Is luck better than strategy in cultivating corporate innovation?

YES

Chengwei Liu (PhD, Cambridge)
Associate Professor of Strategy and Behavioral Science
If strategy is so relevant, why are they losing and dying at a faster pace?

Point 1: Strategy / preparedness does not seem to be sufficient for cultivating innovations that matter the most to corporations.


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The persistence of Fortune500 Firms, 1995-2018


What about these outliers?
Exceptional corporate innovations signal exceptional luck instead of exceptional strategy
Expected Future Performance

Average Highest Rank of Label Next Single

Current Performance

- Luck does not matter
- Luck dominates

(A) Billboard100 1980-2008, Nonparametric Analysis
Point 2: Exceptional innovations tend to associate with exceptional luck
So, one should focus on the “second best” instead... to avoid being fooled by randomness

Luck still matters when you have an exceptional strategy...
A theory of behavioral strategy as arbitrage

Flawed conventional wisdom / norm

->

Mispriced assets / resources

->

Arbitrage opportunity

WHY DID “MONEYBALL” NOT OCCUR SOONER?

Attractive opportunities are protected by strong “limits to arbitrage”. Overcoming them and monopolizing an untapping innovation/opportunity usually requires being at the right place and right time.

A twist: for a contrarian strategist who has a viable strategy to overcome all the limits, it’s better for the success to be misattributed to luck (or to being foolish, outrageous, unreasonable, or quirky...)

Why are they so poor but so successful?

“They’ve been lucky...”

Is luck better than strategy in cultivating corporate innovation? **YES**, because...

<table>
<thead>
<tr>
<th>Luck</th>
<th>Strategy / preparedness does not seem to be sufficient for cultivating innovations that matter the most to corporations</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Exceptional innovations tend to associate with exceptional luck instead of exceptional strategy</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>When you do have an exceptional strategy, it’s better for your success to be misattributed to luck</td>
<td>0</td>
</tr>
</tbody>
</table>

Total 3

Is luck better than strategy in cultivating corporate innovation? **NO**, because there are no additional points in favor of strategy.
“What would you like to see in a paper when you open up a file as an editor or reviewer?”

Research that helps identify the limit of strategizing / preparedness

<table>
<thead>
<tr>
<th>Percentage of variance in firms’ return on assets explained by:</th>
<th>Industry effects (%)</th>
<th>Firm effects (%)</th>
<th>Unexplained variance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schmalensee (1985)</td>
<td>19.6</td>
<td>0.6</td>
<td>79.9</td>
</tr>
<tr>
<td>Rumelt (1991)</td>
<td>4.0</td>
<td>44.2</td>
<td>44.8</td>
</tr>
<tr>
<td>McGahan and Porter (1997)</td>
<td>18.7</td>
<td>31.7</td>
<td>48.4</td>
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<tr>
<td>Hawawini et al. (2003)</td>
<td>8.1</td>
<td>35.8</td>
<td>52.0</td>
</tr>
<tr>
<td>Roquebert et al. (1996)</td>
<td>10.2</td>
<td>55.0</td>
<td>32.0</td>
</tr>
<tr>
<td>Misangyi et al. (2006)</td>
<td>7.6</td>
<td>43.8</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Observed Performance

From poor to good?
Strategy and preparedness matter.

The role of skill, effort, grit and expected future performance

My opposing sides’ accounts can be useful when...

The remarkable story of the Tatas, Pumas, and Owner of Engineering Innovation Who Changed the World
Quirky
Melissa A. Schilling

Strategy Management of Technological Innovation
The Serendipity Mindset
The Art and Science of Creating Good Luck
Dr Christian Busch
My opposing sides’ accounts can be misleading when...

The role of skill, effort, grit and expected future performance

From poor to good?
Strategy and preparedness matter.

From good to great?
Luck matters.

Source: Google Images
Research that saves the students at the limit from illusion of control and disappointment

A limit of strategizing where decent corporations are

From poor to good? Strategy and preparedness matter. From good to great? Luck matters.

The role of skill, effort, grit and expected future performance

Source: Google Images
Thank you!

References for academics


References for practitioners

