

## Essay Seven

### ***“Strategy from the Inside Out”***

*(in which Sparta, the Royal Navy and Vito Corleone illustrate another approach to strategy)*

***By***

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Classical Greece was a land awash in small armies. Every Greek city-state, no matter how small, could usually muster an armed band of citizens for settling disputes with neighboring city-states. The ubiquity and nature of Greek armies was apparent during the second Persian invasion, when the armies of twenty-one different Greek city states combined to fight the Persians in the Battle of Plataea. Disregarding the sizeable armies of Sparta and Athens, this battle demonstrates that the average Greek city state had an army of about 1,100 armored infantrymen. For centuries, armies were the primary means used by Greek city-states for ensuring their security.

In this historical context, how do we understand Sparta? Even though every small Greek town had its own army, by all accounts, the Spartan army was unique. When the Persian emperor Xerxes was preparing for his invasion of Greece, he sought to learn as much as possible about his potential opponents. Herodotus in book seven of his *Histories* takes up the story. He tells us of a conversation between Xerxes and the exiled Spartan king Demaratus, who served Xerxes as an advisor on all matters Greek. The emperor was curious to know how the Greeks would respond to his upcoming invasion. Demaratus replied that he couldn't predict the actions of every Greek state but he was very certain that Sparta would fight the Persians even if they had to fight alone. Xerxes laughed and protested saying- this is not rational. My army is vastly larger than the Spartan army. You must be talking rubbish. Demaratus assured Xerxes he was completely serious and he warned the Persian ruler that the Spartans had the best army in the world. In a chilling forecast of the upcoming battle at Thermopylae, he told Xerxes that, no matter how outnumbered they were on a battlefield, Spartans always held their position and either won or died. The words of Demaratus were prophetic. The Spartans inflicted a crushing psychological defeat on the Persians at Thermopylae and then went on to inflict an actual battlefield defeat on the Persians as they led the other Greek armies at Plataea. Although Xerxes had an army that was so large that it drank entire rivers dry, the Persians endured a humiliating defeat at the hands of tiny Sparta.

What made the army of Sparta different than the armies of any other Greek city-state? One clue is to observe that the term “Spartan army” is a redundancy. Sparta did not *have* an army, Sparta *was* an army. Every aspect of Spartan society was ruthlessly designed to support the creation and maintenance of a fearsome army. Movies about World War II frequently contain a scene in which draftees undergo a medical exam to ensure they can

meet the physical demands of being a soldier. Spartans received their medical exam at birth and those deemed unfit to be a soldier were put to death. Young Spartans began military service at the age of seven and suffered thirteen years of relentless military training that was designed to instill discipline, endurance and the willingness to engage in brutal violence. Until they reached the age of sixty, Spartan men were required to eat a communal meal daily with their military cohort in order to maintain military spirit and cohesion. In most of Greece, citizens earned their living by farming or commerce. This was not the case in Sparta. Sparta set up a system in which every Spartan family was given land and slaves (called helots) to work the land. Spartan men did not engage in agriculture or commerce and as one historian has noted, *"Everything is subordinated to the art of war and the sole aim of the state is to create invincible warriors."* When it is said that "everything" was subordinated to the art of war, this is no exaggeration. Although music was a normal part of cultural life in Greece, musical fame in Sparta was achieved by composing music that lifted the spirits of Spartans going into battle.

The Spartan approach to strategic thinking was the product of a completely different strategic perspective than the Athenian approach to strategy (outlined in the last essay). Athens was an example of the strategic perspective described as "strategy from the outside in" and, as we saw, this approach to strategy is so valuable and so relevant that it has stood the test of time for millennia. From classical Athens to 21<sup>st</sup> century American corporations, we saw examples of strategic leaders who developed a strategy based on aspects of their external environment. Leaders use this perspective to focus on upcoming threats and opportunities, which, in turn, inspires new, innovative (and frequently disruptive) strategy.

But "strategy from the outside in" is only one major perspective that has been used by strategic leaders throughout history. As we will see in this essay, there is another strategic perspective that has existed at least as long as "strategy from the outside in." One of the earliest examples of this alternate strategy is ancient Sparta who achieved dominance because of its legendary army. Sparta exemplifies a strategic perspective called "strategy from the inside out" and, as the name implies, this perspective finds its inspiration from a deep understanding of the resources of the organization itself.

"Strategy from the inside out" begins with a consideration of an organization's resources and capabilities and asks the question- is there a way that I can use my resources to provide my organization with long-term competitive advantage? Notice how Sparta took the traditional Greek model for achieving security (i.e. maintaining an army) and developed it more thoroughly than any Greek state had ever done. Sparta decided to create an army without equal in the ancient world and she was willing to make very hard choices in terms of transforming her society and culture to achieve this goal. At some point in its history, Sparta decided to reach deep within itself and align all of its activities to achieve one goal.

It created an army whose qualities were so unique and so difficult to imitate that it provided Sparta with centuries of strategic advantage. This is what we call “strategy from the inside out.”

In this essay, we will consider various aspects of “strategy from the inside out.” We will see that this strategic perspective is widely influential and has persisted for centuries. We will see that this strategic perspective has been a dominant force in corporate strategy as well as military strategy. We will also consider the inherent risks of following the dictates of “strategy from the inside out.” Finally, we will consider lessons that this strategic perspective provides to strategic leaders in any type of organization. The differing choices made by Athens and Sparta echo through the ages and these strategic perspectives are still studied and used in the 21<sup>st</sup> century.

### **“Strategy from the inside out” over the centuries**

Centuries after Sparta rose and fell, another example of a state following “strategy from the inside out” occurred at the beginning of the 19<sup>th</sup> century. Between 1793 and 1815, Great Britain and Revolutionary France were at war with each other in a twenty-year conflict that only ended with Bonaparte’s final defeat at Waterloo. One noteworthy aspect of this conflict was the remarkable mismatch in the resources available to these two opponents. Great Britain was much smaller in size and population than France. In addition, Great Britain had to conduct a global war without the resources of its recently lost American colonies while Napoleon controlled the resources of much of Western Europe. This disparity was strikingly apparent in a comparison of the size of their respective armies. When the Duke of Wellington began his Spanish campaign against Napoleon’s forces in Spain, he commanded an army of 21,000 soldiers. In contrast, Napoleon was able to muster an army of 500,000 for his invasion of Russia. Given these circumstances, we are left with the question- what enabled Great Britain to sustain a conflict of such length and emerge victorious? Did Great Britain have a resource that provided her with sustained competitive advantage? The answer, in large part, is that Great Britain built, maintained and employed a powerful navy that gave it a continuous strategic advantage during the Napoleonic wars.

