

Dynamic capability: Everything you need to know

Author: Kudzai Derera . March 2022

Introduction

Dynamic capability is a [competitive advantage theory](#) that applies to circumstances that are always changing. Every great business is focused on developing excellent capabilities or getting a competitive edge by doing things extraordinarily well. The role of skills in [management strategy](#) and corporate innovation has risen dramatically in recent years.

[David Teece](#), a professor at the University of California at Berkeley's Haas School of Business, coined the term "dynamic capabilities" to describe how businesses balance two seemingly opposing goals. They must be stable enough to continue to provide value in their unique way, as well as resilient and adaptable enough to change course on a dime when circumstances require it.

What is a dynamic capability?

A capability is a collection of learned procedures and actions that enables an organization to achieve a specific result. Best practices are similar to [ordinary skills](#). They usually start in one or two companies before spreading across the industry. Every manufacturer knows how to build an assembly plant and get equipment rotations on the assembly line to be relatively quick. An [example of a dynamic capability](#) in the motor manufacturing industry is Toyota's manufacturing system which every company has mastered after 25 years.

[Dynamic capabilities](#), in contrast to ordinary capabilities, are idiosyncratic: they are unique to each firm and are found in its past. They're encapsulated not only in routines but also in decades-old and difficult-to-copy business concepts. According to [Lynda Gratton](#) and the late [Sumantra Ghoshal](#), the dynamic capabilities were dubbed "signature processes". These signature processes are usually based on things the organization has done in the past, dating back to its inception. However, it is important to note that companies adapt in a method similar to evolutionary fitness. As the business specialty shifts, the capacity shifts with it.

What are the three types of dynamic capabilities?

Three [managerial operations](#) that can make a capacity dynamic, i.e. continuous renewal, are:

1. **Sensing:** Finding and assessing opportunities outside the firm
2. **Seizing:** Mobilising the resources to acquire value from those chances
3. **Transforming:** Innovation, decentralisation and [knowledge management](#)

This approach illustrates how to get the future right: how to position today's resources effectively for tomorrow, as stated in [David Teece](#)'s study "[Explicating Dynamic Capabilities](#)" [Strategic Management Journal, Dec. 2007].

[Nokia](#), for example, missed the smartphone revolution because it lacked sensing capabilities - especially when compared to [Apple](#), which was immersed in the environment that was spawning the next generation of smartphones. [Steve Jobs](#), based in the San Francisco Bay Area, had a keen feeling of what customers wanted and what technologists were up to. More crucially, he gradually developed the capabilities that [Apple](#) required. [Apple](#), for example, developed capabilities in digital rights management and mobile device design to make the iPod function. Jobs and his staff learned how to negotiate with studios and record labels and how to combine user-friendly technology with a visually appealing form factor.

Nokia had a research lab in Berkeley, but its headquarters were in Finland, and they depended too heavily on their [research and development](#). They were able to access science, but they could not access the state of mind. A firm's ability to integrate, build, and reconfigure internal and external resources/competencies to meet and shape quickly changing business environments is referred to as [dynamic capabilities](#).

Certain change processes (e.g., product development along a known trajectory) and analysis can occasionally be the source of dynamic capabilities (e.g., investment choices). They are, however, more usually associated with innovative managerial and [entrepreneurial](#) actions (e.g., pioneering new markets). They reflect how quickly and to what extent the firm's unique resources/competencies can be aligned and realigned to meet the opportunities and demands of the business environment. Because markets do not price them at their worth to the buyer if the buyer has complementary and, in particular, co-specialized assets, an organization with high [dynamic skills](#) can earn abnormal returns.

What is an example of a dynamic capability?

Some businesses can profitably reinvent themselves regularly. However, for every company that succeeds in transformational growth, many more are unable to adapt. Their [failure to prosper](#) could be due to a lack of specific [competencies](#) in areas like research and development or the capacity to acquire other businesses that allow them to adapt to and support change. These dynamic skills are important to a company's long-term success in today's period of rapid [technological development](#).

[Apple](#) is a good example of a firm that has evolved in response to fast change thanks to its dynamic capabilities. Apple is a one-of-a-kind case. Although the corporation isn't a technological leader, it has [a track record](#) of successfully marketing technologically-based items to consumers and generating features that people enjoy.

