Essay 6
Strategy from the Outside In
(in which the Athenian Navy, the Wright brothers and McDonald's illustrate one common approach to strategy)
By
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Before the age of history, people lived in an age of myth and legend and one of the most potent legends in the ancient Mediterranean world was the epic war-poem known as the Iliad. The Iliad is almost three thousand years old and it was ancient when Rome was an empire. It tells a timeless story of honor, fate and conflict. The precipitating event in the Iliad occurs when a Trojan prince runs off with the beautiful wife of the ruler of a small Greek kingdom. The older brother of the aggrieved Greek king is Agamemnon, the powerful king of Mycenae who determines to destroy Troy in order to avenge this insult to his family. War bands from more than one hundred Greek city states rally to his cause and the greatest warriors of Greece sail to Asia to redeem the honor of King Agamemnon and his brother. This saga presents a fascinating picture of the prehistoric Greek world but if we look closely at this picture we realize is that it is very different from our mental model of classical Greece.

When people today think of ancient Greece, they think of Athens and Sparta. Athens is considered the home of democracy and philosophy. It is the site of the Parthenon and the workplace of great dramatists such as Aeschylus and Sophocles. Sparta is the cradle of warriors who fought so fiercely that they are still celebrated in film and literature more than two thousand years later. When the mighty Persian empire invaded the lands of Greece (not once, but twice), Athens and Sparta were considered by all as the natural leaders of the resistance. In 490 BC, Persia became the nemesis of the Greek world when the army of emperor Darius I invaded with the aim of subjugating Greece. This invasion came to a disastrous end for the Persians when their army was decisively defeated at Marathon by a much smaller Athenian army. A larger Persian invasion, led by Xerxes, the son of Darius, occurred ten years later and fared no better. On land, the Spartans made their heroic stand at Thermopylae and subsequently led other Greek city-states to victory over the Persian army at the Battle of Plataea. At sea, the Athenians led an allied fleet of twenty Greek city-states and defeated the Persian fleet at Salamis. The failure of these Persian invasions had a decisive influence on the subsequent course of history and all of these momentous Greek victories occurred under the leadership of Athens and Sparta.

Given that Athens and Sparta were instrumental in defeating the greatest empire the world had yet seen, it is somewhat of a shock to look back at the Iliad and realize that these two great city-states were very much in the back row in the war against Troy. The great

Achaean warriors and warbands of the Iliad came from places such as Mycenae, Ithaca and Pylos. Athens and Sparta are barely mentioned. In the twenty-four chapters of the Iliad, the Greek city-state of Argos is mentioned more than fifty times and Sparta is only mentioned twice. So, how is it that Athens and Sparta became the leaders of the Greek world?

Countries (and organizations) achieve greatness as the result of specific decisions. Using two completely different strategic perspectives, Athens and Sparta each made a series of unique strategic choices that set them on their respective transformational journeys. This essay examines the strategic perspective exemplified by Athens while the following essay focuses on Sparta. Both Athens and Sparta began their strategic journeys as nonentities and ended as the acknowledged superpowers of the classical Greek world. Although they arrived at a similar strategic endpoint of power and influence, they each followed a completely different strategic path. What is relevant about these examples is that their strategic paths are still widely used today-in the corporate world, in the political world and in the military world.

The path chosen by Athens was shaped by two strategic decisions that were made within a relatively short period of time. In the decades during and after the Persian Wars, Athenians gathered in the world's first democratic assembly and made national decisions that shaped their fate. Guided by the statesman Themistocles and later by Pericles, the citizens of Athens closely examined the changes that were occurring in their world and vociferously debated the implications of these changes. Eventually, they built a strategy that was based on two complementary external forces. They sought to counteract the threats that were looming on their horizon, while simultaneously deciding to exploit valuable opportunities that had emerged in their dynamic world.

Themistocles, who was born in 524 BC made it his life's work to advocate the construction of a great Athenian navy and Pericles, who died in 429 BC sought to create an Athenian empire. As a result, within the span of the century spanned by these two lives, Athens created an innovative strategy that was firmly based on these two developments. During the Persian Wars, Athens built and maintained the most powerful navy in the Greek world to protect its security from external threats. Athenian strategic leaders, such as Themistocles, recognized the unique nature of the existential threat posed by the Persian Empire and decided on a unique answer to that threat. Persia, the great landpower would be opposed by Athenian seapower. During the Persian Wars, dozens of Greek city states banded together with Athens in a defensive alliance against Persia. At its height, the Delian League (as it came to be called) consisted of more than one hundred and fifty Greek city states. After the successful conclusion of the Persian Wars, Pericles saw that this alliance held the key to Athenian greatness if it could be transformed into a collection of tributary states under the mastery of Athens and its mighty navy. Athens took steps to transform this

defensive alliance into a tribute-paying empire that was used as the financial underpinning of the hugely expensive Athenian navy.

No other Greek city-state had ever attempted a strategy similar to Athens and this innovation eventually proved fatally disruptive both to the Athenians and to the rest of the Greek world. It should come as no surprise that new and unprecedented waves of change will result in new and unprecedented strategies but one unforeseen consequence was that leaders all over Greece found themselves in unfamiliar strategic territory and were, in effect, flying blind. In the years after these Athenian decisions, the entire Greek world became embroiled in the decades-long Peloponnesian War, which destroyed the Golden Age of Greece. Because of the nature and consequences of the innovative Athenian strategy, Spartan leaders became more than ordinarily fearful of the rise of Athenian power. The great historian Thucydides identifies this Spartan reaction as one of the prime causes of the Peloponnesian War. In addition, the astonishing flood of riches generated by their empire was disruptive to Athens itself because it caused Athenians to behave in a more than ordinarily reckless manner. The sudden rise in their wealth and power resulted in strategic decisions that would have seemed imprudent if they had been made in the years before Athens had the resources of an empire at her disposal.