The undisputed star of Napoleonic era navies was the ship of the line. At the time of the Napoleonic wars, a ship of the line was the largest, deadliest, costliest and most complex moveable object ever built in human history. To give some idea of the lethality of these ships, consider two of the most famous ships of the Royal Navy- HMS Victory and HMS Temeraire. These two ships participated in the Battle of Trafalgar and between them they had more cannon than the entire British Army at Waterloo. As we would say today, a ship of the line was a complex “system of systems.” Each ship was a *movement system* of masts, sails and rigging; it was a *combat system* of cannon and small arms; it was a *housing system* that provided shelter for hundreds of sailors and it was a floating self-contained *logistics*

system that stored and processed tons of food, water and ammunition. Building and maintaining ships of the line was so costly that the decision to do so represented a national commitment and, during the years of the Napoleonic wars, the British Navy was consistently able to maintain a fleet of more than one hundred and twenty ships of the line.

The case of Sparta led to the question- if every Greek city state had an army, how did Sparta create an army that was clearly superior? The exact same question can be asked of the Royal Navy in Napoleonic times. Every major European power (Great Britain, France, Spain, Netherlands, Denmark, Russia) had a navy so how did Great Britain create a navy that was markedly superior to its European rivals? After all, this was an era in which the complexities of naval operations were not well understood. Napoleon certainly never mastered the nuances of naval warfare and even Clausewitz in his magisterial discussion of warfare never once used the word “navy” when he wrote *On War*. Great Britain followed a different path from its opponents and her “strategy from the inside out” resulted in a navy of immense strategic value.

By the Napoleonic era, the Royal Navy had been engaged in more than a century of naval warfare, including three Anglo-Dutch naval wars and a century of conflict with the French. A large part of the British advantage came about because the British did a better job than the French at learning and applying the lessons of naval warfare. In other words, the British recognized that institutional memory can be a valuable weapon. Another lesson they learned was that building a matchless Royal Navy was a process very similar to the approach used by Sparta to build a matchless army. The ability to build, maintain and effectively use a world class naval force was an astonishingly difficult task because it relied on the ability to interweave a widely diverse set of very different capabilities. A noted naval historian wrote that British naval warfare during this time period was “*a national endeavor, involving many, and in some ways all, aspects of government and society.*” Just as we saw with Sparta, strategic advantage was not the result of one specific resource, it was a function of a bundle of resources working in a coordinated manner. Simply having well-built ships of the line did not provide the Royal Navy with strategic advantage. In addition to having shipyards that incorporated the latest advances in naval technology, the Royal Navy required many other complementary resources. It required the ability to recruit and train thousands of sailors and the ability to produce a constant stream of aggressive and competent naval commanders. It required close linkages between astute political and military leaders who understood the strategic potential of a fleet and who possessed the political will to obtain the required financial resources. Subtract any one of these factors and the Royal Navy would not have been as effective as it was.

The fact that Great Britain was able to achieve this feat (and France was not) gave Great Britain an enormous advantage in terms of strategic reach and flexibility. Consider the

combat record of Admiral Horatio Nelson, Great Britain's most famous naval hero. Nelson is best known for three different naval victories. The first of these victories took place in 1798 off the coast of Egypt. In the Battle of the Nile, Nelson destroyed the French fleet that was supporting Napoleon's invasion of Egypt. His second victory occurred in Scandinavia at the Battle of Copenhagen in 1801 where Nelson successfully attacked the Danish fleet. The third battle, which was the most decisive naval battle of the Napoleonic Wars, took place in 1805 off the coast of Spain at the Battle of Trafalgar. In this engagement against a combined fleet of French and Spanish warships, Nelson's outnumbered force destroyed more than twenty enemy ships without a single loss although Nelson's death during the battle was counted as a major loss by Great Britain. The vastly separated locations of these three naval engagements demonstrate the global scope of British naval activity. The decisive results of these three engagements demonstrate the dominance of British naval power.

The development and employment of the Royal Navy during the Napoleonic Wars is a useful example of "strategy from the inside out" and the implications of this strategic perspective still resonate today. Strategic circumstances in which smaller powers seek capabilities that will give them advantage over greater powers occur regularly throughout history. When I would discuss this topic with cadets, I used a thought-provoking question that was based on my Army experience as a field artillery officer. During the Carter Administration when I was stationed in West Germany, I was a commander of a direct support M109A1 field artillery battery in the 8<sup>th</sup> Infantry Division (from 1978-1980). It is obvious that this is a very old story because both the 8<sup>th</sup> Infantry Division and West Germany went out of existence a long time ago.

The primary mission of units in the 8<sup>th</sup> Division was to plan and prepare for the defense of West Germany in case the Soviet Union decided to invade Western Europe. At that time, Germany was divided into two countries and, if conflict broke out, my unit was supposed to rapidly move to the Fulda Gap on the West German border because the Fulda Gap was one of the most likely Soviet invasion routes. Back then, we had no idea that the inherent weaknesses of the Soviet state would cause the Soviet Union to crumble within a decade. What occupied our minds was the vast discrepancy between our NATO forces and the Warsaw Pact forces. The Soviets had at least 3:1 superiority in troops and a comparable advantage in tanks and artillery. In addition to a general superiority in numbers of soldiers and weapons, they could also choose the time and place of an invasion, thus enabling them to achieve a temporary 6:1 superiority at their *schwerpunkt*.

The question that I used to introduce the topic of "strategy from the inside out" to cadets was the following: *Based on the rather dismaying display of numerical superiority on the part of our potential enemy, how could I honestly tell the soldiers in my artillery battery that we*

*were likely to win?* In other words, just as we saw in the conflict between Sparta and Persia, did the U.S. Army possess qualitative resources or capabilities that would negate the quantitative superiority of the Soviet Union? The point of the question was to generate a careful consideration of the nature of resources and capabilities. Cadets would answer this question by bringing up examples of resources that served the U.S. Army as force multipliers. They would cite examples such as the technological superiority of American weapons systems, the inherent strength of being on the defensive and the high quality of tactical leadership in the U.S. Army.

### **Corporate example of “strategy from the inside out”**

One of the most elusive aspects of “strategy from the inside out” is the interconnected nature of resources and how these linkages can become a source of competitive advantage. It requires an enormous amount of sustained effort to develop and exploit a competitive edge by means of a highly coordinated, interlocking set of organizational activities. Organizations are highly complex sets of resources and capabilities. The task of bringing every aspect of an organization to bear on the achievement of one goal requires a very high degree of insight and managerial control.

