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How to Use Dynamic Capabilities to Be Innovative and Profitable

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In a business world that changes faster than ever, having cutting-edge technology isn't enough. What matters is the ability to reconfigure your company — its resources, processes, and business models — before the market forces you to. That's where *dynamic capabilities* come in. Drawing on decades of experience at Ericsson and academic theory, this article explains what dynamic capabilities are, why they matter, and how you can build them to stay ahead.

Transformation

When I joined Ericsson in the late 1980s, the company built telephone switches for national telecom operators — a stable business based on hardware sales. By the time I left in 2007, Ericsson had reinvented itself multiple times. It had moved from hardware sales to software, services, and even down-the-line visions of what later became cloud, mobile internet, and managed services. The company remains a benchmark for how to transform profitably.

Yet I doubt that we ever used the term “dynamic capabilities” internally at Ericsson. That language belongs to the field of academic strategy theory. When I later encountered the concept, I realized it described exactly what Ericsson had done — repeatedly reinventing its portfolio, business models, and value propositions in response to changes in technology, competition, and regulation.

What are Dynamic Capabilities?

Defined initially by David J. Teece (with Gary Pisano and Amy Shuen) in 1997, dynamic capabilities are “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments.” ([Wikipedia](#))

In short, ordinary operational capabilities enable a firm to “do things right.” Dynamic capabilities allow a firm to “do the right things” — flexibly, proactively, in tune with a shifting landscape. ([ScienceDirect](#))

Later scholars refined the concept. Kathleen M. Eisenhardt and Jeffrey A. Martin (2000) described dynamic capabilities as organizational processes—routines that enable a company to integrate, reconfigure, learn, and adapt in fast-changing markets. ([Studocu](#))

A widely used breakdown of dynamic capabilities separates them into three interrelated capacities:

- **Sensing** — spotting opportunities and threats, understanding changing customer needs, technology shifts, and market dynamics. ([IPBA® Connect](#))
- **Seizing** — mobilizing resources and capabilities to respond, for instance, launching new products, forming partnerships, or reworking business models. ([ScienceDirect](#))
- **Transforming** — continuously reconfiguring and renewing the firm's resource base and organizational structure to stay relevant. ([ScienceDirect](#))

Dynamic capabilities thus live at a higher level than day-to-day operations. They govern how a firm adapts, not just how it performs current tasks. ([open.ncl.ac.uk](#))



Sensing. Seizing. Transforming.

Why Dynamic Capabilities matter

In stable markets, operational efficiency may yield short and medium-term gains. But in turbulent markets — shifting regulations, new technologies, emerging competitors — operational excellence alone turns quickly obsolete. Dynamic capabilities offer a pathway to long-term survival and competitiveness. ([Strategy+business](#))

Firms with strong dynamic capabilities can achieve “abnormal returns” — profits above what is usually expected — because they manage to align and realign

resources better, faster, and more strategically than competitors. ([ScienceDirect](#))

Dynamic capabilities also allow firms not only to react to change but to shape the direction of their markets. By reconfiguring assets, business models, and value offerings, companies can lead rather than follow. ([ScienceDirect](#))



