Adaptive and Transformative Dynamicity in Strategic Management

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Abstract

Strategic co-alignment is a major topic in strategic management studies. In recent years, management approaches based on dynamic capabilities paradigms have emerged with the aim of solving problems related to strategic co-alignment caused by the increasing velocity of market environments. However, the different perspectives of adaptive dynamicity and transformative dynamicity have led to variant approaches in managing resource configuration, strategy formulation and market positioning. The current study, applying the business ecosystem theory alongside other pertinent theories, proposes a conceptual model. According to this model, the two dimensions of the scanning of market velocity and the management of strategic balance should be deemed as essential elements in integrating the approaches of the different dynamicity perspectives for strategic co-alignment in order to enhance the effectiveness of strategic management.

Keywords: strategic management; strategic co-alignment; adaptive dynamicity; transformative dynamicity; strategic market positioning approach; blue ocean strategy approach
Introduction

In strategic management studies, strategic co-alignment has become a much discussed topic (Edelman, et al. 2005). Strategic co-alignment, referring to the firm’s internal resources and business strategy co-aligning to match the external environment, is seen as a crucial factor in pursuing managerial effectiveness and superior business performance. From the early 1980s to the late 1990s, research on strategic co-alignment was rather oriented toward market structuralism and environment determinism. Since beginning of the twenty-first century, novel management approaches have emerged in response to the drawbacks of the earlier research. Still in their infancy, these approaches are generally based on the theoretical paradigms of dynamic capabilities and aim to solve problems related to strategic co-alignment caused by the increasing velocity of market environments. However, different perspectives on dynamic capabilities have lead to variant approaches in managing resource configurations, strategy formulation and market positioning. A deeper analysis of these approaches indicates that there are possible avenues for integration, which can bring out their complementary power for strategic co-alignment in order to enhance the effectiveness of strategic management. In this section, the author first gives a glimpse of the development track of these approaches, and then describes the research purpose of the current study.

Five-Force Model

Earlier, the five-force model proposed by Porter (1980, 1985) conceptualized strategic co-alignment as being carried out through strategic actions aimed at creating, defining and integrating the firm’s market domains, through the firm’s navigation strategies and positioning within each market domain, and through changes in the firm's resource mix that supports the firm’s navigation strategies. Porter's model is built on the insight that the firm’s strategic co-alignment is achievable by identifying and exploiting opportunities while averting threats in the external environment. The five competitive forces of entry barriers, the threat of substitution, the bargaining power of buyers, the bargaining power of suppliers, and rivalry among firms shape every industry and every market, so the objective of strategic co-alignment is to modify these forces in a way that strengthens the competitive position of the firm. Through an analysis of the structure of the market, the firm can decide how to influence or to take advantage of particular characteristics of the market. The approach to managing strategic co-alignment guided by Porter’s five-force model has some major limitations in today’s dynamic market conditions (Walker et al., 2003). Rather static in nature, it only provides an external explanation for the firm’s competitive advantage and only suggests how the firm can capitalize on the relative imperfections of the sector in which a firm resides. Such an approach, failing as it does to take into account new business models and being incapable of a timely response to market dynamism, gradually loses its glamour.
SMP and BOS

More recently, strategic management theories have escaped the theoretical constraints of Porter’s model in exploring topics related to strategic co-alignment. Some of them adopt the perspective of *adaptive dynamicity* based on the dynamic capabilities paradigm (a new version of the resources-based-view), while others take an approach akin to the *transformative dynamicity* perspective based on the radical dynamic capabilities paradigm (Gibson & Birkinshaw, 2004; O'Reilly III & Tushman, 2008; Raisch & Birkinshaw, 2008).

Strategic marketing positioning (SMP), proposed by researchers including Morgan et al. (2003), McGuinness and Morgan (2005), DeSarbo et al. (2005, 2006), Song et al. (2007), can represent the adaptive dynamicity perspective. This approach contends that the firm’s resources and capabilities should co-align with its strategic orientation along the strategy spectrum to adapt to the market. Hence, SMP researchers place great importance on dynamic adaptation to market conditions as the driving force for sustainable competitive advantage. Another approach, known as the blue ocean strategy (BOS), advocated by Kim and Mauborgne (2004, 2005a, 2005b), stands for a strategic marketing conceptualization akin to the transformative dynamicity perspective. BOS theorists argue against the prevailing belief that grabbing a bigger share of the market is a zero-sum game in which one firm’s gain is achieved at another’s loss (a type of market space they call a red ocean). Rather, they emphasize the notion that the firm should co-align resources and strategy for engaging the value-innovation of the product in order to transform the market space. In the transformed market space, metaphorically described as a blue ocean, the firm provides products, service and delivery to draw in customers whose needs and wants are not satisfied by the offerings of other firms. In other words, the BOS approach regards dynamic transformation as the key to sustainability in superior business performance.

