



MASTER IN ENTREPRENEURSHIP  
INNOVATION MANAGEMENT  
IN COLLABORATION WITH MIT SLOAN

IN COLLABORATION WITH  
**MIT MANAGEMENT**  
SLOAN SCHOOL



UNIVERSITÀ DEGLI STUDI DI NAPOLI  
**PARTHENOPE**

# Building Dynamic Capabilities: Resource Deployment and Development (B)

Resources, competencies, dynamic capabilities & competitive advantage

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Napoli, February 7, 2024

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## TRIAL SESSION DEBRIEF

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Peter Moran

## YOUR RESULTS

On what resources did you focus as you built your airline?

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## WHAT IS A FIRM?

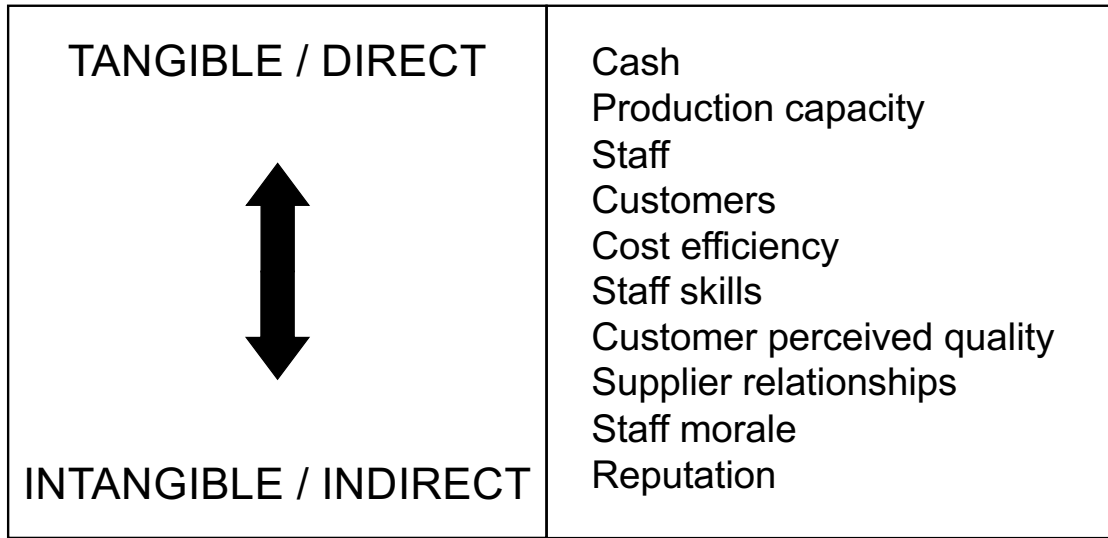
Not a 'thing'

But an **open system**, comprising a **network of resources** that extends . . .

- Within firm's boundaries
- And beyond them

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## RESOURCES: WHAT WAS YOUR FOCUS?



... How / when did you deploy them?

## CRITERIA FOR COMPETITIVELY CRUCIAL RESOURCES

**Hard to replicate**

**Not easily mobile**

**Hard to substitute**



**Barriers to entry, mobility or substitution**



**Enabling us to sustain a competitive advantage**

# SYSTEMS THINKING

A company is a complex system of inter-related resources

But when problems arise we tend to focus on one or two sub-systems only

It takes some time for the effect of our action to show up, so we don't even see that we are the source of our problems

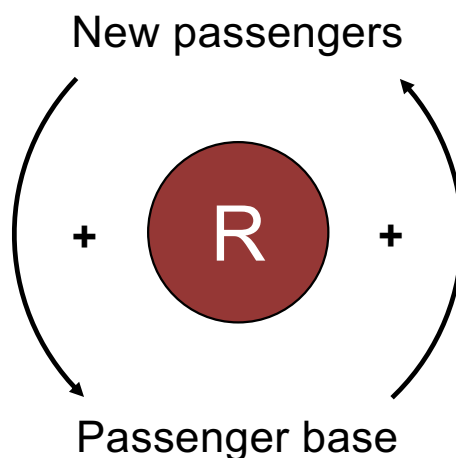
This leads to crisis, confusion and domino-effects



