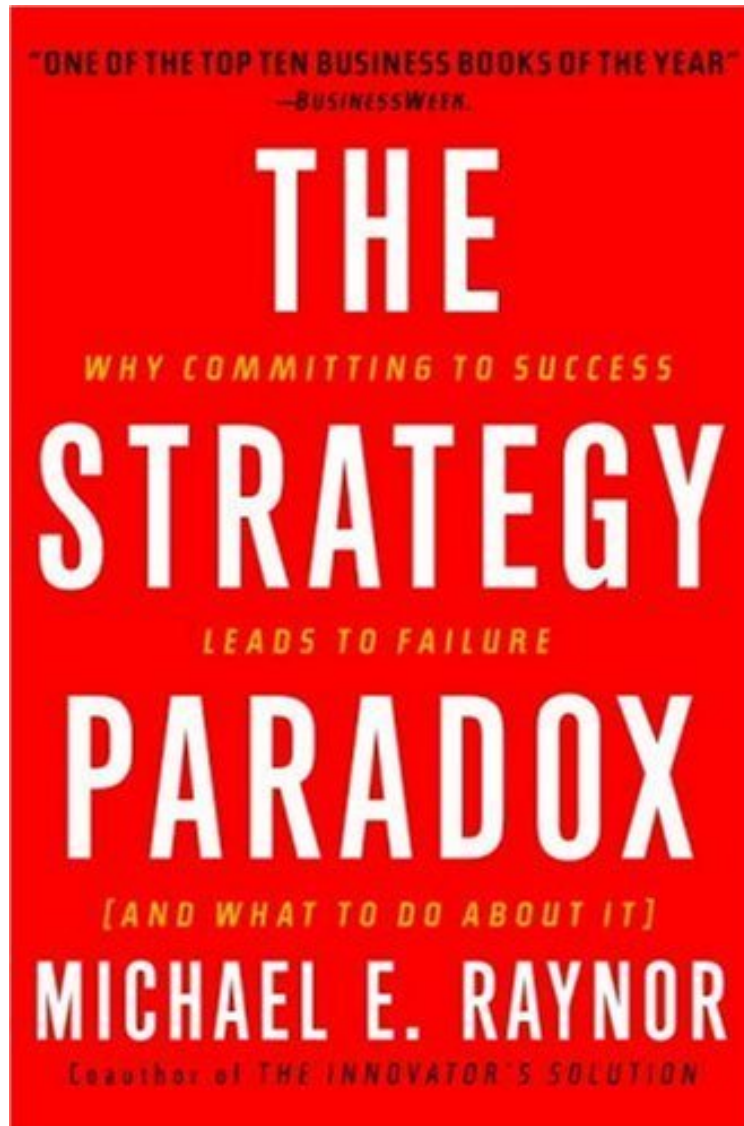


[Free pdf] The Strategy Paradox: Why committing to success leads to failure (and what to do about it)

## The Strategy Paradox: Why committing to success leads to failure (and what to do about it)

*Michael E. Raynor*

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**Michael E. Raynor : The Strategy Paradox: Why committing to success leads to failure (and what to do about it)** before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Strategy Paradox: Why committing to success leads to failure (and what to do about it):

2 of 2 people found the following review helpful. The Distance Between Success and Failure!By O. HalabiehAs the title indicates this is a book on corporate strategy that revolves around the concept of the strategy paradox. The author best defines it as "The strategy paradox is that the prerequisites of success are often the antecedents of failure. Faced

with this painful trade-off between the returns to bold commitment and the risk of making the wrong commitment, most organizations forgo the possibility of glory for an existence bereft of greatness." The book then goes on to describe the issues and limitations with current strategic thinking approaches and then presents the strategic flexibility approach/framework and its application. All these concepts are presented through case studies of various companies. What sets this book apart is the critical analysis and dissection of the case studies (companies) selected. The companies are evaluated based on the givens and perspectives at the time, rather than through hindsight. In addition, Michael pragmatically realizes that companies themselves do not conquer the strategy paradox in its entirety - rather they succeed or fail to do so in particular products/services and associated time. Last but not least the book presents the importance of leveraging the hierarchical structure to address strategic uncertainty differently at each level. An original and novel read in the field of corporate strategy, a must read! Below are excerpts of the chapter summaries:

