CONTROVERSY:
The essence of strategy

The essence of strategy is to make controversial choices in order to gain a competitive advantage, but difficult choices often engender opposing views. Aneel Karnani presents a process for strategy development that can help managers surface, manage and resolve conflict, thus resulting in more effective strategic choices.
he much-publicized 2001 merger between Hewlett-Packard and Compaq was very controversial. The CEOs of the two companies campaigned vigorously for the merger while the most visible critic of the merger, Walter Hewlett, 14-year HP director and son of co-founder William Hewlett, heavily contested it.

To give you a feel for the strategic battle, consider first this comment from Carly Fiorina, then the CEO of HP, in a letter to shareholders: “The merger of HP and Compaq is the best way to strengthen our businesses and improve our market position, deliver more of what our customers need, enhance opportunities for our employees and increase the value of our shareholders’ investments.” By strong contrast, the most visible critic of the merger, Hewlett contested it with public comments like: “We profoundly disagree with management’s assertion that HP needs to make this large and very risky acquisition. It worsens the HP shareholders’ portfolio of businesses. It does not solve any strategic problems.” Experts, including investment bankers, stock analysts and management consultants, argued on both sides of the merger debate.

While things do not usually get this heated, strategy is always controversial; in fact, the very essence of strategy is controversial choices and trade-offs. In order for one firm to outperform its competitors and gain a competitive advantage, it must act differently: make choices and choose alternatives that are distinct from its competitors. Strategic decisions also imply making trade-offs; otherwise every company would choose the same alternatives and there would be no difference among companies. Moreover, equally smart managers could have very disparate views on the best strategy for a company, as seen in the case of the HP-Compaq merger.

Four years after the contentious merger, and four years of disappointing results later, the board of directors fired CEO Fiorina. HP Chairwoman Patricia Dunn remarked that the company needed a leader who would better execute its existing strategy. Sanford Robertson, founder of the investment bank, Robertson Stephens, differed in his view, “I always thought they executed pretty well [but I] was curious about the strategy.” Even in hindsight, strategy can become controversial.

Most managers figure out that strategy formulation involves making difficult choices, but often they do not also realize that similarly sharp choices are required in strategy implementation. HP provides yet another example that highlights this point. Prior to her departure from HP, Fiorina restructured the organization by combining the personal computer business and the printer business into one division. Only a few months later, in June 2005, Mark Hurd, the new CEO, reversed that decision.

Strategy is not only controversial; it is a critical driver of superior firm performance. Michael Porter, an influential strategy guru, argues that the root cause of poor firm performance is the failure to distinguish between operational effectiveness and strategy. While operational effectiveness is necessary, it is not sufficient for superior performance. Managers often wonder where the dividing line is between strategy and operations, between strategy and tactics. A way to define this slippery distinction is that strategy consists of choices that are both controversial and significant drivers of firm performance. In order for firms to benefit from their strategic planning processes, they need to be able to manage the process of dealing with the controversy (and the inherent conflict that arises) during strategy development and execution.

Conflicting strategies

In February 2005, the Wall Street Journal sampled a range of industry veterans and management experts to ascertain their opinions on what HP should do next. Their responses highlight the problem: “turnaround experts offer a wide range of conflicting strategies.” This is not an unusual, let alone a unique example. In 2005, Boeing announced its latest investment in its newest offering, the 787 Dreamliner, a mid-size, long-range plane that seats between 200 and 300 passengers. Airbus, on the other hand, bet on its A380, a super-jumbo, long-range plane that seats between 550 and 800 passengers. These two competitors placed bets based on differing views of the future growth patterns in international air travel: point-to-point versus hub-and spoke. Their wagers are not only controversial, but also substantial: Airbus spent $16 billion developing its new A380 aircraft.

