

ABSENCE-NEGLECT AND THE ORIGINS OF GREAT STRATEGIES

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ABSTRACT

Great business strategies originate in a top management worldview that seeks to implement bold strategic change in the external world. This worldview generates confident strategic actions capable of producing extreme success. However it also generates catastrophic failures and lower returns on average. This is because action-oriented managers pay abnormal attention to the observables of sense experience while neglecting the world of absence, a bias I refer to as absence-neglect. Absence-neglect is the cognitive tendency to notice presence more than absence; for example, movement more than stillness and noise more than silence. The paper examines the origins of absence-neglect and its consequences for strategy formation, firm performance and social welfare. I argue that societies can reduce the economic and moral risks of “great” strategies by cultivating more balanced discernment of presence and absence.

INTRODUCTION

Research on management cognition shows that people tend to neglect cognitive objects that are distant in time or space, or that require an unusual degree of cognitive effort (Gavetti 2012, Levinthal and March 1993). In business strategy, firms tend to under-invest in exploration and over-invest in exploitation; for example, they ignore distant markets and neglect the long-term consequences of strategic investments. Recommendations to managers call for improved “ambidexterity,” which usually involves more exploration and less exploitation (e.g., Gupta, Smith and Shalley 2006).

I focus on an aspect of this bias, namely the tendency to neglect cognitive objects that do not make impressions on the five senses. In simple terms, people notice what is there and neglect what is not there, and regard the former as more important. I refer to this tendency as absence-neglect.

Absence-neglect is tied to the physiology of the human nervous system. People have five sense faculties with relatively narrow bands of perception. All people experience a degree of absence-neglect, but people differ in their propensities to perceive absence – for example, to perceive the opinions of people who are not in the room, or the consequences of business

strategies for external stakeholders. These differences stem from divergent worldviews and cognitive styles, and produce different approaches to resolving cognitive biases.

Business strategies emerge from the worldviews of CEOs and members of top management teams. The most successful strategies emerge from exploration-minded cognitive schema with strong attachments to the external world. Although these strategies can produce dramatic outcomes, they also entail a high degree of absence-neglect. This gives them a pathological character, with managers ignoring cognitive blind spots and delusions, over-valuing the observable impacts of strategic decisions, and neglecting unobserved value destruction, unintended consequences, and the cumulative impacts of things left undone. Of all cognitive styles, this worldview produces the most spectacular successes and failures, and the largest spillover effects for external stakeholders and society at large. My theme is twofold: first, that there is a cognitive dark side to the origins of great strategies, with extreme success and failure deriving from a similar cognitive style; and second, that societies can reduce the economic and social costs of great strategies by cultivating a more balanced perception of presence and absence.

THE BASIC ARGUMENT

Absence-neglect is grounded in the neurophysiology of human sensation and perception.¹ The human visual faculty informs us about what the human eye can see, and not about what the human eye cannot see. Technologies like radar or the electron microscope augment human perception, but technologies and everything they reveal to us are perceived through human sense faculties; and whatever remains outside technology-aided human perception remains unperceived by anyone. Because people share a common

¹ To be clear, this paper is concerned with the cognitive phenomenon of absence-neglect, which originates in human physiology, neurobiology, and psychology. It is not concerned with “strategy absence” or “strategy voids” – that is, the question of whether a company does or does not have a strategy, or the consequences of not having a strategy. This question has been fruitfully debated by Inkpen and Choudury (1995), Bauerschmidt (1996), and Inkpen (1996).

neurophysiological structure – that is, the same sense faculties and substantially similar brain structures (Colantuoni et al. 2011) – everyone is subject to absence-neglect, and in more or less the same way.

Our shared neurophysiological structure constitutes a hard boundary on human perception. However, people can perceive differently within the constraints of this boundary. Human perceptions are filtered through knowledge structures or “worldviews” that determine what is noticed and what is not noticed, what is important and what is trivial, and what is acted upon and what is ignored (Walsh 1995; Starbuck and Milliken 1988).² These knowledge structures are comprised of beliefs, which derive from innate aptitudes and characteristics, and from socialization, culture, language, education, and experience. Because knowledge structures emerge from idiosyncratic characteristics and experiences, people hold different beliefs and have heterogeneous perceptions of presence.

