



"We're going to exceed last year's performance by doing everything exactly the same."

Chapter 1

Games in the strategy room—and why people play them

Strategy is precisely the wrong problem for human brains and the right problem for playing games, especially when the “inside view” goes unchecked.

Many corporate strategy planning processes begin with a memo like the one on the following page. You’ve probably seen them before—or written some yourself. They typically lead you and your colleagues to spend months doing lots of work employing sophisticated tools, getting lots of inputs, and using lots of data.

The memo itself is pretty straightforward:

To: Leadership Team

CC: Corporate Staff

Re: Strategy Process 2018



Dear Leadership Team,

With this note, we kick off the strategy cycle of 2018, building on the great work in 2017. We will run the process in three steps:

1. Market analysis due March
2. Key issues due May
3. Full 5-year plan due June

In August, we will discuss the fully integrated plan with the board, from which we will launch the 2019 Annual Operating plan.

We have limited the template to about 50 pages and would hope you have a 10-page Executive Summary in each session so we can focus the conversation on the important topics.

Very much looking forward to our discussions.

S. Miller

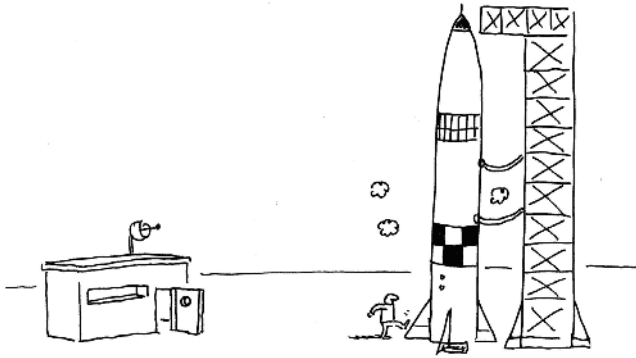
Susan Miller, Chief Executive Officer

Templates for our discussions:

["Market Analysis"] ["Key issues"] ["Full 5-year plan"]

After the memo goes out, and after the months of work it kicks off, you generally come up with a solid understanding of what's happening in the marketplace and of the options you have for responding. The CEO leads a series of discussions and formulates a strategy, which the board approves. Then you do the budget . . .

. . . and nothing much happens.



The results are rarely a serious problem. It's not often that you end up having existential issues like those at Kodak, Blockbuster, or Nokia—those high-profile cases get so much attention partly because they're rare. But, even when a strategy "succeeds," the wins too often remain small.¹ The strategy rarely moves the needle very far in the right direction, at least for any length of time. It's not so much that the rocket veers off course in midair; it is more often a failure to launch with enough energy to shoot for the moon. You've spent all that time and effort and only climbed *how* far over the last year?

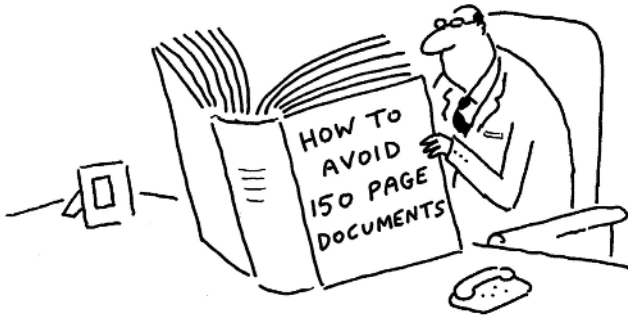
The social side of strategy, in action

The inside view creates a veritable petri dish that can grow all sorts of dysfunctions once that strategy memo goes out, producing the sort of scenario that we've all seen:

On the Saturday before the strategy discussion, the CEO receives that 150-page document plus appendices as a pre-read. Sigh. The CEO knows that the discussion that's about to start is not so much about the substance. Instead, the process is a sort of management ballet that is choreographed to get a "yes" to the proposed strategy and an approval of the resources requested.

On Monday morning, a presenter starts by giving a market outlook and competitive overview. Someone asks a question about page 5 (we reckon that a presenter has a reasonable chance of making it to page 5 before being interrupted, at which point the serious games around the social side of strategy start). The response might be, “We will cover that on page 42”—knowing, of course, that it’s extremely unlikely they’ll ever get to page 42 before the end of the meeting (if page 42 even exists). Perhaps the answer is, “We have considered that, and there is an extensive appendix on exactly that question,” or, “Good question! Let’s take that offline.”