This chapter has provided several military examples of this strategic perspective but it would be a mistake to think that it is only relevant to the military world. “Strategy from the inside out” is commonplace in the corporate world, with the same characteristics and rewards that exist in the military world. The corporate example that I always used with cadets in strategy class was (oddly enough) entitled: sleeping bags in the supply chain.

Our example is a sporting goods company with a cost leadership strategy. This company has a chain of stores and sells quality goods at a price that is consistently lower than its competition. This approach, of course, requires the company to pay very close attention to its expenses. In our example, the company is approaching its 50<sup>th</sup> anniversary and wants one signature item that it can sell for \$50.50. One of the company’s buyers talks to a manufacturer of sleeping bags in China and finds out that they offer high quality sleeping bags for \$50 each (which includes delivery to the port of Long Beach, California). The buyer only has to make one decision, which concerns packaging. The manufacturer provides two options. It can vacuum seal the sleeping bags so that they fit into small cardboard boxes. In this case, the manufacturer can fit 200 sleeping bags on every shipping pallet. Alternatively, the manufacturer can loosely roll the sleeping bags into plastic bags. In this case, the manufacturer can fit 50 sleeping bags on every shipping pallet. The packaging decision might seem trivial to the buyer because either option costs \$50 per sleeping bag. Why is a decision about something as mundane as packaging being highlighted? As we will see, choosing one option will provide the sporting goods company with thousands of dollars in

profit while choosing the other option will cause the company to lose thousands of dollars. Let me explain.

Let's assume that the sporting goods company bought 100,000 of these sleeping bags and they are sitting in an import warehouse in California. The company needs to transport all of them by truck to distribution centers around the country. To make this example simple, we are assuming that the transportation cost is the only supply-chain cost of these sleeping bags. Here is the startling conclusion. If the buyer bought the sleeping bags vacuum-sealed in cardboard boxes, they can be sold at a profit. If the sleeping bags are loosely rolled in plastic bags, they will be sold at a loss. Why? The answer lies in the number of sleeping bags that fit in a truck. A standard 53' trailer rolling down the highway can fit 48 pallets of sleeping bags (two layers of 24 pallets of merchandise can be double stacked inside the trailer). If the company bought sleeping bags packaged to fit 200 on a pallet then they can fit 9,600 sleeping bags on every truck ( $200 \times 48$ ). In this case, it would take 10.4 trucks to transport 100,000 sleeping bags ( $100,000 / 9,600$ ). Conversely, if they bought sleeping bags packaged to fit 50 on a pallet, then they can only fit 2,400 sleeping bags in every truck ( $50 \times 48$ ). Transporting this entire order will now require 41.6 trucks. A simple packaging decision can increase transportation requirements by 300 percent. The supply chain costs of one packaging decision can be staggering.

If a dollar cost is assigned to this example, the lesson is even more striking. Let's assume that it costs an average of \$1,500 to hire a truck that transports sleeping bags from the port to the distribution centers of our retail company. When the sleeping bags are stuffed into tiny cardboard boxes, it enables 9,600 sleeping bags to fit into each truck. This means that, on average, it costs \$0.16 to move each sleeping bag by truck ( $\$1,500 / 9,600$ ). We can now calculate that the total cost of each sleeping bag was \$0.16. If they are sold at \$0.50 each, then each sleeping bag generates \$0.34 in profit. If all 100,000 sleeping bags are sold, the company will realize \$34,000 in profit (in our simplified example). Now compare the cost calculation for our other packaging choice. Sleeping bags that are loosely rolled up and stuffed into plastic bags will only fit 2,400 sleeping bags into each truck. This means that, on average it costs \$0.63 to move each sleeping bag by truck ( $\$1,500 / 2,400$ ). We can now calculate that the total cost of each sleeping bag using this packaging option was \$0.63. If they are sold at \$0.50 each, then each sleeping bag incurs a loss of \$0.13. If all 100,000 sleeping bags are sold, the company incurs a \$13,000 loss. *One packaging decision for one item caused a \$47,000 swing in profitability.* The issue facing a retail company with a cost leadership strategy is not a question of choosing the right packaging for this one order of sleeping bags. The correct issue is- how does the company ensure that their buyers make *the right decision every day on every item*. If it cannot guarantee this result, its cost leadership strategy will end in failure.

Every retail company has a supply chain. How is it that some retailers can manage their supply chain so well that it provides a strategic advantage over their competitors? This is the exact same question we asked about the Spartan army and the British navy- and the answer is exactly the same. Ideally, retailers who rely on controlling expenses want to understand the supply chain costs of all of their purchasing decisions and one answer is to network many of the organization's capabilities to achieve a common goal. In this case, it is not enough for a retailer to employ a buyer whose job is to work with manufacturers and give them purchase orders for sleeping bags. A company seeking a highly efficient supply chain will need leaders who insist on a transparent system that identifies and links the logistics costs of every item to understand profitability. In order to do this, the retailer should have a way of identifying the logistics implications of all purchases before they are finalized so that they can accurately determine the supply chain costs. If they don't accurately know their supply chain costs, they can't determine if they are selling items at a profit or a loss.

In reality, a retailer like our sporting goods company should be able to rely on networking its capabilities to answer many more questions than supply chain costs. Think about the marketing aspects of packaging our sleeping bags and how packaging might affect a customer's decision to buy the item. Maybe high-end sleeping bags sell better if they are loosely rolled and packaged in plastic bags. In this case, it would help to have a marketing person contribute to the packaging decision. Think about customer behavior in a store. What if the type of packaging affects overall customer behavior? If customers put a large, bulky item like a loosely rolled sleeping bag into their shopping cart, they might unconsciously assume that their cart is getting full and this will cause them to cut their shopping trip short and head for the check-out. In this case, it would help to have a store operations person contribute to the packaging decision.

The twentieth-century strategic thinker, Peter Senge provides a useful insight by examining the interconnected nature of resources. In his book *The Fifth Discipline*, which emphasizes the importance of systems thinking, Senge invites the reader to consider the distinction between *detail complexity* and *dynamic complexity*. The example of sleeping bags in the supply chain was an example of dynamic complexity. This distinction can be used, for example, to understand aspects of the decades-long struggle at the end of the 20<sup>th</sup> century between upstart Walmart and industry leader, Kmart. In 1980, Kmart (in terms of sales) was far larger than Walmart and yet twenty years later, Walmart owned the discount retailing industry and Kmart was teetering into bankruptcy. How, exactly did this turn of fortune happen? One answer was that Walmart stores were twice as productive and consistently more profitable than comparable Kmart stores and Walmart's advantage was a direct result of dynamic complexity.



