

# Would Classic Strategy Development Methods Picture a Different Future?

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For the past decade and half, the majority of the organizations that I have worked with, were told to do strategy because it was that time of the year again, and because the board of directors was asking for it. If you have found the strategy development sessions dry with little groundness, you are not alone. Many of the sessions generate strategies that are extensions of the past in nature, and are not designed to spawn any new ideas, or creative ways of doing business. To my experience, the dilemma lies in the reasoning model that most conventional strategy development approaches follow.

The process of connecting the dots in most of the common strategy planning models (SWOT, Five Forces Analysis, PESTEL, VRIO... ) is a front-end-analysis approach. An exercise in which a large volume of data from the past is gathered, analyzed, analyzed again, and ultimately presented. In brief, SWOT compiles data around your strengths, weaknesses, opportunities and threats, PESTEL analyzes your external factors, Five Force scans your positioning, and VRIO examines your resources and capabilities. While each model zooms into a specific aspect of your business, they all follow the same underlying structure. That is to say, they all try to analyze their way into the future, which hinders their chances of coming up with something novel.

Let's take a few steps back, and look at the three fundamental reasoning models that we all use. Simply put, how we come to our conclusions, build confidence, and make our choices. And see how these reasoning models can shape the outcome of the strategy development process. The three underlying methods of reasoning are deductive, inductive, and abductive:

## **1- Deductive Reasoning: Conclusion Guaranteed**

Deductive reasoning is the process of reasoning that starts from a general statement to reach a logical conclusion. Involves moving from general to specific. In other words, it's a top down approach. A classic example would be:

Premise/Idea: All humans are mortal

Observation: Sam is a human

Conclusion: Therefore Sam is mortal (Sorry for picking on you Sam!)

There is no degree of probability in deductive logic. A deductive argument is either valid or invalid, you are either pregnant or not, period. For the conclusion to be true, both the premise and observation need to be true. Now, in order to ensure your premise and observations are true, to reach your conclusion, collecting and analyzing as much data as possible becomes the most important task. It will back-up robust premises or observations from which you can draw strong inferences. However, deductive reasoning cannot really increase your knowledge or lead you to new ideas, because the conclusions yielded by deductive reasoning are repetition of the premises and are basically obvious. Here is an example of using deductive reasoning in business:

A branch manager notices his profit margin is below his target for the first quarter. After analyzing the numbers, he notices his sales revenue is on track, but has spent too much on upgrading their website. Therefore, he decides to cut the website enhancement. In his next quarterly review, the branch meets its target.

## **2- Inductive Reasoning: Conclusion Probably True**

Inductive reasoning on the other hand, is the process of reasoning that moves from specific observations to a broader generalization. Involves moving from specific to general. That is to say, it is bottom up. For example:

Observation: 6 out of 10 customers liked the new product feature

Premise/Idea: Customers think alike

Conclusion: All the customers probably would like the new feature

Unlike deductive reasoning, conclusions reached by the inductive method are not certain, because there is no way to know that all the possible evidence has been gathered, and there is always room for error. In this approach the more data you crunch or observation you make, you have a higher probability of having an accurate theory. You try to find out the theory that explains the data patterns, but the data can lead to different conclusions, or the inferences can change with new evidence. Therefore, it can actually increase your knowledge through making educated guesses based on the gathered data from the past. An example in business is:

The branch manager is preparing next year's budget, and uses the average revenue growth of the last three years (5%) to project next year's revenue.

The deductive and inductive inferences are the foundation of many schools of thought in business strategy. Which probably explains why data analysis is the core to these methodologies. Conventional deductive/inductive-based approaches gather data from the past and project it to the future, with the underlying assumption that future is an extension of the past. Their reliance on gathering and analyzing data from the past, to converge on “What is true” limits their chances of leading you to innovative ways of doing business in the future.

Now you are probably thinking about all the creative ideas that are out there in the world of business, and wondering how they came about. Well, the answer lies in the third reasoning model, the abductive reasoning.

### **3-Abductive Reasoning: The Most Compelling Choice**

Charles Sanders Peirce, one of the American pragmatic philosophers, knew that deductive and inductive can't get you to new ideas, but knew there are all sorts of them. He formulated the logic of abductive or the logic of leap of mind. And as per Roger Martin, the logic of “What might be true”. Simply put, it is inference to the best explanation. Abductive reasoning comes from a set of observations and it tries to explain these observations with the best logical explanations. These explanations can be true or not, and it doesn't necessarily have to be led by scientific rules, but it can be creative, intuitive, and even revolutionary.

Abductive thinking is how your family doctor and Sherlock Holmes solve their problems. For example, your doctor observes you are feverish, then she asks a few questions and measures your vitals. Based on her observations and your answers, she would think of the best explanation for most of your symptoms, and prescribes a treatment. If the treatment doesn't work, she can run more tests, make more guesses, and try a new treatment. While this might sound uncomfortable, you use your abductive reasoning more often than you think. In communication with people for example, you listen to what they say, hear the tone of their voice, see their body language, and try to come up with the best explanation for what they really meant at that moment. And then you will respond accordingly.

A very common application of inductive thinking in business is your endorsement-based inferences in the world of sharing economy. Many of us do our online shopping based on strangers' reviews. The best explanation for why you trust in the reviewers' comments, is that you believe they shared their experience for duly responsible reasons, and they intended that, therefore you should believe it too.

In the abductive-based approach (Playing to Win methodology coined by Roger Martin) after the problem is defined, the iterative process diverges to craft new strategic possibilities to envision “What might be true”. Data collection, testing and analysis are targeted towards those possibilities, only to gauge their plausibility. In this approach the targeted analysis entails building prototypes of each possibility that resemble a possible future, and are tested rigorously in the present.

**Conclusion:**

While all conventional strategy models look into an important aspect of your organization's strategy, the foundation of their logical model is not conducive to generating novel and creative business solutions. The key is to be aware of the limitations of each approach, and to apply the right model to the posing strategic problem. While analysis is an important aspect of any strategic endeavor, doing analysis for the sake of analysis at the beginning of the process is not the most efficient approach.

As a strategy professional, you will need the ability to use all three reasoning methods. If you are looking for new ways of running your business, start your strategy development journey with divergence. Come up with new possibilities, without judgment, and without analysis. To begin, you need a general understanding about your customers, competitors and company. Use an abductive-based process, i.e. Playing to Win methodology, to bring new strategic possibilities to life. Then hone into your inductive/deductive mind to analyze, test those possibilities, and pick the one for which the most logical argument can be made. Only and only after you've created your possibilities, bring in the classic deductive/abductive-based approaches to enrich your process. Else, most likely you will narrow your choices to what you have already done and seen before.