We’ve all seen these little social tricks, right?



Presenters in strategy meetings often seem to not seek a conversation at all. Instead, they appear to deflect as many questions as they can, saying they are “trying to get through the materials.” They want to move to the last page of the presentation as smoothly as possible and then get that all-important “yes” to the plan, that “yes” to the resource request, that “yes” to have a shot at the next promotion. A successful meeting is deemed to be one with little friction and maximum good feelings.

Fast forward a bit in the strategy presentation to the discussion of market share performance, or the analysis of strengths and weaknesses. How likely is it for the plan to show low or declining market share? How often does a SWOT² analysis come out on the weak side? Those analyses look strong even though we all know for a fact that not every company can win. If one company gains share and gathers strength, others must lose. How often does the presenter arrive at the conclusion

that further investments in their own business are not warranted, that the company should consider re-allocating resources to other businesses, cutting back, or even exiting? That just never happens—in strategy presentations, it seems that everyone is a winner. All the time.

CEOs are, of course, no dummies. They have seen these games played before, and many would readily admit that they had to play some of these themselves along the way. Even CEOs would acknowledge giving their plans a risk haircut before presenting them to the board.

Even then, the presenter can still manipulate the data by relying on the inside view. For one, somebody presenting about her business unit has a distinct knowledge advantage over everyone else in the room. Looking at past performance, for instance, should be straightforward, based on 20/20 hindsight—but it's not. So often, there are distortions that are too subtle to catch while conversing in the strategy room. Market share can be defined favorably by excluding geographies or segments where the presenter's business unit is weak. Poor performance can be attributed to one-off items such as the weather, restructuring efforts, new market entrants, or a regulatory change. Markets may be “summarized” in a way that removes all insight—people end up talking to each other about the average temperature of the patients in a hospital.³

The dreaded hockey stick

The inside games soon get us to the hockey stick, the icon of the social side of strategy shown in Exhibit 1.

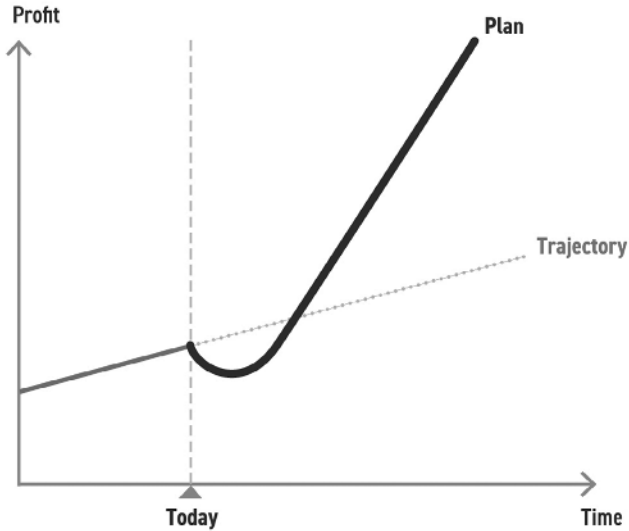
Hockey sticks are everywhere. You might even say that “business plan” is the technical term for a hockey stick. We have all seen the graphs that show revenue and profit heading straight for the sky a few years out: “All that's needed is a bit of an investment for the first year or two, a bit of tolerance for some losses, then you can start booking huge numbers. It's going to be a great business. If we can just get some additional resources today, and you stick with us through a couple of lean years, we'll produce a rocket headed toward the stars.”

As many of us have seen from personal experience, these hockey sticks rarely work out, but they are a great way of bargaining for resources for that all-important first-year operating budget. People

Exhibit 1

The Hockey Stick

Does this look familiar to you?

