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STRATEGIC MANAGEMENT FOR COMPETITIVE DYNAMICS

Firms that earn persistently higher levels of profit than competitors have a competitive advantage (Grant, 2008; Porter, 1985). A variety of theories within the strategy domain address competitive advantage as a way of explaining how management decisions or market factors lead to superior economic performance. One of the major questions in strategic management is to what extent firms should be consistent in their strategy and structure. Flexibility and speed seem like necessary conditions for competitive advantage (Eisenhardt & Brown, 1998).

The term “competitive dynamics” has been used in many contexts, ranging from studies of the competition among species for survival to those considering how different organizational forms vie for dominance, and to studies pursuing game theoretic models.

In contrast to the traditional approaches taken to study these issues, competitive dynamics research embraces as the primary object of study the competitive actions of a firm. The intellectual roots of this micro-level focus on individual actions can be traced to Schumpeter’s (1950) conception of creative destruction, which he used to characterize the dynamic process by which firms act upon and react to one another in the pursuit of market opportunities. Indeed, creative destruction was defined as the eventual—and inevitable—decline of firms through the process of competitive action and reaction. Firms act and rivals respond, and these actions and reactions determine survival and long-term performance.

Competitive dynamics refers to the interplay in the series of initiative and responsive competitive actions among firms in a competitive situation. Accordingly, the key unit of observation is an individual competitive action, a discrete, concrete and detectable action by a company to enhance or defend its competitive advantage vis-à-vis its competitors (Chen and Hambrick 1995; Miller and Chen, 1996). Individual competitive actions do not enhance a firm’s survival probabilities without being consistent both with the firm’s own history and with the rate and the nature of change in the environment. Both of these issues have been studied previously, but not as an integrated construct.