

The Strategy Paradox

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This is my summary and abstraction of the book “The Strategy Paradox” by Michael Raynor (ISBN 978-0-385-51622-8). This is a good book worth the time that is at its base about strategy and risk and how to deal with the risk that is inherent in high return strategies. Raynor backs his views with a series of embedded case studies to make his points throughout the book: VHS/Betamax, MiniDisc, Johnson & Johnson, Microsoft, and some media and financial examples.

Big failures and big successes have a lot in common

One of the basic tenants of the book is around the fundamental similarity between strategies that succeed big and those that fail big. (This relates to the Elie Weisel observation that the opposite of love is not hate, it’s indifference. Love and hate are actually very similar emotions.) The big successes and failures tend to be very similar because they are about figuring out the strategy to achieve goals. Some strategies fail because of operational/tactical problems or bad management. However, many of these big failures goals are in the context of a good strategy that is well executed but one that experiences, for lack of a better term, bad luck. Strategy, in this view, is all about setting a serious goal that requires risk and real commitment. Having done that, if you committed based on assumptions that turned out wrong, things are not going to go well.

No pain, no gain

Much strategy these days is about avoiding failure and hedging bets. Having a goal that allows a business to limit risk and limit commitment will give you mediocre results. This is a bit along the lines of the Porter strategic models: Given a few key dimensions of strategy or differentiation, you want to turn up the contrast and push toward a vertex or edge – not be somewhere in the middle. Essentially, strategically, you want to figure out what differentiates you and really push that. And by pushing the differentiation, there is, as Raynor calls it, Requisite Uncertainty.

Adapting the sports ‘no pain, no gain’ phrase, it becomes ‘no big risk, no big return’.

The strategy paradox

- If you limit risk, you can adapt to mistakes, but you limit returns.
- If you push for high returns, you have to make real commitments and take the risk, but by committing, you have to accept the possibility of unrecoverable failure.

What about analyzing/forecasting to reduce risk?

One way to deal with the risk is by doing a better job at forecasting the future. Fundamental in Raynor’s view of strategy is the uncertainty of the future – the risks you have to accept. He seriously whacks at the accuracy and value of any forecasting – that it is fundamentally flawed and past a very narrow time horizon, not worth the effort. (My view is that this section, while I believe it to be true, felt like a more an emotional reaction than a considered analysis of forecasting.) This did bring to mind our cultural heritage of ‘analysis paralysis’ as a not very effective or useful consequence of wanting to reduce uncertainty.

Roles and time horizons

Raynor makes a great deal out of the roles of management and leadership in a business and the character of their role and the time horizons they need to deal with. In particular, operational levels of an organization should focus on commitments and how to meet them. Strategic levels should focus on uncertainty and how to manage them.

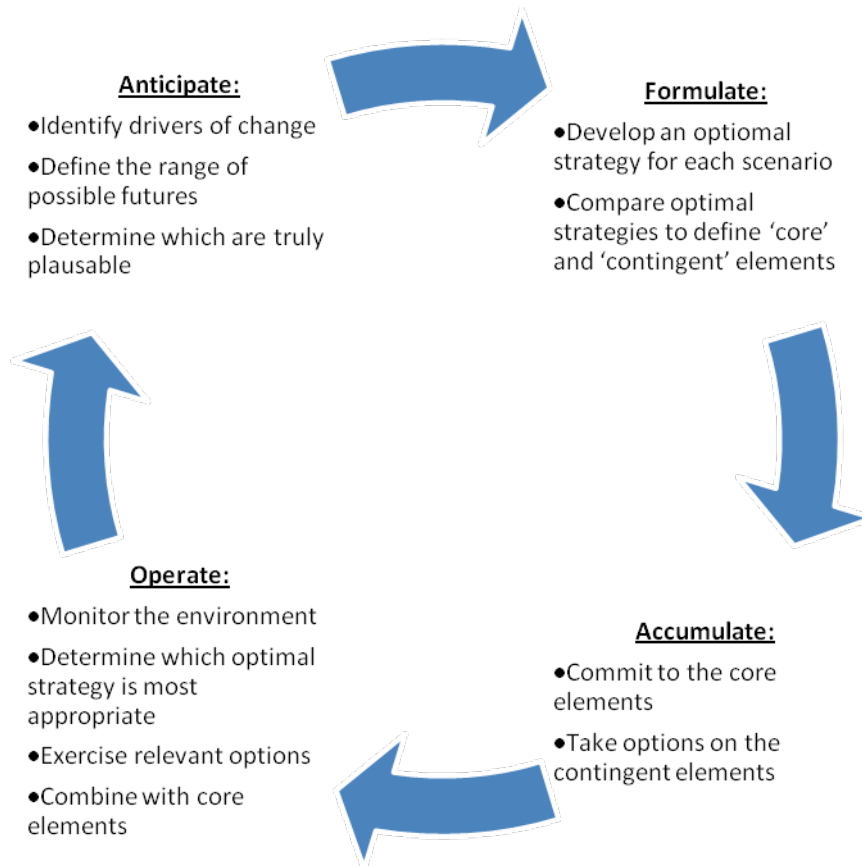
Level	Horizon	Strategic balance	Strategic question	Strategic Objective
Board	20 years	Almost entirely dealing with uncertainty	What threatens our survival?	Flexibility
Corporate	10 years	Mostly dealing with uncertainty	What undermines our strategy?	Hedging
Division	5 years	Balanced between uncertainty and commitment	What could derail our project?	Learning
Function	<=1 year	Almost entirely dealing with commitment		

Organization and hierarchy

Raynor talks about hierarchy and it's importance in dealing with the breadth and complexity in a company. A point he makes here, which I agree with, is that a company's senior management should not be focused on the minutiae and detailed operational aspects of the business but on the uncertainty and risk. Part of the reason behind this role specialization is that there is complexity of having to deal with the different time horizons and the need to use fundamentally different tools to be effective between operational and strategic aspects. He proposes that a properly functioning hierarchy is differentiated by the degree of strategic uncertainty addressed at each level. There is also a detailed discussion about how hierarchies actually operate (including actual versus formal organization structure) and how to integrate the hierarchy (using strategic commitment). Along these lines there is a good discussion in the book about the role of the senior/strategic leaders needing to create options as opposed to making decisions: The leader dealing with the uncertainty and stating 'we need to do something to address uncertainty xxx' and handing the detail of what that something is to the people with the knowledge to make the operational/commitment decisions.

Dealing with the strategy paradox

Raynor states that he has a solution to the strategy paradox. He proposes the following model of strategic flexibility:



I think this is a reasonable approach but it is not a silver bullet, but there are no silver bullets and I think the approach does help. The approach requires an investment in time and portfolio investments in dealing with the risks. In the current environment, we have grown to be very risk adverse and strive for nothing to fail (reasonable returns with no failures as opposed to succeed big with occasional failures). I think the idea of hedging portfolio investments to balance uncertainty and risk is a tough cultural and economic shift for us today.

Is it worth reading?

Overall, the book is very much worth the read. It is not for everybody and is of most use for people who really are engaged with or care about strategy. Finally, the message of risk and commitment makes me think of Yoda: “Do. Or do not. There is no try.”