HARVARD BUSINESS PUBLISHING

Palladium
Executing Strategy

Balanced Scorecard Report

THE STRATEGY EXECUTION SOURCE

SEPTEMBER–OCTOBER 2010 : VOL 12 NO 5

Dealing with Dilemmas: Redefining Strategy

By Frank Buytendijk, Vice President and Fellow, Oracle Corporation, and author, Dealing with Dilemmas *(Wiley, 2010)*

For most organizations, strategy involves multiple dilemmas. Focus on customer value at the expense of profits. Aim for long-term financial performance and you impair short-term performance. Organizations view these big (and risky) strategic choices as being inevitable. Not so, says the author. Eschew choice; seek, not compromise, but synthesis. A portfolio of strategic options gives organizations the greatest flexibility and adaptability. And scenario-based strategy maps can help create these options.

Strategy making is by nature fraught with dilemmas. Investments to ensure long-term performance may impair short-term results. Economies of scale in the back office may limit sales flexibility in the front office. Supporting one information technology (IT) initiative may exhaust resources available to put toward another equally worthwhile initiative.

Dilemmas can be found in any complex organization, notes Bill Fitzsimmons, chief accounting officer of Atlanta-based Cox Communications. He has a straightforward definition of a dilemma: a multidimensional problem, much like most issues that reach the executive level. If it did not have multiple angles, it would not have—or should not have—reached the C-suite. Heidi Melin, chief marketing officer at the California telepresence company Polycom, emphasizes the difficulty of choice presented by such a decision. A dilemma, she observes, is a problem that makes you stop and think. A dilemma represents a fork in the road where the decision you make will have great impact.[1]

Western management culture abhors dilemmas. Dilemmas put managers on the spot; whatever choice they make, they cannot win. Dilemmas don't fit with the Western focus on immediate solutions, where management lives by the 80/20 rule and our action-oriented thinking is that "any decision is better than no decision." Moreover, dilemmas don't square with the universal fascination with corporate heroes. People can't get enough of heroic stories, of larger-than-life CEOs who make big, bold decisions and single-handedly turn companies around—or who, like Apple's Steve Jobs, turn around entire industries. Not everyone has Jobs's Midas touch, though. Fred Goodwin, the former CEO of Royal Bank of Scotland, made a few too many bold choices in his acquisition strategy. Wendelin Wiedeking, former CEO of Porsche, went from riches back to rags trying to acquire the much larger Volkswagen Group.

continued on the following page

ALSO IN THIS ISSUE:

1 *Comments from Bill Fitzsimmons and Heidi Melin from F. Buytendijk,* Dealing with Dilemmas *(Wiley, 2010), p. 4.*

Strategy Is About Creating Options

By defining strategy as "making those big, bold choices," we set ourselves up for failure. This way of thinking actually creates the dilemmas we are trying to prevent. The more strategic and far-reaching these choices are, the more they are bound to reveal conflicting stakeholder requirements or conflicts between the long and the short term. Is making either-or choices really what strategy is about?

Strategy is supposed to be a blueprint for an organization's future success. But the one thing we know about the future is that it will most likely be different from the present. Do we really believe that with analytical rigor we can foresee the future? How are we supposed to make the right choices today to affect performance tomorrow? And is it wise to make choices that may limit our flexibility to respond to tomorrow's needs?

The real issue at hand is how to deal with an unknown future. Strategy has to align itself to an inherently fluid external environment. It must therefore be flexible enough that it can be changed constantly and adapted to shifting internal, as well as external, conditions.

What happens when, instead of thinking of strategy as making choices and commitments, we see it as creating a portfolio of options? Options, as opposed to choices, do not limit our flexibility in the future; rather, they create *strategic* flexibility. (Obviously, these options should not be random; they should be structured around a company's strategic themes, such as growth by acquisition [or, conversely, organic growth], creating a greener way of working, entering [or exiting] certain markets, or specific go-to-market strategies.) The traditional view is that the more uncertain (i.e., the riskier) an investment, the more you need to temper its expected return. But if instead of focusing on making bet-the-farm choices, you focus on creating managerial flexibility, risk actually becomes an instrument of value creation.

DILEMMA	BSC PERSPECTIVES	DESCRIPTION
Value vs. profit	Financial/Customer	Customer value or profit maximization?
Top down vs. bottom up	Financial/Process	Zero-based or resource-based view of the firm?
Optimize vs. innovate	Learning & Growth/ Process	Also known as exploitation vs. exploration
Listen vs. lead	Customer/ Learning & Growth	Innovate through listening to customer requirements or by creating new demand?
Inside out vs. outside in	Customer/Process	Who leads? Back office or front office?
Long term vs. short term	Learning & Growth/ Financial	Long-term business performance or short-term financial results?

