Industrial Marketing Management **(Special Issue: Theory and Practice of Outside-in Marketing)**

Market Sensing, Dynamic Capability, and Competitive Dynamics

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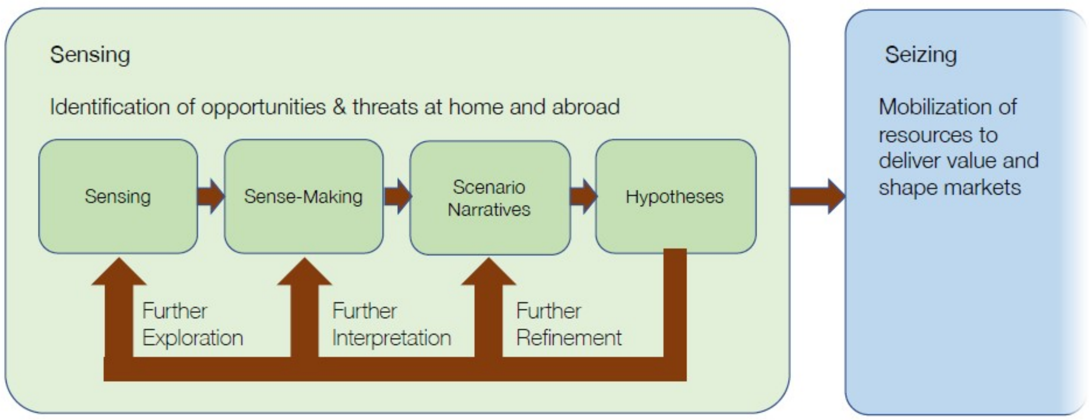
In their excellent piece titled Adaptive Marketing Capabilities, Dynamic Capabilities, and Renewal Competences: The “outside vs. inside” and “static vs. dynamic” controversies in strategy, Shelby Hunt and Sreedhar Madhavaram (2019) set out several perspectives on marketing strategy and adaptive strategies. Providing an excellent over-view of the neoclassical economics paradigm, they reveal the flawed perspectives of the Porterian view of Marketing Strategy, and the traditional Resource Based View of Competitive Advantage, that they rightly label as “static”. They also label these views, respectively the outside-in and inside-out, because of their approach to the boundaries of the firm. Hunt and Madhavaram put forward the Resource Advantage view of marketing theory, that they correctly identify as much more dynamic than the overly static views of strategic marketing. However it is clear to us that this view falls into another trap, namely a key element of successful strategy is superior resources (see for instance Figure 2 and item P6 in the list at the start of section 10). This perception has been criticised over the years by many great writers, especially Schumpeter, because it fails to understand the dynamics of competition.

Whether they are “inside out” or “outside in”, neoclassical views in marketing and strategy overlook a really crucial “fact” of competition: what was once a valuable resource or market position can become outdated when consumer needs and technology separately or simultaneously change and rivals dream up new ways of identifying and fulfilling wholly new wants in wholly new ways that fundamentally challenge the old order – as vividly illustrated by the demise of Kodak and Nokia. It is trivial to note that a firm needs some level of resources and some level of brand recognition or market presence to grow to become a major success, as evidenced by the fact that in many markets start-ups cannot succeed until they have received a certain level of funding and are backed by names that give them some credibility and resource base. But it is not true that more money or more brand power translates into greater chances of success. Nor is it true that more patents, or more human intellect are the key resources either.

The key problem facing most organizations is not economic, in the sense of more or diverse resources and capabilities, or even more loyal customers; rather it is cognitive and perhaps even emotional (see for instance Porac, Thomas and Baden-Fuller, 1989). The cognitive side of competitive dynamics are completely omitted from traditional neoclassical economics. They are also given only scant attention in the Resource Advantage view (where the information problem is given more prominence). It is the capacity of established firms (and new ones too) to see possibilities that others have not seen, and the capacity to inspire and mobilize employees and strategic partners to commit resources to exploit the perceived possibilities that is the core of competitive dynamics. And the theory makes it clear that we do not necessarily need heroic entrepreneurs; the perception of the possibilities can be resident in a team, or in some cases (such as Haier) across a wide range of managers all pushing in the same direction (see in particular Baden-Fuller and Stopford, 1994). The assembling and orchestration of resources can come from inside the firm and from partners including some who have had no history of involvement with the firm (Lorenzoni and Baden-Fuller, 1995).

The Dynamic Capabilities framework of Teece (2007, 2014, 2016, 2017a, 2017b) is not so much a theory as a framework that explains the managerial mechanisms embedded in the Austrian-Schumpeterian theories of economic competition. In particular, whilst it is not normally framed as a cognitive theory, it has cognitive and perhaps even emotional dimensions. The framework talks of the need to sense (identifying developments) and then makes sense ("sense making") of opportunities. This process has elements of the rational (doing market research) and the irrational and emotional (dreaming up new things, perhaps with the help of directed AI algorithms in cases such as Google). It leads to the development of provisional hypothesis about "what's going on," and then the quasi validation of certain hypothesis which then become the basis for decisions (execution). This can be called "seizing." It is the execution steps and involves mobilizing resources. Organizations need leaders to inspire, in order to get resources committed to novel previously untried projects. And the final step is to leverage and cement these changes, which again requires leadership, as well as some level of resource.

Dynamic Capabilities analysis begins with an iterative sensing phase that explores various narratives to develop hypotheses on market and ecosystem development



Source based on: "Explicating Dynamic Capabilities: The Nature and Micro-foundations of (Sustainable) Enterprise Performance, "Teece, Strategic Management Journal, December 2007

Figure 1

We suggest that the long lists of all the possible things that include resources that companies love to amass in the expectation of long life and success are dangerous, and fail the test of parsimony. To be successful, three simple but profoundly difficult tasks have to be undertaken; of which the first is really difficult – that of sensing of opportunities and persuading others that such opportunities are worth pursuing speedily with the resources at hand supplemented by those of alliance partners. Firms that have amassed loyal customers, sustained market presence or any long list of resources, are at a significant disadvantage here due to embedded routines that favor the status quo and reject the new.

Putting the Austrian school to one side, dynamic capabilities as a framework cannot be "shoe-horned" into traditional theories of economic competition, because in essence they challenge the equilibrium thinking embedded in these frameworks.

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