Research Purpose

Both the SMP and BOS approaches have emerged in recent years, offering inspiration for strategic co-alignment research. Each has inherent strengths and limitations. Based on different conceptualizations, they seem to contradict with each other. However, there are possible avenues integrating them and bringing out their complementariness. The current study, reviewing the theoretical foundations upon which these two approaches indirectly and directly build, integrates them primarily through the business ecosystem theory. In so doing, the researcher hopes to contribute to broadening the theoretical and practical scopes of the SMP and BOS approaches for strategic co-alignment in strategic management.
Dynamicity: Adaptive vs. Transformative

After the waning of the external explanation of competitiveness offered by Porter’s five-force model, the notion that management strategists should analyze the firm’s competitive advantage from an intra-organizational perspective began to hog the spotlight (Hooley et al. 1988; Amit and Schoemaker, 1993; Oliver, 1997; Barney, 2001). The intra-organizational paradigm, called the resource-based view (RBV), gained general acceptance toward the end of the 1980s and was fully developed in the 1990s. It revolves around an introspective search for the origin of and an explanation of competitive advantage. In this paradigm, the firm is a unit, a single and organized group of heterogeneous assets created, developed, renewed, evolved and improved with the passage of time. The RBV pays special attention to heterogeneity in the firm’s resources and assets, which becomes the key factor in the varying performance among firms. Nevertheless, it does not explicate the intricacies of the dynamic market environment that may have an impact on the creation and retention of valuable, rare, non-substitutable and inimitable resources.

Adaptive Dynamicity

A response to the afore-mentioned issues surrounding the RBV has been the paradigmatic shift toward the self-renewal of resources, routines, capabilities and core competences (Collis, 1994). Such a concept paved the way for the emergence of the idea of dynamic capabilities (DCs), which still belongs to the camp of the RBV but appears as a new version of it. For DCs theorists, the firm’s competitive position relies essentially on its dynamic capabilities (higher-order capabilities) to build, adapt and reconfigure its first-order (substantive) resources and capabilities (Teece et al., 1997; Zollo & Winter, 2002; Helfat & Peteraf, 2003; Winter, 2003; Nonaka et al., 2006; Newbert, 2007; Ketchen et al., 2007). Dynamic capabilities gradually take formation along the historical path of a particular firm, allowing the firm to use accumulated knowledge for the creation of new products and processes, and permitting the firm to take appropriate actions in adapting to changes in external environments. For strategic management, DCs researchers attend to strategic co-alignment in allocating the firm’s resources between responsive and defensive actions and with more entrepreneurial actions such as innovating and influencing uncertainty. Consequently, strategic co-alignment culminates in adaptive dynamicity between the firm’s business model and market conditions to offer competitive products. In other words, adaptive dynamicity leads the firm to achieve a complex fit between business activities and its resources to pursue competitive advantage in the market. Such a complex fit is attributable to the path-dependent routines embedded in the organizational memory that gradually develop into the firm’s dynamic capabilities.
Transformative Dynamicity

Radical dynamic capabilities (RDCs), in contrast to the perspective of adaptive dynamicity emphasized by the DCs paradigm, feature the notion of transformative dynamicity (Eisenhardt & Martin, 2000; Eisenhardt & Sull, 2001; Okhuysen & Eisenhardt, 2002; Zahra et al., 2006). This draws a clear distinction between moderate and high-velocity markets and, accordingly, two broad classes of dynamic capabilities are introduced. In moderate dynamic markets, managers may resort to the classical idea of path-dependent and adaptive dynamic capabilities that revolves around a pattern-driven method for problem-solving with incremental innovation. In the case of high-velocity environments where market conditions change fast and the rules of the game are not fixed, the firm needs path-breaking transformative dynamic capabilities that are geared toward a linking and selecting process to continuously create new combinations of resources and competencies. Transformative dynamicity manifests itself in experiential, improvisational, and highly fragile processes of the reconfiguration, integration, and acquisition of resources. It centers on real-time information, exploration into multiple alternatives, and exploitation of quickly created new knowledge to solve problems. The real strength of transformative dynamicity no longer flows from architecture but rather from its ability to continuously produce new constellations and solutions. The new basis for pursuing superior business performance in the RDCs paradigm is the encompassing capability to change with extremely high speed in order to transform market environments and master the unforeseeable needs and wants of customers.

