

# **Intelligence, Decisions, and Intelligent Decisions**

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# Intelligence, Decisions, and Intelligent Decisions

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Intelligence professionals are justifiably proud of the service they provide. They know the lift their data can bring to strategy decisions, and thence to the bottom line. So, they are understandably confused and frustrated when they, and the competitive and market intelligence they produce, don't get met with open arms.

Why the disconnect? Why do decision makers (seem to) resist, or at least don't (seem to) appreciate, the intelligence bounty laid before them?

I've attended and addressed many conferences that focus on competitive intelligence and strategy decision-making. Here's some of the advice I've heard for CI professionals, all from capable, successful, talented, respected authorities.

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**Arrange to report directly to the executive suite.** Those are the people who can take action and generate change. Wrap yourself in their credibility.

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**Arrange not to report to the executive suite.** It's risky to rely on a single sponsor, especially one not involved in day-to-day decisions. Work with the people in the trenches.

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**Give 'em what they ask for.** Being responsive to requests, especially in real time, makes friends and gives people what they need, when they need it.

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**Give 'em what they really need.** As an expert, you know what's truly important. Deliver what they need when they need it, even if they don't know they need it.

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**Be the ultimate fact finder.** Focus on your unique expertise. Develop a reputation for answering tough and critical questions, and people will find you when they need you.

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**Don't be a fact finder, be a strategic partner.** Develop analytic skills. Present advice and conclusions, not raw facts that beg "so what?" questions.

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It's difficult to chart a path for your contributions (and your career) when expert advice is so contradictory.

Let's explore a different direction. *Intelligence* doesn't make strategy decisions; *people* make strategy decisions. What do those *people* need? More to the point, why do those *people* think they

don't need intelligence? After all, they want to do a good job. They're not avoiding intelligence because they want to hurt their business.

In this article I'll discuss some of the reasons why strategists (seem to) resist intelligence, and I'll describe an approach that helps create synergy between intelligence professionals and strategy decision makers. The reasons are aspects of human and corporate nature; the approach is business war games.

## **Resisting intelligence**

No one deliberately rejects intelligence that he or she believes will help him or her make better decisions. That, in turn, suggests that someone who resists intelligence doesn't believe that the intelligence will help. That belief may be wrong. However, even if it is wrong in some objective sense, the believer thinks it true, and behaves accordingly.

Why would someone believe intelligence won't help? We'll cover several reasons: overconfidence, habits, accountability, and tailgating.

### **Overconfidence**

One reason a smart, dedicated, motivated decision maker resists intelligence is very simple: he or she believes he or she already knows the answer. To someone who *knows* the answer, spending time and money to *find* the answer is silly and maybe even an irresponsible waste of time and money.

Of course, the decision maker who knows the answer may know the wrong answer. In fact, there's a good chance he or she *is* wrong, simply because he or she is human, and humans are demonstrably and consistently overconfident. (Which explains why we believe we can make a fortune picking stocks or gambling in a casino.) We humans find it easy to believe that people are overconfident; other people, of course. Unlike those other people, we are sober, careful, and deliberate in our assessments... which proves the point.

Worse, research shows people tend to be more overconfident on difficult questions, in which category would surely fall predictions of future business performance and future competitor actions.

## Habit

What's 36 divided by 12? What's 36 divided by 12? What's 36 divided by 12? What's 36 divided  
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What's 36 divided by 12? What's 36 divided by 12? What's 36 divided by 12?

My guess is that you thought for a moment the first time I asked, and you figured out the answer is 3. You read the question again, and knew it was 3 much more quickly. Then you got into a rhythm — 3, 3, 3 — and probably stopped even reading the question. (Unless you were suspicious of me.) Which means you probably missed the change in the eleventh version of the question.

You, as a human being, got comfortable and complacent. Why pay close attention to something that's obviously the same every time?

What you did could actually be a good strategy because it keeps you from wasting time, which in turn lets you devote time to more-worthy challenges. The problem, though, is this unconscious and often-effective decision-making strategy — a habit — can fail. It's one reason why smart strategists get surprised by competitors, especially by upstarts who "break" the "rules." It takes special vigilance and uncommon humility to defy habit-forming comfort and complacency.

## **Accountability**

Accountability sounds good in theory. The idea is that people held accountable for results will find ways to achieve those results. That motivating force might even trump overconfidence and habits.

The problem is in getting accountability to work in practice. Yes, it may *seem* to work: managers strain mightily to hit their targets. However, they often hit this year's target by, in effect, borrowing from next year by slashing investment, sacrificing human capital, and deferring discussions of strategy. It makes them vulnerable to companies willing to do things differently.

