



Beyond Strategic: How Midmarket Companies Can Own the ‘Age of Big Information’



Thornton
May

Honored to be With You...

A Special Session

For a Special Audience

In a Special Place

On a Critically Important Topic

At a Unique Moment in Economic History

My Objective Today?

**Convert All of You into:
Rabid Dog,
Aware-of-human-limitations,
Crafters of
Game-Changing
Strategies**



Strategic Paradoxes

**There is
a HUGE body of scholarship
telling us what makes a good strategy**

Jim Collins, Michael Porter, Mintzberg, Dave Norton/Bob Kaplan, C. K. Prahalad, Gary Hamel

**Empirical evidence indicates that
world class IT strategies
are more the exception than the rule**

The Days of Bad Strategy ARE NOT Behind Us

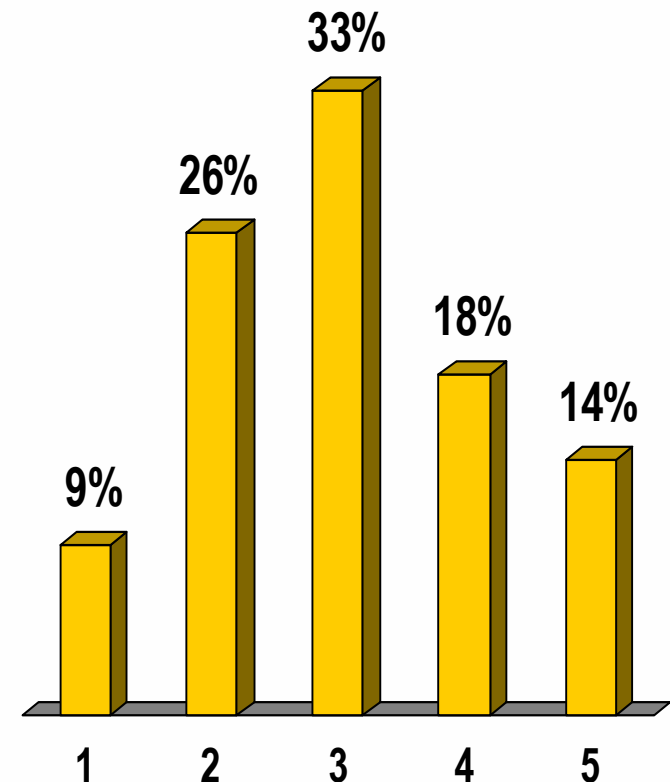
Several examples of how not-to-do strategy come from the dot-com era...

But don't make the mistake of thinking that this was an era of unrepeatable strategic madness.

Behavioral economics tells us that the mistakes made in the late 1990s were exactly the sorts of errors our brains are programmed to make—and will probably make again.

Please Describe Your Organization's IT Strategy

1. **Brilliant Strategy, Successfully Executed**
2. **Great Strategy, Average Execution**
3. **Average Strategy, Successfully Executed**
4. **Average Strategy, Average Execution**
5. **What Strategy?**



**200 Senior Midmarket IT Executives
Group Exercise**

1. Identify two major, relatively recent changes in the environment which materially affected your business.

2. How did your IT 'strategy' change?

**200 Senior Midmarket IT Executives
Group Exercise**

Responses Were A Car Wreck



**People Were SOOOO Busy
Looking Under the Hood...**



**They had no awareness of the
bigger world around them**



The Game of Strategy is All About

O O D A



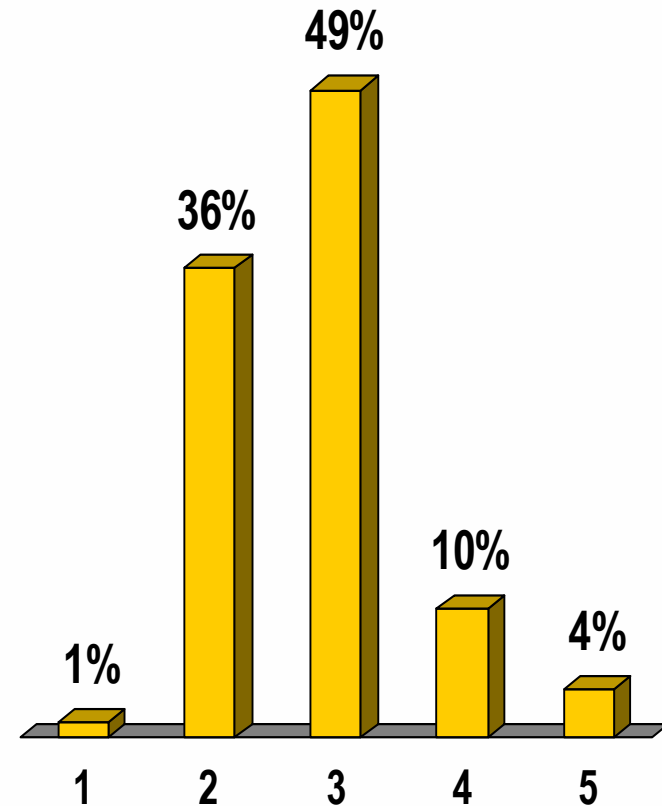
The Quality of Your IT Strategy Depends [in large part] Upon Your...