Unless we try to understand the whole system

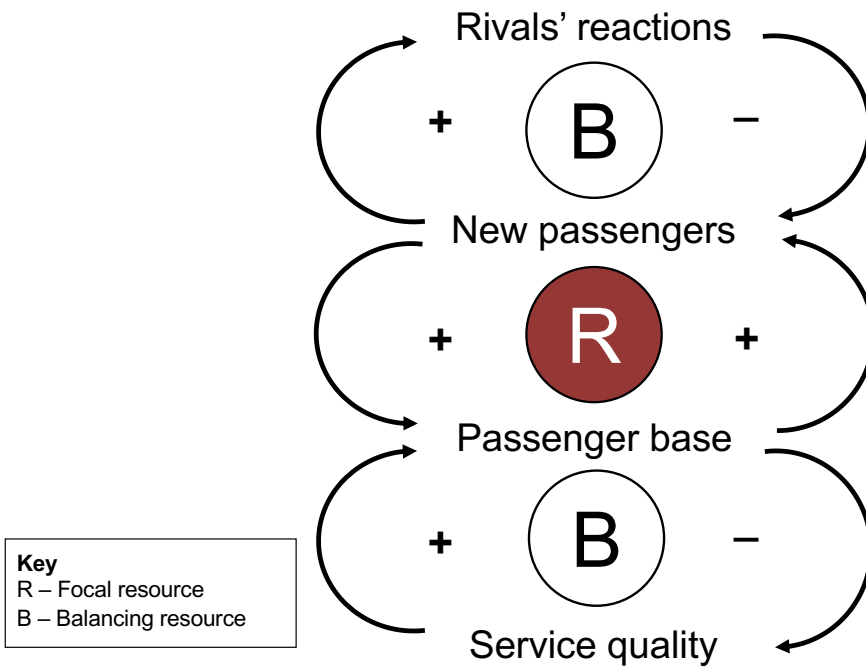
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At one level, the more of a resource you have,  
the easier it is to grow.

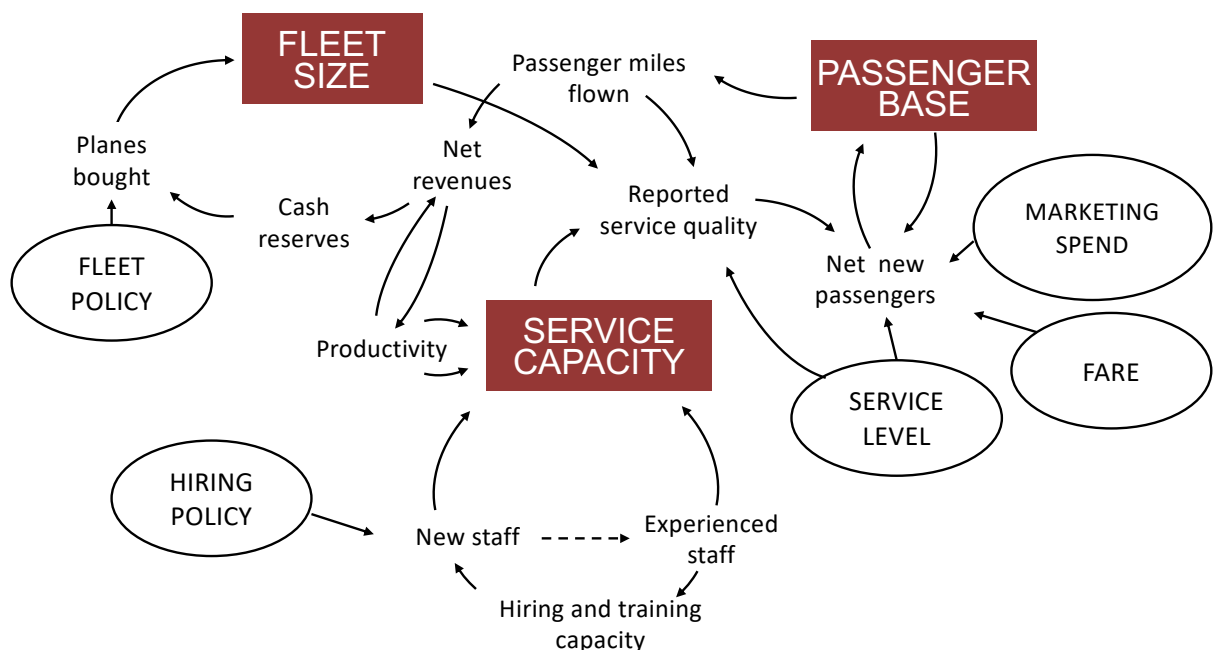


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**But in open systems, as resource stocks grow, they induce indirect effects that can impede or even reverse growth.**