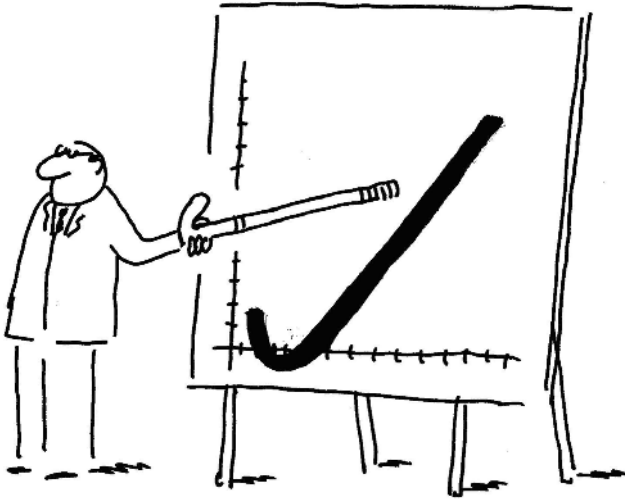


make ambitious claims, arguing that they need a serious amount of resources—all in the full knowledge that they will get negotiated down to half of that. As one CEO told us, “The strategy process is a ritual dance before you get to what really matters: The annual operating plan.”

Executives know that failure to have a hockey stick projection pan out generally brings fewer repercussions than not presenting it in the first place. The projections delay the day of reckoning. Who knows? Maybe the plan will work perfectly. Maybe the executive will get lucky, and market conditions will fall just right. Maybe the CEO will forget the grand promise—or maybe a new CEO will be in place by then. Maybe the executive presenting the hockey stick will have moved on. In any case, a hockey stick helps win the argument today, and that’s what strategy processes boil down to—the priority is getting to a “yes.”

There is one more reason why you can't not present a hockey stick as a manager: Everyone else does it! If you did not do it, even though you know the projection is "off reality," you would send a signal that you lack confidence in your business. Presenting hockey sticks is a ritual, for all to partake in.

So, hockey sticks it is.



Some executives find ways to cut through the gamesmanship. When Jack Welch was CEO of General Electric, for instance, he declared that all his businesses needed to be #1 or #2 in their markets. But, he found over time that business leaders redefined their markets so they could claim to be #1 or #2. He then demanded that everyone come up with a market definition in which they had less than 10 percent market share, thereby creating a breakthrough in the denominator game.⁴

Far more typically, though, the social side of strategy turns the strategy conversation into some form of a beauty contest in which participants want to look good, and the data they present are carefully selected to underscore the right impression. In a speech at the annual global partner meeting of McKinsey, the then-CEO of a major Las Vegas casino operator said: "Whenever I arrive at one of our properties and meet the general manager, he would inevitably tell me that everything is going great—regardless of their actual performance.

They would always deliver an impressive speech on why their business was going well or, if it lost money, why it was just about to get better—a whole lot better. [Sighs] I just wish I met once, just once, a guy who would walk up to me and say: ‘Man, things are not well down here, and, to tell you the truth, I can’t tell which way is up. I really have no idea why things are heading south—but we are on it, rolling up our sleeves to turn this sucker around.’”

Can we handle the truth?

Why aren’t people as open as we wish they were? Why are they politically correct? Remember the movie *Tootsie* and a classic interaction between Michael (Dustin Hoffman) and Julie (Jessica Lange)? Michael has fallen for Julie but has no idea how to approach her. Dressed in drag as Tootsie, and now a confidante for Julie, he hears her lament about how men are always hitting on her and saying she’d love a man who could just be honest. Thinking he’s cracked the code, Michael, no longer in drag, says to Julie exactly what she said she hoped to hear from a man. She slaps him. Hard. Then she walks away.

We may think that we want the truth, but, if we are honest, we might not always want it. Jack Nicholson says as Colonel Jessup in *A Few Good Men*: “You want the truth? You can’t handle the truth!” We’ve all learned along the way that bluntness is risky, so we can’t even imagine an executive who would tell the CEO that their business unit was in trouble and that they had no idea why. That executive would probably have a lot more to fear than a slap on the wrist.

People’s egos, their careers, their bonuses, their status in the organization, the resources they get to fund the growth of their business—all depend to a large extent on how convincingly they present their strategies and the prospects of their business. Think about how far people go in creating “successful” profiles on dating websites—neither the pictures nor the facts have much resemblance to reality, but the goal is to get that first reply and avoid the abyss of being swiped away.

