Joe CEO, Meet Joe Montana: Expert Reveals What Companies Can Learn from the NFL Lockout—and Why Capitalism May Be Headed for Another Crash

POSTED ON JUL 20, 2011 IN CORPORATE COMMUNICATIONS, LEADERSHIP & CAREERS | 0 COMMENTS

Spotlight: Roger Martin, Author, "Fixing the Game"

Roger Martin

"Our single-minded focus on the expectations market will continue driving us from crisis to crisis to ruin—unless we act now," warns Roger Martin, dean of the Rotman School of Management, strategic advisor to CEOs of several major corporations and author of "The Design of Business: Why Design Thinking is the Next Competitive Advantage," "The Opposable Mind: How Successful Leaders Win Through Integrative Thinking," as well as several other books.

Drawing on the analogy of the NFL's strict separation of actual games from betting, Martin's unique "game plan" for American capitalism to successfully regain lost yardage is outlined in his latest book, "Fixing the Game: Bubbles, Crashes and What Capitalism Can Learn from the NFL."

Here, Martin—who The Times of London named one of the top 50 management thinkers in the world—discusses the book with CommPRO.biz, shares what it means to CEOs (your clients) and reveals why this week's pending NFL lockout resolution matters to entrepreneurs and business moguls alike:

What can corporations—especially public ones—really learn from the NFL?

There are two things capitalism—and companies—can learn from the NFL: One is strict separation of the "real game" from the "expectations game" in order to protect the "real game." Let me explain: The NFL understands that if you let players play in the expectations game (in this case, betting), they will do things to the real game (the sport of football under the auspices of the NFL) to benefit themselves in the expectations game that could destroy the real game. Because of this, the NFL acts to protect the real game.

In capitalism, we have allowed the expectations game (in this case, the stock market) to become the tail that wags the entire dog—which is the real game of corporations making products and services and selling them to consumers for real money and real profit. The expectations game is basically imagining what will happen and then placing a bet—and in this case, the "collective betting" establishes a stock price. Just as in football betting, this establishes a point spread. What suffers are employees, shareholders and the American economy as a whole.

What capitalism can learn from this is that we must set the rules by which the real game is played to protect the real game—even at the expense of sacrificing the expectations game. The NFL is a great metaphor for this.

Why do you use the NFL and not some other sport or league?

The NFL recognizes that every game will be “gamed” by the smartest participants. If the game is worth wining, you will game the game. It’s as simple as that. Bill Walsh gamed the game with the East Coast passing offense and Bill Parcells gamed the game with the blitzing-the-linebacker defense. People know those two systems by the players who epitomized them: Joe Montana and Lawrence Taylor. But it was the coaching genius that made the difference. They were totally legal and moral approaches—you want people to try their hardest to figure out how to win the game.

But when it becomes too good of an idea, it can destroy the game. The way it does that is this: The core feature of a game is that you have to not know for sure who will win or lose. Otherwise, it’s theater or a play and not a game. So in football, you must worry about a balance between offense and defense. Bill Walsh upset that balance. He said, “I can march down just by throwing short passes.” Then Bill Parcells came along and said, “You know, the offense takes this much time to run plays. What if I disrupt that and threaten him to get rid of the ball. That disrupts the offense.” So the NFL came along and said, “Wait a minute, we don’t like this.” The NFL was smart. They recognized that there must be a balance between offense and defense.

So even though Walsh was legitimately gaming the game and highly successful at it—he won four Super Bowls in six years—the NFL said, “Cornerbacks can now check the wide receiver and keep the them in check so they are disrupted.” They changed the rules. They made a tweak to the game with rules. That’s not a massive overarching change. Another change (that came after Lawrence Taylor) was saying that offensive linemen could use their hands to grab defensive linemen, but only within the frame of the body.

Tiny little tweaks can save the game and keep it in balance. Those are two lessons for capitalism. Capitalism is about freedom and Democracy. If you mess with that, it’s bad—so then you have to argue like crazy to establish the rules. Then you have to protect the game from change—that’s the big thinking these days.

How does that apply to baseball purists?

Baseball purists are less likely to make those changes. But they do—like back in 1968, when they lowered the mound by four inches. Baseball or football, the lessons for capitalism are the same—though the NFL teaches them best:

1. Separate the real game from the expectation game to protect the real game.
2. There is no such thing as a perfect set of rules for any game—any game gets gamed by smartest players, so you must adjust and tweak the rules continuously to protect the integrity of the game.

I’m a Laker fan, so I have to ask how this applies to the NBA?

I’m also a big NBA fan. Truth and goodness won out over the Evil Empire in the finals this year (i.e., the Dallas Mavericks beat the Miami Heat).

The NBA has tweaked its rules a lot less than the NFL. Examples include things like the key has been widened, zone defense is allowed, the three point line was added, there are now double-teaming rules, a 24 second clock and so on. Sure, there is some tweaking, but it’s not as refined as the NFL. Another reason I use the NFL is that the point spread in the NFL is a perfect parallel to stock prices.

Looks like the NFL lockout will soon be resolved—and we have a ways to go with the NBA lockout. How does that fit into your analogy?

My take on this is that there’s just a bare knuckles fight going on for a share of the spoils of the game. However, there are some things in NFL and NBA negotiations that have to do with protecting the game. More important than anything else is you want the fans not to know who will win the game before it’s played. You need rules to provide that balance. So some fights are about free agency and compensation rules. Those are really important rules to protect the fans by protecting the balance in the league.