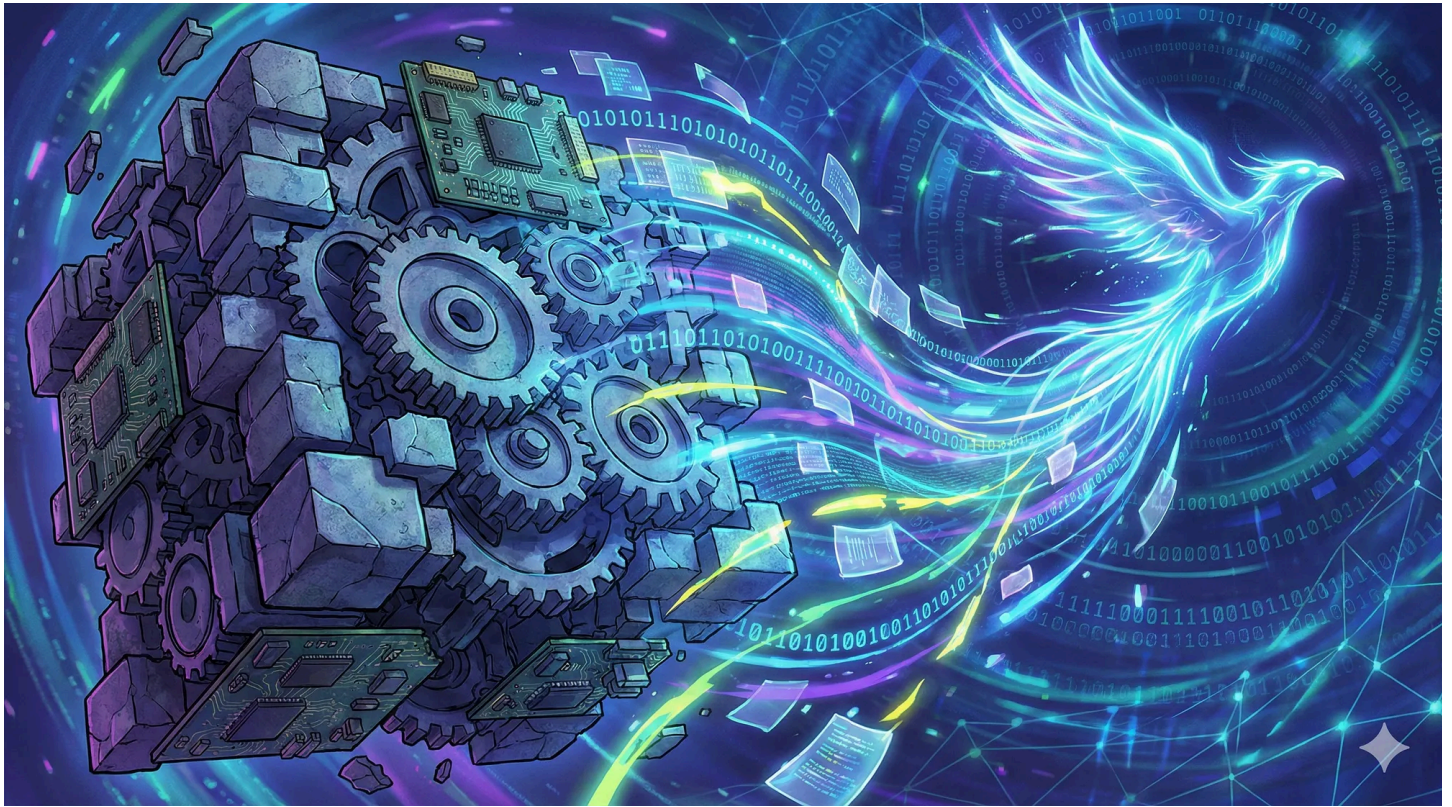
How Ericsson “lived” Dynamic Capabilities

My time at Ericsson provides a vivid real-world case of dynamic capabilities in action. A few concrete examples:

- **Regulation and market liberalization:** In the 1990s, many countries deregulated their telecom sectors. Instead of a single national operator, multiple regional or private operators emerged. Ericsson’s previous business model — a hardware sale to one operator per country — broke down. Customer requirements changed from detailed hardware specs to simplicity: telecom operators now asked for “the most profitable product you can offer.” Ericsson had to adjust to scale: produce, test, and deliver many more varied system configurations with existing resources. The response — product management functions, more flexible resource allocation, and more innovative delivery processes — gave rise to a dynamic capability.