Why is it useful to consider the nature and consequences of Athenian strategy in today's world? In what way do strategic decisions made more than 2,500 years ago still resonate and provide valuable lessons to today's strategic decision-makers? The general answer to these questions can be found by considering that Athens built a "strategy from the outside in." In other words, Athenian leaders saw change occurring in their outside world and they recognized that some of these changes threatened Athenian interests and some of these changes provided strategic opportunity for Athens. They then built a strategy that was designed to minimize the upcoming threats and maximize the upcoming opportunities. This type of strategic perspective is so powerful that it is still common in today's world and, as we saw with the example of Athens, there are two consequences to this strategy that are apparent even today. Because it is designed to protect against a new type of threat or exploit a new type of opportunity, "strategy from the outside in" is frequently very innovative in nature. This strategic approach can transform organizations in new and unexpected ways. There is, however, a risk to this strategic approach. A high degree of innovation can be highly disruptive to organizations and individual people. Nations that successfully use this strategy can disrupt their world order and companies that use it can disrupt their entire industry.

The online retailer Amazon is a 21st century equivalent of Athens and its navy. When Athenians wanted to ensure their security, they came to realize that the traditional Greek method of relying on a citizen-army was not an effective strategy. Athens was never going

to have an army that was as effective as Sparta or one that was larger than the army of the Persians. Similarly, Jeff Bezos at Amazon realized that he was never going to succeed as a retailer by developing a brick and mortar retail chain that had to compete head-to-head with Walmart. In order to achieve their goals, both Athens and Amazon followed innovative paths based on external developments and both eventually disrupted significant aspects of their respective worlds. Athens used the Delian League as a shortcut to the creation of an empire. Amazon used the development of the internet and the spread of small computers to every American household as an alternative to building a national chain of retail stores. As we will see in this essay, "strategy from the outside in" is one of the most influential strategic perspectives and it has proved its worth across centuries of strategic decision-making. While recognizing the value of this strategic approach, it is important to remember that it comes at a price because the innovative and disruptive nature of "strategy from the outside in" presents enormous challenges to strategic leaders.

Strategies that are innovative (and consequently disruptive) have recently received a great deal of attention from corporate strategic thinkers such as Clayton Christensen. Many people have noted that the pace of change in our world is growing ever faster and one consequence of this trend is that the ability to develop revolutionary strategies that disrupt the marketplace becomes more and more common. When I taught strategy at West Point, I realized that it was easy for cadets to lose sight of the perishability of organizations because they belonged to an organization that had been in existence since the American Revolution. The degree of survivability demonstrated by the U.S. Army does not exist in the corporate world and even executives of the world's largest companies sometimes need to be reminded of this strategic reality. I was once talking about strategy to a roomful of Walmart executives and I gave them a pop quiz. The question on the slide read- *Guess the company*. The clues were a) the annual sales of this company were the equivalent of one percent of U.S. gross national product and b) two of every three Americans shopped there. Their answer was a nonchalant "*That's us*." The answer was actually Sears in the 1960s (which elicited a few surprised gasps). My point to this retail audience was a reminder that internal factors such as size will never guarantee organizational survival. Just ask Sears or Kodak or Tower Records or Borders book stores or...

This essay examines several aspects of "strategy from the outside in." First, a brief consideration of Sun Tzu reveals that this strategic perspective has existed for millennia. We then take a closer look at key aspects of this strategy. Because the external world is so vast and complex, leaders need a structured way of identifying strategic threats and opportunities and this chapter highlights one such structure. And finally, we examine two characteristics of strategy that is developed from the outside in. Because it is dealing with new and unanticipated threats and opportunities, the resulting strategy can be highly innovative in nature. This innovative strategy come at a cost because organizations and

people often struggle with operating in new and unexpected ways. All of these aspects of strategy from the outside in pose challenges to today's strategic leaders.

Sun Tzu and strategy from the outside in

This essay examines the relationship between environment and strategy. After all, a fish can't come up with a strategy without a consideration of the ocean in which it swims. Leaders throughout history have faced the challenge of understanding external strategic forces and their effect on strategy. One of the earliest discussions of this strategic perspective was provided by Sun Tzu in his book "*The Art of War.*"

Two and a half millennia ago, a variety of feudal states in China were engaged in a centuries-long struggle for power. This period has come to be known as the *Warring States* period in Chinese history and from it emerged a collection of writings that is attributed to a possibly apocryphal person named Sun Tzu. His writings are known today as *The Art of War*. This seminal work on strategy was written about the time classical Greece blossomed on the other side of the world and for more than two thousand years, Sun Tzu has served as an inspiration and guide to people interested in strategy. In one of his most powerful discussions, Sun Tzu pointed out that strategic leaders must be able to understand their external environment in order to develop realistic warplans. His conclusion is that leaders who fail to understand their world will greatly increase their chances of strategic failure and defeat.

Written millennia apart, it has been said that Clausewitz's *On War* and Sun Tzu's *The Art of War* are "*the greatest and most original studies ever written on strategy and war.*" Unlike the ponderous Clausewitz, Sun Tzu provides a surprisingly short book that is direct and pithy; it sparkles with unexpected jolts of humor. As a result of these qualities, Liddell Hart characterizes Sun Tzu as "*the concentrated essence of wisdom on the conduct of war.*"

On the first page of his book, Sun Tzu tells us that the decision to use violence to achieve one's goals can be supremely rewarding or supremely dangerous. Because of the enormity of the stakes, he concludes that all aspects of war should be closely studied by strategic leaders. To help leaders with this task, Sun Tzu identifies several key factors that decisively influence the nature of war. He asserts that generals who understand these factors will be victorious and "*those who do not are defeated.*" Some of these factors are internal to the organization, such as the quality of leadership and the effectiveness of an army's combat doctrine. But, as he does throughout *The Art of War*, Sun Tzu goes beyond an internal focus and provides several profound insights into the role of the external environment on the nature of war. His point is that success in war depends on leaders who are capable of maintaining *both* an internal and an external focus. Creating an effective and cohesive combat team out of a random collection of people can be an all-consuming task for some

but Sun Tzu reminds us that even the achievement of this herculean task will not guarantee success in war. Armies might be well-trained and well-equipped but they will only be effective if they are used in a way that takes external forces into account.

