



The Strategy Paradox: Why Committing to Success Leads to Failure (And What to do About It)

By Michael E. Raynor

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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, AT&T 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.

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Editorial Review

Review

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. ... 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 Start***

About the Author

Michael 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.

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Chapter One

WHAT STRATEGY PARADOX?

Most strategies are built on specific beliefs about the future. Unfortunately, the future is deeply unpredictable. Worse, the requirements of breakthrough success demand implementing strategy in ways that make it impossible to adapt should the future not turn out as expected. The result is the Strategy Paradox:

strategies with the greatest possibility of success also have the greatest possibility of failure. Resolving this paradox requires a new way of thinking about strategy and uncertainty.

Here is a puzzling fact: the best-performing firms often have more in common with humiliated bankrupts than with companies that have managed merely to survive. In fact, the very traits we have come to identify as determinants of high achievement are also the ingredients of total collapse. And so it turns out that, behaviorally at least, the opposite of success is not failure, but mediocrity.

There is more at stake here than simply observing that accomplishing anything worthwhile requires at least making the attempt, while those who venture nothing can only ever avoid disappointment. Theodore Roosevelt, the twenty-sixth president of the United States, explained this much to us when he argued that the credit belongs to those actually “in the arena,” whose faces are marred by “dust and sweat and blood.”(1) His point was that victory demands valiant action, and that valiant action necessarily brings with it the risk of defeat.

In business, the kinship between these antipodes runs far deeper, to the nature of the actions one must take in order to prevail. Therein lies the strategy paradox: the same behaviors and characteristics that maximize a firm’s probability of notable success also maximize its probability of total failure.

THE SIMILARITY OF OPPOSITES

Many opposites are not nearly as different as they first appear. For example, as Nobel Peace Prize winner Elie Wiesel observed, the opposite of love is not hate, but indifference; for at a minimum, to love or hate someone is to have intense emotions toward them.(2) We see how the similarities between love and hate often outweigh the differences when one is transformed into the other, a phenomenon that literature—from Gilgamesh to Shakespeare to Harlequin Romances—has exploited and explored for millennia.

The psychological proximity of love and hate is part of the hard-wiring of the human psyche. Dan Gilbert explains, in his book *Stumbling on Happiness*, that the same neurocircuitry and neurochemistry triggered in response to stressful events (“flight or fight”) are also triggered in response to sexual arousal.(3) As a result, when we are stressed in the presence of a person we find sexually attractive, we have a tough time telling what we are responding to: are our passions inflamed (hate) because of a stressor, or are we aroused (love) because of the attractive person?

In the 1994 movie *Speed* starring Keanu Reeves and Sandra Bullock, Bullock’s character, Annie Porter, appeals to this possible confusion when she notes, upon finding herself in the hero’s arms after several near-death experiences, that “relationships that start under intense circumstances, they never last .”

Call it an “emotional paradox”: two very different dispositions—loving and hating—can have far more in common with each other than a seemingly intermediate state.

The strategy paradox is visible only when we can put under the microscope strategies whose only flaw was that they flopped. Chapter 2 explores two such strategies: Sony’s Betamax VCR and its MiniDisc music player. In both cases, the company never set a foot wrong by the lights of how one is supposed to build a successful strategy: it understood its customers, identified viable market segments, developed cutting-edge products, executed flawlessly, and monitored and responded to its competitors’ countermoves. Yet, in both

cases, Sony came up short because the commitments the company had to make in the pursuit of greatness were undermined when the perfectly reasonable assumptions behind those commitments turned out to be wrong. Sony's failures were not a consequence of bad strategy, but of *great* strategy coupled with bad *luck*. Sony did everything necessary to maximize its chances of success, yet those same actions exposed it to the possibility of near-total defeat. In other words, when key uncertainties broke against it, Sony became a victim of the strategy paradox.

The purpose of this book is to describe how the strategy paradox can be resolved. In what follows, a new principle I call *Requisite Uncertainty* and a new management tool I call *Strategic Flexibility* provide a way for managers to implement the kinds of strategies that can deliver outstanding results while minimizing exposure to the vagaries of fate.

