizational learning and knowledge for two reasons. First, since employee know-how is a key resource of a creative organization (Andriopoulos & Gotsi, 2000), it makes sense that the organization should strive to actively capitalize on this resource. Second, superior performance of a firm is likely to be contingent of access to specialized knowledge (Grant, 1996).

In this subchapter, I will first briefly discuss the knowledge-based view of the firm, and the firm as a knowledge system. Second, I will concentrate on organizational learning as a subset of organizational knowledge generation. Third, I will discuss the concept of absorptive capacity as an organizational capability that can be applied in capitalizing on external learning to achieve improved performance.

The knowledge-based view of the firm considers the firm as a set of knowledge assets with the purpose of deploying these assets to create value (Grant, 2008; Wikström & Normann, 1994). Knowledge, defined here broadly to include both explicit and tacit knowledge, is a valuable resource since types of knowledge are scarce, much of it is difficult to transfer, and complex forms of knowledge may be very difficult to replicate. Knowledge is created by firm employees, and the creation of knowledge occurs simultaneously with learning. Tacit know-how knowledge is more likely to result in advantages that are sustainable than explicit information (Dyer & Singh, 1998). Well-known learning mechanisms guide the evolution of dynamic capabilities and underlie path dependence (Eisenhardt & Martin, 2000). Also, the competitive consequences of learning by one organization depend on learning by other organizations (March, 1991).

A firm's knowledge processes should be managed so that they can increase competitive advantage (Wikström & Normann, 1994; Liebeskind, 1996). Knowledge processes operate continually in firms alongside with other activities, and by identifying the role of these processes the firm can be seen as a knowledge system. As a knowledge system, a firm that can absorb, develop and apply new knowledge quickly and efficiently has the potential for success (Cohen & Levinthal, 1990; Wikström & Normann, 1994; Narver & Slater, 1995). The ultimate goal of the firm as a knowledge system is to develop knowledge in

continually profitable manifestations and representations (Wikström & Normann, 1994). The success of the system is determined by the way the knowledge it processes and produces is received by the firm's customers. If the knowledge contributes greatly to the customer's own value-creating process, it will have a high value for potential customers (Wikström & Normann, 1994; Woodruff, 1997). Moreover, long-term performance is likely to be the conditional upon the learning skills of the organization (Matthyssens & Vandenbempt, 1998). Teece et al. (1997) argue that a firm's previous investments and actions, i.e. its history, constrain its future behavior; many investments are much longer term than what is generally thought. Therefore, organizational learning opportunities will be closely linked to previous activities, and will be transaction and production specific. If many aspects of a firm's learning environment change concurrently, then the needed cognitive structures will not be formed, and rates of learning decrease in result.

A firm's knowledge is embedded in its established knowledge-processing systems and its organizational structure (Lane & Lubatkin, 1998). Consequently, the firm's dominant logic determines how it applies and commercializes knowledge. Since a firms' strategy depends on understanding changes in the firm's environment, processing and rationalizing information from both internal and external sources is critical to strategic capabilities (Dawson, 2000).

Liebeskind (1996) states that the fact that resources and capabilities are distributed asymmetrically across firms may be attributed not only to luck, success in search, history, or inherent causal ambiguity; but also due to the fact that some firms are able to protect their knowledge from expropriation or imitation more effectively than other firms. Unlike most tangible assets, knowledge is inherently mobile, because it resides in the heads of individuals; therefore, knowledge can only be rendered immobile by deliberate actions. Thus the argument that rents derive first and foremost from the knowledge of a firm is pivotally dependent on the assumption that a firm can protect its knowledge from imitation by its competitors. Attachment mechanisms are particularly important for the firm to ensure that highly skilled employees who possess valuable knowledge do not leave the firm and go to work for a rival. Also, disaggregation of tasks is a common feature of many firms that possess highly valuable knowledge (Liebeskind, 1996).

Grant (1996) suggests that resource and capability-based competitive advantage is likely to derive from superior access to and integration of specialized knowledge. This notion is particularly valid within creative industries, since employee know-how is a vital success factor (Andrioupoulos & Gotsi, 2000). Value creation requires a wide selection of knowledge, usually assimilated through combining the specialized knowledge of a number of individuals. An individual's ability to integrate knowledge is constrained by cognitive limits; hence the integration of knowledge is a primary target of the firm. If knowledge integration is the basis for competitive advantage of a firm, the characteristics of knowledge integration associated with creating and

sustaining such an advantage are the efficiency of integration, meaning the extent to which the specialist knowledge of individual organization members is utilized; the scope of integration, i.e. the breadth of the knowledge drawn upon; and the flexibility of integration, concerning the additional knowledge that can be accessed, and the existing knowledge that can be reconfigured (Grant, 1996).

## 2.5.1 ORGANIZATIONAL LEARNING

Fiol and Lyles (1985) define organizational learning as the process of improving actions through better knowledge and understanding, concerning with how the organization adjusts to its changing environment. It results in associations, cognitive systems, and memories that are developed and shared by members of the organization. Four contextual factors that support and enable organizational learning are appropriate organizational culture (Barney, 1986; Narver & Slater, 1995), strategy that allows flexibility, a loose enough organizational structure that allows innovations and new insights (Narver & Slater, 1995), and the environment. Figure 5 illustrates the learning organization, in which the characteristics of the culture and the climate of the organization affect organizational learning, moderated by the challenging external environment. Organizational learning, in turn, leads to customer satisfaction and new product success, ultimately resulting in sales growth and enhanced profitability.
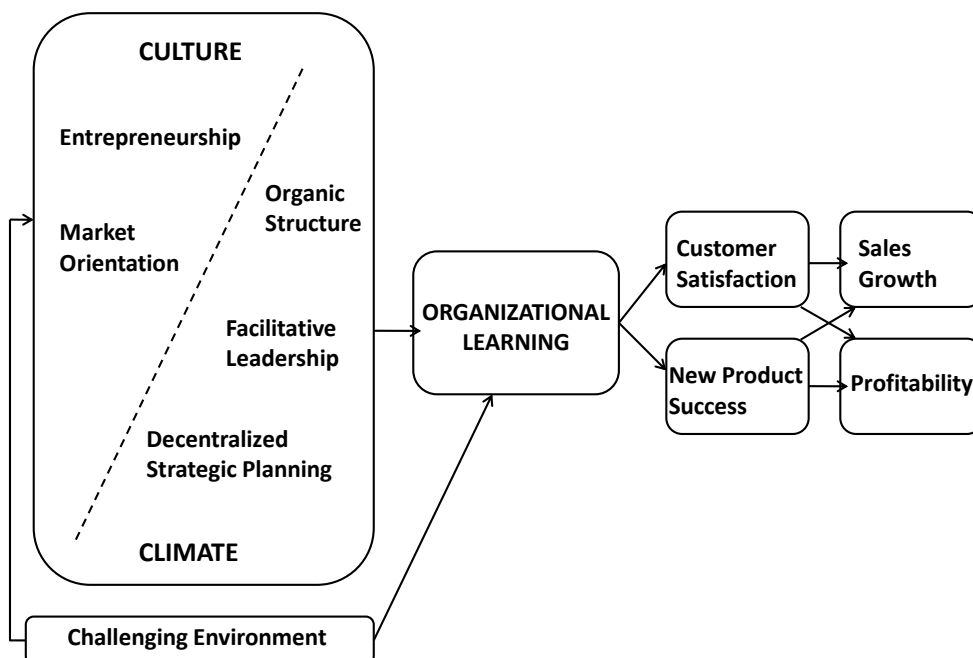


**Figure 5: The Learning Organization (adapted from Narver & Slater, 1995)**

Levitt and March (1988) explain that organizational learning is built on three behavioral observations: that organizational behavior is based on routines, that organizational actions are history-dependent, and that organizations are target-oriented. Within that framework, an organization is seen as learning by transferring historical observations into behavior-guiding routines. Organizational learning is a dynamic process aimed at strategic renewal, occurring over time and across levels of the organization (Crossan et al., 1999). March (1991) argues that organizational learning involves a tension between assimilating new knowledge (exploration) and capitalizing on existing knowledge (exploitation). Few organizational routines are stand-alone: a change in one set of organizational routines often requires a change in some other part (Teece et al., 1997).

The two types of learning that occur within an organization are adaptive (lower-level) learning and generative (higher-level) learning (Narver & Slater, 1995; Fiol & Lyles, 1985). Adaptive learning, the most basic form of learning, occurs within the existing organizational boundaries, whereas generative learning emerges when an organization questions its underlying assumptions and aims at developing a new way of looking at the world. Thus, generative learning is more likely to lead to competitive advantage than adaptive learning. This competitive advantage can only be sustained through heavy investments in continuous improvements in the learning processes (Narver & Slater, 1995). Furthermore, organizational learning focuses on understanding and satisfying customer needs through new innovations and novel ways of doing business (Narver & Slater, 1995; Woodruff, 1997), which in turn leads to performance improvements. Creative organizations, in essence, produce novel and innovative ideas (Amabile et al., 1996); this contributes to the vitality of organizational learning in the creative industry.

Crossan et al. (1999) present a framework for the process of multi-level organizational learning, the levels being individual, group, and organization. These three levels are linked by the social and psychological subprocesses of intuiting, interpreting, integrating, and institutionalizing. Intuiting, i.e. recognizing a pattern or a possibility, occurs at the individual level. In the interpreting process, these intuitive insights are refined and developed, at both individual and group level. Language plays a key role in this process as insights become more sophisticated and concrete. Integrating involves the development of shared understanding and the taking of coordinated action by members of a workgroup. This process, occurring in the group and the organizational level, is an informal one; if the coordinated action-taking is recurring and substantial, it will be institutionalized. The institutionalizing process ensures, through formal rules and procedures, that routinized actions occur. It includes systems, structures, procedures, and strategy.

