Strategy & Leadership

Volume 32 Number 3 2004

Articles

When Lou Gerstner took the reins at IBM in 1993, the business was in tatters and on its way to registering a record loss of $8.1 billion. Eight years later, the company had returned to its position as the industry gorilla, setting the pace in both hardware and services, and achieving a handsome profit of $7.7 billion. What happened to turn things around? In the years leading up to 1991, IBM had become overly diversified and decentralized, increasingly inefficient and out of touch with the market. While industry players, IBM employees, and the analysts waited to see which product lines and business units Gerstner would cut, he had an entirely different plan. "I went into IBM believing that its problems were primarily strategy and execution. When I got there, I found out that the direction the company needed to go was pretty clear. … I realized the problems weren't strategy. They were: How do I execute that strategy?"1

It would have been easy to reshape the organization and make a series of momentous decisions, but would it have been the best way to go? IBM had been developing a services-led strategy since the late 1980s. Gerstner decided that it was the right strategy, but required a more agile organization to implement it. Rather than cut businesses and staff to save money, Gerstner looked for synergies that could be built upon, and new opportunities where existing strengths could be successfully redeployed. With the help of Abby Kohnstamm, ex-American Express marketing executive, he set about refocusing the company to serve its customers. Using this as their guiding principle, redundant business units were trimmed, and the now vital and robust Global Services business emerged to breathe new life into the company as it entered the 21st century.

Gerstner's approach parallels what we see in so many of the best leaders in business and in other fields. Faced with a tough situation, they resist taking immediate action, favoring exploration, consultation and understanding as a first step. Context comes before content, imbuing actions with timeliness and relevance.

Confronting key dilemmas

Gerstner was able to achieve impressive results by concentrating on the dilemmas confronting him and the company. Strategy versus execution, revenue versus profit, and organizational alignment versus autonomy, were three of the key dilemmas he recognized. For leaders, dilemmas are often more important than answers. Big challenges tend to be complex, ongoing in nature, and highly resistant to simple "fixes." Fixes are often symptomatic in nature, especially when applied without a full appreciation of forces at play in a situation.

Of course, in the real world of competition, the time to fully understand all the driving forces of a challenge is a luxury few can afford. However, acting precipitously with inadequate diagnosis and insight is an even more costly indulgence. We need leaders to provide strategic direction and to shape meaning in ways that guide organizational and staff efforts, and this means recognizing, defining and dealing with the prime dilemmas of the day. In so doing, they bring focus and tension, and create the necessary context for organizational action and success.

Leaders manage dilemmas; managers solve problems

Leadership is both a role and a mindset. As *managers*, the priority is on solving problems quickly to allow processes to occur seamlessly, and people to do their work unimpeded by distraction or the absence of resources and support. As *leaders*, the priority is on making sense of difficult choices for the organization, its staff and other stakeholders. *Leaders manage dilemmas; managers solve problems*. As most leaders are also managers, it is crucial to recognize the difference between the two modes, and to develop the ability to operate in the one best suited to the situation at hand.

Unfortunately, leaders often lack sufficient awareness and flexibility, resorting to the default mode of solving the problem – make it go away, so work can proceed. But there are occasions when *solving* a problem is itself counter-productive, and efforts to do so only add to the mess. These are times when perspective, patience and understanding are necessary.

Managing dilemmas becomes important when the context is as or more important than the content. This occurs when significant consequences are likely to be felt only at a much later point in time. In such situations, we need leaders to interpret forces and help shape the context for decision-making and action. They do this by immersing themselves in the issues to understand competing forces.

This involves creating models of possible future scenarios to be able to prepare for what is not controllable. Leaders then pose a lot of "what if" questions to tune the corporate antenna into both strong and weak environmental signals. They search for patterns, and challenge themselves and others to think twice about anomalies and factors that may have been dismissed too quickly. The leadership mindset determines *what* they see. Armed with inspiration, discipline, and commitment, they equip themselves to be able to focus the attention of the organization on what is important. All this is possible when they attend to dilemmas. They are the leader's lodestone, a source of direction and a guide to renewal.

