Orchestrating the new dynamic capabilities

The emerging technological landscape enables firms to put dynamic capabilities into practice easier than ever before.

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When Skype first burst onto the scene, everyone predicted the familiar story of disruptive innovation in the telecom industry, where the new destroys the old way of doing business in a spiraling zero-sum game. Fast forward to the present: Apple's iPhone has shown a new win-win path to success using collaborative innovation on the Web. The iPhone brought together thousands of handset makers, operators and software developers, giving them a considerable share of a market already worth $2 billion a year, and reinvented several industries in the process.

In a similar fashion, diverse companies – from Google and Amazon, to IBM, Cisco and Intuit – are continuing to innovate their business models and grow, despite the economic crisis, with revenue and success widely shared. Many industry leaders are wondering if the core principles of strategic management and competitive advantage have changed. The answer, we argue, is a resounding yes.

Here's why: The Web has changed the economics of business and collaboration. Companies can no longer conceive of their capabilities in isolation, but must learn to co-create them within a broader, dynamic and non-zero-sum ecosystem of external partners. The new "managed" but open ecosystems range from "orchestrated" standards-based networks of developers, to communities and "crowds" of lead users and bloggers, to e-commerce affiliates, to complementary businesses that cross industry divides.

A highly cited *Strategic Management Journal* article from 1997 once defined "dynamic capabilities" as a company's strategic ability to combine inside and outside competences to address volatile environments and periods of rapid change. *Orchestration* was lauded over positioning, *management innovation* and *combinations* over structure, and *transformative collaboration* over traditional strategizing as the means of gaining competitive advantage.

Few could have predicted when that article was written the widespread social transformation that the Web, broadband and mobile technologies would trigger, nor the exponential growth of Google, Facebook, Twitter, Amazon and Apple – businesses that rely on the economics of network effects, social influence, viral distribution and Web-enabled business models. Now, thanks to Web 2.0 business models and platforms, collective user value, along with ways to more productively monetize and enhance the "wisdom of the crowd," has become commonplace. It's the modern version of the old fable "stone soup," in which hungry villagers each contribute whatever they can spare – a carrot here, a potato there, some leftover scraps of meat. In the end, everyone enjoys a hearty, collectively co-created soup. The Web is today's soup pot, taking individual contributions, remixing them and redistributing them as something new across many networks with almost zero costs.

This year, Berkeley's Oliver Williamson won the Nobel Memorial Prize in Economic Sciences for his research on the transaction costs underlying industrial structure and organizational boundaries. These are the very same transaction and coordination costs that Webenabled business models are transforming substantially. Little wonder that "collaborative innovation" and the new "dynamic capabilities" of orchestrating knowledge, ecosystems, partnerships and collective user value across multiple industrial and geographic boundaries have become top strategic priorities for the Fortune 500 agenda.

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