We’ve all seen these games in business, too. Some managers project vision and competence at the negotiating table, claiming more resources than are warranted. Others sandbag to avoid risky moves and make triple-sure they overachieve on their targets. When everyone else is playing games, why would you stand out as the sole voice of realism?

Playing the inside game

Even though boards and investors are always demanding progress—and we all certainly expect that of ourselves—just holding position is often already an accomplishment. Competition is tough. Think about it: While you're locked up in your own strategy room, the very same discussions are happening across town in your competitor's strategy room, as well. Although we all seem to just focus on the issues in front of us, we are also making the treadmill run a little faster for everyone.

Silicon Valley pioneer Bill Joy said: "No matter who you are, most of the smart people work for someone else."⁵ It's true, and competitors will always work diligently to counteract your strategy, or will pursue just about the same opportunities that you see.

But if you're like the vast majority of those in the strategy rooms around the world, you aren't very focused on what's happening in those other strategy rooms or on the smart ideas of your competitors. You're seeing an "inside view" and are playing more of an inside game. The inside view often prevails in strategy rooms because they are tightly sealed. What comes into the room is basically what the participants bring in with them. That is generally a great deal of relevant experience, carried in the brains and memories of a few executives. A lot of data and information comes into the room, too, but it is typically focused on your own company, a handful of key competitors, and your own industry. A lot of information stays outside the room. The air gets stuffy and recycled. People are "reading their own mail."

Strategies can also be constrained because they are being developed "bottom up," as each business unit projects how it will perform over the coming years. Those plans, which are rolled up into the company-wide strategy, are rarely calibrated against outside data to see how similar growth plans historically fared at similar businesses in similar situations.

Nobel laureate Daniel Kahneman explained in his brilliant book, *Thinking, Fast and Slow*, how the realities of the outside world can disappear and be replaced by what he labeled "the inside view." The inside view leads people to extrapolate from their own experiences and data, even when they are attempting something they've never done before. Kahneman says even he has fallen victim to the bias while designing a new syllabus and textbooks for the Ministry of Education

in Israel.⁶ The team, relying on their experiences in other endeavors, initially projected that they would finish in 1½ to 2½ years. When Kahneman looked at how similar teams had performed on similar projects, he learned that 40 percent of similar teams never finished and that those that did needed 7 to 10 years. The good news is that his team did finish, but it needed 8 years, more than three times as long as they predicted.

The sheer length of the strategy process can also galvanize the inside view. Studies of cognitive biases show that experts become more confident as they gather more data—even though the additional data might not make the experts' projections any more accurate.⁷

Overconfidence is self-reinforcing, too. It leads people to ignore contradictory information, which makes them more confident, which makes them more likely to ignore contradictory information. . . . As weeks and months go by, and the spreadsheets get larger and more detailed, an unwarranted sense of confidence can take hold. It turns out that the more we know, the more dangerous we are. The inside view reigns. We convince ourselves that we have a winning plan this year even though we continue doing pretty much what we've always done.

Look at how precise economic projections are—and how wrong. In the US, the government produces annually 45,000 pieces of economic information, and the private sector generates 4 million more, leading to forecasts that may run to multiple decimal points. The forecasts are reassuring. The prognosticators are smart folks. Yet, most economists didn't predict the three most recent recessions in the US, in 1990, 2001, and 2007, and didn't even see the recessions happening after they'd started. The initial estimate for growth in the US economy in the fourth quarter of 2008 was -3.8 percent. The actual drop turned out to be -9 percent. "Nobody has a clue. It's hugely difficult to forecast the business cycle," said Jan Hatzius, Chief Economist at Goldman Sachs.⁸ Yet we still act as though we can predict to a decimal point or two.

Send in the guru

Yes, senior teams sometimes try to complement their inside views by exploring the outside world. One favorite is bringing in a guru. Those discussions tend to be quite interesting and provoke conversation—

surveys at our own global strategy conferences show that people love gurus. We invite them so people find a compelling excuse to come—but how often do their presentations actually influence strategy? You may gain insight into some of the relevant trends, but how are you to act on them? Observing the writing on the wall is certainly easier than acting on it!