- **Transition from hardware to software and services:** Ericsson shifted from selling hardware at a cost per kilo or unit to selling software functionality, managed services, and monthly recurring fees. In 1993, we launched a service catalogue with clear value propositions, responsibilities, pricing, and contract templates — a new offering that many customers initially resisted because services had previously been free. This showed how dynamic capabilities allowed us to reconfigure not only resources but also the business model and value delivery.
- **New business lines: mobile telephony, mobile internet, managed services, integration services.** Over time, Ericsson moved from closed, proprietary hardware systems to open, standardized systems and software, requiring new integration, design, architecture, and support services. We created internal accelerator initiatives attracting entrepreneurial-minded employees worldwide. I worked on early versions of what would later become downloadable game and video services, years before mobile apps and cloud services existed. We charged telecom operators monthly fixed fees plus usage-based fees. That was a dynamic-capability-driven business model innovation long before SaaS became mainstream.
- **Continuous reconfiguration of resources and organizational roles:** Through product management, R&D, business development, and service delivery teams, Ericsson constantly reconfigured its internal resources — people, processes, and technology — to deliver new value, respond to threats, and shape emerging markets.

In all these cases, Ericsson didn't just improvise here and there — the company built a repeatable system for sensing, seizing, and transforming. That system *was* the dynamic capability.



How to build and maintain Dynamic Capabilities in your own organization

If you want to create dynamic capabilities in your company — whether a big firm like Ericsson or a smaller venture — here are some practical guidelines:

1. **Establish sensing mechanisms.** Monitor market trends, regulatory shifts, customer feedback, competitor moves, and new technologies. Use cross-functional teams or product-management functions with a broad, holistic lens. Encourage people to look beyond their silos.
2. **Institutionalize flexible resource allocation and governance.** Don't treat resources and capabilities as fixed. Build processes that allow reallocating people, budget, and technology quickly. Empower teams to experiment — but within a disciplined framework.
3. **Adopt business-model innovation as a continuous discipline.** Treat business-model design as part of operations. Use a canvas-like, holistic view: value proposition, customer segments, revenue streams, and delivery model. Don't wait until old models break — evolve proactively.
4. **Invest in organizational routines that support transformation.** Performance measurement, product management discipline, value proposition revision, structured experiments, and feedback loops. Build “learning cycles.”

5. Balance exploitation and exploration. Don't abandon the core business.

Maintain operational excellence while allocating enough resources to explore new opportunities.

6. Encourage a culture of intrapreneurship and entrepreneurship. Give people space to challenge assumptions, launch new ideas, take ownership, even when it's risky—reward initiative.

7. Be ready to challenge and shed legacy resources. Sometimes what made you successful becomes a burden. Recognize core rigidity. Dynamic capabilities require letting go of outdated business models, irrelevant assets, and obsolete resource configurations.



Pitfalls and limits

Dynamic capabilities are powerful — but not magical. The concept has weaknesses. Scholars note that it can be vague and difficult to operationalize. It may not be easy to precisely measure a firm's dynamic capabilities. ([Wikipedia](#))

Also, having dynamic capabilities doesn't guarantee perpetual competitive advantage. In some cases, constant change can destabilize core capabilities or lead to strategic drift. ([Arc HHS](#))

To make dynamic capabilities work, you need disciplined management, clarity about when to change and when to preserve, and a realistic sense of trade-offs.

Conclusion

Dynamic capabilities are arguably the most critical strategic lever for companies operating in volatile environments. They give firms the capacity to sense change, seize opportunities, reconfigure resources — and thereby reinvent themselves again and again.

My experience at Ericsson shows that, with the proper organizational structure, mindset, and willingness to challenge legacy assumptions, dynamic capabilities are not just theory — they can be built, lived, and turned into profitable growth over the course of decades.

If you run a business or work in strategic development, don't just optimize operations — cultivate the ability to pivot. Build your “capability to adapt.”

Final Reflection

Dynamic capabilities are not an abstract theory.

They are muscles that grow only through **practice and measurement**.

Most organizations track performance and efficiency — but few measure adaptability.

