

DYNAMICS OF STRATEGY ELECTIVE



Course Outline

Course objectives:

Strategy development has long relied on static frameworks to assess sources of competitive advantage and explain firms' performance. Yet managers know that these issues are essentially dynamic in nature - they must understand and manage the *scale* and *rate of development* in the key components of their strategy. This elective, which builds on current faculty research and practice from leading businesses and consulting firms, provides concepts and tools to take you into the exciting and rapidly growing field of strategy dynamics.

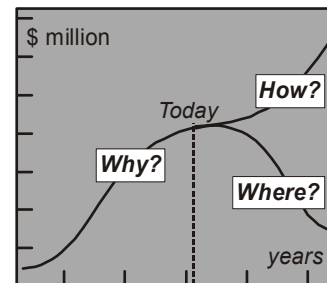
The Dynamics of Strategy course provides a set of powerful, rigorous, analytical frameworks for designing a practical path to competitive advantage. This new paradigm, unique to London Business School, builds on established strategy concepts, but moves substantially beyond them. Its inherently holistic and dynamic perspective enables you to answer three critical questions:

Why is performance following its current path?

Where will it be headed if we carry on as we are?

How can we design a robust strategy to radically improve this performance into the future?

Earnings



By the end of the course, successful students will be able to:

- **provide confident answers to these questions in practical cases, and**
- **explain, to any educated audience, the underlying structures that provide these answers.**

You begin by capturing the full set of resources, and the inter-relationships between them, that make up the 'strategic architecture' of your enterprise. You will learn how this architecture determines your performance over time, and how to redesign its structure to substantially uprate that performance. Applying this approach to rivals enables you to identify and exploit their weaknesses, and pull ahead in the race for competitive advantage.

Each session explores a different element of the Dynamics of Strategy framework, relating it to current, real-world situations and challenges that are of immediate concern to course participants.

Format, Materials and Teaching Method

There is little lecture content – the course is supported by a substantial book - 'Competitive Strategy Dynamics' (CSD), to be published by Wiley during 2002. It is currently available in draft, electronic format (PDF) a personalised copy of which will be provided to each of you. **We will assume that you have read the relevant Chapters, plus other essential readings for each class** – so that class can focus on applying and extending the basic concepts.

Although this course is NOT 'about' simulation we use several simulation-based learning materials, which are on all School PCs. However, to extend your access to these materials, the three main simulations are available for installation on your personal systems.

We will refer to other books that you should already have come across. If not, they are widely available and can be found in the Library. (*This is particularly important for those of you who have not previously taken classes in Strategy*).

- We start from a base understanding of strategic resources, which is covered in Grant 'Contemporary Strategy Analysis' 2nd Edn Chapter 5. Other core Strategy texts include similar chapters, e.g. Barney 'Gaining and Sustaining Competitive Advantage' Chapter 5).
- In addition, parts of the course frameworks have been developed in conjunction with business dynamics experts at McKinsey & Co. and feature in certain articles that can be found at www.mckinseyquarterly.com.

Please let me know immediately if you have any difficulty getting at materials you need, so I can resolve the problem or adjust classes accordingly.

Assessment

There is a small take-home test (ungraded) to help you check that you have the main ideas. The assessed items are ...

- Individual assignment (50%)
- A group case assignment of your own choice (50%).

Instructions for the Individual assignment

This is to be a report of your learning from using one of the Microworlds (simulation-supported cases), used during the course..Please limit this report to 3,000 words plus the minimum charts necessary to explain your arguments. Requirements are as follows:

Record of TWO experiments (10% each)

Imagine yourself as the management of the business, having to propose a strategic plan for its future, either starting from its initial state, or from some other condition. You can 'set up' Brands and Professional Services to be in various states – click File, Open Game and select a game file from the list.

Then, describe the Plan you would present to senior management in solid, quantitative terms (it is easiest to Copy and Paste charts from the simulation into Word, then sketch on by hand your plans).

Finally, run the simulation, attempting to implement the Strategy and deliver the outcomes you proposed in the Plan.

Marking criteria ...

1 – Are there tightly-defined objectives (not just 'maximising profits'!!), a well-defined strategy with plans to implement it that reflect understanding of the relevant framework?

