When Two Tribes Go to War

Virtually all companies do long-range planning. But doing "what if" scenarios with co-managers around the boardroom table doesn't produce the kinds of insights and discoveries that players say can come out of a formal war game

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In late April 1999, US Central Command conducted a series of war games to figure out the likely outcome of invading Iraq to topple Saddam Hussein. Collectively, the picture they painted was as about ugly as it gets. CENTCOM concluded any effort to unseat Hussein could unleash unmanageable levels of violence, would create a major security void and would require at least 400,000 troops. As we all know, the coalition of the willing ignored the warnings and went ahead anyway, sending a mere 130,000 troops instead. Proving just how well war games can work, the result has been every bit as predictable as predicted.

Of course in normal circumstances a military commander or politician who tried to justify failure on the basis that the enemy had done something unexpected would be railroaded out of town. Providing the means to anticipate the opposition is, after all, why they invented war games. Yet some business leaders - ignoring their own primary responsibility to anticipate the competitor enemy and to put plans in place to thwart them - seem to expect the world to find such excuses perfectly reasonable.

> Never base your plans on what you believe the enemy will do. Base them on what he could do
>
> *- Old military maxim*

These business leaders should instead have a good look at war gaming as a predictor and planning tool. Business war gaming, used correctly (and when the results aren't wilfully ignored) can be one of the most powerful weapons in the competitive intelligence armoury. The Academy of Competitive Intelligence says its clients consider war gaming the most effective planning tool of the 2000s.

Unfortunately, war gaming isn't used all that frequently, and is even more rarely used effectively, particularly in Australia.

"A war game is neither a war nor a game," wrote Dr Ben Gilad, founder of the Academy of Competitive Intelligence and co-founder of the Fuld-Gilad-Herring Academy of Competitive Intelligence in an article for the Society for Competitive Intelligence (SCIP). "It is a rigorously structured, analytical role- play of selected players in one's industry, aimed at creating a strategy based on expected moves and countermoves of these players.

"Every business war game is played against a backdrop of the industry's underlying structure and the change drivers that are going to shift it - so-called industry evolution."

Gilad, who teaches war gaming methodology at the Fuld-Gilad-Herring Academy of Competitive Intelligence and has been running his so-called "blind spots" war games extensively for more than 15 years, is a war-game evangelist in the truest sense of the word. War games, he says, can perform miracles. "A war game can be crucial and powerful to the career of the competitive intelligence [CI] manager. If done properly, a war game is the one and only occasion in which the CI manager comes out of the passive information-provider role and steps right into the limelight as an active member of the strategy formation team.

"Befitting the new mentality, which distances business war games from their violent military cousins, Chevron renewed

the use of war games in 2006, with a trained competitive intelligence professional leading the way. Of course, its war games are neither wars nor games. Perhaps a more apt name should be Competitor Appreciation Day (CAD)."

Even so, Gilad says, a war game is primarily about the host company, and competitors are just the background. Competitors won't change an industry structure or cause great hardship to your company. The real threats, he says, come from your own executives, turf wars and "layers of redundant vice presidents pursuing undisciplined opportunities and blocking good strategic moves".

"Successful war games are about your own company, about refocusing, about finding the direction that has been lost after decades of success and the resulting strategy 'decadence'. That is especially and painfully true at large, leading companies," Gilad says.

Pity then, that so few Australian organizations use war games at all, and so many that purport to use them misunderstand their purpose.

Formulating Strategy

A war game can be used for planning, including corporate strategy planning, business unit strategy planning and functional strategy charting; for testing strategic initiatives like product introductions and mergers and acquisitions; and for testing tactical initiatives like marketing campaigns (so called "competitor response modelling") and promotional tactics.

War gaming specialist KappaWest defines a business war game as a structured, disciplined and facilitated process designed to make the development and execution of a plan more effective by helping an organization to understand a situation much better than it could through other approaches.

"A war game is a role-played simulation of a business situation, usually one that involves a set of teams representing a market or customer, a set of competitors, and a series of other uncontrollable factors or entities," says KappaWest consultant Jay Kurtz. "It involves a series of rounds representing a specific period of time or a phase in a plan. Reflecting reality, all teams act concurrently, each without all the information it would like to have about what its competitors are currently planning or doing, or exactly what is going on among the uncontrollable factors. Only after a round has been completed does each team learn the effects of its decisions and actions when they are melded with those of all the other elements represented in the war game."

At least that is how they *should* be played.

Gilad says war games should be about formulating strategy, pure and simple, as applied to a single product, a multi-product brand, a portfolio of related brands, a business unit, a corporation (except an unrelated conglomerate) or a country, region or globe. Any other purpose, he says, including attempts to shoehorn war games into teambuilding exercise, is a waste of money and time. "Any way one looks at it, there are only two possible purposes to a war game: to test a proposed strategy or to formulate a new strategy," he says.

And this is where even some of those organizations that kid themselves that they are using war games well actually have them all wrong. Far too many companies - and even some of the experts - apparently conflate war gaming with teambuilding, which it isn't.

