

Is luck better than
strategy in
cultivating corporate
innovation?

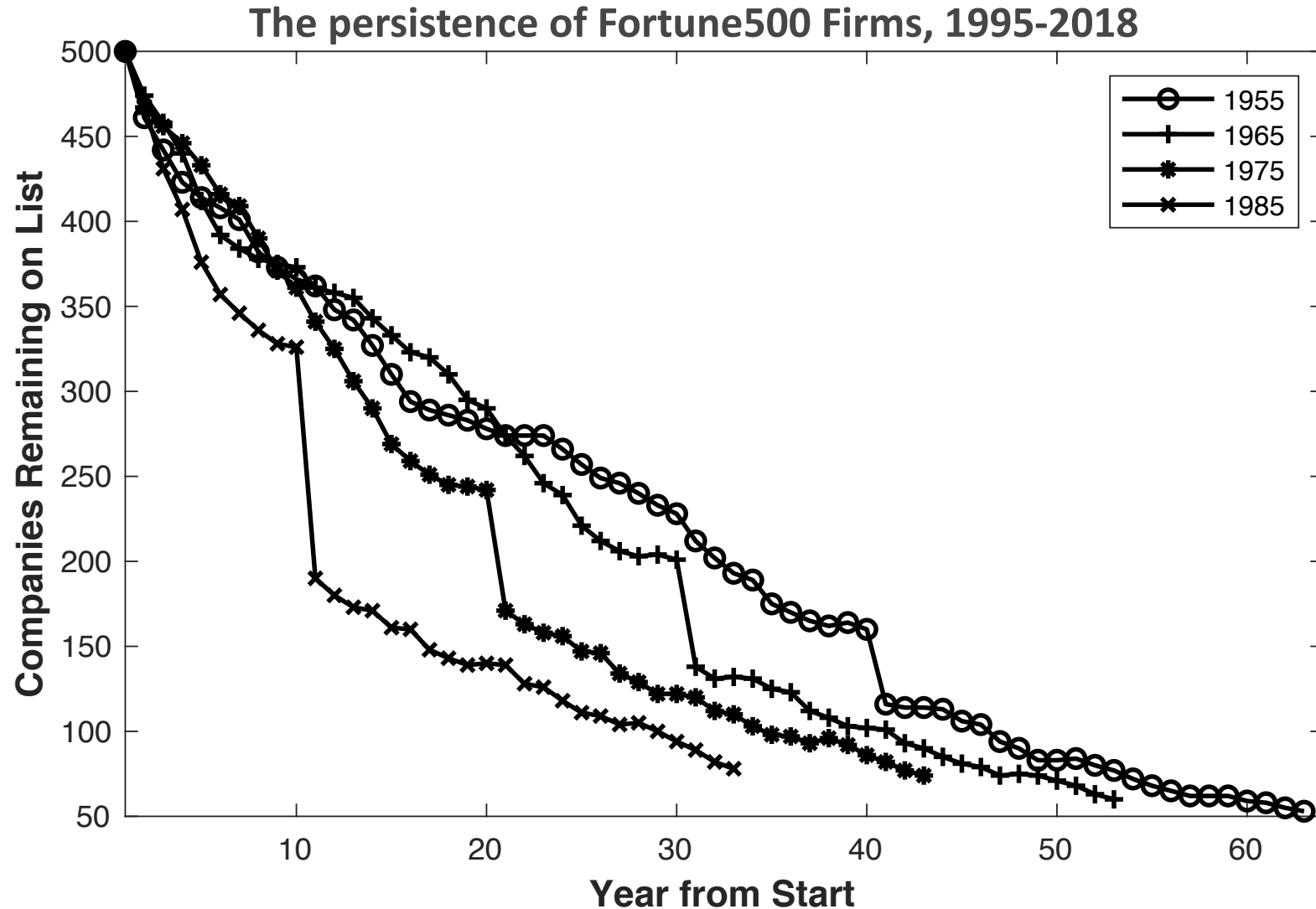
YES

Chengwei Liu (PhD, Cambridge)