Frequently, we are asked to provide information on other industries that faced challenges comparable to the situation at hand. But more often than not, the discussion then ends with the self-reassuring affirmation that “our industry is different,” or, “We’ve been in this industry for 100 years; now this guy comes along and is trying to tell us to do what?” We’ve had such comments thrown at us regularly—especially before growing a bit of gray hair.⁹ The reason? Well, people are often afraid that an analogy or benchmark might suggest that a higher level of performance could be achieved. That means tougher goals, and that might mean lower bonuses. It is not that people do not want to learn. They often like to see the translation of the analogy and performance potential in private meetings—they just do not want to have the discussion in the bigger meeting, not in the strategy room, and certainly not in the boardroom.

The difficulties with today’s strategy processes are not news to you? Welcome to the club! More than 70 percent of executives we surveyed¹⁰ say they don’t like their strategy process, and 70 percent of board members don’t trust the results.

The wrong problem for human brains

Oftentimes, we think that if we can identify a problem then we can overcome it. We’re smart people, and our brains and wills are powerful instruments. But there are two reasons that simply knowing about the social problems isn’t enough. The first reason is that strategy is done by humans. The second reason is that strategy is done by humans working together.

Let’s start with the “done by humans” problem.

While strategy seems as though it should be a purely intellectual exercise, a sort of corporate game of chess, perhaps even played in three dimensions by its best practitioners, strategy problems are exactly the

low-frequency, high-uncertainty problems for which the human brain is least adapted.

People are prone to many well-documented unconscious cognitive biases—overconfidence, anchoring, loss aversion, confirmation bias, attribution error, etc.¹¹ These biases exist to help us filter information for decision making.

Think about one of our ancestors wandering across the plains of Africa. On the occasion of that chap coming across a lion, the chances of him being part of our gene pool today are relatively low if he started to think about the clouds, the beauty of the landscape, or the prospects of finding a meal for the day. They all are possibly interesting or even important topics, but not species-extending in the face of a lion. With fear-induced myopia, our ancestor focused on one thing, and one thing only, and that was getting away when seeing a lion.

So, our brain came with a lot of shortcuts (heuristics, in technical terms) that lurk in the deeper parts of the subconscious mind. They can sure help with day-to-day decision making in our modern lives—we all seem pretty good at that, maybe even extremely good. Just think of how good we are at driving a car; even the dopest person seems to get by okay on the road. No, the issue is not the daily decisions, where we get countless opportunities to practice and where mistakes yield immediate and possibly painful feedback. Here, our brains have evolved to run on sort of a limbic autopilot like that of the ancestor avoiding the lion.

These unintentional mental shortcuts can distort the outcomes, though, when we are forced to make big, consequential decisions, infrequently, and under high uncertainty. And these are exactly the ones we confront in the strategy room.

Even the most seasoned executives have only limited experience and pattern recognition in these situations. Decisions are taken under uncertainty, and results may not show up for years. In the meantime, any number of human factors, market factors, lag factors, and “noise” can intrude and overwhelm any strategist’s ability to predict an outcome. What actually happens may have little to do with the quality of the strategy.

Trying to improve your strategic decision making is like trying to improve your golf game by practicing blindfolded, and not finding out if your ball went into the hole for 3 years.

The biased mind

Consider the decision on whether to donate your organs in the event of an untimely death—it seems a very important one that would typically involve considerable contemplation. But in reality, it turns out that something as minor as the design of the driver's license application form—whether it is an opt-in or an opt-out—makes all the difference. In Denmark, where the program is opt-in, 4 percent of the population donate organs, while neighboring Sweden, where donation is opt-out, reports 86 percent participation. Opt-in Netherlands is at merely 28 percent even after lots of marketing spend, while its opt-out neighbor Belgium reports 98 percent participation. Opt-in Germany is at 12 percent, while opt-out neighbors France, Austria, Hungary, and Poland are all north of 99 percent.¹² The simple explanation is that, when confronted with complex decisions such as signing up for an organ donation program, our minds tend to stall, and we decide—nothing. We tend to go with the form without checking the box, no matter whether it's opt-in or opt-out. The subconscious brain is more powerful than we think.



"HE WAS SHOT BUT LUCKILY
THE BULLET HIT HIS ORGAN
DONOR CARD."