Powers of 'Observation' & "Orientation"

Group Exercise If the Board of Directors Were Asked to 'Rate' Your IT Shop...

Knowing Minds:
IT 'Approval
Ratings'

1. **Better Than the Best [Anywhere]**
2. **Better Than the Best [in our industry]**
3. **Pretty Good**
4. **A Bit Behind**
5. **A Source of Competitive Disadvantage**



IT 'Approval
Ratings'
Exercise

Observation &
Orientation

Data From Exercise
**If the Board of Directors Were Asked
to 'Rate' Your IT Shop...**

5. Better Than the Best [Anywhere]	2.5%
4. Better Than the Best [in our industry]	36.9%
3. Pretty Good	49.0%
2. A Bit Behind	8.9%
1. A Source of Competitive Disadvantage	2.7%

Group
Exercise
A-1

Is IT Aligned?

Arrange yourself into small groups.

If your CEO was asked to choose the movie or TV show which comes closest to capturing the 'essence' of IT in your organization,

What movie/TV show would he/she pick?



Group
Exercise
A-2

If you were asked to choose the movie or TV show which comes closest to capturing the 'essence' of IT in your organization,

What movie/TV show would you pick?



CEO Book/Movie

CSI [because we are problem solving scientists who look at the world differently]

Rome [because we want to 'rule']

Charlie Brown [because we are estranged from power & full of angst]

Lost*

Race

Extreme Home Make Over

**Saving Private Ryan [the CEO sent us in]
Apollo 13**

Money Pit*

I Dream of Jeanie [IT is kept in a bottle, they are not the master/ Jeanie looks good but always screws things up]

IT Book/Movie

**Survivor*, ER*, CSI* ,Mission Impossible*,
Ground Hog Day***

Backdraft

Mash [Our execs are kind of like Col. Potter, likeable enough but clueless]

West Wing [Very smart staff, very high pressure, ambiguity-flow between being in charge and reacting to the environment]