If you start scoring and discussing these seven dimensions inside your company, you've already taken the first step toward transforming a *habit*, not a *reaction*.

Because innovation isn't a single event.

It's an ongoing capability — built, tested, and renewed every day.

Start now: Turn Insight into Action

→ **Test how your company would score here — with the Dynamic Capabilities Assessment app** ←

Dynamic Capabilities Assessment

Turn Insight into Action with the Dynamic Capabilities Checklist

Scoring guide: 0 = Not in place • 1 = Occasionally • 2 = Systematically • 3 = Embedded in culture

1 Sensing - Detect change early

Do we systematically scan for shifts in the market, tech, regulation, and customer needs?

Product-management reviews, market trend radar, competitor tracking, customer feedback loops

0

1

2

3

2 Seizing - Act on opportunities fast

Can we mobilize people and budget fast to act on new opportunities?

Cross-functional teams, rapid pilots, portfolio governance

0

1

2

3

3 Transforming - Redesign and renew

Do we routinely redesign structures, processes, and offerings to stay relevant?

Business-model reviews, transformation programs, internal accelerators

0

1

2

3

4 Learning - Build knowledge into the system

Do we capture and reuse insights from both success and failure?

After-action reviews, open knowledge sharing platforms, internal learning hubs

0

1

2

3

5 Leadership & Culture - Reward adaptability

Do leaders reward adaptability as much as efficiency?

KPIs for innovation, intrapreneur recognition, risk-tolerant culture

0

1

2

3

6 Resource Flexibility - Move assets easily

Can we reassign people, budgets, and tech quickly?

Dynamic resourcing, fluid roles, skill marketplaces, shared platforms

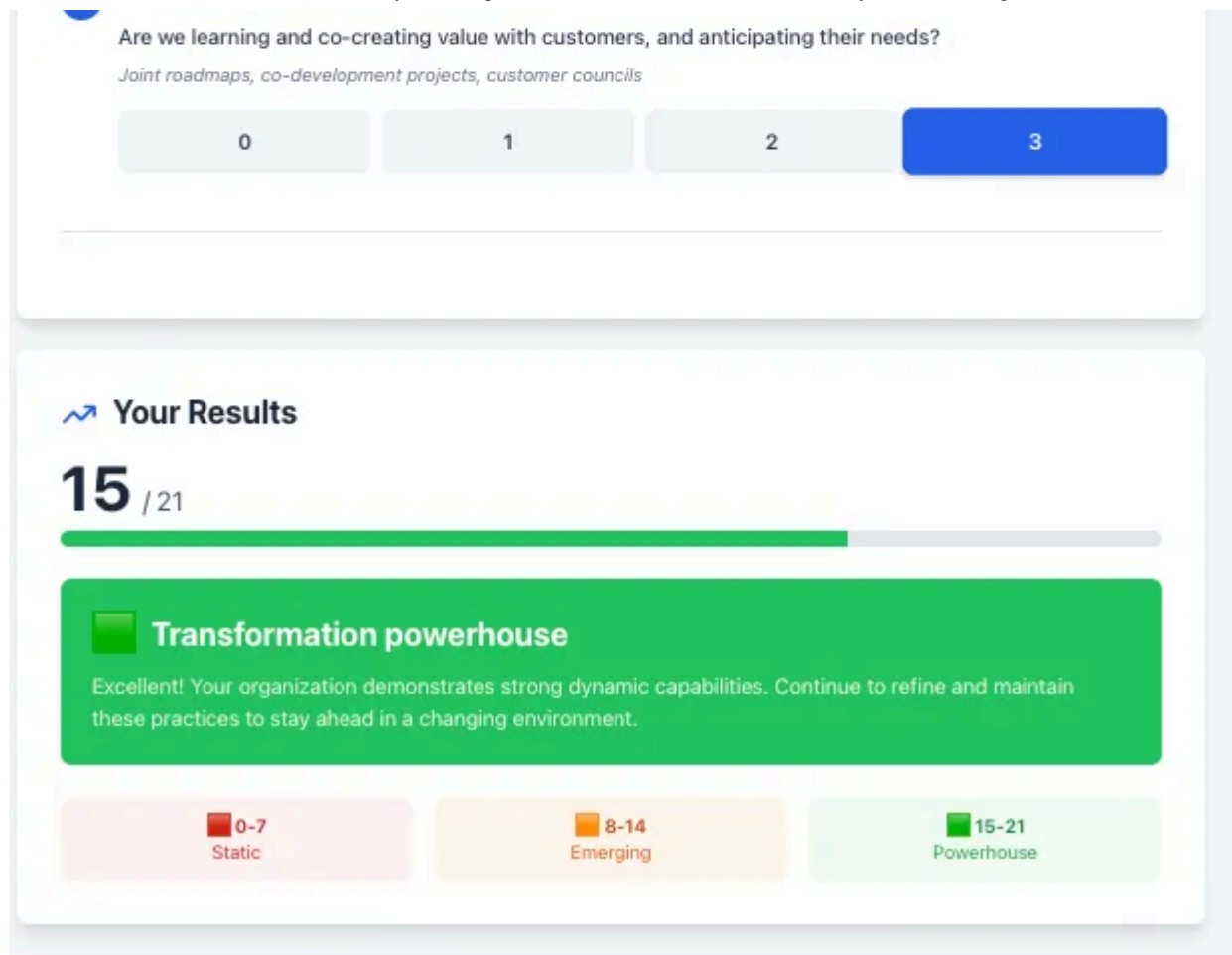
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2

