

**Making Great Strategy:
Arguing for Organizational Advantage**

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Preface

Strategy is hard---really hard---to do well. Leaders of all organizations typically proclaim publicly that they have the right strategy, but these efforts often fall short of what's needed to guide an organization effectively through challenging times. Executives will admit to this embarrassing fact in anonymous surveys, but will never publicly question whether their firm has a great strategy. Worse yet, they often don't know what to do about the dilemma they find themselves in.

Why is making great strategy so difficult? At the top of the list is the exceedingly difficult nature of strategic decision-making. Strategy involves undertaking major, interrelated, and often irreversible decisions to ensure long-run success in an uncertain future. Often it involves making and justifying bets that others think are foolish. More fundamentally, strategy involves tradeoffs: saying no to some opportunities in the hope of realizing greater ones.

Yet when the time comes to confront upcoming challenges head on, and to devise a strategic plan that allocates resources to address the wolf at the door, many executives deliver something short of what's needed. Instead of making great strategy, they produce what Richard Rumelt calls bad strategy: They describe trends, they articulate grand goals, and they make nice diagrams with pithy sayings, often using the help of outsiders.¹ In our view, they dodge.

How do you make strategy great? What leaders need is to develop and forcefully articulate the executive team's argument for how their chosen goals will be achieved. The argument might reference all kinds of resources, such as people, technology, finances and even regulators. Above all, the argument must make sense to everyone. It must be logically valid, and it must be accessible to all members of the organization. Most importantly, the argument must realistically identify the various things that need to be true---the assumptions, conditions or

premises, if you will---for competitive success to happen. Such arguments are the core of great strategies, and the centerpiece of successful strategic processes. The hardest part of strategic decision-making involves choosing a direction and allocating resources on the basis of these assumptions and the argument they support. Making such decisions can be terrifying, because the stakes are often very high, and because there are no guarantees. Clear, logical strategic arguments do not remove the need for choice or for making risky bets, but they allow leaders to approach them with confidence.

We wrote this book to aid current executives and future executives (MBA students, young managers, entrepreneurs) and their teams in developing strategic arguments, arguments that can be used to make tough strategic decisions for their organizations with confidence. We advocate a different mentality for thinking about strategy, one that celebrates the value of disciplined reasoning and places constructive argumentation at the center of the strategic process.

To help turn this mentality into practice, we offer a flexible system of three core activities: (1) iterative visualization; (2) logical formalization and (3) constructive engagement and debate with others. We aim to make these activities practical and accessible for the working executive, as a means developing the skills and habits of mind needed to develop and formulate strategy. That is, we explain and illustrate a system by which great strategy and its associated decisions can be actually formulated and managed on a day-to-day basis. We believe that the system demystifies strategy, and makes it easier for executive teams to make their strategy great. While the system does not necessarily make placing risky strategic bets any easier, it does bring the important issues into sharper focus.

We wrote the book partly in reaction to conventional ways of teaching strategy and strategic management. It represents an attempt to do it differently, and better. Specifically, we

aim to provide an approach to making strategy (and an associated set of managerial activities) that is more attuned to the needs of contemporary executives, especially as it concerns assessing and formulating organizational strategy for an uncertain future.

In teaching courses on strategy and organizational design, we discovered that many executives are highly conversant---even expert---in the recognition and analysis of the strategic actions and positions of firms and organizations. Indeed, the central teaching material for a class session on strategy typically consists of a business case, wherein a firm and its competitors are described by their positions in a product market or larger environment. Like most strategy professors, we led discussions around these business cases; and we used basic economic and organization theory to make sense of the firms' position in the product market space. We facilitated fun and engaging discussions as the class identified likely winners and losers. We typically viewed our role as guiding the class participants as they applied theoretical ideas to support their views and to argue against the views of others.