In *The Art of War,* Sun Tzu identifies weather and terrain as examples of external factors that can decisively influence the nature of warfare. No commander, regardless of military skill, can control the weather or the terrain; tactical excellence comes from taking advantage of the limitations or opportunities created by these external factors. These generic external factors can best be thought of as factors that either multiply or limit the effectiveness of a strategy. So, for example, the nature of terrain can sometimes create chokepoints that will allow a smaller force to dominate a larger force. Usually we assume that very large armies will always defeat very small armies but, as Sun Tzu picturesquely noted, "*when a tiger guards the river ford, ten thousand deer cannot cross.*"

Throughout military history, considerations of terrain have figured prominently. When we think of the American Civil War, we think of the Mississippi River bisecting the Confederacy and we think of Grant and his campaign to control this waterway by capturing Vicksburg. When we think of World War II, we think of the Ardennes Forest and the dominant role that it played in the blitzkrieg invasion of France and in the Battle of the Bulge. In corporate strategy, the modern day equivalents of terrain and weather are generic external factors such as demographics, politics, the nature of the economy or the state of technology. All of these general factors can create opportunities or threats that strategic leaders must take into account as they develop and refine strategy.

Sun Tzu *explicitly* identifies the two external factors of terrain and weather as vital to the conduct of war but he *implicitly* identifies a third, far more important factor when he discusses the impact of the enemy on strategy and tactics. Sun Tzu repeatedly focuses on the nature of the enemy because, unlike the terrain and weather, your enemy is an external factor that can think back at you. His chapter on offensive strategy is a classic example of "strategy from the outside in" because, for Sun Tzu, the most appropriate offensive strategy depends on the nature of the enemy. Flexibility in warfighting is everything. He begins the chapter with the famous maxim, "*What is of supreme importance in war is to attack the enemy's strategy*" and he concludes the chapter with the equally famous observation, "*know the enemy and know yourself, in a hundred battles you will never be in peril.*"

Sun Tzu hammers away at the importance of flexible strategy but he is well aware of the difficulties posed by this approach. Many leaders are uncomfortable with or ill-suited for making decisions in an environment of uncertainty and complexity. In his chapter on offensive strategy, Sun Tzu offers us one of the most insightful (and amusing) anecdotes of his entire book. Throughout *The Art of War*, he provides specific historical examples to

demonstrate how his concepts guided the thinking of leaders who were facing real-world problems. In one historical example, the commander K'ou Hsun decided to destroy his enemy's future capabilities instead of simply attacking the enemy's walled city. He thought that it was important to explain his actions to his generals and his explanation concluded with him saying: '*The supreme excellence in war is to attack the enemy's plans.*" According to Sun Tzu, his generals responded by saying: "*This is beyond our comprehension.*"

Thus, Sun Tzu provides some of foundations of "strategy from the outside in." It is not enough for leaders to develop a strategy that is based on a simple consideration of their own organization's strengths and weaknesses. Strategy must take relevant external factors into account in order to be effective. This approach to strategy can often prove to be devastatingly innovative because, by its very nature, this type of strategy is flexible and based on ever-changing circumstances. As a final note, Sun Tzu provides caution as well as opportunity. He reminds us that this strategic perspective poses leaders with mental and organizational challenges of a punishing magnitude. Leaders will not be successful if they develop a strategy that is simply based on what they do best. Strategy must be flexible and based on an accurate assessment of one's competition. A poor or inaccurate assessment of the competition will result in a strategy that is unlikely to be successful.

The leadership challenges of "strategy from the outside in"
Massive change occurs on a regular basis in today's corporate world and much of this change is profoundly disruptive to existing business models. One factor that contributes to the dynamism of the external environment is that consumers adapt to changing circumstances at an ever-faster pace. Consider the dizzying pace of change in the music industry. In my lifetime, I have listened to everything from *All Along the Watchtower* to *Beethoven's Fourth Piano Concerto* in five different formats (from record albums to cassettes to CDs to iPods and now to streaming music). When we would talk about this aspect of the environment, I would always bring a record album to my strategy class. It was a Philips recording of a live performance of Alfred Brendel playing Beethoven's piano concertos with James Levine and the Chicago Symphony Orchestra in Symphony Hall in 1983. It never failed to grab the attention of cadets because a) many of them had never seen an actual record album and b) I would tell them that I participated in the recording of two of the piano concertos. Under intense questioning, I would eventually be forced to admit that my participation consisted of sitting very quietly during the fourth and fifth piano concertos and applauding vigorously at the end of each performance. A record album illustrates how quickly technology can change an industry and the profound implications of that change. The transition of the music industry from analog to digital to streaming has implications and switching costs that still resonate today. I am always reminded of the comment made by Tommy Lee Jones when he encountered a new piece of alien audio technology in the movie "Men in Black"- *I guess I'll have to buy the White Album again.*

