

STRATEGY DYNAMICS COURSE

Course Outline

This document gives a generic outline of a dedicated course in Strategy Dynamics. Although designed as a full MBA class to run over 10 half-day sessions – one for each chapter of the accompanying textbook, it is possible to pick individual sessions, or combine and shorten sessions in order to fit them into other courses.

The course is also made available in **untutored** format on StrategyDynamics.com. Individuals taking the course are invited to use the Strategic Management Dynamics forum (www.kimwarren.com/forum) to air issues and questions. Note: please be aware that the forum is public and therefore you should be careful regarding data that may be confidential.

Course objectives:

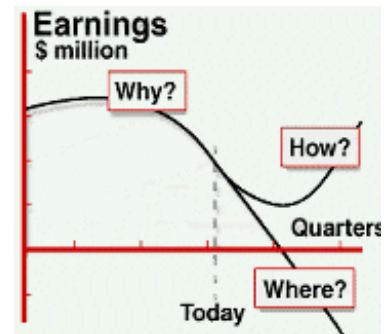
Strategy analysis, development and management have long relied on static frameworks to assess sources of competitive advantage and explain firms' performance. Yet managers know that these issues are essentially dynamic in nature - they must understand and manage *performance through time*. This elective builds on extensive current strategy work from leading businesses and consulting firms, and is supported by the major new strategy textbook *Strategic Management Dynamics*, from Wiley.

Rigorous frameworks. The course provides a set of powerful, rigorous 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. Traditional strategy approaches build on answers to the question 'Why is firm A more profitable than firm B?' But investors want *growth* in earnings, so this holistic and time-based perspective answers three critical questions:

Why has performance followed its current path?

Where is it heading if we carry on as we are?

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



These questions are as relevant to public services and voluntary organizations as they are to commercial businesses – they just have different performance aims.

Start with the business itself. To answer these questions, strategy dynamics starts in a different place from established approaches. Rather than assessing market and competitive conditions to find a 'position' that offers a profit opportunity, we work back from the performance trajectory to show how the organization actually functions and makes money. We then assess how competitors and external conditions affect that performance - e.g. customers drive sales and profits, so how do competitors affect our ability to win customers.

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

- provide confident answers to these questions in practical cases, and
- explain to others the underlying structures that provide those answers.

Resources drive performance. Central to the approach is identifying and quantifying the resource and the reasons they are accumulating and draining away over time. Every such flow of resource depends on the resources already in place – a web of interdependencies that makes up the 'strategic architecture' of your enterprise. You will learn how this architecture determines performance, and how to make it develop over time, and how to steer its performance with reliable policies for key decisions. Applying the approach to rivals enables you to identify and exploit their weaknesses, and pull ahead in the race for competitive advantage.

A short demonstration of how this works in a practical situation can be found at www.strategydynamics.com/prize [start at the second section].

Format, Materials and Teaching Method

Each class 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.

Online lectures – each class has between 30 minutes and an hour of online lectures.

Course book. *Strategic Management Dynamics*, [Wiley] available direct from Wiley, and from Amazon.

Additional readings can expand on understanding and link to other concepts in strategy [see the textbook for a more extensive set of references that may be useful readings]. Links are provided with the access to class materials on the website where possible.

Worksheets: Application of the Strategy Dynamics method is built up via the worksheets at the end of each chapter. Early worksheets are accompanied by detailed explanation of how to use them, either using the mystrategy software or pen and paper. As the course progresses you will need to judge, using the guidance from the book and lectures, which worksheets are relevant to your case.

Exercises and on-line materials. The course uses a number of small in-class exercises throughout that run on student laptops. These need the mystrategy mapping and modeling software [www.strategydynamics.com/mystrategy]. A short term licence is provided as part of the online course materials.

Additionally, the course uses two of the Microworld simulation business games, available from www.strategydynamics.com. Information on access to them is provided with course registration.

Class 1: Performance over time

Topics:

Strategic challenges concern **building performance through time**, whether for the organization as a whole or just one function or issue.

