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Making Strategic Choices

One of the great pleasures of teaching at Harvard Business School is that students keep in touch long after they graduate. Over time, we profs get to see how the careers and the lives of our alums unfold. Those careers and lives are as varied as the alums themselves, but some common patterns do emerge.

One of the strongest patterns I've observed concerns the business decisions that our alums make. Right after graduation, most alums are individual contributors—largely executing the decisions made by others. Soon though, they take on decision-making responsibility themselves. The initial decisions alums take on are usually narrow in scope and impact: the choices are contained within a single function or region, and they have limited, short-term effects on company performance.

As alums rise through the ranks, the decisions they face change in three predictable ways. First, the decisions start to have far-reaching ramifications inside companies: the choices influence what a company produces, how it sells and distributes, who it hires, how it trains, what financial resources the company needs, and so on. Second, the decisions begin to shape fundamentally how a company is positioned versus competitors in the marketplace—what a company stands for in the eyes of customers. Third, the decisions become longer-lived and harder to reverse. With these three shifts—internal, external, and dynamic—alums find themselves *making strategic choices* rather than tactical decisions.

At this point, alums need to change how they make choices in order to keep up with their growing responsibilities. Those who do, rise to the next level. Those who don't, hit a ceiling.

Seeing the Whole Landscape

To clarify why strategic choices and tactical decisions require different approaches to decision-making, I turn to some useful imagery.[1]

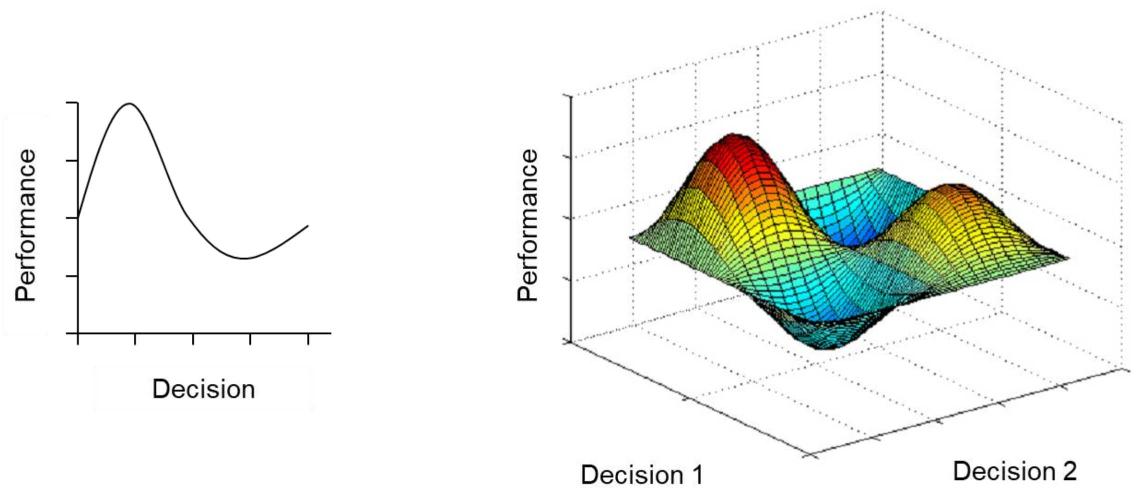
Early in a career, the typical alum has control over, say, one dimension of choice, like pricing or product-line breadth. The alum can be seen as facing a mapping from that choice to company performance—perhaps a mapping like the one on the left in **Figure 1** (below). The alum's job is to make the decision that optimizes performance, and the job is pretty easy: a single, smart person can

[1] This section draws from Jan W. Rivkin, "An Options-led Approach to Making Strategic Choices" (HBS Note 702-433) and Jan W. Rivkin, "Advanced Competitive Strategy, Notes for Educators: 1. An Overview of the Course" (HBS Note 706-449).

Professor Jan W. Rivkin prepared this note as the basis for class discussion. Significant parts of the note come from, or are adapted from, Rivkin's earlier note on "An Options-led Approach to Making Strategic Choices" (HBS Note 702-433) and the article: A.G. Lafley, Roger L. Martin, Jan W. Rivkin, and Nicolaj Siggelkow, "Bringing Science to the Art of Strategy" (Harvard Business Review, September 2012).

have all the knowledge required to make a good decision, and not much coordination is needed with others.