Space Balls, Office Space

War Games

Clear & Present Danger

Fist

Earthquake

A Different Mindset

Deep Fundamentals

**Can you be
“Pretty Good”
or better**

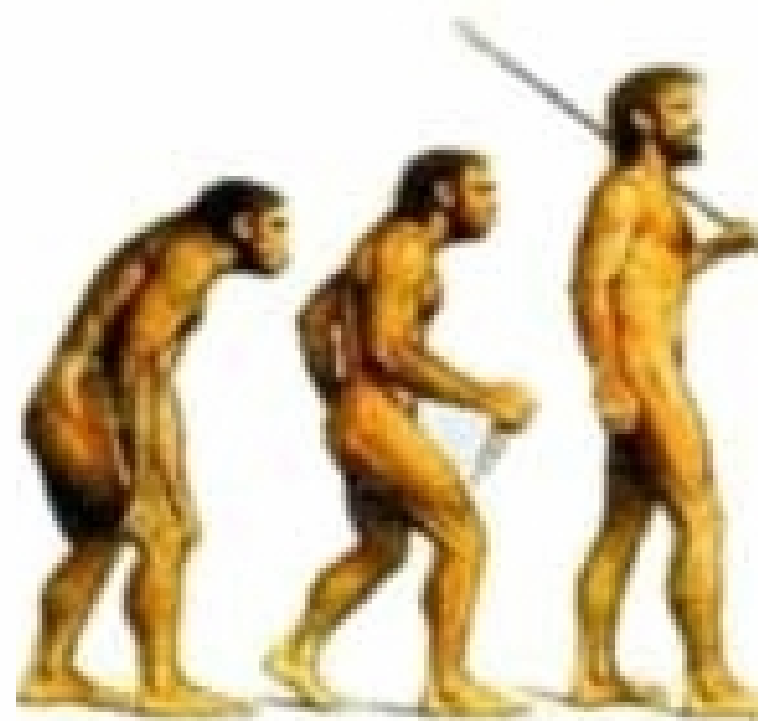
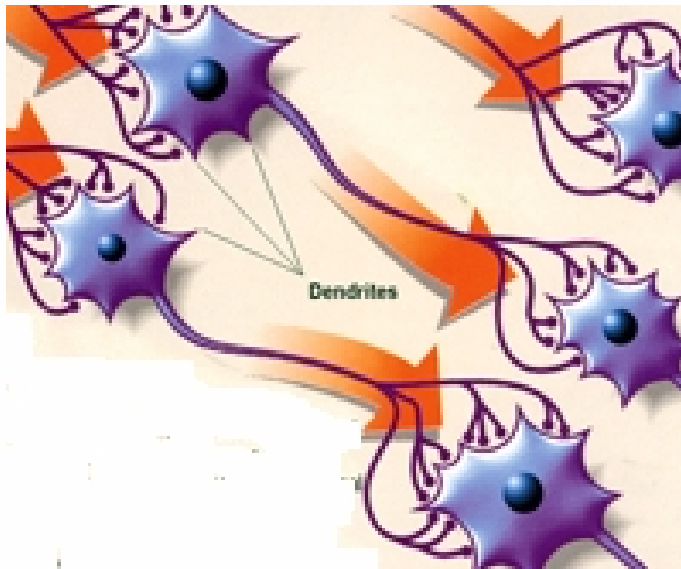
If

**you are not on
the same page
as the
business?**



The Way Our Brains Work Can Get in the Way of Effective

O O D A



Cognitive Biases

Decision Making

The brain is a wondrous organ. As scientists uncover more of its inner workings through brain-mapping techniques, our understanding of its astonishing abilities increases.

But the brain isn't the rational calculating machine we sometimes imagine.

Over the millennia of its evolution, it has developed shortcuts, simplifications, biases, and basic bad habits. Some of them may have helped early humans survive on the savannas of Africa

("if it looks like a wildebeest and everyone else is chasing it, it must be lunch"), but which create problems for us today.

Rita Carter, Mapping the Brain

Cognitive Biases

Decision Making

All strategists should be interested in behavioral economics.

Insights from behavioral economics have been used to explain bad decision making in the business world, and bad investment decision making in particular.

The field hasn't permeated the day-to-day world of strategy formulation.

Charles Roxburgh, "Hidden Flaws in Strategy," *McKinsey Quarterly* [2003 Number 2].

Behavioral Economics

Flaw 1: Overconfidence

Flaw 2: Mental Accounting

Flaw 3: The Status Quo bias

Flaw 4: Anchoring

Flaw 5: The Sunk-Cost Effect

Flaw 6: The Herding Instinct

Flaw 7: Miestimating Future Hedonic States

Flaw 8: False Consensus

Behavioral Economics

Flaw 1:
Overconfidence

We also tend to be overconfident of our own abilities.

This is a particular problem for strategies based on assessments of core capabilities.

Almost all financial institutions, for instance, believe their brands to be of "above-average" value.

Charles Roxburgh, "Hidden Flaws in Strategy," *McKinsey Quarterly* [2003 Number 2].

Cognitive Biases

Imagine that someone deals four cards from a deck, each with a number printed on one side and a letter on the other.

Which pair would you choose given an opportunity to flip over just two cards to test the assertion,

“If a card has a vowel on one side, then there must be an odd number on the other side?”

U

8

M

7

Cognitive Biases

Confirmation Bias "People Want to Be Right"

Most people correctly choose the *U* but then incorrectly select 7.

This pattern illustrates the confirmation bias: people tend to seek information that supports their point of view and to discount information that doesn't.

An odd number opposite *U* confirms the statement, while an even number refutes it. But the 7 does not provide any new information – a vowel on the other side confirms the assertion, but a consonant doesn't reveal anything, since consonants can have even or odd numbers on their flip sides. The correct choice is the 8 because it *could* reveal something: if there is a vowel on the other side, the statement is false.

U

8

M

7

Behavioral Economics

Flaw 2: Mental Accounting

Richard Thaler, a pioneer of behavioral economics, coined the term "mental accounting," defined as

"the inclination to categorize and treat money differently depending on where it comes from, where it is kept, and how it is spent."