One reason why the task of developing "strategy from the outside in" is harder than it sounds is that the external environment is so vast. Relevant factors from the external environment that might present a threat or an opportunity can range from something as generic as demographic change within a society to something as specific as the actions of a competitor seeking to steal a firm's market share. Having an informed idea about one's competitive environment is one of the most daunting tasks faced by strategic leaders. In 2019, the U.S. Army War College published a two-volume history entitled "*The U.S. Army in the Iraq War.*" The narrative unfolds with heartbreaking detail and makes readers feel as if they are watching a strategic train wreck occur in slow motion. It becomes painfully clear that American leaders (both civilian and military) had absolutely no idea of the circumstances the United States would face in Iraq. The pages of this historical account are littered with the phrases "*surprised by*," "*did not anticipate*," and "*failed to realize.*" In other words, American strategists lacked an accurate understanding of the threats and opportunities that existed in Iraq. As a result, the U.S. Army went into Iraq with the wrong doctrine, the wrong assumptions, the wrong tactics and the wrong equipment in pursuit of the wrong strategy. The daunting complexity of the external environment requires strategic leaders to have an effective mental map that will help them identify relevant external change and understand its implications.

Michael Porter once famously observed that improving operational effectiveness is not strategy and nowhere is this observation more relevant than when we consider the dynamic nature of strategy imposed by an ever-changing external environment. Organizational survival requires that external strategic change must be met with a commensurate level of internal strategic change. So, for example, it is not appropriate to respond to new strategic circumstances with tactical-level improvements. Consider a company that was the market leader in the manufacture of horse-drawn carriages. As the age of the automobile dawned, it was not useful to respond to the threat of automobiles by deciding to build horse-drawn carriages more efficiently. It was necessary to adopt to strategic change and learn how to manufacture automobiles or their components. Strategic change of this magnitude is never easy for organizations.

Two pictures of a bridge and a river exemplify the difficulties faced by strategic leaders in a dynamic environment. Think of the bridge as a metaphor for an organization. In our first mental image, we see a well-built bridge that spans the river in just the right location. This represents an effective company that is in the right location to dominate its industry. The follow-up mental picture of a bridge is slightly (but significantly) different. It shows a well-built, beautiful bridge but, instead of flowing under the bridge, we see the river running next to the bridge. How is this possible? Well, after the bridge was built, a hurricane came and, as a result*, the river shifted its course.* Now the bridge is in the wrong place. At this

point, it doesn't matter if the bridge is the best-built bridge in the world. What matters is that it is in the wrong place. This is a powerful visual for the inevitable strategic predicament faced by every successful organization. No matter their degree of success, no matter their size, at some point, strategic circumstances will change and continued success requires the willingness and ability to embrace organizational change.

The image of the bridge and the river leads us to the realization that this major strategic challenge consists of two very different sub-tasks for organizations and their leaders. The first sub-task is external in nature. As was pointed out in the essay on strategic leadership, leaders, like riverboat pilots, should have some idea *ahead of time* that the river is likely to shift. As Sun Tzu put it, the ability to hear thunder is not an indication of exceptional hearing. In other words, leaders of organizations should possess the strategic awareness to recognize when their competitive circumstances are about to be utterly transformed and this recognition should happen before it becomes commonly known. This competency requires the ability to analyze the external environment in a systematic way and think through the implications of a changing environment.

The second sub-task implied by the picture of the river and the bridge is internal in nature and relates back to the duties of a riverboat captain. Once the river has shifted, leaders have to do something about the bridge (their organization). Strategic leaders can painstakingly build world-class organizations but once the river shifts, these leaders must help their organizations to undergo fundamental change. Easy to say, hard to do. Individual people can demonstrate flexibility but organizations are amazingly resistant to change. Look at the behavior at Ford and GM as Japanese cars began eating away at their market share. Look at the United States Army after the end of the Cold War.

What is even more interesting is a final, deeper perspective of this leadership challenge. The strategic tasks described above are essentially reactive in nature- be able to foresee the river shifting and then respond in an appropriate manner. A final way of looking at this task is to ask the proactive question: what can organizational leaders do to make the river unexpectedly change course for their competitors? As Clayton Christensen points out in his book on disruptive technologies- leaders, by their actions, can actively transform their competitive world. They can change the competitive circumstances of their industry as Steve Jobs did to the music industry when he created the iPod and iTunes.

The Army, just like any large organization, has constantly faced the need to re-invent itself. General Martin Dempsey (who retired as Chairman of the Joint Chiefs of Staff) once told a small audience at West Point that cadets who serve in the Army for twenty years will, without any doubt, serve in two and maybe three completely different versions of the U.S. Army. He used a picture of the bridge and the river to make his point and the recent past

demonstrates the truth of his observation. The Vietnam Army of the 1960s differed significantly from the Reagan-era Cold War Army, which, in turn, differed significantly from the Army that fought in Iraq and Afghanistan.

When discussing the subject of external threats and opportunities in my strategy class, I would pair up cadets and ask them to consider the following question: *What type of change is occurring in the external environment right now that will provide strategic opportunities or threats to the U.S. Army in the next five to ten years?* Typically, one pair of cadets might focus on aspects of technological change (such as robotics, genetic engineering or nanotechnology) and identify the implications of these developments for Army strategy. Another pair might focus on aspects of demographic change (such as a population that is simultaneously aging and becoming more sedentary) and think through the implications of these developments for the Army.

One year, I ended this discussion in what I hoped was a thought-provoking manner by showing a YouTube clip from a strategy conference at the U.S. Army War College. The topic for that conference was "The Future of American Landpower" which translated to- the future of the Army. I showed the cadets a five-minute clip from the address given by the keynote speaker. The goal of the keynote speaker was to identify external changes that would have strategic effect on the United States Army. In other words, the speaker was doing the same thing that I just asked my cadets to do in class- identify upcoming opportunities and threats that could affect the strategy of the U.S. Army. The point of this exercise became apparent when the cadets realized that the threats and opportunities identified by the speaker were completely different than those identified by any of the cadet teams during our classroom exercise. I was not trying to make the point that the keynote speaker was right and the cadets were wrong- my point was that predicting the future impact of current trends is a difficult, complex and sometimes mysterious process and it is always hard to develop a consensus about the implications of what we are seeing.