Senge's distinction between detail complexity and dynamic complexity provides an understanding of the enormous challenge faced by Kmart strategic leaders. What Kmart failed to understand (and act on) was the fact that some of Walmart's secret weapons were only apparent to someone with a sophisticated understanding of dynamic complexity. There was, potentially, an enormous amount of information about Walmart that was readily available to Kmart leaders. By simply walking into a Walmart, a Kmart executive could identify the thousands of products being sold by Walmart and the prices that Walmart was charging. The problem was that this wealth of detail complexity didn't illustrate why Walmart's sales productivity was double that of Kmart's or why Walmart's controllable expenses were consistently lower than those of their competitor. These advantages were the result of multiple Walmart processes working together in new and unexpected ways- an example of dynamic complexity submerged beneath the everyday surface of store operations.

In the world of discount retailing with its razor-thin profit margins, the difference between two percent profitability and three percent profitability can be devastating. As Walmart became more and more of a threat, Kmart demonstrated that it did not understand the strategic lessons developed by Sun Tzu and modified by Senge. Kmart consistently responded to the Walmart threat by opening new stores and acquiring new retail businesses (i.e. attacking their enemy's army) instead of making a serious effort to cut expenses and operate more profitably (i.e. attacking their enemy's strategy).

### **“Strategy from the inside out” requires strategic leaders who know how to align strategy and resources**

Having a resource that provides sustained competitive advantage (i.e. strategy from the inside out) is one of the primary concerns of strategic leaders. One of the reasons why this is a challenging topic is that many strategic leaders are terrible at identifying and nurturing the strengths of their own organizations. This deficiency occurs for a variety of reasons. As the previous examples illustrated, sometimes an organizational strength is not one simple resource but rather a sophisticated interwoven skein of resources and capabilities designed to achieve a single goal. There are other barriers that make it difficult for leaders to identify and nurture organizational strengths. For one, the example of Ahab's crew makes the powerful point that strategy can sometimes develop for unexpected reasons. In ideal, rational circumstances, strategic choices are developed in concert with available strategic resources. But strategy is not always formulated in ideal circumstances and sometimes, leaders make strategic choices that have the unintended effect of undermining their organizational strengths.

One intriguing example of the relationship between organizational strategy and organizational resources comes to us courtesy of Francis Ford Coppola. In his wonderful

movie *The Godfather* there are two short scenes that explore this topic and highlight the difficulty of decisions that have to be made by strategic leaders. As the scene opens, Vito Corleone (the head of the Corleone crime family) is sitting in his living room with Tom Hagen (his strategic advisor) and Santino Corleone (his oldest son). They are discussing the merits of a business proposal they have received from an entrepreneur by the name of Virgil Sollozzo who is proposing a strategic alliance with the Corleone family. Hagen outlines the issue:

*"Sollozzo is known as 'The Turk...'. His business is narcotics. He has fields in Turkey where they grow the poppy. And in Sicily he has the plants to process them into heroin. Now -- he needs cash, and he needs protection from the police, for which he gives a piece of the action -- I couldn't find out how much. The Tattaglia family is behind him here in New York."*

Although Sollozzo is, of course, proposing that the Corleones facilitate a criminal enterprise, it is just as easy to consider this entire situation in business terms. Yes, Sollozzo is a drug lord but we can also describe him as an entrepreneur whose business is partially vertically integrated. He has opium fields in Turkey and drug processing plants in Sicily. He plans on further vertical integration by distributing his product in the New York area. He needs the cooperation of an organization with complementary resources in order to minimize risk and maximize the chances that his strategic move will be a success. In other words, Sollozzo is an example of a leader of a multinational organization seeking the fastest, safest, most effective way to enter a new market. As a means of entering this new market, he is proposing a cross-border, complementary, nonequity strategic alliance with the Corleone family.

After Hagen's recap of Sollozzo's proposal, Vito Corleone then asks Hagen his thoughts on a possible business alliance. Hagen replies:

*"Well, I say yes. There's more money potential in narcotics than anything else we're looking at. Now if we don't get into it, somebody else will. Maybe one of the Five Families, maybe all of them. Now with the money they earn, they can buy more police and political power; then they come after us. Now we have the unions, we have the gambling; and they're the best things to have. But narcotics is a thing of the future. And if we don't get a piece of that action, we risk everything we have -- I mean not now, but ten years from now."*

In the course of eight sentences, Tom Hagen has developed a very nice strategic analysis to evaluate the merit of Sollozzo's proposal. He identifies new threats that can develop from other crime families (*Now with the money they earn, they can buy more police and political power; then they come after us*). He also identifies a future opportunity for the Corleone family (*narcotics is a thing of the future*). He points out that Sollozzo's proposal allows the Corleones to horizontally diversify from gambling to drugs. In effect, he identifies Sollozzo's proposal as a reasonable choice in order to minimize future threats to Corleone

interests. In his mind, the proposed alliance will give them expanded sources of power in the intensely competitive world of the five families. Hagen approves of Sollozzo's proposal because he is looking at strategy from the outside in- focusing on upcoming external threats and opportunities.

Hagen is also attracted to Sollozzo's proposal because of the element of time. If the Corleone family wanted to expand into new businesses (such as narcotics), they have several different options for doing so. An alliance with Sollozzo is faster, and in some respects, less risky than attempting to build their own drug business from the ground up. Hagen's reasons for favoring Sollozzo's proposal are more sophisticated than those of Sonny Corleone (who simply says "*a lot of money in that white powder*") but what is most interesting is that both of Corleone's advisors seem to be strongly in favor of doing business with Sollozzo. At the end of their family discussion, Santino asks his father what he will do. Vito Corleone noncommittally shrugs and, with that, the movie segues to the following scene in which Sollozzo makes his pitch to Corleone and his lieutenants.