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7 Customer Alignment - Co-create value



Made by Claude Artifacts. Free for all.

Dynamic Capabilities Checklist

If the above app doesn't work, use this checklist to evaluate how adaptable your organization really is.

Score each item 0–3:

- 0 = Not in place
- 1 = Occasionally
- 2 = Systematically
- 3 = Embedded in culture

Area	Key Question	Example Practices	Score (0–3)
Sensing - Detect change early	Do we systematically scan for shifts in the market, tech, regulation, and customer needs?	Product-management reviews, market trend radar, competitor tracking, customer feedback loops	
Seizing - Act on opportunities fast	Can we mobilize people and budget fast to act on new opportunities?	Cross-functional teams, rapid pilots, portfolio governance	
Transforming - Redesign and renew	Do we routinely redesign structures, processes, and offerings to stay relevant?	Business-model reviews, transformation programs, internal accelerators	
Learning - Build knowledge into the system	Do we capture and reuse insights from both success and failure?	After-action reviews, open knowledge sharing platforms, internal learning hubs	
Leadership & Culture - Reward adaptability	Do leaders reward adaptability as much as efficiency?	KPIs for innovation, intrapreneur recognition, risk-tolerant culture	
Resource Flexibility - Move assets easily	Can we reassign people, budgets, and tech quickly?	Dynamic resourcing, fluid roles, skill marketplaces, shared platforms	
Customer Alignment - Co-create value	Are we learning and co-creating value with customers, and anticipating their needs?	Joint roadmaps, co-development projects, customer councils	

Dynamic Capabilities Checklist- Turn Insight into Action.

Total Score (max 21):

-  0–7 = Static organization
-  8–14 = Emerging dynamic capabilities
-  15–21 = Transformation powerhouse

Start the conversation below — or share your reflections with your team tomorrow.

Author bio

Gunnar is a management and IT consultant with long experience in business and product development. He spent nearly two decades at Ericsson, where he witnessed and contributed to multiple waves of transformation — from hardware-centric telecom to software, services, and early experiments with internet and media. Today, he helps organizations model their business ideas and transformation processes, drawing on a structured, process-based approach inspired by systems thinking and the Astrakan model's value-object thinking.

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