One of the most prominent soldier-scholars in the U.S. Army is a general by the name of H.R. McMaster. He once said that the U.S. Army has a perfect record of predicting the nature of the next war - and that record is zero percent. Organizations in the corporate world have achieved the same unenviable level of predictive success. In the 1980s and 1990s, did Kmart foresee and react appropriately to the rise of Walmart? Did Tower Records understand the implications of iTunes? Did Blockbuster understand that technology and consumer behavior were changing in ways that provided Netflix with a strategic opportunity? Did Kodak understand that smartphone cameras do not require film? If you are in the retail business, how long will it take you to understand the implications of Amazon delivering products by drone? Some CEOs call this task- *seeing around strategic corners* and they emphasize that it is a never-ending task. One well-known CEO told the

cadets in my strategy class that he has been working in his industry for decades "and I still feel like an idiot." He said he had a rule of thumb- when a piece of information about his industry became more than two years old, it is obsolete.

Having spent years discussing the question with MBA students and business audiences, I have come to the conclusion that it is absolutely essential to use some type of structure to identify new strategic threats and opportunities. It is impossible for leaders to make sense of the external environment unless they employ a cognitive framework that helps them understand and prioritize all of the different dimensions of external change. Identifying strategic threats and opportunities is not simply a matter of focusing on the competition. A perfectly good strategy might be ruined by upcoming social or demographic change. A perfectly good strategy might be ruined by change within one's industry that has nothing to do with competitors.

McDonald's is a prime example of the challenging nature of identifying upcoming strategic threats and opportunities. McDonald's achieved decades of sustained growth and was rewarded by Wall Street because it was able to efficiently provide convenient, standardized food on a national scale at a low price. You could buy an Egg McMuffin from the drive-through of any McDonald's in America that easily met these expectations. First, you would have your breakfast in hand within about 160 seconds. Second, you would never be surprised because Egg McMuffins taste the same everywhere.

A strategic problem for McDonald's arose because its original set of customers valued the *fast* in fast food, but, over time, the expectations of a new generation of customers changed to value the *food* aspect of fast food. A babyboomer's expectation of an Egg McMuffin is that it is delivered quickly, priced reasonably and standardized in taste. A millennial's expectation of an Egg McMuffin is that the egg come from a happy chicken. Over time, in a process as inexorable as the rising tide, customers who valued convenience (i.e. babyboomers) were replaced by customers who valued healthy, socially conscious food (i.e. millennials). The CEO of McDonalds was quoted in a Fortune article as saying, "...*the reality is that we haven't been changing at the same rate as customers' eating-out expectations*..." The strategic leaders of McDonald's should have been looking at changing customer tastes in the same way that Sun Tzu looked at the landscape of a battlefield. Strategic leaders cannot control external factors such as terrain; strategic excellence lies in making sure that one's battleplan changes as the terrain changes. Similarly, it is not enough for McDonald's to focus on decisions being made by Burger King or Subway or Wendy's; it needed to focus on how societal expectations about food are changing.

One of the most difficult challenges of spotting opportunities and threats is that looking at one's general environment or one's competition is not enough. Existing in a competitive

world means, by definition, that a wide variety of other actors have the capability to affect the viability of a strategy . Michael Porter's highly influential "five forces" model is a concept that illustrates the internal dynamics of entire industries. Why focus on Michael Porter? Well, if I google the phrase "most popular Harvard Business Review article of all time" one of the answers that I get is Michael Porter's well-known article "*What is Strategy*?" Porter has been enormously influential in the nascent field of strategic management and one of the sources of his influence is his book "*Competitive Strategy*." Porter presents students of strategy with the idea that organizations exist in an inter-connected ecosystem. Decisions made by one actor in this ecosystem have the possibility of affecting the strategic health of other actors- for a whole variety of reasons.

One of Porter's points links the ease of entering a particular industry with the possibility of achieving strategic success within that industry. He makes a direct and negative correlation between the ease of entering an industry and the amount of profit available to firms within that industry. The average pharmaceutical company is more profitable than the average discount retailer because (in part) it is easier for anyone to enter the field of discount retailing so competitors abound. What is interesting about teaching this idea at a military academy is that the concept of the threat of new entrants into an industry is another way of describing asymmetric warfare. The primary military events of the 20th century (World War I, World War II and the Cold War) led strategic thinkers to assume that military power was a resource that belonged exclusively to nation-states and that warfare occurred primarily between nation-states. It was assumed that nations were the only entities with enough resources to develop and maintain conventional military forces.

Since the end of the Cold War, a variety of non-state actors have convincingly demonstrated the ability to wield a great deal of military power. Think of the prominence achieved by Hamas, Sendero Luminoso, the Taliban, Hezbollah, the Islamic State or Boko Haram in Nigeria. The strategic and tactical implications of dealing with non-traditional competitors are considerable. One way of understanding this issue is to compare U.S. Army combat operations over time. The Combat Studies Institute of the U.S. Army has, over the years, published dozens of studies that examine U.S. Army operations in conflicts ranging from the American Revolution to Afghanistan. Combat studies of battles waged in World War II and even Vietnam show similarities in their analysis of enemy forces. One case study on combat operations in World War II ("*The 101st Airborne Division Defense of Bastogne*") contains an in-depth discussion of the strategy, doctrine and tactics of the German Army. It even contains an assessment of the combat readiness of German units all the way down to battalion level. It is clear that the goals, actions and attitudes of German commanders were completely understandable to American military analysts. Case studies written about Vietnam are similar in nature. One case study on the Battle of An Loc ("*Thiet Giap! The Battle of An Loc"*) contains an analysis that includes a discussion of the strategy, doctrine

and order of battle of the North Vietnamese Army. Once again, the American military analysts display familiarity with the operational thinking of their opponents. These, of course, were case studies written about established competitors.

