

# How to protect your brain from creating narratives from random data

When I was responsible for competitive intelligence in a dairy firm, I tended to take news about animals pretty seriously. Thus, I came across a study on the personality of sheep based on a scientific article that featured in the Jan. 2016 edition of the scientific journal called Applied Animal Behavior Science.

The authors of this study described their extensive research trying to identify personality traits within a small herd of sheep. They varied a number of external factors that faced the sheep - like the perceived attractiveness of their shed, shed temperature and group composition. They subsequently monitored the sheep's individual responses to these changes. Think of head movements, blood levels and movement patterns.

Guess what. There was virtually no single cause and effect relationship to be determined. Sheep behavior was best described as random and opportunistic. If relationships between external changes and behavior were identifiable in the first place, they were counter-intuitive – and completely at odds with the antecedent hypotheses. It almost seemed the researchers blamed the sheep for, well, being sheepish.

By now you may wonder about the link of all this to competitive intelligence. My association was simply one of recognition. How many times had I not been trying to discover a pattern between changes in the marketplace and changes in an individual competitor's behavior? You see the industry's raw material prices drop. By implication, you expect the competitor to drop its products' prices. In doing so, they pass on part of the decline in costs to their customers. This makes sense, as you expect them to protect their market share in a changing market. Instead, however, they actually relaunch their product by raising prices or lowering trade margins. What happens here?

Possibly the sheep scientists and I have been hit by what psychologists call the ethnocentric bias. In the previous section you can read that **“you see”** raw material prices drop” which **“you expect”** to cause the competitor to lower its prices because **“you expect”** the competitor to aim for market share. Similarly, our sheep researchers **expected** to change external factors that mattered to the sheep's personal behavior.

The commonality between the sheep researchers and us in market intelligence is that we both have a lot of data but we also apparently have a limited understanding of our research subject's intent. We neither know the emotions of sheep nor the thinking of our competitors. In the absence of that, it is too easy to think that they think like us. The less data we have, the more we think for them and the harder the ethnocentric bias hits. Believe me: whether we talk sheep or competitors, they don't usually think like us.

In the case of the competitor pricing example, two reasons may explain my poor prediction of the competitor's next move. Either my understanding of the competitor was plain wrong. The competitor may for example not focus on market share but on short-term profit maximization. This explanation, however, is less likely: normally these things are clear. The more likely explanation probably comes closer to the story of our sheep: we overestimate the competitor. It simply acted sheepishly.

The grass on the other side of the fence always looks greener. I often have to remind myself that the competitors' glowing strategy communication is only a ruse. They want the world (and themselves!) to believe their plans. In reality, however, they know that their shining strategy is nowhere close to being

decently executed. The sheep in the competitor's ranks still do what they always did: act opportunistically if not randomly – and counter-intuitive.

The other day I came across examples from military history that illustrated exactly this point<sup>1</sup>. In World War II in the Pacific theatre, the United Kingdom military has never been able to understand the Japanese army...

*“long-term plans and the [strength of the military] opposition to be encountered [in Burma] owing to the Japanese high command's failure to devise a coherent strategy”*

Exactly the same reason underpinned the US attack of Iraq in 2003. Saddam's strategy in Iraq in the early 2000s may be summarized by saying that he pretended to have weapons of mass destruction to scare off Iran from attacking. Inadvertently he in doing so, triggered the US to attack. This strategy was similarly incoherent and thus virtually impossible to discern by US analysts.

The lesson from these examples and from our friends the sheep may thus be never to ethnocentrically overestimate the competitor's consistent execution of its strategy. And never to expect sheep to have an articulated strategy in the first place!

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#### Notes

- .1. Robert Jervis, *Why intelligence fails*, Cornell University Press, Ithaca and London, 2010, p. 146.