Figure 1 Performance landscapes



Source: Casewriter.

In contrast, when setting strategy, senior business leaders and their teams have to make dozens of decisions—about what advantage to pursue, what markets to serve, what products to offer, how to arrange each of many functional activities, and so forth. Conceptually, they are searching in a high-dimensional space of decisions for a set of choices that, together, yield high performance. Moreover, because each choice affects many others—because production decisions influence distribution choices, say, or because sales and human resource choices affect each other—the landscape on which senior executives search is rugged with lots of local peaks. The situation looks more like the image on the right in **Figure 1**. Each local peak is an internally consistent way of doing business. Starting at a local peak, a change in any single choice in isolation will make the firm worse off, but coordinated change along many dimensions may bring a big improvement.

Most industries have a number of local peaks. In the airline industry, for instance, full-service airlines like British Airways occupy a peak characterized by choices like multiple classes of service, hub-and-spoke operations, high average fares, a range of in-flight amenities, service to primary airports, global reach, fleets of diverse aircraft, and so on. No-frills carriers like Ryanair sit on a very different peak with one class of service, point-to-point operations, very low fares, almost no amenities, service to secondary airports, regional focus, simplified fleets, etc.

In fact, the image on the right in **Figure 1**—with just two choices and two local peaks—understates the challenge. An image like this one is all we can represent on a two-dimensional page. In reality, business leaders are operating on a landscape with far more dimensions than anything we can show on paper, possibly with many more local peaks.

Business leaders who face problems like the one on the right but use decision-making techniques for problems like the one on the left are in deep trouble. They don't have the knowledge or functional expertise required to make all the choices well. They aren't coordinating across decisions. If they optimize decision-by-decision, they might wind up stranded on a low local peak. They're choosing decision-by-decision when, in fact, they need to choose among bundles of decisions (peaks).

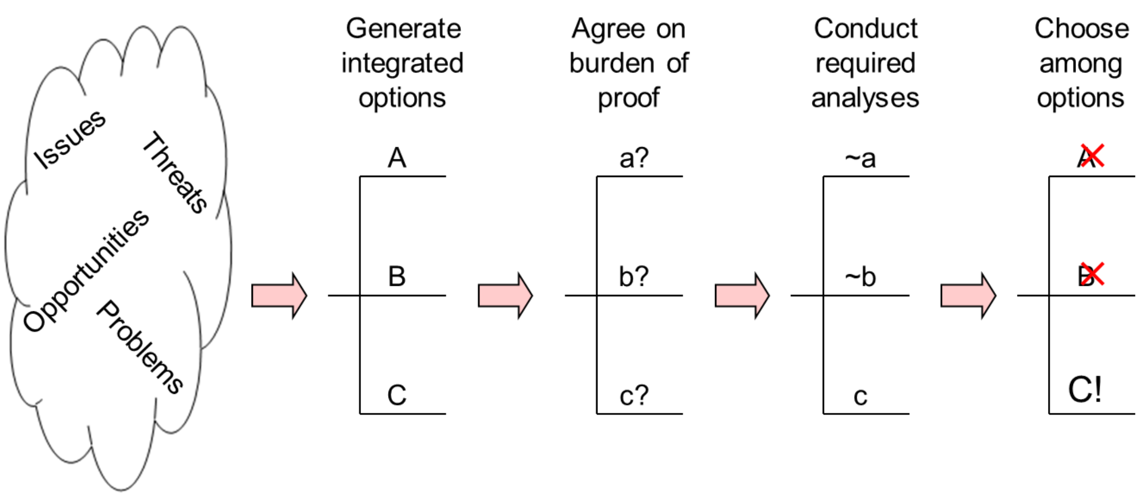
This imagery raises a crucial question: what decision-making approach works well for problems like the one on the right? What approach is likely to lead to success when a leader, or a team, faces a large set of choices that interact to drive company performance?

An Options-led Approach to Making Strategic Choices

The answer is what I call an options-led approach to making strategic choices. Let me say upfront that this approach is not my original invention.[2] Most prominent strategy consulting firms use some variant of the options-led approach, though they use different names for it and sometimes don't codify it formally. Many of the most skilled strategists think along these lines, at least implicitly. The options-led approach also resembles what happens in many effective companies when they encounter a crisis or an urgent opportunity.

