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Despite their best intentions, executives fall prey to cognitive and organizational biases that get in the way of good decision making. In this series, we highlight some of them and offer a few effective ways to address them.

Our topic this time?

War games? Here's what they're good for.

by Hugh Courtney, Tim Koller, and Dan Lovallo

BIAS
BUSTERS

The dilemma

There's usually a steep price to pay when you fail to anticipate competitors' actions and reactions, or who the competitors even are. France, for instance, spent ten years and billions of francs to erect a collection of concrete forts, obstacles, and weapons installations—called the Maginot Line—to stop German forces from invading with tanks. But French military leaders didn't anticipate that, in the period between World War I and World War II, Germany would change course and adopt a blitzkrieg strategy, increasing its use of air strikes and invading through neutral countries like Belgium. French outposts and citizens were left open to attack (exhibit).

The fate of a nation was not at stake, but a maker of medical equipment similarly faltered because of competitive blind spots. It was first to market in the 1970s with groundbreaking computed-tomography (CT) scanning technology, but it didn't anticipate how many other innovators would enter the market, find new uses for its technology, and build high-level sales and product-marketing capabilities around the applications. The medical-equipment manufacturer eventually ended up exiting the business because it couldn't keep up with the specialized competitors.[1]

The research

Whether in the military or in business, strategy decisions are interdependent decisions most of the time. So why do executives so often fail to anticipate competitors' moves when making their own? Competitor neglect is a manifestation of the inside view, in which decision makers lend more weight to their own data and perceptions than to relevant external factors. Because they're focusing so much on their own plans and ambitions, they end up blind to how competitive dynamics are shifting around them—the big changes as well as the incremental ones.[2] This bias is particularly common among leaders in new and rapidly changing markets, such as those for streaming content, electric vehicles, and artificial-intelligence software. The data about competitors' strategies may be incomplete, inconsistent, and difficult to interpret.[3] It can also be hard for companies to identify a meaningful group of peers with which to compare themselves.

The remedy

War games can be an effective hedge against competitor neglect. Not just for the military, these exercises can also help senior business leaders assess potential strategies and determine how well they are likely to perform given potential competitor responses.[4]

Exhibit

The French military was so focused on building terrestrial obstacles that it didn't anticipate Germany's invasion by air.

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[1] Will Mitchell and Jennifer Smith, "Playing leap-frog with elephants: EMI, Ltd. and CT scanner competition in the 1970s," case study, University of Michigan Business School, April 1991 (revised August 1994), personal.umich.edu.

[2] Colin Camerer and Dan Lovallo, "Overconfidence and excess entry: An experimental approach," *American Economic Review*, Volume 89, Number 1, March 1999.

[3] Hugh Courtney, *20/20 Foresight: Crafting Strategy in an Uncertain World*, first edition, Boston, MA: Harvard Business Review Press, October 1, 2001.

[4] Competitive simulation exercises are often referred to as "war games," likely because the US Army War College uses such exercises extensively and developed many of the protocols that other organizations use when designing, playing, and debriefing these exercises.

One consumer-electronics company used war games to optimize the launch of the next version of its flagship product. The company convened a team of senior leaders and industry experts to build deeply researched profiles of two primary competitors. The information in the dossiers informed a multiround war game that projected likely actions and reactions among the three companies in response to the product launch. In each round, a team was assigned to represent a competitor, and each team independently chose a pricing and promotion strategy for its company. Industry experts weighed in about whether their respective strategy choices were likely to succeed or not, and the company developed a simple simulation model to crunch the numbers. After several rounds of analysis and discussion, the company's launch plans were adjusted accordingly, enabling it to achieve a first-mover advantage in the market.

War games can take many forms and encompass many technologies—from simple to sophisticated—but the one constant should be a debriefing session, conducted within and across teams to capture lessons and reformulate strategies and processes as necessary.

Particularly today, no company is an island. Those that most accurately perceive the competitive landscape as it is—and is likely to be—will have a distinct advantage.

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