- 1- "The strategy paradox arises from the need to commit in the face of unavoidable uncertainty. The solution to the paradox is to separate the management of commitments from the management of uncertainty. Since uncertainty increases with the time horizon under consideration, the basis for the allocation of decision making is the time horizon for which different levels of the hierarchy are responsible: the corporate office, responsible for the longest time horizon, must focus on managing uncertainty, while operating managers must focus on delivering commitments. This is the principle of Requisite Uncertainty. A critically important tool in applying Requisite Uncertainty is Strategic Flexibility, a framework for identifying uncertainties and developing the options needed to mitigate risk and exploit opportunity."
- 2- "Extreme positions in strategic space create the highest levels of profitability but also create the highest levels of strategic risk and hence failure. That is the strategy paradox. The trade-off between risk and return appears inescapable, and most firms deal with that trade-off by accepting lower returns for a better chance of survival."
- 3- "Adaptation has its benefits and its place. We overestimate its applicability at our peril. Thanks to the pervasiveness of both slow and fast change, even the most highly adaptable organizations will require something more, and very different, if they are to cope with the demands of an unpredictable environment."
- 4- "Since business success is relative, greater levels of commitment to the ultimately correct strategy will always prevail over approaches based on adaptation. However, meaningfully accurate forecasting is impossible because track records are meaningless, the accuracy of predictions is impossible to assess, and events are subject to inevitable randomness. Therefore, great success is only ever possible if one accepts the risk of failure. The strategy paradox therefore afflicts all firms equally. But there is a way out."
- 5- "Hierarchies should be structured around time, with higher levels focused on longer time horizons. Strategic uncertainty increases with time. Therefore, the higher the hierarchical level, the greater should be the emphasis on the management of uncertainty. Consequently, the board's role is to determine the corporation's overall exposure to strategic uncertainty. Senior management must then develop mechanisms for hedging the relevant strategic risks and ensuring that the relevant strategic opportunities remain viable. Operating division management must commit to a specific strategy but work to avoid catastrophic outcomes should key assumptions prove invalid. Functional management is charged with delivering short-term results."
- 6- "For a company to take strategic uncertainty seriously, it must avoid making commitments in the face of uncertainty and instead create strategic options that can be exercised or abandoned depending on how those uncertainties are faced. Only in this way can a firm hope to deal effectively with an environment that changes unpredictably. Implementing such an approach requires knowing which options to take, how much to invest in them, how to manage the options over time, and when and how to exercise or abandon them. Doing this successfully requires a corporate office that is able to direct and guide the actions of the operating divisions."
- 7- "Johnson Johnson's corporate venture capital arm, JJDC, has transformed itself into a mechanism for managing strategic uncertainty. By creating and managing a portfolio of real options on alternative strategies, JJDC creates Strategic Flexibility for JJ's OpCos. This allows focused divisions with high-risk, high-return strategies to change their strategic stance in ways they otherwise could not. The result is better overall corporate performance and lower overall corporate risk."
- 8- "...The level of disagreement among TMT (Top Management team) members about key environmental variables and strategic goals is positively related to firm performance...But the lower down one goes in the hierarchy, or the more one addresses operational issues, the more consensus and agreement is associated with superior results."
- 9- "Scenarios capture the range of plausible future conditions within which an organization might have to operate. At the corporate level, the challenge is to build an optimal strategy for each of these possible outcomes and to analyze these strategies to determine the core and contingent elements. This creates the strategic foundation and strategic options necessary for operating divisions to have true Strategic Flexibility. Operating divisions should necessarily focus on choosing and implementing a particular strategy, one they created out of the core and contingent elements put in place by the corporate office. However, due to uncertainties that imagine over an intermediate time horizon, business unit management must seek to hedge downside risk, accepting that their ability to substantially change strategy is severely limited. Finally, functional managers have no strategic latitude but can seek to learn how to deliver on the commitments already in place as efficiently and effectively as possible."
- 10- "The four phases of managing a portfolio of real options are create, preserve, exercise, and abandon. Valuing real options in the context of Strategic Flexibility is analogous to valuing financial options, but the same analytical tools cannot be used without significant accommodation of the idiosyncrasies of real options. Ultimately,

