

CHESS STRATEGY AND BUSINESS STRATEGY

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ABSTRACT

This paper examines some of the parallels between chess strategy and business strategy. In discussing chess strategy, we consider not only the strategy within each game, but a meta-strategy, or strategy of repeated games, as well. In considering the strategy of repeated games, we consider factors that will encourage the other player to want to continue playing with us. This would therefore include such factors as playing in a sportsmanlike manner, encouraging one's opponent, and even giving constructive suggestions. This strategy of repeated games has parallels in business as conducting business in an ethical manner, and giving customers the benefit of reasonable doubts will encourage repeat business.

We find that chess rewards, and reinforces, long-term thinking, looking at the "big picture," assessing risks and expected rewards, forming contingency plans, learning from mistakes, perseverance, patience, and other intellectual and character traits that can lead to success in business. As a corollary, we consider the possibility that encouraging business students to play chess might help them to perform better in business classes.

INTRODUCTION ¹

This paper will seek to demonstrate that there are a number of parallels between chess strategy and business strategy. As a corollary, it is arguable that playing and practicing chess may help business students, and in particular, students of finance and economics, to see issues more clearly, and to improve their academic (and later their professional) performance.

This paper will discuss both the strategy of the chess game itself, as well as what might be called a meta-strategy, or the strategy of repeated games with the same opponent. Components of meta-strategy might include playing in such a way as to cause one's opponent to want to play more games, or even giving one's opponent pointers as the game progresses, in order to make future games more interesting. It also includes playing in a gracious manner, perhaps (except in a tournament where a substantial prize is at stake) allowing one's opponent to take back an occasional careless move.

PLUS-SUM GAME

When one thinks in terms of a meta-strategy, or a strategy of repeated games, chess may be a plus-sum game. Hopefully, the player who loses a game learns from the mistake, and improves his or her ability to think strategically, leading to better play in the future. Business may also be thought of as a "plus-sum game." It is an established principle of economic theory that competition can be beneficial to society, as resources are allocated to their most productive use. It can be argued

that even a competitor who loses a contract, or loses customers, benefits in the long-run by being forced to improve their products and production processes, become more efficient, improve their customer and employee relations, and provide customers with the goods and services they want at a price they are willing to pay.

Both business and chess rely on exchanges, and successful trades are essential to a successful outcome. In both business and chess, one should only trade when one expects to benefit from the exchange.

ETHICS AND SPORTSMANSHIP

Ethical behavior, and a sense of fair play, is important in both business and chess, especially when thinking in terms of “repeated games.” The importance of business ethics cannot be over-emphasized, and a firm that engages in unethical conduct to make a “quick killing” pays for it in the long run. Likewise, in chess (and other competitive games) unethical or unsportsmanlike conduct has consequences.

As a matter of fact, while some chess players would disagree with me, my idea of sportsmanship (in an informal game, although not in a tournament) includes allowing an opponent to undo an occasional careless move.² For one thing, I believe it makes for a more interesting game if one can win as a result of superior strategy, rather than by taking advantage of the other person’s careless mistake. Another reason is that I view chess as an opportunity to teach and learn, and if letting the other player undo his or her move, and make a better move, it helps them improve their skills, which creates a win-win situation.³ A third reason, and one in which the parallel to business is most apparent, is that playing in a sportsmanlike manner is likely to lead to more enjoyable games in the future. This may be analogous to a business that maintains a generous refund and customer relations policy, and makes a practice of giving customers the benefit of the doubt. This might not be as profitable in the short run as a more rigid policy, but is more likely to lead to repeat business, customer loyalty, and long-term gains.

NO “FREE LUNCH”

Let’s consider some of the key ideas of chess, and see how they relate to business, particularly finance and economics. One of the major lessons that we teach in economics, usually around the first couple of weeks in an introductory class, is the concept of opportunity cost, or that “there is no such thing as a free lunch.” In fact, we demonstrate this maxim with production-possibility curves, and also with equations.

Chess also hammers this lesson home to beginners rather dramatically. One common mistake that beginners make is to take a piece that appears to be *en prise* (up for grabs). That often proves to be a costly mistake, as it puts them in an awkward position, and may ultimately cost them the game. So one quickly learns to “read the fine print”, or check carefully when something appears to be free.

LONG-TERM THINKING

That brings us to a very important lesson of both business and chess, which is to think long-term, and not sacrifice long-term well-being for short-term gain. The problem of myopic, or short-term thinking, has been thoroughly documented in the business and financial literature.⁴ One of the most common mistakes made by corporations may be focusing on the short-term “bottom line.” This quest for short-term profits has caused companies to cut back on research and development, to “downsize” to cut costs without recognizing the long-term costs in terms of employee motivation, competence, loyalty and morale, to condone unethical conduct. To ignore employee training, and to take other actions that have proven very costly in the long run.

Perhaps one of the most important lessons from chess is the focus on long-term thinking, and looking at the “big picture.” Not planning ahead, or focusing on only one part of the board, is a sure way to lose games. Unlike business, in which it may take years to experience the consequences of one’s mistakes, in chess one quickly learns the consequences of poor planning. Therefore, chess can be a very effective tool in teaching business students the importance of long-term planning.

Investment Strategy in Business and Chess

One of the most interesting elements of chess strategy is the gambit, which is the offer of material in order to gain a long-term advantage, usually by positioning one’s pieces in a strategic location. I would argue that this is very much like an investment, in which one gives up money in the short-run (forgoing present consumption or dividends), in order to invest in a project, product, facility, technology, or new market that is expected to offer greater cash flow in the long run. Capital budgeting is one of the key components of a Principles of Finance or Financial Policy and Planning course. Much time is spent analyzing whether an investment, which entails giving up cash (or consumption) in the present is worth the cost. This analysis is also a central component of chess strategy.