Strategic Market Positioning

Key Concept of SMP

Among the strategic co-alignment approaches that are based on the adaptive dynamicity perspective of the DCs, strategic market positioning (SMP) has gained growing attention (Morgan et al, 2003; McGuinness and Morgan, 2005; DeSarbo et al., 2005, 2006; Song et al., 2007). The SMP approach espouses the idea that the substantive resources and capabilities of the firm alone are not enough for achieving competitive advantage, highlighting the appropriate choice of strategy types to put resources and capabilities to better use. Sustainable competitiveness lies in the firm’s resources and capabilities (inside-out, outside-in, marketing and information technology) co-aligning with the firm’s strategic orientation chosen along the prospector-analyzer-defender strategy spectrum. SMP scholars, through theorizing and empirical verification, point out that the effectiveness of strategic management resides not only in valuable, rare, non-substitutable and inimitable resources, but in the adaptive dynamic capabilities that allow the firm to choose an appropriate strategic orientation alongside the firm’s resources and capabilities for adapting to the velocity of the market and then build competitive market
positioning. Hence, the adaptive dynamic capabilities to connect the firm’s internal resources/capabilities with the firm’s strategic behavior and strategic positioning in the external environment constitute the basis of superior business performance.

**Typology of Strategies**

In order to improve strategic co-alignment, the SMP approach resorts to the strategy typology theory proposed by Miles and Snow (1978). According to the strategy typology theory, different strategies arise from the way the firm decides to address three fundamental problems: entrepreneurial, engineering (or operational), and administrative problems. The entrepreneurial problem is how the firm should manage its market share, the engineering problem involves how the firm should implement its solution to the entrepreneurial problem, and the administrative problem considers how the firm should structure itself to manage the implementation of the solutions to the first two problems. Resulting from a cross-industry study, Miles and Snow (1978) identify four general strategy types of organizations—defender, prospector, analyzer, and reactor. These strategies characterize the strategic orientations of corporate organizations (Walker et al. 2003):

- The **defender** is the organization that narrows its product-market domains, and it aggressively maintains prominence within its chosen market segment.

- The **analyzer** refers to the organization who operates in two types of product-market domains, one relatively stable, the other changing, so it on one hand uses formalized structures and processes and on the other hand watches its competitors closely for new ideas.

- The **prospector** is the organization that continually searches for market opportunities, and it regularly experiments with potential responses to emerging environmental trends.

- The **reactor** lacks long-term plans and consistent strategy, taking actions as reactive responses to what market dictates.

The **defender** is the corporate organization that prospers through stability, reliability, and efficiency. The **prospector** prospers by stimulating and meeting new product-market opportunities. The **analyzer** prospers by purposely being more innovative in its product-market initiatives than the **defender**, but doing so more cautiously and selectively than the **prospector**. The least effective is the **reactor**, which vacillates in its approach to the environment and, as a result, does not prosper at all. As Hambrick (2003) points out, the four strategy types may differ from industry to industry, but they also have much in common across industries. For instance, if the firm is oriented toward the **defender** strategy type, it tends to invest more in process improvements, and special-purpose and high-efficiency equipment, while emphasizing cost control. When the firm features a
prospector orientation, it usually tries hard to experiment with drastically innovative methods to invent new products, so a large proportion of its investment goes into experimentation-style instead of improvement-style R&D.

The premise that defender, prospector, and analyzer are better strategic options than reactor was proposed by Miles and Snow (1978) and then validated by later empirical research conducted by scholars including Thomas and Ramaswamy (1996), Morgan and Strong (1998), Wiltbank et al. (2006). According to their findings, the former three strategy types are more useful and in one way or another positively related to the firm’s efforts to pursue competitive advantage. Thus, the reactor strategy type is usually excludable from the list of wise options for enhancing business performance. Nevertheless, in reality, firms tend to choose strategies that are, in their own judgment, suitable for their own situations, despite empirical evidence proving that the reactor strategy type is undesirable for a successful firm (Slater & Narver, 1994; Wiltbank et al., 2006).

Combining Strategy Typology with Distinctive Capabilities

Starting from the Miles-Snow strategy typology theory, the SMP approach further combines it with the distinctive capabilities theory (Hooley et al., 1998; Kald et al., 2000; Song & Montoya-Weiss, 2001; Di Benedetto & Song, 2003; Morgan et al., 2003; McGuinness & Morgan, 2005; DeSarbo et al., 2006). This is a critical step to incorporate the perspective of adaptive dynamicity into the SMP approach. Briefly, the distinctive capabilities theory contends that firm capabilities are complex bundles of skills and accumulated knowledge which enable the firm to coordinate activities and make use of assets (Day & Nedungadi, 1994; Day, 1990, 1994, 2000, 2001). Conceptually and empirically, firm capabilities have been deemed one of the key factors for achieving competitive advantage (Day, 2001; Weerawardena, 2003; Weerawardena and O’Cass, 2004; Weerawardena et al., 2006). The distinctive capabilities theory is highly related to the RBV, because it also focuses on how the form utilizes its resources and capabilities to enhance performance. As for researchers of the RBV, it is postulated that the firm should take strategic actions to exploit its resources and abilities in order to put its capabilities to best use so that it may possess distinctive capabilities for superior performance in the market it operates within (Oliver, 1997; Foley & Fahy, 2004; Hult et al., 2005). A classification of four distinctive capabilities was proposed by Day (1990, 1994, 2000, 2001), and then was developed by strategic market positioning theorists (Di Benedetto & Song, 2003; DeSarbo et al., 2005):