American soldiers in Afghanistan have had to deal with a non-traditional military force that bears little resemblance to the well-organized armed forces of other countries. The Taliban is a "new entrant" in the business of warfare and the implications of having to deal with someone new is strikingly evident when we examine case studies written by the Combat Studies Institute about battles in Afghanistan. One of the best known of these cases is the case study on the Battle of Wanat ("*Wanat: Combat Action in Afghanistan, 2008*"). The authors of this study display much less understanding of enemy forces than we saw in case studies from earlier wars. The Wanat case study is filled with statements such as "*There is no precise indication of the size of the force that attacked on 13 July… Nor is there precise understanding of who planned and led the attack*." In their conclusion, the authors state that "*In place of precise information about the enemy, the Coalition chain of command from the platoon level to senior officers in the CJTF, <u>made assumptions</u> about insurgent dispositions and intent (emphasis added)*." We see from this comparison of different wars that facing a new entrant can present all sorts of new challenges up and down the spectrum of strategy and tactics. This phenomenon is not exclusive to the military world. Walmart's understanding of the strategy and capabilities of an established competitor such as Kmart were much greater than its understanding of the strategy and capabilities of a non-traditional competitor such as Amazon.

Another interesting aspect of Porter's approach to strategy is that he looks beyond competitors when evaluating the ability of organizations to achieve strategic success. In addition to considering the impact of actual and potential rivals, Porter also considers how the strategic decisions of other actors such as suppliers or customers might influence the dynamics of an industry. This leads us to look at the question of leverage- do your suppliers or customers have more leverage than you? A company that is losing strategic leverage over time within its industry is a company that will find it harder and harder to achieve strategic success.

If we want to know what the process of losing leverage within one's industry looks like, then the Walmart/Rubbermaid story is relevant. One day, I was in the Walmart home office and I was walking with a Walmart buyer to have lunch in the home office cafeteria. As we walked past the nondescript vendor rooms in the front corridor of the home office, he told me a Walmart version of this story. First, some background. In the early 1990s, Rubbermaid was a company that had been repeatedly identified by *Fortune* Magazine as one of the most admired companies in America. At that time, Rubbermaid consistently achieved great financial results based on their strategic goal of doubling in size every five or

six years. In addition to sales growth, the company paid close attention to profitability and its CEO always tried to ensure that Rubbermaid's growth in profitability matched or exceeded its growth in revenue.

This task became more difficult for Rubbermaid around 1994 when the price of its primary raw material (petroleum-based polymers) began to increase sharply. In order to maintain its expected rate of profitability, the company tried to pass along a substantial price increase to its customers, including Walmart (who by that time had become Rubbermaid's largest customer). In the wake of this demand, the Walmart buyers who dealt with Rubbermaid found themselves face to face with one of Porter's five forces. In this particular case, the relevant question was- who has more power, the supplier or the customer? The answer to that question depends on several factors, according to Porter. It was not simply a question of an $80 billion company (Walmart) against a $2 billion company (Rubbermaid). As it turned out, a key aspect was- could Walmart turn to another manufacturer of plastic containers who was acceptable to Walmart customers or would Walmart customers insist on Rubbermaid-branded products? In this case, Rubbermaid fundamentally miscalculated the amount of brand loyalty that it had with Walmart customers, which meant that it fundamentally miscalculated the amount of leverage that it had with Walmart. The result? Within a year, profits at Rubbermaid were "much weaker than expected" and within four years, this 80-year old company lost its independence and was acquired by the Newell Corporation.

This anecdote is a powerful teaching point about strategy. Even great organizations can have difficulty understanding and calculating the industry forces that pose a threat to their strategy and this lack of understanding can directly lead to corporate failure. There are dozens of more modern examples and the recent fight between Amazon and publishing houses is a good one.

"Strategy from the outside in" - innovation at the cost of disruption
Two thousand years after Sun Tzu, a pair of bicycle mechanics named Wilbur and Orville Wright changed military history forever with a flimsy airplane on a wind-swept sand dune in the Outer Banks of North Carolina. The first flight of a powered airplane in 1903 only covered a distance of 120 feet but that was enough to unleash the imagination of people everywhere. In the century after the Wright brothers' achievement, the nature of warfare experienced more revolutionary change than during any comparable period in human history. This revolution in military affairs also caused armed forces to transform their structures and cultures into new and unforeseen configurations that tested the organizational abilities of military and political leaders to the limit.

The military significance of the activities of the Wright brothers quickly became apparent. Within four years of the Kitty Hawk flight, the U.S. Army established an aeronautical division. At the same time, H.G. Wells wrote a novel about global air warfare (*The War in the Air*) in which he envisioned massive aerial bombardments of New York, London and Berlin. It took ten years for his prescience to become reality when German Zeppelins and Gotha bombers attacked London during World War I. Thoughtful observers immediately saw that the airplane added a new dimension to warfare but opinion was fiercely divided on the most appropriate role for the airplane in war. Throughout history, warfare had only been possible in the two dimensions of land and sea, yet it had taken centuries for strategists to understand the implications of the art of warfare in these two dimensions. Adding a third dimension to warfare eventually proved highly disruptive to the traditional model of combat operations.

