Assignment Number 4-4

Corporate Structure and Business Level Strategy: Failed Strategy

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Intro

This paper will take a look at a failed strategy and how the company's structure contributed to the issue. First, the paper will detail some background on why the company chose their particular strategy in the first place. Then the strategy will be described through a history of how the company started and ultimately failed. The next section will point to problems with the company's structure. The conclusion will try to identify things the company could have done differently, in terms of strategy and structure, that might have helped them avoid disaster.

Background and Strategy

In the early 1970's Dave Arneson, Gary Gygax and Don Kaye collaborated to create the world's first pencil and paper role-playing game (RPG) "The Fantasy Game" which was later renamed to the more familiar "Dungeons and Dragons (D&D)." These types of games are attractive to their fans because of the amount of freedom the system allows. For those who have never played an RPG this is a quick explanation:

> "In role-playing one person is a dungeon master (DM), game master or keeper. He or she controls the world and tells the other players what they're experiencing. Whether it be battling a coal monster or just kicking back in a smelly old tavern with some roguish elves. Every few hours the game employs dice rolls to determine the outcome of certain events. Although, unlike most board games you're familiar with, role-playing games often use a 20-sided dice." (Linehan, 2010)

Over the years, the hugely popular game has spawned many look-a-likes covering all genres including: Sci-Fi, the wild west and even properties like Indiana Jones, 007 and the Teenage Mutant Ninja Turtles.

The attribute that makes these games so flexible is the ability to change the course of the story at any time. Although prewritten and plotted "adventures" are available for D&D, there is nothing to stop players from following a story thread the DM had not thought of before-hand. In fact, a desirable skill of a good DM is the ability to "shoot from the hip" and make up interesting story elements on-the-spot.

The way an outcome is determined in an RPG is: a die, or dice, are rolled against a series of numbers depending on a character's ability and the difficulty of the task at hand. The numerical core of these games made them perfect to try and translate into computer games. This process is a cinch for computers to quickly calculate the outcomes. Hundreds of video games have been created using some form of the D&D rule set as a schema. Unfortunately, few have come close to re-creating the immersive game-play, and none have been able to exhibit the flexibility, of a live RPG. Jason Ray, and his company Explorati, took on that challenge in the mid-1990s with a bold vision to create a computer game engine that could be used to give users an authentic RPG experience in any world they could imagine.

Unlike traditional RPGs, when a video game is produced for the PC, or consoles like the Xbox 360, everything needs to be created in advance. The story, art, sounds, music, weapons, decision trees, voice acting, etc. all need to be produced first then brought together to create the game. This process creates production budgets for modern video games that regularly jump into the $30-$40 million dollar range and take many years to finish. To date, the most expensive video game ever created was Grand Theft Auto V with a budget of over $100 million dollars (Briggs, 2010). The structure these games operate on is called a "game engine." Game engines make a library of pre-built objects, characters and physical rules available to game designers so that they don't have to spend money and time developing their own custom version for each

individual game. Ray saw how many games were being made using the same engine and set out to create the ultimate game engine.

Ray's vision for his game engine was way ahead of its time. He called for it to be able to connect thousands of players across the internet (known as a massively multi-player online role-playing game (MMORPG)) and be powerful enough to adlib the story as the player went along. His rationale was that if the engine could be perfected then it wouldn't matter what setting the games were placed in, the extravagant start up production costs most games need would already be taken care of.

The Explorati engine would let players login to many different settings, such as the Star Trek universe. In this world, users would login and take over the roles of captains, science officers, engineers, Vulcans and all manner of aliens. The players could teleport into the surface of an uncharted planet and the engine would generate content as it was discovered. Even if the players weren't instigating content generation with their exploration, system generated avatars would be created to continue the plot. This system was designed to ensure the players would never be bored.

In an another forward thinking move, Ray also imagined integrating simple e-commerce functions into the games. Like the outfit your avatar is wearing? Simply click on the conveniently placed order now button and it arrives on your doorstep in your size. The plan was to attract advertisers, media channels and players in a mix of movies, games, commerce and commercials.

The key to the engine's success was a concept Ray termed "Improvisational Computing." The player-centric idea meant that each character was the focus of their own story. Basing the

action off of the choices players made instead of what choices the games designers presented meant a unique story would be produced every time they logged on.

Explorati chose to create a demo world to show the power of Improvisational Computing and create some media buzz. The co-founder, Michael Feder, came up with the idea to make a digital replica of the world-famous Playboy Mansion. To accomplish this goal, Ray got funding through investors and slowly built up a staff of industry experts. As more employees came on board, Ray tried to get them buy into the idea that this unprecedented idea of immersive gameplay was not only possible but that they were going to make it happen. Despite Ray's continued enthusiasm many employees, including the VP of engineering, were convinced that the goal was unachievable. This split in opinion ran straight through the middle of the company. For each true-believer there was an equally dedicated detractor. Every meeting turned into an us vs. them affair for both sides. The company struggled along for many months without much to show for their efforts. Then the dot-com crash occurred.