Setting objectives – either for performance over a time-period or for some resource level at a future time.

Financial and non-financial objectives

Readings:

Warren, *Strategic Management Dynamics*, 2007. Introduction and Chapter 1 [can be read after class].

[Supplementary] Bin Jiang and Tim Koller, How to choose between growth and ROIC', McKinsey Quarterly 2002, no. 4, pp. 12-16.

Worksheets for your group assignment: Worksheet 1.

Preparatory questions:

To get the best from the course it would be helpful at this stage to start thinking about an issue to apply the approach to. Ideally this should be a real strategy challenge facing a real organisation – whether that organisation is a business, a public service, or voluntary organisations. Sources for such cases include organisations that you have worked for, case-studies from other courses, or cases that feature in the business Press. A key criterion is that you should have access to good information. Below, this will be referred to as “your case”

Class 2: Resource drive performance

Topics:

Industry conditions or management – which matters most?

A rigorous, quantified causal chain explaining how performance outcomes depend on resources

Identifying and defining resources

Using **mystrategy** to map your case

Readings:

Warren, Chapter 2.

[Supplementary] Rugman A M and A Verbeke, 2002, 'Edith Penrose's Contribution to the Resource-Based View of Strategic Management', *Strategic Management Journal* **23**: 769-780.

Preparatory questions:

After reading Chapter 2, consider the your case and trace out the causal chain from performance back to resources. Sketch this on Worksheet 2, or lay it out in the mystrategy version.

Observe the discipline of the method !

Worksheet: Worksheet 2.

Class 3: Resource Accumulation

Topics:

The fundamental component of a business system – the “accumulating asset-stock”.

Non-intuitive relationships between resources and their flow-rates.

Readings:

Warren: Chapter 3.

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

Preparatory questions:

For each resource in your case, identify the in- and out-flows involved and sketch out the structure with illustrative time-charts.

In each case, what do these flow-rates depend on?

Observe the discipline of the method !

Worksheet: Worksheet 3.

NOTE: It is probable that you will be unable to obtain actual data for everything you need to assemble a complete and accurate analysis of your case – illustrative numbers are completely acceptable, provided you explain why they are plausible. See the example of Ryanair customer numbers in Chapters 2 to 4.

Class 4: The Strategic Architecture

Topics:

- Interdependence and feedback between resources.
- The Bass Diffusion Model of emerging markets
- The Strategic Architecture as the core of a rigorous explanation for performance.

Readings:

Warren: Chapter 4.

Preparatory questions:

Sketch out on Worksheet 4 [or the **mystrategy** software version] the linkages from each of the resources in your case back to [a] existing resource levels, [b] management decisions or [c] other factors.

Link these structures on Worksheet 5 to assemble a picture of how the resources in your case work as an integrated system.

Observe the discipline of the method !

Worksheet: Worksheet 4 and 5.

NOTE – Worksheet 5 indicates the core architecture for an organisation. In practice, this will vary considerably in structure between cases, and may be more extensive than can be easily captured [with time-charts] on a single page. It will therefore be necessary to create a new architecture from a clean page, rather than force your case onto the layout on this worksheet.

Continue to work with plausible, illustrative values for any item for which you have no data.

Class 5: Attributes

Topics:

- 'Attributes' as key qualities of tangible resources
- The 'co-flow' framework for understanding and managing attributes
- Competitor destruction – undermining competitor's business system

Readings:

Warren: Chapter 5

[Supplementary] Case study: Bartlett: 'McKinsey & Co: Managing knowledge and learning'

Exercise: The Professional Services Microworld

Further Background Reading:

Doman et al, 2007, 'The Talent Growth Dynamic', McKinsey Quarterly, Issue 1.

Book: David Maister, 2003, 'Managing the Professional Service Firm', Free Press: New York.

Preparatory questions:

Professional service firms (and other firms' internal service departments) depend on two key tangible resources – clients and staff. What 'attributes' do these resources carry?