In a typical case discussion, the class adopts the vantage point of a particular focal firm: its position gets analyzed in depth and prescriptions are offered for how to improve its chances of success in the future. In a good class discussion, the students identify the key risks to the firm, and specify the trade-offs inherent in decisions to be made. Additionally, class participants make sophisticated observations and analyses before stating what they would do if they were running the focal firm. A good strategy course takes the executives through a series of such cases, each chosen to emphasize a specific common strategic dilemma and an associated theoretical principle or two.

All that is fine---it's a very good, time-honored way to teach principles of strategy. Still, we often sensed a great deal of frustration from executives and students, and experienced even more ourselves, with using this approach. Why? What's missing?

Here's the problem. While the conventional approach does a good job of teaching the received wisdom of strategy theory and underlying research, it does little to teach how great strategy is actually made, or how it should be managed on a day-to-day basis in a well-performing organization. Moreover, teaching this way simultaneously reifies strategy theory and mystifies the process by which it was created. It is akin to the traditional ways of teaching high school math. A math teacher may teach students Pythagorean's Theorem, for example, by walking through the set of specific assumptions behind it and then---voila---deducing the conclusion. Of course, even for a hard-to-follow proof, the theorem contains useful knowledge, since it solves many puzzles. But the lesson plan tells you very little about how Pythagoras thought about the problem initially, what steps he took in trying to devise a solution, what criteria and process guided his work, and how many false leads he may have pursued before finally finding the correct solution.ⁱⁱ It doesn't teach you how to think like Pythagoras. In the same way, conventional strategy texts do not teach you how to think like Sam Walton, instead they teach you the reasons behind Walmart's success. Similarly, while we do recognize that dozens of books on strategy formulation and the strategy-making process do exist, we find them each sorely lacking for various reasons; but the main common reason is that they do not depict realistically how effective strategy gets made and at the same time offer practical tools for the doing it.

In short, the process of discovering and creating knowledge often looks very different from how that knowledge is communicated to others after the discovery. The same holds true for

strategic knowledge. The formulation process behind most successful strategies can often be, as the old adage goes, like making sausage---the end product is excellent, but those involved in its making describe the process as disorderly, chaotic and messy. But does that mean strategy-making must be hopeless?

As teachers and analysts, we keenly know that the challenge of formulating and changing strategy is almost always far more difficult than what our classroom discussions would suggest. We have long been dissatisfied with the idea that the existing approach reflects the best we can do. After all, for executives and other leaders, formulating and directing strategy-making ranks as one of the most important things they do.

Executives come away from traditional strategy instruction knowing what happened in particular industries or markets, and why those outcomes occurred. So instructed, these executives could easily avoid the mistakes made by the case protagonists. But the next strategic dilemma never looks exactly the same. So, when taught the traditional way, executives will be ill-prepared for a future where they will be asked to craft and lead a strategy for new, unknown conditions---perhaps in markets that operate in different ways and with novel and often untested technologies. By contrast, teaching a positive and constructive system of activities to generate, evaluate and revise strategies provides a missing critical complement, and may just be a better way on its own. The old cliché about teaching one to fish rather than giving him a fish comes to mind.

Despite its novelty, our approach to making strategy remains consistent with many widely used strategic theories of sustainable competitive advantage. That is, the book draws on familiar ways of thinking and problem-solving---ways that are comfortable for most managers, but all too often not applied with discipline to strategic issues. The difference reflects a focus on

the activities used to develop great strategy rather than actual strategic content. Our view says that it is hard, if not almost impossible, for the leaders of an organization to identify and pursue a strategy with good content if they do not have an effective well-honed system of activities for generating and evaluating it.

Who should read this book? We envision the primary audience for the book as current and future executives of businesses and other organizations, including entrepreneurial startups and non-profits. We also think their strategy-making teams would benefit from reading and using the book. At some point in their careers, executives and entrepreneurs must lead and guide the strategy formulation and development process. We hope that the system of activities presented in this book will help them and their teams do that in a disciplined and effective way. Strategy is too important to be treated in any less serious way.