- Inside-out capabilities refer to the capabilities to enhance cost efficiency, operational process management, and quality control, and develop product or service offerings that have differentiating strengths comparing to competitors.
• **Outside-in capabilities** are those linking the firm with the needs of consumers, managing consumer relationships, establishing cooperation with distribution channels, and making adjustments to market evolution.

• **Marketing capabilities** allow the firm to improve market segmentation accuracy, plan and implement effective marketing communication, and conduct successful sales promotions.

• **Information technology capabilities** refer to the capabilities to use information technology to facilitate the creation of business knowledge, to enhance cross-functional integration and to help with product innovation.

Going beyond the predominant emphasis placed by the RBV on resources and capabilities, the SMP approach advocates the notion that distinctive resources and capabilities alone are not enough for achieving competitive advantage. Rather, it articulates that capabilities should co-align with the firm’s strategic orientation in the *prospector-analyzer-defender* spectrum (Song & Montoya-Weiss, 2001; Di Benedetto & Song, 2003; Song et al., 2007). Specifically, the *defender*, whose top priority is to maintain prominence within its chosen market segment, has to focus more on outside-in capabilities and marketing capabilities. The *prospector* earnestly searches for emerging market opportunities and regularly experiments with potential responses to possible environmental trends, so inside-out capabilities and information technology capabilities come to the fore. As for the *analyzer*, its major concern is to strike a balance between the stable and changing domains of product categories, so it takes a middle road between defender and prospector. In other words, in order for the firm to pursue superior performance, distinctive capabilities and strategy types must synergize. Without such synergy, the firm usually ends up being a reactor that has neither strategic planning nor a systematic evaluation mechanism, and may thus become highly susceptible to market pressures and eventually be driven out of business.

**Blue Ocean Strategy**

**Key Concept of BOS**

Akin to the transformative dynamicity perspective of the RDCs, the Blue Ocean Strategy (BOS) approach proposed by Kim and Mauborgne (2004, 2005a, 2005b) reiterates the stance that the firm should seek radical value innovation in its products, service and delivery to woo customers, satisfying needs and wants that competitors do not or cannot satisfy. In the market space metaphorically described as a red ocean, all products are similar in one way or another. Differentiation is low, so pricing becomes a crucial factor for attracting customers, which results in low profitability. In contrast, in blue oceans there are ample opportunities for the firm to find and then satisfy the potential needs and wants of customers, providing them with the kind of products, service and delivery that
are uniquely valuable and can lead to strong customer bonding. The sales volume goes up so quickly that price stays low due to economies of scale, and the firm enjoys high profitability, while customers enjoy reasonable prices.

Like the RDCs scholars, the BOS theorists do not fully refute competition-based strategy, admitting that many firms have to navigate successfully in red oceans by outcompeting rivals and that red oceans will always matter and be a fact of business life (Kim & Mauborgne, 2004, 2005a, 2005b). However, the BOS approach is more concerned with the phenomenon that supply exceeds demand in more and more industries. Competing to get a share of the contracting market may be necessary for survival reasons, but it does not lay a solid foundation for achieving superior business performance. Therefore, in a high-velocity market environment successful firms need to transcend competition in established and crowded industries. Instead, they seize new profit and growth opportunities by strategies formulated out of transformative dynamic capabilities to create blue oceans. Worthy of note is that the BOS approach emphasizes that while some blue oceans are created well beyond existing industry boundaries, many are created within red oceans through the strategy of expanding existing industry boundaries (Kim & Mauborgne, 2004, 2005a, 2005b). Competition is irrelevant in blue oceans, because the rules of the game are not fixed. The wider potential of the blue-ocean market space is vast, deep, and unexplored, so the firm that co-aligns its resources and capabilities with its strategy of transformative dynamicity to open up such a space has a better chance of sustaining superior business performance.

