

Challenging Routines

In August 1972, Jay Brothers menswear was having problems in the recession. Sales were dropping off in most of its high-street shops, and even redoing the shopfronts and store layout had not had any noticeable impact. Jim Nott, managing director, pondered the issue. Their 200 shops meant strong purchasing power. For the last ten years they had sourced finished goods – casual menswear made to Jay Brothers' designs – from Hong Kong. But now, exchange rate changes had meant that supply costs were rising. Jim conferred with his purchasing director. Jay Brothers had to become more assertive with the suppliers in order to drive down costs, such that shop prices could be cut but profit margins maintained. For the first year, the strategy worked and sales figures improved, but then the figures worsened slightly.

Jim became more aggressive with Jay Brothers' suppliers, and again figures improved. The following year, Jim went on a tour of South-East Asian countries where labour rates and exchange rates were more favourable. Some excellent deals were struck. However, at the same time, new types of casual-wear stores were opening: Next, Gap, Principles for Men. Sales at Jay Brothers started to plummet. Jim took early retirement. Shortly afterwards, the Jay Brothers' name disappeared from the UK high streets.

What went wrong at Jay Brothers? Before we discuss this, try the following thought problem.

Thought problem 1

Imagine that you are given an 8-pint jug full of water, and a 5-pint jug and a 3-pint jug that are both empty. We will represent this as 8-8, 5-0 and 3-0, where the first figure indicates the size of the jug and the second figure indicates the amount of water in the jug. Your task is to pour the water from one jug into another until you end up with 6 pints in the 8-pint jug and 2 pints in the 3-pint jug (i.e. 8-6, 5-0, 3-2). Since the jugs are opaque, you can only tell if a jug is full, empty, or partly full.

What are the moves needed to change the initial state of the jugs into the goal state?

The easiest series of moves is as follows. It is worthwhile working through these moves:

	Jug 1	Jug 2	Jug 3
Initial state	8-8	5-0	3-0
Intermediate states	8-3	5-5	3-0
	8-3	5-2	3-3
	8-6	5-2	3-0
Goal state	8-6	5-0	3-2

First, jug 1 is used to fill jug 2. Then jug 2 is used to fill jug 3. Next, the contents of jug 3 are poured into jug 1, and finally, the contents of jug 2 are poured into jug 3. Do you follow this logic? Take your time and rework thought problem 1 until the steps to the solution are clear. When you have done this, try thought problem 2.

Thought problem 2

Imagine you have: an 8-pint jug filled with water, an empty 5-pint jug and a 3-pint jug containing 1 pint of water (i.e. 8-8, 5-0, 3-1). The goal state is 8-6, 5-0, 3-3. Let us again follow the logic of the moves.

First, jug 1 is used to fill jug 2. Then jug 2 is used to fill jug 3. Next, jug 3 is poured into jug 1, and finally, the contents of jug 2 are poured into jug 3.

	Jug 1	Jug 2	Jug 3
Initial state	8-8	5-0	3-1
Intermediate states	8-3	5-5	3-1
	8-3	5-3	3-3
	8-6	5-3	3-0
Goal state	8-6	5-0	3-3

Do you follow the logic? Take your time and rework the steps in the solution. In fact, *should* you follow the logic? If you feel that you should, then think again! A more efficient solution to thought problem 2 would be simply to pour the contents of jug 1 into jug 3.

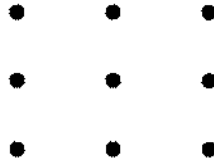
Success formulas

Psychologists have given individuals a series of problems to solve – like thought problem 1 – that can *only* be solved by a long sequence of moves that, over time, becomes a familiar ‘success formula’ to the individual problem solver. When the same people are eventually presented with a problem similar to thought problem 2, they try to follow the same ‘success formula’, rather than see the ‘short cut’. By contrast, people who are simply presented with thought problem 2, without having experienced solving a sequence of problems like thought problem 1, see the straightforward solution without any difficulty. In other words, our thought processes tend to become *cognitive habits*, which, much like a machine, we use to solve problems in a predictable way.¹

Jim Nott at Jay Brothers menswear also followed a ‘success formula’ that had always worked: expert procurement. But the world had changed in the late 1970s in the UK. Men had become more fashion conscious, and Jay Brothers’ well-made, year-by-year cheaper, casual clothes were good buys but were simply no longer seen as stylish by more discerning men. Hence, Jay Brothers went out of business. Consider thought problem 3.