Gamblers who lose their winnings, for example, typically feel that they haven't really lost anything, though they would have been richer had they stopped while they were ahead.

Charles Roxburgh, "Hidden Flaws in Strategy," *McKinsey Quarterly* [2003 Number 2].

Some Mental Accounting is Flawed

On November 30, 1971, five heavily armed men shot out the glass doors of a New York bank and entered the bank firing automatic weapons, wounding twelve people.

One of the bank tellers ran from the robbers and made it to an upstairs women's restroom.

One gunman chased her, but he stopped at the door to the ladies room shouting at her to come out. When she refused, he went downstairs to help his colleagues finish robbing the bank.



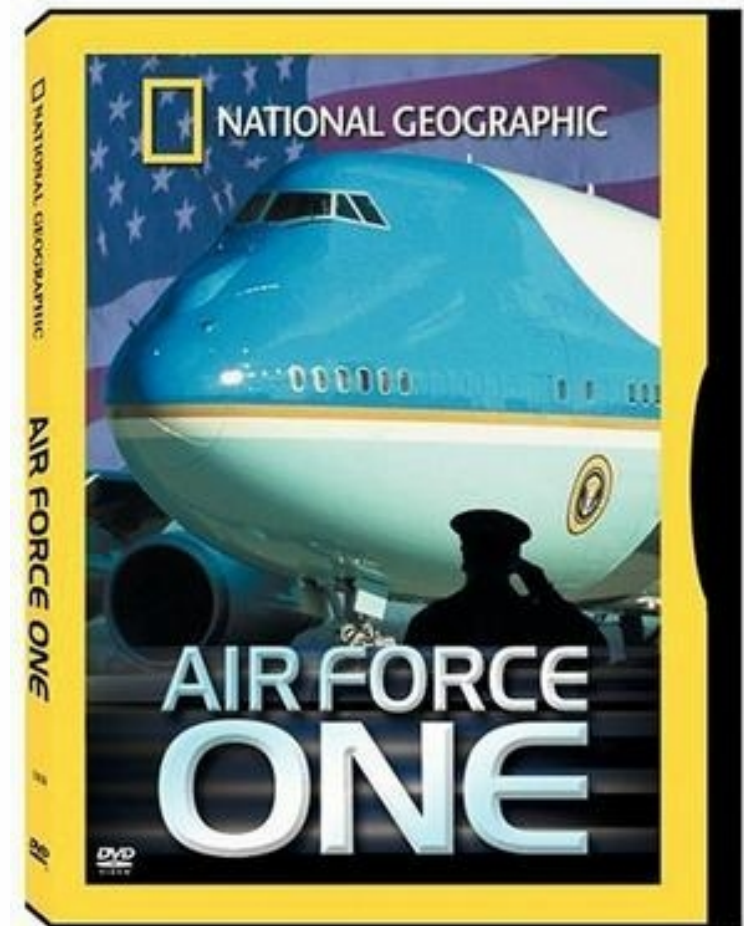
How Diverse is Your Info-Pipeline?

**White House scribe asks for the remote
Reporter asks to watch CNN on Air Force One**

WASHINGTON (CNN)

It wasn't the price of gasoline, Darfur or the rebuilding effort in New Orleans that preoccupied the White House press corps Thursday aboard a flight on Air Force One.

It was what channel they could watch on the White House televisions, Fox or CNN.



CNN [28 APRIL 2006]



How Diverse is Your Info-Pipeline?

During a briefing led by White House spokesman Scott McClellan as President Bush was traveling to New Orleans, Louisiana, the Washington Post's Jim VandeHei asked why the White House televisions always seemed to be tuned to Fox News and if it was possible to have them tuned instead to CNN.

"It's come to my attention that there's been requests -- this is a serious question -- to turn these TVs onto a station other than Fox, and that those have been denied," VandeHei told McClellan, who is soon to be replaced by former Fox anchor and self-described conservative Tony Snow.

"My question would be, is there a White House policy that all government TVs have to be tuned to Fox?" VandeHei asked.

CNN [28 APRIL 2006]

Successful Midmarket Companies Manage Three Separate Agendas

Run the Business

Grow the Business

Change the Business



**My Purpose
Today
Is
Better
Performance.**

What To Do?

Flaw 3: The Status Quo Bias

Adopt a radical view of all portfolio decisions. View all businesses as “up for sale.” All activities as stoppable and/or outsourceable.

