

Escaping the Red Queen Effect in Competitive Strategy: Sense-testing Business Models

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Most business models are based on traditional ways of strategy formulation and implementation, leading to incremental and not disruptive change in the nature of business and industry practices. The 'red queen effect' refers to the red queen's advice in Lewis Carroll's *Through the Looking Glass* in which she says, in order to stay in a (competitive) place you have to run very hard, whereas to get anywhere you have to run even harder. In today's knowledge and mobile environments we know that businesses cannot survive by just running harder, but rather by running differently and 'smarter' than competitors. The article suggests a sense-testing tool for managers to enable disruptive innovation of business models through corporate examples and case study evidence.

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Introduction

Organizational sense-making is a critical consideration both for managers and researchers. With dis-

ruptive innovations occurring in almost all industries, managers and their companies need to make sense of their competitive environment, the disruptions that continuously take place, and how they respond to these changes. However, most companies find themselves unable to "make sense" of and suitably respond to disruptions – either rendering the disruption to be insignificant and irrelevant to their businesses or being unable to break free from their established ways of doing business.

To counter direct competitive challenges, organizations often continuously learn new ways of improving their efficiency and performance. Having familiarized themselves over a number of years with such ways of doing business, their first reaction to discontinuous (fast-changing, disruptive) competition is to "work harder", when what they need to do is to "unlearn" what they know and "work differently" (for sources on discontinuities see, e.g. Tapscoff, 1997; Kelly, 1998; Evans and Wurster, 2000). Several observers have commented that even though many companies work harder to improve themselves in increasingly fierce competitive environments, results improve slowly or not at all (Pascale *et al.*, 1997; Prahalad and Oosterveld, 1999; Senge and Carstedt, 2001). This is a characteristic situation that could be described as the "Red Queen effect". It is

a competency trap where “running harder” becomes customary: it is of an analytic-benchmark nature, it shows short-term success and is less risky in the near horizon, but ultimately holds long-term downfall.

Working “differently” seems to be an intuitively suitable approach for survival or even prosperity in the present era’s increasingly competitive business landscape. Companies need to *change industry rules* (the accepted way of doing business in the industry) by fundamentally questioning their tendency to conform to useful but “unoriginal” (copied, imitated, improved) practices, lessons, and experiences. But, how can managers and their organizations accomplish this? That is, how can companies broaden and update their approaches and way of thinking to include the fundamental factors that influence the creation of successful new business models? This article proposes an answer to this question by illustrating a new approach: a *sense-testing tool*. This tool emphasizes four aspects that assist organizations in creating or reinventing business models that transcend the “traditional” and “standard” practices. As elaborated in the latter part of this article, these four dimensions consist of continuously sensing the following key issues: the changes and direction that take place in *customer value proposition(s)*; the impact and use of available and arising *technologies*; the con-

figuration of the *business infrastructure* to better offer customer value; and the *economic sustainability* of a business idea or strategy.

The article first describes the charms and traps of the Red Queen effect and contrasts it with “holistic” business model thinking and strategy reinvention. Secondly, as an approach that companies can apply to appropriately (and consistently) adapt – especially pro-actively – to the shifting business environment, this paper provides a sense-testing tool, with illustrative cases and examples, for developing, evaluating, and adapting new business models. Finally, the key lessons for managers in applying the sense-testing tool are outlined and briefly discussed.

The Attractiveness and Comfort Trap of the Red Queen Effect in Formulating Business Strategy

Any company, in trying to keep ahead of the competition, constantly seeks ways to improve its efficiency and performance. Often, this search results in organizational learning that increases the company’s competitive strength, which in turn prompts learning

About our research

Over the past eight years, we have studied more than thirty companies using a joint case writing approach (Leibold *et al.*, 2002; MacCormack *et al.*, 2003; Davenport *et al.*, forthcoming). The purpose of our research has been to understand the history and context of change projects in companies in various industries. Some reports stem from managers’ own accounts of their participation in projects, but often they derive from studies carried out by ‘outsiders’, such as consultants and research assistants, whose information heavily draws on key informants (e.g. senior managers or shop floor employees) and confidential company records.

As outsiders rarely get directly involved in projects, a multi-method design in tracing key constructs and processes assisted researchers in having a better understanding of how things work in a case company. These methods include, among others:

- ❖ Various documents that are of interest to the investigation (e.g. newspaper articles, agendas, memoranda, etc.).
- ❖ Examination of archival records, such as survey data and organizational records.
- ❖ Interviews that are mainly open-ended, to get deep insights into events, but could also include structured ones.
- ❖ Unobtrusive direct observation to provide additional information about the construct being investigated.
- ❖ Participant-observation that enables the researcher to become an active participant in the events being studied, and that provides unique opportunities for collecting data.

Using multiple data sources does not only coalesce different perspectives and helps to develop a better understanding of the dynamics present in the companies being studied, but is also significant in substantiating findings, i.e. triangulation approach to validation (Yin, 1981, 1984, 2002; Eisenhardt, 1989, 1991). Thus, accurate and comprehensive description of the research design and data collection, as well as the respondents’/informants’ review of the case study, enhanced the reliability, the internal and construct validity of the interpretations, and the conclusions drawn. In addition, the extensive range of company cases in different industries that have been studied as well as their subsequent cross analyses, have permitted analytical generalizability.

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