For your case, identify any resource that may carry important attributes and sketch the structure that shows how those attributes may be changing, including illustrative values-over-time. Also identify any implications for performance that may arise from this structure, e.g. if your case-example is in a maturing market, average customer size may be falling, so profitability and profit growth may be hard to sustain.

Worksheets: Worksheets 6a-6c.

Class 6: Resource Development

Topics:

Resources moving through stages of development

Readings:

Warren: Chapter 6

[Supplementary] Lars Finskud 'Developing Winning Brand Strategy'

Further background reading:

The basic concept of customer-development is covered in standard Marketing texts – see for example, Doyle P, 2002, *Marketing Management and Strategy* (3rd Edn), Pearson, pp. 252-258.

Preparatory questions:

Identify any resource in your case that moves through several stages, and sketch the appropriate structure using the appropriate Worksheet, including illustrative values-over-time.

In each instance, what are the implications for how the resource develops over time, for the allocation of costs and/or effort, and for any decisions management may have to take?

Worksheets assignment: Worksheets 7a-7d. [Worksheets 8 and 9 may apply in special cases]

Class 7: Rivalry

Topics:

The race to develop potential customers – and other contested resources

The fight to take resources from rivals, and the role of switching costs

Fighting for share of resources to which rivals also have access

Readings:

Warren, Chapter 7.

[Supplementary] Case study: Ryanair: Flying Cheaper and Cheaper

Exercise: The LoFare Airline Microworld

Optional Further Readings:

Zajac E.J. and Bazerman M.H., 'Blind Spots in Industry and Competitor Analysis', *Academy of Management Review*, **16**, 1, 37 - 56, 1991.

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

Preparatory questions:

In your case, what resource[s] is the organization competing for? Which form[s] of rivalry are involved?

Sketch the appropriate rivalry structure using the appropriate Worksheet[s], including illustrative values-over-time.

Worksheets: Worksheets 10-12.

Class 8: Goals and Controls

Topics:

A standard structure for 'policy' to control decision-making.

Driving policy with performance on the resource-flows they affect.

Multiple and conflicting consequences of decisions.

Readings:

Warren: Chapter 8

[Supplementary] Morecroft J. 1985, 'The Feedback View of Business Policy and Strategy', *System Dynamics Review* 1: 4-18.

[Supplementary] Forrester J.W. 'The CEO as Designer', *McKinsey Quarterly Anthology on Business Dynamics*, 98-118.

Additional Background Reading:

Mintzberg H, 1985, 'Of Strategies: Deliberate and Emergent', *Strategic Management Journal*, **6**: 257-272.

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*, Issue 2.

Preparatory questions:

For your case, what are the key items on which management decides periodically in order to steer performance as time goes by?

Sketch the policy structure, including illustrative values-over-time, that captures how decisions should be made in each case.

Worksheets: Worksheet 13

Class 9: Intangibles

Topics:

The critical influence of intangible resources on performance.

Three categories of intangible: state-of-mind, information based, and quality related factors

Readings:

Warren: Chapter 9

Further Background Reading:

Itami H, and R W Thomas, 1987, Mobilizing Invisible Assets, Harvard University Press.

Preparatory questions:

Identify any intangible factors that may be important in your case. What impact do they have on performance, and what impact may management need to beware of in future?

What causes each to be 'filled' or depleted, and what can management do to ensure they are built or sustained at healthy levels? Sketch the structure, with illustrative values-over-time to show a plausible history, and one or more plausible futures for the organization.

Worksheets: Worksheet 14.

Class 10: Capabilities.

Topics:

Capabilities as key drivers for developing resources.

Learning as capability-building

Readings:

Warren: Chapter 10

[Supplementary] Teece, D., G. Pisano, and A. Shuen. (1997)., "Dynamic Capabilities and Strategic Management." SMJ **18** (7): 509-533.

Preparatory questions:

Identify any capabilities that may be important in your case.

Sketch the structure that links each of these to resources in the core of your strategic architecture.

Worksheets: Worksheet 15a-b.