Here are some of our all-time-favorite biases that we see in strategy rooms:

- **Halo effect.** “Our 6 percent profit growth last year reflected our decision to continue investing in digital, and, in the face of tough trading conditions, we remained ruthless on costs”—a team giving itself a pat on the back even though the whole market also grew profits by 6 percent.¹³
- **Anchoring.** “We forecast 8 percent growth next year, plus or minus 1 percentage point, depending on the demand environment. We will achieve this by pushing even harder on our current projects”—so 8 percent is the starting point of the negotiation, whether or not it should be.
- **Confirmation bias.** “We’ve put lots of work into analyzing the reasons why this will work” [but no work into the reasons why it won’t]. “We’ve also heard that our top competitor is exploring this opportunity” [so it must be a good idea]. Good luck with trying to stop the momentum for that project.
- **Champion bias.** “We have a great team behind us; we’ve succeeded on projects like this before. You should have the confidence in us to do it again”—deflecting attention from the merits of the project alone.¹⁴
- **Loss aversion.** “We don’t want to put our baseline at risk by chasing blue sky ideas. We really appreciate the hard work that’s gone into alternative strategies and new business lines, but ultimately we think the risks outweigh the benefits”—even though the existing baseline might be under threat.



“Your budget targets would carry more weight if you told us who you are.”

When you bring together a bunch of people with shared experiences and shared goals, they typically wind up telling themselves stories, generally favorable ones—and we are in the perfect den for these biases to flourish. A study found, for instance, that 80 percent of executives believed that their product stood out against the competition—and that 8 percent of customers agreed.¹⁵ This sort of confirmation bias is why people read publications with the same political bent that they have. People may try to challenge themselves, but they really want to nod their heads as their beliefs are confirmed.¹⁶

Perceptions can also matter more than reality. Respect for past achievements, for instance, can play a big role. A legendary engineer promoted to lead the switching business of a European producer of telecom gear had literally all his resource requests for the old core business approved at will, until the company had completely missed the transition to router-based networks and became an acquisition target.

Strategy processes are also prone to survivor bias.¹⁷ There is no noise coming from the “graveyard of silent failures” because we only see what happened, not what didn’t happen.¹⁸ We read all the case studies about great companies that succeeded, with explanations rationalized after the fact for why they did so. There is lots of talk about Warren Buffett, but we hear nothing about the thousands of investors who decided in the same year as Buffett to start buying into businesses, but failed. We can precisely measure the behavior of the customers we have, but what about the silent voices of the customers we don’t have? Our experiences are more shaped by learning from survivors, and in a way, we all are “survivors”—our strategy rooms are fraught with biases related to not having failed big-time.

Strategy processes really are in the running for the world’s biggest zoo of frolicking biases and social distortions.

Now . . . add social dynamics to the mix

As hard as it might be to overcome those individual biases, they are only part of the reason why you can’t just understand the social problems of strategy and assume that you’ll then be able to overcome them. Yes, as soon as you introduce people into strategy, you get biases. Then,

when you introduce other people—that is, when the approver is different from the doer—you get agency problems.¹⁹

Don't get us wrong. We have a lot of respect for the people involved in the strategy process. They often are the smartest, most experienced leaders in their businesses. We are not suggesting people are either ill-intentioned, incapable, or both—quite the opposite, actually. People bring a lot of experience, ideas, and energy to their missions. But with them come biases, too.

Agency problems are fueled by incongruences between management and other stakeholders. Here are just a few of the more prominent ways that managers may act in their own interest, and not purely in that of the enterprise and its stakeholders:

- **“Sandbagging.”** “I’m not going to put my neck on the line. I’m only going to agree to a plan that I know for sure I can deliver. My reputation is on the line, and I can’t risk being the one division that misses budget.” The reality is that individuals will often have a different attitude toward risk than their overall enterprise does.
- **“The short game.”** “Someone else will be running this division in 3 years, anyway. I just need to milk performance for the next couple of years, get a good bonus and the next promotion—or maybe get poached by our competitor.” The motivations of the executive are not automatically aligned to those of the owners.
- **“My way or your problem.”** “I know this business and this industry better than the CEO and better than the board. They’ll just have to believe what I tell them. If I say it’s too hard, it’s too hard. If I don’t get the resources I ask for, then there’s my excuse for not delivering.” The line executive has inside knowledge, and often the CEO and board have little choice but to accept their version of the truth.
- **“I am my numbers.”** “I get judged by my numbers, not by how I spend my time. I’m just going to work hard enough to hit my targets, but not a lot more.” One’s supervisor can’t directly observe the quality of effort, and results can be noisy signals—were those poor results a noble failure; were those great results dumb luck?