2 – Do the time-charts of actual and expected performance reflect good choice of indicators, and are they properly portrayed - scale, timing, time-path?

3 – Does the discussion of actual vs. expected results indicate sound understanding of the relevant framework and good managerial insight into what is happening?

[DO NOT WASTE SPACE DESCRIBING THE CASE THE ARCHITECTURE, OR THE GAME]

Discussion of a related situation (30%)

Identify a business or not-for-profit situation that exhibits similar dynamic structures to the simulation you have just run. The key features of each simulation are ...

Brands ... (a) the rate at which any resource accumulates depends on the current quantity of other resources in the organization (b) there is a minimum initial state for a business system, below which it cannot get started (c) there is a maximum performance that can be extracted from any finite system of resources.

Iglu ... (a) rivalry in initial business development is a race to exploit a potential pool of undeveloped resources, such as customers or staff (b) rivalry in developed markets is a tug-of-war to pull resources away from rivals and into your own business.

Professional Services ... (a) resources carry important attributes that strongly influence their contribution to business performance (b) 'soft' factors like morale and reputation, accumulate and deplete like any other resource, and strongly influence organisations' success in building and retaining other resources.

[*You may find it helpful to think about reports of companies in the Press, or examples from your own experience as sources for these related situations. Case-studies used in other courses may also be re-considered – remember that these frameworks can be applied to any business function, and to any type of enterprise, including governmental, public service and not-for-profit cases.*]

Marking criteria ...

1 – Is the situation well-chosen, being not too close to the simulation you experimented with, but still showing similar structure? Is the strategic architecture of resources accurately displayed and explained?

2 – Is the behaviour of the situation well-explained, with charts indicating scale and timing for key variables, and accurately describing the interdependence between them over time?

3 – Are the managerial implications (i.e. **what** to do, **when** and **how much** to manage the situation well) soundly based on the insights gained from the microworld, and the strategic architecture of the actual situation?

Instructions for the Group assignment.

It is vital to get started on this assignment early – aim for a decision by session 3 and use time after each class to build up the analysis.

You should carry out this work in groups of 3-5 members – no more, no fewer. The course provides step-by-step worksheets that will, when complete, provide most of the raw material for your write-up. These are available on the Forum as WORKSHEETS1.PPT The report itself should be written within a maximum of 5,000 words, and should be complete in itself, **not** using the worksheets as an Appendix. Other supporting data (such as information on the market or the firm) should also be integrated within the report as tables or graphs. The word-limit will be treated seriously (though not unreasonably) – marks will decline as 5,000 words are exceeded.

YOU ARE NOT EXPECTED TO BUILD A SIMULATION MODEL FOR THIS ASSIGNMENT, AND NO CREDIT WILL BE GIVEN FOR DOING SO.

Once again, note that the Dynamics of Strategy method is applicable to a wide range of situations, including entrepreneurial, not-for-profit and public service situations. Assignments on such situations are entirely welcome. Assessment will be against the following criteria:

Specifying the strategic issue Is the strategic problem or opportunity well-described in dynamic terms, including charts with scale and timing? (**max 5 marks**)

Resource-dynamics Are the key resources identified, with appropriate measures, and were the best items chosen as the heart of the analysis? Are the correct drivers of change for key resources properly identified and evaluated? Is the link between 'rates of change' and resource levels accurately estimated? (**10**)

Resource-system Is the core architecture of the situation properly defined, with key interdependencies between resources and other factors? Are the correct structures both chosen and implemented properly, e.g. to capture dynamics of rivalry, or intangibles? Is the architecture properly built up from a focus on the core elements, with additional items added as appropriate whilst avoiding excessive complexity? (**15**)

Interpretation Is the dynamic behaviour of the situation soundly explained by working through the interdependencies, including the distinction between 'rates of change' and resource-levels? Is this description properly related back to the time-charts of the issue? Are the specific effects of key parts of the situation properly described, e.g. the role of intangible issues and rivalry? Are the key management goals and policy-choices identified, together with an explanation of how they contribute to the current situation? (**10**)

Recommendations Are sound recommendations offered for appropriate actions to change the performance of the firm? Are these practical and properly specified– when they should be triggered, and on what scale, for how long? Are they soundly prioritised and phased in the right order – not everything all at once, or ignoring sequential dependency? Is the impact of these actions on the time-behaviour of the situation properly explained? Do the recommendations include sound choice of medium/long-term goals for the firm and well-defined policies for keeping the business performing strongly into the future? (**10**)

In addition, marks will be lost, Merit grades will not be given, and the risk of a Fail will be high, if key 'rules' of the Strategy Dynamics method are ignored. Distinctions will *only* be given if the paper makes adequate recommendations on the basis of your analysis ((i.e. **what** to do, **when** and **how much** to manage the situation well).