The second scene begins with Sollozzo saying:

*"Bene, Don Corleone. I need a man who has powerful friends. I need a million dollars in cash. I need, Don Corleone, those politicians that you carry in your pocket, like so many nickels and dimes".*

Vito Corleone listens to the proposal and his decision takes many in the room by surprise. During the meeting, we learn that Vito Corleone wants nothing to do with this proposed alliance. After hearing Sollozzo out, Corleone responds by saying:

*"I must say "no" to you -- and I'll give you my reasons. It's true, I have a lot of friends in politics, but they wouldn't be friendly very long if they knew my business was drugs instead of gambling, which they regard as a -- harmless vice. But drugs is a dirty business."*

There are several reasons for his decision and we have to tease them apart if we are to understand his thinking as a strategic decision-maker. The first and most important element of his concern is the imbalance between risk and reward. Sollozzo is asking for two things- cash (which can come from anyone) but he is also asking that Corleone exert political and legal influence on his behalf. Apparently, Corleone has more contacts with politicians, judges and police than any of the other New York crime families and this is a source of strength for the Corleone family. Sollozzo is, in effect, asking Corleone to commit his core competency, his most valuable source of competitive advantage, to this enterprise. For Sollozzo, this makes sense- he wants to use valuable Corleone resources to reduce the uncertainty and risk of expanding into a new market. For Vito Corleone, this is the crux of the issue. Is the risk to his core competency worth the benefit of getting involved in the narcotics business?

Corleone is very clear about why he refuses Sollozzo's offer. Corleone calculates that

entering the drug trade will alienate his political and legal allies. In other words, he thinks that the inherent risk to his core competency exceeds the potential benefit of Sollozzo's offer. What is left unstated is that he also considers Sollozzo to be opportunistic and untrustworthy.

By engaging in a complete cost/benefit analysis, Vito Corleone shows that he is using a very different strategic calculus than Tom Hagen (his strategic advisor) or Santino (his heir apparent). They are focusing on making a decision based on rapidly developing external threats and opportunities (a classic "strategy from the outside in" example). In contrast, Vito Corleone makes his decision based on the effect that Sollozzo's proposal will have on his most valuable resources (a "strategy from the inside out" perspective). We find out later that Vito Corleone is also a flexible strategist- at some level he understands he will have to re-think his entire business model in the face of a changing world. This characteristic of his leadership propels much of the movie. After rejecting Sollozzo's proposal, Corleone is gunned down in a Sollozzo-inspired assassination attempt. Upon recovering from his wounds, he eventually abandons the New York market, eliminates many of his competitors and moves his crime family to Nevada.

### **"Strategy from the inside out" requires strategic leaders who are adept at analyzing organizations for strengths and weaknesses**

The example of *The Godfather* points out that strategic leaders should always be aware of the effect of strategic choices on their organizations. Another essential aspect of this strategic perspective is that strategic leaders need the ability to accurately identify organizational strengths in the first place. Awareness of organizational strengths is a function of good communication within an organization and one reason why many strategic leaders are terrible at identifying and nurturing organizational strengths is that they are bad leaders. One of the byproducts of bad leadership is dysfunctional communication between leaders and followers. If followers don't trust their leaders, it is unlikely that they will openly discuss their organizational flaws. As a result, bad leaders usually have an inaccurate picture of organizational strengths and weaknesses. Effective communication within an organization is, at least partially, a function of great leadership.

In chapter three of *The Art of War*, Sun Tzu mentions one quality that is essential for great leaders. Leaders, says Sun Tzu, need to be very good at analyzing organizations. As he puts it in one of his best-known quotes "*Know the enemy and know yourself; in a hundred battles you will never be in peril.*" Sun Tzu was making a point that is directly relevant to strategy from the inside out. Sun Tzu was saying (more than two thousand years ago) that a basic competency for leaders is the ability to accurately identify and objectively evaluate the strengths and weaknesses of organizations- whether it is their own organization or that of a competitor. Achieving mastery of this competency is harder than it seems and the ability

to analyze one's own organization is completely different (and perhaps more difficult) than the task of analyzing the competition.

Several years ago, Alan Mulally, who was then the CEO of Ford Motor Company, talked to the cadets in my strategy class and he related one of the stories that he first told in his book *American Icon*. Mulally spent thirty-five years working in the aerospace industry at Boeing. His first job in the automobile industry was as CEO of Ford Motor Company. When Mulally took over as CEO, Ford was in the same strategic circumstances as GM and Chrysler. All of them were on the verge of bankruptcy. Mulally needed to quickly learn what was going on in his company but he faced a major hurdle- executives at Ford never talked to each other about their problems. It was a reflex deeply engrained in the Ford corporate culture. Discussing problems in public meetings was interpreted as evidence of weakness and asking for help was a sign that you could not handle your own area. It took a while for Ford executives to trust Mulally enough to begin to effectively communicate with each other when they gathered in their top management team meetings. He realized that his ability to get timely and accurate information at Ford depended on a variety of factors. Was the company structured in a way that enabled strategic information to move quickly and accurately? Was there a degree of trust between Mulally and his top management team so that these people would candidly share problems and organizational weaknesses with their new boss? Notice that the first of these considerations was a management issue and the second was a leadership issue.

Mulally's story illustrated that Sun Tzu's simple injunction "Know yourself" is not always easy to accomplish. Large bureaucratic organizations, like Ford, might have corporate cultures that inhibit a free flow of information. In addition, having top managers who parachute in from other companies means that it will take time before trust develops within the top management team. Mulally's anecdote makes it clear that there are psychological barriers, structural barriers and leadership barriers that make it challenging for leaders to obtain the information that they need to truly understand the strengths and weaknesses of their own organizations.

There is another challenge to leaders that is implicit in Sun Tzu's quote if it is read carefully. Notice the linkage of two different tasks (*Know the enemy, know yourself...*). By linking these two tasks in the same sentence, he is saying that the task of identifying organizational strengths and weaknesses is a relative exercise. Strategic leaders cannot accurately determine the strengths and weaknesses of their own organization in a vacuum. In one set of strategic circumstances, a specific collection of organizational resources might be a solid foundation of success while in other circumstances, the exact same collection of resources leads to futility. In his delightful (and insightful) book on baseball entitled "*How Life Imitates the World Series*," sportswriter Tom Boswell points out that the Boston Red Sox

were a very frustrated team for most of the 20<sup>th</sup> century. The frustration existed because the Red Sox always had a roster full of outstanding players and were very successful against most of their American League opponents. But whenever Boston played the New York Yankees in games that mattered, it usually ended in tears for the Red Sox. As Sun Tzu points out, organizational strengths are relative.