Zollo and Winter (2002) suggest three learning mechanisms that enable the systematical development of the understanding of the causal linkages between the actions it takes and the performance outcomes it obtains, titled experience accumulation, knowledge articulation, and knowledge codification. Experience accumulation refers to the central learning process by which organizational routines develop. Knowledge articulation occurs through collective discussions, debriefing sessions, and performance evaluation processes, leading to an improved level of understanding of the causal mechanisms between skills required for completing a task and the achieved performance outcomes. Knowledge codification refers to the codification of the knowledge articulated; they can be codified in the form of manuals, blueprints etc. The evolution of organizational knowledge appears to be cyclical and dynamic.

## 2.5.2 ABSORPTIVE CAPACITY

Scholars suggest that the key capability in an organization relies on the learning skills of both individual employees and the organization itself (Matthyssens & Vandenbempt, 1998; Cohen & Levinthal, 1990). Narver and Slater (1995) argue that all firms that compete in dynamic environments, such as those in the creative industries, should emphasize the role of learning processes in performance improvement. Moreover, the ability to exploit external knowledge is a critical component of innovative capabilities (Cohen & Levinthal, 1990; Dyer & Singh, 1998). Vorhies and Morgan (2005) also suggest that market-based learning should include learning from competitors and peers. Narver and Slater (1995) agree, arguing that a vital dimension of a learning organization's architecture is its openness to learning from external sources such as customers, distributors, suppliers, alliance partners, and universities. Also, Cohen & Levithal (1990) argue that investment in individual learning and pressures for new production innovation may become stockpiled and futile if the organization has limited capacity to absorb what has been learned.

Thus it seems necessary to further investigate the notion of learning from sources outside the focal organization. As a contribution to the academic discussion, Cohen and Levithal (1990) present the concept of absorptive capacity. An absorptive capacity is the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends to produce a dynamic organizational capability (Cohen & Levinthal, 1990; Dyer & Singh, 1998; Zahra & George, 2002). Absorptive capacity, a set of knowledge-based capabilities, is deeply embedded within the firm's routines and strategic processes. Most empirical studies show significant relationships between absorptive capacities and innovative output and other outcomes that pertain to creating a competitive advantage (Zahra & George, 2002). The premise of the notion of absorptive capacity is that an organization needs prior related knowledge to assimilate and use new knowledge (Cohen & Levinthal, 1990). Organizations with higher levels of absorptive capacity will tend to be more proactive, exploiting opportunities present in the environment, independent of current

performance. Crucial antecedents to the absorptive capacity of an organization include related problem-solving capabilities, a diverse educational and work experience, and the absorptive capacities of its individual members (Cohen & Levinthal, 1990). A diverse background provides a more robust basis for learning because it increases the prospect that incoming information will relate to what is already known. Cohen and Levithal (1990) also suggest that in an uncertain environment, absorptive capacity affects expectation formation, permitting the firm to predict more accurately the nature and commercial potential of technological advances.

Furthermore, Zahra and George (2002) present the concepts of potential and realized absorptive capacities. Potential capacity comprises knowledge acquisition and assimilation capabilities; realized capacity centers on knowledge transformation and exploitation, the primary sources of performance improvements. Acquisition refers to a firm's capability to identify and acquire externally generated knowledge that is critical to its operations. Assimilation refers to the firm's routines and processes that allow it to analyze, process, interpret and understand the information obtained from external sources. Transformation concerns a firm's capability to develop and refine the routines that facilitate combining existing knowledge and the newly acquired and assimilated knowledge; this is accomplished by adding or deleting knowledge or simply by interpreting the same knowledge in a different manner. Exploitation is based on the routines that allow firms to refine, extend, and leverage existing competencies or to create new ones by incorporating acquired and transformed knowledge into its operations (Zahra & George, 2002).

By directing knowledge search areas, past experience influences the development of future knowledge acquisition capabilities (Zahra & George, 2002). Moreover, well developed knowledge acquisition and assimilation routines help firms track changes in their industries more effectively and therefore facilitate the deployment of necessary capabilities at the opportune moment. The ability to leverage the organizational absorptive capacity assures its position as a key capability for the creation of competitive advantage.

## 2.6 THE PRACTICE PERSPECTIVE ON STRATEGY

In this section, I will briefly discuss the emergent strategy-as-practice approach and its origins, as well as the concept of practices and the practice turn in social theory in general. I will also present the notion that the strategy-as-practice approach can be seen as an advancement of the resource-based view of the firm, with substantial opportunities for practical implication.

## 2.6.1 DEFINITION AND ORIGINS

During the course of the last two decades, scholars (e.g. Whittington, 1996, 2003; Jarzabkowski, 2003; Johnson et al., 2003) have begun to recognize that the abstract nature of RBV, as well as the abstract nature of other fields of strategy content research, reduces its applicability in real-life settings. Few studies on RBV have been able to provide more than statistical associations between some measures of firm disposition and overall financial performance (Ambrosini et al., 2007). The criticism has contributed to the emergence of strategy-as-practice (s-as-p), a research agenda focusing on strategy as a social practice with significant effects within contemporary advanced societies (Whittington et al., 2003). S-as-p provides insights beyond studying organizational processes and embeds strategizing activities in the wider practices of societies (Jarzabkowski & Spee, 2009).

The intellectual orientation of the s-as-p approach stems from Ancient Greece, the Aristotelian concept of practical wisdom (Whittington, 2003). Tsoukas and Cummings (1997) state that Aristotle considered practical wisdom, as opposed to scientific knowledge and craft knowledge, the highest intellectual virtue of human beings; it involves knowing the right values and being able to put them into practice in concrete situations. It is essential to have practical wisdom because practical matters change over time, they are inherently ambiguous, and since moral decisions are, by nature, ungeneralizable. Furthermore, a key concept of Aristotle's thinking was a teleological understanding of the world; individuals and objects are primarily defined by their characteristic purposes, or the roles they are expected to fulfill. A teleological understanding of human beings conceives of them not as ahistorical selves or abstract individuals, but as persons defined by their social, cultural, and historical circumstances (Tsoukas & Cummings, 1997).

Jarzabkowski and Spee (2009) state that s-as-p is motivated by the absence of human actors and their actions in most strategy theories; also, those studies that do incorporate individuals focus primarily on top managers. The s-as-p field is characterized by a focus shift of strategy research to a close examination of the micro-processes, practices, and activities that have been previously overlooked in strategy research (Chia & MacKay, 2007). Strategy is seen as a situated, socially accomplished activity (Whittington, 2007), with an interest in how the practitioners of strategy really act and interact (Whittington, 1996). In essence, strategy-as-practice scholars concentrate on the day-to-day activities of actors and on how these actors and their activities interact with context (Chia & MacKay, 2007). The practice perspective on strategy shifts concern from the core competence of the firm to the practical competence of the manager as a strategist (Whittington, 1996). Studies indicate that in addition to the top management team, middle managers and lower-level employees are also strategic actors; given that they typically lack a formal strategy role, practice research has focused upon the social, interpretative, linguistic, and personal knowledge bases through which they shape strategy (Jarzabkowski et al., 2007). In order to organize the main research topics of the

s-as-p approach, Whittington (2007) presents a '4 Ps' framework of praxis, practices, practitioners, and profession. Practitioners can be defined as those people who do the work of strategy, referring to both those directly involved in making strategy, and those with indirect influence who shape legitimate praxis and practices. Practitioners shape strategic activity through who they are, how they act, and what practices they draw upon in that action (Jarzabkowski et al., 2007). Praxis refers to the flow of activities through which strategy is accomplished, i.e. the sheer labor of strategy (Jarzabkowski & Whittington, 2008; Jarzabkowski & Spee, 2009). The P of profession underlines the importance of strategy as a specialized institutional field (Whittington, 2007).

## 2.6.2 PRACTICES

At the heart of the strategy-as-practice approach lie practices, a complex bundle involving social, material, and embodied ways of doing that are interrelated and not always articulated or conscious to the actor involved in doing (Jarzabkowski & Spee, 2009). Schatzki (2006) defines practices as spatial-temporal manifolds of action with two basic components: action and structure. The structure of practice embraces four phenomena; practical understandings, rules, teleological-affective structuring, and general understandings. Additionally, in order for an understanding to organize a practice, all participants need not possess the understanding; it is enough if particular groups of participants do so (Schatzki, 2006). Jarzabkowski and Spee (2009) state that identifying practices is problematic, given that they are entangled and interrelated elements of activity; therefore it is hard to separate one particular practice from the interwoven fabric of practices. Practices are concerned with both what is done, and how it is done (Whittington, 2006).

Reckwitz (2002) considers practices from the viewpoint of social and cultural theory, treating practices as routinized ways in which bodies are moved, objects are handled, subjects are treated, things are described, and the world is understood. Accordingly, things do not appear as free-standing objects that are purposefully utilized, but as an assortment of equipmental extensions of one's own body, available to use in a certain context (Chia & Holt, 2006). Practices are essentially non-invidualist phenomena (Schatzki, 2005). In practice theory, a subcategory of cultural theory, a social practice contains specific forms of knowledge; this knowledge embraces ways of understanding, knowing how, and ways of wanting and feeling that are linked to each other within a practice. The knowledge of a social practice is a particular way of understanding the world; it is largely implicit and historically-culturally specific; a collective, shared knowledge (Reckwitz, 2002). According to Samra-Fredericks (2003), whilst knowledge, experience, and know-how may provide for potential political and cultural advantage, without the ability to express it appropriately and at the right time during interaction, it can be rendered useless. In addition, Reckwitz

(2002) argues that the nature of social structure consists in routinization; social practices are, in essence, routines. This notion of routines necessarily implies the idea of a temporality of structure: routinized social practices occur in the sequence of time, repetitively; thus social order is fundamentally social reproduction (Reckwitz, 2002). Practices are passed on by society through individuals even without necessarily passing through consciousness (Lau, 2004; Chia & MacKay, 2007). This observation of the internal logic of practice is in line with Heidegger's (1962) notion of dwelling, or "being-in-the-world"; a state where we are so intimately involved with the world that, instead of perceiving it as an object, we perceive it as an extension to us (Chia, 2004). Furthermore, following the Heideggerian logic, Chia and Holt (2006) suggest that agent identities and their strategies are co-constructed relationally through direct engagement with the world; thus practical actions precede strategic intent.