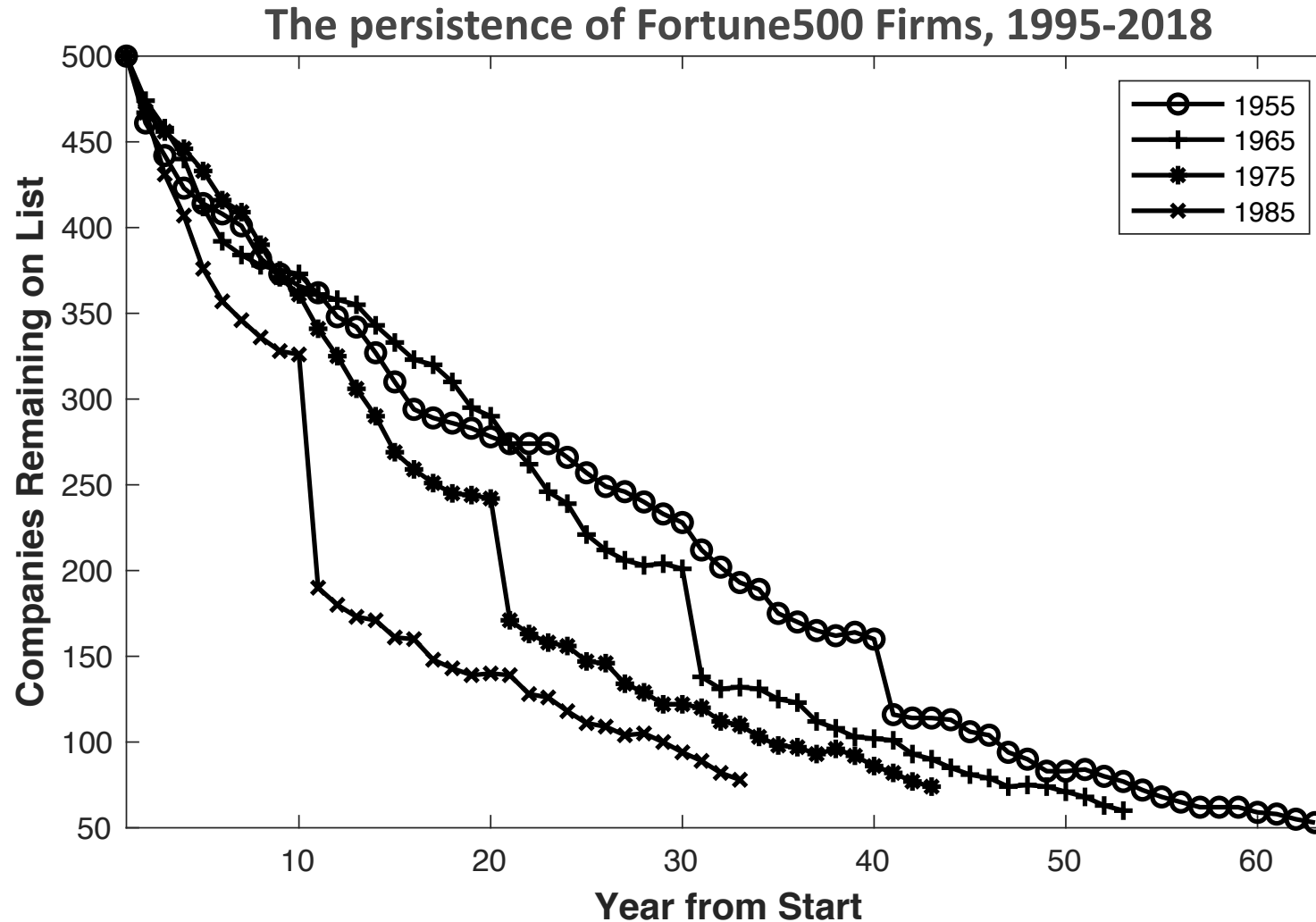
Associate Professor of Strategy and Behavioral Science



If strategy is so relevant, why are they losing and dying at a faster pace?



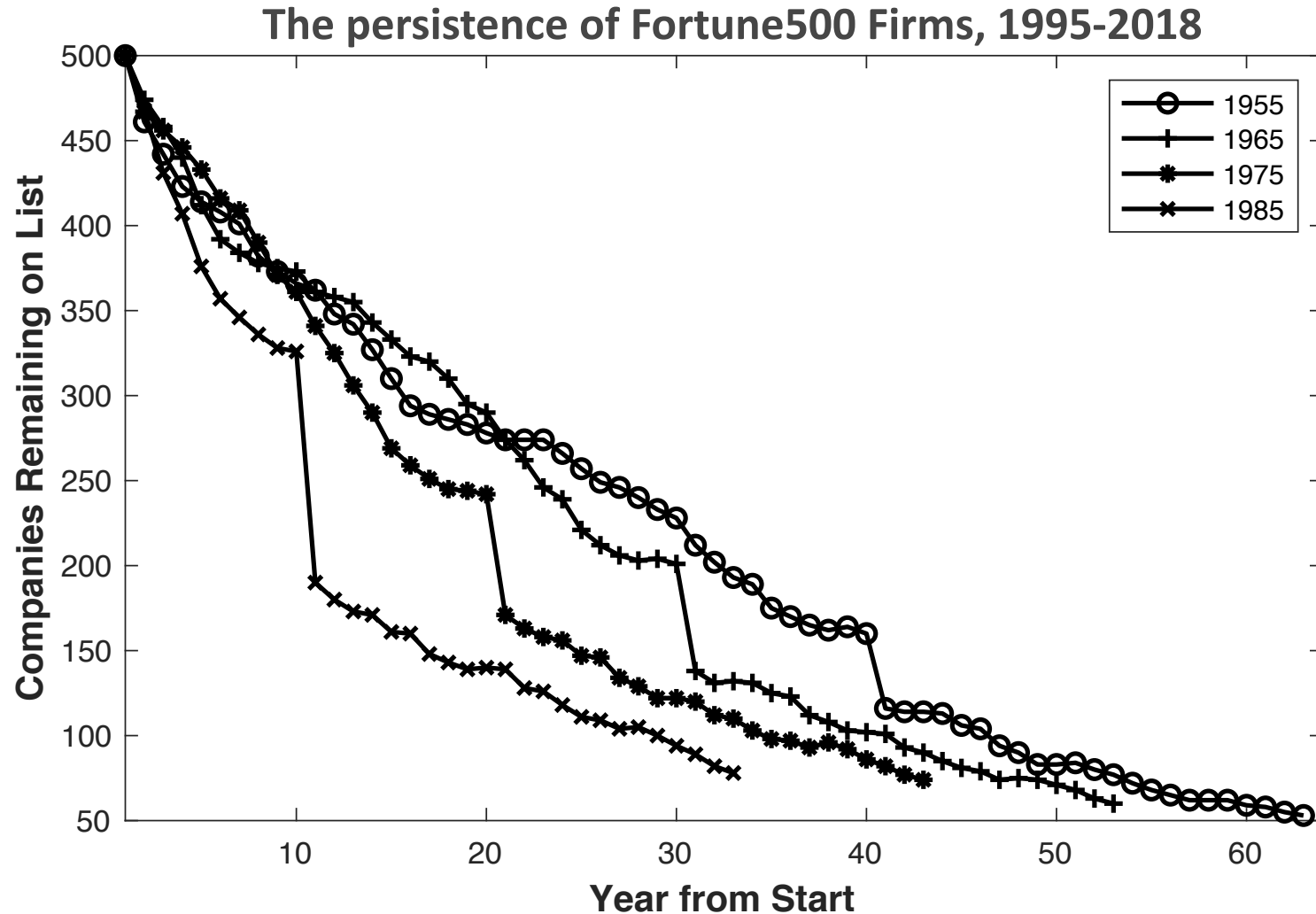
Point 1: Strategy / preparedness does not seem to be sufficient for cultivating innovations that matter the most to corporations



March, James G. (1991). Exploration and exploitation in organizational learning. *Organization science*, 2(1), 71-87.