For instance, Cutter Consortium co-founder and senior consultant Ed Yourdon, in a paper called "How War Gaming Can Help Agile Project Managers", described war gaming as a valuable tool for even the most peace-loving

organization, and encouraged organizations to try it. Yourdon says war gaming is an essential tool for those interested in agile - as in "flexible" and "responsive" - project management.

"An agile project team is capable of reacting to unexpected changes in user requirements; unanticipated changes in the business environment; and unexpected upgrades and replacements in hardware, middleware, and system-software infrastructure (that is, operating systems, networking, and database management system packages)," Yourdon says. "Such project teams can't just say: 'We feel agile'; they must be agile. While some individuals (and perhaps even teams) might claim that they were *born* agile, most of us have to acquire our agility through practice and hardware. One of the best ways to do so is with a war-game approach that facilitates repeated practice in a competitive environment."

But Yourdon then goes on to recommend war games as a means to practise and facilitate teamwork, calling them great for orientation and the "bonding" of new employees and newly formed teams. "Even with experienced employees, and previously formed teams, war gaming can be an excellent mechanism for practising roles in a complex multi-role situation. Consider, for example, basketball teams who constantly practise new pass-and-shoot manoeuvres involving multiple players on the team," he says.

Gilad vehemently disagrees.

"The quote from Ed Yourdon - whom I don't know - is interesting, but not accurate," Gilad told CIO magazine. "He lumps together war games, which are specific and relatively expensive tests of strategic moves against non-cooperative third parties' response, with all kinds of practice, simulations, and other training devices. Using war games for anything but strategy is meaningless. Think of it as Blue Team-Red Team exercise in the military - it is very different from drilling a specific manoeuvre until everyone knows his or her role. If someone does not role-play the enemy, the Australian Navy would not run a war game. See what I mean?"

"As for teambuilding, war gaming is the wrong method. It's way too expensive. Use those silly teambuilding exercises where you lean backward and they have to catch you . . . The essence of a war game is not bonding but role-playing - that is, acting. It is an art, with a very rigorous scientific basis in strategy analysis literature. In short, I don't buy this hype, though I can see why if one wants to sell something to CIOs with money to spare, one may try and label any drill a war game. But that is just missing the point, isn't it?"

Babette Bensoussan, managing director of CI specialist company MindShifts, agrees completely. War games are all about thinking, and most businesses that play them are indeed missing the point, she says. "A war game is about how to out-think and out-manoeuvre competitors. That's the objective of a war game."

While plenty of organizations have attempted to use war games for teambuilding, Bensoussan says, to do so is to "bastardize" the concept. "The objective of a war game is to out-manoeuvre or out-compete."

While Bruce Ferguson agrees that when it comes to project management, there is a specific area where war gaming is very critical, it is a subset of all projects, he says. Ferguson is managing partner of Helmsman International, a company which manages major IT, defence and construction projects.

War games are most effective where there is a substantial risk around shareholder value or enterprise level brand recognition, where you need to make your process extremely rigorous; where the project runs over several years or is extremely large; or where you face multiple opposing forces - including regulators - that can cause you problems, Ferguson says.

"What are the rules that should govern the CIOs involvement in war games and when they are appropriate? I think the

quite expensive to do this," Ferguson says. "You don't do it on your business-as-usual, you don't do it on your normal projects - you want to do it on projects where there is sufficient importance attached, what we would call make-or-break projects; something that is putting the company substantially at risk."

Bensoussan says CIOs will typically be strongly involved in any war gaming exercise. Their staff will be required to pull profiles together and to help with ongoing monitoring.

Since a war game as played in the CI environment is used to play out a competitive scenario, it is most effectively played out when a company has two teams, one playing themselves (usually members of the marketing and finance/strategic planning teams) and another playing the competitor, says TBP Risk Services principal consultant Steve Hather. Both teams use the same set of assumptions but can react in different ways regarding products they develop, business models used and so on.

The CIO should play a crucial role in enabling the game, he says. An effective war game needs very good information about the competitive environment, backed by good qualitative and quantitative data. The CIO as "gatekeeper" and enabler of a company's internal and external information has a critical role to play in providing and arraying the information needed.

"In addition, the CIO plays a critical role as part of the senior management team in determining which if any strategic options the company should pursue, what the implications are and how to measure progress," Hather says. "The greater the uncertainty as to whether your assumptions are correct and whether the competitor will act as anticipated, the less chance you will be willing to make a big bet. The role of the CIO is then to help devise measures and report early warning signs as to whether one scenario is playing out, or whether the competitor is moving or not moving in the direction you anticipate, for example."

The Enemy You Don't Know

Hather, whose expertise lies in strategic risk management, says war games can be particularly useful in playing out scenarios that don't necessarily involve an entrenched competitor. "It's one thing to anticipate actions when you *know* who your enemy is. You can collect a ton of data and smart people and good models should help you make sense of it. It is another thing when you broaden the horizon as to where a strategic threat might come from.