Blockbuster, the video-rental chain, has seen its business erode in past years as a result of new competition from a variety of sources: low-priced DVDs, online DVD rentals, video-on-demand and downloaded movies from the Internet. The company has invested money to expand its business in several different ways: selling and renting video games, offering used movies for sale, starting an online mail-order business, establishing a subscription service and cancelling late fees. Carl Icahn, the largest shareholder of the company, disagrees with many of Blockbuster’s strategies and feels that the company should significantly increase its dividend payout so that investors can better invest their money elsewhere. This situation is a familiar one: a once-dominant business that generates plenty of cash sees its market slowly decline. So, should management use the cash to diversify the business into something new but risky? Or, should they manage the business for cash and return it to shareholders?
The examples above focus on large, well-known companies facing dramatic and challenging choices. Yet, all companies, regardless of size and industry, confront equally controversial choices in formulating their strategies. Why do some firms perform better than other firms? What can you do to be more successful, to gain a competitive advantage, and to create shareholder value? Strategy is a useful framework for answering these questions; the strategy framework can help you set your action agenda as a senior manager.

Strategy consists of a set of interrelated choices that have a major impact on a firm’s performance. It involves both formulation and execution. The two are intricately intertwined; and it is difficult, if not impossible, to separate the two steps. It is futile to argue whether formulation is more important than execution or vice versa; they are both essential to achieving superior performance.

Vision versus strategy
In the lobby of many companies you will find a beautifully framed vision statement. However, if you take that vision statement and hang it in the lobby of a different company, most people would never notice the difference. These statements are often trite, generic and exchangeable, not controversial and, hence, not strategic.

Most vision statements are platitudes about being the best in terms of quality, service, growth, leadership, innovation, customers, employees and/or shareholders. Both Nike, the athletic wear company, and Comerica, a banking organization, have vision statements that refer to “enriching people’s lives”. Scott Adams, the creator of the famous comic strip featuring Dilbert, tells of a company that has this vision: “Create effective partnerships with our customers that enable them to achieve excellence”. That is not a bad vision, even though it could apply to any company from IBM to organized crime.

Vision statements are useful for energizing people in a company and providing a common purpose and cohesive values. Instilling a vision in a company that significantly influences the corporate culture can be a source of superior performance – a vital aspect of strategy implementation; but vision statements provide little, if any, guidance for making complicated strategic choices. There is much more to formulating a strategy than devising a vision.

Strategy consists of a set of integrated choices: the domain in which the firm will compete, the sources of its competitive advantage, the value proposition it offers its customers, and the organizational design required to execute its strategy. All of these choices are complicated and controversial; equally smart managers may have different opinions on these choices. Analyses alone do not yield the answers; managers have to make difficult judgements, often in the context of considerable uncertainty.

One source of uncertainty is that strategy deals with the long-term outlook, and there can be equally plausible forecasts of the future. Uncertainty also lies in the actions and reactions of competitors, but one source of uncertainty is self-created. If you wait to make a decision only after you have attempted to collect all available information and done all necessary analyses (which is impossible to do in the first place), it will be too late. For example, the Marine Corps trains its soldiers to practice the “70 per cent solution”: if they have 70 per cent of the information, done 70 per cent of the analysis, and feel 70 per cent confident, then they should move. To avoid paralysis by analysis, it is better to make a decision with less information and to act despite the greater level of uncertainty.

Strategy deals with complex issues, and it is difficult to understand the trade-offs because we do not comprehend well the causal ambiguities, the cause and effect relationships that underlie strategic decision making. For example, in trying to understand the drivers of demand, it may be hard to measure the relative importance of price and quality as well as to define quality. In trying to ascertain the drivers of cost, it may be tricky to judge the effectiveness of automation in reducing cost. In designing compensation systems, it may be thorny to determine the appropriate mix of individual and group incentives.

Often the controversy in strategy resides not in a general statement of the firm’s direction, but rather in its deliberate application: it is a matter of degree. Choosing between black and white is not controversial, but choosing among the various shades of gray is – strategy lies in choosing the right shade. The exhortation that a company should be customer-oriented and listen to its customers is not controversial – of course, it should. The strategic choice is to what extent it should listen to customers. How much money should be spent on marketing research? How much of the CEO’s time should be committed to customer contact? Allocating scarce firm resources, both money and time, undeniably involves a choice and a trade-off. Listening to customers can include other trade-offs as well. If you cater too much to your current customers and align your organization solely to do so, you might be blind-sided by a disruptive technology. Paying excessive attention to customers also may reduce your ability to pursue technology-driven innovations.