“Knowing the enemy” is similar to “knowing yourself” in that both are exercises in organizational awareness but the challenges of each are very different. I once heard a Walmart executive reminisce about going with Sam Walton to visit a competitor’s store in a small town in (as I remember) Alabama. In the early days, whenever Walmart opened a new store, Sam Walton made a habit of attending the grand opening and, while there, he would visit Walmart’s biggest competitor in that town. One day, he took this executive with him. After the grand opening of the new Walmart, the two Walmartians went to visit their competition. When they had finished their inspection, Walton asked his associate his thoughts. With a big smile on his face, Walton’s associate smugly declared that Walmart was going to do very well in this town. He noted that the competitor’s store was dirty, poorly organized and out of stock on many items. Sam Walton looked at his co-worker and said, “Did you notice the pantyhose rack they were using?” The answer, of course, was no. Walton said, “Well, it takes up less floor space than the one we use but it holds more merchandise.” Walton went on to say that he got down on his hands and knees, wrote the name of the manufacturer on his legal pad and was going to give this information to his store operations people immediately. He then went on and on- did you notice the cosmetics aisle, did you notice... The Walmart executive accompanying Walton eventually realized that he was being taught an important lesson and it was one that made an indelible impression. He learned that the task of analyzing the competition is not an easy one. In this particular instance, he learned (as do we) that people from highly successful organizations face significant psychological and cultural barriers that they have to overcome in order to be able to learn from the competition.

### **One risk of “strategy from the inside out”- don’t build a strategy that relies on the wrong resources**

After the initial glow of victory in 1918, it gradually became clear during in the interwar years of the 1920s and 1930s, that France had been traumatized by its enormous losses during World War I. When the war began, it is estimated that France had ten million men of military age. Within the *first five months* of combat, one million of those men became casualties and millions more would die before the war ended in 1918. Not surprisingly, postwar France developed a “never again” mentality and national security discussions coalesced around the idea of protecting France by building an impenetrable line of defensive fortifications between France and Germany. This initiative became known as the Maginot Line (named for the French Minister of War Andre Maginot). The French, at

enormous expense, built hundreds of miles of fortifications that consisted of astonishingly complex defensive positions (including bunkers, artillery emplacements, barracks, hospitals, supply rooms and even railroads). All of these interconnected facilities were located deep underground which made them impervious to enemy fire. Even today, a schematic of the Maginot Line creates a sense of wonder. The French Army was capable of doing this because it had a tradition of military engineering that dated back to the fortifications built for Louis XIV by the Marquis de Vauban in the 17<sup>th</sup> century.

This example is pertinent to our discussion because it raises the question- *what were the French thinking?* It is true that there were few, if any, nations capable of producing fortifications like the Maginot Line. More to the point however was that the Maginot Line was irrelevant to the realities of modern warfare and, worse yet, it actively prevented the French army from modernizing by sucking up vast amounts of manpower and funding. In sharp contrast, the German Army spent the interwar years creating a military doctrine that provided the Wehrmacht with a completely new set of capabilities. The shorthand term used for this new model of warfare was *blitzkrieg* (lightning war). Instead of incrementally improving the doctrine and tactics of World War I, the Germans developed a revolutionary new doctrine that combined firepower and mobility in unexpected and stunningly violent ways.

German modernization did not go unnoticed in France and there were French officers (such as de Gaulle) who urged their government to develop a counterpart to the German panzer units. Their words went unheeded, in large part because of the dominant effect that the Maginot Line played in the French national security debate. During the summer of 1940, it rapidly became clear to a shocked world that the great Maginot Line had fatally undermined French military strategy. Germany began their campaign to conquer France at 0430 on the morning of 10 May 1940. Within five days, French military lines had been ruptured, within three weeks, the Germans had encircled British forces at Dunkirk and within forty-four days, France was compelled to surrender. French military strategy had demonstrated in an unmistakable manner that it was irrelevant.

Given the overwhelming trauma of World War I, the French has spent time and treasure trying to solve the strategic question "*What would have given us advantage in the last war?*" and the Maginot Line was their answer. These fortifications were an amazing achievement but they focused on where warfare had been instead of where it was going. This is clearly a case of a nation that failed to understand and thus failed to attack the strategy of their foe. At a deeper level, the French strategy fell prey to a fundamental misapplication of "strategy from the inside out." On the psychological level, these defensive fortifications created what John Keegan called "the Maginot mentality." In an uncertain and dynamically changing world, it was comforting to rely on a resource that had served the French well for centuries.

A focus on organizational strengths and weaknesses can sometimes lead to a flawed strategy because an organization might revert to what it traditionally has done well instead of building a new competency that is more relevant to the modern world. Earlier in this essay, the point was made that identifying organizational strengths is a relative exercise and cannot be done in a vacuum. An organizational resource might provide competitive advantage in the context of one opponent and be completely worthless in the context of another opponent. France, by strategic reflex, fell back on a strategy based on a resource that had served it well for centuries- it built fortifications that were irrelevant to the modern world.

Organizational leaders won't be successful unless they possess the ability to develop organizational strengths and eliminate organizational weaknesses. In particular, successful leaders are interested in identifying and developing "core competencies" which is the term used for resources and capabilities that are so powerful they provide long-term competitive advantage. Leaders who can think clearly about core competencies enjoy decades of strategic success. Leaders who don't understand the nature and implications of core competencies (such as those who built the Maginot Line) will suffer strategic defeat.

### **Leadership lessons provided by "strategy from the inside out"**

#### ***Lesson 1: Past experience is a valuable resource. Why not exploit it?***

"Strategy from the inside out" is all about the intelligent use of organizational resources, often in ways that competitors are unable to replicate. At a very fundamental level, this strategic perspective requires leaders who can employ imagination and creativity to extract every bit of value from their organizational resources. This is not an easy task nor is it always an obvious task. Take for example the task of creating an organization that has the ability to learn from past experience. It sounds easy but generations of leaders have come face to face with the surprising complexity of this problem. One of the most valuable and unique resources available to an organization is its past experience but many leaders completely ignore it.

During the Cold War, the leadership of the U.S. Army struggled to answer a question that was deceptively simple- *after a unit has completed a training exercise, do we know what happened and why?* At a basic level, this question is: what is the best process to evaluate the performance of a unit? At an even more basic level, this question is: *what is the best process to help people improve their performance by learning from past experience?* Army leaders knew that this was a serious issue because lessons from World War II showed that Army leaders were very bad at evaluating the performance of soldiers on the battlefield.

During World War II, the U.S. Army began employing combat historians and some of them pioneered the technique of extensively interviewing soldiers immediately after combat.