The options-led approach is typically activated by the arrival of a true strategic choice. It comes into play when senior executives feel that their company faces a fork in the road (or when junior managers can convince their seniors that they are at a fork). Once activated, the approach involves the four steps shown in **Figure 2**. These steps are usually iterative in real situations, but I'll lay them out here in simple order.

Figure 2 Steps in the options-led approach to making strategic decisions



Source: Casewriter.

[2] Early versions of the options-led approach appear in Roger L. Martin's 1997 white paper "Strategic Choice Structuring" and his book *The Responsibility Virus* (New York: Basic Books, 2002). Later versions appear in A.G. Lafley and Roger L. Martin, *Playing to Win: How Strategy Really Works* (Boston: Harvard Business Review Press, 2013) and A.G. Lafley, Roger L. Martin, Jan W. Rivkin, and Nicolaj Siggelkow, "Bringing Science to the Art of Strategy," *Harvard Business Review*, September 2012. The text of this section draws heavily from Jan W. Rivkin, "The Options-led Approach to Making Strategic Choices" (HBS Note 702-433).

Generate integrated options. First, a cross-cutting team of decision makers convenes. The team represents all the major parts of the firm and consists mostly of operating managers, not staff alone. The team may gather some basic background information initially, especially about changes in the environment. Very early on, however, they *generate a set of integrated strategic options.* That is, the team lays out multiple, internally consistent alternatives for moving forward. It sketches out each option in some detail: what would each option imply about target customers and product lines? About procurement, production, and distribution? About sales, marketing, and service? About human resource management and technology development? And so forth. The detail here is crucial: if the team simply lists different mottos or goals and does not flesh them out, then it has not articulated true strategic options.

It is essential that the team devise a number of viable options, not a single course of action. After all, if there are not multiple options, then the company does not truly face a choice. This step requires the first of three fundamental shifts in mindset. Too often, leadership teams jump quickly to the question, "What should we do?" In contrast, the options-led approach starts with the query, "What *might* we do?" This opens the door to creative alternatives that require systemic change. In terms of the imagery used before, this step requires that the team envision multiple peaks, not just the one they currently occupy or instinctively prefer.

Creativity enters the strategy-making process at this step. Three types of probing questions can help executive teams generate creative integrated options.[3] *Inside-out questions* start with the company's assets and capabilities, and they reason outward: what does our company do especially well that parts of the market might value, that might produce an enduring competitive advantage? *Outside-in questions* start by looking for openings in the market: what are the underserved needs, what are the overserved needs, and what gaps or segments have competitors left open? *Far-outside-in questions* employ analogical reasoning: what would it take to be, in our market, the equivalent of a company we deeply admire in another market?

Agree on the burden of proof. Second, the team *agrees on the burden of proof* associated with each integrated option. That is, it states clearly what would have to be true for the team to prefer each option over the alternatives. What must be true about customers? About suppliers and competitors? About the company itself? And so forth. Before assessing the terrain, then, the team considers what the terrain would have to look like in order to favor each peak. In essence, this step involves identifying the key unknowns that the team must resolve in order to choose among the options.

This second step, like the first, requires a shift in mindset. Often, a leader who faces a decision jumps immediately to the question, "What do I believe?" The options-led approach requires a leader instead to ask a very different question: "What would I have to believe?" This is a major, and often difficult, shift. It requires a leader to admit the possibility that each option is viable, at least for a short while. It forces the leader to imagine a world in which each option makes sense.

In my experience, this step allows creative options that would have been suffocated in a traditional strategic planning process to breathe for a while and gain strength. Take, for instance, a team of restaurateurs with whom I worked.[4] When the team was generating options, one of the younger members shared a reflection. "Our product has a lot of components. The food itself is the obvious part, but there are also all the aspects of service and ambience. We offer a wide menu and charge

[3] Jan W. Rivkin, "Advanced Competitive Strategy, Notes for Educators: 7. Tools and Techniques, Plus Practice" (HBS Note 706-473).

