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Adaptive marketing capabilities, dynamic capabilities, and renewal competences: The “outside vs. inside” and “static vs. dynamic” controversies in strategy

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ABSTRACT

Three streams of strategic thought, (1) the “adaptive marketing capabilities” works, (2) the “dynamic capabilities” view, and (3) resource-advantage (R-A) theory, are converging on the view that, in today's dynamic, hypercompetitive, global economy, strategy must focus on firms' constantly renewing themselves in the marketplace. In turn, these three streams have implications for the controversies over whether strategy's focus should be “outside-in or inside-out” and whether strategy should be static or dynamic. This article addresses the three streams of strategic thought and the two controversies by (1) explicating their nature, (2) showing how strategies related to them have evolved through time, and (3) pointing toward the controversies' resolution. The article argues that all theories of strategy assume a theory of how competition *works*. In turn, theories of competition are housed within disciplinary research traditions. Therefore, understanding the controversies in contemporary strategy is furthered by understanding both the theories of competition that underlie each strategic approach and their respective research traditions.

1. Introduction

Three streams of strategic thought are converging on a common view: In today's dynamic, hypercompetitive, global economy, strategy must focus on firms' constantly renewing themselves in the marketplace. The first stream, the “adaptive marketing capabilities” works of Day (2011), Day and Moorman (2010), and Moorman and Day (2016), maintains that firms can “adjust quickly to fast-changing markets” only by (1) “vigilant market learning that enhances deep market insights,” (2) “adaptive market experimentation that continuously learns,” and (3) “open marketing that forges relationships with partners that are more closely attuned to market changes” (Day, 2014, p. 28). Similarly, the second stream, the “dynamic capabilities” view, emphasizes that three “primary clusters” of capabilities are “essential if the firm is to sustain itself as customers, competitors, and technologies change”: (1) sensing opportunities related to changing customers' needs, (2) seizing value from addressing such needs, and (3) transforming the firm by continuous *renewal* (Teece, 2014, p. 332).

Third, both the “adaptive marketing capabilities” and “dynamic capabilities” streams are converging with resource-advantage (R-A) theory because R-A theory has long placed a premium on “renewal” competences/capabilities as “higher order” firm resources (Hunt, 2000; Hunt & Morgan, 1995, 1996, 1997).[1] For R-A theory, firm competences (i.e., those complex activities that firms do especially *well*) are distinct packages or bundles of basic resources: “socially complex, interconnected, combinations of tangible basic resources (e.g., specific machinery) and intangible basic resources (e.g., specific organizational policies and procedures and the skills and knowledge of specific employees) that fit coherently together in a synergistic manner” (Hunt, 2000, p. 144).[2]

Like the “adaptive marketing capabilities” and “dynamic capabilities” streams, R-A theory stresses the importance of firms renewing

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[1] Moorman and Day (2016, p.16) point out that the strategy literature has historically used “capabilities” and “competences” interchangeably. R-A theory has most often used “competences.”

[2] Some writers talk of “resources and competences” because they view resources as “assets” on the balance sheet. In contrast R-A theory, because it defines resources as *entities*, implies that competences are best viewed as resources. Competences are *distinct* resources because they are entities that contribute as distinct *packages* to the firm's ability to produce efficiently and/or effectively market offerings that have value for some market segment(s). That is, the whole (i.e., the competence) is more than the sum of its parts (i.e., the several basic resources).

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themselves. Indeed, it adopts the label "renewal competences" and draws on Gardner's (1965, p.76) call for a "self renewing" society as a theoretical foundation: "perhaps what every corporation…needs is a department of continuous renewal that would view the whole organization as a system in need of continuing innovation." Therefore, for R-A theory

> Renewal competences prompt proactive innovation by enabling firms to (1) anticipate potential market segments (unmet, changing, and/or new needs, wants, and desires), (2) envision market offerings that might be attractive to such segments, and (3) foresee the need to acquire, develop, or create the required resources, including competences, to produce the envisioned market offerings. Therefore, prompted by the quest for superior financial performance, renewal competences contribute to making R-A competition dynamic. (Hunt, 2000, p. 144)

However, the confluence of adaptive marketing capabilities, dynamic capabilities, and R-A theory's renewal competences implies that two controversies become increasingly prominent. The first is whether strategy's focus should be "outside-in or inside-out," and the second is whether strategy should be static or dynamic (Mathewson and Moran, 2016; Mu, 2015; Mu, Bao, Sekhon, Qi, & Love, 2018; Saeed, Yousefzai, Paladino, & De Luca, 2015). Two questions frame the first controversy: (1) Should business and/or marketing strategy be primarily or substantially directed by factors or circumstances that lie *outside* or *inside* the firm? (2) Which (outside or inside) factors or circumstances are to be the firm's focus? Similarly, as to the second controversy: (1) Given that the hypercompetitive, global economy is extraordinarily dynamic, with firm-level innovations being increasingly important, why are prominent approaches to strategy (e.g., resource-based strategy) *static*? (2) If strategy should be dynamic, which theoretical approaches contribute to developing dynamic business and marketing strategy?

This article addresses the outside-in vs. inside-out and static vs. dynamic controversies by (1) explicating their nature, (2) showing how strategies related to them have evolved through time, and (3) pointing toward the controversies' resolution. As Fig. 1 shows, we argue that all theories of strategy assume a theory of how competition *works*. In turn, theories of competition are housed within disciplinary research traditions, which, in a reflexive manner, influence and constrain the content of their respective theories of competition. Therefore, understanding the controversies in contemporary strategy is furthered by understanding both the theories of competition that underlie each strategic approach and their respective research traditions.

We begin by discussing the role of research traditions in disciplines. We then examine the nature and evolution of the neoclassical economics research tradition, its theory of perfect competition, and its "industry–based" strategy, which is shown to be outside-in and static. We then discuss the nature and evolution of resource-based strategy and show that it is static because of its "deep background" acceptance of significant portions of the neoclassical economics research tradition and its perfect competition theory. We then examine the Aldersonian research tradition and its theory of "competition for differential advantage," before showing why marketing concept-based strategy and market orientation strategy are dynamic and outside-in. Finally, we discuss resource-advantage (R-A) theory and show how it (1) accommodates "adaptive marketing capabilities" and "dynamic capabilities" as renewal competences and (2) can contribute to resolving both the outside vs. inside and static vs. dynamic controversies.

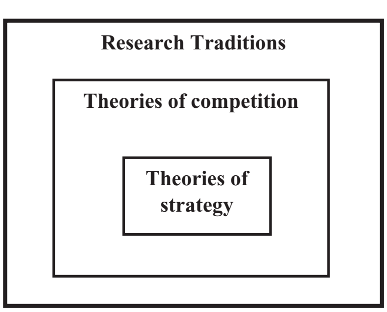

Fig. 1. Research traditions, theories of competition, and theories of strategy.