The most famous of these historians was S.L.A. Marshall who shocked and dismayed Army leaders with his finding that most American soldiers displayed very little aggression or initiative on the World War II battlefield. According to Marshall, a large part of the problem was due to unrealistic Army training that did little to prepare soldiers for the shock and kinetic energy of the modern battlefield. As a result, when they eventually encountered the reality of combat, most soldiers were ineffective. Prominent Army leaders, such as General William Dupuy, who served as a young combat commander in World War II and won three Silver Stars, would subsequently reinforce Marshall's findings. As an interesting sidenote, Marshall would go on to examine the performance of American soldiers in subsequent wars, such as Korea and Vietnam, where he noticed a marked improvement in their battlefield performance. He concluded that improved training had resulted in ever increasing numbers of soldiers who were effective on the battlefield.

Conducting interviews immediately after combat was a first step in learning from experience but it is a limited approach with several deficiencies. The Army would eventually evolve a technique called an "after action review" (AAR) as a way of capturing the most value from past experience. Scholars from the U.S. Army Research Institute have studied the AAR model and their conclusion is that it is far superior to the process of conducting individual interviews after training or combat. First of all, an AAR provides credible and objective feedback based on measurable performance. But this is only a beginning because simply providing feedback is essentially a passive activity. Ideally, after undergoing rigorous training or violent combat, soldiers want to know what actually happened, why it happened and what should they do differently in the future if they want to improve their performance. AARs, therefore, are more than feedback exercises, they are collective problem-solving exercises. Because they focus on problem-solving, AARs foster the creation of a learning atmosphere that improves unit performance. Because they are collective in nature, AARs also improve unit cohesion, unit communication and unit leadership.

AARs have become deeply engrained in Army culture. I was once reading a paper on leadership that was written by an Army colonel while he was a student at the Army War College. The colonel recounted a rather contentious meeting he had with a subordinate commander that had not gone well. Immediately after the meeting, the colonel turned to the third person in the room (his command sergeant major) and (quoting himself) said, *"AAR me for a minute and tell me what you think was going on."*

It is important to reflect on the importance and value of AARs because they are not easy to do and, in fact, they run counter to the culture of many organizations. If leaders do not realize the cultural barriers that exist when attempting to reflect on experience, then they will never be successful at capturing the value of past experience. When former Army Chief

of Staff, General Gordon Sullivan was discussing the value of AARs in his book *"Hope Is Not a Method,"* he recounts a story told him by a colleague in the business world. In this story, "he told me of a dialogue with a loading dock foreman who, in great frustration, finally said to him, *"Look, I can either ship product or talk about it. Which do you want me to do?"* Sullivan points out that the correct answer is that the foreman needs to do *both* but "it is hard to make that answer a reality."

One reason why AARs are hard to incorporate into the DNA of organizations is that many companies in the business world have a bias for action, not a bias for reflection. In the Army, the correct sequence is "ready, aim, fire" but for many in the business world, the preferred sequence is "ready, fire, aim." The reason for this counterintuitive sequencing? Many business leaders realize it is surprisingly hard to actually get things moving and you never want to add additional steps between a plan and its implementation. So, it is unfortunate but true for many companies that their usual instinct can be exemplified by the retailer who finishes an annual back to school sale on Monday and plunges into the planning for the upcoming holiday sale on Tuesday. And so it goes, year after year.

In his book on social networks, Ronald Burt provides a striking example of organizational learning that occurred during the Second World War. One of the most pressing requirements for the Allies was the need to develop the ability to build enough merchant ships to support a global war effort. In 1941, shipyards in the United States began building a specific model of cargo ship known as "Liberty Ships" and eventually almost three thousand of these ships were built. The first Liberty Ship was launched in the fall of 1941 and it took 244 days to build. Within a year, American shipbuilders had learned how to build Liberty Ships in 46 days. This striking example of organizational learning emphasizes an important lesson. Leaders who constantly look forward are missing one of the most valuable elements of the strategy process- the benefit of learning from past strategic activity. Many strategic leaders never realize that the process of looking back can be as valuable as the process of looking forward.

When an organization makes a flawed strategic decision or implements a plan in an unsatisfactory manner, it is valuable to leaders to know exactly what happened and why. Failure to develop an institutional memory can have severe consequences and the most severe is that organizations never learn from their unique experience. They never take the time to reflect on their recently completed activity and learn from it. Such companies will never accumulate twenty years of experience, they will just go through one year of experience twenty times in a row.

## ***Lesson 2: Building cooperative networks to achieve a common goal: Easy or hard?***

Another leadership lesson from this chapter emerges from reflecting on several of this chapter's strategic examples. We learned that Sparta, the British navy and a random sporting goods company shared one extremely valuable characteristic. All three organizations had achieved success by intertwining a variety of diverse activities in order to achieve a complex organizational goal. At this point, it is useful to consider, not the value of this approach, but its unique difficulty for leaders. As noted earlier, every Greek city-state had an army but none of them measured up to Sparta. The moral of this observation is that it was supremely difficult to replicate what Sparta did. Sparta was able to create a world-class army because it was able to intertwine its political system, its social system, its educational system, its economic system and its military system into a cooperative whole that was designed to achieve one goal. Similarly, our sporting goods firm needed to be able to routinely make cost effective merchandising decisions and, in order to this, it needed a broad network of different functional specialists working together. It needed buyers who were willing to cooperate with logistics experts and software engineers in order to immediately identify the logistics implications of merchandising decisions. The challenge of achieving this level of cooperation between and within organizations should not be underestimated. Getting organizations and groups within organizations to work together for a common goal runs counter to human psychology and standard management reflexes.

At the beginning of the 20<sup>th</sup> century, as America began to industrialize, people began to seriously think about the nature of human behavior in work settings. What motivates people? What helps people learn about their job? What are the factors that affect performance? The answer to these questions proved to be surprisingly elusive and complex. One of the first insights of value that emerged from a study of the working world was that the nature of a worker's organization can have an enormous impact on the attitudes and behavior of workers. Consider for a minute the example of two young Americans who grow up in the same small town and graduate from the same high school. Both of them are given a military uniform and a rifle and deployed to the same combat zone. They will probably behave in a similar way, right? Well, actually, the answer is that they will behave in vastly different ways if one is wearing an Army uniform and the other is wearing a Marine uniform. These two military organizations have different histories, a different ethos and completely different war-fighting doctrines. With this example in mind, consider the question- what are some of the challenges that military leaders face if they are trying to achieve a goal that requires soldiers and marines to work together?