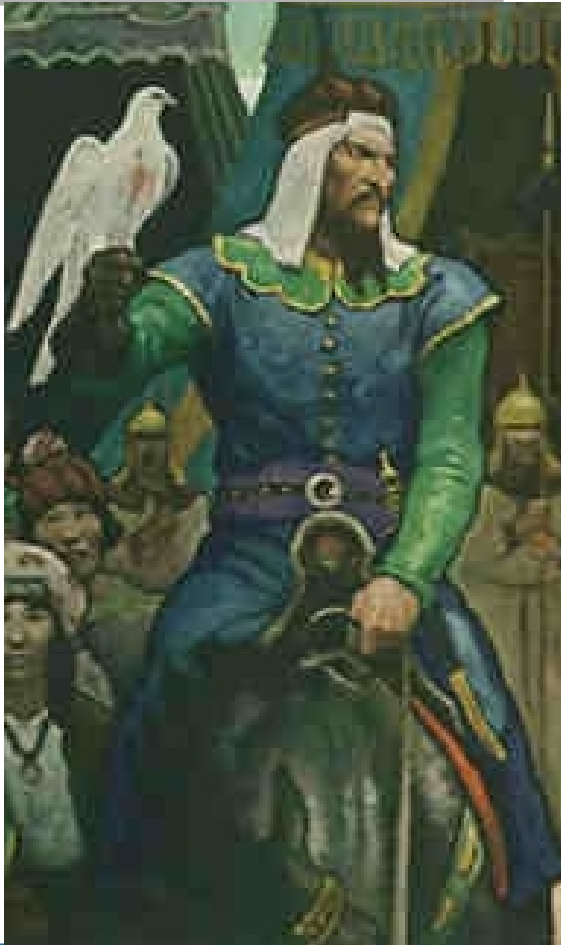
Subject status quo options to a risk analysis as rigorous as change options receive.

Most strategists are good at identifying the risks of new strategies but less good at seeing the risks of failing to change.

Charles Roxburgh, “Hidden Flaws in Strategy,” *McKinsey Quarterly* [2003 Number 2].

Behavioral Economics

Flaw 4: Anchoring



Genghis Khan Date Test

1. write down the last three digits of your phone number
2. estimate the date of Genghis Khan's death

Charles Roxburgh, "Hidden Flaws in Strategy," *McKinsey Quarterly* [2003 Number 2].

Behavioral Economics

Flaw 4: Anchoring



Present the brain with a number and then ask it to make an estimate of something completely unrelated, and it will anchor its estimate on that first number.

[1162 to 1227]

Behavioral Economics

Flaw 6: The Herding Instinct

The desire to conform to the behavior and opinions of others is a fundamental human trait and an accepted principle of psychology.

Warren Buffett put his finger on this flaw when he wrote,

“Failing conventionally is the route to go; as a group, lemmings may have a rotten image, but no individual lemming has ever received bad press.”

Charles Roxburgh, “Hidden Flaws in Strategy,” *McKinsey Quarterly* [2003 Number 2].

Behavioral Economics

**Flaw 7: Misestimating
Future Hedonic States**

People are bad at estimating how much pleasure or pain they will feel if their circumstances change dramatically. Social scientists have shown that when people undergo major changes in circumstances, their lives typically are neither as bad nor as good as they had expected—another case of how bad we are at estimating.

People adjust surprisingly quickly, and their level of pleasure (hedonic state) ends up, broadly, where it was before.

Charles Roxburgh, "Hidden Flaws in Strategy," *McKinsey Quarterly* [2003 Number 2].