The logic of practice is closely linked with habitus, conceptualized as a practical sense evolving from experience (Lau, 2004); a bundle of unconscious predispositions that orchestrates actions (Chia, 2004; Chia & Holt, 2006). Lau (2004) presents three inter-linked components for habitus: belief-premises, perception and appreciation or understanding, and a descriptive and prescriptive practical sense of objective possibilities. Schatzki (2005) states that people acquire habitus by learning to carry on the practices that emerge in a given field under the reigning socioeconomic conditions; once acquired, habitus generates actions, and assigns meanings to these actions. Chia and MacKay (2007) argue that methodological individualism, which aims at explaining social phenomena solely in terms of actor motivations and intentions, is overemphasized in some strategy-as-practice research; instead, the schemata of action, i.e. habitus, should be seen as the main determinant of everyday coping action. This kind of practical intelligence is defined by an absence of a proper locus of agency; individuality is interpreted as a secondary effect of primary practice. Moreover, within the practice turn of social theory, the concept of practical holism rejects the predominance of mentalism, cognitivism, or even intentionality in engaging with the daily affairs of the world; according to this practice view, there is no need to have recourse to beliefs, values, and abstract principles in order to explain social behavior and practice. As such, this often unconscious knowing in practice is a more ancient and primitive form of practical engagement than the detached, abstractive form of knowing associated with mental cognition (Chia & MacKay, 2007). Furthermore, Chia and Holt (2006) argue that since habitus provides an overall pattern of consistency of action, strategy is immanent in practical coping action; thus strategy-in-action takes place without the need of strategic planning.

The practice turn in contemporary social theory aims to bridge the gap between the individualist view of overemphasizing individual human actors over macro phenomena, and the societist preoccupation with large social forces, neglecting the micro phenomena (Schatzki, 2005; Whittington, 2006). Society is a core

theme of practice theory; it fundamentally is the society that defines the shared understandings, cultural rules, languages, and procedures that guide human activity (Whittington, 2006). Accordingly, strategy practitioners draw upon the set of practices available from their organizational and extra-organizational contexts (i.e. societies) while formulating a strategy; the outcomes affect not only the focal organization, but societies in general (Whittington, 2006). In addition, Schatzki (2005) argues that practices provide a deep dimension of commonality into social life; this type of commonality grounds social life and enables its very existence.

Quintessentially, the practice perspective on strategizing and organizing is concerned with finding out what strategists' and organizers' jobs really are (Whittington, 2003). Consequently, Whittington (2003) points out that the notion of practice can be seen as an appreciation of the skills by which people make do with the resources they have in their everyday lives. The practice perspective is interested in situated, concrete activity (Whittington, 2003; Chia & MacKay, 2007). Jarzabkowski (2003) affirms that shared activity is practical; it is conducted with an outcome in mind. Practical activity is comprised of a series of actions but it is a more historically situated and collective notion than any single action. Activity theory suggests that interaction arises through the technical and psychological tools that actors use to engage with their environments; the use of such tools is practical, being oriented towards constructing activity. Jarzabkowski et al. (2007) suggest that activity is concerned strategic to the extent that it is significant to the strategic outcomes and the competitive advantage of the firm, even when these consequences are not part of an intended and formally articulated strategy. The use of practices is intrinsically connected to doing because practices provide the behavioral, cognitive, procedural, discursive and physical resources through which multiple actors are able to interact in order to socially accomplish collective activity (Jarzabkowski et al., 2007). Practices, similar to strategy-making, are not always directly attributable to individual intentions and purposes, yet they are influenced by materially acquired predispositions (Chia & MacKay, 2007). According to Tsoukas and Cummings (1997), management is a political process; that is, when decisions are made, and actions are taken, they have emerged as a result of the practical reasoning of the actors who have been involved in them, instead of being caused by technology, environment, or society. In the social domain in general, and in organizations in particular, uncertainty, ambiguity, and politics must go together.

### 2.6.3 EXTENDING THE RESOURCE-BASED VIEW

The strategy-as-practice approach can even be seen as a much required extension of the resource-based view (Balogun et al., 2003; Ambrosini et al., 2007; Johnson et al., 2003). Balogun et al. (2003) consider the resource-based view of the firm, even if not necessarily valid in empirical settings, important in the sense that it leads to the conclusion that strategic advantage is most often found in embedded, idiosyncratic

routines and behaviors. Ambrosini et al. (2007) state that as a distinction is made between resources and capabilities, resources are usually seen as inputs into the production process, and capabilities as the processes by which the resources are utilized; in that sense, activities can be seen as capabilities. Activities are a substantial source of value creation since several resources that will match Barney's (1991) criteria of value, rarity, inimitability, and nonsubstitutability, can be described as activities (Ambrosini et al., 2007).

Johnson et al. (2003) argue that resources are becoming increasingly tradable and the threat of strategic imitation is rising; from a resource-based view, the consequences are that the foundations of competitive advantage are rendered unstable. In these fluid resource markets, competitive advantage must lie in the micro assets that are hard to discern and to trade. Moreover, macro research on the resource-based view suffers from its broad categorization; there is virtually no discrimination between those resources that managers can practically manipulate and those beyond managerial control. Johnson et al. (2003) believe that RBV will advance as it shifts towards a micro-perspective capable of capturing both details and activity, and as RBV scholars apprehend that the value of a resource depends not on its existence but on its capitalization; at the end of the day, it is the practices and activities within the firm that constitute the sustainability of competitive advantage, and the identification of and building upon unique organizational assets and skills. In addition, Jarzabkowski and Spee (2009) state that strategy-as-practice has been proposed as a means of furthering the research on social complexity and causal ambiguity in the resource-based view.

## 2.7 THEORETICAL FRAMEWORK

In this subchapter I present the theoretical framework for this study, as illustrated in Figure 6. It combines the previously discussed elements from relevant literature. That includes the pivotal internal and external elements of establishing an organization's competitive advantage in the creative industry.
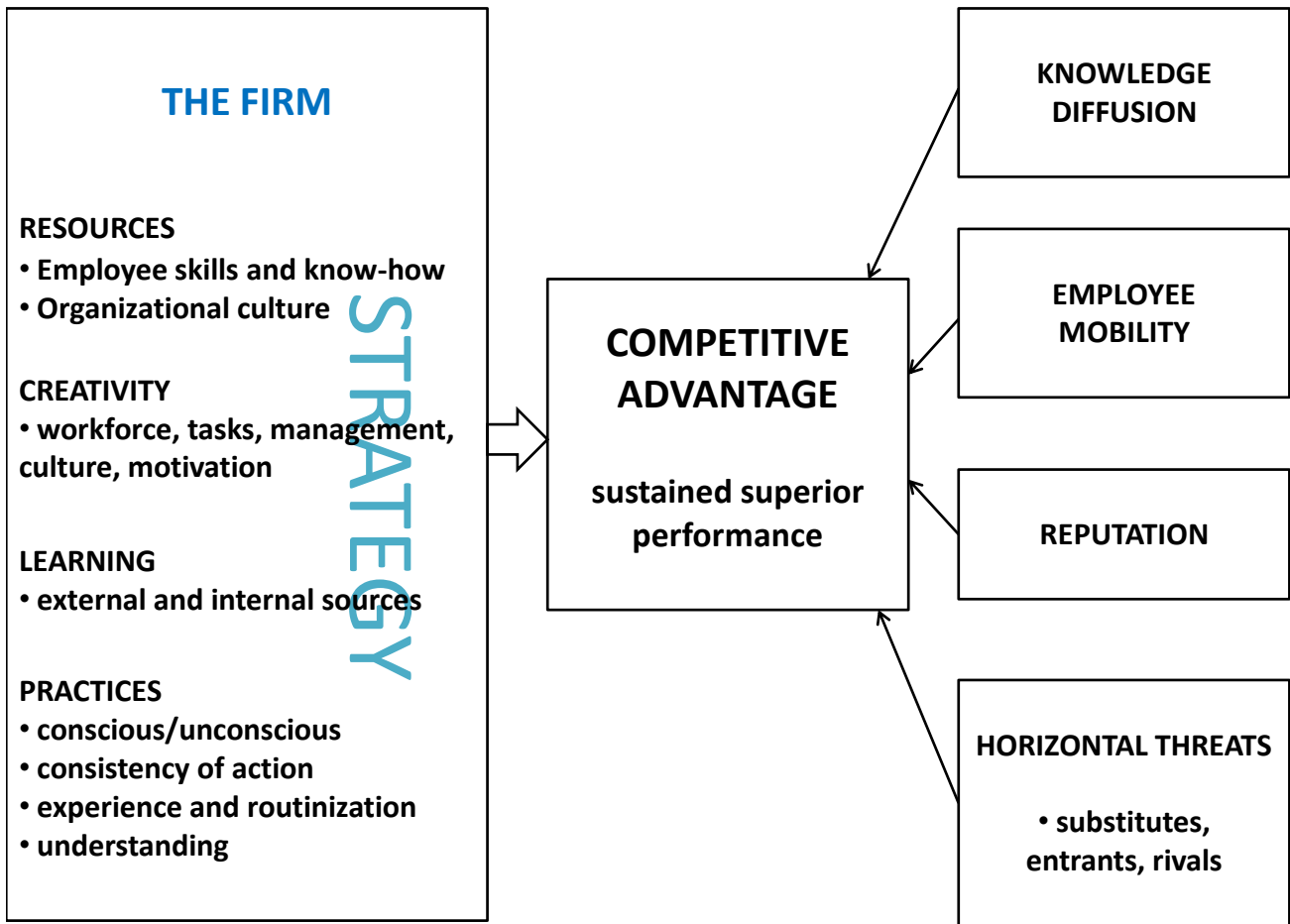
**Figure 6: Theoretical Framework**

The framework presents the study's main areas of interest: competitive advantage, the internal environment of the firm, the mobility of knowledge and workforce, corporate reputation, and horizontal forces that shape the firm's competitive positioning. Strategy formulation is in compliance with the firm's resource and asset base.