**An airline, like most firms, comprises a complex web of multiple interdependent effects**

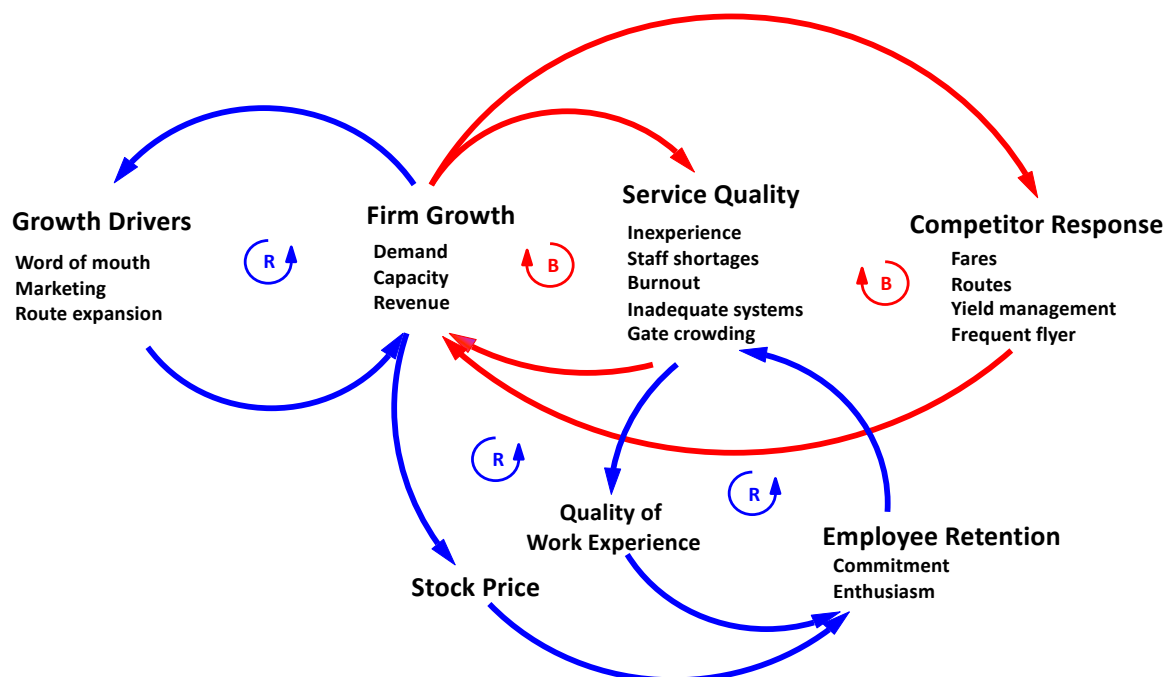


## Systems Thinking (Warren Reading)

- A company & the competitive environment is a complex system
  - Our mental models are incomplete; we see only part of the world around us
  - When problems arise we tend to focus on a handful of factors
  - Narrow focus on simple, linear cause-effect relationships
- Understanding the ‘big picture’ includes:
  - Feedback loops
  - Interdependencies
  - Time lags (it takes time for effects of our decisions/actions to show up)
- Beware of the Challenge of Time
  - Grow too slowly and existing competitors will retaliate and new entrants may fill the empty space
  - Grow too fast and you’re more likely to go bust!

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## Identifying Important Feedback Loops that Drive Dynamics



Connecting simulation to Warren Reading

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## THE UNDERLYING PROBLEM: FRAMES

We can see only part of the world around us

We search for the familiar, while . . .