"By way of example, Sony was the undisputed leader in portable music prior to Apple coming along. If Sony had war-gamed where digital music was headed, it might have used one of the other electronic manufacturers and stayed on the track of making smaller, better quality players and fighting digital piracy rather than looking for the opportunity in digital music that Apple saw. Because Sony saw Apple as a computer company, it did not see Apple as a threat - even though it should have been clear that Apple was moving into the space and had a reputation of making things that were easy to use and cool.

"Plenty of consumers were telling all the music companies that cared to ask that they often wanted one or two songs from an album not the whole thing, for example. Consumers wanted easy access, easy to manage libraries and they wanted to talk about it with friends. All of these needs were served by an easy to use digital music service. Another example is the food and beverage companies: they were slow to move on health issues despite signals of that trend and the clear implications for companies like McDonald's for over 20 years."

Rules for Success

Gilad says there are several rules and guidelines for successful war games. First and foremost is to remember that

some decisions are better suited to war-gaming than others. The cardinal rule: if you don't care what others will do in reaction, don't waste money on war games. And while seeming nice-to-have, computer simulations and other toys are decoration only. The war game is about thinking like third parties.

Role playing is paramount, and "mirror imaging" is the worst mistake you can make, he says. The theory behind role playing must be rigorous. "This isn't a brainstorming exercise or a chance for creative spirits to shine, Gilad says.

Your own organization's blind spots must be put on the table even if they hurt, or the competitors will do it for you. And Gilad says there is no point in running a war game if the plan is a foregone conclusion. You must leave room for changes in the plan.

Senior execs must take active part, especially heading competitors' teams, as well as the most senior playing "referee", but the game can never be only for senior managers, Gilad says. The value is in a right mix of participants.

Meanwhile Yourdon says it's vital not to make the rules so strict as to prevent innovative behaviour by the competitors. Inspiring one or more of the players to creatively break the "implicit" rules, which turn out to be nothing more than habitual, constrictive cultural assumptions, can be a prime benefit of the war game.

You should also, he says, allow plenty of time for post-mortem review. "This point is also obvious, but because the post-mortem takes place - by definition - at the end of the war game, you always risk running out of the allotted time before reaching the point at which you're ready for a post-mortem. It may be useful to reserve a secret time buffer to ensure that you can do a post-mortem, which is likely to be the most valuable part of the entire experience."

And the CIO must provide participants with in-depth competitor profiles, Bensoussan says.

"I am sick to death of people thinking that they're coming to a war game and not having done the necessary pre-work, so what they're doing is mirror imaging," she says. They assume the competitor behaves in the same way they do. Now unless you've done your competitor profiling beforehand, that's not going to be true.

"The key for me, I have to say, is the research. Most executives go in thinking they know their competitors when they don't. They know some of it, but not enough to understand the thinking."

"The second rule is that it does need to involve opposing forces - not necessarily competitors but opposing forces, and elements outside your direct control. And then you need to actually go through and analyze the options that you have and play through the different scenarios until you can achieve your required outcome."

And speaking of outcomes, Ferguson points out it's vital not to assume outcomes are definitive, and that there is a feedback mechanism at work. War games should ideally be run multiple times, he says.

"I always thought that the difference between the military and the commercial world is that the military are continually practising, then have to get to do it in the real world, whereas in the commercial sector you're doing it in the real world all the time and you don't have the time to practise. You've got to take the war gaming scenario as: We have done a war game, now we are going into the real battle. The battle gives us information, we feed back into a war games scenario," he says.

But the final word goes to Bensoussan, citing a favourite quote from Advanced Competitive Strategies CEO Mark Chussil.

"Trivial changes produce trivial results. If you want to gain genuine competitive advantage, you've got to do important things better than your competitors."

That's how war games can help.

Sidebar: Play War

Running a war game can achieve a number of different goals. It can help turn data and information about a market, competitors, and other factors into actionable intelligence that adds real value to the quality of planning.

The way KappaWest does it, several teams of between three and eight people take part, each representing different "players" in the situation. Depending on the purposes and scope of the war game, these teams might play the roles of the company conducting the war game, each of several different competitors, a market or a key segment in it, a specific customer, a regulatory body, or some other organization that could affect the situation in real life.

"At the conclusion of the war game, facilitators lead a group discussion to capture all the lessons learned throughout it. Depending again on the purposes and scope of a particular war game, it is it is likely to generate a mix of both hard and soft deliverables," the company says.

KappaWest includes among possible hard deliverables:

- A rigorous analysis of the situation that defines specific opportunities, obstacles, risks and needs that were uncovered

- Specific recommendations concerning actions that should be included in a plan being developed, or to improve the level or probability of success of an existing plan

- The definition of critical areas of missing market, competitive or other forms of intelligence.

Possible soft deliverables cited are:

- Increased knowledge that will lead to better day-to-day decision making

- Increased teamwork and less "silo mentality"

- More effective communications among participants

- Ability to use a selected set of highly effective concepts, models and tools in other planning situations

- Increased awareness of the reality of market, competitive and other changes in the company's business environment.
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