As another example, a large consumer products firm was considering its strategy for entering China. The issue was not whether to go to China or not; it was obvious to all the managers (and the
competitors) that entering the Chinese market was critical to its growth. The controversy was the extent to which the firm should invest in China over the next three years: $15 million for a minor distribution presence or $100 million for a major presence that would include significant manufacturing and technology development.

Uncertain context, certain decisions
The fact that a decision is made under uncertainty does not mean that one cannot feel confident that he or she is making the right decision. For example, imagine a jar filled with balls, 75 per cent white and 25 per cent black. You are asked to blindly pick out one ball, and guess, in advance, its colour. The decision to guess the colour white is absolutely correct, which you can feel certain about. However, after you draw the ball, there is still only a 75 per cent chance that you guessed correctly. Ex ante, the decision is certainly right; though ex post, the outcome might turn out to be wrong.

For many foreign companies in China today, the outcome of long-term profitability is highly uncertain, but they can still be certain that their decision to enter China today is the right one.

How, then, should one approach the planning process? In a typical company, strategic planning is driven by the calendar. Managers initiate the process to analyse and formulate the company's strategy not because the firm faces a strategic choice, but because it is, say, June. A better approach would be to have the strategic analysis triggered by the arrival of a strategic choice rather than by dates on the calendar.

In the traditional strategic planning process, much effort is expended on analysing the environment (political, economic, social and technological), the industry, the competitors, the customers and the company. Several different frameworks may be used for these analyses: Porter’s “five forces”, strengths-weaknesses-opportunities-threats (SWOT), McKinsey’s 7-S model, generic strategies, core competencies, a Balanced Scorecard and/or EVA (economic value added.) Yet, the problem is that these analyses are not tied to a specific strategic choice the company faces, hence the time and effort spent is scattershot and wasteful. Many of the analyses produced have no impact on the actual choices the company makes. No wonder that many firms are disillusioned with their strategic planning.

Strategy is always controversial; in fact, the very essence of strategy is controversial choices and trade-offs.

My favourite question to ask as a facilitator in a company’s planning process is “So what are you going to do (or not do) as a result of your analyses?” Unfortunately, many managers do not have a good answer to this question. A better planning approach is to first identify the major strategic choices the company faces and then to focus the analyses on these choices. This way the planning process is much more directed and action-oriented.

For example, a major US building products company began its planning process by identifying five key strategic choices: (1) whether to enter China, (2) what to do with current operations in Europe, (3) how to deal with consolidation of the distribution channel, (4) how to manage the shift from products to services and (5) how to deal with large commercial customers. The rest of the planning process was then sharply focused around addressing these five issues. In the next planning cycle, the company may revisit some of these issues or identify new strategic choices.

Confront differences – generate conflict
In order to make a strategic choice in an intelligent and effective manner, the firm must understand the pros and cons of each alternative and analyse the trade-offs involved – while in the context of much uncertainty and causal ambiguity. Managers may come to different conclusions based on their diverse perspectives, backgrounds, competencies and access to information.

The best way to deal with this issue is to make the strategic planning process as participative, explicit and transparent as possible. The firm needs all the managers to put their information, assumptions and analyses on the table. Then the managers can share, critique, and understand each other’s positions and come to an honest resolution of their differences. This is an idealistic view of the process, and it will never be perfect due to hidden assumptions and biases, vested interests, and organizational politics. But, the more you try to foster and encourage an honest and inclusive strategic decision-making process, the more likely it is that the firm will make intelligent choices and develop strategies that create a competitive advantage.