2. The role of research traditions

The preceding section introduced the concept of *research tradition*, which stems from the philosophy of science and helps us understand the two controversies. Since Kuhn's (1962) work, the philosophy of science has recognized that all disciplines have research traditions, which often operate in a "deep background" manner to influence or constrain research. Research traditions have a knowledge content (i.e., concepts and theories), preferred methodologies (i.e., norms for developing new content), and epistemologies (i.e., norms for evaluating new content).[3] In economics, though one finds the evolutionary, "Austrian," and Marxist research traditions, the dominant tradition is "neoclassical," with (1) perfect competition theory, demand theory, general equilibrium theory, and a theory of the firm as central to its knowledge content, (2) equilibrium analyses and the use of mathematics as important methodological norms, and (3) formal proofs and statistical tests on third-party generated data as key parts of its epistemology (Nelson & Winter, 1982).

Research traditions result in researchers seeing (or not seeing) problems in a certain way, developing theories that have characteristics consistent with the tradition, and empirically assessing theories with favored types of tests. Furthermore, as the "inductive realist" approach (Hunt, 2013b; Hunt, 2015) to theory generation emphasizes, research traditions serve as important constraints in recognizing problems in a discipline's current knowledge and producing the creative cognitive acts that result in new theory proposals.

3. The nature and evolution of the neoclassical economics research tradition

The neoclassical economics research tradition traces, in part, to the 19th century economists William Stanley Jevons (1835–1882) and Leon Walras (1834–1910), who initiated the 1870s' "marginalist revolution" that articulated a subjectivist theory of value. In this view, the key to understanding a commodity's exchange value is the subjective increment to utility that a consumer attributes to the last unit added or subtracted from the consumer's stock. This *marginal* utility, which they argued declined monotonically with each additional unit, contributed to resolving Adam Smith's paradox that (1) water is very useful but has *low* exchange value, whereas (2) diamonds have little use value but *high* exchange value (Foss, 1991).

Marginal utility also enabled Jevons and Walras to import differential calculus into economics. For them, utility was a continuous function and marginal utility was its first derivative, i.e., $MU_x = dU/dx$. The practice of expressing economics' constructs in mathematical equations began with the use of marginal utility in analyzing demand. The mathematization of *all* areas of neoclassical economics was then greatly furthered by Marshall's *Principles of Economics* (1890/1925). Although Marshall (1890/1925) was sympathetic to evolutionary, biological metaphors and dynamic competition, his book emphasized

[3] We prefer "research program" or "research tradition" over "paradigm" because the latter denotes (or connotes) for many that all research in science takes place within rigid, encapsulated, self-justifying, incommensurable, paradigmatic cocoons – as the cognitive relativism of Kuhn (1962) argued. "Research program" and "research tradition," to their credit, do not have this denotation or connotation. See Hunt (2003, pp. 98-125) for a critique of Kuhnian relativism.

Table 1
Foundational premises of perfect competition.

Premise	Perfect competition theory
P1. Demand is:	Homogenous across industries, homogenous within industries, and static
P2. Consumer information is:	Perfect and costless
P3. Human motivation is:	Self-interest maximization
P4. The firm's objective is:	Profit maximization
P5. The firm's information is:	Perfect and costless
P6. The firm's resources are:	Capital, labor, and land
P7. Resource characteristics are:	Homogenous and perfectly mobile
P8. The role of management is:	To determine quantity and implement production function
P9. Competitive dynamics are:	Equilibrium-seeking, with innovation exogenous

the use of mathematics and geometry to detail the marginal conditions of static, partial equilibrium analysis, that is, how equilibrium prices result from the intersection of industry demand and supply curves (Foss, 1991).

3.1. Neoclassical competition theory

In the early 1900s, the neoclassical tradition produced “perfect competition” theory, whose central premises are detailed in Table 1. Note that premise P1 is that intra-industry demand is homogeneous for a commodity (otherwise, the very concept of an “industry demand curve” that relates quantity and price makes no sense). Furthermore, all firms in an industry implement a known, standardized production function that combines homogeneous and perfectly mobile resources (P7). Also, because competition among firms must be equilibrium-seeking, all innovation is exogenous to competition (P9). For perfect competition theory, innovations such as new production technologies come from entities such as the state, not from profit-seeking firms' competing.

Foss's (1991, p.1123) historical analysis shows that the neoclassical tradition's theory of perfect competition “hardened” after Chamberlin (1933) work: “It is simply not the case that the theory of perfect competition was well developed before the theory of monopolistic competition,… the two theories were to a large extent a simultaneous analytical innovation.” Chamberlin's (1933/1962) monopolistic competition theory explored the welfare implications of “product differentiation,” the situation in which, for example, consumers of an industry's product had different needs, wants, tastes, and use requirements. Using static equilibrium analysis, he finds that the firm's “monopoly elements… will render his price higher and his scale of production smaller than under pure [perfect] competition” (p. 77), product quality will be “inevitably somewhat inferior” (p. 99), and “the result is high prices and waste” (p.109).

3.2. Societal implications of perfect competition

Since Chamberlin (1933/1962), the neoclassical tradition's standard view has been that an industry's normal, natural situation (as well as its societally desirable situation) is all firms producing a standardized, homogeneous commodity. When firms respond to differences in consumers' needs, wants, tastes, and use requirements by producing variations in an industry's product, they are creating artificial differences to escape the rigors of the ideal form of competition. As even marketing theorists put it, “Success to a marketer is escaping perfect competition… the *whole* of marketing management is the struggle to escape a purely competitive market situation” (Houston & Gassenheimer, 1987, p.15; italics added). (No “struggle” is required if a homogenous commodity were not the normal, natural situation.) Therefore, public policy should ensure that industries produce generic products because the strategy often labeled “differentiation” is injurious to societal welfare.

With the preceding in mind, we turn to the nature of the strategy implied by the neoclassical tradition's theory of perfect competition, that is, “industry-based strategy.” We then evaluate the strategy in terms of the two controversies.

4. Industry-based strategy

Industry-based strategy stems from the neoclassical tradition and traces to Bain (1956, 1968), Mason (1939), and the SCP model: industry *S*tructure determines firm *Conduct*, which determines firm *P*erformance. Because barriers to entry enable firms in concentrated industries to collude, superior financial performance results from collusion and firms' monopoly power. In a highly creative manner, Porter's (1980, 1985) industry-based strategy turned the SCP model “upside down” (Barney & Ouchi, 1986, p. 374). If superior financial performance results primarily from structural, industry factors, then “choosing industries” should be strategy's focus:

> Seeking to explain performance differences across firms, recent studies have repeatedly shown that average industry profitability is, by far, the most significant predictor of firm performance… In short, it is now uncontestable that industry analysis should play a vital role in strategy formation. (Montgomery & Porter, 1991, pp. xiv–xv)

Porter's (1980, p.5) “five forces” framework maintains that the profitability of a firm in an industry is determined by (1) the threat of new entrants, (2) the threat of substitute products, (3) suppliers' bargaining power, (4) customers' bargaining power, and (5) the intensity of competitors' rivalry, which “continually work to drive down the rate of return on invested capital toward the competitive floor rate of return, or the return that would be earned by the economist's ‘perfectly competitive’ industry.” After choosing industries, Porter (1980) advocates selecting one of three “generic” strategies: (1) cost leadership, (2) differentiation, or (3) focus. Only then do “internal factors,” such as “value chains,” come into play. Being masterfully crafted, filled with prescriptions for strategists, and based on a theory of competition in a research tradition that has guided public policy for decades, Porter's (1980, 1985) industry-based strategy influenced greatly the emerging area of strategic management.