The basic argument of the paper is that decision makers vary in their degree of absence-neglect, and that these variations have significant impacts on the “greatness” of strategies and firm performance. Decision makers with a high degree of sensitivity to absence – for example, those who seek the views of under-represented stakeholders, or who try to minimize their own cognitive errors – attempt to amend their beliefs to match conditions in the external environment. Decision makers with a high degree of absence-neglect – for example, those with extreme confidence in their own perceptions, or who deny their own cognitive errors – attempt to amend the external world to fit their beliefs about it. The first cognitive style reduces cognitive errors and aligns strategies with external environments, and may produce better outcomes on average. However, greatness is not concerned with averages, and I argue that the second cognitive style produces more extreme outcomes of all kinds, great and catastrophic alike.

² For purposes of this paper, “knowledge structure” is used synonymously with terms such as worldview, frame of reference and cognitive schema.

The next part of the paper examines the beliefs and meta-beliefs (beliefs about beliefs) that define the two cognitive styles. These styles are referred to as the first and second meta-beliefs, the first possessing a high degree of sensitivity to absence, the second a high degree of absence-neglect. Executives' meta-beliefs inform decision making by establishing what is present and absent in the decision process; for example, by directing executive attention internally or externally. Either meta-belief is capable of producing great strategies, but I argue that the second meta-belief is more likely to produce extreme outcomes of all kinds, including the greatest successes. The basic propositions are depicted in Figure 1.

INSERT FIGURE 1 ABOUT HERE –

The second part of the paper focuses on the second meta-belief, discussing the nature and consequences of absence-neglect. By investing in absence-perception, executives can produce great strategies with lower risks of catastrophic failure for the firm and its stakeholders. Executives should invest in absence-perception because strategies consist equally of what they make possible and what they rule out, and of what executives notice and what they do not notice. Absence-perception requires the dual cognitive capacities of “seeing through” present circumstances into the world of absence, and of using absence artfully to expand executives' frames of reference. The paper concludes that sound business judgment requires a more sophisticated discernment of absence and cultivation of a “sixth sense” for properly balanced cognition of presence and absence.

STRATEGY AND META-BELIEFS

From a cognitive perspective, great business strategies require accurate beliefs about the external world. Therefore a strategist's first order of business is to remove cognitive and perceptual errors about the firm, its markets, the competition, the economy, and other aspects of the external world.

The cognitive errors of business strategists can be divided into two broad categories: blind spots and delusions (Zajac and Bazerman 1991, Lovallo and Kahneman 2003). If something is objectively true – for example, the existence of a market opportunity – but a strategist believes it is false, then the strategist suffers from a cognitive blind spot. If something is objectively false – for example, the possibility of profiting from a new acquisition – but the strategist believes it is true, then the strategist suffers from a cognitive delusion. This “matrix of beliefs” is shown in Figure 2.

INSERT FIGURE 2 ABOUT HERE –

Decision researchers have studied many blind spots and delusions, including winner’s curse, escalation of commitment, competition neglect, and delusional optimism (Zajac and Bazerman 1991, Lovallo and Kahneman 2003, Rosenzweig 2007). Two overall themes are that these errors impede decision making, and that strategists should test their beliefs against external evidence. People overcome blind spots when evidence reveals the reality of things formerly denied; and people overcome delusions when evidence reveals the unreality of things formerly believed. In Figure 2, errors are removed when former blind spots shift leftward to become correct beliefs and former delusions shift rightward to become correct unbeliefs. An ideal matrix of beliefs would contain correct beliefs and unbeliefs, with no blind spots or delusions.

No one claims that such a thing is possible. However, even if it were possible, an ideal matrix of beliefs might fail to yield great business strategies, for three reasons.

First, overcoming blind spots and delusions is costly, time-consuming, and cognitively effortful. Beliefs originate in peoples’ cultural, social and individual experiences, and are deeply embedded in brain structures associated with memory, cognition, emotion, and uncertainty resolution (Gilbert, Krull and Malone 1990; Kahneman 2011; Powell 2011). The belief matrix of a mature adult with deep life experience – such as a corporate CEO – is not a

freely endogenous design variable but a recalcitrant inertial mass (Nystrom and Starbuck 1984). Countermeasures for de-biasing individuals and groups often fail, and recent efforts have focused instead on designing external environments to make them less conducive to cognitive error (Thaler 2015, Liu et al. 2017; Sibony, Lovallo and Powell 2017).