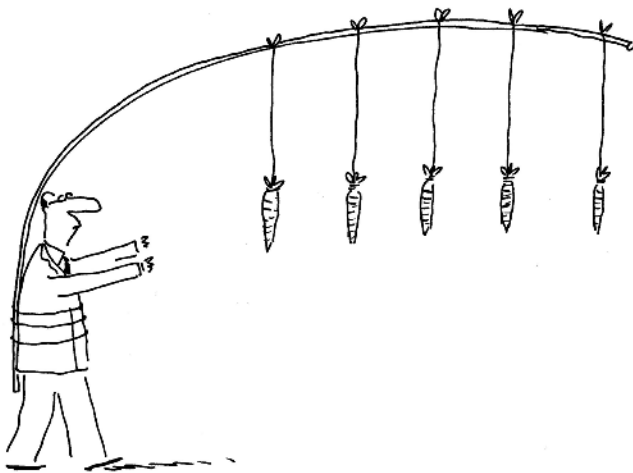
"I don't bother avoiding data and giving in to biases and agency problems. I have people who do that for me."

You have people who you'd hope are all pulling in the same direction, but in reality, they have very different motivations and certainly asymmetric information. While CEOs will try to optimize for the overall success of their companies, those who report to them will for sure care a lot more about their individual business units and about those who work for them. How can they not? We all know that the people whose business thrives will be the ones who get rewarded. People, for the most part, are not bad; they're just perfectly evolved to play the game. In fact, much of a business leader's stature might reflect just how good he or she is at playing it. Based on attribution bias, you are your numbers, so they'd better be good, no matter how you get there.

Let's not forget incentives, either. There are too many to recount all of them here, and they go way beyond financial remuneration. Presenting in front of your superiors or your peers is a matter of pride. Your track record is a matter of ego. Your team wants protection. Charles Munger and Warren Buffett used to say: "95 percent of

behavior is driven by personal or collective incentives,” only to later correct themselves: “The 95 percent was wrong; it is more like 99 percent.”²⁰

Strategy involves a complex set of motivations in a complex game. Far from having a single goal that everyone can focus on, executives are negotiating next year’s budget, competing for resources, delegating responsibilities to others, maintaining and escalating prior commitments, impressing the board, inspiring confidence among a broader set of stakeholders—all at the same time. They know that they have to craft a strategy that claims to generate a 15 percent increase to get the 10 percent they really want, and they know that the main act is the budget. The strategy discussion is just the opening salvo.



Perhaps the most widely read piece of research that McKinsey has published in the past decade showed that companies that rapidly re-allocate capital to new growth businesses outperform those that take a steady-state approach.²¹ Yet, the social side of strategy is such that companies still tend to take what is known as a “peanut butter” approach—spreading a thin layer of resources smoothly across the whole enterprise, even though it’s clear that opportunities are far greater in some areas than in others.

With everyone competing so hard for resources, it's tough to make decisions about winners and losers. Picking winners may sometimes be easier, but it's definitely hard to starve a business with less potential, especially if the leader has been around a long time or the business is a big part of the company's history.

No matter the precise motivation, executives will use every bit of social power they have to improve the chances of their business succeeding. We've seen people do all sorts of things. We've even seen one executive, the president of one of the largest consumer electronics companies in the world, be denied the resources he felt he needed and then rally loyal members of the board to get the CEO fired. That story, by the way, did not end well for the insurgent, who was soon ushered out the door, nor for the company. But the point is: Even if we don't like to acknowledge it, we are social creatures and covet status in the tribe. This was an excellent trait from an evolutionary perspective, when it was important to be the big gorilla in the jungle, but can be an obstacle when developing good strategies.