Liu, Chengwei and Chia-Jung Tsay (2021) The variance of variance. *Research in the Sociology of Organizations*. 76, 129-158.

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



What about these outliers?

March, James G. (1991). Exploration and exploitation in organizational learning. *Organization science*, 2(1), 71-87.

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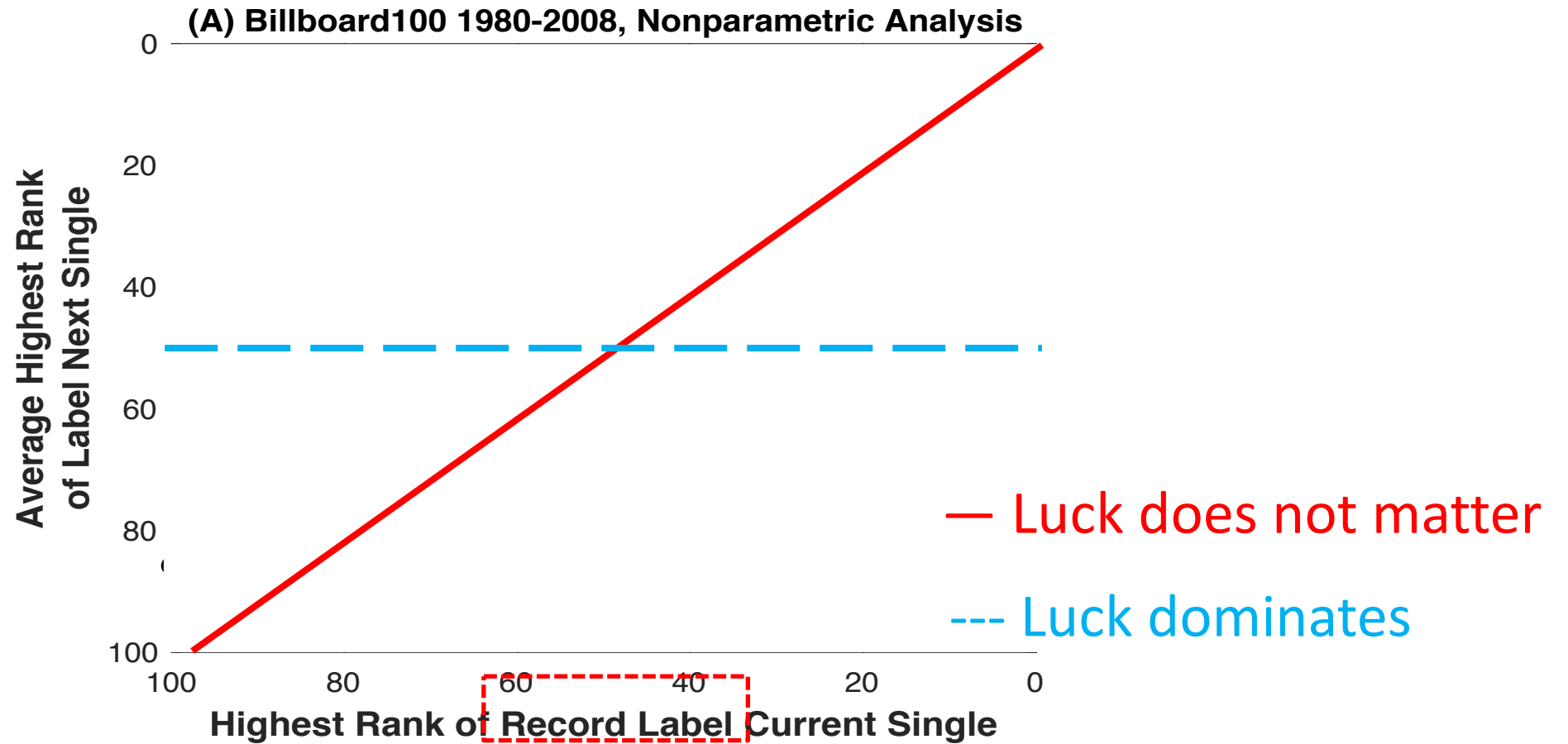
Exceptional corporate
innovations signal
exceptional luck instead of
exceptional strategy