1.1 HIDDEN IN PLAIN SIGHT

Why is this the first you have heard of the strategy paradox? After all, there is no shortage of well-designed and well-executed studies offering useful insights into the defining characteristics of successful firms. Similarities to failed firms and the importance of luck have not featured prominently.

The reason most business research misses the strategy paradox is that few studies ever examine failure. In some cases, this is because pursuing the secrets of success seems more rewarding than picking through the wreckage of failure. In other cases, it is simply a flawed method: researchers embrace the idea that by studying winners they can discern their defining characteristics, forgetting that the factors differentiating winners from losers can be identified only by analyzing both. Finally, there is the reality that failures are often harder to document because failed companies are typically no longer available for study.

In light of these difficulties, researchers often compromise, comparing companies that have been very successful over ten or fifteen years (focal companies) with companies that have been less successful over that same time period (comparison companies). Some studies look for firms that have done very poorly over that time, and others look for comparison companies that have actually done pretty well—just not nearly as well as their focal companies. Either way, however, comparison companies have at least *survived* for the period in question, and over a ten-year period, mere survival is actually a pretty high bar.(4)

What this means is that most studies of the determinants of success have based their conclusions upon comparisons of the exceptional with the mediocre. Studies that systematically seek out successful companies will necessarily find those that in the past made the right commitments. And because the comparison companies are always firms that have performed less well, but not failed completely, they will tend to be firms that have avoided high-risk, high-return strategies. A review of more than thirty empirical studies, published in academic journals over the past twenty years, exploring the relationship between strategy and performance found none that had accounted for this bias.(5)

By examining primarily those companies that have guessed right and comparing them with those that have avoided guessing, what has been largely missed is the critical importance of managing uncertainty. The gallant charge and the cowardly retreat are not the only alternatives to catastrophic defeat. There is a way to boldly go, yet mitigate risk without compromising performance. Describing that solution is the promise of this book.

Accepting the strategy paradox forces us to accept mediocrity, giving up a chance at greatness as the price of our continued corporate existence. Resolving it will free us from a debilitating trade-off between risk and

return and allow us to strive to be first without giving up the hope that we will last.

1.2 MUST COMMIT

The cause of the strategy paradox is as obvious as it is overlooked. A successful strategy allows an organization to create and capture value. To create value, a firm must connect with customers. For a firm to capture value, its strategy must be resistant to imitation by competitors. Satisfying customers in ways competitors cannot copy requires significant commitment to a particular strategy, that is, *strategic* commitments, to unique assets or to particular capabilities.

Commitments are a powerful determinant of success because they make a strategy difficult to imitate. To reduce strategic risk, many firms invest only in what has been shown to work. Since these latecomers wait while some firms—the lucky ones—make what happen to be the right commitments, lucky firms enjoy a period of relatively little competition: it takes time to replicate capabilities so painstakingly created. For example, new products snapped together from off-the-shelf components are usually easily imitated by competitors, while those based on proprietary technologies developed over years are far likelier to be the foundation of a durable franchise. The downside of commitment is that if you make what happen to be the wrong commitments, it can take a long time to undo them and make new ones.

The strategy paradox, then, arises from the collision of commitment and uncertainty. The most successful strategies are those based on commitments made today that are best aligned with tomorrow's circumstances. But no one knows what those circumstances will be, because the future is unpredictable. Should one have guessed wrong and committed to the wrong capabilities, it will be impossible to adapt—after all, a commitment that can be changed was not much of a commitment. As a result, success is very often a result of having made what *turned out to be* the right commitments (good luck), while failed strategies, which can be similar in many ways to successful ones, are based on what *turned out to be* the wrong commitments (bad luck). In other words, the strategy paradox is a consequence of the need to commit to a strategy despite the deep uncertainty surrounding which strategy to commit to. Call this *strategic* uncertainty.

New research detailed in Chapter 3 suggests that often the main factor separating success and failure is indeed luck. Firms that avoid strategic risk survive but do not prosper. Firms that accept strategic risk reap either great reward or utter ruin. For now, these seem to be the only alternatives to failure, and firms are forced to choose. There is no intrinsic merit in opting for greater returns over survival or vice versa; the problem is that firms must choose.

