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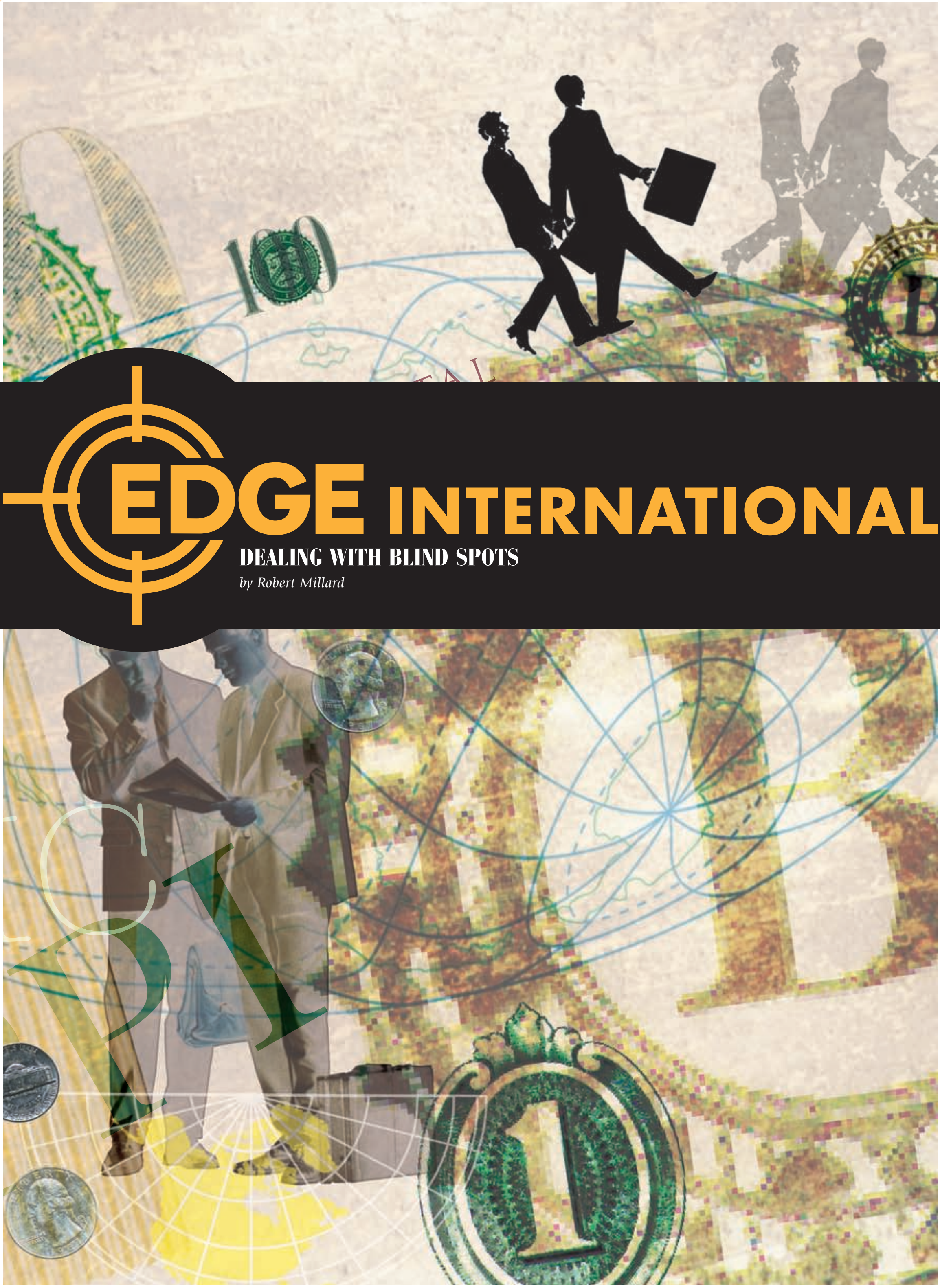

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DEALING WITH BLIND SPOTS
by Robert Millard

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by Robert Millard, **EDGE INTERNATIONAL**

DEALING WITH BLIND SPOTS

Blind spots are a serious cause of flaws in the process of strategic decision making, caused by bias and misinterpretation. Often, they go completely unnoticed.