Confronting differences is the key. We need to bring conflict out into the open. This is how wise trade-offs among competing alternatives can be made. Intellectual debate among managers with divergent views is a vital source of creative and innovative solutions within the company. Conflict
is the source of creativity; dissent is the source of learning. We learn by talking with someone with whom we disagree. Managers must confront conflict rather than avoid it. Conflict, of course, needs to be managed so that it is constructive and intellectual.

Managers also need to be able to resolve their conflicts to arrive at a strategic choice. A firm is not a debating society; the process cannot end with the managers agreeing to disagree. Once the firm has made a strategic choice, the managers who initially disagreed with the choice must work toward supporting the decision.

Strategic choices are intrinsically controversial, so, if at the start of the strategic planning process all the managers seem to agree, this can be a symptom of organizational malaise. Lack of conflict is not the same as real agreement; consensus can be a disguise for disengagement.

Do not settle for a premature consensus. The firm should explore different strategic alternatives and analyse the trade-offs involved thoroughly. A quick decision on a particular option might mean that a better alternative is ignored. Even when a course of action is chosen, the managers may not fully understand the negative aspects of the chosen alternative and risk running into problems implementing the strategy. A complete understanding of the various alternatives and their pros and cons, usually achieved through extensive debate, is essential to making a good choice and executing it well.

It is not enough to merely tolerate dissent; firms must actively encourage dissent. Senior managers need to actively seek out opposing points of view and draw out people who are hesitant to volunteer negative or contrary opinions. As a senior manager, it is beneficial not to express your position too early in the discussion since it may intimidate subordinates from voicing a differing opinion. An outside facilitator can help the company to bring forth different points of view during the strategic planning process. To avoid “group think”, diversity among the management team (in terms of education, functional expertise, work experience and business perspective) is also important.

Another alternative is to intentionally generate conflict, even if artificially. Assigning roles and positions to different managers, some in the role of devil’s advocate, ensures that all aspects of the strategic choices are thoroughly examined. Recall the major US building products company, previously mentioned, that was faced with five strategic choices. On each of these five dimensions, top management identified two or three different strategic responses and arbitrarily assigned a senior manager to make a case for each alternative at the company’s upcoming retreat.

At the retreat, the top 25 managers in the company spent a half-day session on each strategic choice. Each session started with two or three managers advocating their assigned alternative for 45 minutes. After these presentations, the entire group debated the alternatives and either made a strategic decision or agreed on specific steps for further analysis. Unlike planning retreats at other companies, the discussion at this company was focused on the strategic considerations at hand, was well informed by data and analyses, and was not based on unsupported opinions or hunches.

Another approach to generating conflict is to assign managers to play the roles of competitors in the industry. Competitor role playing is a good way to critically examine the firm’s existing strategy. Seeing the situation from a different perspective also may produce alternatives that had not been considered. Since managers can be biased in their view of the company’s capabilities and underestimate competitors’ strengths, role playing can be a way to correct for this bias and engender ways to abate potential competitor threats and even identify new opportunities.

Avoiding dysfunctional conflict
Although the goal is to use debate to shed light on all sides of a strategic choice, conflict needs to be managed so that it does not degenerate into dysfunctional interpersonal conflict. Proper conflict management is vital so that the company benefits from the process in a manner that does not damage people’s ability to work together as a team afterwards. The strategic planning process is an intellectual debate; hence it should focus on ideas and decisions and not on personalities. Managers must realize that they have common goals and are teammates who do not compete with each other, but rather with external competitors. The conflict is but a means to greater collaboration.
Strategic choices always are complex and always involve making judgement calls. One way to simplify the process is to break down a complex problem into sub-problems and then to identify the criteria for making each trade-off. One interesting instance of this approach involved a company faced with competition stemming from an emerging technology; the company decided to invest in developing the capability of the new technology itself. The strategic issue was how to organizationally manage the development of the budding capability. The five identified strategic alternatives were:

- Ask the technology centre at the corporate level (a cost centre) to develop the new capability
- Form a new division (a profit centre)
- Choose one of the current divisions to develop the new capability
- Require each of the current divisions to simultaneously develop the new capability
- Offer to each division the choice of developing the new capability

For this company, the strategy formulation choice to invest in the emerging technology was straightforward. The strategy implementation choice of organizational design was much more controversial. There was no easy answer to this problem; there were pros and cons for each of the strategic alternatives. The managers identified six criteria for making the trade-offs among the strategic alternatives, as shown in the related chart.