The internal environment of the firm lies at the very heart of the framework, dictating the strategy formulation and execution of the firm. The key resources of a creative organization, namely concerning employee skills and know-how, and organizational culture, are present. Also, the major industry-specific internal factors, i.e. learning and creativity, are highlighted. Practices concern how work is actually done within the organization. Employee skills and know-how include expertise, experience and multidisciplinarity, which are vital in the creative industry.

Substantial capabilities within the creative industry are organizational learning and creativity. Learning, both individual and organizational, comprises learning from sources both internal and external to the organization. Internal learning occurs through explicit and tacit knowledge sharing in the form of discussions, manuals, guidebooks, and training. External learning includes learning from customers, distributors, suppliers, alliance partners, and universities, as well as learning from competitors.

Creativity affects firm performance not only through superior outcomes, but also by contributing to the corporate identity and brand building, and corporate reputation. Creative workforce can be seen as a group of creative individuals, with an intrinsic motivational orientation, and strong task orientation, and who are constantly craving individual achievement. Employees' individual creativity can be best capitalized on when their tasks are novel and challenging, and when these tasks include idea generation and problem solving. Creativity is enhanced by proper management practices and characteristics. These include the leader's skills and knowledge that enable the leader to be an adequate representative of the creative group, effective communication, mentoring junior staff, appraising employee needs, and convincing employees that their work makes a difference to the client and in a broader scope within the entire industry. In addition, leadership should be democratic and collaborative. Organizational culture needs to provide workers with socio-emotional support for creativity through permitting and encouraging open communication, allowing failure, and enhancing freedom and autonomy. Moreover, the organization must provide the workforce with sufficient resources. All in all, in creative organizations the organizational structure is organic rather than mechanistic.

Whereas most of the previously discussed elements of the firm and its strategy are constrained by a high degree of abstraction and thus are not subject to comprehensive empirical analysis, practices are concrete factors of a firm's strategy and its execution, occurring on a daily basis. Practices concern not only what is done in the organization, but, more notably, how it is done. Since practices, in essence, embrace how the world is understood, they are not necessarily conscious activities, and therefore are not concerned with an individual's mental cognition. Intrinsically connected by doing, practices are formulated through experience and comprise historically and culturally specific routinized activities. Practices involve an overall pattern of consistency of action; therefore strategy is immanent in practical coping action, which allows strategy to emerge without formal planning. Practices can be seen as firm-specific capabilities; sources of value creation that are hard to discern and to trade, thus contributing fundamentally to the creation of sustained competitive advantage.

These internal characteristics of the organization contribute to strategy formulation and analysis. Over time, the firm's resource base will erode and decay. Therefore reinvestments must be made in capability

development; in this context capability development mostly concerns enhancing individual and organizational learning and creativity.

The framework also presents the concern for employee mobility and knowledge diffusion. Since employee skills and capabilities are the basis of the competitive advantage in the creative industry, employee mobility and knowledge diffusion are closely interlinked and have a substantial influence on firm performance. Because creative workforce experiences a strong sense of individual achievement and creative self-efficacy, as well as identifying more with the projects they are currently working on rather than the employing creative organization, employee mobility within the industry is high. In order to prevent knowledge diffusion, firms should focus on ensuring the retention of those employees who possess valuable knowledge, and on disaggregating tasks.

The external environment provides the firm with horizontal threats in the form of substitutes, entrants, and rivals. The threat of entrants can be reduced by barriers of entry, a fundamental prerequisite of market power. As the price of advertising increases, firms can substitute into other promotional activities. Substitutes that deserve the most attention strategically are those that are subject to trends improving their price-performance trade-off with the industry's product or are produced by industries earning high profits. The competitive pressure of rivals in the creative industry is affected by the large number of competitors that are roughly equal in size and power, and by slow industry growth.

A reputation for innovation and creativity is crucial in the advertising industry, since advertising agencies rarely engage in formal marketing communication activities in order to manage their corporate brand. Positive reputation of a firm among its pool of customers and suppliers enhances firm credibility. Reputation can be viewed as a summary of the firm's current assets and position, and its likely future behavior, in the eyes of its stakeholders. Media has a particular role in communicating an advertising agency's corporate reputation. Reputation stems from perceived organizational creativity, must be built from scratch, takes time to create, and can be damaged easily.

# 3 METHODOLOGY

In this chapter, I will first briefly discuss the qualitative case study research method used for the empirical study. Second, I will explain the data collection phase of the study. Third, I will describe the data analysis methods used in this framework.

## 3.1 QUALITATIVE CASE STUDY RESEARCH

I concluded that a qualitative case study approach would be the most suitable for the research, allowing the researcher to focus on a single organization in significant depth. The case study is a research strategy that aims at understanding the dynamics present within single settings (Eisenhardt, 1989), hence convenient for focusing on the research question in practice. A case study focuses on a contemporary phenomenon within its real-life context; thus it is a suitable method for studying complex social phenomena (Yin, 1994); a case is, essentially, a description (Bonoma, 1985). According to Stake (1995), the dominant logic behind case study research is that a case is not studied primarily to understand other cases; the first obligation is to understand the one case.

Strauss and Corbin (1990) state that qualitative research, defined as research that produces findings not arrived at by statistical procedures or other means of quantification, is particularly useful when studying phenomena such as thought processes and perceptions that are difficult to grasp through more conventional research methods. Moreover, the qualitative research interview attempts to understand the world from the subjects' point of view, to unfold the meaning of people's experiences (Kvale, 1996).

## 3.2 DATA COLLECTION

### 3.2.1 THE CASE COMPANY

The organization chosen for the case study is a medium-sized privately-owned advertising agency located in the center of Helsinki. It currently employs 35 people. Helsinki city center is dense in the number of creative organizations, also providing the necessary services and cultural influence and inspiration. Moreover, the case study organization is located in the area known as the Design District of Helsinki.

The organization was founded in the early 00's. It experienced significant growth during its first few years, and since then the number or personnel has remained approximately the same. Unlike most Finnish advertising agencies, the firm managed to avoid redundancies during the recession period of 2009, despite

the declining revenues. In addition, during its life span, the firm has continuously gained new accounts in spite of the industry turbulence. The employee turnover has also been relatively low compared to the high industry average.

In addition to its apparent success in the industry, I chose the particular organization as the focal one since I know it relatively well, having previously worked there. My prior work experience within the organization also enables the use of ethnography as a contribution to data collection. I wrote down some of my own experiences and observations about the organization, and interpreted these findings through the lens of the research problem.

### 3.2.2 INTERVIEWS

In order to understand the creation of a competitive advantage in the advertising agency, I decided to focus my research on the main element and building block of competitive advantage in the industry, the creative workforce of the organization. I conducted six semi-structured interviews with the creative personnel of the case study organization. Three of the interviewees were art directors (AD's) and three of them were copywriters. One AD interviewed had less than 10 years of experience in the advertising industry, while the other five interviewees had more than 15 years' experience within the industry. The interviewees were chosen for their substantial role in the creative process, as well as their extensive experience in the industry. In addition, each had worked in the case study organization for several years.

The interviews lasted approximately one hour each, ranging from 50 minutes to 75 minutes. The interviews were recorded on tape. Naturally, the informant's permission was asked; the permission was granted for each interview. All interviews were conducted in the firm premises, the office being the bonding site and a familiar and mutual ground for myself and the informants. Confidentiality and anonymity were assured, and the interviews were relaxed and informal, or as an interviewee expressed, "*like a chat with an old friend*".

The aim of the interviews was to gain an understanding of the creatives' everyday work practices. It included untangling the intrinsic motivational factors, routines evolved from past experience, the role of learning and self-development, interaction and rapport with clients and colleagues, their perceptions of the employing organization, and constant balancing between creative artistry and heavily constrained assignments. It also involved reflective retrospection due to the extensive career span of the interviewees.

The interviews were loosely based on a frame that evolved during the data collection process. The insights of the interviewees guided the interviews and assured that the informants' voices were indeed heard. In

addition, the creatives intuitively introduced new topics of discussion that enriched the data gathered. The looseness of the frame allowed the interviewees to reflect on the areas of their own work they considered to be the most important. The areas covered in each interview included the informants' personal history, job description, everyday routines, relationships with clients and colleagues, creativity and idea generation, the role of experience, job requirements, execution, and thoughts on the industry and creative work in general. The interviewees provided a multitude of examples and stories that enriched the discussion.

## 3.3 DATA ANALYSIS METHODS

Miles (1979) argues that the actual process of analyzing a case is intuitive and unmanageable; even when certain "rules of thumb" are used, the researcher might fail to believe that anyone else would reach the same conclusions. Afraid of falling into the same trap, I initially transcribed the interviews carefully word by word. I structured these transcriptions individually, first using bullet points, and then assembling them into analytical categories. Then I began to look for common themes and denominators, which emerged quite organically from the multitude of interviews.

Interpreting any data, qualitative data in particular, is subjective by definition. The theoretical perspective of my data analysis drew from hermeneutics. It appeared to be a feasible approach for such qualitative data with a subjective nature, and a researcher who is perceived, to some extent, as an insider (Lacity & Janson, 1994). Hermeneutics also asks the researcher to engage in a process on self-reflection (Laverty, 2003) that suited my historical position and stance regarding the case study organization.

Hermeneutics, originated as science of interpretation of sacred texts, can be conceived in two ways; it can be regarded as the philosophy of understanding, and as the science of interpreting text (Wiklund et al., 2002; Laverty, 2003). It prescribes that in order to understand data, an interpreter must live with it (Lacity & Janson, 1994); that is, in order to become as free as possible from bias, the interpreter must immerse themselves in the data.