There are other unintended consequences brought to us by accountability:

- Because accountability cares about reaching a goal, it rewards the strategist who selects a safe strategy, "safe" in the sense of cutting downside risk even if it sacrifices upside opportunity. Of what value is intelligence for creating innovative strategies if those strategies involve risk?
- To hold someone accountable, we need to know what to hold that person accountable *for*. Coming up with a target is often about forecasts and trend lines (a dismal way to strategize), negotiation between the business unit and corporate (not strategizing at all), and / or arbitrary numbers (connection to strategy and reality purely optional). Intelligence is little more than a distraction to those systems.
- There's serious tension when unforeseen events lead to missed targets. Abandon the target and people won't take accountability seriously. Keep the target and people will conclude accountability is a no-win situation. Intelligence could be of tremendous help here... if accountability would allow for a *range* of performance targets. If A happens, the target is X%; if B happens, the target is Y%. That, in turn, implies the presence and application of a good way to set and modify targets. See the bullet above.

## ***Tailgating***

Nobody ever got fired for buying IBM, as the saying goes. And probably nobody ever got fired for emulating IBM, or whichever company is tops in your industry. Emulating your competitors looks prudent and reasonable if you succeed, and if you don't succeed, no one can blame you.

If your strategy, conscious or not, is to emulate others in your industry (perhaps with a couple of embellishments all your own), then the intelligence and analysis you need is relatively minor.

And once you have that information, you have your answer. If they're doing X, you do X, plus or minus your embellishment. This approach is not unlike benchmarking.

When several competitors get into the act, we get a daisy chain: B follows A, C follows B, D follows C, A follows D. That's part of what causes price wars. It also leads to "standard industry practice" in all its forms. Breaking with industry practice doesn't guarantee success; on the other hand, me-too-ism does guarantee lack of differentiation. Different isn't always better, but better is always different.

We recognize and admire industry-practice-breakers. Southwest Airlines, Dell Computer, CNN, Toyota, Starbucks, Bose. Why, then, is it the exception rather than the rule for companies to innovate meaningfully?\*

Observing competitors and making sure they don't surprise you... when we put this technique in those terms, it makes sense. Who could be against that? (I'm not.) However, if you stop there you're merely tailgating your competition. Getting data faster only lets you tailgate closer. The tailgater never pulls out in front.

Intelligence takes on new meaning and new value when you are willing to stop tailgating, when you want to pass the competition, when you look for a different road.

## ***Other reasons to resist intelligence***

There are other reasons that lead well-meaning strategists to unintentionally resist the intelligence at their disposal.

- A lack of suitable analytic tools. Someone doing conventional financial or trend-line analysis finds it easy to get data and to use those data (e.g., with spreadsheets). What common tools

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\* We might also ask why companies imitate poorly; in other words, what we have here is a failure to imitate. Perhaps that'll be the subject of another article. For now, consider that failing to keep up with competitors is rarely a failure of intelligence. Have a look at the points in this article and see how they might apply to the failure-to-imitate question as well.

take competitor personalities as inputs? What common tools display the performance of your strategy options, played against competitors' possible moves, as outputs?

- Corporate politics. We build reputations and we win promotions more by being bold and decisive and sure than by being contemplative or analytical. There's more value (to ambitious me, not to my company) in getting my idea adopted than there is in getting the best idea adopted.
- "I don't have time." That's not only from being overcommitted and downsizing. It's also from decision-makers not valuing the application of intelligence (for all the reasons mentioned above) and therefore setting higher priorities on other tasks. Note that even the (perceived) need for speed implies that decision-makers think they'll get more benefit from acting now than from waiting to take full advantage of intelligence.

All in all, there's a distressingly long list of reasons that we don't use intelligence often or well. It's not (usually) a problem with the intelligence itself, it's not (usually) a matter of reporting or not reporting to the executive suite, and it's not (usually) resistance to the concept of using intelligence. So, how can we do things differently? What has to change for us to make effective use of the intelligence we've already got?

## Making effective use of intelligence

Let's start by identifying the conditions under which those forms of resistance to intelligence thrive or wither. Again, it's important to keep in mind that people don't purposely resist things they value; they resist things they think won't help them.

