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YOUR STRATEGY IS NOT AS BRILLIANT AS YOU THINK

The Ikea Effect may be keeping you blind to the flaws in the plan for your enterprise

BY GEOFF WILLIAMS

If you've ever made anything with your own hands — maybe a book case or you baked a birthday cake from scratch — and thought your creation was pretty amazing, only to later learn others were too polite to point out the crooked shelves and misshapen roses, you've been under the spell of what academics call, the Ikea Effect. And, the truth is, it could be affecting your enterprise.

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In 2009, three business professors from Harvard, Yale and Duke University published the results of their Ikea Effect research, in which they studied people who made things, like origami, which weren't always of the best quality. The professors — Michael Norton, Daniel Mochon and Dan Ariel — concluded that people often overvalue their creations, even when poorly constructed. In their report, they warned the business community that the IKEA Effect can affect more than just customers. Even executives at companies as big as, well, Ikea can fall blindly in love with their own business strategies, even when poorly conceived.

Despite the research and warnings of the Ikea Effect, the message hasn't gotten out. For instance, in 2011, Netflix, the DVD rental and streaming service, raised prices and attempted to separate its services into two companies and lost millions of customers and saw the share price fall from $298 to $52.81. They have since rebounded.

Last year, JC Penney, the $2.64 billion department store chain, unveiled a bold pricing plan concept, in which they did away with sales and tried to offer straightforward low prices.

It didn't work, says Michael Roberto, a business management professor at Bryant University in Smithfield, Rhode Island. "He clung to it despite horrible results," Roberto says of Ron Johnson, the CEO who lasted at JC Penney from November 2011 to April 2013. "It cost him his job in a very short period of time." The retailer has not rebounded.

So, could you fall under the spell of the Ikea Effect? Possibly, if you think any of the warning signs describe your business.

YOU HAVE TOO MUCH CONFIDENCE.

"If you're at the top of your game, your skills have been well documented. And the higher you go up in the company, the more faith you have in your own judgment," says Rita Gunther McGrath, an associate professor of management at the Columbia Business School, who has consulted numerous corporations, including Coca-Cola Enterprises and General Electric. She also is the author of four books, the most recent, *The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business* (Harvard Business Review Press, 2013).

The problem? Nobody is infallible, and McGrath warns that if you're surrounded by too many yes-men or haven't implemented a system where bad ideas — even yours — can be tested, your strategy could be in for a world of hurt later.

YOU'RE TOO CLOSE TO THE PROJECT.

"One thing that often happens within an organization, you're so close to it. It's almost like raising a child. You don't necessarily see things the way outsiders do," says Mac Clouse, a finance professor at the Daniels College of Business at the University of Denver.

That's why Bob Funk, CEO of Express Employment Professionals, based out of Oklahoma City and the nation's largest privately held staffing company, hired David Lewis to be the Vice President of Franchising in 2011.

IF WE'RE STILL DOING THE SAME THINGS THREE YEARS FROM NOW, WE'VE ALREADY FALLEN INTO THE TRAP.

The year before, things were down at EEP. "In 2010, we awarded just 13 offices," Lewis says. "Thirteen offices. We're a $2 billion company. We weren't growing enough to keep up with the retirement of owners. So while our individual offices were doing well, we were losing market share."

In 2011, Lewis was able to turn the company around so that it opened 23 offices in 2011 and another 40 in 2012, plus reselling seven franchises. In 2013, so far, EEP has sold another 43 and appears to be on pace to open 90 or 100 offices before the year is up.

The problem, says Lewis, was with the six-people franchise team, some of whom had been around for 20 years. "They built the strategy, and 20 years ago it worked," Lewis says. "But nothing had changed."

Lewis was able to look at the company's strategy with completely fresh eyes, revamp just about everything and still keep the original franchising team gainfully employed. But does Lewis think he might fall into a trap into the same trap 20 years from now?

"Forget 20 years," Lewis says. "If we're still doing the same things three years from now, we've already fallen into the trap."

YOUR COMPANY CAN AFFORD TO SCREW UP.

One reason international conglomerates can find themselves in a losing strategy is that the strategy isn't all

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encompassing but focused on improving, say, a part of the infrastructure. The financial pain may not be immediately obvious. McGrath says that she and her students worked on one big industrial company as a student project and they were able to diagnose a problem that had limped along, under the radar, for eight years.

"The price of getting big is that these things can hide in the shadows for a long time," McGrath says.

DECISIONS ARE BASED ON EMOTION.

This is tricky territory. Corporations get in trouble all the time when they strip emotions out of all decisions. That a corporation is run by living, breathing, emotional human beings is a good thing. But emotions can, nonetheless, trip up corporations. A.J. Khubani, CEO and president of TeleBrands, a billion dollar marketing behemoth in New York City that's behind the "As Seen on TV" products, says that he sees it all the time when inventors pitch him products.

"The inventors get so attached to their own ideas, that they're unwilling to walk away from them, even when it's completely clear that it isn't going to work," says Khubani, who adds that buyers in his company also occasionally have a tough time accepting that a product has failed in all of its test markets. Khubani admits to hiring people he was certain would be a great fit for the company — and taking far too long to terminate them because he didn't want to be wrong.

It isn't easy but somehow, says Khubani, "You need to put aside the emotions and focus on the facts. It's never a good idea to spend an extra $50,000 to realize, 'Yes, we were right the first time — it was the wrong strategy.' "

Sticking with his strategy of eliminating sales in favor of everyday low prices cost former JC Penney CEO Ron Johnson his job.

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