real options are valuable in the management of strategic uncertainty. Consequently, determining what real options are worth is a profoundly intuitive assessment based on the risk/return profile that the board and top management feel is appropriate for the company."1 of 1 people found the following review helpful. Excellent Strategic Flexibility conceptBy CustomerExcellent conceptual guidelines for strategic thinking in the VUCA context (Volatility, Uncertainty, Complexity, Ambiguity), with a focus on Strategic Uncertainty, in a bold attempt to solve the strategic paradox between the possible great success and the remarkable failure of any outstanding strategy. The core concept of the book is that of the Strategic Flexibility, based on what Raynor defines as Requisite Uncertainty, recommending a breakdown of the management hierarchy's focus on a variable strategic horizon, longer for the top management and shorter for the lower hierarchical layers. A must read.0 of 0 people found the following review helpful. Counter-Intuitive Approach with Strong SupportBy Barton BreenUp front, those reading this review should know that I work for the same consulting firm of the author and have assisted in facilitating group training using this book. I have not been directed by anyone within my firm to write this review nor am I under any constraint to only give this book a positive review. I am providing this review at my own initiative as a regular reviewer on my own time.Michael Raynor's work in the Strategy Paradox might seem in some ways to be an exercise in shooting oneself in a foot. As a recognized consultant and academic leader in the field of Strategic Planning, it's not necessarily a smart business move to go to such great lengths to explain why so much of what passes for conventional wisdom within the business community, amounts to the equivalent of whistling past the graveyard at night in order to give yourself some sense of control over those things which really, of which we have very little actual control.The reality is that those who survive in business, are the ones who then provide the insights to others as to how to succeed. Nobody wants to take advice from a loser, right? Those businesses that then have succeeded along with their corporate leadership become the gold standard which everyone else seeks to learn from and emulate in order to bring about their own success. So much of what leads to success however, in the end reduces to some form of positioning for success based upon anticipation of market conditions, consumer demand, technological and process-driven innovation and let's be honest, sometimes just plain old "dumb luck," that what passes for strategy is just emulating past decisions and methods of arriving at strategies that repeat what has been done before but then are at the mercy of those uncontrollable elements of chance.Raynor demonstrates through a very thorough and documented approach that often what businesses do to achieve success is based upon the models of past stellar successes with very little recognition of how risk that is leveraged to provide above average returns on effort and investment, by definition runs the risk of corresponding failure.If this is the case, then what is the value of strategic planning and why bother doing it?Raynor addresses these issues and in the end provides some solid input as to how strategic planning can be done when separated from the populist "conventional wisdom" that becomes commonly accepted but doesn't actually deliver when it's applied in volatile environments.Included in the detailed discussions of varying elements of strategic planning are such popular approaches as "adaptability", forecasting through the extrapolation of the past and other currently in vogue methods, the impact of timing (including organizational structuring and its ability to adjust to changes externally and internally), options based strategy versus firm decisions and commitments in advance, strategic flexibility, scenario construction, unpredictability "robust" strategic planning, and then finally a conclusion with a remarkable summation (certainly in the context of strong ego reinforcement typically found in corporate power structures) that has to be read to be believed. Raynor, however, in my opinion is spot on.In many ways, this is a book of questions more-so than a book of answers. Answers are present however and in the end, someone reading this book should come away with a greater appreciation for reality, personal limitations and some counter-intuitive lessons that in the end, could just lead to some more effective approaches to age-old, and constantly redefining problems.5 stars.bart breen

A compelling vision. Bold leadership. Decisive action. Unfortunately, these prerequisites of success are almost always the ingredients of failure, too. In fact, most managers seeking to maximize their chances for glory are often unwittingly setting themselves up for ruin. The sad truth is that most companies have left their futures almost entirely to chance, and don't even realize it. The reason? Managers feel they must make choices with far-reaching consequences today, but must base those choices on assumptions about a future they cannot predict. It is this collision between commitment and uncertainty that creates THE STRATEGY PARADOX.This paradox sets up a ubiquitous but little-understood tradeoff. Because managers feel they must base their strategies on assumptions about an unknown future, the more ambitious of them hope their guesses will be right; or that they can somehow adapt to the turbulence that will arise. In fact, only a small number of lucky daredevils prosper, while many more unfortunate, but no less capable managers find themselves at the helms of sinking ships. Realizing this, even if only intuitively, most managers shy away from the bold commitments that success seems to demand, choosing instead timid, unremarkable strategies, sacrificing any chance at greatness for a better chance at mere survival.Michael E. Raynor, coauthor of the bestselling *The Innovator's Solution*, explains how leaders can break this tradeoff and achieve results historically reserved for the fortunate few even as they reduce the risks they must accept in the pursuit of success. In the cutthroat world of competitive strategy, this is as close as you can come to getting something for nothing.Drawing on leading-edge scholarship and extensive original research, Raynor's revolutionary principle of Requisite Uncertainty

yields a clutch of critical, counter-intuitive findings. Among them:-- The Board should not evaluate the CEO based on the company's performance, but instead on the firm's strategic risk profile-- The CEO should not drive results, but manage uncertainty-- Business unit leaders should not focus on execution, but on making strategic choices-- Line managers should not worry about strategic risk, but devote themselves to delivering on commitments

With detailed case studies of success and failure at Sony, Microsoft, Vivendi Universal, Johnson Johnson, ATT and other major companies in industries from financial services to energy, Raynor presents a concrete framework for strategic action that allows companies to seize today's opportunities while simultaneously preparing for tomorrow's promise.

From the Hardcover edition.