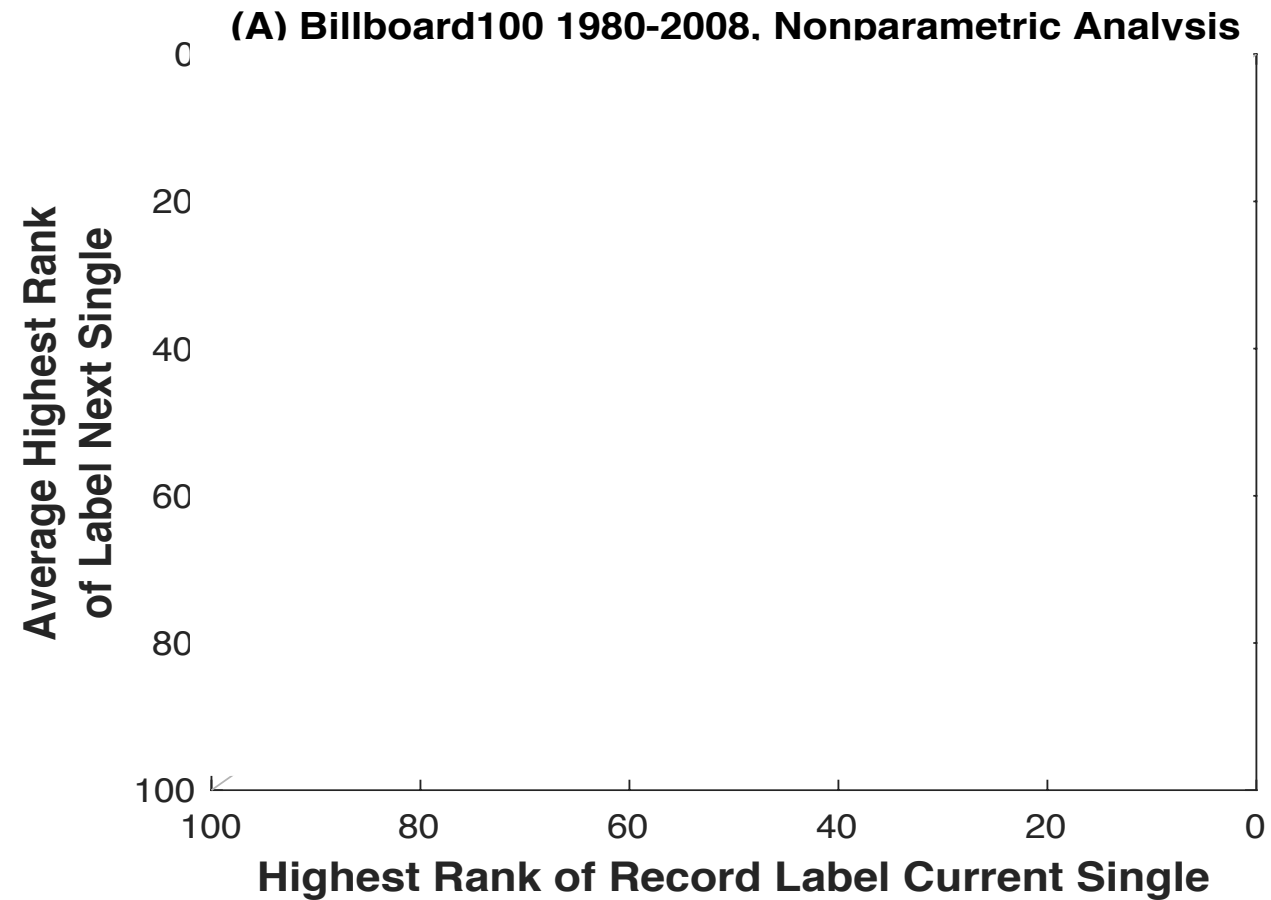
Billboard

HOT 100

Expected Future Performance



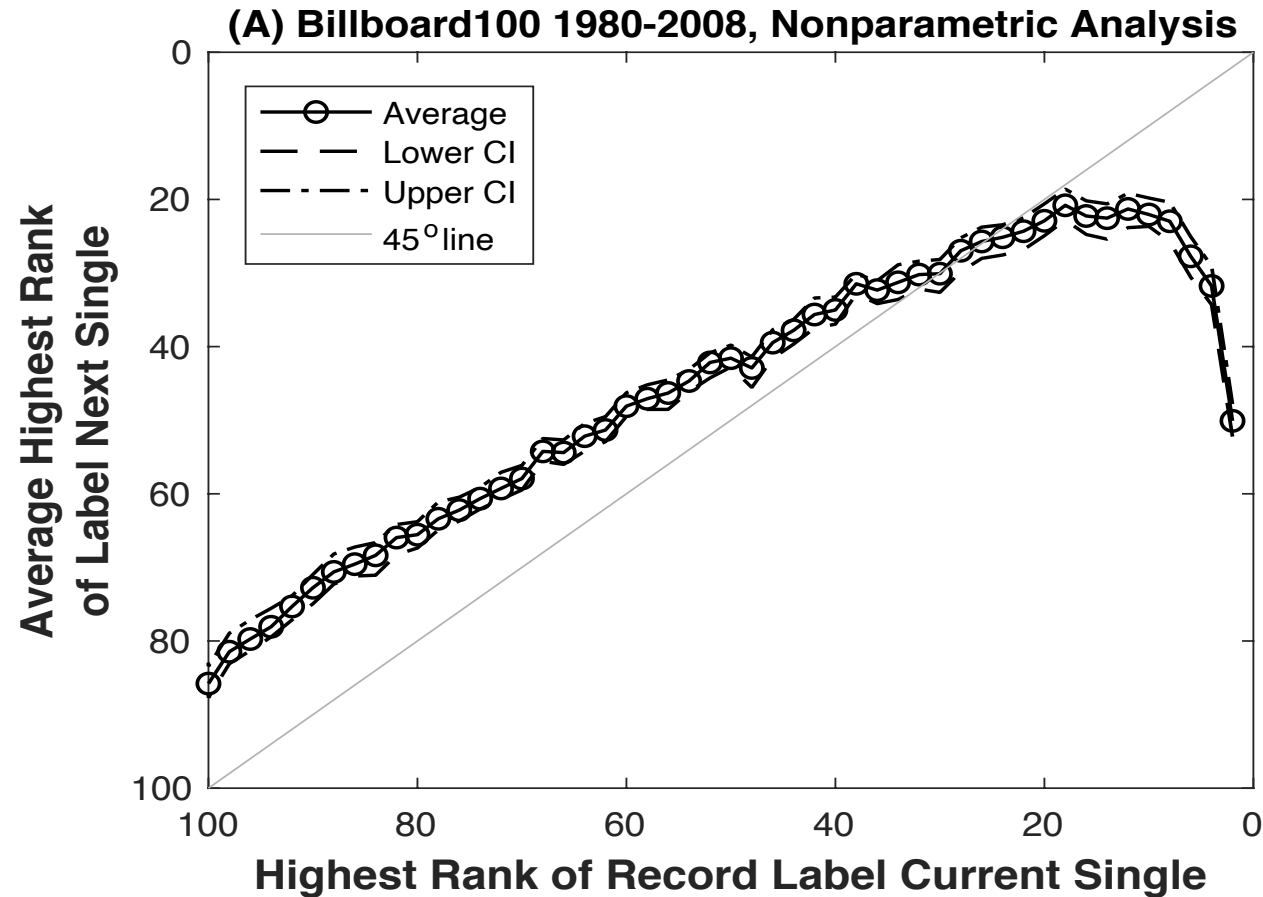
Current Performance



Liu et al. (2021) Should we attribute success to skill or to luck? Empirical evidence from entertainment, innovation, auto racing, and firm performance. Working paper.