The leader's dilemma agenda

Circumstances define leadership dilemmas, not personal preferences. Predicaments and opportunities exist, calling out for our attention and response. Leaders don't get to define conditions like an aging workforce, market health or terrorist threats. These are the given, the context that must be managed. Leadership consists of facing these in the most constructive, creative and courageous of ways, shaping and exploiting at the same time. By recognizing and pursuing certain dilemmas, leaders set the organizational agenda and help it to prepare for the future. Mastering core dilemmas ahead of the competition and thus gaining devastating competitive advantage should be a leader's goal.

Contemporary leaders should establish a dilemma agenda with two categories: Direction-setting and Culture-setting. Direction-setting dilemmas are externally focused, concerned primarily with competitive positioning and definition of the value-proposition. Culture-setting dilemmas are concerned with how value is created, establishing norms and practices within the business that are healthy and aligned with needs and principles. The composition of these two sets of dilemmas and the precise form of each dilemma vary from one situation to the next. Ultimately however, it is acts in these two domains that determine a leader's effectiveness. In our book *The Power of the 2X2 Matrix* (Jossey-Bass, 2004) we identify more than 50 leadership dilemmas. Here are six—three direction-setting and three culture-setting dilemmas—that are representative of the critical decision problems leaders face:

Direction-setting dilemmas

1. *Doing the Right Job versus Doing the Job Right*

"There is surely nothing quite so useless as doing with great efficiency that which should not be done at all." -- Peter Drucker

In dynamic market and technology environments, the "right work" shifts all the time. Today's goals can be irrelevant in a couple of weeks' time, and the need to redirect efforts is not unusual. What is the best way to tell a highly motivated knowledge worker that there is no point in finishing their project, that a new set of goals and means must be devised? And how do you calculate the trade-offs between a so-so goal that is executed well versus a more useful goal that requires time-consuming learning?

> "Gerstner was able to achieve impressive results by concentrating on the dilemmas confronting him and the company--strategy versus execution, revenue versus profit, and organizational alignment versus autonomy."

The case of Yahoo!—focus on the right tasks.
When Terry Semel was brought in to turn around Yahoo! in 2001 he was viewed as a Hollywood expert who knew little about Internet technology. Workers at entrepreneurial Yahoo! wondered what was going to happen to their youthful, playful culture. But Semel was shrewd enough to see that the portal's problem lay more in its focus than its execution. Yahoo! still had a great set of Internet services to offer customers. But broadband connections were redirecting the consumption habits of consumers, while a new, focused competitor, Google, was undermining Yahoo's lead in search service. Semel shifted the focus to integrating Yahoo!'s offerings into bundles of entertainment and information for which it could charge monthly fees, while buying the technology necessary to meet Google's challenge in selling targeted advertising. As a result, when Internet advertising picked up in 2003, the company began growing rapidly again.

2. *Product versus Market*
”As new products are devised for new uses the firm has to expand its market horizons. As superior technology displaces it from its traditional markets, the firm has to fight back by looking for new pastures.”— H. Igor Ansoff, “The Firm of the Future,” *Harvard Business Review* September/October 1965

“Mastering core dilemmas ahead of the competition and thus gaining devastating competitive advantage should be a leader’s goal.”

Business leaders need to protect existing market share and grow new sales. Eventually, this means considering two things: products and markets.
1. We can modify the product, or not.
2. We can sell to existing customer groups or to new ones.

This dilemma lies at the heart of business strategy. Get it wrong, and you will squander scarce money or good will. Get it right, and the business can ride one success into another.