Thought problem 3

Below are nine dots. Your task is to draw four continuous straight lines, connecting all the dots, without lifting your pencil from the paper. The correct solution is shown in Appendix A. Try the problem first, and then refer to the solution.



Did you have difficulty solving the nine-dot problem? If so, you are like most of those I have given the problem to in my MBA and executive classes. Assumptions made about problems are called 'frames', or ways of seeing.

Frames of reference

In organisations, the roles that people occupy can influence the way that problems are seen or framed. For example, a cosmetic products company was losing money in the early 1980s. Key managers in the company were asked to investigate and report on the reasons for the decline. The marketing managers thought that the cause of the problem was lack of advertising and promotional support. The manufacturing and distribution managers blamed inaccurate sales forecasting and lack of customer knowledge on the part of the marketing group, while the finance department blamed budget overruns by all departments. Finally, the legal department identified that a lack of new franchising and licensing agreements meant that the company lacked new products to sell.²

It is clear that poor framing may mean that managers set out to solve the wrong problem because they have created a framework for a decision with little thought. The best options may be over-

looked. Well-rehearsed and familiar ways of making decisions will be dominant and difficult to change – just as with Jay Brothers menswear.

In large and successful organisations, current ways of doing business will become embedded more and more deeply as the years pass. For example, consider the majority of companies within the UK and US auto industries in the late 1970s. The focus was on manufacturing long production runs with minimum redesigns. By contrast, other countries' manufacturing frames were more customer oriented, in that responsiveness to changes in customer demand was the focus. In the UK and the USA, the high level of commitment to a – previously successful – production-oriented strategy meant that management was slow to adapt to a world where changes in customer preferences mean that past demand is no longer predictive of future demand. In some companies, attention to the changing desires of customers can be limited. A marketing focus is not necessarily a universal characteristic of companies that have been in business for many years. Consider the following abstracts from articles about Marks & Spencer, a major UK clothing retailer. I have chosen those aspects of the articles that relate to Marks & Spencer's framing of the way to do business as a clothing and speciality food retailer.

'Tattered and torn by plunging profits, Marks & Spencer is trying to win back our loyalty' by John Walsh, *Independent* 7 November 1999 (Copyright 1999 Newspaper Publishing Plc)

The old dame kicking over the traces! Is that how Britain's largest retailer wants to be seen from now on? If the marketing department is to be believed, everything is going to change. The in-store design, untouched in what seems like decades, will be rethought...

More crucially, the clothes will be different, and the way they are marketed. Because, after years of a caution that has sometimes seemed to border on paranoia, M&S is diving into the churning surf of fashion trendiness... For the first time, it will capitalise on the names of the designers behind the St

Michael label. There's talk of M&S catwalk shows in the autumn. There's even talk, for the first time ever, of a TV advertising campaign.

If all this image-burnishing suggests a company in the throes of a shuddering nervous breakdown, you can hardly blame them. For M&S has just survived the most horrendous year in its history ... 'In 45 years of retailing,' said the recently retired chairman, Sir Richard Greenbury, 'I've never seen the figures go from good to bad so quickly.' The new chief executive Peter Salisbury laid off 290 store management staff on 11 May, having already removed 200 buyers at head office and 31 senior executives. The blood-letting allegedly saved \$10m – but what was that compared with the millions the chain was losing from customer disaffection? The awful fact was plain: the British buying public had ceased to love Marks and Sparks.

For years the nation and the store chain had a relationship like no other. In the sixties, M&S transcended its status as a shop and became iconic; it stood for a certain stodgy brand of eccentric British decency, like the Albert Memorial, the Proms or the Queen Mother. To criticise M&S for being old-fashioned was pointless. It was the nation's secret necessity, the underwear drawer of the realm. It still is: British women buy their knickers at M&S at a rate of a million a week ... But as the high street clothes shops became increasingly sophisticated, and signed up premier-league designers to create 'diffusion ranges' of their catwalk triumphs – Jasper Conran at Debenhams, Hussein Chalayan at Top Shop and Liza Bruce at Dorothy Perkins – M&S refused to join in ... Shoppers grew disenchanted with the range ...