Second, correcting false beliefs does not ensure strategic greatness because strategies are not comprised of beliefs. Strategy can be defined in many ways – as a plan, a course of action, an allocation of resources, a pattern in a stream of decisions, the firm’s overall direction – but it cannot be defined as beliefs. Accurate beliefs may enable great strategies, but before they can impact strategies they must be translated into plans, resource allocations, and courses of action.

Finally, external reality is not an exogenous context variable with which human beliefs can be aligned. Human beliefs produce actions that are carried out in the world, and these beliefs shape the actions of other people and are shaped by them. One need not be a social constructionist to appreciate that the external world is in this sense “enacted” by our beliefs about it, or bound together with the thoughts and actions of other people. Therefore belief-correction is not a simple process of matching endogenous beliefs to exogenous environments, but involves the continuous co-adaptation of semi-endogenous beliefs and environments.

Strategists can adopt one of two generic “meta-beliefs” about the matrix of beliefs. The first is that the external world is an independent and exogenous domain to which people can and should adapt their beliefs. Strategists with this meta-belief will engage in information search to reduce cognitive blind spots and delusions, and will adapt these beliefs to their environments. The second meta-belief is that human beliefs are fairly rigid and costly to change, the external world has a significant degree of endogeneity, and that the world is shaped or “constructed” by human beliefs. Strategists with this meta-belief will focus on

changing the external world to fit their beliefs about it, revising beliefs only as a last resort. The arrows in Figure 2 represent the first meta-belief, the arrows in Figure 3 the second.

INSERT FIGURE 3 ABOUT HERE –

Strategists who hold the first meta-belief will attempt to align their beliefs with external realities by investing in market knowledge and cognitive debiasing. Strategists who hold the second meta-belief will attempt to impose their beliefs on their external environments, thus assuming greater risks of information neglect and cognitive error. Strategists with worldviews grounded in the second meta-belief do not perceive their own false beliefs as cognitive errors but as market signals of strategic opportunity. They perceive delusions as visionary beliefs concerning parts of the environment soon to be made real; and blind spots as visionary unbeliefs concerning parts of the environment soon to be made unreal.

The second meta-belief minimizes the costs of cognitive debiasing and information search, while facilitating strategy execution. Changing the external world, unlike correcting one's beliefs, requires plans, resource allocations, courses of action, and interactions with stakeholders. By committing to a fixed system of beliefs, strategists break the cognitive logjam of uncertainty and self-doubt, enabling strategy processes to move seamlessly from formation to execution. Therefore a higher proportion of realized strategies emanate from the second meta-belief.

At the same time, the second meta-belief is fundamentally pathological, imposing the beliefs of powerful decision makers on internal and external stakeholders without regard to the accuracy of those beliefs. When these strategists succeed, they become the heroes of strategic management. At their worst, they are harbingers of narcissism, deceit and misdirection. Their strategies do not, in fact, eliminate the costs of information search, but distribute them among stakeholders in the form of shared strategic risks and negative

spillover effects. The second meta-belief produces more extreme outcomes of all kinds, whether value-creating or value-destroying, socially good or socially evil.

ABSENCE-NEGLECT

I define absence-neglect as the human cognitive tendency to ascribe exaggerated importance to things that make impressions on the five senses. It is universally true that people notice presence more than absence. People notice noise more than silence; things said more than things unsaid; actions taken more than actions not taken; people who are there more than people who are absent. Sensory presence confers a degree of immediacy and brute salience that absence never obtains.

People do not possess a sensory apparatus for perceiving absence, so they notice absence by drawing inferences from the data of sense experience (Bouwsma 1949). This inferential process is not motivated by the need to remove cognitive errors but by the desire to create and preserve a coherent frame of reference for taking action in the world (Markus 1977, Weick 1979, Walsh 1995). Peoples' experiences of presence allow them to establish reference points – expectations, aspirations and social comparisons – which in turn cause them to notice when things are absent; thus people notice when the CEO is absent from a board meeting, or when a quarterly sales target is missed (Greve 1998; Fiegenbaum, Hart and Schendel 1996; Festinger 1954).

