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# A Theory of Explicitly Formulated Strategy

by [Eric Van den Steen](#)

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## Abstract

When a CEO tries to formulate 'a strategy,' what is she looking for? What exactly is 'a strategy,' why does it matter, and what are its properties? This paper defines an explicitly formulated 'strategy' as the '*smallest set of choices and decisions sufficient to guide all other choices and decisions*,' which formally captures the idea of strategy as a plan boiled down to its most essential choices. I show that this definition coincides with the equilibrium outcome of a game where a person can—at a cost—look ahead, investigate, and announce a set of (intended or actual) choices to the rest of the organization. Strategy is also—in some precise sense—the smallest set of decisions that needs to be decided centrally to ensure that all decisions are consistent (by giving a clear direction). The paper analyzes what characteristics make a decision 'strategic' and when and how having a strategy creates value, including when a strategy 'bet' can create value. It shows how understanding the structure of strategy may enable a strategist to develop the optimal strategy without a comprehensive optimization. And it derives some broader organizational implications.

Keywords: [Strategy](#); [Value](#); [Decisions](#); [Planning](#); [Theory](#);

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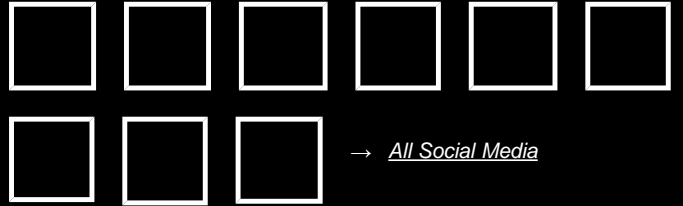
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