Point 2: Exceptional innovations tend to associate with exceptional luck

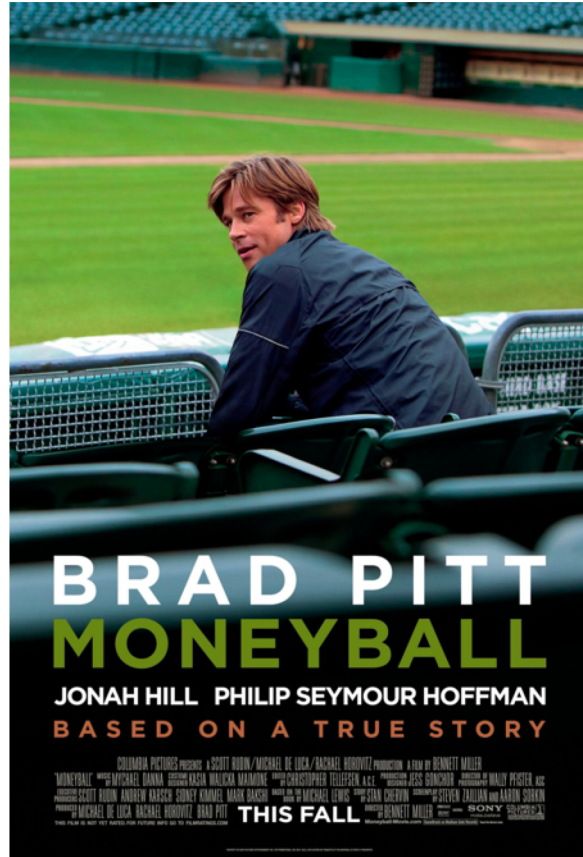
So, one should focus on the “second best” instead...to avoid being fooled by randomness



Liu et al. (2021) Should we attribute success to skill or to luck? Empirical evidence from entertainment, innovation, auto racing, and firm performance. Working paper.

Luck still matters
when you have an
exceptional strategy...

A theory of behavioral strategy as arbitrage



Flawed conventional wisdom / norm

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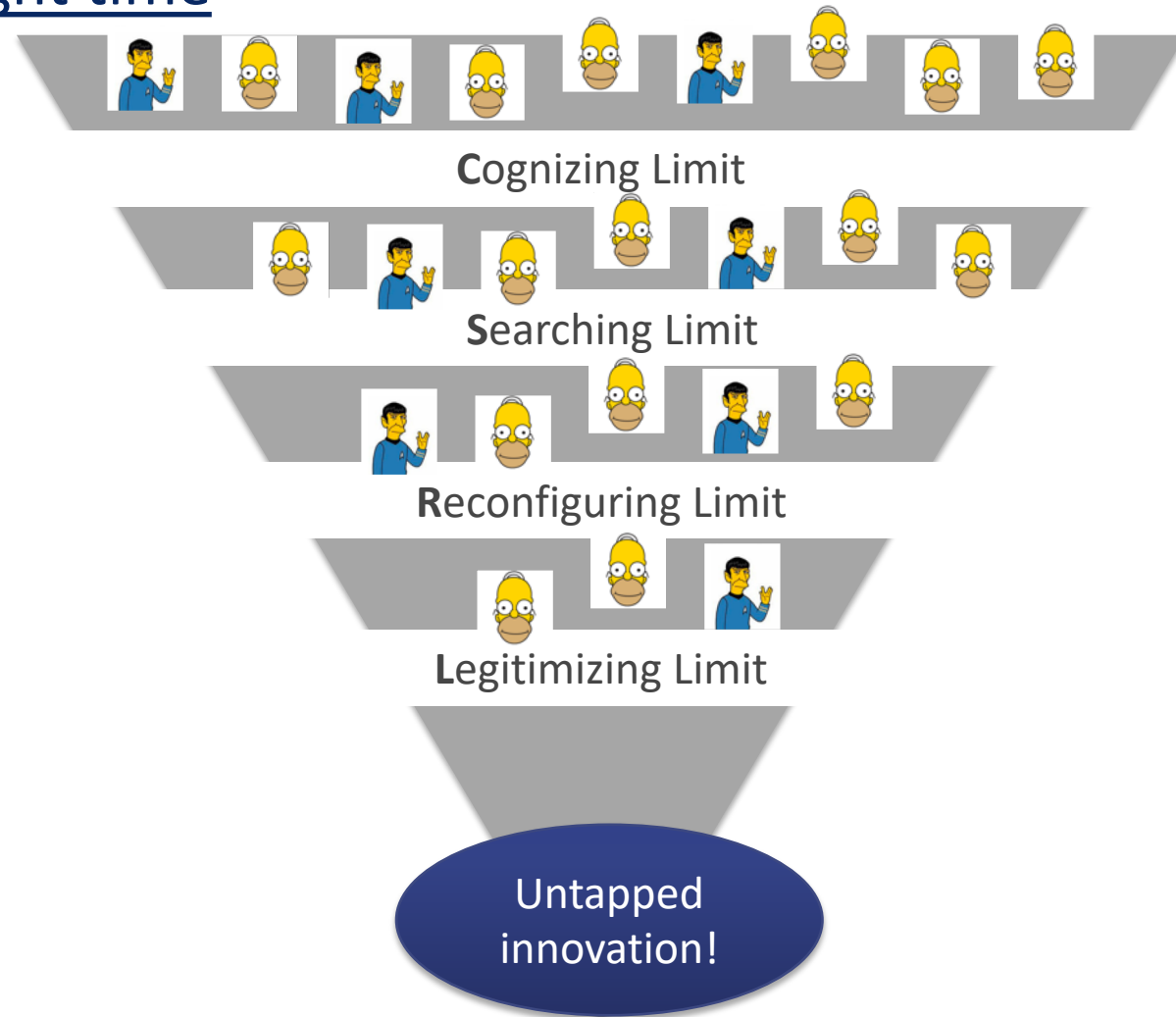
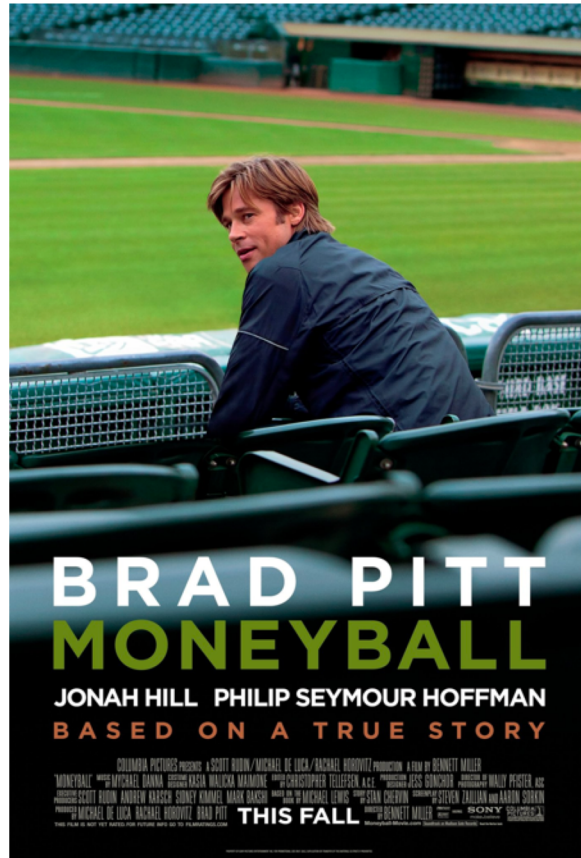
Mispriced assets / resources