When the inside view remains unchecked

The best breeding conditions for creating a flawed strategy are when the inside view remains unchallenged, creating a false sense of certainty about what will happen. Many—in fact, very many—people do strategy as if they were the only horse in the race, almost ignoring that competitors are making strategies, too. People try to throw good money after bad so past decisions don't reveal themselves to be mistakes. Those in the strategy room are confident because they have accounted for all the risk they can see—not realizing that the perils are in the risks they can't see. So often, good performance is attributed to superior management, and bad performance is blamed on market conditions.

Kodak's failure to adapt to digital photography has become a classic example of strategic failure. The story has been told enough, so we will resist the temptation to recount it entirely, but let's highlight the role of the inside view.

We have personally experienced the early advantage Kodak had in digital photography, after one of its researchers in the mid-1970s invented the sensor that is used in digital cameras and after the company was early to market with a consumer camera in the late 1990s. Yes, the camera looked like a brick, and the pictures were a bit grainy by today's standards, but they were good enough for one of the authors of this book to take it as the only camera on his honeymoon trip to Australia—see the original 1997 picture below (not bad, eh?).

Kodak clearly was in the game early on.²² But people who were involved in the strategy process at Kodak back then say that the real problem was that management never got past their inside view. Film, chemicals, and paper had been around for so long that management could simply not imagine a world in which people didn't light up at the prospect of collecting their prints in little yellow boxes. Even more daunting was the fact that the traditional film business had been generating gross margins of more than 60 percent for a long time. It was hard to cannibalize a business that had sustained those performance levels for decades—especially because the margins in any consumer electronics business were expected to be much lower.



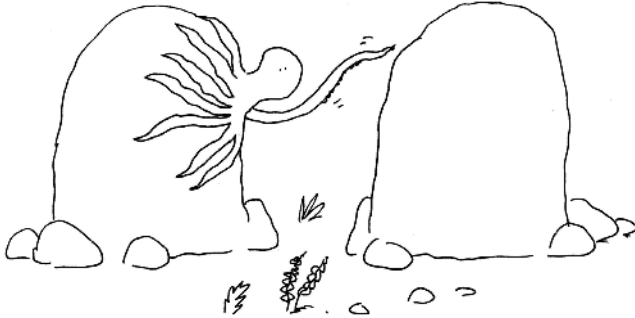


The assumption that the traditional film business would always be around simply never got sufficiently challenged in the strategy room, even though ample evidence to the contrary was available—including at Kodak, which had done a major study in the early 1980s. Kodak management never seriously debated whether digital might turn out to be a superior technology. They spent half a billion dollars developing a camera, the Advantix, that was fully digital but still used film and generated prints—the digital capabilities just let you scroll through images to decide which ones you wanted to print. The camera bombed. Customers simply didn't love prints as much as Kodak's strategists thought they did.

By now, business magazines and literature have assembled a rather impressive list of similar cases where once-great companies ran into difficulties when trends changed the game, or their business models ran out of steam: Circuit City, Sears, Grundig, and Wang, just to name a few. So, today's strategists are more likely to try to find an outside perspective and to bring it into the strategy room—but the inside game still makes it hard to act. For most businesses, the best predictor of next year's budget is still this year's budget, plus or minus a few percent, of course.

Strategy processes often generate a high-level commitment to making a change, but, too often, as with a failing dieter or cigarette quitter, the processes don't surface and deal with other prior commitments that immunize companies against change. As one CEO told us, "If you want a big idea done, you have to pursue it to the last detail. Just because the group said 'yes' doesn't mean it's going to happen."

Bringing about change in the corporations of today reminds us of an attempt to move an octopus, when one leg of the octopus is totally committed to going to the next rock but the other seven remain completely committed to holding on to the rock they're already grasping.



Just changing mindsets won't be enough, though. The social side of strategy won't give up the fight that easily. A golf instructor won't help much by telling you: "Don't slice." He must give you something positive that you can actually do to solve the problem. Hence, we'll now lay out the empirical research that will provide you with an outside view.

We'll begin by giving you a new way to map out your competitive situation, then show you where you need to go. It's going to be a bit of a journey, so stick with us.