It was on that assumption of quality that the company traded for far too long. The shop interiors stayed blank and off-putting. The in-store signs and labels became increasingly curt and un-seductive. 'Cotton' one sign would announce in front of a display of 200 shirts ... The company never advertised on TV or in the newspapers. Only lately was the concept of putting changing rooms in more than its flagship shops taken up; it assumed that, if you could bring it back and change it, why bother trying it on? ...

How did the designers feel? Brian Godbold, former design director of M&S, now a consultant, describes the frustration of the creative marketer. 'When I joined the company, 20 years ago, the prevailing wisdom among senior management was: "Good goods sell arse-upwards". It thought that if the merchandise was good enough, it would sell anyway. My designer friends in those days, like Ossie Clark and Bill Gibb, said "You're mad to go near a chain store", but what's happened to chain stores in the past two decades has been phenomenal.

Godbold is buoyant about the new management. Peter Salsbury's management style couldn't be more different from Sir Richard Greenbury's,' he said. 'Ideas are allowed to come up through the system, decisions are taken in a much more open way. There's a big change in the way people work. It's accepted that, even if you have a good product, you must have other things too. We didn't realise how important service and interior design are to the package. We recognise it now; we're back on track and feel positive about the future.'

But one can only marvel at this creaking old dowager of the retail aristocracy, as she takes her first faltering steps, on her zebra-print evening shoes, into the world of marketing, advertising, interior design and perceived value. She would do almost anything to have us love her again. Will she succeed?

'Every mistake that could be made. Marks & Spencer came to Canada thinking it was just like home and never quite recovered' by Marina Strauss, *Globe and Mail Metro* 6 July 1999 (Copyright 1999 Thomson Canada Ltd)

Cope and Constance Schwenger were in a mood to stock up when they headed off to Marks & Spencer's Canadian flagship store in the Holt Renfrew Centre on Toronto's posh Bloor Street West.

They were after their favourite cheese biscuits.

Unfortunately, the cheese biscuits were sold out, but the couple didn't leave empty-handed. They picked up two packages

of digestive cookies – \$2.59 each. This is not the kind of business that Marks & Spencer had in mind when it set up shop in the exclusive shopping district three years ago. After a quarter-century in the Canadian marketplace and just three profitable years, it needed customers willing to spring for much more than the occasional box of crackers ...

... What went wrong?

'I think everybody in the UK who had anything to do with it would say every mistake that could possibly have been made was made,' said company president David Stewart...

How one of Britain's leading retailers allowed this to happen began as a lesson in marketing arrogance, according to John Torella, a retail consultant who once dealt with the chain.

'They just figured, "We don't need to advertise, everybody knows us. People are just going to come and find out about us..."'

Michael Waitzer, a former Marks & Spencer executive and now a vice-president with Tip Top Tailors, agreed. 'The typical British philosophy was: It works here, so it should work in Canada.'

Feeling no need to advertise wasn't the company's only failure to connect with Canadian tastes. For example, it assumed that shoppers would be aware of the perfect Marks & Spencer fit, so the stores had no changing rooms to let them try garments on. Clive Nickolds, who was company president in the early nineties, said he quickly realized that the similarities between Canada and Britain 'can be much overstated'.

'When we first started, we underestimated the differences,' recalled the 32-year Marks & Spencer veteran, now in London as head of the European division. 'We plunked down a British formula in a foreign country. We thought that because most people spoke English and most people were expatriates – which was complete nonsense, of course – we could just put the formula down without any adaptation and it would sell as well as it did in the UK.'

'It took us rather a long time to realize that wasn't the case! ...'

There were certainly attempts made to turn things around. In

time, the changing rooms appeared, although the attitude toward advertising remained inconsistent. Mr Torella remembers developing a high-profile campaign in the early 1990s to promote the new, more contemporary-looking stores and fashions that the chain had embraced. At the last minute, London head office killed the \$250,000 blitz, opting for a cheaper, more traditional pitch ...