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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



Liu, Chengwei (2021). Why do firms fail to engage diversity? A behavioral strategy perspective. *Organization Science*. 32 (5): 1193–1209.

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...

Luck		Strategy
1	Strategy / preparedness does not seem to be sufficient for cultivating innovations that matter the most to corporations	0
1	Exceptional innovations tend to associate with exceptional luck instead of exceptional strategy	0
1	When you do have an exceptional strategy, it's better for your success to be misattributed to luck	0
3	Total	0

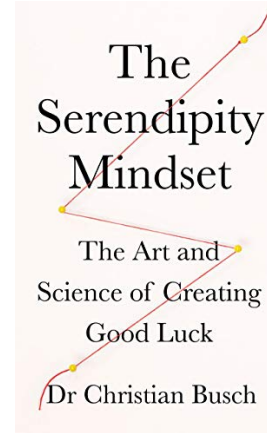
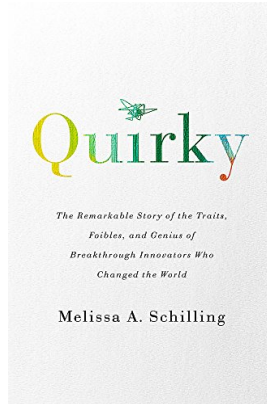
“What would you like to see in a paper when you open up a file as an editor or reviewer?”

Research that helps identify the limit of strategizing / preparedness

Percentage of variance in firms' return on assets explained by:

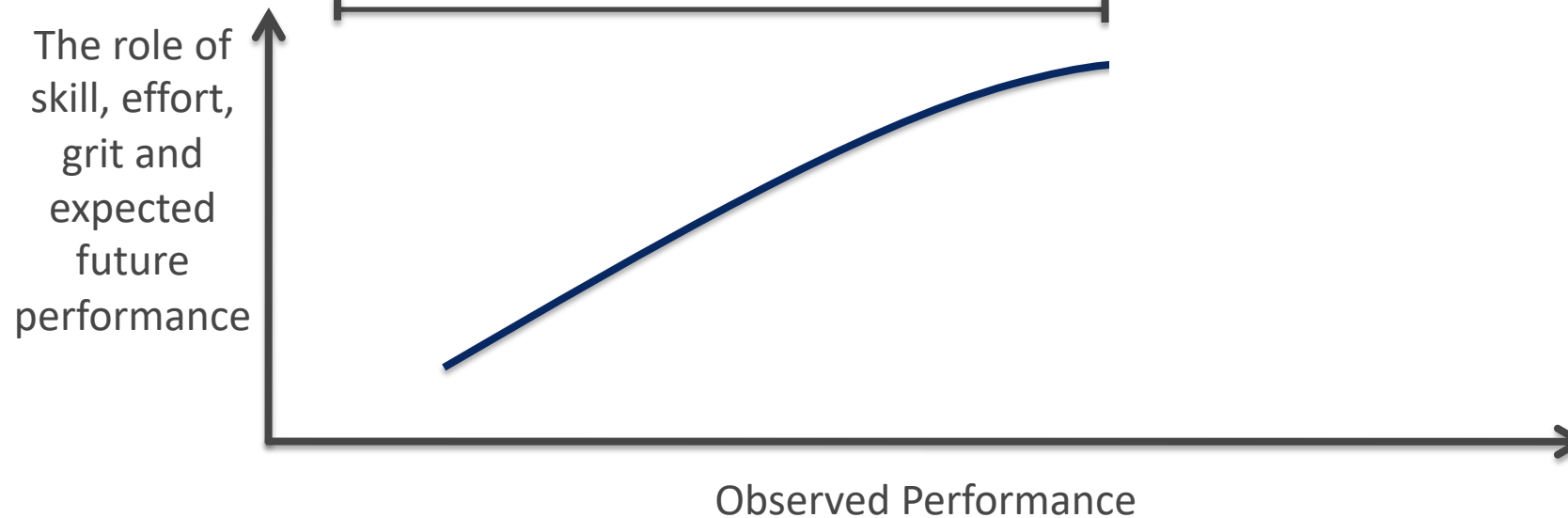
	Industry effects (%)	Firm effects (%)	Unexplained variance (%)
Schmalensee (1985)	19.6	0.6	79.9
Rumelt (1991)	4.0	44.2	44.8
McGahan and Porter (1997)	18.7	31.7	48.4
Hawawini <i>et al.</i> (2003)	8.1	35.8	52.0
Roquebert <i>et al.</i> (1996)	10.2	55.0	32.0
Misangyi <i>et al.</i> (2006)	7.6	43.8	n.a.

