Chapter One

The Wall Street Chess Club

A couple of years before quite accidentally becoming its CEO, I ran business development for a small public company. It was the 1990s, we had some cool graphics software, and I was headed to Redmond to sell it to Microsoft . . . or so I thought.

After years of work and interminable reviews by their technical experts, we believed our moment of glory had finally arrived. We expected that soon we'd announce a huge transaction with the industry leader, rake in a fortune, and watch our stock rocket.

But then the meeting actually started. My Microsoft counterpart opened the proceedings by reading me what he called, with absolutely no sign of a smile, the "rules of engagement" for dealing with his company. Turns out, these were essentially a corporate version of the Miranda rights, the ones police have to read when they arrest you. (Actually, that was only fair: Bill Gates is a lot scarier to a small technology company than the local sheriff.)

Instead of the right to remain silent, you had the right to not do business with them at all; it was, mercifully, still possible to just leave. If, however, you did decide to proceed, two things were absolute: one, Microsoft would own your software lock, stock, and barrel; and two, you would be paid absolutely nothing for it.

Hmm. Well, this was not exactly the sort of shrewd deal that I expected to win me a bonus. In fact, it didn't: I almost got fired for accepting.

Whatever possessed me to say yes? My chess gut said it was time for an "exchange sacrifice." Now, for some reason, that particular explanation didn't completely mollify the unruly crowd back at the office. Even the famously practiced L.A. cool of our black-tee-and-shades CEO got blown, reportedly causing him to bang up his IPO Porsche when he got the news via cell phone. So, forced to defend this "little brilliancy" to the entire board of directors, I tried a different approach.

Look, hard as it was to swallow, what Microsoft was saying was true: that we could only become a major company if our software reached enough people to make a difference, and that could only happen through them. Well, correct, we could not continue licensing our desktop software to companies once it was free as part of Windows, so, yes, we would have to find an entirely new business model . . . and, no, we hadn't quite worked that one out yet. To the board, unfortunately, I was unable to repeat the Microsoft guy's detailed analysis on this point: if, with this new Internet thing happening, we weren't smart enough to find a way to monetize the fact that our software would be on tens of millions of machines, he reasoned, "You suck."

So it boiled down to two options. We could continue to license our code for a few dollars here and there and risk slowly becoming passé, or we could get it into use by many millions of users quickly (albeit for free) and find some new way to play in the next, Internet phase of the game. Even though we couldn't exactly see how to exploit the distribution, and even though it meant junking the model that had paid the rent, we had to go for it—what chess players would call an exchange sacrifice—trading one kind of advantage for a completely different sort, even though the exact benefits can't be calculated.

And, fortunately, the plan more or less worked. We did get our software onto more than half of all computers in the U.S., and we did figure out a new business model based on that fact, although in the short run, it didn't generate enough revenue to replace what we gave up. Instead, as is the idea with this kind of move, the real payoff came later: The new model propelled us directly into what would become the white-hot Internet advertising business, in a way that the old one never could have. Meantime, nearly all the graphics companies that stuck to their old desktop business models died on the vine as the Web blossomed.

Brilliant long-term planning? Hardly. But it wasn't pure luck, either. We did figure that this "Internet thing" just might be a hit, but we had no more idea than anyone else how Web advertising would evolve. Nonetheless, we wound up ideally positioned for it. We didn't have a crystal ball, but we were playing chess.

It's often that way: the best business moves come right off the board. Indeed, what's amazing is how many chess principles are directly applicable to the world of business and how they can help executives make the right move in so many situations—with strategic development, of course, but also when attacking competitors, defending turf, cracking new markets, and, well, in just about every aspect of running a business these days.

The idea for this book began to dawn on me long before my stint as the biz dev guy (and later, CEO) of that software company, back when I was still a lawyer, while scanning the audience at a world championship match between Garry Kasparov and Anatoly Karpov in New York's Macklowe Hotel in 1992. The room was absolutely teeming with famous Wall Street guys, some I knew from my practice down there, some were stars I'd never met: George Soros, Steve Friedman (head of Goldman, Sachs), and Jimmy Cayne, who ran Bear, Stearns. Was that an accident or a clue?

That question sparked the creation of the Wall Street Chess Club. And what a club it became. On our very first night, we got the above luminaries as well as a virtual "who's who" from all the other Wall Street shops. Word spread through the chess circles of New York's large Russian émigré community, which had recently been supplemented by a huge influx of top Grandmasters (GMs) who bailed out as things got shaky in the old Soviet Union. Soon we were nearly overrun by top players. I guess their usual clubs didn't offer fine red wines and gourmet sandwiches or feature expansive views over the Statue of Liberty in the harbor far below. But for whatever reason, we suddenly had the strongest club in the world.

Among the regulars and guests were ex-world champions Tal, Spassky, and Karpov; other "super GMs" like Dzindzichashvili (later my teacher), Albert, and Kamsky; the American stars Ashley, Rhode, Benjamen, Seriwan, and Wolff; the rage of the chess world, the three Hungarian Polgar sisters; and eventually, the greatest player ever and reigning world champion, Kasparov himself.