FIGURE 1: *SIX STRATEGY DILEMMAS*

If we contrast, rather than link, the four BSC perspectives, we see six fundamental strategy dilemmas that are common to all organizations.

Uncertainty, when seen this way, does not depress the value of any single investment but may, in fact, amplify the value of investments in general. Strategy, with its focus on the future, is characterized by uncertainty. The more uncertain the future, the more valuable flexibility and adaptiveness are as core strategic competencies.

The idea is not as esoteric as it sounds. In fact, it is already practiced in a number of areas, particularly in product strategy. For instance, financial institutions are following the automotive industry and moving from a strategy of standardized, off-the-shelf products to one of product components and partial products. Based on the customer risk profile or specific customer requirements, product components can be combined into a uniquely tailored product, such as customized financing for a mortgage.

Jack de Kreij, CFO and member of the board of Vopak, the global warehousing and transshipment company, emphasizes portfolio thinking. His company changed its strategy drastically in 2003. Instead of pursuing value chain integration, offering full services for certain chemicals and oils, it decided to focus on warehousing and transshipment for a wider range of products and industries. The investments needed to achieve this goal would lead to many more reuse options than investments in separate steps in the value chain. Almost paradoxically, it is Vopak's less-industry-specific focus that enables the company to create the most—and the best—options for growth.[2]

The notion that strategy should create options does not at all conflict with established definitions of strategy. This idea supports the definition of strategy as a plan of action designed to achieve a particular goal. The goal stays the same; the plan of action just becomes clearer over time because, from the start, you've built flexibility into the plan. The details will unfold while you are on the road, allowing you to avoid unexpected roadblocks and discover previously unknown shortcuts.

This does not mean that you do not need a strategy or that you must jump on every opportunity that arises. Creating options does not equal opportunistic behavior. The strategic goals still need to be clear. You need to ensure you make it to your goal and that you do so in an efficient manner. Some options help us reach the goal; others divert us from that focus. What is different is the way the strategy formulation process is structured and how the strategy is

2 Ibid., p. 19.

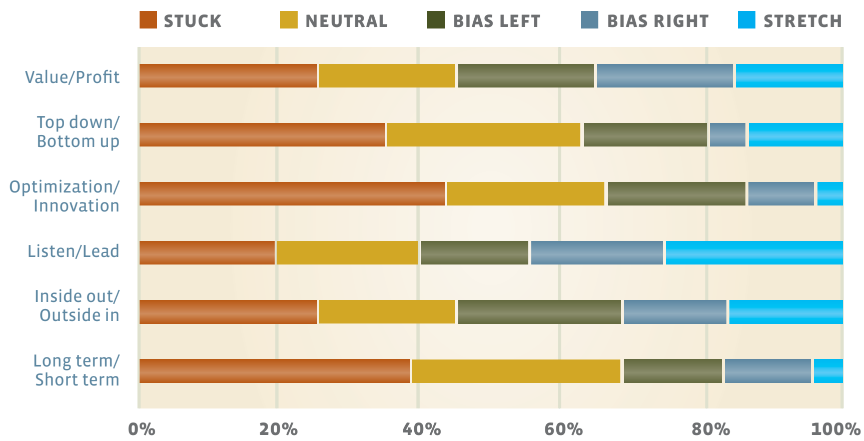

FIGURE 2: *HOW ORGANIZATIONS DEAL WITH THEIR DILEMMAS IN PRACTICE*

From left to right, the five strategic states an organization can be in when dealing with a dilemma: stuck, neutral, biased (to the left side of the dilemma), biased (to the right side of the dilemma), and strategic stretch. The bars represent the percentage of organizations reporting to be in any given state, by dilemma.

described. Instead of the traditional clear separation between strategy formulation, strategy execution, and performance measurement, the process needs to be based on continuous feedback, testing, and learning. In that way, choices do not turn into dilemmas.

The former prime minister of Bavaria, Edmund Stoiber, emphasized the importance of a sound strategic decision-making process. Dilemmas, he noted, can also arise through bad decision making. Dilemmas can be the consequences of decisions that are not well thought through. When far-reaching decisions are made, the consequences for all stakeholders should be clear; if not, irreversible damage may be done.[3]

A Practical Approach

The idea of using options-based strategies as a means of creating greater strategic agility is not new, but it has yet to be placed into a practical framework. The strategic dilemmas that businesses confront have been researched individually, not holistically. To my knowledge, no study thus far has linked the reconciliation of dilemmas in general to strategic decision making in a practical way.

Applying the Balanced Scorecard and strategy maps in a new way can help improve not only strategy measurement and management but also strategy formulation. The original 1992 conception of the Balanced Scorecard showed the four perspectives surrounding the strategic vision and objectives. Later, Robert Kaplan and David Norton morphed this into a strategy map in which the perspectives were *linked* in *cause-and-effect* relationships.