. . . imposing recognised patterns as our *frames*, which govern

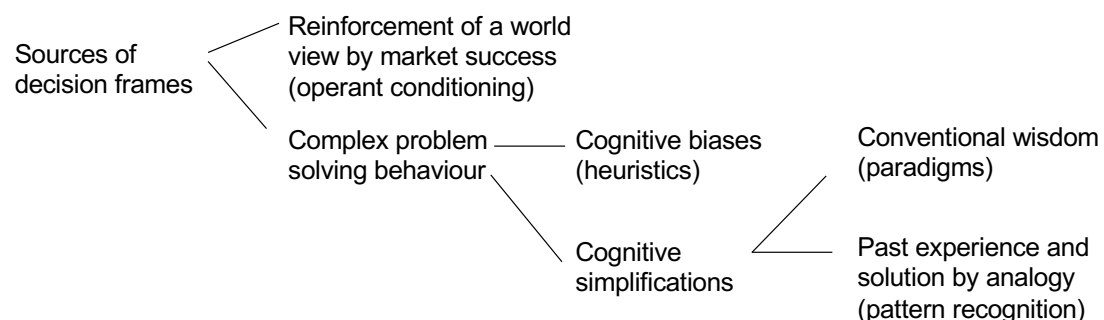
- what we *can* see
- what we *cannot* see
- and what we ultimately decide to do

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## FRAMES

**A frame is a mindset, worldview or conceptualisation of the business that shapes what we see (and don't see) and biases our decisions.**

Decision frames can be both a knowledge structure and a set of elicited management processes that is stored via schema



Source: Hammond, Keeney & Raffa. "The hidden traps in decision making." (HBR 1998)

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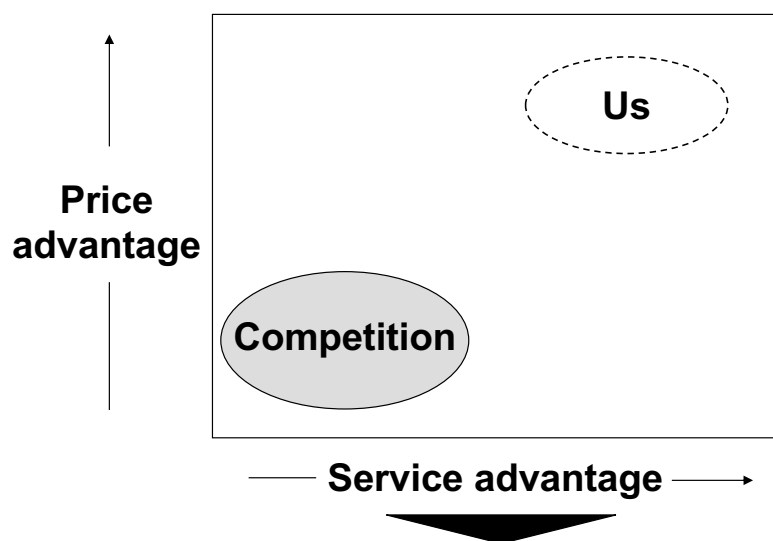
## RESOURCES AND CAPABILITIES

Issues to keep in mind

1. Financial health versus strategic health: have the right measures
2. Consistency versus reacting to short-term pressures: beware explosive spirals!
3. The dangers of snapshot measures in a world of lags
4. Building capabilities ahead of needs
5. Co-ordinating growth

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## BREAKING OUR DECISION FRAMES



**Do we see that perceived service quality**

- Is harder to imitate than price?
- Can lead to a more enduring price advantage?

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## THREE DOMINANT FRAMES AT WORK

- Narrow focus on simple cause-effect relationships
- Ignoring the 'big picture', which includes
  - Feedback loops
  - Interactions
- Low cost implies low price

## SECOND SESSION

Begin with strategy and team process

Report back with

- The results of your strategy
  - What you were trying to do
  - How it worked
- The results of your best round
  - What changed
  - Lowest quarter's share price in final year

## OUR OWN FRAMES

Close your eyes and . . .

. . . imagine a cake and a knife

What is the greatest number of pieces you can get with 4 straight cuts of the cake with the knife?

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## SIMULATION SCHEDULE: Second Round

Strategy Session for round 2 (in groups)	13:00
Simulation round 2 (group rooms)	13:30*
Final debrief (Lecture Theatre)	15:15
Close	16:00

\* Note: Take a break when convenient but before debrief session

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**Strategy:**

**Long Term Results:**

**Why was it successful / unsuccessful?**