The Sony examples, referred to earlier, are not unique. The strategy paradox is more than a theoretical possibility or a curiosity; it is a general condition. As recounted in Chapter 3, an analysis of the competitive strategies of several thousand operating companies reveals that organizations pursuing the most commitment-intensive strategies generate the highest returns, but they also suffer the highest mortality rates. Seen in this light, Sony's failures were not a consequence of avoidable mistakes but the result of making commitments—the defining element of successful strategy—despite inescapable uncertainty. And when those uncertainties were resolved to Sony's detriment, it paid the price.

The strategy paradox rests on two premises: commitments cannot be adapted should predictions prove incorrect; and predictions are never reliably or verifiably correct. Are these premises true?

1.3 CAN'T ADAPT

For all we might think we know about how to make organizations agile, flexible, and adaptive, the data suggest strongly that, if anything, competitive advantage is eroding faster than ever. This acceleration is interpreted by some to mean that there is a greater need than ever for adaptable enterprises. Such an observation is entirely correct. Unfortunately, the acuteness of the need does not mean that it can be satisfied.

Most organizations exhibit some degree of adaptability. However, as explained in Chapter 4, adaptability is far less useful than we might like. Specifically, adaptability is viable only when the pace of organizational change matches the pace of environmental change. When the environment changes either faster or slower than the organization, adaptability is no longer sufficient. The bad news is that every organization will at some point face one or both of two types of mismatch between the two rates of change, and each can prove devastating.

Fast change leaves an organization's capabilities optimized for an environment that suddenly no longer exists. For example, when the price of oil rose 400 percent in a matter of weeks in the early 1970s, North American automakers found that the mainstay of their product lines—full-sized cars—were singularly inappropriate to the new competitive conditions. Unfortunately, it took those same automakers years to design, manufacture, and market more fuel-efficient models, and they lost valuable market share to better-positioned competitors. (Ironically, the tide turned in their favor in the mid-1990s when cheap gas made SUVs all the rage; their good fortune began to evaporate once again in the face of high-priced petrol in the mid-2000s.)

Slow change prompts an organization to adapt to incremental changes in the environment around it, and because of these incremental adaptations, the company often fails to see the need for a more fundamental transformation. The auto sector's response to the current oil crisis may be subject to this slow change pathology. As oil prices have crept up, automakers have responded by extending the life of the internal combustion engine by dramatically increasing fuel economy and creating hybrid electric engines, among other technological advances. But the day may well come when, due either to the need to limit carbon emissions for environmental reasons or the inability of the general economy to absorb still further increases in oil prices, the internal combustion engine must be abandoned. Should that day arrive, companies that have been exploiting their adaptive capacity could well be overtaken by firms that are already aggressively pursuing alternative technologies intended to replace, rather than merely extend, a century-old technology.

Compounding the difficulties of responding to fast and slow change is the fact that most competitive environments are characterized by multiple rates of change, creating the impossible organizational task of changing at different rates at the same time.

As a result, adaptability cannot expect to resolve or even mitigate the strategy paradox.

Users Review

From reader reviews:

Robert Bell:

Reading a e-book tends to be new life style with this era globalization. With looking at you can get a lot of information that will give you benefit in your life. Along with book everyone in this world could share their idea. Guides can also inspire a lot of people. Lots of author can inspire all their reader with their story or their experience. Not only the story that share in the textbooks. But also they write about the data about

something that you need instance. How to get the good score toefl, or how to teach your young ones, there are many kinds of book that you can get now. The authors these days always try to improve their expertise in writing, they also doing some investigation before they write with their book. One of them is this The Strategy Paradox: Why Committing to Success Leads to Failure (And What to do About It).

William Gilbert:

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Jeremy Quick:

What is your hobby? Have you heard in which question when you got college students? We believe that that concern was given by teacher to the students. Many kinds of hobby, Every individual has different hobby. And you know that little person including reading or as looking at become their hobby. You need to know that reading is very important along with book as to be the factor. Book is important thing to incorporate you knowledge, except your own teacher or lecturer. You will find good news or update with regards to something by book. Different categories of books that can you decide to try be your object. One of them are these claims The Strategy Paradox: Why Committing to Success Leads to Failure (And What to do About It).

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