4.1. Industry-based strategy and the two controversies

As to the “outside vs. inside” controversy, industry-based strategy is “outside-in”: firms should first “choose industry,” before attending to inside factors, such as value chains. As to why it is static, the answer is simple: industry-based strategy is *explicitly* based on the neoclassical, static equilibrium research tradition and its theory of perfect competition. Therefore, readers should be mindful that not all “outside-in” approaches to strategy are dynamic. Being dynamic requires a focus on specific, outside-the-firm factors. “Choosing industry” is deficient in its selection of outside-the-firm factors on which to focus.

5. Resource-based strategy

In the 1980s and 1990s, critics of industry-based strategy pointed out that (1) highly concentrated industries are no more profitable than others (Buzzell, Gale, & Sultan, 1975; Gale & Branch, 1982; Ravenscraft, 1983), (2) the industry market share-profitability relationship is spurious (Jacobson, 1988; Jacobson & Aaker, 1985), and (3) differences of firms *within* industries (not across industries) account for most of the variance in firms' profitability (Roquebert, Phillips, & Westfall, 1996; Rumelt, 1991). Accordingly, “resource-based” theorists questioned the industry-based strategic approach and argued that strategy should, instead, focus on heterogeneous and imperfectly mobile firm resources.

Resource-based theory traces to Penrose's (1959) view that the firm is a “collection of productive resources” and “it is never *resources* themselves that are the 'inputs' to the production process, but only the *services* that the resources can render" (pp. 24–25). Therefore, "It is the heterogeneity… of the productive services available or potentially available from its resources that gives each firm its unique character" (pp. 75, 77), and "the expansion of firms is largely based on opportunities to use their existing productive resources more efficiently than they are being used" (p. 88). (Readers should note the word "existing.")

Seminal articles developing resource-based strategy include Lippman and Rumelt (1982), Rumelt (1984), Wernerfelt (1984), Dierickx and Cool (1989), and Barney (1991, 1992). Conner's (1991) signally important work argued that the resource-based view of *strategy* was implicitly based on a new *theory of the firm*. Contrasted with perfect competition's premises P6 and P7 (see Table 1), this new theory viewed firms' resources as significantly heterogeneous across firms and imperfectly mobile, which implied that (1) each firm has an assortment of resources that is at least in some ways unique and (2) many firm resources are not commonly, easily, or readily available in the marketplace (the neoclassical "factor" markets). Because of resource heterogeneity and immobility, this new theory of the firm implied not only that some firms are more profitable than others but also that superior profits can persist through time, despite attempts by firms to acquire the same resources of particularly successful competitors (i.e., some advantages might be "sustainable").

Therefore, the fundamental, strategic imperative of the resource-based theory of strategy that was implied by the new theory of the firm came to be the VRIN framework: to achieve competitive advantage and, thereby, superior financial performance, firms should seek resources that are valuable, rare, imperfectly mobile, inimitable, and nonsubstitutable. Later versions of the framework (i.e., VRIO) subsumed nonsubstitutability under "imperfectly imitable" and added organizational processes for exploiting valuable, rare, and inimitable resources (Barney & Clark, 2007; Barney & Hesterly, 2012).

5.1. Resource-based strategy and the two controversies

Resource-based theory is prominent in strategic marketing (Kozlenkova, Samaha, & Palmatier, 2014) and arguably dominant in strategic management. As to the "outside vs. inside" controversy, strategy based on it is definitely "inside-out." Indeed, it was developed because of the deficiencies of the "outside-in," industry-based strategy. As to the "static vs. dynamic" controversy, resource-based theory has long been criticized for being static (Priem & Butler, 2001; Schulze, 1994). As Teece (2014, p.341) emphasizes, resource-based strategy's major shortcoming is that its static nature "puts little weight on entrepreneurship, innovation, or learning." Indeed, Barney and Clark (2007), p. 257) admit that "resource-based theory takes the existence of heterogeneous firm resources and capabilities as given and examines the impact of resources for the ability of firms to gain and sustain competitive advantage." If resources are "given," then it is static. (Recall that Penrose (1959) used the word "existing.")

The truly interesting question is not whether resource-based theory is static, but *why* is it? Why have its developers focused on *resource imitation*, rather than incorporating dynamics and such disruptive innovations *as resource creation* into the theory? We suggest that it is because of its "deep background" adherence to the neoclassical economics research tradition, with its absence of firm-level innovation (see P9). Because perfect competition theory describes a form of competition that is *perfect,* deviations from perfect competition are societally undesirable. These deviations imply, as resource-based strategy theorists put it, "rent seeking" (i.e., profits in excess of the minimum necessary to keep the firm in business in long-run equilibrium.) As an unintended consequence, the strategies that resource-based theorists advocate are *presumed* to be injurious to society by the very research tradition they implicitly adopt.

5.2. Dynamic research traditions

Criticizing resource-based strategy, Teece (2014, p. 345) points out that the "neoclassical economics [research tradition] is not…compatible with dynamic capabilities," which raises the question of which research traditions *would* be dynamic and compatible? Teece (2014, p. 345) suggests that theorists should explore "Austrian economics" because it emphasizes (1) entrepreneurship, market processes, and dynamic competition, (2) the rejection of the neoclassical view of perfect information (P5 in Table 1), and (3) dynamic competition as a process of knowledge discovery (Hayek, 1945). A second potential tradition would be "evolutionary economics" because it also recognizes that neoclassical economics cannot explain satisfactorily the dynamics of economic change (Dosi & Nelson, 1994; Hodgson, 1993).

A third, dynamic competition research tradition is one that has been central to the evolution of strategy in the marketing discipline: the Aldersonian research tradition. Emphasizing evolutionary, biological metaphors and "ecological niches," the Aldersonian tradition ultimately resulted in the development of marketing's dynamic, "traditional" (Houston, 2016) approach to strategy, which focused on the marketing concept. Furthermore, it influenced strongly the development of marketing's resource-advantage (R-A) theory of competition (Hunt, 2000; Hunt & Morgan, 1995, 1996, 1997), a dynamic theory of competition with affinities to *both* Austrian economics and evolutionary economics.

6. The Aldersonian research tradition

What we label "the Aldersonian research tradition" traces to the early 1900s' beginnings of the marketing discipline. Indeed, Wroe Alderson (1898–1965) was a founding member of the American Marketing Society, an immediate predecessor of today's American Marketing Association (Wooliscroft, Tamilia, & Shapiro, 2006). Alderson (1937) was so concerned with the state of economic theory that his article entitled "A Marketing View of Competition," which appeared in the *Journal of Marketing*'s very first volume, argued: "It is the responsibility of the marketing profession … to provide a marketing view of competition in order to guide efforts at regulation and to revitalize certain aspects of the science of economics" (p.190).