This implies that peoples' perceptions of absence derive from their experiences of presence and come after them in time. Presence and absence are two different ontological and cognitive "objects," and involve different forms of reasoning: presence involves the direct interpretation of sense experience, whereas absence involves an effortful form of Bayesian inference from what is or has been present.

Presence dominates absence in human cognition. Even the most noticeable absence falls short of the vividness and perceptual immediacy of something experienced. Because

inferences of absence lag experiences of presence, people perceive absence as a derived and secondary quality, less current than the world of presence, and therefore less important. In allocating scarce cognitive resources, people prefer the immediacy of direct experience to the effortful uncertainty of absence.

The second meta-belief magnifies absence-neglect. Strategists who hold the second meta-belief act on clear and simple messages anchored in the material world, ignoring abstractions and ontological debates about the immaterial world. They attend to elements of the world they perceive as offering significant prospects for value creation through active intervention, while neglecting those parts of the world where they see no such prospects. They accept their own beliefs as facts, perceiving no distinction between accurate beliefs and cognitive errors unless this distinction is forced on them by immediate existential threat.

This meta-belief constitutes a frame of reference for allocating executive attention. Strategists who hold the second meta-belief attend primarily to the world of sense experience and direct action, believing that speculating about absence can degenerate into pointless theorizing and endless strategy debates that become substitutes for action. These strategists should, in principle, benefit from enhanced strategic learning and course correction, which comes from rapid cycles of action and external feedback (Pfeffer and Sutton 1999). However, because this feedback is filtered through biases that confirm rather than alter existing worldviews (Starbuck and Milliken 1988), these strategists are highly susceptible to escalating commitments, wrongful interventions, and other “errors of commission” that destroy value for the firm and its stakeholders.

As a generalized cognitive error, absence-neglect underlies many of the known cognitive biases and heuristics in behavioral decision research (Kahneman 2011). For example, loss aversion involves the reluctance to sacrifice a present good for an (absent) uncertainty; anchoring and adjustment involves noticing a salient point estimate (such as last year’s sales) while neglecting the (absent) distribution of possible outcomes; base rate neglect

involves noticing a salient estimate while neglecting an (absent) underlying trend; familiarity bias involves noticing the familiar while ignoring the (absent) unfamiliar; phenomena such as cognitive inertia (Tripsas and Gavetti 2000), cognitive myopia (Levinthal and March 1993), and aversion to cognitively distant foresight (Gavetti 2012) involve asymmetric noticing of presence and absence; survivor bias involves the under-sampling of (absent) failures (Denrell 2003); and strategy biases such as competition neglect, sunk cost bias, and escalations of commitment entail neglect or distortions of the absent.

Strategy processes require executives to decide what actions to take and not to take; and to decide how to create value and not to destroy value. In a world of balanced perception, executives would have the same degree of expert judgment in the world of absence (what is missing) as in the world of presence (what is there); in the world of non-action as in the world of action; in the world of not destroying value as in the world of creating value; and in the world of unintended consequences as in the world of intended consequences. But human sense experience confers relatively clear discernment in the worlds of presence, action, value-creation, and intended consequences, while the worlds of absence, non-action, value destruction and unintended consequences remain in the perceptual shadows. By attending inordinately to parts of reality that make impressions on human sense faculties, executives misjudge their strategic opportunities and risks.

Cultivating discernment for absence requires developing a strategic “sixth sense” for reading absence from the evidence of presence. Unlike presence, absence requires a disciplined reorientation of executive attention and the adoption of strategy processes for asking questions about absence: What are we ignoring? What do our beliefs rule out? What are we not doing and what are the consequences of not doing them? Who is left out? What are the unseen consequences of what we are doing? How are we destroying value?