Adding a new dimension to warfare was a portent of things to come because, by the twenty-first century, warfare had expanded to five dimensions (land, sea, air, outer space and cyberspace). In addition to these fundamental changes in warfare, the last hundred years has witnessed the development of nuclear weapons, which exponentially increased the level of violence in war. We have also seen the introduction of a combat role for robotics and nanotechnology, which will fundamentally reshape the role of humans in war. All of these developments pose enormous organizational difficulties for military leaders because they undermine traditional military understanding of structure, culture, values and doctrine.

One of the interesting aspects of the introduction of aviation is the mismatch between the rapid pace of technological growth and the glacial pace of organizational response to this new technology. In the case of aviation, technological change occurred within a very short period of time. The Wright brothers began work on their first airplane in the summer of 1899 and successfully flew an airplane less than five years later. In stark contrast, the organizational changes that were required in order to exploit this new technology took much longer. It is surprising to realize that the U.S. military at the beginning of the 21st century is still seeking to fully tame the inter-service organizational tensions that were generated by aviation technology that was introduced more than one hundred years ago. One of the most vivid aviation-caused disruptions to the American military establishment occurred in the immediate aftermath of World War II. This episode has been dubbed by historians as "The Revolt of the Admirals."

The Revolt of the Admirals
The introduction of an aerial dimension to warfare caused an organizational upheaval that took the U.S. military almost fifty years to figure out. The British, for example, quickly determined that their air force needed to be independent of both the army and the navy

and, as a result, the Royal Air Force became an independent branch of the armed forces during World War I. The infighting in the American military establishment caused by the rise of airpower erupted after World War I and was hugely controversial. The American public became fascinated by the spectacle of military and political leaders squabbling over the most effective role of airpower. In 1925, an Army Air Corps general named Billy Mitchell was court-martialed for insubordination as he agitated for an independent, strategic role for the air force. It eventually took decades of bureaucratic fighting and a second World War before the U.S. Air Force became independent of the U. S. Army.

Even the creation of an independent U.S. Air Force in the aftermath of World War II did not eliminate the disruption caused by air warfare. In the summer and fall of 1949, hearings of the House Armed Services Committee crackled with tension as U.S. Navy admirals went before Congress to defy their civilian leadership. America and its allies stood transfixed as a parade of famous admirals demonstrated fierce opposition to service unification, displayed hostility and contempt for the civilian leaders of the Defense Department, and condemned cuts made to the Navy budget. Unsettling headlines such as "*The Navy Boils Over*" and "*Bradley Accuses Admirals of Open Rebellion*" drifted through the nation's newspapers for weeks. The Navy saw the other armed services as significant threats to its strategy, its budget, and its strategic mission. As a result, the Navy employed a strategy to exert control over its strategic environment. Known as "The Revolt of the Admirals," this episode has been described as "*the most flagrant challenge ever hurled by top-ranking American military men at the civilian leadership of the United States.*"[1]

The U.S. Navy began World War II in a state of profound cognitive dissonance. Naval warfare during World War I (a mere twenty-five years earlier) had reinforced the centuries-old idea that naval warfare was battleship warfare. During the Battle of Jutland in 1916, German and British battleships were so close that they could clearly see each other's ships explode and sink from naval gunfire. The idea that naval warfare was dominated by naval gunfire was reinforced at the beginning of World War II as the world watched British battleships trade punches with the German battleship Bismarck in mid-1941. The attack on Pearl Harbor, however, proved that naval warfare had evolved beyond battleship duels. In a very short period of time, the U. S. Navy came to realize that air warfare had become one of the governing naval paradigms of the upcoming Pacific war (along with amphibious operations and submarine warfare).

The triumphant end of the Pacific War provided Navy leaders with a great deal of pride during the postwar years but this pride was mixed with a nervous sense of being

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[1] McFarland, Keith D. and Roll, David L., 2005. *Louis Johnson and the Arming of America: The Roosevelt and Truman Years*. Bloomington: Indiana University Press. P. 168.

overshadowed by the other services. Despite the achievements of the U.S. Navy in the Pacific War, it was the atomic bombs delivered by Army Air Forces bombers that grabbed headlines when the Japanese surrendered. In fact, on the very day that it announced victory in the Pacific, the New York Times carried an article saying that American airpower, not seapower, provided the United States with a capability "*unprecedented in the history of warfare.*" In another blow to Navy pride (and to the obvious annoyance of Admiral Chester Nimitz, the commander of the Pacific Fleet), President Truman selected Army General Douglas MacArthur to receive the formal Japanese surrender.[2]

In addition to these specific events, Navy leaders began to worry as the United States drastically restructured its military establishment immediately after World War II. The War Department and the Department of the Navy were abolished as independent departments and the Army and the Navy (along with a newly-created U.S. Air Force) were combined into a new organization that eventually became known as the Department of Defense. Instead of having its own budget, the Navy now had to compete for a share of a combined defense budget, which often put it at odds with the Army and the Air Force.

In its original incarnation, the U. S. Air Force had been the Army Air Corps. Many of the new Air Force generals had gone to West Point. The Army and the Air Force might not have agreed on everything but their leaders shared similar experiences and values. Navy admirals began to worry that they would always be outvoted in strategy and budget debates. In addition, as the Cold War developed, the reputation of the Air Force grew at the expense of the Navy because it was the only service versatile enough to deliver atomic bombs or conduct missions like the Berlin Airlift. In the eyes of the Truman Administration and to many members of Congress, reliance on atomic airpower was a cheaper and more effective alternative to maintaining a massive fleet.

In the post-war years, Navy leaders decided to stake a claim to a sizeable portion of air warfare by building a fleet dominated by supercarriers. These were the centerpieces of the Navy budget; a new class of gigantic aircraft carriers more than twice as large as their World War II predecessors, capable of launching strategic bombers armed with atomic weapons. Air Force generals adamantly opposed the supercarrier project because the Air Force considered strategic bombing to be a primary mission that belonged to them.