Alderson (1937) posited thirteen points (see Table 2) that he believed constituted the "materials" for a "*marketing* theory of competition." Readers should note that, as early as the mid-1930s, Alderson was claiming that (1) marketing was a "profession," (2) being a profession mandated certain *responsibilities* (see Hunt, 2010, pp. 46–74), and (3) the economics discipline, with its claim of the perfection of perfect competition theory, was an inappropriate guide for regulation and needed to be "revitalized." Furthermore, Alderson (1937, p.189) claimed "surely, no one is better qualified [than marketing] to play a leading part in the consideration of measures designed for the regulation of competition," and "the newly formed American Marketing Association … might very properly offer aggressive leadership in a marketing view of competition."

Alderson's (1937) thirteen points on competition were prescient. For example, they used evolutionary, dynamic, "biological parallels" (P1) to maintain that a "fundamental aspect of competitive adaptation is the specialization of suppliers to meet variations in demand" (P5). Also prescient, they focused on "strategic factors" (Table 2, P13) that involved the "segmentation of markets" (P11) because industry markets are heterogeneous and "divisible almost without limit" (P5). What is now referred to as "relationship marketing" was stressed because "semipermanent relations grow up between each segment of the market and specialized suppliers" (P6). Thus, dynamic competition results in the "profits of adaptation, which are profits of efficiency" (P8), not the "wasteful" (P9) profits of the "misnomer" concept of "monopolistic competition" (P7).

After several decades' work, Alderson fleshed out his dynamic "theory of market processes" in two famous books (Alderson, 1957,

Table 2
Alderson's (1937) "Materials for a theory of competition".

1. The question, "What is competition?" may be answered tentatively with a very general definition derived from biological parallels. "Competition is the set of relations existing between organisms because of the act that they are seeking interdependent objectives within the scarcity boundaries of a common environment."
2. On the business level the study of competition is the study of the adaptation of business enterprises to markets.
3. Markets, like natural environments, suffer sweeping changes. Qualitative changes in demand have even more crucial importance than quantitative changes in supply.
4. A market which is broadly homogeneous as to basic consumer need is divisible almost without limit in terms of minor variations in the character of the goods and services demanded.
5. A fundamental aspect of competitive adaptation is the specialization of suppliers to meet variations in demand whether involving slight differences in product or in the time and place at which the buyer takes delivery.
6. Semi-permanent relations grow up between each segment of the market and certain specialized suppliers. However, random pairing of buyer and seller, as under free competition, is always potentially present.
7. Semi-permanent pairings have been called quasi-monopoly or monopolistic competition, terms which are misnomers since entrenchment of specialized suppliers in separate segments of the market is a great obstacle to the growth of true monopoly.
8. The specialized supplier in the segmented market does not behave like a monopolist. He seeks profits of adaptation, which are profits of efficiency but broader in scope, involving not only the idea of doing a given job well but also that of picking the right job to do.
9. The firm which seeks profits of adaptation is obliged to serve general economic welfare more directly and less wastefully than under orthodox analysis of over investment diminishing returns and mobility of capital.
10. Market research, cost analysis and consumer advertising receive proper recognition under such a view as important tools of business adaptation.
11. Price adjustments are also a basic aspect of business adaptation. Qualitative changes in demand and segmentation of markets give rise to price policy which is a prevalent aspect of price as it actually operates in the market.
12. Equally important with the concept of competitive equilibrium, is that of competitive balance in merchandise distribution. This balance is a vital aspect of the ideal of orderly marketing.
13. Competition includes strategic factors involving the survival or decline of whole broad types of business enterprise as well as individual concerns.

Source: Adapted from Alderson (1937).

1965). Key components of his dynamic theory were: (1) its recognition that intraindustry markets are radically heterogeneous on both the supply and demand sides and (2) its "competition for differential advantage," which drew on Clark (1954, 1961) dynamic competition theory. For Clark (1954, p.329), "perfect competition…. define[s] a model from which competitive progress would be ruled out; progress could come out only by government fiat." Therefore, Alderson (1957, p.101-102) proposed:

> Each firm competes by making the most of its individuality and its special character. It is constantly seeking to establish some *competitive advantage*. Absolute advantage in the sense of an advanced method of operation is not enough if all competitors live up to the same high standards. What is important in competition is *differential advantage*, which can give a firm an edge over what others in the field are offering.

Fully two decades after Alderson's dynamic theory of competition, Porter (1985, pp. xv, 1) famously proposed:

> Competitive advantage is the heart of a firm's performance in competitive markets…Competition is at the core of the success or failure of firms….Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs.

Although Porter (1985) realized that firms' strategies presumed an understanding (or theory) of how competition works, he made no mention of Alderson's differential advantage theory. However, Porter (1985) should not be faulted; by the mid-1980s, marketing was not citing it either (Wooliscroft et al., 2006).

7. Marketing concept-based strategy

In the 1950s and 1960s, as chronicled in many works (e.g., Hunt, 2018; Hunt & Goolsby, 1988; Shaw, 2012: Shaw & Jones, 2005; Wilkie & Moore, 2003), marketing shifted from (1) understanding marketing systems toward (2) developing marketing strategy. Under the umbrella term "marketing management," marketing strategy in this period was influenced strongly by the Aldersonian research tradition, especially its view that (1) firms seek competitive (differential) advantages, (2) intra-industry demand is significantly heterogeneous, (3) intra-industry supply is significantly heterogeneous, and (4) successful strategy begins with market segmentation.

Other than Alderson's work, many factors, events, and publications led to the rise of the marketing management approach and its conceptualization of "marketing strategy." Here, we recount four key ones: General Electric's "marketing concept," Neil Borden's "marketing mix", Alfred Oxenfeldt's formalization of "marketing strategy," and Jerry McCarthy's "4P's" model. First, GE's 1952 Annual Report (in a single paragraph labeled "Marketing") put forth what GE claimed was an "advanced concept of marketing." GE's conceptualization:

> would introduce the marketing man at the beginning rather than at the end of the production cycle and would integrate marketing into each phase of the business. Thus, marketing, through its studies and research, would establish … what the customer wants in a given product, what price he is willing to pay, and where and when it will be wanted. Marketing would have authority in product planning, and production scheduling, and inventory control, as well as the sales distribution and servicing of the product. (p. 21)

GE's marketing concept had three parts: (1) all departments, not just marketing, were to be *customer-needs oriented,* (2) there would be integrated marketing effort, and (3) increased profits would be the overall objective. As conventionally interpreted, the customer-needs part was paramount. Both GE and Pillsbury executives played key roles in developing the marketing concept (Borch, 1957; Keith, 1960; McKitterick, 1957). For them, the marketing concept was a *philosophy* for guiding firms and their marketing departments; it was not a *strategy* to be implemented.[4]

A year after GE's "advanced concept of marketing," Neil Borden's 1953 American Marketing Association presidential address claimed that the marketing manager's primary job was to develop a "marketing mix." Writing retrospectively, Borden (1964) recalls his reasoning. If *all* managers are "mixers of ingredients," then the elements that a *marketing* manager combined must constitute a "*marketing* mix." Borden's "mix" included 12 elements: product planning, pricing, branding, channels of distribution, personal selling, advertising, promotion, packaging, display, servicing, physical handling, and fact finding and analysis.

