History drives strategy

If given three wishes by the mythical fairy princess, you’d only need one to realise your fondest dream: the ability to see the future. Once you knew how things would turn out, you’d set your company up to win big. And so it is for great CEOs.

Can they see the future with perfect accuracy? No way. But the great ones have ideas about what will work that are more than just guesses. They develop a direction and design based on powerful repeating patterns that significantly increase their odds of success.

Careful study of the history of the firm illuminates potential strategy options. Strategy is the way you choose to fight your opponents, the essence of why your firm exists. You can have no meaningful thoughts about strategy until you understand why your firm is—or was—great.

General Motors, for many years a major automotive force around the world, has now reached a crisis point with the high wages and rich benefits of their workers. Today, the CEO of GM properly notes this issue. But should he have seen it coming? If he had put this problem on his radar screen years ago, while actively searching for patterns to solve it, he wouldn’t have had to look very far.

Caterpillar, another large USA manufacturing company, saw the future. They made a difficult course correction by taking on the unions. Suffering a debilitating strike, Cat obtained the changes needed from their workers.

The board of GM didn’t need to be creative to see what was coming—they just had to read the newspaper and think in patterns about their problems. The simple questions to ask their CEO: Why is Cat taking the strike? What do they see that we don’t? What will happen to us if we don’t take a strike?

When Juergen Schrempp, CEO of Daimler, began thinking about buying Chrysler, an understanding of how the target’s history varied from Mercedes would have illuminated significantly different patterns between the two firms. Mercedes had developed into an engineering leader. Their cars commanded huge margins and were in strong demand.

Chrysler, on the other hand, careened from crisis to crisis. They existed for years on the basis of one hit product, the innovative Minivan introduced in 1983. But as competitors caught up, Chrysler’s pattern of serial disasters reappeared. At the time of the merger, savvy strategists wondered if another meltdown was just around the corner. Schrempp, unprepared for the crisis that befell Chrysler, lost his command post at Daimler as a result.

Every board expects their CEO to have a decent view of the future—at least in thorough outline form. Understanding your strategy—the powerful patterns that repeat in your business—is the essential road map for thinking about the future. Look closely and you’ll see how to connect the dots and chart your route.

The author is a clinical professor of entrepreneurship and strategy at the University of Chicago Graduate School of Business.