Luckily, this is not a hypothetical question because it can be answered using real-world examples from military history and, sometimes, these examples were not pretty. One prominent example was the famous "Smith vs. Smith" controversy from the Pacific War in World War II. In June 1944, the United States invaded the Japanese-held island of Saipan. It

was a challenging task because the strongly fortified island was garrisoned by more than 25,000 Japanese soldiers. As a result, the beefed-up invasion force consisted of three American divisions- two Marine divisions and one Army division, all under the command of a Marine general (General Holland Smith) as the corps commander. During the course of the bitterly fought battle (which caused more American casualties than D-Day), General Smith became increasingly dissatisfied with the performance of the Army division and its commander (also named Smith- General Ralph Smith). Several days into the invasion, the Marine commander decided to relieve the Army general of his command in the middle of combat operations. This incident has been characterized by historians as *“one of the most unfortunate incidents of the entire Pacific war ... (that) threatened Army-Navy cooperation even more than had the Japanese attack on Pearl Harbor.”*

This incident had implications that went far beyond the unfortunate spectacle of two generals who couldn't work together. This event seemed to indicate that two entire American military organizations were unable to cooperate, even when the American public expected them to be united while fighting one of the most formidable opponents in American military history. Marine officers at corps headquarters were reported to be openly contemptuous of the fighting ability of Army soldiers on Saipan. And that feeling of contempt was strongly reciprocated. After the battle was over, a senior Army general angrily confronted Marine General Smith and said *“You cannot push the Army around the way you have been doing... You marines are nothing but a bunch of beachrunners anyway. What do you know about land warfare?”* Generals and admirals throughout the Pacific theater piled on and all of them seemed to be spending precious time and emotional energy fighting each other rather than the Japanese. Luckily, General George Marshall and Admiral Chester Nimitz served as the adults in the room and took prompt action to defuse the situation. Marshall transferred Army General Smith to the European theater. Nimitz promoted Marine General Smith in a move that ensured that he would not be in direct command of combat units for the remainder of the war.

The significance of this incident revolves around the difficulty that leaders face when they are trying to align different organizations to achieve a common goal. Although the U.S. Army and the U.S. Marine Corps were both American military organizations confronting a common enemy, they still had substantial differences that proved a barrier to cooperative behavior. Marines had a fundamentally different combat mission than did soldiers and, as a result, these two organizations had spent decades evolving completely different war-fighting doctrines. At the risk of being simplistic, the perception developed that Marines tended to throw people at battlefield problems while the Army tended to throw firepower at battlefield problems. This difference in war-fighting could (and did) lead to misunderstandings and friction in joint operations because commanders from both services reacted to the reality of combat in completely different ways. Judging Marine

commanders by Army standards and vice-versa was bound to cause trouble. It is no easy thing to get organizations to rally around a common goal.

To add to the complexity of understanding cooperative behavior in the workplace, it is not enough to consider the barriers that exist *between* organizations. There are also barriers to cooperation that exist *within* organizations. Cooperation within organizations is a challenge because organizations are not monolithic entities. Organizations are collections of different groups of people, and researchers have known for decades that membership in a group can influence a person's knowledge of the world, their motivation, their attitudes and their behavior. People identify with their chosen group and groups are powerful forces that often have very different ideas, goals and cultures. So, for example, the U. S. Army might be one organization but it is not a monolithic collection of soldiers who all think alike. Army Rangers are different than other infantry soldiers and officers who are West Point graduates are different than those who are ROTC graduates.

### **Summary and conclusion**

The theme of the last two essays has been a focus on two completely different perspectives that have been used for centuries to influence and guide strategic decisions. One of these perspectives ("strategy from the outside in") is exemplified by those leaders who scour the external environment for strategic inspiration. They consider the implications of environmental change and think about this change in terms of opportunity or threat. This externally-oriented strategic perspective was then contrasted to the internally-oriented perspective of "strategy from the inside out." This second perspective focuses on those leaders who look deeply within their own organization for strategic inspiration. Their strategic choices derive from a consideration of organizational strengths and weaknesses. We began this essay with an example from the ancient world so it is fitting that we end this chapter with a 21<sup>st</sup> century example that encapsulates what we have learned from this strategic perspective.

When Bill Hewlett and Dave Packard established their company, it became well known that their unique culture (*The HP Way*) provided them with advantages that competitors could not match. The values and procedures derived from "The HP Way" served to foster innovation, motivation and a sense of pride that, in turn, resulted in above-average performance. As a result, HP grew from a two man operation working in Bill Hewlett's garage to a globally respected tech firm. After the founders left, a series of decisions like the hiring of outsider CEOs and the contentious merger with Compaq helped dilute and then destroy HP's unique culture. HP leaders were like Vito Corleone's advisors- strongly attracted to a shiny new strategic choice without realizing that this new strategy could destroy the company's core strength. There is a long list of companies that have made ill-advised strategic choices that ended up destroying their valuable organizational resources

and capabilities.

These last two essays do not present mutually exclusive strategic perspectives. The ability to understand the impact of external forces on strategic success is just as important as the ability to understand the nature of organizational strengths and weaknesses. Leaders might ask-which of these competencies is most important for strategic success? The correct answer (as we saw with the example of the loading dock foreman) is *both*. When JCPenney recently slid into bankruptcy, the Wall Street Journal noted that “*its failure to evolve as shopping habits changed... set the retailer on a long march towards bankruptcy*.” This is clearly an example of a series of corporate leaders who failed at “strategy from the outside in”. Their external world (in this case, customer behavior) changed and the company did not.

There are, unfortunately, just as many examples of organizations that failed because their leaders didn’t understand the implications of “strategy from the inside out.” The Wall Street Journal published a detailed look at accounting firm Arthur Andersen in the wake of the Enron scandal and one of their observations was that “*Andersen’s descent from conscience of the accounting industry to accused felon didn’t happen overnight*.” Over time, Andersen leaders made decisions that chipped away at their traditional strengths. Desperate for revenue when their consulting arm split off as Accenture, Andersen leaders began to focus less on their accounting expertise and more on their ability to sell professional services to clients. This short-sighted view led directly to Andersen’s disastrous relationship with Enron and a subsequent obstruction of justice conviction. The examples of JCPenney and Arthur Andersen show that both of our strategic perspectives are essential tools in the toolboxes of strategic leaders. Strategy must be built on a clear-eyed understanding of one’s external environment as well as one’s strengths and weaknesses.