My data analysis was mainly based on Heideggerian hermeneutics (Laverty, 2003), concerned with the life world of human experience as it is lived, with a goal of creating meaning and achieving a sense of understanding. According to Heidegger (1962), all understanding is dictated by a given set of historical preconceptions that cannot be eliminated; hence the interpreter must be aware and accountable for these history- and background-specific influences.

# 4 FINDINGS

In this chapter, I will present findings derived from the semi-structured interviews with creative personnel of the case company, and from my personal ethnographic observations. The findings, i.e. the features of the creatives' work that contribute to the creation of a competitive advantage, can be categorized using the following topics: 1) experience, 2) personality and motivation, 3) practices, 4) workplace, and 5) cooperation with clients. Next, these five emerged categories will be discussed further.

## 4.1 EXPERIENCE

*"The thing that I love about experience is that you learn to deal with misfortunes. Let's face it, it's only advertising. No one has died. "*

Experience was one of the key issues that emerged in the interviews, largely due to the fact that most informants were prominent creatives with extensive career spans. The interviewees saw their individual performance at the workplace as fundamentally history-dependent. In turn, these historical observations partly dictate the routines that guide organizational behavior (Levitt & March, 1988), and enable organizational learning and development.

The advertising industry has always allured young and fresh personnel, and thus success in this competitive environment has required a lot of hard work. Most creatives have been through "a school of hard knocks" in order to succeed in the industry. As one copywriter said:

*"The first few years of my career I worked in a small agency, mostly doing uninspiring b-2-b crap."*

Later, he added:

*"Experience means that after all the hard work I've done, I can appreciate working with professionals and interesting cases."*

Hence experience is closely linked with motivation, because the creatives' intrinsic motivation (Woodman et al 1993) stems, to a degree, from working their way up toward interesting accounts and more prominent agencies. None of the informants had a glorified view of the industry, knowing that success has been due to extensive amount of hard work. They also expressed a concern for the younger generation of creatives, and seemed to have a somewhat inherent will to advise and mentor young designers, and to

prevent the younger designers from repeating their own mistakes. In particular, thinking and working in too complicated a way is often associated with eager and inexperienced young creatives. One copywriter explained:

*"Sometimes I feel sorry for young designers who have to go through the whole 360 degrees in the planning process. I know, since I've been there myself."*

Such forms of tacit organizational learning as learning from mistakes and learning-by-doing proved to be significant aspects of succeeding in the industry. Since advertising is inherently practical, learning-by-doing seems to be a key to prominence. One copywriter described:

*"It took me about ten years to really understand what good advertising is all about."*

This logic of practical sense evolved from experience that dictates a creative's actions in the workplace complies with the notion of habitus (Lau, 2004; Chia, 2004), the determinant of everyday practical intelligence that is immanent in the creatives' work-related practices (Chia & MacKay, 2007).

In retrospect, it seemed easy for the interviewees to clarify where they went wrong in the earlier days of their careers. The need for personal recognition (Powell, 2007) sometimes clashed with the quality of the outcome. One AD puts it:

*"When I was younger, I was very protective of my own work, not wanting to show them to anyone until completed. That really isn't the right way of doing things."*

In addition, experience, along with the increase in a creative's practical wisdom (Tsoukas & Cummings, 1997), was perceived to be closely linked with personal growth. The interviewees stated that they had learned *"not to bang their heads against the wall"* and *"submit themselves and turn the other cheek"*. In essence, the creatives had learned tacitly from experience what to do and especially what not to do.

Interpreting clients gets easier through experience, and experienced creatives consider things from several points of view. The oversensitivity often associated with younger designers is also moderated through experience and through an increase in creative self-efficacy (Tierney & Farmer, 2002); the interviewees stated that they *"don't take feedback too personally anymore"*. Furthermore, along with gaining experience, the everyday practices of idea generation and presenting ideas become easier and more routinized through increased understanding (Dreyfus & Dreyfus, 2005). One AD explained:

*"I am no longer scared of not getting an idea: I know I'll get the idea someway, there is always some sort of solution to a problem."*

Experience also enhances a creative's reputation and credibility (Andriopoulos & Gotsi, 2000). When a creative has already gained reputation in the industry, their opinions are passed on easily, and clients are more certain to listen to them and take note. One copywriter affirmed:

*"Experience has a huge effect on getting your ideas through: this field of business is all about charm, and experience gives you positive assertiveness and patience, and credibility."*

Additionally, the reputation of a single employee can be leveraged to impact the whole creative organization. In turn, this enhanced reputation strengthens the corporate brand (Aaker, 2004).

## 4.2 PERSONALITY AND MOTIVATION

The personal characteristics and motivational aspects of the interviewees had a considerable emphasis within the interviews. An important aspect discussed was the constant growth and evolution that is required from a creative, and moreover, which creatives require from themselves (Mumford et al., 2002) in order to succeed. Absorbing and assimilating new information from inside the organization and from its external environment appeared to be a constant cognitive process for the interviewees (Crossan et al., 1999). One copywriter explained:

*"A creative should always strive to expand their horizon"*, adding:

*"I am always on the lookout of different ways of doing things. Anything that serves the purpose should be utilized."*

It was considered something of a challenge for a creative, especially an ageing one, to be on track about what is going on in the industry, but simultaneously "*be crazy, brave, and visionary enough to see things in a new light*". One copywriter explained:

*"These days the work requires a great deal of knowledge and understanding about the corporate world, business logic, and industries in general."*

Another copywriter added:

*"Creatives should also follow and pay attention to those issues that they're not personally interested in. You should not let yourself off the hook too easily; otherwise you will never experience anything new."*

All in all, the informants seemed to consider themselves accountable, to a certain extent, for the success or failure of campaigns, yet certain assertiveness, namely a sound believe in one's own creative abilities (Tierney & Farmer, 2002) seemed mandatory so that work-related things would not be taken too

personally. The ability to accept criticism, harsh even, is a fundamental requirement. One copywriter stated:

*" In this line of work you need a skin so thick that you don't need backbone at all."*

Another copywriter somewhat disagreed, stating that a personal aspect may also contribute to the planning process, and have an enriching effect:

*"When you are passionate about a topic, the work becomes more personal, and you can draw from your experience."*

The creatives' intrinsic artistry and the willingness to make their mark (Mumford et al., 2002; Powell, 2007) emerged when the informants discussed their passion for advertising. One AD described:

*"Those campaigns where you can break boundaries are the reason why you tolerate all the uninspiring stuff; everyone needs to actualize themselves every once in a while, and that's what we strive for in this organization."*

Accordingly, one copywriter stated:

*"I love those moments when I realize we've created something that cannot be categorized; I know the ball is spinning in the right direction."*

A key issue that emerged when discussing self-actualization was the role of pro bono accounts in the creatives' job satisfaction. Pro bono campaigns were regarded as having a boosting effect on corporate reputation, as well as enhancing employees' creative self-efficacy. One copywriter declared:

*"I love pro bono cases. I know that the work will meet my personal quality criteria. You know you can make a real difference."*

This finding complies with Woodman et al.'s (1993) statement of a creative's intrinsic motivation; a creative is motivated by the challenge of a task, and the satisfaction provided by the successful execution of the task. Ambition was evident in each interview, and also considered a key personal success factor of a creative employee. One AD explained:

*"It is fun to discover something new every once in a while, something that separates from the mass. Normally I just don't want to settle for a crap print ad in the tabloid pages."*

A fascinating contradiction came forward when discussing creatives' ambition. One copywriter expressed concern for excessive self-actualization:

*"We creatives have the risk that sometimes we get too preoccupied with personal artistry instead of focusing on client's needs; someone has to lead the team to prevent this from happening."*

Additionally, the informants sought to clarify that advertising should not necessarily be considered a form of visual arts, regardless of one's personal ambition. One AD stated:

*"The industry is not such a high-brow one that you could not learn certain things: anyone can think about what people need, and figure out stories, you just need to develop these sides."*

The vitality of risk taking and courage was also underlined. One copywriter's call for arms pleaded advertisers to *"trust their intuition"*, and *"to dare more"*. Another copywriter concurred, saying:

*"It is annoying when you know that by doing something a tiny bit more daringly the client's performance would be much better."*

Accordingly, the importance of risk taking in order to get attention value was highlighted. One AD summarized:

*"To get people's attention, you need to do interesting things. It's that simple."*

Another personal characteristic that emerged was a creative's ability to respect the history and values of the client's brand. Evidently, they do constrain an assignment, but should be seen as enriching the job instead of complicating it. One copywriter explained:

*"I feel humble in the presence of brands with a strong history, I love working with them. I even find myself defending them against eager young brand managers, who are willing to sacrifice something big in order to accomplish something very small."*

He added:

*"A creative who ignores a client's product or brand heritage is brutal, irresponsible, and selfish."*

The interviewees also stressed that the work requires abundant social interaction; therefore it is *"definitely not suitable for reclusive people"*. One copywriter also expressed that he does not have *"the salesman tendency"* needed in the job, and basically had to learn it from scratch.

The informants agreed with Woodman et al.'s (1993) claim that personal interest has a vital role in succeeding in the advertising industry. One AD explained:

*"If you are interested enough in something, you will probably succeed in it. If you bother to think and put the extra effort, you will also find better solutions and easier ways of getting things done."*

Another AD coincided, adding that creative work requires *"a sort of narcissism, wanting to see your work in the media and getting pleasure from it"*. This also contributes to a creative's intrinsic motivation, and increases their sense of job satisfaction (Woodman et al., 1993; Amabile et al., 1996).