However, if instead of *linking* the four perspectives, we *contrast* them, six fundamental dilemmas common to all organizations unfold. (See *Figure 1*.) There is a dilemma between the customer and the financial perspectives: the choice of value versus profit. A focus on customer value may be at odds with profit maximization. Another dilemma exists between the customer and process perspectives: inside out versus outside in. This dilemma represents the classic battle between the back office and the front office that many organizations know all too well. Between the learning and growth and financial perspectives we have the long-term versus short-term dilemma, where investing in future growth doesn't usually pay back in the current or following quarter.

After researching these six dilemmas by conducting an extensive literature study and a global survey, as well as producing high-profile case studies, I've found that all these dilemmas can be fundamentally reconciled, leading to real business improvements. When a fundamental contradiction is eliminated, the business model jumps to a new level and, if executed well, yields competitive advantage.

Figure 2 shows how organizations worldwide are coping with the six dilemmas, based on a global survey of 580 respondents from multiple industries.[4] The six dilemmas are listed from top to bottom, showing, from left to right, the different "states" an organization can be in: stuck, neutral, bias (left or right), or stretch. *Stuck* means the organization scores low on both sides of the dilemma. This is the worst situation; you can neither optimize nor innovate, nor can you control for the short term or the long term. Respondents scored the worst in these two dilemmas. *Neutral* means organizations do OK, but lack competitive differentiation.

A *bias* one way or the other (to the left-hand or the right-hand side of the dilemma) means that the organization scores relatively high on one side but low on the other. There is a natural preference for inside-out thinking, for example, or for profit maximization, and the other side of the dilemma is often an afterthought. Indeed, the inside-out

By defining strategy as "making those big, bold choices," we set ourselves up for failure. This way of thinking actually creates the dilemmas we are trying to prevent.

3 *Ibid., p. 5.*

4 *Global "Dealing with Dilemmas" Survey from F. Buytendijk,* Dealing with Dilemmas *(Wiley, 2010).*

approach and a profit focus are the two most common biases. The goal is to achieve strategic stretch, where the organization has found a way to do both, such as listening to its customers while leading them at the same time. It's neither a balance nor a compromise, but instead a true reconciliation—in other words, a *synthesis*.

The ability to achieve strategic stretch on any given dilemma is no trivial matter. Deeper analysis of the data revealed that only 20% of respondents said they achieve strategic stretch on one dilemma, and fewer than 5% are able to achieve stretch on three dilemmas. Companies that are stuck or neutral in four or five of the dilemmas are much more likely to have a bias toward value, leading customers, and preferring an outside-in approach. These three biases are connected to the customer perspective of the BSC. This shows that "putting the customer first" is not automatically the right thing to do. The key to success is to reconcile the customer focus with a focus on your company's strategic objectives.

Organizations that had average scores and that were either neutral or stuck in three or four dilemmas tend to have a bias for inside-out thinking and leading the customer, as well as a profit orientation. These are the companies that are driven from the inside, with a focus on their own objectives. They change when necessary but do not really drive change. The biases existing in the top one-third of companies—which scored stuck or neutral in two or fewer dilemmas—seem to be toward innovation, a long-term view, and an outside-in approach. These biases are largely connected with the learning and growth perspective—worrying about tomorrow's performance.

Balancing long-term business performance and short-term financial results seems to be key to sustainable success. The logic is obvious. An organization needs to be successful in the short term in order to invest in the long term. At the same time, however, this is one of the hardest dilemmas organizations face. Almost 40% of respondents were strategically stuck here. We can achieve synthesis when faced with this dilemma through the use of existing methodologies, in this case strategy maps—but we need to apply them in a new way.

The ability to achieve strategic stretch on any given dilemma is no trivial matter. Deeper analysis of the data revealed that only 20% of respondents said they achieve strategic stretch on one dilemma, and fewer than 5% are able to achieve stretch on three dilemmas.

Scenario-Based Strategy Maps

One way to create a more thorough and adaptive strategy is to combine scenario analysis with strategy management techniques—namely, the strategy map.[5] Strategy maps are intended to be predictive—to show how decisions made in the present could impact future results. This is done by linking leading and lagging indicators. Empirical data and statistical techniques are used to discover and test these relationships.

However, the strategy map's causal model does not reflect the evolution of strategy over time. For one thing, statistical techniques are valid only when sufficient data are available. Moreover, data, by definition, describe results from the past. Given that all we can truly predict about the future is that it will most likely be different from the present, it's reasonable to question the predictive value of correlations found in data describing the past. Put in stronger terms, one could even argue that validating a strategy map with the use of past data, by definition, *invalidates* it.