Strategic industry and competitive analysis models rely on rational and objective behavior. They almost completely ignore the mental filters through which individuals process information. This often results in the decisions made being flawed, perhaps fatally, without the firm even knowing it.

First highlighted by Michael Porter , blind spots manifest themselves in three ways:

1. The firm may be completely unaware of strategically important developments, in their market or inside the firm itself.

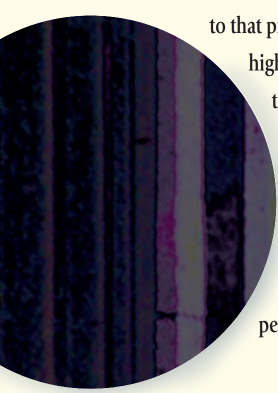
2. The firm may interpret strategically important developments incorrectly.

3. The firm may interpret the strategically important developments correctly, but too slowly to allow for a timely response.

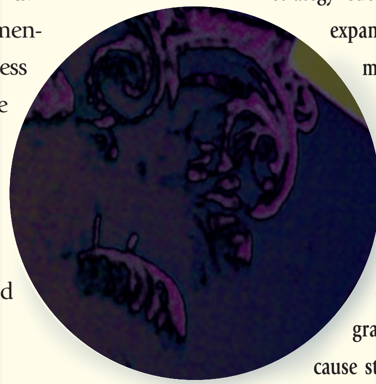
It follows that identifying and removing blind spots is a critical skill in effective strategic decision-making.

THERE ARE SIX PRIMARY SOURCES OF BLIND SPOTS:

Invalid Assumptions—These are assumptions that the firm assumes to be correct, but are not. They may be beliefs about factual matters that are unchallenged, or they may be less tangible. Examples of the latter are corporate myths and taboos woven into the culture of the firm. These influence decisions and the way things are done, but have no basis in fact or logic. Different professions each view strategy from a perspective that is indelibly colored by assumptions inherent to that profession. Lawyers, for instance, may be highly averse to risk; accountants may try to be overly precise. Some design professionals may err on the other extreme.



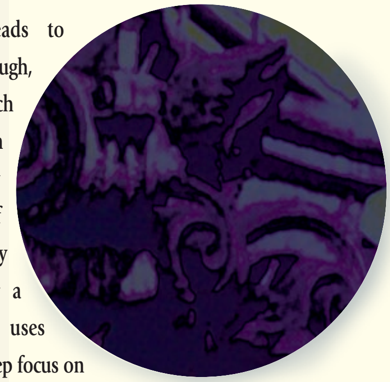
Winners Curse—It is a common phenomenon at auctions for people to pay too much. The same often applies in business acquisitions or other issues of strategy such as geographic expansion, increasing market share or entry to new areas of business. The same "must have" emotion and desire for instant gratification can cause strategists to overestimate the assumed benefits, especially in the long term. This is particularly true where some emotions or irrational competitiveness cloud the true value of something to the firm.



Escalating Commitment—This form of bias appears when something does not meet expectations, but professional pride, fear of accountability or peer esteem prevents its proponents from admitting that it is a mistake. Instead of cutting losses and exiting, or amending the strategy, they escalate resource allocation in the hope that this will solve the problem. Examples might include a new branch office that is proving unprofitable or an IT investment that is not meeting expectations. Another variation on this blind spot is when a deal gets a "life of its own" and the focus shifts inappropriately to finalizing the deal rather than whether it is still in the firm's best interests. This is a very common problem in business, and is particularly prevalent in mergers and acquisitions where people get so caught up in negotiating the deal and sorting out the problems that inevitably arise, that they either miss or deliberately downplay "deal-killers" that emerge in the belief that all can be sorted out later.

Constrained Perspective—This bias results from irrational behavior towards risk. It explains why people often fixate on risk generally rather than relative to the potential reward, and the tendency to prefer to avoid losses rather than achieve gains. (There is a great deal of research that shows that people are far more likely to accept risk when it involves avoiding something bad, than when it involves a benefit. The intensity of this phenomenon varies from society to society and most certainly from profession to profession too.) Constrained perspectives also arise where the focus is excessively internal, downplaying the likely reaction of competitors and clients. Often, this is a result of overconfidence (see next bullet) and the lack of accurate competitive intelligence.

