Strategy, Complexity, and Economic Rent

Paul J. H. Schoemaker

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Abstract

This paper discusses important friction forces that future theories of strategy must incorporate. Some of these are technological and environmental; but the most important ones—it is argued—are psychological. The view is developed that strategy, at its core, concerns the development and testing of *heuristics* for high stake decisions in environments too unstable and complex to be optimized.

The paper especially highlights the behavioral dimension, in the belief that strategies should incorporate both the rational and suboptimal aspects of human behavior. The rational approach is in many ways the easier, as there may be only one way to be right. Yet, the great variety in which people and companies can err gives strategy its creative and real-world challenge. The tension between the rational and behavioral components is what the field of strategy should seek to exploit.

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