Five years after Borden's presidential address, Oxenfeldt (1958, p.267) proposed that combining Alderson's notion of segmenting demand with Borden's concept of a marketing mix resulted in the essence of a marketing *strategy*: "A market strategy consists of two parts: (1) the definition of market targets–selecting the types of customers whose patronage will sought; and (2) the 'composition of a marketing mix'–picking a combination of sales promotion devices that will be employed." Oxenfeldt's (1958, p. 270) "mix" included "quality of product, special product features, amount of advertising outlays, … number of personal salesmen employed, quality of salesmen, and distributive channels employed."

Two years after Oxenfeldt (1958), E. Jerome "Jerry" McCarthy's

[4] For a brief, but accurate, account of the development of the marketing concept at GE and other firms, see King (1965, pp.70-97).

(1960)*Basic Marketing* put it all together by combining the marketing concept's *philosophy* of focusing on customers' needs, wants, tastes, and use requirements with how the focus could be implemented as a *strategy*. Firms should (1) segment an industry's heterogeneous demand into relatively homogeneous segments, (2) choose which segments to target, and (3) develop a marketing mix for each targeted segment. As McCarthy (1960, p. v) emphasized, "marketing strategy and designing a marketing mix (but not day-to-day implementation) are stressed to give the student the big picture." For him,

> A marketing strategy consists of two facets: (1) *the definition of the target market*—the selection of the market segment (the group of consumers) to whom the company wishes to appeal. (2) *The development of a "marketing mix"*—the choice of the tools which the company intends to combine in order to satisfy this target group. (McCarthy, 1960, p. 37)

McCarthy (1960, p. 52) then condensed various authors' "marketing mixes" into the simple "4Ps" mnemonic: product, price, promotion, and place. A masterful pedagogue, Jerry McCarthy knew that the 4Ps grouping would make it easier for students to learn the material. As historians note, McCarthy's (1960) book "swept the field and vanquished all marketing management texts before it" (Shaw & Jones, 2005, p. 257).

In the late 1960s, marketing adopted Smith's (1956) terminology, and what is labeled here as "marketing concept-based strategy" came to be referred to as "market-segmentation strategy."[5] Since then, this strategy is uniformly acknowledged as "one of the fundamental concepts of modern marketing" (Wind, 1978, p. 317), "one of the most widely held theories in strategic marketing" (Piercy & Morgan, 1993, p. 123), "the key strategic concept in marketing" (Myers, 1996, p. 4), and one of the basic "building blocks" of marketing (Layton, 2002, p. 11).

7.1. Marketing concept-based strategy and the two controversies

As to the "outside vs. inside" controversy, marketing concept-based strategy is "outside-in," with the most important outside factor being the needs, wants, tastes, and use requirements of chosen target markets. The key inside problem is developing the best marketing mix for each target market. The strategy focuses on the firm, especially the marketing research department within the firm, conducting an ongoing research program that monitors customers' needs, wants, tastes, and use requirements. Only after a particular target market is selected does the firm develop a specific marketing mix.

As to the "static vs. dynamic" controversy, marketing concept-based strategy follows the dynamics of the Aldersonian tradition. Indeed, it was universally recognized in the 1950s and 1960s that intra-industry demand was not only heterogeneous, but constantly changing. Therefore the needs, wants, tastes, and use requirements of the groups of customers the firm would target would periodically change, as well as their respective marketing mixes. Furthermore, new segments, through time, would emerge, which also made the strategy dynamic.

8. Market orientation strategy

In the 1990s, the (1) marketing concept and (2) marketing concept-based strategy evolved into (3) market orientation and (4) market orientation strategy. As Webster's (1994, pp. 9, 10) argument put it, even though "the customer must be put on a pedestal, standing above all others in the organization, including the owners and the managers,…having a customer orientation…is not enough. Market-driven companies also are fully aware of competitors' product offerings and capabilities and how those are viewed by customers."

Narver and Slater (1990) and Slater and Narver (1994) characterized a market orientation as having the three components of customer orientation, competitor orientation, and interfunctional coordination. Similarly, Kohli & Jaworski (1990, p. 6) defined it as "the organizationwide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organizationwide *responsiveness* to it." Therefore, the fundamental, strategic imperative of market orientation strategy is: to achieve competitive advantage and, thereby, superior financial performance, firms should systematically (1) gather information on present and potential customers and competitors and (2) use such information in a coordinated way across departments to guide strategy recognition, understanding, creation, selection, implementation, and modification (Hunt & Morgan, 1995).

8.1. Market orientation strategy and the two controversies

As to the "outside vs. inside" controversy, market orientation strategy is outside-in, with a focus on four outside factors: present customers, potential customers, present competitors, and potential competitors. Contrasted with marketing concept-based strategy, the market intelligence system is to be the basis for *all* aspects of strategy development, not just developing different marketing mixes.

As to the "static vs. dynamic" controversy, market-orientation strategy is even more dynamic than marketing concept-based strategy. Note how the "outside factors" include three not specified in marketing concept-based strategy: potential customers, existing competitors, and potential competitors. In today's hypercompetitive economy, it is not just that customers are continually changing, but also changing are the identities and capabilities of firms' existing and potential competitors.

9. Toward resolving the two controversies

All theories of strategy presume a theory of how competition *works*. In turn, theories of competition are housed within research traditions. Reflexively, research traditions influence the nature of their respective of theories of competition. Industry-based strategy is outside-in and static because it is based on the neoclassical research tradition and its perfect competition theory. Resource-based strategy is inside-out because it rejects two key premises of perfect competition (premises P6 and P7 in Table 1), but it is static because of its close adherence to the rest of the neoclassical research tradition, for example, premise P9 in Table 1. Traditional, marketing-concept based strategy and market orientation strategy are outside-in and dynamic because they adopt the dynamic, Aldersonian research tradition's rejection of premises P1 and P9 in Table 1, among others.

How can the two controversies be resolved? Teece (2014) suggests that their resolution requires a dynamic theory of competition that is within a research tradition such as Austrian economics. Furthermore, Day (2014, p.27-28) argues that a "nuanced approach to resource-based theories" is required that adopts an "outside-in approach to strategy" that "looks first to the market" by means of "adaptive capabilities." Moreover, Barney (2014, p.14), a strong proponent of resource-based strategy, has called for "a more complete theory of superior firm performance that incorporates both resource-based and product-market dynamics." Answering their calls, we propose that the two controversies' resolution is possible by means of a theory of competition that (1) accepts and extends the dynamic, Aldersonian research tradition, (2) has close affinities with the Austrian and evolutionary economics traditions, (3) accepts a "nuanced," resource-based theory of the firm that includes product-market dynamics, and (4) rejects or significantly modifies *all* the nine premises of perfect competition detailed in Table 1.