Approaching strategy in this way can at times be challenging. We would be remiss if we did not mention the “technical” aspects of this book. By using logical syllogisms to articulate arguments, parts of the book do not look like the typical fodder offered to executives and managers. Too many business books steer clear of anything even slightly technical or complex. To put it bluntly, we find the “dumbed down” books often written for executives to be both baffling and insulting. They are baffling because some of the most technically sophisticated and intelligent people we have ever worked with are executives, often with background training in highly technical fields such as engineering, finance, accounting and the like. They are insulting because the writing assumes that executives are incapable or unwilling to bear down and work through a complicated set of thoughts. Our experience couldn't be more different---executives are more than capable of and willing to use a more technical approach, provided they believe it will pay off in the end, that the result will be worth the effort. Still, we have tried to minimize

the use of technical material and held it to a minimum; we are not logicians ourselves and recognize that this approach likely opens us up to criticisms of over-simplifying things. We can live with that.

So, what are the payoffs for learning this system? A great strategy, for sure. Drilling down a bit, we would say the concrete payoffs also include:

1. An ability to isolate the key factors driving a strategy and a way to focus on the key decisions behind a strategy;
2. A facility for identifying tacit assumptions behind a strategy's success and a way to make explicit these assumptions for inspection and debate;
3. Enhanced engagement and contribution of members of the strategy-making team;
4. Identification of specific observable factors to be monitored to understand the strategy's on-going performance; and
5. An organization capable of high-performance execution of the strategy.

In using the materials presented in this book to teach hundreds of executives and managers across many years, we have found that most of them figure out two things pretty quickly. First, while the materials (specifically, the logic representations) look a bit different than things they might be accustomed to, after a small investment in developing fluency, it becomes clear that none of the activities offered here are really very technically challenging. Second, the payoffs to learning this system are real, and they start coming fast once implemented in a team or organization. Many executives come away thinking that these activities help them clarify and simplify matters rather than make them more complicated.

The materials presented in the book were developed over the course of our years teaching strategy and organizational design to executives, entrepreneurs, and MBA students. Especially

important to our thinking in developing the book was a course we helped develop and taught at Stanford that was not on strategy per se, but on “Critical Analytical Thinking” (CAT informally). This course was designed to teach students the fundamental principles of disciplined reasoning including logic, argumentation and civil debate. What if, we wondered initially, we applied the tools of CAT to strategy and strategic management? Would it help structure thinking about strategy? Could the somewhat technical tools of CAT be learned and used effectively by business leaders to make great strategy?

Obviously, we eventually answered these questions affirmatively, but it took us years of experimentation, learning and feedback from executives and students. In that regard, we are especially grateful for the opportunities to use and develop the system of activities in classes and especially in extended executive programs that we designed, directed and taught for Alfa, Caterpillar, Intel and General Motors as well as others.

The book would not exist but for the encouragement of our friends and colleagues. For insightful discussions on strategy, we especially appreciate the extended time we spent with executives Mike Ableson, Michael Arena, Ned Barnholt, Paul Branstad, Bill Meehan, Ed Rapp, and Tom Wurster. For encouragement and helpful comments on earlier drafts, we appreciate the suggestions of Michael Arena, Bill Barnett, Jon Bendor, Paul Branstad, Patricia Chang, John-Paul Ferguson, John de Figueiredo, Mike Hannan, Özgecan Koçak, Bill Meehan, Melinda Merino, Giacomo Negro, Charles O’Reilly, David Pervin, Paul Pfleiderer, Laci Pólos, Garth Saloner, Tim Sullivan, Rob Urstein, Lihua Wang, and Tom Wurster, none of whom should be blamed for any remaining errors or misleading statements. Garth Saloner deserves special thanks for shaping our thinking about strategy, and for being a champion of the CAT course at Stanford that set us down this path. Aaron Cash read a near-final version of the manuscript and helped

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Notes to Preface

ⁱ Richard P. Rumelt, Good Strategy, Bad Strategy (New York: Crown Business, 2011).

ⁱⁱ The theorem is attributed to Pythagoras but some question its provenance. Our comments apply to the originator, whoever that person may be.

Notes to Chapter 1