These are demanding criteria, and will be treated generously. You are *required* only to cover the parts of the framework described in Chapters 1-8 of Competitive Strategy Dynamics and relevant to your case, not including capabilities. However, *bonuses* will be recognised for going beyond these requirements – e.g. originating important data that is not readily found in the situation, capturing tricky intangible issues, consideration of capabilities, strategic groups or industry-level dynamic issues. There is no need to invest effort in fancy graphics – simple software tools are quite adequate, as are hand-written charts (one of the best papers ever done for this course was *entirely* hand-written) – clarity and accuracy are the vital considerations.

Further Note for LBS MBAs:

You are welcome to build on this course assignment for your 2nd year Management Report.

Course outline summary (subject to changes)

Session	Topic	Case and/or simulator
1	Core ideas: resources, accumulation and feedback	
2	'The Dynamic Resource-System'	Brand-Management mini-Microworld
3	The Dynamics of Resource Management	World Of Showers
4	Managing a Resource System	People Express Microworld
5	Rivalry and the Dynamics of Competition	Iglu.Com
6	Strategic Groups and Industry Change	
7	Resource development and Intangibles	Professional Services Microworld + McKinsey case.
8	Resources, Competencies, and Capabilities in Strategic Context	
9	Industry Scenarios and Dynamics.	Visa Chip Card Challenge
10	The Dynamics of Corporate Strategy	

Note – for block weeks only, each day covers two of these sessions, and class runs 9.00 to 4.00 to allow evening preparation for the following day.

Session 1: Core ideas: resources and accumulation

Topics:

Strategic challenges concern the **time-path of performance**

Performance depends on levels of resources

The basic maths, and deeply fundamental importance, of resource accumulation.

Readings:

Grant R.M., 1995, *Contemporary Strategy Analysis* (2nd edition) Chapter 5 Analysing Resources and Capabilities

Dierickx I. and Cool K. "Asset Stock Accumulation and Sustainability of Competitive Advantage", *Management Science*, **35**, 1989, pp 1504 - 1511.

Warren K.D. *Competitive Strategy Dynamics*, 2000. Introduction and Chapters 1, 2 and 3.

Worksheets for your assignment: Stages 1, 2 and 3

NOTE: We will assume that the reading for each class has been done. Do not expect to have the basic concepts for each class repeated in class-presentations by the lecturer!

Session 2: The Dynamic Resource-System or 'Strategic Architecture'

Topics:

'Complementary resources' – all resources depend on each other to grow

Reinforcing feedback drives growth – or collapse

Balancing feedback constrains growth, or limits damage

The entire system of interdependent resources make up the 'strategic architecture' of the firm (or any organisation)

Microworld: The Brand-management mini-microworld

Readings:

Warren, Chapters 4 to 6.

Desmet et al, 1998, 'The End of Voodoo Brand Management', McKinsey Quarterly website ...
www.mckinseyquarterly.com

Preparatory questions:

- You are Brand Manager for a newly launched product in the Spirits sector. Consider how you would set your plans for this product, given that you would certainly have only a limited budget and time-scale to demonstrate its viability.
- Recognising that you would have only a rough idea of the brand's potential market and its value to retailers who choose to stock it, **how** would you decide initially on three key issues - the wholesale price, the monthly advertising budget, and the size of the sales-force? (I.e. building on the ideas in class 2, try to work out an evolving **policy** for these items, not just a series of decisions).
- How would the passage of time affect your decisions on these same three issues? What information would you look for to monitor your progress and adjust your decisions?
- Read the short Introduction to the Brand Management mini-microworld (included in Warren, *Competitive Strategy Dynamics*), and run through "Using the Brand Management mini-Microworld" p.53-60.