But using scenario planning and strategy mapping in tandem represents a substantial step forward in creating more "future proof" strategies. Specifically, you create a strategy map for each scenario based on its unique assumptions and details. Strategic objectives that are common across all or most scenarios can be considered *strategic imperatives*. Those that are not common but that are still essential to progress can be called *strategic options*. Let's see how this works in practice.

Case Example: Tier 1 Talent

Tier 1 Talent (T1T) is a hypothetical temp agency and recruitment firm that specializes in IT staff. The company structured its strategic objectives using a strategy map and created three scenarios to support its customer intimacy strategy. "Steady as she goes" predicts a market in which things stay as they are, with modest but stable growth. "Networked world" assumes that many IT professionals become self-employed and move from project to project. "Cost, cost, cost," the third scenario, foresees a downturn in which job mobility decreases and IT outsourcing grows. T1T's strategic objectives must be compared across all scenarios to distinguish its strategic imperatives from its strategic options.

5 Over time, the Balanced Scorecard and strategy maps have grown from a strategy measurement system to a strategy management system, and now to a strategy execution system. Adding scenario analysis takes strategy maps back "upstream," giving them an additional application as a strategy formulation system.

- One of T1T's internal process objectives is to invest heavily in a "matching system" that pairs job descriptions and résumés. This objective appears in scenario 1 ("Steady as she goes") and is even more important in the growth scenario ("Networked world"). In scenario 3, the downturn scenario, the matching system is important for differentiating the company from its competitors. Thus, the strategic objective to invest further in the system and its process is a strategic imperative.
- A new idea that might emerge from T1T's scenario exercise is investing in university relationships. When business is booming, such relationships are an ideal source of new candidates for junior-level positions. If the downturn scenario becomes a reality, building such supplier relations is equally important in distinguishing the company from its competition with better (and less costly) personnel. Although not originally part of its strategy, building university relationships is an objective that qualifies as a strategic imperative.
- Besides its staffing business, T1T also has a small and profitable consulting division. If business is booming, that business should be closed so the company can focus on recruitment. But if business goes south, the company will need all the profit it can get. In that case, expanding the consulting business becomes a strategic option. It doesn't hurt to keep the consultancy going while it is profitable. But, if necessary, it can be discontinued.
- The company recently launched an innovation initiative to develop new services, an undertaking that seems worthwhile in any circumstances. However, in the "Networked world" scenario, management's attention and resources must go toward fulfilling demand. And in the "Cost, cost, cost" scenario, there is no money for innovation. As counterintuitive as it sounds, T1T decides to moderate its investments in the innovation program.

These are just a few of the strategic objectives across the four perspectives of T1T's Balanced Scorecard. However, positioning them in terms of scenarios and options leads to an entirely different—and more future proof—Balanced Scorecard.

Does the idea of keeping your options open sound too much like "postponing decision making," going with the flow, and being reactive, rather than being proactive in the face of change? On the contrary; I would say it involves much more thought than traditional strategy formulation, because it requires uncovering the deeper truth of what Drucker called the "theory of the business." The theory of the business is a strategic framework, and an organization's strategic framework describes its assumptions about its environment (e.g., society, the market, the customer, and technology), assumptions about its unique mission (how it achieves meaningful results and makes a difference), and assumptions about its core competencies (where the organization must excel to achieve and maintain leadership). To the layman's ears, the word "theory" may sound static, but it means nothing other than "the best possible understanding of reality that we have." And in business, that is a highly dynamic process. ■

Frank Buytendijk, a VP and fellow at Oracle Corp., is also a visiting fellow at Cranfield University School of Management and a former Gartner Research VP. His research and publications focus on strategy, organizational behavior, and performance management. His latest book, Dealing with Dilemmas *(Wiley, 2010), argues that traditional management practices actually cause many of the dilemmas executives face and offers practical advice on how to fundamentally resolve business dilemmas. For more information, visit www.frankbuytendijk.com.*

To learn more

BSC cocreator David Norton wrote about how strategy maps in conjunction with a management system are the key to achieving agility and strategic adaptability in changing economic times. See "How a Management System Helps You Cope with a Recession," BSR *May–June 2009 (Reprint #B0905A).*

Continue the dialogue

See a video in which Frank describes Dealing with Dilemmas *at* ***www.thepalladiumgroup.com/buytendijk***

Reprint #B1009A

Reprinted in full from the original article of the same title published in *Balanced Scorecard Report: The Strategy Execution Source*, and used with permission of the publishers, Harvard Business Publishing and Palladium Group, Inc. To obtain the full issue (Reprint #B1009O) or to subscribe to BSR, visit ***www.strategyexecutions.com***