Asking questions about absence can produce a gestalt-like reversal of figure and ground, bringing the world of presence, or strategic action, into sharper relief. For example, German-

based retailer Aldi prepares a “Doing without Checklist,” which contains twenty activities that the company does not undertake (Van den Steen and Lane 2016).³ The list includes: No differentiated product mix from store to store; No differentiated price policy by sales area or store type; No luxury in business offices; No product placement in stores based on psychological analysis of consumer behavior; No company cars; No work with corporate consultants; No dinner with vendors; No external market research. The checklist clarifies the company’s policies and strategies, while anticipating risks (such as vendor bribery) that are not easily framed in terms of actions or presence.

Cultivating discernment for absence can improve executive judgment in the world of presence. The CEO of a large conglomerate wrote the following:

“If you are running a well-managed company, most of the numbers will be those you expect. That makes them even more mundane and dull. But . . . When you have mastered the numbers, you will in fact no longer be reading numbers, any more than you read words when reading a book. You will be reading meanings. Your eyes may be seeing numbers, but your mind will be reading “markets,” “costs,” “competition,” “new products.” All the things you are doing and planning will stare out at you, if you will only learn to read *through* the numbers.” (Geneen 1984: 195)

A high degree of absence-perception is the crucial underlying capability for strategic learning and expert judgment. The deep and thoughtful experience of what is present, supported by a purposeful search for what is absent, allows executives to accumulate a nuanced database of expectations, social comparisons, and other reference points. The capacity to “read through the numbers” derives from a deeper knowledge of counterfactuals and possible worlds. Insight into absence does not come from an activity like reading ledgers, but from juxtaposing ledger entries against an evolving strategic narrative or “theory of the business” (Drucker 1994), and against previous ledger entries and aspects of experience outside the reading of ledgers. People gain a “sixth sense” about what is missing

³ Thanks to my colleague Teppo Felin for suggesting this example.

not from experience alone, but from a directed search for strategic narrative across the ontologies of presence and absence.

American philosopher-psychologist William James referred to this phenomenon as “seeing into” a situation:

“A layman present at a shipwreck, a battle or a fire is helpless. Discrimination has been so little awakened in him by experience that his consciousness leaves no single point of the complex situation accented and standing out for him to begin to act upon. But the sailor, the fireman, and the general know directly at what corner to take up the business. They ‘see into the situation’ – that is, they analyze it – with their first glance.” (James 1890: 344)

“Seeing into a situation” does not come merely from having more experience or absorbing more data. The concept of absence-neglect points to a different conclusion; namely, that the world of observables cannot fully or accurately inform us about itself. The capacity to perceive and interpret absence requires a new kind of faculty for using presence as a window into absence. What makes sound executive judgment possible is not experience, but what experience allows us to discover about what is outside the window; and in return, how the world outside the window sheds new light on experience.

Noticing absence in a domain like business strategy requires more than what is traditionally called expert judgment. Whereas expert judgment derives from deep specialization in a small world of experience – such as fire-fighting, Australian wines, or grandfather clocks – effective strategizing requires the capacity to conceive absences beyond existing areas of specialization. Companies suffer from creeping weaknesses and non-actions – such as Nokia’s internal bureaucracy and Kodak’s neglect of digital photography – and they need deliberate mechanisms for bringing absence-perception into the strategy process. In the full ontology of firm performance, companies can possess significant competitive advantages and yet fail by virtue of everything they are not doing (Powell 2017).

Seeing the shifting gestalt between presence and absence requires a form of strategic perception and learned artistry, in which executives develop an aesthetic capacity for recognizing a balanced architecture of strategic decisions. This involves knowing when a portfolio of activities and non-activities is sustainable and achievable, and carries the right mix of reward and creative risk. Strategists should invest in absence-perception not because everything they discover in the world of absence will go into their strategies, but because all knowledge is conserved, and so all knowledge goes into the firm's strategy, whether as presence or absence. Absence-perception gives executives a deeper reserve of strategy cognition and a more refined aesthetic capacity for recognizing effective strategies when they see them. Ernest Hemingway made a similar point with his "iceberg theory" about the value of absence in communicating a good story:

"I've seen the marlin mate and know about that. So I leave that out. I've seen a pod of more than fifty sperm whales in that same stretch of water and once harpooned one nearly sixty feet in length and lost him. So I left that out. All the stories I know from the fishing village I leave out. But that knowledge is what makes the underwater part of the iceberg." (Hemingway 1958: 67)

Strategizing from absence requires distributing executive attention artfully across the worlds of presence and absence. The true causes of firm performance include all the things that don't happen when immediate sense experience dominates executive perception, such as missed opportunities that were never considered, failures to execute mundane but fundamental activities, and the hidden social, moral and economic risks of presence-driven strategies. Great strategies can become socially and morally sustainable only when they originate in the balanced perception of presence and absence.