**Strategy Canvas**

According to the BOS approach, the firm has to use the method of *strategy canvas*, which is both a diagnostic and an action framework for building a compelling blue ocean strategy (Kim & Mauborgne, 2004, 2005a, 2005b). The horizontal axis of the strategy canvas helps the firm to capture the current state of play in the known market space, allowing the firm to understand where the competition is currently investing, what the factors the industry currently competes on in products, service, and delivery, and what customers receive from the existing competitive offerings on the market. The vertical axis captures the offering level that customers receive across all of these key competing factors. Completing the drawing of the horizontal axis and the vertical axis, the firm arrives at a value curve, which is a graphic depiction of the firm’s relative performance across its industry’s factors of competition. To open up blue oceans, the firm must make a fundamental shift in the value curve. First, it reorients its strategic focus from the current competitors to potential alternatives and from existing customers to prospective customers. In order to ensure value and cost, the firm resists the old logic of choosing between differentiation and cost leadership (Kim & Mauborgne, 2004, 2005a, 2005b). In other words, it is not only a choice of either high differentiation with high price or low differentiation with low price. Shifting its strategic focus from current competition to alternatives and prospective customers, the firm gains insight into how to redefine the
main problems facing the industry and then knows how to reconstruct customer value elements that reside across industry boundaries. Unlike the conventional strategic logic that offers better solutions than rivals to existing problems defined by an industry, the logic of the BOS approach is to provide radical value innovation that rivals do not conceive.

Four-Action Strategic Framework

For the BOS theorists, crafting a new value curve involves reconstructing customer value elements. They present the four-action strategic framework to formulate the firm’s strategic orientation and business model (Kim & Mauborgne, 2004, 2005a, 2005b). The first action is eliminate: the firm considers which resource factors that have long been taken for granted and invested in are no longer valuable or even detract from value. Those factors appear when there is a fundamental change in what customers perceive as valuable but firms in the industry are still focused on benchmarking one another. To eliminate those factors is the initial step to reconfigure the firm’s resources. The second action is reduce: the firm determines whether products or services have been over-designed or provided excessively in the race to match and beat the competition. If that is the case, the firm suffers from increasing its cost for no substantive purpose, so it has to make reductions. The third action is raise: the firm now has discovered the elements that constitute unique customer value, so it does whatever possible to raise them above the average standard, making the uniqueness even more unique. The fourth action is create: the firm uses the insights gained from the previous three actions to create entirely new sources of customer value and new demand. The four actions culminate in reconstructing the firm’s value curve across alternative industries to offer customers a totally new experience, while simultaneously keeping the firm’s cost structure low. The result is that the firm makes the existing basis of competition irrelevant by co-aligning its resources and strategies to transcend industry boundaries. Thus, it provides radical value innovation and creates a blue ocean either outside or within a red ocean.

Main Divergence

Divergence between DCs and RDCs

As analyzed previously, the very obvious difference between the SMP and the BOS is attributable to different conceptualizations of dynamicity. The SMP approach is more oriented toward the conceptualization of path-dependent and adaptive dynamic capabilities, while the BOS approach is akin to the conceptualization of path-breaking and transformative dynamic capabilities. This difference exactly reflects the major divergence between the DCs and the RDCs.
In general, the DCs paradigm is rooted in evolutionary economics, while the RDCs paradigm tends to be geared around the complex system theory (E Cunha & Da Cunha, 2006; McGuinness, 2008). Evolutionary economics pays attention to the historical path embedded in organizational memory, which brings about adaptive innovation that causes the firm to sustain its competitive advantage. The complex system theory, interested in the idea that changes initiated by just one agent in the system may result in drastic changes to other agents across the system, is inclined to seek transformative innovation that the firm may generate within the organization and then introduce to the market. Briefly, the DCs paradigm focuses on dynamic capabilities as path-dependent and adaptive activities directed to the development and adaptation of operating routines, which are structured and persistent in an organization; dynamic capabilities are said to be firm specific, highly unique, non-imitable and can lead directly to predictable competitive advantage. As for the RDCs paradigm, it conceptualizes transformative dynamic capabilities as having commonalities across organizations, so they are duplicable rather than firm specific. Dynamic capabilities are emergent and open-ended in nature, and in themselves are not the source of sustainable competitive advantage; they function as simple rules and best practices that the firm uses to further formulate effective tactics to transform the existing system. In summary, the two paradigms diverge in three areas:

1. Sources of dynamic capabilities
   - Dynamic capabilities develop from the firm’s path-dependent evolution and rational selection and retention of operating routines that are specific to the firm (the DCs paradigm).
   - Dynamic capabilities emerge from experimentation and improvisation and then take shape in simple rules and best practices that are not necessarily firm specific (the RDCs paradigm).

2. Learning behavior to constitute dynamic capabilities
   - The firm engages in step-by-step organizational learning to accumulate pertinent knowledge (the DCs paradigm).
   - The firm engages in experiential, fragile, and trial-and-error processes in creating new knowledge (the RDCs paradigm).