According to researchers, part of Apple's success has been its ability to overcome the drawbacks of "path dependence," or the role that prior experience and history play in what a firm is capable of and what it chooses to accomplish. Even when the world around them company changes, companies with high path dependence have a hard time changing what they do. They keep traveling along the same route, regardless of what is going on in the environment.

Fortunately for Apple, history does not repeat itself. The path dependence of the company has been as strong as it has been for others. Even though the business has different strengths and is handled differently, it has been successful in entering [new markets](#) and reinventing itself.

Part of what has allowed the company to adapt to change has been its leadership, which has differed from company to company. Leadership significantly influences the types of dynamic capabilities organizations to attempt to build. Typically, such a push will come from the top, and this type of leadership is referred to as the dynamic management capacity.

As it has developed and reshaped several markets, Apple has shown to be a [paradigmatic practitioner of dynamic capabilities](#). Table 1 shows how components of the primary categories of dynamic capabilities were reflected in each of the company's major product debuts. Apple's [strategy implementation](#), in particular, has established and molded markets.

Table 1: Dynamic Capabilities at Apple

Product	Sensing	Seizing	Transforming	Result	
iPod	Existing players were considered "geeky" by some.	MP3 were product cycle, aesthetically pleasing portable device with a simple UI; eventually, improve appropriability with exclusive FairPlay DRM in the iTunes Music Store.	Over an accelerated development create an aesthetically pleasing portable device with a simple UI; eventually, improve appropriability with exclusive FairPlay DRM in the iTunes Music Store.	iTunes software will be ported to Microsoft's Windows platform; the iTunes Music Store will be expanded into content distribution, and the company's focus will shift from computers to consumer devices.	The dominance of the portable digital music player industry; video capabilities growth (playback and distribution).
iPhone	Existing "smartphones" had a clumsy UI that harkened back to their mobile phone beginnings.	Create a multimedia phone with a large screen and an intuitive UI, and use the App Store architecture to drive complementary asset production.	Enter the regulated telecommunications market by developing telephony capabilities.	one of the few companies that profit from smartphones	
iPad	"Netbooks" offer an unsatisfactory computing experience, while "e-readers" have limited capabilities.	To provide a richer multimedia platform without phone capability, scale up the iPhone UI.	Extend the aesthetic of a "simple interface" to a computing platform	(too early to know)	

Why are dynamic capabilities important?

All businesses try to develop internal skills that provide them with a competitive advantage. To respond quickly, flexibly, and innovatively to technology and market developments, today's businesses must be quick, adaptable, and inventive. They must be able to reinvent themselves and evolve due to the change. Dynamic capabilities are the characteristics that allow businesses to adapt to quickly changing circumstances while maintaining a [competitive advantage](#). They are important to a company's long-term success.

Conclusion

There is no such thing as a universal capacity for change adaptation. It simply isn't there. Companies that

create unique, dynamic capabilities that enable them to respond more quickly in times of fast change, on the other hand, have a better chance of succeeding. Managing a company in a changing environment necessitates a high level of [strategic thinking](#). However, there is always some level of ambiguity, making it difficult to determine which factor is most crucial in maintaining a competitive edge.

With the support of dynamic capabilities and strategy, businesses can change and pursue strategic goals. To pursue effective digital business model innovation or [digital transformation](#), incumbent firms build dynamic capabilities across industries. They're reorganising their internal and external resources to take advantage of new technology, adjust to shifting consumer preferences, and, ultimately, surpass the competition. Investing in dynamic skills will give a company long-term value, regardless of the industry or type of change.

Kudzai Derera is the Business Systems Manager at Industrial Psychology Consultants (Pvt) Ltd, a management and human resources consulting firm.

LinkedIn: <https://zw.linkedin.com/in/kudzaiderera>

Phone: +263 242 481946-48/481950

Mobile: +263 773 523 084

Email: kudzai@ipcconsultants.com

Main Website: www.ipcconsultants.com

<https://thehumancapitalhub.com/articles/dynamic-capability-everything-you-need-to-know>