Form of resistance	Thrives under conditions of	Withers in the face of
Overconfidence	"Respect your superiors" culture "We're the leader" attitude Trend-line analysis	Culture safe for challenging conventional thinking Brainstorming Shadow teams What-if analysis

Form of resistance	Thrives under conditions of	Withers in the face of
Habit	History of (perceived) stability Oral traditions Rush, rush, rush!	Experiences that challenge interpretations of the past Culture safe for challenging conventional thinking
Accountability	Tight link between personal careers and hitting targets Focus on single-point forecasts Accounting-based models	Scenario and contingency planning Range of outcomes Causal models Portfolio thinking
Tailgating	Tagging a competitor as the “leader” Benchmarking “Don’t be wrong” culture	Out-of-the-box thinking, culture, and exercises

One common theme in the “withers” column is interpersonal: recognizing and challenging pet assumptions. Another is analytical: quantitatively testing alternatives (plural) without being unconsciously limited by trend-line and accounting thinking. The former can be achieved with the human drama of business war games; the latter, with the computer wizardry of strategy simulation. Combining the two technologies produces competitive advantage right where it can help most: the quality of your decisions.

### ***Business war games***

The thrills, chills, and spills of genuine human competition as it plays out in the marketplace! That’s what business war games are about.

A number of firms (including Advanced Competitive Strategies) implement business war games. Although there are many forms of business war games, each with its own strengths and weaknesses, there is one characteristic common to all the gaming approaches known to me: managers role-play their own business plus the various competitors in their market.



Role-playing your competitors is very effective at helping you recognize and challenge assumptions, and at generating insights that won't come out of a spreadsheet or a forecast. For instance, it's easy to assume your competitors will behave as you want them to behave when you look at them through the lens of your own plan. When your colleagues put on your competitors' hats and do their best to beat the home team, however, they come up with we-want-to-win moves.

My colleagues and I implemented a business war game in which the home team's assumption was that competitors couldn't afford to match a price cut they planned... and the competitors' teams decided they couldn't afford *not* to match the price cut. Result in the game: ruinous price war. Result in real life: the startled client found a better strategy (and it worked). In another war game, managers role-playing the competition came up with a plan that the home team (in a second round of the game) learned to preempt. Turns out that the real-life competitor planned exactly that move... which they abandoned when the prescient client preempted them.

Business war games are especially effective in situations that involve change and discontinuities; that is, when you expect that the future will not look like the past.<sup>†</sup> A new competitor is about to enter the market; you have an innovative new product or a game-changing cost reduction; customer preferences or government regulations are shifting; a key product is going off patent; there's talk of a merger among your fiercest rivals. Extrapolating the past won't help because those situations haven't taken place before. Spreadsheets won't help because accounting rules don't know about competitors, innovation, customer preferences, government regulations, or patents, and they know about cost reductions and mergers only in strategically superficial terms. In a business war game, though, you get to explore the possibilities, the what-if's, and the taking-it-personally emotions of commercial combat.

## ***Strategy simulation***

Not so long ago no one had the computational horsepower required to run realistic business-strategy simulations. Today's personal computers can handle the calculations in real time, and

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<sup>†</sup> I'd go so far as to say that if you think the future *will* look like the past, you aren't dealing with a real strategy issue.

companies (including Advanced Competitive Strategies) create software powerful enough to simulate business strategies against realistic competitors.

Strategy simulators often look very different from the tools that managers are accustomed to using because simulators work with the future-oriented levers that managers can pull to drive future performance. Those levers may include product attributes and innovations, pricing, segmentation, salesforce size and training, capacity allocations, customer awareness, distribution coverage, loyalty programs, cost structures, and much more.

Here's an example. An accounting-based spreadsheet can easily capture the costs of you choosing to invest in product improvements. That spreadsheet will find it difficult to capture the benefits of your investment, though:

- Accounting rules don't say how your investment will affect the top line, so the bottom-line impact is unclear.
- Your improvements in the product may pay off, and they may not. It depends on your competitors' actions. If competitors match your move, then there's no net change in position, yet costs are higher, so your profits may decline. If competitors don't match your move, then your investment pays off. The *quality* of your decision depends on you; the *outcome* of your decision depends on others' decisions too.
- *Not* investing in the product improvements may seem reasonable, so long as competitors don't either. However, if competitors make improvements of their own, then your lack of investment (and your subsequent decline in position relative to competitors) will cause your sales and profits to decline. Intelligence can be very valuable here, by helping you know what your competitors may be planning. Note that insight into your competitors' "personalities" can also be very valuable: how does your decision to invest (or not) affect their decision to invest (or not)?
- Your competitors may act in another area — for instance, they may enhance a loyalty program, or cut their prices, or partner with another firm to broaden their distribution — at the same time that you invest in product improvements. If you look only at your investment and your bottom line, you might conclude (erroneously) that the investment "didn't work."