Each interviewee affirmed the assumption that good imagination and *"childlike creativity"* are required to *"get excited about naïve thoughts and ideas"*. One copywriter explained:

*"Our way of solving problems is different in a sense that whereas normally people must think logically, in our line of work the solution may be found through fuzzy logic. The more illogical it is, the more likely it is that people will find it creative and insightful."*

## 4.3 PRACTICES

Despite significant differences in assignments, the informants stated that the planning process for is basically the same every time. Work practices such as idea generation, working on presentations, and presenting ideas are routinized (Reckwitz, 2002); these routines *"simplify the work"*, and involve a large component of tacit knowledge (Grant, 1991). One copywriter explained:

*"The work is repetition after repetition: with enough repetition, you gain a toolkit that assures you that you always get at least something done."*

The interviewees' everyday work is *"extremely fractured"*, and paced by several meetings, presentations, deadlines, and constant interruptions. One AD felt somewhat frustrated, stating:

*"It's meetings after meetings after meetings. Some of them are useful, but sometimes it just feels that we have these meetings just because 'it's always been the case', you know what I mean?"*

One copywriter agreed:

*"Sometimes I feel that things could be done a hundred times better with minor changes in organizing work. With better planning of who does what, people would have more time to concentrate on doing what they do best, and what clients are expecting them to do."*

Another copywriter expressed his frustration with the fact that people focus too much on the irrelevant:

*"People waste time by considering formalities and other nonsense. Instead, they should be concerned with getting a better idea."*

The notion of routines was also immanent in concepts generated. One copywriter explained:

*"Concepts are also routines. You see things through the same lens."*

Idea generation, quite possibly the most important practice of creative work, was considered the essence of the job; *"brainstorming together"* and *"collective creativity"* were considered the most "fun" aspects of creative work. As other practices, idea generation is also routinized (Reckwitz, 2002). One copywriter put it simply:

*"After getting the brief, we sit down and talk, think about different solutions, search information, and talk some more, then come up with something."*

Another copywriter concurred:

*"Times may change, but certain conformities in how to influence people remain."*

On the other hand, since primary practices often involve a degree of unconsciousness (Chia & MacKay, 2007), it was harder to grasp and define the origin of ideas generated. They were said to *"stem from the subconscious"*, and emerge from connecting with *"one's inner child"*. One AD concluded that *"one's own life is the best catalyst and input for creativity"*.

Albeit being routinized, an idea or concept must still be specifically created for a certain client's needs. One copywriter deciphered:

*"Ideas normally work when they are specifically tailored for a certain client, and this client only. If an idea can be applied for several clients, it is normally not a good one."*

Furthermore, the informants called for feedback during the idea generation phase, also from people outside the creative team. The creatives affirmed that in the most successful campaigns, several people have influenced the outcome. One AD explained:

*"Quite often the best comment you can get on an idea is 'I don't get it'. That normally means that something's been done wrong. In advertising, basically everyone should get the point."*

The practice of idea execution was also discussed. In this stage, the number of variables affecting the outcome is multiplied; the photographers, directors, producers, actors, and illustrators all bring their own spin into the campaign. The informants stated that it would often be *"a shame not to utilize all this talent"*. It was also considered rewarding to see the initial idea improved in this stage. One copywriter stated:

*"Sometimes, during the execution phase, we come up with a different way to achieve a certain target, using the same amount of money. Those situations are brilliant."*

In this stage, when the feasibility of a seemingly good idea is put to test, another side of creative expertise emerges. One AD explained:

*"Anyone can have an idea, a great idea even. To put that idea into practice, well, that's expertise."*

Another AD also highlighted a creative's responsibility on the execution of their own idea:

*"The ones that succeed are often those who simply bother."*

## 4.4 WORKPLACE

Another issue that emerged was the importance of the workplace, including both agency hegemony and reputation, and relationships with colleagues. One copywriter explained:

*"If you work in an agency where people never do cool things, which doesn't have the right spirit and attitude to make things happen, even if you have a great idea, you probably won't make it."*

The importance of an open atmosphere (Amabile et al., 1996) was underlined; the organizational environment should be such that workers are not *"afraid of sharing their ideas with colleagues"* and should be encouraged to *"speak out"*. Trusting one's colleagues also ensures the possibility to make mistakes, which can also be regarded as *"a gift"* and that *"a great potential might underlie them"*. Being *"on the same wavelength"* with colleagues was considered a fundamental prerequisite for fruitful creative work (Powell, 2007). One AD concluded:

*"To put it simply, having the right people around is the most important success factor in the creative industry."*

Another AD explained:

*"Most ideas for development and improvement in this organization have been initiated by the workforce. That is a clear sign that competent people work here."*

The *"spirit"* of the agency as a factor of success and superior performance was also discussed. One copywriter stated:

*"In a good agency, the surroundings nurture the creation and execution of good advertising."*

However, although the spirit *"stems from individual members of the organization"*, the informants stated that employee turnover is a natural phenomenon and something that people should not be frightened of. One AD explained:

*"As some people leave the organization, others grow in their respective roles. The employees form a living organism that evolves and reacts to the environment. You should not worry too much about changes in personnel, since things always evolve in some way or another."*

One copywriter concurred:

*"No one is irreplaceable. There should be some stability of personnel, but you should not hold on to it by force; the most important thing is that client is satisfied."*

Albeit being team work, advertising is *"not necessarily the cradle of solidarity and compromise."* Yet no one denied the enriching effect of team work. One AD suggested:

*"The whole planning stage depends a lot on your partner. When you say something to your partner, he may respond with a serve so good that it is easy to score after that."*

The creatives also agreed that the workforce should be *"a combination of seniority and fresh ideas"*, a notion that the leaders of a creative organization must take into account. This sort of pairing enables team members to learn from each other; moreover, since they have different backgrounds and possess various types of knowledge, it is more likely that incoming information relates to extant knowledge, and the creative team can better utilize it (Cohen & Levinthal, 1990).

## 4.5 COOPERATION WITH CLIENTS

*"We fulfill clients' fantasies. That's what we do for a living."*

Interacting and cooperating with clients lies at the very heart of the creative work. One AD stated:

*"The client's face can be seen in each product. The advertiser itself has a bigger effect on the outcome than any designer in the world."*

Mutual planning with clients was considered vital for the success of an idea; if an idea has been mutually planned from the beginning, the chances are that the client will help selling the idea, and the probability of acceptance is much bigger. This notion complies with Woodruff's (1997) plea to further incorporate customer insights into a firm's activities, and mutual planning can enable the creation of a value innovation (Kim & Mauborgne, 2005) that benefits both the agency and the client. Additionally, the informants stated that clients are experts of their own field; this expertise must be respected, and the clients' participation should be encouraged. One AD explained:

*"I have a somewhat childlike belief in the fact that clients understand their own field better than we do."*

He added:

*"If clients provide their own insights about their business and share their own ideas, it is easier for us to improve and further develop these ideas."*

An organization's capability to such external learning, or an absorptive capacity, requires both openness (Narver & Slater, 1995) and prior related knowledge (Cohen & Levinthal, 1990), and can lead to innovative outcomes (Zahra & George, 2002). The fact that the members of a creative team usually have different backgrounds provides a sound basis for external learning, since in such case this external information is more likely to relate to existing knowledge (Cohen & Levinthal, 1990), and be better capitalized on.

However, several interviewees pointed out that the creatives' bargaining power is slim, and the original idea often changes along the way due to clients' feelings and personal preferences, *"either for better or for worse".* In these situations, there is little to be done (Jung & Sheldon, 1995). One copywriter described:

*"Nowadays there is a lot of talk about strategic partnerships and all that. It's rubbish. The one who has the money calls the shots."*

One AD expressed his concern for excessive compromising in the planning stage; it reduces the simplicity and effectiveness of a campaign, thus reducing the attention value. He explained:

*"Sometimes we have to compromise and include 3 or 4 different messages in one campaign; that is essentially wrong. If advertising includes tens of different messages, it is useless. All the time, energy and money spent on it have virtually gone to waste."*

In addition, the need to *"reach a dialogue with clients"* in order to achieve a mutually satisfying outcome was highlighted (Woodruff, 1997). One copywriter suggested:

*"In my opinion, we should discuss more with clients. It's always beneficial. It doesn't require PowerPoint or Keynote. Discussion is the only way to achieve mutual understanding."*

A significant amount of the success of an agency-client relationship was said to depend on the chemistry match between a creative and a client's representative. The nature of an account *"can change entirely when a single person leaves the client company"*.

The informants also stated that when a client's trust is achieved, the creatives do all in their power to *"be worthy of that trust"*. This sense of trust contributes to the creativity- and motivation-enhancing factor of perceived freedom and autonomy (Amabile et al., 1996). One AD explained:

*"I often recall this fantastic pro bono campaign we did back in the nineties. The client did not know that much about marketing or advertising, and trusted us completely. We knew we could never betray that kind of trust. I wanted to do everything I could to pull it off."*

The *"original sin"* of the Finnish advertiser seemed to be satisfying for a mediocre and conventional solution. For the informants, it sometimes seems rather hard to find the delicate balance between necessary compromising and pushing an idea through; a creative rarely wants to *"force ideas forward to the client"*. There are indeed those ideas that the creatives want to push forward, knowing that the outcome would be worth the effort. One AD described:

*"Sometimes you feel great about a concept or idea, because you know that it will suit the client in every way."*

One copywriter concurred:

*"Each year there are about 4 to 5 'money shots' that you have to identify, and take the extra time and effort to get these through."*

In some of the most successful campaigns, the original idea may have come from the client's side; it is a part of the creative's expertise and responsibility (Mumford et al., 2002) to spot the idea, and work on it. One copywriter concluded:

*"At the end of the day, all that matters is that the client is happy. That's where the money comes from. A client's satisfaction must always be the priority."*

# 5 ANALYSIS AND DISCUSSION

In this chapter, I will further analyze the findings using the extant theoretical framework. First, I will discuss the concept of habitus as an orchestrator of action. Second, I will analyze the routinized practices in the organizational context. Third, I will discuss the vitality of organizational support for creative work. Fourth, I will focus on the creatives' intrinsic motivation and creative self-efficacy.