Conversely, some of the things they are fighting about is pure brass knuckles conflict over who gets the most money and also how to structure things for more parity. There's a mix of all those things going on in the labor negotiations this summer.

Speaking of "keeping a balance"—what did you think of LeBron's "Decision" last summer to "take his talents to Miami"?

They will tweak things to make sure we don't have a league of super teams. That's why I was giddy that Miami lost. I was totally against Miami. I hate Chris Bosh. He is the second coming of Vince Carter crying about his ankle. I am a Larry Bird fan. He would get a concussion and come back.

Circling back: What's wrong with American Capitalism today—and what 5 steps can we follow to fix it?

What we have is an incentive structure that causes executives to focus more on managing expectations than growing true value in the real market. We have an incentive for them to play games that are destructive for the real market. There is now lovely proof of that. In the book, I quote an article from three professors at Duke. They (surveyed) 300 public company CFOs and they readily admitted that if they were faced with a situation where if they delayed or cancelled some really good positive net project in order to make this quarter's earnings numbers, they'd do it in a flash. A full 75 percent of them said that—so they are favoring the expectations market over the real market and willing to damage the real market in favor of the expectations market, even though they know you can't keep beating expectations.

So what companies have learned over time is to "play" the game: They jack up expectations for the short term and then get out before they keep rising up. So executives jerk around expectations, and hedge funds exploit it. They contribute to it—so we're not doing the thing that makes America prosperous. It's a different "game" entirely and it's broken.

What is your sense regarding whether we're heading for another tech bubble, in light of the LinkedIn IPO, the bearish market these past weeks, etc.?

We are headed for another bubble. The hedge funds want one and so does John Paulson. They want volatility. As for the LinkedIn IPO, if you reverse engineered the $8 million valuation—in the first three years, LinkedIn would have to grow at three times the rate of Google. And guess how much net profit grew at Google … the answer: 27 times. And LinkedIn will do three times that? It won't happen. But there are players in the expectations market that want and profit from volatility. We're headed to another one, sorry. I won't be surprised, in fact, we don't have another crash before seven years are up.

Shifting gears to "lighter" fare: How does design relate to corporate strategy?

The way I think about design thinking is that the world has gotten too analytical where the act of doing strategy has been turned over to quantitative jocks who do charts and PowerPoints. They believe you can invest in the future by number crunching the past—but all you can do is extrapolate to the future. And sometimes, you'll be right. In 2008, people stopped buying SUVs as they did in previous years—and those who bet on SUVs got hammered.

So, it turns out that you can't prove any new idea in advance using the traditional tools of analysis—which are inductive and deductive logic. About 95% of what is taught in education is one of those—you learned to manipulate quantities, like times tables, etc. If you took a statistics course, you learned inductive logic. But all new ideas come to us by third form of logic: Abductive logic.

Can you define that—what is abductive logic?

That term was coined by Charles S. Peirce. He came to the conclusion that you can't prove any new idea in advance and since there are new ideas in the world, how are they created? Abductive logic is also called a logical leap of the mind, or an inference to the best explanation.

So if you're out camping in snow in your tent and you wake up in the morning and see bear footprints, do you make an inference to the explanation that it was a friend making bear shaped prints? No, probably not. You inferences to the best explanation are going to be that it was a bear. That's where new ideas come from.

That's where design and design thinking ties to corporate strategy: If you want a strategy that leads, you need to integrate abductive logic into your decision-making. But it's often viewed as not being a legitimate form of logic. Companies say "prove it" to most new ideas. If you say that, you will kill an idea because you can't prove it.

So what do you do?

You have to make a choice to allow for more abductive logic. How do you do that? You have to take little steps. This is the notion of prototyping things, learning from it and getting to somewhere. Take small steps first. Sometimes, you have to just take bets and get used to the notion that some bets won't pay off.

If you want to be like Apple, for example, you have to be willing to create all the products that came before a success like AppleTV—that includes failures like Newton. Only by doing that will you get the iPad or iPhone every once in a while. But if you won't accept Lisa and Newton, you wouldn't be Apple.

What three parting tips can you share with business managers today?

One: Listen to your customers, even if they're being annoying. You can't listen to them too much. All the clues of what you can do are there … and social media helps with that. However, customers won't tell you "the answer." That's a creative activity.

Two: Modern management life has gotten itself into "the mastery trap." In the short term, we are taught, you will get more rewards for deepening your mastery of what you already know and then practicing it like you did before. But I hold that you must instead balance that with nurturing your originality. So every week, you should be able to come home Friday night and say, "Here's the one thing I did this week that was original and I never tried before." If you don't nurture your originality and strive to try new things, your ability to be original disappears.

Three: Use your abductive logic. When you don't understand something that doesn't follow the rule, feel comfortable making an inference to best explanation and test it. If you say, "That's an anomaly, then you will never invent anything new.

What do you do in your "spare" time (as if you have any)—and how might that inform or help shape your work and business theories?

Tennis is my current passion. I am the chairman of Tennis Canada, so I've thought a bit how tennis helps me in my work. Basically, it teaches me about strategy—where to position yourself on the court, how to move, how to put your opponent in difficult positions, and so on. It's great for honing those skills, well beyond the physical.

~Brian Pittman