All outside tech investment disappeared overnight. The contracts that Explorati had already secured were canceled and Ray continued to put his own money into the venture in an attempt to reconcile his divided workforce. Once the American economy was thrown in to recession by the terrorist attacks of 9/11, any hopes of Explorati recovering into a profitable company were ruined and the company disbanded shortly thereafter.

Flaws in the Structure

The biggest problem at Explorati stemmed directly from its structure. Ray tried to create a culture similar to the self-organizing structure of W.L. Gore and Associates. According to Gore's website "How we work at Gore sets us apart. Since Bill Gore founded the company in 1958, Gore has been a team-based, flat lattice organization that fosters personal initiative. There

are no traditional organizational charts, no chains of command, nor predetermined channels of communication." (W.L. Gore & Assc., 2011) Using Gore as an inspiration, Ray organized the company to consolidate into teams based on self-selection while leadership roles and authority developed from the rest of the team.

The software developers and engineers had no problem working within self-organizing teams because the philosophy is similar to a programming methodology called "Agile Programming." Agile Programming is defined as "…an approach to project management, typically used in software development. It helps teams react to the instability of building software through incremental, iterative work cycles, known as sprints." (Agile Programming, 2009) Unfortunately, the artists and game designers didn't have a similar organic structure background to work from. They were used to more mechanistic structures with clear org charts and top down expectations. The combination of working on an unfamiliar product in a strange culture caused most of the artists and game designers to flounder.

Another structure and strategy failure that led to the downfall of Explorati was the inability to agree on what they were trying to accomplish. Ray said "There also was some disagreement about the actual goal of the company - were we there to pioneer a new form of entertainment, or just make a fun game?" (Ray, 2011) The lack of centralized power in the organization led to this argument being constantly revisited and remaining unresolved. Illustrated by George Harrison's lyrics in the 2003 song "Any Road" where he paraphrases "Alice in Wonderland's" Cheshire Cat "If you don't know where you're going, any road'll take you there" (Harrison, 2003) This inability to set the path forward meant the company never had a destination or common goal to rally behind.

Finally, Ray also cited an issue with their marketing strategy. The structure of the company didn't include a sales division, leaving the founders split between to try to fix culture, structure and marketing issues at the same time. Ray said "You can't evangelize a new idea for non-gamers and sell a specific game contract to a specific game publisher at the same time." (Logan, King, & Fischer-Wright, 2008) Explorati alienated advertisers because the model had a unfamiliar method to reach customers. They then proceeded to push away hard-core gamers be touting the game for non-traditional gamers. According to the authors of Blue Ocean Strategy "There are two types of strategy: structuralist strategies that assume that the operating environment is given and reconstructionist strategies that seek to shape the environment." (Kim & Mauborgne, 2009) Explorati attempted to be a reconstructionist company, carving out a market where none had existed before. But by ignoring the operating environment and not creating a product with an incremental improvement that stakeholders could recognize, they couldn't market to anyone.

Suggested Changes

Explorati had a series of unfortunate events that contributed to its downfall but they could've improved their chances of weathering the storm with a few changes to their strategy and structure.

1. Don't hire employees that won't buy into the vision.

Explorati had a roster of skilled professionals that would've made any game company at the time jealous. Regrettably, great skill that doesn't support the vision is not as useful as mediocre talent who are passionate about the company and their shared goals. They would've made up for their lack of expertise with passion. Joe Santana, a 17-year professional in the I.T. field, puts it this way as he recounts the story of hiring one of his

best Operations Assistant: "The fact that she did not even know how to use the spreadsheet program that was necessary for the job did not deter me from hiring her over two candidates who were accomplished pros with the same software." (Santana, 2002) Her passion for the work allowed her to learn the software in a short time and become a top performer in no time. Software and processes can be taught but passion and talent cannot.

2. Recognize the culture issues and take corrective action early.

    "As the CEO I should have either committed fully to the self-organizing model …, or I should have abandoned it in recognition it wasn't right for this particular group – doing neither was a big mistake." (Ray, 2011) Ray allowed the company to remain dormant as no leaders emerged from the loose organizational structure. Complete dedication to either strategy would've have at least pointed a direction forward. George Patton famously said "A good plan executed now is better than a perfect plan next week." (Rumelt, 2011)

3. Do the practical now, the dream later.

    With the vast roster of traditional video game creators, Explorati could have shifted strategy and gone for making a commercially viable video game. Once they had two of three video game hits, the team could've turned their attention to Improvisational Computing and take the next step with a great brand and reputation for making great games. The customer base would've been established and investors would've been easier to find.

Conclusion

To Explorati and Jason Ray's credit, in today's world of high-speed internet, social-gaming, smartphones and unprecedented computer speeds still no one has been able to perfect the idea of Improvisational Gaming or attain the holy grail of video game RPG-esque interactive gameplay. When asked if it's time to try again, Ray responds "It's getting closer now so if we start over we'll see how it works this time." (Ray, 2011)

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