3. Outcome of dynamic capabilities
   - Sustainable competitiveness is directly achieved by dynamic capabilities (the DCs paradigm).
Dynamic capabilities per se do not generate sustainable competitiveness; only the ongoing innovation and change induced by dynamic capabilities can lead to sustainable competitiveness (the RDCs paradigm).

Divergence between SMP and BOS

Like the divergence between the DCs and the RDCs, the SMP and the BOS approaches also diverge in the aspects mentioned above. First, concerning “sources of dynamic capabilities”, the SMP approach specifically designates strategy types (defender, prospector, and analyzer) and a classification of substantive capabilities (inside-out, outside-in, marketing, and information technology) as the basic analysis units of strategic co-alignment, which must come from path-dependence and organizational memory. As for the BOS approach, it applies the strategy canvas (vertical and horizontal analyses to draw a value curve) and the four-action strategic framework (eliminate, reduce, raise, and create) to strategic co-alignment. These strategic tools in themselves can be regarded as simple rules not specific to any particular firms. Second, in the aspect of “learning behavior to constitute dynamic capabilities”, the SMP requires step-by-step organizational learning to accumulate pertinent knowledge about how to allocate the firm’s resources to match responsive and defensive actions (the defender strategy) and to match more entrepreneurial actions such as influencing uncertainty (the analyzer strategy) and innovating (the prospector strategy). To BOS theorists, the exercise of experiential, improvisational and highly fragile learning processes facilitates simple strategic rules (the strategy canvas and the four-action strategic framework) to reconfigure, integrate, and acquire resources for exploring multiple alternatives and quickly creating new knowledge to solve problems. Finally, in terms of the “outcome of dynamic capabilities”, the SMP approach apparently presumes a direct outcome of superior business performance from the best fit among the allocation of substantive resources, the choice of strategy type, and the market in which the firm resides. The BOS, focusing on creativity and an out-of-the-box style to accomplish radical value innovation, emphasizes the ongoing process of using the strategy canvas and the four-action strategic framework to create radical value innovation in order to transform the constraints of industry boundaries. It is geared around radical value innovation rather than the linking of superior business performance directly to strategic tools.
Avenues for Integration

Both the SMP and the BOS are strategic management approaches that aim to solve problems caused by the increasing velocity of today’s market. The SMP applies the concept of adaptive dynamicity for choosing appropriate strategic orientation in co-alignment with the firm’s resources and capabilities to adapt to the velocity. As a result, established competitive market positioning leads to the firm’s power for outperforming competitors. In contrast, the BOS approach shifts its strategic focus from the current competition in the existing market to radical value innovation alternatives and prospective customers. The expected result is a reconstruction of customer value.
elements, which gives the firm power to set the rules of the game and redefine the value standard in the market. Though divergent in major ways, the two approaches may be complementary in other ways. In order to bring out their complementariness, the current study applies the market environment dynamics theory alongside other pertinent theories, and then theorizes that the two dimensions of (1) scanning of market velocity and (2) management of strategic balance are essential elements in integrating the SMP approach and the BOS approach for strategic co-alignment in strategic marketing management. In consequence, a conceptual model of dual dynamicity for strategic co-alignment emerges as shown in Figure 1. A theoretical elaboration as well as the practical implications of the model are given in the next sections.

**Scanning of Market Velocity**

A conventional view of the product market depicts products or services offered by corporate organizations as having life cycles in the market environment, similar to those of mortal organisms in the natural environment. This view is ascribable to the product life cycle model (PLC), which appeared in the late 1950s. According to PLC, every product in the market is mortal, going through the stages of introduction, growth, maturity, and decline. However, many researchers criticize the model on the ground that the dynamics in the contemporary product market bears little resemblance to PLC’s oversimplified depiction of a stable state (Klepper & Graddy, 1990; Agarwal & Gort, 1996). Major criticism points to the model’s failure to explain why quite a lot of products do not “die”. In other words, the PLC model neglects the distinction among product class, product form, and brand category. Also, it is questioned for failing to acknowledge the fact that products differ according to innovation, pricing, and changes in technology, consumer preferences, and economic circumstances.