## 5.1 HABITUS AS AN ORCHESTRATOR OF ACTION

Underlying each premise of the creative work is habitus (Lau, 2004; Chia, 2004), a practical sense derived from past experience. Habitus, a collection of unconscious predispositions, seems a guiding force of everyday action. The informants' decisions were based on previous cases, and past errors were avoided both consciously and unconsciously. According to Heideggerian logic, practical actions precede strategic intent (Chia & Holt, 2006); thus creatives often found hard to decipher their actions and ideas which *"stem from the subconscious"*. Also, the case study organization's strategic guidelines may have been drawn in conference rooms, but are actually dictated in practice, through everyday action.

The three components of habitus; beliefs and assumptions, perception and appreciation of understanding, and practical sense of objective possibilities (Lau, 2004), can be seen as products of a creative's individual experience combined with the work environment. In the case study organization, a mutual belief-premise, closely linked with the other two components of habitus, was the belief that a client is an expert in their own field, and that this expertise must be respected. This premise was embraced in the practical action, and resulted in close and mutually beneficial cooperation with clients.

Habitus is acquired over time by carrying out practices (Schatzki, 2005) and results in a pattern of consistency of action (Chia & Holt, 2006). Hence the fundamental problem-solving methodology for each account is the same, and the choice of methodology of carrying out a new project does not require an individual's cognitive intent of action. As the notion of habitus rejects the predominance of cognitivism (Chia & MacKay, 2007), the creative work within the organizational settings seemed to follow a certain pattern regardless who the creative team carrying on a certain practice were. Thus the ways to enhance individual creativity and to enable the creation of feasible ideas and solutions may be idiosyncratic to a certain degree for each creative within an organization, but the actions performed by these creatives have a consistent, recognizable pattern.

However, this does not overrule the fact that these practices cannot be changed over time or adjusted to the working environment. Instead, it appears that the concept of habitus relies on the evolution of action and methodology of work through increased experience. This involves *"cutting unnecessary corners"* and simplifying the overcomplicated work methods utilized over time. Furthermore, I would add that the existence of habitus does not necessarily have to fully reject the notion of conscious action, as it appears to do in the settings of the social science discipline. Rather, the ways in which the creative workforce reacts to organizational changes, and to changes in their working environment, appear to be a combination of unconscious practical coping, and conscious and reflective monitoring of their surroundings.

## 5.2 PRACTICES AS ROUTINIZED MANIFOLDS OF ACTION

An organization can be seen as a bundle of practices and arrangements; that implies that an organization consists in interrelated practices transpiring along with interconnected material orders (Schatzki, 2006). Considering the research agenda for the case study, the key practices that emerged were idea generation, idea selling, and idea execution. Practices are organized by practical understandings, rules, teleological-affective structuring, and general understandings (Schatzki, 2006).

The explicit rules that organize a practice may or may not be obeyed by the creative workforce. Some informants experienced that certain rules hinder the creative work. Some of these rules may be formalities or technicalities, and obeying them might be confusing or time-consuming. It appears that instead of the explicit organization-wide rules, the guidelines followed by the creative personnel when performing actions are rather those that emerge from practical and general understandings, and past experience derived from trial and error. Contrary to my prior assumptions, this clash with *"formalities and other nonsense"* that the creative workforce experienced did not result from their somewhat narcissistic pursuit of autonomy or creative freedom, but rather from their frustration with colleagues' misplacement of focus.

In the study, the teleological-affective structuring of a practice was evident in the emotional assertions that are related to project- or action-specific targets. The informants spoke of *"a client's trust"* that *"could not be betrayed"*, their love for *"brands with a strong history"*, and their willingness to *"make a real difference"* through marketing communications. This type of structuring assigns shared meaning to routinized everyday actions. The pursuit of a mutual goal enhances a creative's sense of commitment and personal responsibility for the success of a project (Woodman et al., 1993; Mumford et al., 2002). Juxtaposed with the fact that creatives are not startled or materially offended by criticism, this definitional affection comprises an intriguing component of the creative "artist" mentality. Hence the creatives do take

responsibility for failures, but refuse to let them substantially affect their mindset, or diminish the belief in their own abilities.

The practical and general understandings that organize a practice, similar to the belief-premises of habitus, can be treated as forms of tacit knowledge. This knowledge dictates a great deal of the imagery and assumptions often associated with the advertising industry. It appears that, to a great extent, this tacit knowledge is not only organization-wide, but rather industry-wide. The diffusion of these practical and general understandings to the external environment of the organization may be affected by the dominant characteristics of the Finnish advertising industry; the relatively small number of prominent agencies, the high mobility of personnel, and close interaction with and monitoring of competitors. The creatives interviewed had all worked in several agencies throughout their career, and knew current colleagues through previous employers. Additionally, "the small circles" of the industry involves the clients' tendering of their partner agency normally every two or three years. Thus external learning and knowledge diffusion have a key role in advertising agency performance.

In addition, a social practice, by definition, contains various types of specific knowledge that are interlinked within a practice (Reckwitz, 2002); this knowledge embraces how the world is understood. The informants communicate the knowledge of a practice both verbally and by doing; by observing their ways of doing the job, new members of the organizations and the younger generation of designers learn, and consciously and unconsciously adjust their specific ways of working. Samra-Fredericks (2003) emphasizes the role of language in capitalizing on shared knowledge and experience. I observed that the internalization and adaptation of the organization- and industry-wide vocabulary had both a socializing and a credibility-enhancing effect; this increase in recognition was somewhat due to false pretenses and diverted others form a potential lack of expertise. Mimicking the environment might be a necessary step towards integrating to it, but integration itself and individual performance must be something more significant than a perceived similarity in the pattern of speaking. This view was supported by one informant's comment that it took him several years to understand *"what good advertising is all about"*.

Social practices are essentially routinized types of behavior (Reckwitz, 2002). This routinization can be seen in the everyday work of creatives: the methodology for problem-solving is similar for each assignment, and a creative's problem-solving skills increase through repetition (Dreyfus & Dreyfus, 2005). The practices from deciphering a client's brief to executing an idea have a routinized structure; this structure is adhered to unconsciously by each practitioner, and since practices are non-individualist phenomena (Schatzki, 2005), carrying out a practice involves, by definition, social interaction.

These routines simplify the work, and make it more efficient and productive. However, this does not necessarily imply that all routines are beneficial. In particular, the informants expressed concern for the excessive use of email in managing tasks. In addition, the fractured nature of the job causes distress, and the high number of irrelevant meetings during the day annoyed the creatives. Informants stated that small changes and improvements in organizing work would improve the execution of tasks; yet organization-wide routines, which are often carried out unconsciously, are hard to discern and to change (Johnson et al., 2003).

## 5.3 ORGANIZATIONAL SUPPORT FOR CREATIVE WORK

Since creative organizations rely very much on their employees to enhance creativity, and thus to enhance their corporate reputation (Andriopoulos & Gotsi, 2000; Powell, 2007), it makes sense that organizational support for creative outcomes has a significant role in the performance of a creative organization. The importance of the workplace for successful creative outcomes was stressed in the interviews; the workplace was considered by one informant as the *"most important success factor in the creative industry"*. The findings complied with the conceptual model of assessing the work environment for creativity presented by Amabile et al. (1996), where organizational encouragement of creativity, freedom, sufficient resources, and challenging tasks were said to have a positive effect on organizational creativity.

The openness of communication, perceived equality, and *"the absence of walls"* were among those factors that were said to encourage creativity. Participative, high-involvement work systems boost employees' individual creativity (Woodman et al., 1993); the high amount of personnel initiative considering the organization's strategic direction and outline can be interpreted as an outcome of a high-involvement system that has a both committing and creativity-enhancing effect on the creative workforce. When the employees both have an opportunity to influence the direction of the organization, and are willing to seize the opportunity, it can be regarded as a sign of the fact that the workers strongly identify with the organization. This notion somewhat overrules Powell's (2007) concern that creative individuals identify with their project teams, but not necessarily with the employing organization.

Freedom and autonomy not only enhance creativity when experienced from the organization's side, but also when clients provide creatives with significant creative freedom. Through perceived freedom and autonomy, an employee's creative "expert" ego (Powell, 2007) is not threatened, and the ultimate responsibility for the creative outcome is in the creative's hands. This sort of freedom emerged as one of the most satisfying elements of the creative work. Yet, it appears that, quite contradictory to the creativity-enhancing effect of freedom, also the assignments with heavy constraints from the client's side and the

ones constrained by legislation had a boosting effect on the informants' creative outcome and perceived job satisfaction. A common thread to the assignments with substantial creative freedom and to those with heavy restrictions appears to be that they present a challenge to the creatives, and therefore an opportunity for them to excel themselves (Amabile et al., 1996).

In addition to the evident resources required for creative work, namely equipment, adequate working space and access to information, those resources that seem fundamental mostly concern the workforce. The creative team must have a competent leader to assure that fulfilling the client's needs is a priority, and that deadlines are met. The team leader, be it an account manager or a creative director, faces the challenge of balancing the commercial and artistic requirements of an assignment. Since the leader cannot rely on position power as a means of directing the creative work (Mumford et al., 2002), effective communication is the team leader's key resort.

In the case study, the perceived challenge of a task appeared closely linked to the creative individual's personal quality standards set for the task; a campaign or an account was considered challenging when the creative had high expectations of the outcome, seemingly shunning the client's expectations for the outcome. *"Boundary-breaking"* campaigns had the same effect on the creatives, regardless of the initial requirements for the outcome. Yet in these campaigns, the needs of the client were not ignored, but rather fulfilled in an unconventional and imaginative way.  These campaigns enabled the creatives to create something *"uncategorizable"*, which essentially has a creativity-enhancing effect.

The small size of a creative organization involves the risk that the organizational identity is subject to fluctuation (Powell, 2007) through changes in personnel, and through changes in people's respective roles in the organization, which might in turn have an adverse effect on the organizational spirit. In the case study, this effect was found to be moderated by the "organic" nature of the organization; the organism that is the organization reacts to changes in its environment, and the roles of individual employees change accordingly. Thus the state of ongoing flux is a natural phenomenon and should not cause necessary concern to the workforce.