It was simpler for managers to discuss the alternatives, one criterion at a time, after seeing the choices and trade-offs in a matrix format. Weights were not assigned to each criterion or numerical preferences to each alternative since this guide was not meant to be a mechanical tool for making decisions. Rather, the managers used the matrix as a framework for initiating dialogue among the group and bringing out the salient points of each alternative. At the end, the managers still had to use their judgement and experience to choose among the alternatives. Yet, the matrix allowed them to be more focused on the components of their choices, to share their thoughts and ultimately, to be more comfortable with the final decision, which aided in the strategy process.

In order to depersonalize conflict, it is essential not to link the conflict to rewards. If the manager or team that wins the debate stands to gain in terms of compensation, promotion or the like, then...
everyone will fight too hard not to lose. If the conflict remains an intellectual debate, it is easier for people to concede gracefully. In fact, it is useful (perhaps even critical) to have the person or team who opposed the winning strategy to be involved in implementing it.

Another issue to be wary of in resolving conflicts is the desire to reach a unanimous decision. Requiring unanimity implies giving each person veto power, which might force a compromise decision with which no one is happy. Furthermore, consensus is not necessarily a sign of harmony; it might well be the result of fatigue and frustration.

Strategy development should be participative, but not democratic. The purpose of generating and managing conflict is to thoroughly analyze strategic choices. It is important that senior managers retain the power to make the final decision after hearing and carefully considering all the facts, data and perspectives surrounding the strategic choices.

Senior managers should, however, be prepared to explain the logic behind their final decisions, since managers who disagree will be more willing to accept it if they perceive the whole process as fair. It is also important that senior managers make a definitive choice and clearly articulate the strategy. In fact, people in a company expect their leaders to be resolute; they want their leaders to say clearly, “This is where we are headed”.

Cultivate the right culture
Effective strategic planning and implementation require that companies cultivate a culture that deals well with conflict. Companies from countries with collectivist cultures may be less apt at handling conflict within their organizations and hence be at a disadvantage.

Collectivist societies – for example, those found in Mexico, India, Japan, Brazil and China – are characterized by harmony and “knowing one’s place”. These traits are not only valued, but expected. Conflict is viewed negatively, typically avoided and, at times, suppressed. Group cohesiveness is deemed to be very important. People have a strong sense of interdependence as their identity is embedded in their relationships.

They are highly sensitive to losing social face in public and avoid conflict, which is seen as disrespectful and may lead to alienation. Consequently, dissent is avoided or suppressed, let alone encouraged and generated.

Other countries, of course, have a much more individualistic culture. The US, Canada, Switzerland, Spain, Australia, Russia and the UK could be cited as examples of such societies. The direct, individualistic, confrontational style required of managers in the strategic planning process I have proposed in this article will assuredly present a challenge for managers from more collectivistic cultures. Conflict-avoiding behaviour stalls the strategic planning process, since participants cannot be relied upon to share their true views on issues, limiting the scope and innovativeness of the strategic debate. There may be an even worse consequence: conflict may later manifest in destructive, win-lose ways that undermine both performance and relationships.

Additionally, a country’s culture influences the structure of organizations in that country. The more hierarchical and rigid the organizational structure, the more conflict resolution is based on formal power. The strategic planning process is thus more autocratic, rather than participative. Firms in such situations need to devote extra effort to setting up mechanisms for strategic learning by embracing controversy and conflict.

In an increasingly global world, managers face fierce competition from both domestic and foreign players. This new competitive environment is dictated by markets and is blind to country borders and culture. Firms that cultivate an environment in which managers develop an appreciation for the power of conflict stand to achieve a true competitive advantage.

Resources

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