The theory that meets that all of the previous paragraph's four conditions is known as "resource-advantage (R-A) theory" (e.g., Hunt, 2000; Hunt & Morgan, 1995, 1996, 1997). Not only does R-A theory

[5] Wooliscroft (2006, p. 18) reports that Alderson "was very generous with his ideas" and "gave his notes on segmentation to Wendell Smith to write up."

extend the Aldersonian research tradition in marketing (Hunt, 2013a; Hunt & Arnett, 2006), but it also has been developed in the literatures of Austrian economics (Hunt, 2002), evolutionary economics (Hunt, 1997a, 1997b), and management (Hunt, 1995; Hunt & Lambe, 2000). Before showing how it can contribute to resolving the two controversies, we provide R-A theory's key elements.

10. Resource-advantage (R-A) theory: key elements

Resource-advantage (R-A) theory, is a dynamic, evolutionary, process theory of competition. As explicated in Hunt (2000), its foundational premises are:

P1. Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.

P2. Consumer information is imperfect and costly. (Here, R-A theory uses "consumers" in its broadest sense, which includes business and other buyers.)

P3. Human motivation is constrained self-interest seeking.

P4. The firm's primary objective is superior financial performance.

P5. The firm's information is imperfect and costly.

P6. The firm's resources are financial, physical, legal, human, organizational, informational, and relational.

P7. Resource characteristics are heterogeneous and imperfectly mobile.

P8. The role of management is to recognize, understand, create, select, implement, and modify strategies.

P9. Competitive dynamics are disequilibrium-provoking, with innovation endogenous.

As Figs. 1 and 2 show, R-A theory is an evolutionary, disequilibrium-provoking, process theory of competition, in which innovation and organizational learning are endogenous, firms and consumers have imperfect information, and in which entrepreneurship, institutions, and public policy affect economic performance. Evolutionary theories of competition require relatively durable and heritable entities that can serve as the units of selection in an evolutionary process (Hodgson, 1993). For R-A theory, both firms and resources are proposed as the heritable, durable entities of selection, and competition for comparative advantages in resources constitutes the evolutionary selection process (Hunt, 1997b).

R-A theory's core combines the Aldersonian tradition's heterogeneous demand theory with a resource-based view of the firm (see R-A's premises P1, P6, and P7). Because of heterogeneous intra-industry demand, industries are best viewed as collections of market segments, which implies that (1) it is inappropriate to draw demand curves for most industries, and (2) different market offerings are required for different market segments in the same industry. Consistent with the resource-based theory of the firm, the firm is a combiner of heterogeneous, imperfectly mobile entities that are labeled "resources." These resources, when combined with heterogeneous demand, imply significant diversity as to the sizes, scopes, and levels of profitability of firms in an industry.

Resources, defined as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s), can be categorized as:

Financial (e.g., cash resources, access to financial markets),
Physical (e.g., plant, equipment),
Legal (e.g., trademarks, licenses),
Human (e.g., the skills and knowledge of individual employees),
Organizational (e.g., competences, controls, policies, culture),
Informational (e.g., knowledge from consumer and competitive intelligence), and
Relational (e.g., relationships with suppliers and customers).

Each firm in the marketplace will have at least some resources that are unique to it (e.g., very knowledgeable employees, efficient production processes, etc.) and could potentially give it a comparative advantage in resources that could lead to marketplace positions of competitive advantage (i.e., cells 2, 3, and 6 in Fig. 3). Because some of these resources are not easily copied or acquired (i.e., they are relatively immobile), they may be a source of long-term competitive advantage.

Because many of the resources of firms within the same industry are significantly heterogeneous and relatively immobile, some firms will have a comparative advantage and others a comparative disadvantage in efficiently and/or effectively producing particular market offerings that have value for particular market segments. When firms have a comparative advantage in resources, they will occupy marketplace positions of competitive advantage for some market segment(s), which results in *superior* financial performance. When firms have a comparative disadvantage in resources, they will occupy positions of competitive disadvantage, which results in *inferior* financial performance. Therefore, firms compete for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance. How well competitive processes work is significantly influenced by five environmental factors: the societal resources on which firms draw, societal institutions, the actions of competitors and suppliers, the behaviors of consumers, and public policy decisions.

R-A theory emphasizes innovation, both proactive and reactive. The former is innovation that, though motivated by the expectation of superior financial performance, is not prompted by specific competitive pressures—it is genuinely entrepreneurial in the classic sense of

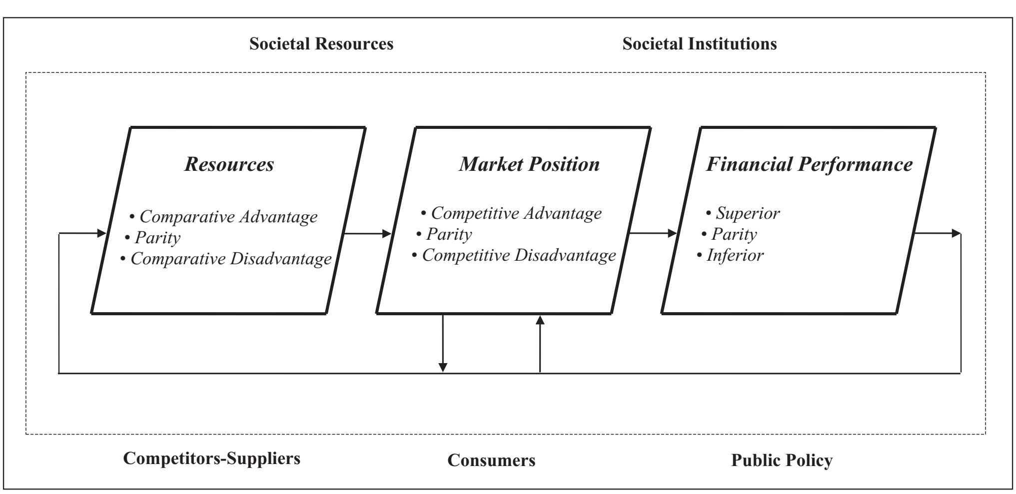

Fig. 2. A schematic of the resource-advantage theory of competition.
Read: Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance "signaling" relative market position, which, in turn signals relative resources.
Source: Adapted from Hunt and Morgan (1997).

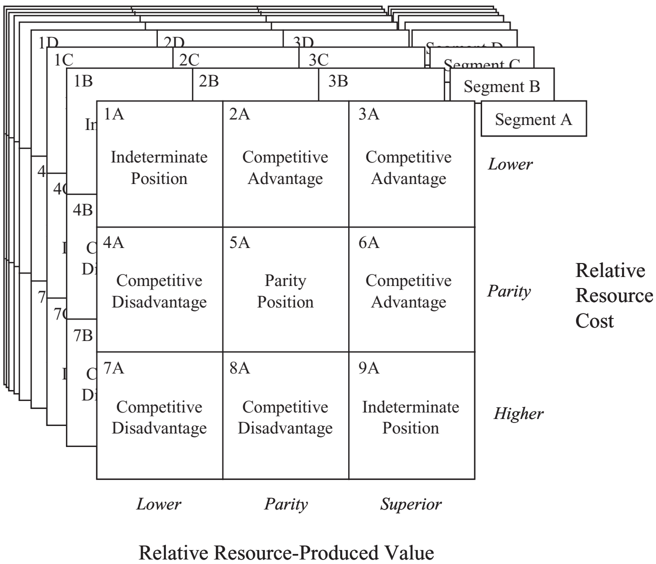

Fig. 3. Competitive position matrix.
Read: The marketplace position of competitive advantage identified as Cell 3A, for example, in segment A results from the firm, relative to its competitors, having a resource assortment that enables it to produce an offering that (a) is perceived to be of superior value by consumers in that segment and (b) is produced at lower costs than rivals.
Note: Each competitive position matrix constitutes a different market segment (denoted as segment A, segment B, …).
Source: Adapted from Hunt and Morgan (1997).

entrepreneur. In contrast, the latter is innovation that is directly prompted by the learning process of firms' competing for the patronage of market segments. Both proactive and reactive innovations contribute to the dynamism of R-A competition.