'They've got the world's greatest biscuits, and I am going to miss them,' Mr Schwenger said, conceding that 'we haven't bought the things they want us to buy.'

Sheila McEachen, 34, has been another regular shopper, mainly just for the high-quality underwear. 'The styles are kind of maternal, targeted to older women,' said the 34-year-old public relations manager. 'For the longest time it was your mother's store. They were trying to break out of that. They've changed over the years ... It was just too late'...

According to Mrs Schwenger, the final blow did not come as a complete surprise.

'When Marks & Spencer moved onto Bloor Street, I kept looking in the window and thinking, they're just not making it. They just didn't have the zip to their styling that would entice people to come.'

For example, when she goes clothes shopping for her children, the Gap gets the nod. 'It's more cutting edge.'

It is clear that an organisation may decline or go out of business if its managers fail to change their business frame so that it is more closely in tune with changes in the world.³ For example, consider in the late 1970s a manufacturer of watches whose expertise is in producing accurate, miniaturised, clockwork movements. This company's competencies in clockwork will, of course, turn out to be ill-matching to the extreme accuracy and cheapness of quartz watch technology in the mid-1980s. Consider also the manufacturers of bowler hats, solid rubber car tyres, valve radios and valve televisions. Each of these manufacturers would have developed capabilities/competencies – perhaps unique ones – in their manufacturing/development processes. The problem is, of course, that valued competencies may

become irrelevant as changes in technology or fashion sense occur. The key to success is not to be tied too closely to current ways of doing business or 'success formulas'. Success formulas and tried-and-trusted approaches should be open to challenge, debate and dissent. Consider the following article about Robert Dyson's attempt to interest well-established vacuum cleaner manufacturers in his new design of vacuum cleaner.

'Interview: Lucky sucker James Dyson revolutionised the vacuum cleaner and has "sucked up" a £500 million fortune.' by Daire O'Brien, 19 December 1999, *Sunday Business Post* (Copyright © 1999 *Sunday Business Post*; Source: World Reporter (TM))

In 1979, Dyson found out that the standard vacuum cleaner, or the Hoover, as it was generically known on this side of the Atlantic, was far from where it could have been. The suction ability of the machine tailed off miserably when its bag was only 10 per cent full, as the dust clogged the air outlet. He also sensed that the market was dormant, dominated by companies like Hoover and Electrolux that had never had to face a serious bit of competition in their life.

He invented a bagless vacuum cleaner that kept its suction power at 100 per cent, thanks to a design breakthrough known as the dual cyclone. The 'hoover without the bag' was treated much like a plane without wings. People had trouble accepting that it could work.

'I went to Electrolux twice. I went to Miele. I went to Bosch and all the others. They all had a good look at it, but no-one would sign up,' he recalls. 'I didn't get the impression they were that interested in change. They are now, of course, but that's because it's been forced on them.'

Risk taking versus risk aversion

Now let's move on to another demonstration of framing effects on decision making. Thought problem 4 asks you to make a policy decision.⁴

Thought problem 4

Imagine that the USA is preparing for the outbreak of an unusual viral disease, which is expected to kill 600 people. Two alternative programmes to combat the disease have been proposed. Assume that the exact scientific estimate of the consequences of the programmes are as follows: If programme A is adopted, 200 will be saved. If programme B is adopted, there is a 1:3 probability that 600 people will be saved, and a 2:3 probability that no people will be saved. If you had to make the choice, which of the two programmes would you favour?

Well, if you are like most people then you tend to favour programme A. Such a choice is risk averse, in that the prospect of certainly saving 200 lives is more attractive than a risky prospect of equal expected value. By 'expected value', we mean the probability of our outcome multiplied by the value of that outcome. For programme A, the expected value is a 100% chance of 200 lives saved, whereas in programme B the expected value is $1/3 \times 600$ plus $2/3 \times 0 = 200$. So, both programme A and programme B have an equivalent expected value of 200. However, imagine if instead you had been presented with the same cover story but with a different statement of the outcomes of the alternative programmes as follows: If programme C is adopted, 400 people will die. If programme D is adopted, there is a 1:3 probability that nobody will die, and a 2:3 probability that 600 people will die.