Army and Air Force leaders also worried that supercarriers would absorb a disproportionate amount of an ever-shrinking defense budget. By 1949, the U.S defense budget had been drastically reduced and was only one-tenth the size of the 1945 defense budget. Despite this, President Truman was dissatisfied because even a defense budget of

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[2] Potter, E.B., 1976. *Nimitz*. Annapolis: Naval Institute Press, p. 473.

$11 billion in 1949 represented almost thirty percent of the federal budget and left little room for domestic programs.[3] As a result, Defense Secretary Louis Johnson cancelled the supercarrier program in April 1949. In taking this action, he was solidly supported by President Truman, General Omar Bradley (the Chairman of the Joint Chiefs of Staff) and the leadership of the Army and the Air Force. With the leadership of the U.S. Navy now feeling outnumbered and threatened, Johnson's action was the precipitating event for the Revolt of the Admirals.

In the wake of Secretary Johnson's decision to cancel the supercarrier program, Navy admirals literally veered out of civilian control. In documents surreptitiously given to the press by Navy personnel, Secretary Johnson and Air Force leaders were accused of engaging in corrupt practices in collusion with the company that was building the Air Force strategic bomber. Furthermore, Johnson was accused of making decisions that would destroy the U.S. Navy. Navy leaders assumed that the calculated leak of these documents would force congressional hearings that would ultimately restore Navy control over budget matters. They were half-right in their assumptions. Congressional hearings were called and a parade of famous admirals of World War II appeared before Congress. They fiercely opposed service unification, displaying hostility and contempt for the civilian leaders of the Defense Department and strongly opposed the cuts made to the Navy budget by Secretary Johnson. In a crowning touch, Admiral Louis Denfeld, the Chief of Naval Operations, defiantly supported the other Navy witnesses and repeatedly accused the other Joint Chiefs of making uninformed decisions on national security and being "*ignorant of the true nature of seapower.*"[4]

In a case of "be careful what you wish for," the Navy was able to force Congress to hold hearings in which they aired their complaints but the Navy came out of these hearings with its image badly damaged. In a statement before Congress that was widely reported, the Chairman of the Joint Chiefs (and World War II hero) General Omar Bradley called the Navy performance "*utterly disgraceful*" and flatly asserted that "*on numerous occasions naval leaders had deliberately made false accusations against Louis Johnson and the Joint Chiefs simply because they did not get their way.*"[5] In the end, the House Armed Services Committee concluded that the Navy accusations had no merit. Admiral Denfeld was quickly

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[3] See "U.S. Military Spending, 1945-1996" compiled by *Center for Defense Information*, July 1996 and President Truman's "Annual Budget Message to Congress, fiscal year 1949" located on presidency.ucsb.edu.

[4] See "Strategic Bombing is Ruthless, Futile, Admiral Declares," *New York Times*, 12 October 1949, p.35 and "Denfeld Sees Navy Gravely Imperiled by Chiefs" *New York Times*, 14 October 1949, p.1

[5] McFarland and Roll, p. 184.

fired and several other admirals were forced into retirement. The Revolt of the Admirals was over.

There are lessons to be learned from the Revolt of the Admirals. After World War II, the U.S. Navy, like Alice in Wonderland, found itself in an unfamiliar and disorienting set of circumstances. The national security environment in which it operated was undergoing massive, continuous and disorienting amounts of change. The American military establishment was being completely restructured and the Navy was faced with the prospect of competing for a share of a military budget that was being dramatically slashed to subsistence levels.

The Revolt of the Admirals teaches that organizational change is hard and it is especially hard when it threatens one's professional identity. We learn that organizations that are set adrift in a sea of uncertainty and complexity will go to great lengths to assert a degree of control in order to protect their interests. In this case, the Navy concluded that the creation of the Air Force and the establishment of the Department of Defense had the potential to threaten Navy interests. We also learn that organizational culture matters. One of the remarkable aspects of the Revolt of the Admirals was the surprising degree of unanimity among Navy leaders as they all responded to an institutional threat like a school of fish automatically turning in the same direction.

Finally, we learn that organizations can deploy a variety of strategies as they attempt to minimize disruption and maintain control in rapidly changing circumstances. Navy admirals attempted to create a buffer between themselves and the effects of strategic change caused by the introduction of airpower into the military world. They worked very hard to create the idea that naval warfare was so complex that strategic and operational decisions concerning the Navy should only be made by admirals. There are numerous examples in the corporate world of organizations attempting to buffer themselves from the disruptive effects of a changing world. One of the most notorious recent examples is that of Enron. Leaders of Enron, such as Ken Lay and Jeff Skilling worked ceaselessly to promote the mystique of Enron leaders as "the smartest guys in the room." They promoted the idea that disagreement with Enron leaders was prima facie evidence of incompetence and stupidity. Amazingly, this buffering strategy worked well for years as board members, bankers, auditors, Wall Street analysts and the business press bought into Enron's self-image, allowing Enron leaders to get away with (what turned out to be) self-destructive behavior.

John Donne is famous for saying "*no man is an island entire of itself; every man is a piece of the continent, a part of the main...*" and this thought is reinforced by a consideration of "strategy from the outside in." Every organization exists within a much larger external

environment and this truism presents enormous challenges for strategic leaders. It is difficult to be self-disciplined and perceptive enough to be constantly on the alert for the creation of new threats and opportunities. It is difficult to be comfortable with the never-ending prospects of strategic change and it is perhaps even more difficult to help make others comfortable with strategic fact of life. Above all, organizational leaders must realize that when the bells of strategic change begin to toll, they toll for everyone.