The case of Volkswagen—failure to revitalize the product
The original Volkswagen Beetle was the best-selling car of all time. The people's car was first produced in the late 1930s and the last one rolled off the line in a Mexican factory in 2001. Its fortunes waned in the 1970s when Toyota, Honda and other Japanese car companies introduced a new and better-designed group of sub-compacts at competitive prices. Volkswagen was slow to respond. It’s strategy of selling the same product to its existing group of customers ultimately proved costly and unsupportable.

3. Revenue versus Profitability
“I was not going to get distracted because somebody said: ‘Gee, we’d like to see your revenue a little higher this year.’” -- Lou Gerstner, CEO of IBM

MIT’s Michael Schrage once commented at a conference that “business modeling is nothing more than deciding what you charge for and what you give away for free.” The issue is generally expressed as the tension between growth and profit. Leaders can structure their business to operate at high profit margins, or they can choose lower margins to stimulate faster revenue growth. One solution to this dilemma lies in matching the business model to a company’s stage of development. Young businesses sacrifice profitability in the interest of attracting customers and achieving growth targets. Mature businesses must generate sufficient profits to justify their right to exist and be able to afford to invest in remaining competitive.

The case of Amazon—time for growth and a time for cost cutting
From the moment he started Amazon, founder Jeff Bezos realized he was in a race to grow and lock in customer relationships before more established companies could transform themselves into Internet retailers. Securing first-mover advantage meant focusing on revenue not profits.
Debt and equity markets were eager to assist Amazon and other companies such as AOL raise the money needed for rapid

growth. Amazon turned its first profit in Christmas 2000, but losses continued on a regular basis until 2003. During those years, Bezos focused on cutting costs and maximizing profits with the same intensity he had earlier put into growth, reducing headcount, increasing revenue per order, and developing a profitable service business handling online sales for companies such as Office Depot and Toys 'R' Us. Efforts paid off in 2003 as revenues rose by 34% to $5.26 billion, producing a profit of $35.3 million.

Culture-setting dilemmas

1. Task versus Relationship

"The leader needs to match their leadership behaviors to the performance level of the individual or group. This is really a follower-driven model, not a leader-driven model." -- Paul Hersey

Starkly put, the issue is, are people the priority or is it getting the job done? What makes this a central cultural dilemma is the fact that it is rarely if ever simply one or the other. While this is more of a management (as opposed to a leadership) concern on a daily basis, the basic corporate position on the question is established and modeled by the leader.

Relationships at Citibank contrasted with tasks at HP

Sandy Weill of Citibank is a famously demanding executive who has successfully led mergers between companies with widely differing cultures. His public reputation is as a driven dealmaker, a modern-day Gordon Gecko in pursuit of winning at any cost. Yet those closest to him, such as COO Charles Prince, say Weill's real strength is that he's a "people person." He fosters closeness and loyalty among his executives creating teams with a unity of purpose.

At Hewlett-Packard, a decentralized egalitarian culture reigned when Carly Fiorina became CEO in 1999. Fiorina has emphasized a more performance-oriented, results-driven culture. Her efforts have led to an organization that is more agile and customer-focused.

Both of these executives achieved results. The task orientation that Fiorina brings to HP may be the perfect counterweight to its decades-old paternalistic culture, while Weill's more personal approach may be what is needed to integrate different companies over a relatively brief period of time.

2. *Change versus Stability*

"Development of an organization is a purposeful transformation toward higher levels of integration and differentiation at the same time." -- Jamshid Gharajedaghi

Organizations are constantly balancing the need to adapt with efforts to bring stability and maturity to operations. The pace of change tends to be dictated by the industry. Sectors like computing and entertainment have faster "clock speeds" than others like automotive and banking. The leadership dilemma lies in sensing which is the priority-de-jour, and how to pursue it without going too far.