[4] I have changed the industry in which this client competes in order to protect confidentiality.

different amounts for different food, reflecting our costs. But we don't allow differences in the other components. What if we allowed the customer to tailor her whole experience, not just her food, to her preferences, and what if we set prices accordingly? If the customer wants a quiet table, she pays one price; a loud table, another. If she wants a polite waiter, one price; a surly waiter, another. Fast service, one price; leisurely service, another." This nutty option would have been squashed in the traditional strategy-making process, or more likely, it would never have come up. Forced to describe a world in which the option was viable, however, the team realized that this world resembled their reality in important ways. In agreeing on a burden of proof related to the option, the team played with it long enough to find valuable gems in the idea. The notion of tailoring a customer's experience to her unique preferences played a major role in a creative option the company eventually adopted.

The key unknowns identified in this step typically fall into three categories:

- *External.* What would we have to believe about the external world in order for each option to be preferred? For instance, what must be true about customers, suppliers, rivals, new entrants, or suppliers?
- *Internal.* What would we have to believe about the situation inside the company in order for each option to be preferred? For example, what must be true about the company's capabilities, its employees, its financial and other resources, or its cost position?
- *Dynamic.* What would we have to believe about the dynamics of the future in order for each option to be preferred? For instance, what must be true about how competitors would respond to each option or how market conditions might evolve? What must we believe about the ability (or inability) of our people to grow and change?

Conduct required analyses. In the third step in the options-led approach, the management team *conducts the analyses identified by the burden of proof.* That is, it undertakes whatever analysis is required to resolve the key unknowns and choose among the options. Conceptually, the team sends probes out onto the landscape to test the terrain and choose among suspected peaks. The probes might take the form of targeted market research, analyses of current and future internal capabilities, competitor research, personnel assessments, or relative cost analysis, for instance.

Because the senior team has reverse-engineered the analyses from the options, this step is a targeted search for data to help the team choose among specific, viable options. It is *not* an all-encompassing scavenger hunt for data that might or might not be helpful. This highlights a third shift in mindset associated with the options-led approach. Too often, business leaders leap too quickly to the question, "What is the right answer?" In contrast, the options-led approach emphasizes, "What are the essential questions?" The third step is an effort to address those questions.

Choose among options. The final step is to *choose among the integrated strategic options.* The analyses have begun to make clear which option's burden of proof is best met. In practice, however, it is rare that the analyses point clearly and obviously to one option over the others. Instead, leaders have to make a judgment—informed by the analyses—about the tradeoffs among the options. Three questions are often useful in this judgment:

- *External.* In light of the analyses, which option best taps the opportunities and neutralizes the threats posed by the outside world?
- *Internal.* In light of the analyses, which option can the company itself best pull off?
- *Dynamic.* In light of the analyses, which option will best meet the needs of the future?

These questions strike a balance between market and company considerations. For instance, they rule out options that look great from an external perspective but go beyond what a company can actually do—distant peaks that a team is not equipped to scale. Likewise, the questions disfavor easy-to-do options that will fail in the marketplace—convenient but low-lying peaks.

An important benefit of the options-led approach is that it closes the distance between strategy formulation and strategy implementation. By the time a management team has picked a peak, it has partially paved a path toward that peak, for two reasons. First, the options-led process begins with a very detailed description of each option. Early on, the team must lay out the implications of each option for each and every part of the company. The implications become only clearer and more detailed as the process continues. Forced to set burdens of proof and to conduct concrete tests, a team cannot pronounce a grand vision, then leave it to others "just" to implement. Second, the individuals who comprise the team are typically also the people who must march the company to the target peak. Because they have scanned the landscape themselves and have helped to pick out the target, they are more prepared and eager to lead the march.

The heart of this options-led approach is to *put last things first*—that is, to reason backward from multiple viable options to analysis and then to choice. The "s" in "things" is crucial. It is the option-led approach's requirement for multiple options that fuels creativity and productive debate.

A Tool, But More

As you advance in your career, you will likely need to shift from making individual decisions to crafting bundles of related choices with far-reaching, long-lasting implications. The options-led approach is a tool that can help you make that shift. If you use the tool repeatedly, you'll find that it quickly becomes second-nature. You'll discover yourself "thinking in bundles" all the time—maybe even when making sets of personal choices. Moreover, you'll find your mindset evolving in the ways described earlier. You'll start your choice-making by asking "What might I do?" rather than leaping to "What should I do?" You'll pause to consider "What would I have to believe?" before jumping to "What do I believe?" And you'll spend time seeking out the essential questions before looking for the right answers. I hope these mindset shifts are powerful in helping you become a better strategist.