In this formulation, most respondents favour programme D. This option is *risk taking* in that the certain death of 400 people is less acceptable than the two-in-three chance that 600 will die. Choices involving gains (e.g. between programmes A and B) are often risk averse, and choices involving losses (e.g. between programmes C and D) are often risk taking. Notice that the choice between A and B is identical to the choice between C and D. The only difference is that the first choice emphasises lives saved, while the second choice emphasises lives lost. This simple change of frame produces a dramatic shift in choice.

Multiple frames

Without realising it, we tend to see reality through one frame at a time, and once locked into a frame, it is difficult to switch frames. Even physicians – who might be expected to know how to think dispassionately about life and death – are influenced inappropriately by the reference point, in this case lives saved versus lives lost, in problems similar to the one above.⁵ Ideally, decision problems should be examined through more than one frame of reference.

Imagine a business in difficulty that is facing a choice between two options – both of which carry the risk of losses. The tendency will be to favour the option that *may* deliver the better pay off, even if it is the riskier option. By contrast, in more comfortable times, the business will tend to choose options that are risk averse. The former risk-taking orientation in the domain of losses is illustrated well by the events in the downfall of Nick Leeson as he tried to recover from his gradually deteriorating final position as a futures trader. We shall have more to say about Nick Leeson in Chapter 6. As an example of risk-averse choices in times of abundance, imagine that you are in a well-paid, secure and interesting job. If someone offered you another job, you would have to be 100% sure that the alternative job was better before you would seriously consider a job change.

An identical choice problem can be framed differently – as a choice involving gains, or as a choice involving losses – and, depending on this framing, your favoured choice will be different. The key to improved decision making, then, is to seek out different framings of the same strategic situation, because the frame that you adopt will influence the choice that you make.

Using frame analysis

How can this be achieved? One response is to make use of ‘frame analysis’, a set of simple questions that you pose to yourself or your management team.⁶ The six key questions to ask are:

1. What aspects of the situation are downplayed?
2. What reference points are used to measure success?
3. What does the frame emphasise?

4. What does it minimise?
5. Do others in the same industry segment think about the issue differently?
6. Is the decision one involving potential gains or one involving potential losses?

In terms of Jim Nott and Jay Brothers' menswear, the answers to these six questions are straightforward:

1. Causes of poor sales other than price.
2. (i) Sourcing finished goods at cheaper prices.
(ii) Year-on-year sales figures that are, at least, constant.
3. Becoming more aggressive/resourceful in sourcing finished goods.
4. Market/customer orientation.
5. Yes, others sell multiple brands (other than own brands) of casual wear.
6. The decision is one prompted by current losses.

By completing a frame analysis you will, as a result, put alternative framings of a strategic issue onto the agenda of the management team. As we shall see in later chapters, we advocate several other methods to ensure that the management team will consider carefully these new agenda items and thus overcome framing bias. All the methods that we advocate focus on enabling the management team to challenge current ways of doing business. As stated in the subtitle to this book, we believe that the most precious asset of any organisation is the intellectual resource residing in the minds of its management team. Methods that can bring this resource to bear, in order to challenge current ways of thinking, have the potential to pay out massive dividends to the organisation. But, as we shall also see in the next chapter, it is commonplace that individual managers find it difficult, if not impossible, to challenge 'success formulas'. Often, no-one speaks out as an organisation sinks into decline. In our view, the key task of top management is to encourage challenge and debate, and hence harness the intellectual resources of the management team. As we shall see, a similar-thinking management team who

seldom debate issues is, in itself, a tell-tale sign of an organisation that may not be able to adapt early enough to change.

Key messages

Challenge the routine. Challenge success formulas. Recognise that choices involving gains are often risk averse, and that choices involving losses are often risk seeking. Make use of frame analysis to generate alternative viewpoints and overcome framing bias. Remember that organisational decline is often a direct result of complacency in top management teams.

Our examples of outdated recipes for success at Marks and Spencer and Robert Dyson's failed attempts to interest Bosch, Miele and Electrolux in his new vacuum cleaner design illustrate that managers' framing of ways to do business can become embedded more and more deeply in successful organisations as the years pass. But such recipes for success will, eventually, become less well matched to the business environment. Challenging complacency by challenging framing holds the key to ensuring your organisation's continuing success.