How Can CEOs Manage Strategic Tensions?

John Goddard and **Aubry Pierre**, Partners at L.E.K. Consulting, discuss the difficult trade-offs that CEOs must make when taking key strategic decisions

One of the challenges of being a CEO is that they are rarely asked to choose between a wrong or right answer. Instead, they are presented with two 'right' answers, one being slightly inferior.

Strategy, after all, is about trade-offs – choosing where to focus. At the strategic level, picking a slightly better option can create tremendous value. But pick the slightly worse one, and the consequences could be far reaching.

CEOs should actively manage five specific points of tension in today's complex global business environment:

1. Disruptive Innovation vs Leveraging the Company's Core Strengths

When confronted with disruptive technologies, many companies fail to align digital strategies with their core ones. By definition, disruptive innovation challenges a firm's core capabilities; direct channels, for example, provide low cost and ubiquitous distribution, but cannibalise traditional salesforces and threaten partners.

CEOs must possess the technological fluency and open-mindedness to fully understand the disruptions they face, plus decide which legacy capabilities are core to the future and which should be jettisoned. And, they must do that at speed. >

In 2012, General Electric's CEO, Jeff Immelt, launched the company's digital strategy to connect minds and machines, combining a legacy of innovative industrial manufacturing with cutting-edge data and analytics expertise. "If you went to bed last night as an industrial company," he observed, "You are going to wake up this morning as a software and data analytics company." Failure to grasp such disruptions – and adapt quickly – can be fatal.

2. Pursuing Cost Leadership vs Differentiating for Value

Manage costs or add value? Today, this tension is perilous for CEOs. Focusing on one at the expense of the other is no longer a choice.

On one side, pure cost-based strategies are now rarely viable due to forces such as automated production, mass customisation, global supply chains, direct channels and networked devices, which have permanently established a new base level for both manufacturing and total cost of ownership.

Even in the most commoditised markets, leading players need to create value by adding small slivers of differentiated services, logistics, quality and reliability.

In the other corner, a highly differentiated offering is no longer a guarantee of long-term value creation. Diminishing cycle times, rapidly changing intellectual property and fast R&D allow competition to catch up quickly on any breakthrough. Even the most valuable innovations can see their price premium drop rapidly.

CEOs must constantly balance these cost/value pressures, rapidly re-evaluating strategic priorities, including where to participate in the industry value chain in order to remain competitive and profitable.

> *"When confronted with disruptive technologies, many companies fail to align digital strategies with their core ones"*

3. Exploiting Global Opportunities vs Managing Risk

Investment opportunities arise and disappear with alacrity (and woe to the CEOs who underestimate the risks). However, the pace of global business now often impedes traditionally rigorous diligence.

CEOs must be agile and adaptive, operating from a mindset of continual anticipation and appraisal in order to make timely investment decisions and oversee speedy execution.

It's often the case that decision making in today's organisations no longer has the necessary responsiveness, detaching them from both their customer base and market realities.

By creating a nimbler, more autonomous businesses and pushing decision making down the management chain, CEOs can increase corporate collaboration, speed and adaptability, as well as simplify or replace burdensome management processes, such as annual performance reviews.

Today's organisational strategies call for small, manageable units focused solely on specific technologies, end markets, or geographical areas. Additionally, impractical and quickly outmoded >

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Managing strategic tension as a CEO is certainly not an easy task. In particular, deciding between whether to focus on disruptive innovation or leveraging the core strengths of the business is a challenge that comes up a lot within the Criticaleye community.

Even when the core business is successfully generating profit, you must be able to recognise which aspects are likely to be disrupted by elements, such as new technology, and adapt to that. A CEO must be curious, quickly get up-to-speed with disruptive technology and how it's set to shift their company – or even their whole industry.

As many businesses enter into unchartered territory, it becomes more important than ever to share best practice with executives from other industries on how they are meeting this challenge.

high level P&L management can be supplanted by performance metrics that stress driving value for every critical part of the enterprise.

4. Responding Rapidly to Opportunity vs Ensuring High Quality

For CEOs, the mandate to identify, assess, and seize opportunities rapidly is indisputable. However, it cannot be achieved at the expense of quality, which is the bedrock of brand value and customer loyalty.

Yet companies across all sectors are trying to accelerate innovation so they can break free from low-growth markets, differentiate, and sustain competitive advantage.

Innovation cycles speed up and time-to-market goes down; the resulting changes in the value chain compound customer demand for quality.

Failure to balance time-to-market with insistence on excellence has, for some CEOs, led to highly visible product recalls and damaging interruptions of service. Achieving the best of both – fast response coupled with a high-quality offering – requires a new approach.

For example, leveraging partners across the supply chain such as General Motors' collaboration with LG, a key component supplier in developing the all electrical vehicle Chevrolet Bolt EV. Or Caterpillar, which has established partnerships across industry, and with government and academic organisations, to speed up the pace of its R&D.

5. Drawing in New Talent vs Integrating a Cohesive Team

Increasingly, all businesses need access to technology talent, thereby ensuring its implementation and the pace of innovation are sustained. However, acquiring adequate talent in this area continues to challenge CEOs globally because their legacy teams often lack the know-how to effectively search the most fruitful channels.

CEOs should take lessons from firms in technology hubs, such as Silicon Valley, Boston's Route 128, Austin, Texas and Shoreditch in London, all of which are well-versed in what it takes to compete in the tech talent market and routinely wield enticing opportunities to be part of the 'next big thing'.

In addition to ramping up tech savvy recruitment, CEOs face the challenge of creating a cohesive, high-performance culture. Integrating new capabilities with the legacy organisation is critical, but poor management will bring conflict and failure.

Established teams need to be motivated to embrace potentially radical ideas and approaches inherent in harnessing new talent and achieving business success. At the same time, today's chief executive must remain focused on driving innovation. For example, building new technology and R&D centres outside of old-fashioned legacy locations, or developing ownership and incentive models that attract new talent and retain key individuals.

How skilfully, and quickly, CEOs address these five points of tension will go a long way toward determining success. Taken as a whole, these complex challenges will be best met by a leader who can rapidly deploy the technical fluency, market and customer insight, and organisational dexterity to define and mobilise a new management culture. ■

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