The case of Procter & Gamble

Over many decades, P&G had been a global leader in developing and managing consumer packaged goods brands. But the company culture had calcified, becoming inflexible and hierarchical. In 1998, Dirk Jager became CEO and immediately declared a revolution, promoting rule-breaking and individual initiative in an effort to make the company as innovative as an agile Internet startup. However, the company culture resisted Jager's changes, and his injunction to workers to "innovate" often led to chaos and unproductive activities. With the stock price falling, Jager's brave experiment lasted only eighteen months. When CEO A.G. Lafley took over from Jager in 2001 he inherited a great firm that was falling into mediocrity. Lafley reined in change activities. He refocused effort on "ten brands and ten countries", setting a more defined target and set of success metrics. Within a year of taking office, Lafley had P&G taking market share from competitors. Attacking clear and simple goals helped P&G emerge from chaos and return to financial health. Lafley established a different balance point between change and stability that was a better fit with corporate capabilities, allowing it to continue to evolve without sacrificing short-term performance.

3. *Urgency versus Importance*

"Organize and execute around priorities." -- Stephen Covey

Most executives find their lives filled with tasks that are urgent rather than important. Unfortunately, urgency trumps importance almost every time. It is the leader's responsibility to set the tone within the organization for achieving balance between competing priorities, often leading by example.

The case of Fujitsu FTXS

In 2000, Austin Mulinder took over Fujitsu's North American Retail business. The unit had been losing money for several years, and sales were falling. Without a steady stream of new clients to drive ongoing service fees, it was inevitable that the revenue situation would get worse before it could get better.

Under extreme pressure to increase revenue, Mulinder instead chose that moment to revamp the strategy and value proposition. Surprisingly, his attention to the "important" task rather than the urgent ones worked, and within a year the division was taking business from competitors. After 24 months they were growing at more than 40 percent annually.

Three steps to managing dilemmas

Wise leaders involve others to keep the process honest and to ready the organization for imminent decisions and action. With this in mind, there are three steps executives can follow in tackling leadership dilemmas.

1. Recognition: The first step in managing dilemmas is observing what is going on in the external and internal environments. To do this well, leaders must momentarily "park" their own views, and listen to the opinions of others. Issues that cause some momentary discomfort can be the most valuable. Trust that acknowledging them is a healthy and important action.

Start by building a master list of issues and opportunities. Continue until you reach the point of diminishing returns, where new items begin to repeat issues already on your list. Then validate the list, testing items and eliminating ones that are inaccurate or minor. Finally, items need to be grouped and prioritized.

2. Definition: The alchemy of the process occurs as issues are converted into two-headed dilemmas of crucial importance to the organization. Dialectical tension results when there is no easy resolution to resolve the dilemma. Generally, tackling the challenge involves experimentation and dialogue. Much of the value often lies in this exploratory process, where hypotheses, fears and hopes can be aired.

3. Translation: Dilemmas do not result in certainty. Instead they illuminate and guide in areas where certainty is not possible. They tell us what to pay attention to, and help us to identify options. They prepare us to make informed choices that we and others can live by.

Leading with dilemmas

It is natural for us to fear and avoid dilemmas; they tend to be negative and hard to get rid of, and because they "happen to us," there is the feeling of being out of control. Leaders need to reframe this conditioned response to be able to harness the tremendous potential that dilemmas represent. Leaders who actively create and explore dilemmas gain access to a powerful and timely method for increasing understanding and organizational agility.

1
http://www.businessweek.com/magazine/content/02_46/b3808091.htm

Biographies: Phil Hood and Alex Lowy are the authors of *The Power of the 2 x 2 Matrix: Using 2 x 2 Thinking to Solve Dilemmas and Make Better Decisions* (Jossey-Bass, 2004). Located in Toronto, Lowy has co-authored two best-selling business books, *Digital Capital: Harnessing the Power of Business Webs* (Harvard Business School Press, 2000), and *Blueprint to the Digital Economy* (McGraw Hill, 1998) with Donald Tapscott and David Ticoll. Hood, a Silicon Valley consultant and researcher, has directed a series of multi-year research studies that explore the links between emerging technologies and organizational strategy

Transcend Strategy Group
www.transcendstrategy.com
http://www.2x2matrix.com/