In contrast to PLC, the business ecosystem theory tries to present a dynamic picture for depicting different industry ecosystems of the market environment in which corporate organizations may exist (Lawson & Samson, 2001; Farjoun, 2002; Lei & Slocum, 2005; Antuahene-Gima & Li, 2004; Saurez & Lanzolla, 2007). First, it separates market environment dynamics from mechanistic delineation, so the basic logic of industry ecosystems is no longer analogical to that of mortal organisms. Second, the concepts of industry life cycle and technology change replace the concept of a mechanistic product life cycle, thus presenting a holistic perspective to observe product class and industry category in the market environment. Third, evolutionary change and radical change in industry ecosystems is understood as the outcome of the interaction between internal factors in the organization and external factors in the market. Apparently, the business ecosystem theory postulates that the maturity of the industry life cycle and the rate of technology change have a joint impact on market velocity (Lawson & Samson, 2001; Farjoun, 2002; Lei & Slocum, 2005; Antuahene-Gima & Li, 2004; Saurez & Lanzolla, 2007; Khalifa, 2008). In general, the maturity of the industry life cycle characterizes an initial period of slow growth immediately after first product commercialization, followed
by gradual increase, take-off, or going under; change in consumer tastes, emergence of new regulations, degree of market segmentation, and consumer learning ability may affect the pace of market evolution in an industry category, which in turn affects the category’s sales and profit margins. The rate of technology change refers to the speed at which a particular technology evolves from a basic and narrow to a more advanced and wide state of application, and it can be subject to the influence of such factors as patents, available knowledge and skills, integration with existing or emerging technologies, and development of complementary technologies. In research conducted by Lei and Slocum (2005), a blanket review of the key concepts related to the business ecosystem theory constitutes four types of industry ecosystems. The two dimensions of maturity of the industry life cycle and rate of technology change create four different industry ecosystems:

- **High maturity of the industry life cycle with a low rate of technology change** lead to a **steady evolution ecosystem**, which is characterized by stable industry structure, well-established competitors, few opportunities for product differentiation, importance of scale and size, emphasis on cost efficiency, and knowledgeable customers (velocity: mild).

- **Low maturity of the industry life cycle with a low rate of technology change** yield a **fast growth ecosystem**, which features a focus on developing core product concepts, rivals attempting to differentiate, building scalable and replicable business models, and value propositions to pursue customer loyalty (velocity: moderate).

- **High maturity of the industry life cycle with a high rate of technology change** bring about a **creative destruction ecosystem**, which exhibits an increase in technology change, new entrants from other industries, new technologies reshaping underlying value propositions, and established firms facing loss of market share (velocity: high).

- **Low maturity of the industry life cycle with a high rate of technology change** creates a **wild west ecosystem**, which is characterized by uncertain market boundaries, multiple competing technologies and standards, numerous entrants from numerous industries, and the need to pursue customer lock-in (velocity: extreme).

Being able to specify the market velocity, the firm gains the necessary insight into accomplishing effective strategic co-alignment by integrating the SMP and the BOS approaches. Otherwise, the firm can easily find itself traveling in the vastness of the market without a compass to lead it in the right direction. To get a compass that guides the firm to an appropriate integration of the two approaches, the firm should establish a mechanism for the scanning of market velocity, which watches for the maturity of the industry life cycle and the rate of technology change. As Lei and Slocum (2005) and Khalifa (2008) point out, in order to ensure the overall coherence of a corporate strategy, the senior management should evaluate the firm’s strategy in totality and the strategy of
each strategic business unit (SBU) respectively within the context of industry ecosystems. Both the firm-wide and SBU strategies are part of a larger operation, so they require the coherent development of the competencies and resources to perform most successfully in the competitive setting. In this sense, the market-velocity scanning mechanism plays a crucial role in providing detailed profiling of industry ecosystems, after which the senior management as well as the executives of each SBU may together decide on how to bring out the complementary power of adaptive and transformative dynamicity for strategic co-alignment. The following section will elaborate on the specific ways of integrating the SMP and the BOS approaches in accordance with market velocity.