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

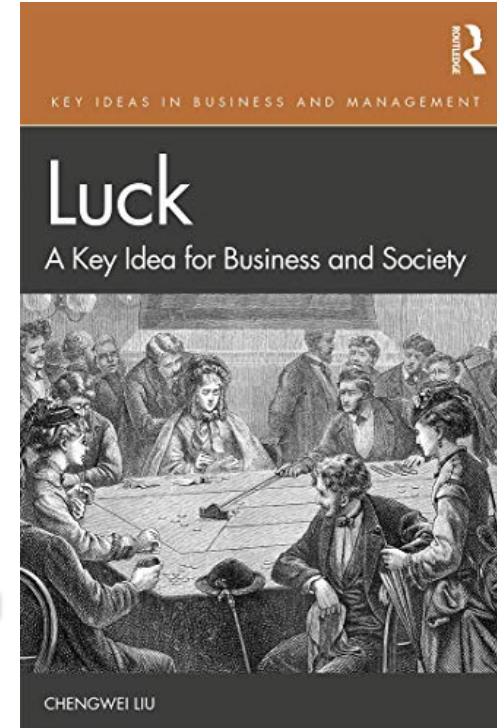
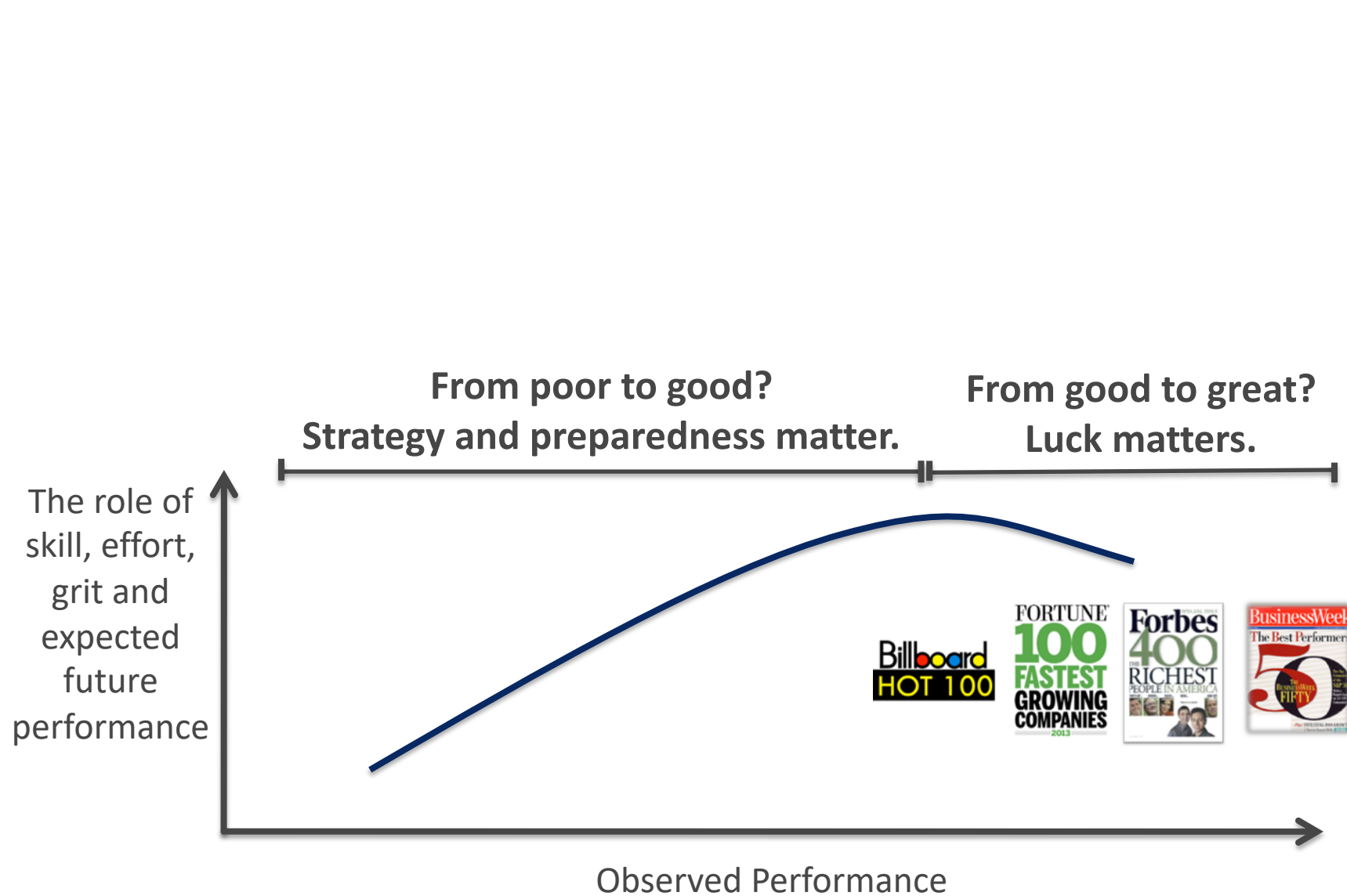


From poor to good?