Worksheets for your assignment: Stages 4, 5 and 6

Session 3: The Dynamics of Resource Management

Topics:

- Balancing feedback as a resource adjustment process
- Policy and the decision-making processes underlying resource adjustment

Simulator: World of Showers

Readings:

Morecroft J. "Visualising and simulating competitive advantage", System Dynamics Group working paper WP-0036, October 2000.

Morecroft J. "World of showers and the dynamics of resource sharing: a metaphorical model", System Dynamics Group educational document ED-0005-A&B, June 1997.

Warren: Chapter 10

Sessions 4: Managing and Changing a Resource System

Topics:

- Goals and policies to control the firm's portfolio of resources
- Dominant logic and bounded rationality in the managerial perspective.
- Coordination and consistency of policies.

Simulator:

People Express Management Flight Simulator

Readings:

- Prahalad C.K. and Bettis R.A. "The Dominant Logic; A New Linkage Between Diversity and Performance" *Strategic Management Journal*, 7, 485-501, 1986.
- Glucksman M and Morecroft J, 1998, 'Managing Metamorphosis', McKinsey Quarterly website ... www.mckinseyquarterly.com
- Forrester J.W. "The CEO as Designer", *McKinsey Quarterly Anthology on Business Dynamics*, 98 - 118.

Optional Extra Library Reading:

Simon H.A. "The Psychology of Administrative Decisions." Chapter V in *Administrative Behaviour*, 3rd edition, Free Press, New York, 1976.

Preparatory questions:

- Identify a case where you believe an organisation has had to change its strategic architecture. Sketch out what you believe to be the *original* architecture and the *new* one.
- What does management have to do in your case to achieve the transition from the old structure to the new? Over what time-scale is this transition feasible, what dangers arise, and how can management guard against them?

Worksheets: Stage 10.

Session 5: Rivalry and the Dynamics of Competition

Topics:

- Diagnosing rivals' resource-systems and undermining them
- The race to develop potential customers – and other contested resources
- The fight to take resources from rivals, and switching costs
- Fighting for attention when resources are shared with rivals

Simulator: Iglu.Com

Readings: Warren, Chapter 8.

Optional Extra Library Readings:

- Grant R.M. 'Contemporary Strategy Analysis' Chapters 7 & 8 "Analysing Cost Advantage" and "Analysing Differentiation Advantage"
- Senge P.M. Appendix 2 of *The Fifth Discipline* "Archetypes" (escalation; success to the successful), 1990. (Library)
- Zajac E.J. and Bazerman M.H., "Blind Spots in Industry and Competitor Analysis", *Academy of Management Review*, **16**, 1, 37 - 56, 1991.

Preparatory questions:

- The key tangible resources in ski-holiday bookings are skiers, chalets, sales and service staff, and web-site content. How do you think these resources (and others you feel are relevant) are connected?
- For such markets, rivalry is initially a race to exploit the undeveloped potential, but later becomes a battle to retain customers and take others from your rivals. How might you use managerial choices on marketing and staffing to try to win these two overlapping phases of the war, whilst at the same time making sure you provide adequate service, and still generate profits within a realistic time-scale?

Worksheets for your assignment: Stages 9, and 9(b)

Session 6: Segmentation of resources, and strategic groups of firms

Topics:

- Industry segmentation and strategic groups
- Industry dynamics reflecting aggregate behaviour of firms
- Industry discontinuity changes appropriate resource-system design
- Reprise - goals, policies, escalation, success to the successful

Readings:

- [Warren, Chapter 8 again covers some of these issues, also Chapter 11.]
- Grant R.M. Chapter 4 “Intra Industry Analysis: Segmentation, Strategic Groups and Competitor Appraisal”.

Optional Extra Library Readings:

- McGee J. and Thomas H., “Strategic Groups: Theory, Research and Taxonomy”, *Strategic Management Journal*, 7, 141 - 160, 1986.