Overconfidence—It is natural and obviously desirable for leaders in the firm to be confident in their own abilities and skill. Overconfidence leads to blind spots, though, without such leaders even necessarily being aware of it. It is especially dangerous for a leader who uses shortcuts to keep focus on action in a complex and challenging everyday environment, to make superficial judgments in strategic decision making too. Overconfidence is particularly dangerous in strongly "driver-type" personalities and when coupled with other kinds of blind spots.



Information Filtering —This is the phenomenon where raw data is filtered as it passes through the organization, so that by the time it reaches decision makers it is fundamentally different. The more levels of authority data has to pass through, the more severe this problem. It is particularly important for strategists to get the information on which they base their decision from sources that are untainted. Relying on information from those who have a motive to interpret it in a particular way is a common cause of blind spots.

REDUCING BLIND SPOTS

By definition, blind spots are difficult to find. There are a few basic tests or questions that can be asked and applied to determine how susceptible the firm is to blind spots, and assess the extent to which these are impacting on competitive intelligence and strategic decision making.

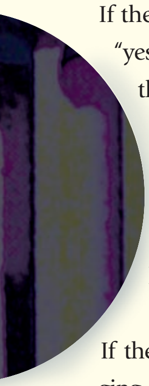
1. **How knowledgeable is the firm REALLY about its environment externally (clients, competitors, market) and internally (capabilities, limitations, potential)?**

2. **Is there an active competitive intelligence program and does the firm benchmark itself regularly?**

3. **Does the firm actively include contingency planning in its strategies, to allow for a range of possible competitor and market reactions?**

4. **Does the firm actively engage in competitor analysis?**

5. **Does the firm have a culture where questioning of assumptions is openly encouraged and supported and mistakes made in good faith are not punished?**



If the answer to most or all of the above is "yes," then there is a good likelihood that the firm's "gut feel" about its environment is relatively accurate. (Ironically, highly successful firms often fail this test because their success encourages the belief that they know everything.)

If there are several "no's," then further digging is required. To do this, a "challenger" needs to be appointed who will have unconditional access to people and strategic processes and has visible and unequivocal top management support. Because of the nature of the task, the person is often an outsider. In any event, it needs to be a person that is capable of thinking highly laterally and having the assertiveness to press a line of questioning that is required, without alienating people.

As a first step, the task of the challenger is to assess the answers to the questions listed above, particularly at top management level.

In almost all cases, this importance / availability matrix will reveal serious gaps between the competitive intelligence that is available, and what is required.

Once this has been completed, the second step is to select a specific, significant strategic decision that needs to be made. Then follows the following four step process:

1. **Interview experts inside and, as appropriate, outside the firm, to identify the information and the analysis that is required to make the best decision possible.**

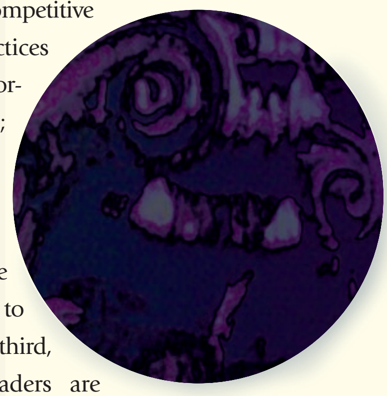
2. **Identify the critical decision makers and key implementers of the action that will follow.**

3. **Ask each identified decision maker and implementer to rank each item of information or analytical requirement on the basis of (a) importance and (b) availability of accurate, relevant and timely intelligence.**

4. **Average the rankings across the group to determine those items or requirements where competitive intelligence is both important and only marginally available.**

In almost all cases, this importance / availability matrix will reveal serious gaps between the competitive intelligence that is available, and what is required. Even where the competitive intelligence is adequate, though, decision makers may be flawed in how they translate these insights into action.

Essentially, then, the process of reducing blind spots has three specific facets. First: developing a culture of strategic challenge by paying attention to competitive intelligence practices and the strategy formulation process; second, by determining where gaps exist and where competitive intelligence needs to be bolstered; and third, ensuring that leaders are aware of the pitfalls so that they can guard against them personally.



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