Although companies can improve their strategy processes, enhancing executives' discernment of absence is not an easy task. Most of what lies outside a person's worldview is not perceived as absent but as non-existent, false, impossible or revolting (Watzlawick, Weakland and Fisch 1974). The second meta-belief is a relatively closed system of perception

and behavior, and executives who hold this meta-belief are intrinsically sceptical of the kinds of solutions offered by scholars and consultants, such as formal tools for challenging executive assumptions (e.g., scenario analysis, dialectical inquiry and “devil’s advocate”), or direct behavioral interventions (Nystrom and Starbuck 1984). These strategists rely on direct action in the world and they tend to seek correction only in the face of existential crisis. Ultimately we study absence-neglect not in the expectation of rehabilitating dangerous executives, but with the aim of helping people understand the moral and social consequences of “great” strategies.

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Figure 1: Meta-Beliefs and Great Strategies

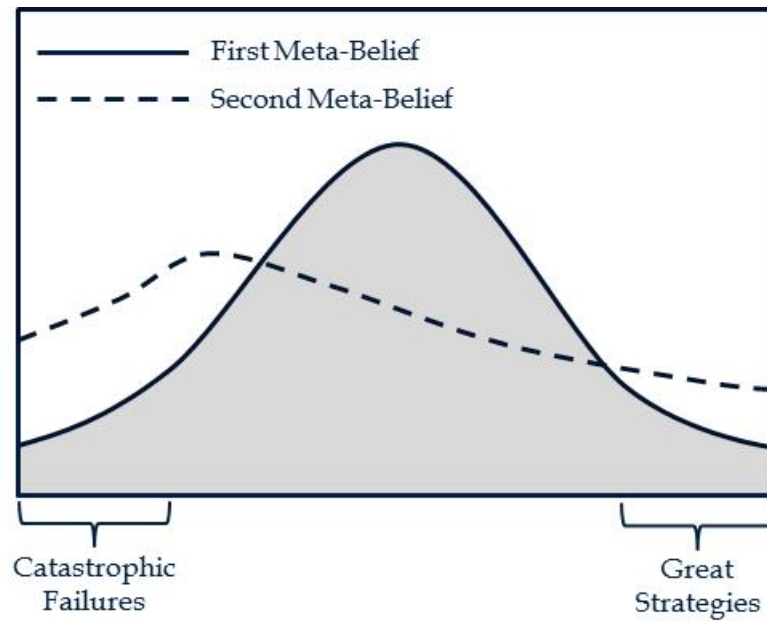


Figure 2: The Matrix of Beliefs

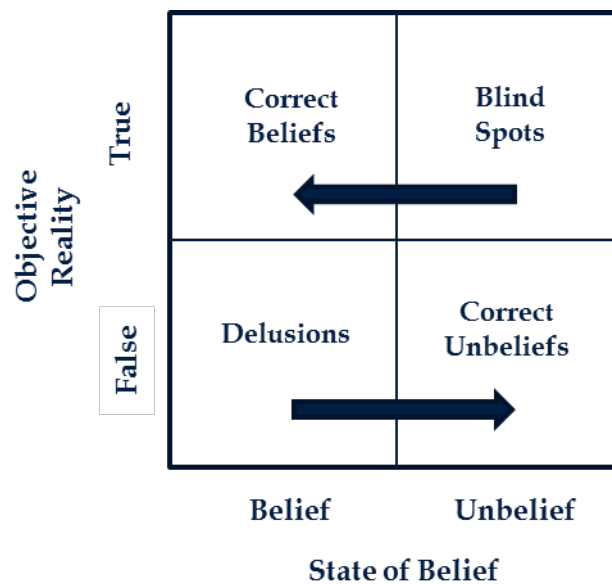


Figure 3: The Second Meta-Belief