The perceived socio-emotional support for creativity (Perry-Smith & Shalley, 2003) from superiors and other members of the organization enable the creation of novel ideas. In particular, the role of a creative's partner was highlighted. A good partner, or someone who is *"on the same wavelength"*, nurtures individual brainstorming, and the outcome is a combination of several workers' thought processes. The informants stated that sometimes they might find a connection of thought with their partner, something that neither can explain. The organizational environment was considered to have a substantial impact on the *"the flow"* of ideas, and more significantly, on an individual employee's willingness to express these thoughts and

ideas to colleagues, since the fear of not being adequately understood can be ignored. Therefore a good partner can also have a confidence-boosting effect on a creative. Moreover, young creatives are often teamed up with more experienced ones; the case study shows that these pairings contribute to the creation of a young designer's creative identity and work expertise. One informant even expressed the influence from an older partner as *"the main reason [he is] still in the industry, after more than ten years"*.

## 5.4 INTRINSIC MOTIVATION AND CREATIVE SELF-EFFICACY

An imperative force of a creative employee is an intrinsic motivation (Woodman et al., 1993; Amabile et al., 1996); this rejects the need for a motivational leader or skill-related evaluation systems. This motivation stems from the nature of the creative work itself, and the sense of satisfaction it provides. The study shows that creatives enjoy collective idea generation, and consider the planning phase of an assignment the most rewarding aspect of the job. This mutually achieved sense of satisfaction contributes to the creatives' level of commitment to the employing organization, and contributes to the configuration of their creative identity. The informants expressed that the perceived sense of satisfaction from successful projects and assignments led them to pursue other interests and actualize themselves in their free time as well.

The study shows that creatives proactively look for ways to *"expand their horizon"*; think about different ways of doing things, search for supporting information, and discuss with people with different backgrounds and areas of expertise. This openness appears to have a twofold relationship with creativity and idea generation: creativity is a precondition for having the ability to imaginatively solve clients' problems, and it also assures that a creative's creative imagination (Völpel, 2002) is in a state of ongoing development. It appears that the more experienced, ageing creatives somewhat consider this mentality as an assurance of survival in the industry; they cannot rely solely on their experience and past merits in order to secure their position in the industry. As soon as they stop being interested in new things and emerging phenomena, they *"might as well quit the whole job"*.

Intrinsic motivation also contributes to the creatives' willingness to absorb and assimilate new knowledge, since constant learning enables the meeting of the quality criteria set for an assignment. Thus by applying this new knowledge into solving a problem, creatives can are more likely to be satisfied with the outcome. In particular, absorptive capacity, i.e. learning from sources external to the organization, such as clients and competitors, enables the creation of innovative outcomes (Zahra & George, 2002).

The creatives' intrinsic motivation also stems from their previous experience in the highly competitive industry; they have had to exert themselves in order to succeed, and thus can appreciate the rewards of hard work, namely increased autonomy and challenging and interesting assignments. According to the

study, the commonly held view was that in order to perform well, a creative must always have a small, lingering sense of dissatisfaction, a "*hunger*" that drives them to greater accomplishments.

Following the notion of intrinsic motivation, for the leader of a creative team, it is essential to stress the heuristic aspects of the creative task instead of focusing on the technical aspects (Woodman et al., 1993). The intrinsic motivational orientation involves a consideration for the outcome, and excessive emphasis on the technical and rule-bound aspects might have a negative effect on the outcome. The solution to a problem involves seeing *"the big picture"*, and rules are either obeyed or disregarded; in any case, the rules are known, and it is considered a part of *"the creative's responsibility"* to understand their significance. Instead, the leader must take action if a creative neglects the client's needs, i.e. the desired outcome.

Creative self-efficacy, a creative's belief in their own ability to produce creative outcomes (Tierney & Farmer, 2002), is a precondition to creative success. An individual's creative self-efficacy in constructed through experience in a particular field, and an increased understanding of job nuances contributes to creative self-efficacy. The study shows that this understanding is inherently practical. It cannot be shared explicitly, and thus young creatives learn it by participating and experiencing (Dreyfus & Dreufys, 2005). This notion underlines the vital role of senior creatives in the performance of an advertising agency. Not only do they possess general job mastery; they also contribute to the development of their young colleagues' job capability. This contribution need not be teaching "by the book" or formal training mechanisms, but rather mastering their own job, and being available at the workplace.

Organizational support for an individual's creative self-efficacy can be expressed by designing jobs so that they require experimentation and versatility (Tierney & Farmer, 2002). In the case study organization, the assignments on which the organization had the most effect were pro bono ones; the outcome was said to meet a creative's *"personal quality criteria"* and hence contribute to a creative's sense of confidence.

It appears that intrinsic motivation and creative self-efficacy are the only personality features possessed by virtually each creative worker. In a nutshell, intrinsic motivation assures that a creative has the required passion and ambition to succeed and to develop themselves, and creative self-efficacy contributes to the creative's sense of confidence and general job capability. Other personality traits, such as the degree of extroversion, may indeed have an effect, albeit a secondary one.

# 6 CONCLUSIONS

The purpose of this research was to determine the elements of creatives' everyday work that affect the creation of a competitive advantage of an advertising agency. The empirical study conducted was a qualitative case study with an emphasis on in-depth interviews with creative personnel of the focal organization. I analyzed the data following the paradigm of Heideggerian hermeneutics, where the interpreter of the data must be aware of their own history-specific presumptions in order to be as free as possible from potential bias.

The findings derived from the interviews and from my past experience working for the case study organization were fivefold. First, the role of experience was emphasized. Habitus, defined as a practical sense derived from experience (Lau, 2004), was described as an orchestrator of the creatives' action. Their behavior can be seen as a product of unconscious practical coping dictated by habitus, and an individual's conscious and reflective thought processes. The experience of the creative workforce also appeared to contribute to an advertising agency's corporate reputation.

Second, a creative's personality and motivation were found to influence the creation of a competitive advantage. The key characteristics of a creative were found to be creative self-efficacy, defined be Tierney and Farmer (2002) as the ability to produce creative outcomes, and an intrinsic motivation, which implies that the creatives are motivated by the satisfaction and challenge of the work itself. This intrinsic motivation was found to be enhanced by prior experience. Additionally, a creative's personal responsibility for the pitching and execution of their own good ideas was highlighted.

Third, the study shows that social practices in the workplace are the basis of creative work; these routinized practices are organized by general and practical understandings, rules, and teleological-affective structuring (Schatzki, 2006), and contain specific forms of knowledge (Reckwitz, 2002). The vitality of repetition was emphasized. Also, flexibility in carrying these practices was stressed, as long as the outcome was prioritized.

Fourth, the research suggests that the organizational environment is one of the key contributors to superior performance. Two main factors of the organizational environment were relationship with colleagues, specifically with a creative's own partner, and organizational support for creative work. When partners share diverse backgrounds, the prospects for external learning are enhanced, since this outside information is more likely to be related to what is already known (Cohen & Levinthal, 1990). Organizational support involved freedom and autonomy, sufficient resources and the level of challenge of assignments

(Amabile et al., 1996). In particular, the organization's willingness to do pro bono work was found to be a manifestation of organizational support for creativity, since creatives had significant freedom in working with these assignments, and they could also themselves contribute to the level of challenge of the assignments. Furthermore, the study suggests that an organization reacts "organically" to changes in personnel, and employees' roles in the organization evolve without formal changes in job descriptions.

Fifth, cooperation with clients was found to materially affect creative work. In the case study organization, a commonly held belief-premise was that clients are experts in their own field, and their expertise should be capitalized on in creative work. This contributed to mutually beneficial discussion between creatives and clients, resulting in an increase in mutual understanding and potentially, superior performance.

The case study conducted underlines the fact that the resource-based view of the firm, in all its abstraction, is a somewhat inadequate approach when examining what actually happens in an organization, on a daily basis, which contributes to its superior performance. Additionally, my research encourages academics to combine elements of both traditional strategy content research and the practice perspective in order to create a comprehensive and applicable theory on firm strategy; a theory that embraces both conscious and unconscious action in an organization. These two research agendas already share similarities, such as the treatment of practices and capabilities, which in certain cases can roughly be considered equivalent (Ambrosini et al., 2007).


## 6.1 LIMITATIONS

The research is constrained by a number of limitations. First, there are limitations considering the personnel structure of an advertising agency. The research focused on the creative workforce of an advertising agency; therefore it makes sense that the significance of leadership and sales in advertising agency performance was mostly ignored. In addition, the role of project and account management in allocating resources and monitoring the creative work was not emphasized. Furthermore, the impact of production AD's and graphic designers in the outcome of an assignment was not paid attention to.

Moreover, the study is limited by my possible biases as the interpreter of the data collected. Another limitation is the sample size; however, ethnography and hermeneutics could not have been used as methods for data collection and analysis in a multiple case study, since I would be an outsider in any other organization.

Additionally, the study is only valid in the settings of the advertising industry. Other creative industries such as architecture and design would require a slight adjustment of view, since they involve more artistry than advertising.

## 6.2 SUGGESTIONS FOR FURTHER RESEARCH

My research provides several suggestions for further research. A fascinating research topic would be to focus solely on the social practices of a creative, and the role of these practices in the creatives' everyday work; this would require more reliance on ethnographic methodology. Also, the feasibility of the strategy-as-practice approach is yet to be thoroughly examined in creative industries. A focus on the practical formulation of a creative organization's strategy would provide additional insights in their performance differentials.

Additionally, examining an organization's creation of competitive advantage by focusing on the notion of habitus as a premise for expertise in one's work would be an opportunity to enrich the field of strategy content research. It would also bridge the gap between the discipline of strategy research and social sciences. Also, incorporating the Aristotelian concept of practical wisdom in examining craft expertise in commercial arts and crafts would provide increased understanding of firm performance in these industries.

Another topic that requires a more thorough examination is the role of external learning, namely absorptive capacities, in the performance of a creative organization. In particular, emphasis on the ability to learn from competitors would provide a fertile ground for understanding performance differentials between creative organizations.

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