This also ties in with the idea of the importance of long-term thinking, but in business and chess. What all investments have in common is that they require giving something up in the hope of long-term gain. Another attribute common to investments, and also to gambits, is the element of risk. There is always some chance that things will not work out according to plan. Although financial theory goes a long way toward quantifying risk, it is not always possible to assess exactly how much of an impact risk has on capital budgeting decisions.⁵ Both in business and in chess, emotional as well as logical considerations influence one’s willingness to take a risk in the hope of a future benefit.

FLEXIBILITY

Another lesson of both business and chess is to be flexible, and have contingency plans. It is not sufficient to have one only plan, and assume that everything will work out according to the original plan. A great number of things can occur that might thwart one’s plan. In business, some examples are strikes, loss of a key supplier or customer, a competitor coming out with a better or cheaper product, or a process that can produce the process faster or at a lower cost, the entry of new

competition, currency fluctuations, new government regulation (or deregulation), changes in the tax laws, and myriads of other possibilities. In addition to possible threats, new opportunities are frequently presenting themselves. Some of these opportunities might include new technologies, deregulation, availability of a new source of raw materials, the development of a new market, and a host of others. Business strategy entails constantly looking for new opportunities, as well as being on the outlook for new threats.

Likewise, in chess, every move one's opponent makes may create new threats, but also present new opportunities. A good chess player is constantly looking for new opportunities, rather than just forging ahead with the original plan. Likewise, he or she is constantly on the outlook for new threats, and therefore must consider the reason behind every move an opponent makes. In general, one cannot expect to correctly anticipate one's opponent's responses to every move. Flexibility is important for success, both in business and at chess.

PATIENCE

Another business lesson one can learn from chess is the importance of patience. While there is certainly a time for bold, decisive action, it is equally important to know when to wait. A common mistake is acting impulsively rather than waiting and considering all the possibilities. Of course, there is a time when the "first mover advantage" can be important, and it is critical to think and act quickly. But there are also many situations in which it is important to remain flexible, and wait for the competition to commit to a course of action.

PERSEVERANCE

Another valuable lesson is not to give up when things don't go well. Chess can be instrumental in teaching that lesson. In my opinion, it is a mistake to give up just because one has lost a piece, or gotten into an awkward position. Personally, I find it more gratifying to reverse a bad situation, such as fighting on when one is behind in material, than to simply win an easy victory. Learning to "snatch victory from the jaws of defeat" can be a very valuable life lesson, and certainly one that is important in business situations.

TEAMWORK

Perhaps one of the most prevalent negative stereotypes about chess is that it is a solitary activity played by introverted people. Those who believe that have apparently never observed a brainstorming session at a chess club, in which people work together to figure out responses to complex situations. As a matter of fact, working on chess problems together is an excellent opportunity for business students to develop their ability to work as a team in developing a strategic plan. By each individual bringing his or her particular problem-solving skills to the situation, and discussing possible counter-strategies the opponent can take, the group is likely to develop a more effective strategy than any individual member of the group could.

CHESS AS A TEACHING TOOL

Given the parallels between business and chess, and the plethora of life lessons that chess can provide, it seems that chess can be a useful teaching tool in helping business students to develop strategic planning skills. As the above discussion indicates, it appears that chess could help on to develop intellectual skills, such as the ability to plan, think long term and consider long-run consequences, weigh the advantages and disadvantages of a course of action, assess risk, form contingency plans, and continuously evaluate the opportunities presented by a situation. In addition, chess can be useful in helping to develop character traits or life skills that should prove important in one's career. Among these traits are ethics, or a sense of fair play, perseverance, patience, self-control, and a spirit of cooperation as well as competition.

CONCLUSION

This paper has attempted to show that there are a number of parallels between chess strategy and business strategy. Perhaps most important are the importance of thinking long-term and looking at the "big picture", assessing the risks as well as the upside potential of different courses of action, the importance of giving something up in order to position oneself for a future gain (investments or gambits), and forming contingency plans. It also appears that encouraging students to play chess may help them to develop habits of thinking, as well as character traits, which correlate with academic and business success.

Future research might look at the academic averages of college students who are members of the chess club, perhaps broken down by academic major, as well as comparing students' academic performance after they are active members of the university chess club for at least one year with their performance before they joined the chess club.⁶ Based on the similarities in business and chess strategy, we may well find that business students who play chess perform better in their business classes.

ENDNOTES

1. I would like to thank Dr. Steven Gordon, of Babson College, for his generous advice in the preparation of this article.
2. It should be pointed out that, under the standard rules of chess, a player is obligated to move a piece once he or she touches the piece. Those rules would apply in a tournament or inter-collegiate competition.
3. In this regard, I should point out that I am the faculty sponsor of the University's Chess Club, and I believe that helping students improve their game will make for a better chess club.
4. Examples of discussions of the importance of long-term thinking can be found in Carter (1971), Coughlin and Schmidt (1985), Dechow and Sloan (1991), Donaldson (1984), Graber (2004), Kelm, Narayanan and Pinches (1995), McConnell and Muscarella (1985), Pinches (1981), Porter (1985), and Reichheld (1996). Examples of discussions of the importance of long-term planning in chess are found in in Euwe and Meiden (1966) and Shenk (2006).
5. The psychological aspects of risk assessment are discussed in detail in Shefrin (2006).

6. For the comparison to be statistically significant, especially when other variables are taken into account, it would probably be necessary to look at results from a large number of schools.

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