Management of Strategic Balance

The market environment dynamically evolves from one industry ecosystem to another. Firms in different ecosystems encounter different challenges, so consideration of strategies and resource constellations has to be contingent on each ecosystem. Simply put, the different nature of ecosystems requires variations in strategic co-alignment for different innovations (Lawson & Samson, 2001; Christensen & Raynor, 2003; Pavlou & El Sawy, 2006). When the firm resides in mild- and moderate-velocity ecosystems, the adaptive dynamicity perspective adopted by the SMP approach may prove an effective strategic option. It engenders adaptive innovations that represent incremental improvements either in the price-quality ratio, or in the performance of existing products. Similar innovations alter the old technique, but without nullifying the current knowledge base or existing product structure. The strategy types (defender, prospector, and analyzer) and the classification of substantive capabilities (inside-out, outside-in, marketing, and information technology) are the basic analysis units of strategic co-alignment, coming from path-dependence and organizational memory. Besides, step-by-step organizational learning accumulates pertinent knowledge about how to allocate the firm’s resources to match responsive and defensive actions (defender strategy) and to match more entrepreneurial actions such as influencing uncertainty (analyzer strategy) and innovating (prospector strategy). When the firm finds itself in high- and extreme-velocity ecosystems, the transformative dynamicity perspective adopted by the BOS approach may be a useful strategic option. It leads to transformative innovations that represent competence-destroying discontinuity either creating a new product class or substituting the existing one. A radically novel way of thinking and doing things breaks the current knowledge-base and existing product structure. The strategy canvas (vertical and horizontal analyses to draw a value curve) and the four-action strategic framework (eliminate, reduce, raise, and create) are simple and handy rules for strategic co-alignment. They require exercising experiential, improvisational, and highly fragile learning processes to reconfigure, integrate, and acquire resources for exploring multiple alternatives and to accelerate the development of new knowledge and a new value curve.
The management of strategic balance between the MSP and the BOS approaches lies in adjusting the focus of strategic co-alignment according to the specification of the primary characteristics of the industry ecosystem in which the firm now resides as well as of the industry ecosystem that the firm may enter in the next stage. In other words, of greatest importance is the realization that market environments in industry ecosystems are not constant (Lei & Slocum, 2005; Saurez & Lanzolla, 2007; Khalifa, 2008). They evolve, ranging from mild to extreme velocity, contingent on the maturity of the industry life cycle and the rate of technology change. In this sense, a particular industry resides in one particular ecosystem at one moment, but it may migrate to another ecosystem soon after. Thus, the rationale for prioritizing the SMP or the BOS approach is not absolute. Rather, the firm is advised to take a contingent and flexible view of the two approaches. At a given time, considering the level of velocity in the market environment, one approach may dominate, while the other approach may serve as a secondary but not neglected strategic option. Hence, the firm can face the current challenge with one full-blown strategic option while getting the other one ready for upcoming challenges. In the case of mild and moderate velocity, the firm may apply adaptive dynamicity as the strategic priority to preserve its competitive advantage, while fostering transformative dynamicity to pave the way for future development. In the case of high and extreme velocity, the firm has to activate transformative dynamicity to accelerate the pace of seeking new ground to transform its value curve, while exercising adaptive dynamicity to fine-tune its new market positioning.

The adaptive dynamicity of the SMP approach and the transformative dynamicity of the BOS approach do not necessarily contradict with each other for strategic co-alignment, as long as they are applied with an effective management of strategic balance that facilitates the firm’s prioritization of one approach while fostering the other simultaneously. Such a strategic balance is not static. Rather, it exists in a flexible and dynamic process in which the firm need not engage in all initiatives on all fronts at all times. Some initiatives should come first, followed by others, and then still others (Hambrick & Fredrickson, 2005; Pan et al., 2006; Wiltbank et al., 2006; Khalifa, 2008). To manage strategic co-alignment, there is a sequence in staging the strategic vehicles (adaptive dynamicity and transformative dynamicity), which is carried out in accordance with the velocity of the industry ecosystem in which the firm now operates and the industry ecosystem that the firm expects to get into in the next period of development. Successful strategic co-alignment is accomplishable only through the strategic balance the firm strikes between adaptive dynamicity and transformative dynamicity in a flexible and dynamic fashion in planning and execution. Briefly, the SMP and the BOS alternate in being prioritized according to the shifting velocity of industry ecosystems, and thus they generate a different but complementary power of dynamicity. Worthy of note is that managing strategic balance does not stand alone. It presumes the establishment of a mechanism for scanning market velocity, as discussed in the previous section. Without such a mechanism as a beacon, the firm cannot strike the right strategic balance, just as a ship cannot navigate without a compass. The two dimensions of market-velocity
scanning and strategic balance must work together to integrate the SMP and the BOS in bringing out the complementariness of adaptive dynamicity and transformative dynamicity; after which the firm may use dual dynamicity for strategic co-alignment to enhance the effectiveness of its strategic management.

Conclusion

Different perspectives of dynamicity result in different approaches to strategic co-alignment for managing resource configuration, strategy formulation, and market positioning. Though divergent from each other in their perspectives on dynamicity, both the SMP and the BOS approaches aim to solve problems caused by the increasing velocity in today’s market environments. The current study first reviews the theoretical foundations upon which the two approaches indirectly and directly build, and then integrates them primarily through the market environment dynamics theory. The dimensions of the scanning of market velocity and the management of strategic balance are proposed as two essential elements in dynamically integrating the SMP and the BOS. The conceptual model of dual dynamicity for strategic co-alignment developed by the current study explicates the theoretical rationales and practical applications of bringing out the complementary power of adaptive dynamicity and transformative dynamicity for strategic co-alignment in strategic management. As the model indicates, with the mechanism for scanning market velocity and the measures for striking the right strategic balance between the adaptive dynamicity of the SMP approach and the transformative dynamicity of the BOS approach, the firm stands a better chance of enhancing managerial effectiveness. To conclude, the author wishes to call attention to the avenues that the current study proposes for the integration of the SMP and the BOS approaches, which may serve as a powerful facilitator in achieving superior business performance.

References