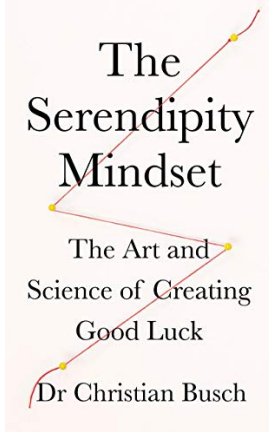
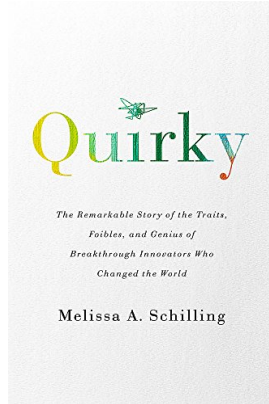
Strategy and preparedness matter.



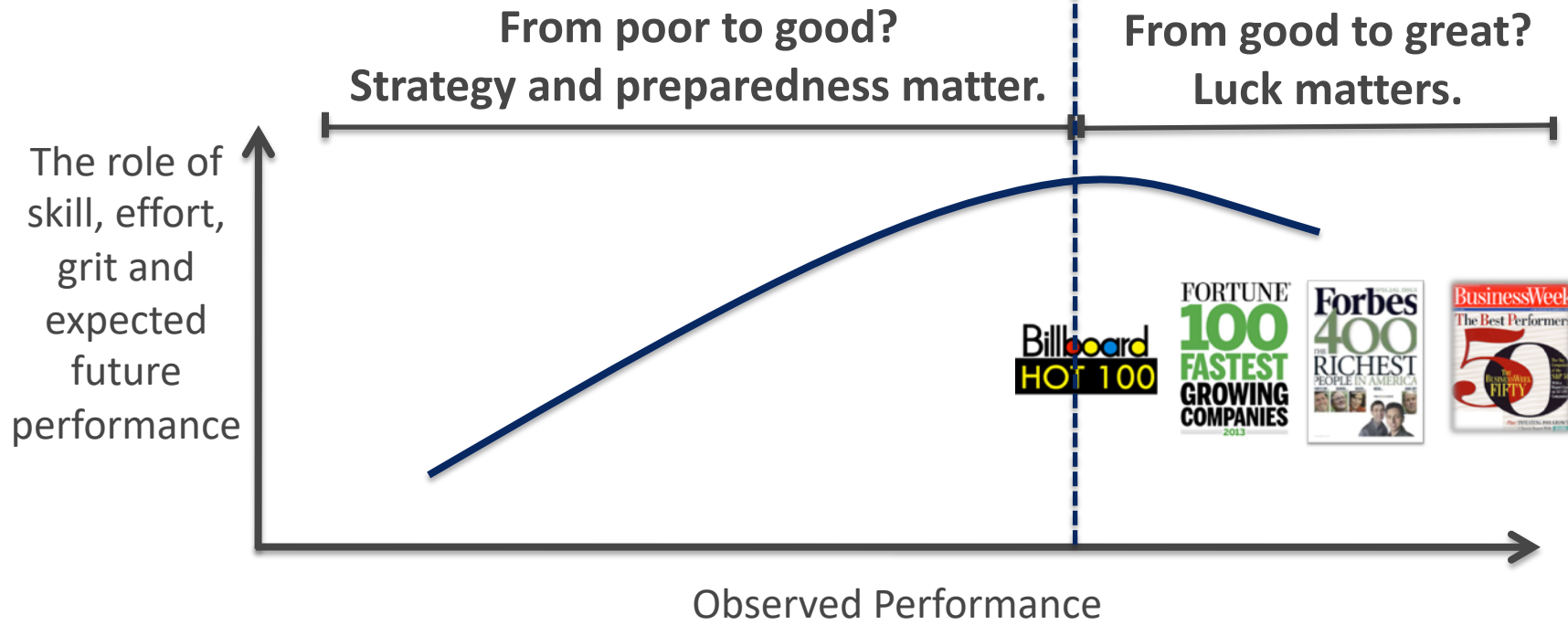
My opposing sides' accounts can be misleading when...



Research that saves the students at the limit from illusion of control and disappointment



← A limit of strategizing where decent corporations are



Thank you!

References for academics

- March, J. G. 1991. Exploration and exploitation in organizational learning. ***Organization Science***, 2(1), 71-87.
- Liu, C. 2020. ***Luck: A key idea for business and society***. Oxford, UK: Routledge.
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- Denrell, J., & Liu, C. (2012). Top performers are not the most impressive when extreme performance indicates unreliability. ***PNAS***, 109(24), 9331-9336.
- Denrell, J., Fang, C., & Liu, C. 2015. Perspective—Chance explanations in the management sciences. ***Organization Science***, 26(3), 923-940.
- Denrell, J., Fang, C., & Liu, C. 2019. In search of behavioral opportunities from misattributions of luck. ***Academy of Management Review***, 44(4), 896-915.

References for practitioners

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- Liu, C. 2021. How to be a smart contrarian. ***Harvard Business Review***, September.
- Liu, C. 2021. Exceptional innovations: Leadership, strategy or luck? ***Forbes***, September.