Firms learn in many ways. R-A theory shows how the process of competition itself contributes to organizational learning. As the feedback loops in Fig. 2 show, firms learn through competition as a result of relative financial performance signaling relative marketplace position, which in turn signals relative resources. When firms competing for a market segment learn from their inferior financial performance that they occupy positions of competitive disadvantage (Fig. 3), they attempt to neutralize and/or leapfrog the advantaged firm(s) by acquisition and/or innovation. That is, they attempt to acquire the same resource as the advantaged firm(s) and/or they attempt to innovate by imitating the resource, finding an equivalent resource, or finding (creating) a superior resource. Here, "superior" implies that the innovating firm's new resource enables it to surpass the previously advantaged competitor in terms of either relative costs (i.e., an *efficiency* advantage), or relative value (i.e., an *effectiveness* advantage), or both. (The absence of the "resource creation" dimension in resource-based strategy contributed to its static nature.)

Firms occupying positions of competitive advantage can continue to do so if (1) they proactively innovate and reinvest in the resources that produced the competitive advantage, and (2) rivals' acquisition and innovation efforts fail. Rivals will fail (or take a long time to succeed) when an advantaged firm's resources are either protected by such societal institutions as patents, or the advantage-producing resources are causally ambiguous, socially or technologically complex, tacit, or have time compression diseconomies.

Competition, then, is an evolutionary, disequilibrium-provoking process that consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance. Once a firm's comparative advantage in resources enables it to achieve superior performance through a position of competitive advantage in some market segment(s), competitors attempt to neutralize and/or leapfrog it through acquisition, imitation, substitution, or major innovation. R-A theory is, therefore, inherently dynamic. Disequilibrium, not equilibrium, is the norm.

11. R-A theory and the static vs. dynamic controversy

All normative theories of strategy presume a theory of how competition *works.* In turn, all theories of competition are housed within research traditions. Resource-advantage (R-A) theory is a descriptively accurate, positive theory of competition that is within the Aldersonian research tradition and can provide a foundation, a "grounding," for understanding the two controversies.

As to the "static vs. dynamic" controversy, strategy should be dynamic because real-world competition is dynamic. Critics are correct in claiming that both industry-based and resource-based theories are deficient because they are static. In contrast, R-A theory is a descriptively accurate portrayal of the dynamic nature of market-based economies (Hunt, 2000). Indeed, as discussed in the previous section, readers should note the prominent place that both proactive and reactive innovations play in R-A competition.

One major reason that R-A theory is inherently dynamic is its treatment of the primary objective of the firm. "Superior financial performance" (P4 in R-A theory's premises) is argued to be the succinct, *best* descriptor of the firm's primary, superordinate objective for two reasons. First, it is a measurable, knowable, achievable objective. (In contrast, "profit maximization" is not knowable: one can never know that some other set of decisions would *not* have produced a higher profit.) Second, because of the way market-based economies actually work, superior rewards will flow to owners, managers, and employees of firms that produce superior financial performance, which will motivate them to strive for this objective (premise P3).

The "superior" in superior financial performance equates with both *more than* and *better than*. It implies that firms seek levels of financial performance (e.g., accounting profits, earnings per share, return on assets, and return on equity) that exceed those of some financial referents. The referents against which the firm's performance is compared can be the firm's own performance in a previous time-period, the performance of rival firms, an industry average, or a stock-market average, among others. Both the specific measures of financial performance and the referents used for comparison purposes will vary somewhat from time to time, firm to firm, industry to industry, evaluator to evaluator, and culture to culture.

The second major reason that R-A theory is inherently dynamic stems from how R-A theory views the role of management in firms. That is, as shown in P8 of R-A theory's premises, because the role of managers is to recognize and understand current strategies, create new strategies, select specific strategies, and implement and/or modify selected strategies through time, these proactive activities result in R-A competition being dynamic.

The third major reason that R-A theory is inherently dynamic is aspect of R-A theory that uniquely explains why real competition *must* be dynamic, even when managers are not proactively dynamic. To understand why real competition *must* be dynamic, consider that firms in a typical industry will normally be distributed across most of the nine cells in Fig. 3. Some firms will be achieving superior financial performance because they occupy positions of competitive advantage; others will be suffering inferior financial performance because they occupy positions of competitive disadvantage. The implication is clear: because all firms seek superior financial performance, but not all firms cannot be *simultaneously* superior, then real-world competition *must* be dynamic. Those firms occupying positions of competitive disadvantage are *forced* by their inferior financial performance to reactively innovate in order to attempt to improve their marketplace position and, in turn, their financial performance.

If all firms in an industry stop innovating (by government fiat, or collusion, or they follow the premises of perfect competition theory), then all will occupy the parity position of cell 5 in Fig. 3 (the position considered ideal by perfect competition theory). Note that if all firms occupy the parity position and are satisfied with this position, then increases in firm-induced productivity and economic growth will not be forthcoming. This implies that competition has failed to produce the innovations that society should expect from vigorous competition. In short, the "perfect competition" state of affairs, far from being ideal, is a market failure writ large. Perfect competition, with great mathematical precision, describes and *prescribes* a serious market failure.

12. R-A theory and the outside vs. inside controversy

As to the "outside vs. inside" controversy, R-A theory points out two types of strategic failures. First, as Fig. 2 and foundational premise P4 show, all firms seek the superior financial performance that results from their market offerings occupying marketplace positions of competitive advantage, which in turn, results from firms' comparative advantages in resources that produce the market offerings. Because most of the resources of firms are located inside the firm, successful strategy must place a premium on acquiring, developing, creating, and re-investing in the requisite resources to produce the market offerings.[6] Therefore, strategy should have a strong emphasis on inside factors. To know precisely what kinds of market offerings will be successful in the marketplace, but then to lack the resources to produce such offerings, is a recipe for strategic failure.

However there is a second kind of strategic failure. Fig. 2 points out that the process of competition is influenced strongly by environmental factors, such as competitors and consumers. Furthermore, consumers' needs, wants, tastes, and use requirements, as well as competitors' resources and market offerings, are always changing. Consequently, as market orientation strategy and adaptive marketing capabilities strategy emphasize, key requirements of success in today's hypercompetitive, dynamic marketplace are (1) a market intelligence system that monitors the outside factors that affect competitive success, (2) using the intelligence to guide strategy, (3) a willingness to experiment in the marketplace, and (4) open marketing that forges relationships with partners, as recommended by relationship marketing strategy. Therefore, strategy should have a strong emphasis on outside-the-firm factors. Indeed, to have outstanding resources, but fail to know what kinds of market offerings will be successful in the marketplace, is also a recipe for strategic failure.