One of BusinessWeek Magazine's top ten business books of 2007 Voted one of the five best strategy books of 2007 by Strategy and Business magazine

Advance praise for THE STRATEGY PARADOX "One of the most important, realistic and useful books on strategy ever written. With consummate clarity and withering logic, Raynor confronts and resolves the paradox that while strategy requires commitment, much about the future is simply unknowable. It is an absolutely brilliant, lucidly written piece of scholarship."--Clayton M. Christensen, Professor, Harvard Business School and author of the bestselling The Innovator's Dilemma and The Innovator's Solution "Raynor has taken the next giant leap forward in strategy. He demonstrates that much of what we know about creating value is true, but woefully incomplete. By widening our focus from simply the pursuit of success to include ever-present uncertainty, Raynor does more than simply alert us to the long-ignored risk/return tradeoff -- he shows us how to break it."--Jim Balsillie, co-CEO, Research in Motion (RIM) "The best lesson in corporate strategy I have ever read. Everyone admits we do not know what the future holds, but most of us go on acting as though we do know what the future holds. That can be dangerous in the extreme. Raynor has it right: clearly and convincingly, he shows us why facing up to uncertainty is essential for sustainable success, and then he provides the tools and methods to achieve it."--Peter L. Bernstein, author of Against the Gods: The Remarkable Story of Risk "The Strategy Paradox is a most extraordinary business book: impeccably researched and argued, brutally honest and devoid of 'silver bullet' solutions to today's complex strategy problems. It has profound implications for business strategy research, teaching and practice and should be read by anyone interested in why some strategies succeed while other equally-thoughtful strategies fail."--Hugh Courtney, Distinguished Tyser Teaching Fellow, University of Maryland, and author of 20/20 Foresight : Crafting Strategy in an Uncertain World "A rare and extremely valuable gem. Raynor provides managers a sophisticated, accessible, and highly usable approach weaving time, choice, uncertainty, and risk into a rich treasury of insights" --Andy Boynton, Dean, The Wallace E. Carroll School of Management, Boston College "Very few executives or board members look forward to the annual corporate clairvoyant ritual known as strategic planning; in no small part because of the unspoken recognition that "our" crystal ball's vision of the future has no greater fidelity than the competition's glass sphere. Since luck has rarely proved to be a sustainable business model, there exists a desperate need for a system to implement that can manage the unmanageable: how do you commit resources now to service customers and markets that will emerge in a distant and inherently unpredictable future? Just as Raynor succeeded in unlocking the mysteries behind innovation in The Innovator's Solution, The Strategy Paradox provides an intelligent, robust, practical compass that the non-telepathic can use to navigate through the inevitable course corrections that will be required along the journey to success. Drawing upon extensive data from business, probability, mathematical and behavioral sciences and graphically illustrating his thesis with real-world examples of both successes AND failures, Raynor beautifully explains how to create a portfolio of strategic options that will allow curative interventions as unforeseen circumstances and developments are inescapably encountered. Raynor's approach to strategic planning is not only the best manual on the subject written to date, it is an essential survival

tool."-- William Hunter MD, Founder, President CEO, Angiotech Pharmaceuticals"A very timely book that penetrates to the core of strategy, namely how to balance commitment and flexibility in a world of increasing uncertainty. Michael Raynor is a gifted writer and thinker about business, bringing fresh examples and lucid insights to deeply challenging issues facing today's executives. hellip; This book deserves to be read widely by managers and leaders alike."--Paul J. H. Schoemaker, Adjunct Professor, Wharton Business School and Chairman of Decision Strategies International Inc., Author, Profiting from Uncertainty and Peripheral Vision"Insightful, timely and relevant to the choices and commitments our company is contemplating. The external environment in which we will find ourselves in a few short years is very uncertain, where changes in regulations, the economy, competitors' behavior, customer preferences, or new or disruptive technologies could each, or in combination, dramatically change the operating landscape. The ability to take bold action with urgency, while maintaining strategic flexibility, has never been more important."--Dan Hesse, Chairman and CEO, Embarq Corporation"Raynor's book is insightful in identifying the very real constraints to sustained business growth. Strategy Paradox offers an architectural plan to effect transformational growth in a risk averse climate. These concepts have been extremely helpful to me as I work to create options for promising future technologies while simultaneously managing inescapable strategic risk."-- Dave Holveck, Vice President, Corporate Development, President, Johnson Johnson Development Corporation"If Stephen Jay Gould had written a business book, this would be it; Raynor provides the most logical, detailed, and enlightening explanation for why some products succeeded and some products failed. . . Read this book to learn how to deal with uncertainty before you suffer the same fate as dinosaurs."--Guy Kawasaki, Managing Director, Garage Technology Ventures and author, The Art of the StartFrom the Hardcover edition.About the AuthorMichael E. Raynor, of Deloitte Consulting LLP, is a Distinguished Fellow with Deloitte Research in Boston and works extensively with clients worldwide. He is the coauthor, with Clayton M. Christensen, of the best-selling The Innovator's Solution. Raynor has a doctorate from the Harvard Business School, and is an Adjunct Professor at the Richard Ivey School of Business in London, Canada. He lives in Mississauga, Canada.