That, however, would be like watching the tires on your car and blaming them when they stop turning, even though the problem is that the engine has run out of gas.

The examples above are difficult, if not impossible, to work through without a computer. There are simply too many variables for we humans to handle in our brains. And that's just the tip of the iceberg. Today's modern strategy simulators can:

- Run thousands of simulations, providing what-if analysis that dwarfs anything available a decade ago. My colleagues and I used that sort of analysis to answer the question "can we reach our sales goal?" for managers introducing a new product. The answer was yes *if* their competitors were unrealistically complacent... which means that the answer was no. What's the value of having that information *before* committing to performance goals?
- Apply techniques such as genetic algorithms, which let a patient, I-live-to-calculate computer run strategy experiments in such a way as to "evolve" good moves. [Editor's note, summer 2008: ACS has developed *decision tournaments*, which run massive what-if simulations to rank strategy alternatives.] This approach can generate new ideas for humans to consider. What's the value of having a new strategy idea in a highly competitive market?

## ***Synergy: simulation-supported war games***

Think of the chess matches between Garry Kasparov and IBM's Deep Blue computer: part battle of titans, part John Henry. However, the question of who's smarter, a human or a computer, is the wrong question when it comes to intelligent decisions. The question is, can you make a better strategy decision with or without the assistance of a strategy simulator?<sup>‡</sup> What human and what computer could beat the *team* of Garry Kasparov and Deep Blue?

Teaming humans and simulators leads to extraordinary results. Here are just a few that my colleagues and I have experienced in our simulation-supported war games:

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<sup>‡</sup> This is very similar to the question managers often ask about simulators, to wit, how do you know the model is right? Garbage in, garbage out. That too might be another article. For now, though, I'll just say that perfection is not the objective. A perfect five-year simulation would take five years to run, and that sort of misses the point. The question remains, can you make a better decision with or without a strategy simulator?

- A company in a solid number-two position sought a strategy to take the lead in their market. They found that their budget constraints, and the leader's determination, precluded them from taking over. Unexpectedly, they found that the number-three competitor, which they'd almost dismissed, posed a potent threat to them. The human interaction brought out what might happen; computer simulation made it quantitative and credible.
- A company came up with a plan that they thought would work well. In the simulator, it produced results that went down, quarter after quarter. After watching their performance suffer for six quarters, the managers role-playing the client switched strategy. Sure enough, performance turned around, and they ended up making lots of simulated money. Just for fun, we rolled back the clock to the point where they switched strategy, and put back their original moves. The original strategy ended up making twice as much money as the strategy to which they switched. Human interaction provided the very real "we've gotta make a change" pressure; the simulator provided the numbers that both fueled the pressure and compared strategy A to strategy B.
- A company ran a "parallel universe" war game in which two sets of teams role-played the same competitors from the same starting positions. In one universe, the businesses ran neck and neck. In the other, the home team trounced the competition. Comparing the two universes led to some provocative questions and out-of-the-box ideas. Without the human interaction, there wouldn't have been such different moves to compare; without the simulator, there would have been no effective way to compare them.

## **Intelligent decisions**

Some outcomes from simulation-supported business war games seem almost obvious in retrospect. So, it's reasonable to ask: couldn't smart managers figure out those outcomes without simulation and war games?

Apparently not.

That smart managers don't figure out those outcomes is *not* because they are stupid, ignorant, or unmotivated. Quite the contrary: over and over, my colleagues and I have the privilege of

working with the best and the brightest in major companies. These people are very smart, very well-informed, and highly motivated.

Major insights, unexpected outcomes, and new ideas are the rule, not the exception, when managers outwit overconfidence, habit, accountability, tailgating, and more. Timely, high-quality intelligence is part of the answer. The key is to leverage that intelligence with so-what techniques such as simulation-supported business war games. That's how you create the breakthroughs in how you think that, in turn, create the opportunities for you to greatly improve real-life performance.

## **About the author**

Mark Chussil is Founder and CEO of Advanced Competitive Strategies, Inc. ([www.whatifyourstrategy.com](http://www.whatifyourstrategy.com)), and lead creator of the award-winning ValueWar® strategy simulator. He and his colleagues at ACS have implemented business war games for dozens of Fortune 500 companies around the world. He has published extensively and spoken at numerous conferences. Mark is also a Founder of Crisis Simulations International, LLC ([www.crisissimulations.com](http://www.crisissimulations.com)). Prior to founding ACS, Mark worked at The Strategic Planning Institute (The PIMS Program) and Sequent Computer Systems. He earned his B.A. from Yale and his M.B.A. from Harvard.

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