2 Frameworks and Theories around Dynamic Capabilities

2.1 Introduction to Organization and Strategic Management Theories around Dynamic Capabilities Addressing Adaptability or Sustainable Competitive Advantages

In this dynamic and complex environment as introduced in Chapter 1.1, the essence of an organization as being to coordinate people’s activities and to connect these activities to a meaningful whole is challenged, as although the fast-evolving environment requires fast coordination, it nonetheless still requires efficiency within the company as well (Kieser & Ebers, 2006). This also entails the constant monitoring of the environment, and a constant questioning of how to address requests resulting from environmental changes. Since companies are developing or acquiring knowledge and resources with increasing speed, the half-life of a competitive advantage like specialized knowledge is constantly decreasing. As companies gain the specialized knowledge they require to compete, the companies which previously had a monopoly on this knowledge now lose their lead. To take the Fortune 500 companies of 1970, for example, fewer than 40% of them still existed in their original form in 1991 (Lubit, 2001). In their article, Reeves and Deimler (2011: 137) also recognize that the uncertainty “poses a tremendous challenge for strategy making”, pointing out further that “traditional approaches to strategy – though often seen as the answer to change and uncertainty – actually assume a relatively stable and predictable world”, and “that sustainable competitive advantage no longer arises exclusively from position, scale, and capabilities in producing or delivering an offering because all those are essentially static”.

The dynamic capabilities framework addresses the above requirements regarding adaptability, and the sustaining of competitive advantage. This framework thereby fits in with other theoretical approaches aiming to explain successful adaptation and change. In strategy and organization science, and in parts of economics and decision sciences, there is still a debate concerning adaptability and sustainable
competitive advantages which has not yet been resolved despite decades of research, and continues in the face of joint research efforts and the huge growth of knowledge in this area. The great amount of research and the persistence of this debate reflect the different theoretical approaches and empirical methods applied to increase knowledge in the adaptation process of companies. The nature and source of the debate are highlighted by a comparison of strategic management and organizational ecology theories. Organizational ecology theories focus on selection, variation, and retention processes to explain the evolution of populations of organizations, while strategic management theories focus on firm-level adaptation as a function of strategy and organization design. In addition, organizational ecology research, is mostly disconnected from adaptation at the level of the individual organizational unit, and is therefore often regarded as not being able to contribute directly to explaining firm-level adaptation. Moreover, according to Lewin and Volberda (1999: 519) “the weak comparability of empirical findings across strategic management studies derives from the many competing theoretical formulations, proliferation of model specifications, and the absence of shared definitions for variables and measures.”

Consequently, the debate on adaptability and sustainability of companies continues. To provide an overall picture, it is deemed necessary to address the organisation theories as well as the strategic management theories. An overview of the most prominent approaches which discuss adaptability or sustainable competitive advantages will be provided in Chapter 2.2. This overview has primarily been derived from Lewin and Volberda (1999), and Kieser and Ebers (2006). By introducing the frameworks or theories and their respective critical analysis, the intention is to provide some background information on the origin of the development of the dynamic capabilities framework and the reasons behind it, along with a general understanding of the necessity of addressing adaptability and sustainable competitive advantages. Some readers might therefore also expect absorptive capacity or the knowledge-based view to be listed, but as these concepts have been not defined as a general theory of the firm, but, as regards the absorptive capacity, more as a concrete dynamic capability (Reilly & Scott, 2010; Wang & Ahmed,