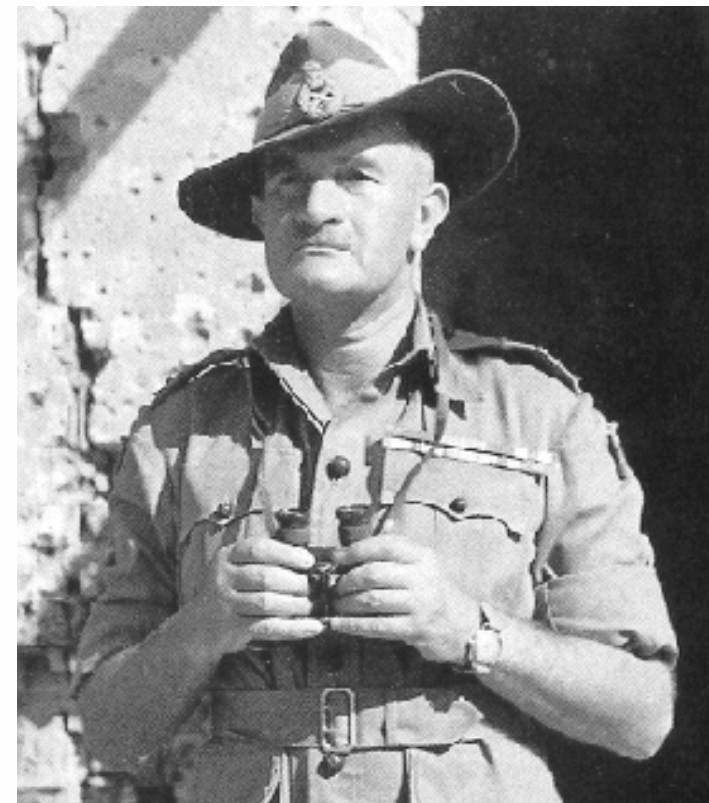
Behavioral Economics

Flaw 7: Misestimating Future Hedonic States

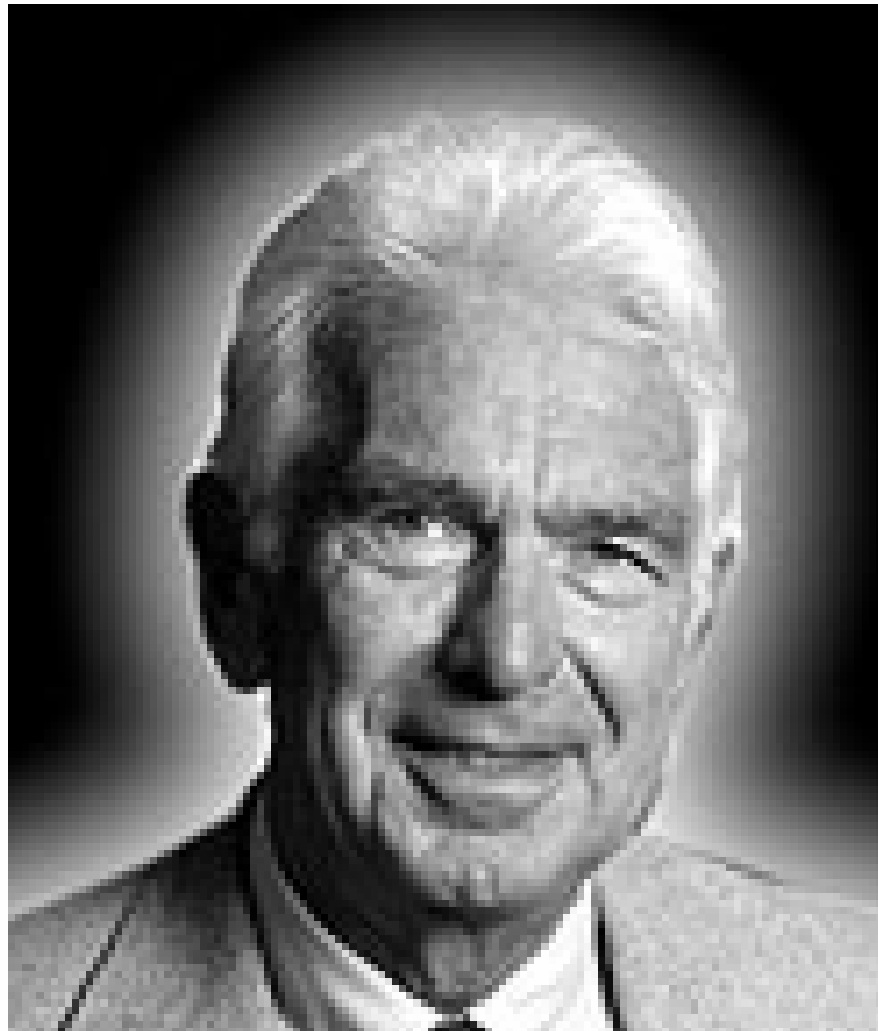
“In battle nothing is ever as good or as bad as the first reports of excited men would have it.”

Field Marshall Bill Slim

This is a good guide for every strategist trying to navigate a crisis, with the inevitable swings in emotion and morale.



A Moment with Warren Bennis



Behavioral Economics

Flaw 1: Overconfidence

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Strategy Framework



**The magic in “Superior Performance”
is in the “Fit”**