The running joke was that the executives were coming to learn to play chess, and the chess players were coming to learn to make money. But the communities blended very well indeed, and many players ultimately took jobs at the investment houses, often as traders; Banker's Trust actually launched a formal recruiting effort to bring in GMs.

So the question was answered. Chess and business did indeed share a deep connection.

Soon thereafter, Kasparov asked me to help him start the Professional Chess Association, a rival to the then-worldwide governing body of chess. We staged all sorts of events in unusual venues with unique formats, including the first commercial event ever held inside the Kremlin (during which our sponsor got more than its money's worth when a well-placed gratuity got the "Intel Inside" logo projected on the outside walls for a night, an image that was flashed all over the globe); a world championship played atop the World Trade Center; and a "speed chess" TV series hosted by Maurice Ashley for ESPN.

But the life-changing event occurred later, when Kasparov introduced me to a brilliant Russian physicist, Sasha Migdal, a Princeton professor who had invented a three-dimensional camera (I'll explain later). Blinded by the possibilities, I quit the practice of law and jumped into a true start-up. That's when I got my chance to put chess theory into business practice.

Fortunately, I didn't know a thing about the basic rules of business at the time. If I had, I'd still be a lawyer because one of those rules probably says to make sure you have a viable product before you leave a cushy job and bet the farm on it. Much to my dismay, it turned out that there was actually no demand at all for what we were selling—and just about the only good news about that was that it didn't turn out to matter much, as the product didn't actually work so terribly well, anyway.

But, because we "played chess," things turned out OK. We went into a "deep think" about our position after an embarrassing series of setbacks (including, in a heavily promoted stunt, posting 3D pictures of all the Miss Universe contestants on the NBC Web site the night of the show. Our expected tour de force turned into a disaster because the then-nonstandard systems for displaying 3D on the Web rendered these gorgeous women as mangled Picassos on everybody's computers except ours, and we were almost sued by Miss Argentina). We decided to play our first "exchange sac" by jettisoning the camera and relying on the underlying algorithms to develop graphics software for the Internet. We then pursued a "first-mover advantage," "castled early," established a "strong square" in Web 3D, and got bought by a public company.

Of which I became CEO at the exact moment that the fantastic Internet bubble burst, taking our stock price and most of our customers with it. Our game hung by a thread. But we went on, one move at a time, not knowing what the endgame would be. We just kept making the next best move we could find, accumulating small advantages and trading them for others, until suddenly the winning path, Internet advertising, emerged.

The more or less happy result ensued largely because I had one piece of training most MBAs don't: my sister Dianne had taught me to play chess as a kid, and the Bobby Fischer match made it stick.

But, as you've seen, that didn't equip me to predict the future. Despite what most nonplayers believe, winning at chess is *not* based on the skill of seeing ahead 15 moves (or, as we'll see, even three).

Nor, fortunately, is it about IQ, another common misconception. We might as well pop that bubble right now: most great chess players are of average intelligence. Sure, some people are naturally more talented at the game than others, just as some folks learn to play the piano or speak a foreign language faster than most, but none of these mental skills means beans about how "smart" you are in the typical sense of the word. Anyone can become competent at chess, just as they can at music or language, simply by learning and practicing the basic principles.

No, far from being a dry science of pure calculation and certain foresight, world class chess is about having a plan to generate an advantage but prosecuting it in a flexible way; at the right moment, swapping that advantage for one of a different sort, and then doing it again; moving quickly even when you're not exactly sure what to do; making intelligent sacrifices; taking risks; believing in yourself; and dealing with the present, not the past.

That said, there are, of course, several concrete strategies and tactics to understand; that's what the book is about. These methods do not banish uncertainty, but they do position you to take advantage of it. They set you up for "unexpected" success.

After all, these strategies and tactics guided an outsider, a country-bumpkin lawyer like me (who, when introduced to Leon Black not only asked what he did for a living but followed up with "And what's an investment banker?"), into position to become a partner at one of the most prestigious law firm on Wall Street, which led to the Wall Street Chess Club, which in turn led to my running that event in the Kremlin. This then gave me the chance to launch a start-up with the guy who solved two-dimensional quantum gravity theory (and whose father created the Russian hydrogen bomb), which then, despite the Miss Universe fiasco, got acquired by a screenwriter's exaggerated version of a wacky West Coast public company. My annointment as CEO of that company happened mostly because the board figured I'd play better in an accidentally scheduled "Power Lunch" interview than my seriously surfer dude predecessor.

So, you can see, my career path wasn't exactly a 15-moves-ahead type deal. Instead, it happened precisely because I didn't have a long-term fixed plan to disrupt. The basic principles of good play—get a big idea, use it to build an advantage, improve it, swap it out for a new one, move quickly, see what happens, make a new plan, and move again—worked on a professional level just as much as they do in corporate warfare.

Indeed, the more you look at the business world, the more you see that successful companies and the people who run them use chess strategies routinely (whether they know it or not): to create strategy, manage people, make decisions, and most of all, cope with the rapidly increasing rate of change in the world, with the unknowable future.