The preceding implies that, because real competition is *both* outside-in and inside-out, effective strategy should be *both* outside-in and inside-out. That is, R-A theory implies that the choice of which factors, outside or inside, should receive more attention at a point in time depends on context. This is not equivocation; it is acknowledging reality. Furthermore, the reality of R-A competition implies the need for developing renewal competences that focus on *outside* factors (i. e., competitors, suppliers, consumers, societal resources, and public policy), as well as those that focus on *inside* factors (e.g., resources). Furthermore, we note that there are calls for market orientation strategy theorists to expand market orientation strategy beyond its exclusive focus on customers and competitors (Carpenter, 2017; Line, Runyan, & Gonzalez-Pardon, 2019). This call is consistent with R-A theory's focus on a broadened set of outside factors that influence the process of R-A competition.

Teece (2014) distinguishes "ordinary capabilities" from the "dynamic capabilities" that enable the firm to *transform* itself by continuous renewal. Similarly, for R-A theory, "firms are not viewed… as passively responding to a changing environment or looking for the best 'fit' between existing resources and market 'niches' Rather, firms are…proactive toward their environment" (Hunt, 2000, p. 88). Recall that Gardner (1965, p.76) suggests that "perhaps what every corporation…needs is a department of continuous renewal that would view the whole organization as a system in need of continuing innovation." Therefore, R-A theory notes that, in today's dynamic, hypercompetitive, global economy, firms must not only (1) monitor *well* the changes in their marketplace environments and have the ability to respond well to those changes, but they must also (2) monitor *well* the changes in their existing and required resources and respond well to *these* changes. Consequently, R-A theory distinguishes between "outside renewal competences" and "inside renewal competences." Both can be transformative. Jointly, these transformative, renewal competences bring about the proactive innovations that create the resources and market offerings that can drive the marketplace, not just respond to it. Both outside and inside renewal competences contribute to long-term, strategic success.

Also, for R-A theory, competences that *link* outside-in processes with inside-out processes are critical for strategic success. This concept of *linking competences* is similar to Day's (1994) notion of spanning capabilities and Aaker (2008) notion of cross-silo marketing teams. For Day (1994), spanning capabilities bring together outside-in processes (market sensing, customer linking, and channel bonding) and inside-out processes (manufacturing/transformation, financial management, and integrated logistics). For Aaker (2008), cross-silo marketing teams can make market knowledge central to firm's overall strategy. Accordingly, for R-A theory, it is a not a question of outside-in vs. inside-out. Rather, outside, inside, and linking renewal competences all contribute to the long-term, strategic success of firms.

13. Conclusion

Our analysis warrants six major conclusions. First, all theories of strategy presume a theory of how competition *works*. In turn, theories of competition are housed within research traditions. Reflexively, research traditions influence the nature of their respective of theories of competition. Therefore, understanding the nature and evolution of research traditions and theories of competition contributes to understanding issues in theories of business and marketing strategy.

Second, both business and marketing strategy have been influenced strongly by the neoclassical economics research tradition and its theory of perfect competition, which (1) are static, (2) assume that firms do not innovate, (3) assume that firm resources are homogeneous and perfectly mobile, (4) imply that industry structure determines firms' profitability, and (5) imply that strategies that focus on heterogeneous demand and supply are injurious to societal welfare. Industry-based strategy, with its focus on "choosing industry," an outside-the-firm factor, is static because it is based on the neoclassical tradition and its perfect competition theory. Because it is static and focuses on empirically incorrect outside factors, industry-based strategy cannot provide a solid theoretical foundation for strategy in the hypercompetitive, dynamic, global economy.

Third, resource-based strategy is prominent in strategic marketing and strategic management. Prompted by the perceived deficiencies of industry-based strategy, it adopts a resource-based theory of the firm and argues that strategy should focus on inside-the-firm, valuable, rare, inimitable resources, and organizational processes. By assuming resources are "given," resource-based strategy is static. For example, the innovation implied by resource *creation* is not incorporated, nor are marketplace dynamics. The source of its static nature is the "deep background" influence of the neoclassical economics tradition and its perfect competition theory. Accordingly, resource-based strategy has limited application in today's dynamic, hypercompetitive, global economy.

[6] The reason for the qualifier "most" is that some firm resources are *relational* resources. That is, sometimes a firm has a relationship with a supplier or other party that constitutes an entity that contributes to the ability of the firm to produce a market offering that has value to some market segment. In such circumstances the relationship is *available* to the firm, but is not *inside* the firm.

Fourth, traditional, marketing-concept based strategy and market orientation strategy are dynamic because they spring from the dynamic, Aldersonian research tradition, with (1) its recognition that intraindustry markets are significantly heterogeneous on both the supply and demand sides and (2) its theory of competition for differential advantage. The temporal order of focus for marketing-concept based strategy and market orientation strategy is outside, marketplace factors, then inside factors, such as marketing mixes. Because they are dynamic and focus on appropriate, outside, marketplace factors, marketing-concept based strategy and market orientation strategy–especially when supplemented with a broadened focus on other external factors, such as suppliers, societal resources, societal institutions, and public policy—can provide a solid theoretical foundation for strategy in the hypercompetitive, dynamic, global economy.

Fifth, because competition in the global economy is dynamic, strategy must be dynamic. Both "adaptive marketing capabilities" in marketing and "dynamic capabilities" in management argue for the importance of what R-A theory refers to as "renewal competences." R-A theory implies that transformative renewal competences (focused on both *outside* and *inside* the firm factors) bring about the proactive and reactive innovations that create the resources and market offerings that (1) respond well to changes in the marketplace and (2) potentially shape the marketplace. Because they are dynamic and focus on appropriate outside (i.e., marketplace) and inside (i.e., resource and market offering) factors, transformative renewal competences (*outside*, *inside*, and *linking* renewal competences) provide a solid theoretical foundation for strategy in today's hypercompetitive, dynamic, global economy.

The penultimate conclusion focuses on implications for the marketing discipline. As Biggadike's (1981) early assessment accurately forecasted, and Clark, Key, Hodis, and Rajaratnam (2014) now document in painful detail, the marketing discipline's influence has declined precipitously since the 1980s. Furthermore, the trajectory of the decline continues downward. As Day (1992), Reibstein, Day, and Wind (2009), Varadarajan (2010), Shaw (2012), Houston (2016), and Hunt (2018) point out, a major cause of marketing's decline has been its shift from an emphasis on marketing strategy to an almost exclusive focus on consumer behavior and micro-level, modeling research. This article shows that useful steps for reversing the downward trend of the marketing discipline's influence would include (1) restoring strategy's prominence in the discipline, (2) re-discovering its heritage in the Aldersonian research tradition, (3) emphasizing the importance of renewal competences, and (4) using the resource-advantage (R-A) theory of competition as a theoretical foundation. These steps would contribute significantly to the goal of returning the marketing discipline to its place as a thought-leader among the business disciplines.

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