Preparatory questions:

- Customers, staff and other resources are rarely all alike – they often come in different groups. These groups may be well-defined (e.g. private telecoms consumers vs. business customers) or ‘shades of grey’, where management decides on arbitrary criteria to divide each group from others (e.g. high-potential managers vs. the rest, high-net worth bank customers)

Session 7: Managing intangible resources

Topics:

- Critical influence of intangible resources on the performance of the firm's strategic architecture.
- Attributes, tied to tangible resources
- Indirect resources – reflecting feelings and attitudes that drive behaviour.
- HR Strategy and the special characteristics of people-based businesses

Case: Bartlett: 'McKinsey & Co: Managing knowledge and learning'

Simulator: Professional Services Microworld

Readings:

Warren: Chapter 7

Doman et al, 2000, 'The Talent Growth Dynamic', McKinsey Quarterly website ...
www.mckinseyquarterly.com

Preparatory questions:

- Professional services firms (and other firms' internal service departments) depend on two key tangible resources – clients and staff. On what intangible resource does each of these depend, what is the nature of that dependency (timing and strength), and what drives the dynamics of each intangible itself?
- The staff-base develops through a series of seniority-levels, and each individual carries with her/him certain associated intangible qualities. What do you think these are, how would you evaluate them in a real situation, which policies influence them, and how would you define policies so as to conserve these critical items?

Worksheets for your assignment: Stages 7 and 8.

Session 8: Where do competencies come from?

Topics:

- Where firms find competencies
- How firms internalize competencies
- Why firms lose competencies

Readings:

- Teece, D., G. Pisano, and A. Shuen. (1997)., "Dynamic Capabilities and Strategic Management." SMJ **18** (7): 509-533.
- Levinthal, D. and J. Myatt (1994). "Co-Evolution of Capabilities and Industry: The Evolution of Mutual Fund Processing." SMJ **15**: 45-62.
- Prahalad, C. K. and V. Ramaswamy (2000). "Co-Opting Customer Competence." Harvard Business Review(January-February): 79-87.

Preparatory questions:

- What are the competencies of the organizations you work for or have worked for?
- How were these competencies developed?
- Have these firms lost competencies? If so, how?

Session 9: Industry dynamics and scenarios

Topics:

An industry-level perspective on resource-system development
Industry scenarios as an evolution from one system to another
Adapting strategy and policy as industries evolve

Simulator:

The Visa Chip Card Challenge

Readings:

There is not, as yet, a fully-developed reading that expresses these concepts adequately in resource-system terms. Class discussion will deal with these issues.

Optional Extra Library Reading:

Sterman J. and Paich M. , “Boom and Bust and Failures to Learn in Competitive Markets”, *Management Science*, 39, 12, 1439 - 1458, 1993.

Achi Z. et al “Managing Capacity in Basic Materials “, *McKinsey Quarterly website* ... www.mckinseyquarterly.com .

Preparatory questions:

- Identify an industry that is going through significant adaptation, sketch its architecture, and highlight the key changes that characterise this evolution. What implications does this development have for specific firms in this industry – i.e. how are they having to adapt, and how difficult will this process be?

Session 10: Dynamics of Corporate Strategy

Topics:

Corporate strategy, diversification and performance (traditional approaches vs. resource-system view)
Implications for new-business development, acquisitions, alliances, and geographical development.

Readings:

Grant R.M. Chapter 14 “Diversification Strategy”

Optional Extra Library Readings:

Hamel G. and Prahalad C.K. “Strategy as Stretch and Leverage”, *Harvard Business Review*, 75 - 84, March-April 1993.

Markides C. and Williamson P.J. “Corporate Diversification and Organisational Structure: A Resource-Based View”, *Academy of Management Review*, 1996.

Penrose E. “The Economics of Diversification”, Chapter V11 of *The Theory of the Growth of the Firm*, New York, Basil Blackwell 1959.

Preparatory questions:

The track-record of corporate strategy moves is allegedly very poor (most acquisitions destroy shareholder value, most diversifications fail, etc.)

- Identify one corporation that has done well in pursuing diversification, and specify what exactly it has done to succeed.
- Identify one corporation that has failed at diversification, and specify what you believe went wrong in a particular episode for this firm.
- Identify one corporation that has done well in geographic expansion, and specify what exactly it has done to succeed.
- Identify one corporation that has done poorly in geographic expansion, and describe what went wrong in one episode of new-market development.