Critical Leadership Skills Series:

Paradox Navigation©

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After thirty years working with business leaders in numerous industries, we have identified three characteristics of leadership that, more than any others, help to differentiate the average from the great. They are:

- **Tangible Vision (commitment to and personal involvement in a clearly defined advantaged business concept or strategy)**
- **Motivational Charisma (the ability to inspire both "followership" and teamwork)**
- **Paradox Navigation (the ability to lead an organization to the fulfillment of equally important and yet seemingly contradictory goals)**

The first two characteristics have been addressed by countless others. Few leaders in business today need another motivational speech on the power of personal charisma and importance of a compelling vision.

The third characteristic however, Paradox Navigation, is perhaps the least understood and most overlooked of all leadership skills.

It is ironic that, as business leaders, we continually try to be as consistent and direct as possible – articulating mission statements to set our companies on unambiguous, unifying paths to achieve well defined business goals – and yet legitimate, inevitable paradoxes abound in the business world. Consider the common, concurrent goals of achieving:

- **Short-term results and long-term growth/investment**
- **Quality improvement and cost reduction**
- **Speed and accuracy/quality**
- **Global reach and local connectedness**
- **Customer service and working capital reduction**
- **Managing for efficiency and managing for effectiveness**
- **Doing more with less**

A "business paradox" exists whenever there is an apparently conflicting set of goals or performance standards. Such business paradoxes are also "leadership paradoxes," because they can be significantly debilitating to the overall momentum of an organization if left unresolved and poorly managed.

For example, a directive to "maximize growth" is a pretty simple and clear concept for most organizations. But when that organization is simultaneously challenged to maximize short-term profits, management, and therefore the rank and file, can become confused and de-motivated by the apparent lose/lose paradox.

It is no coincidence that many business strategies fail in the implementation

phase. They do so usually because of unresolved paradoxes. I have seen organizations, when confronted with paradoxes, become paralyzed and, in some cases, even self-destructive, because senior leaders did not recognize that a paradox existed and/or were not skilled in the art of Paradox Navigation.

Paradox Navigation is a critical skill for any leader, but its importance increases significantly for "leaders of change." Successful turnarounds, reorganizations, and other potentially disruptive events require the wholesale shifting of organizational beliefs and standards of performance, elevating Paradox Navigation to paramount importance. *I have found this leadership skill to be the single most significant determinant of successful and unsuccessful change management.*

The disintegration of Sunbeam Corporation's turnaround efforts (1997-98) is a sad illustration of this point. Senior leaders failed to resolve one of the most common of all paradoxes: the "short term results versus investment for growth" paradox. Instead of clearly establishing thresholds for each "pole" of the paradox and making a convincing case for their interconnectivity, senior officials simply demanded that middle management maximize both short-term results and long-term investment -- a poor and wholly inadequate excuse for leadership, vision, charisma, *and* Paradox Navigation. While the CEO and COO spent their energies expressing their singular commitment to the maximization of shareholder equity, middle management was left "rudderless," trapped in a lose/lose situation. Morale declined rapidly, and functional departments began to make myopic tradeoffs based on what was best for them alone. Again, high visibility bravado could not compensate for the lack of leadership in resolving a key strategic paradox. The result was a very short-lived improvement in revenues and profits, followed quickly by internal, debilitating chaos and subsequent financial collapse.

On the other hand, when the New Product Development division of Kimberly Clark was challenged to resolve the "global reach versus local connectedness" paradox, key leaders led the organization quickly through an effective resolution process. The result was harmonious teamwork on commonly established priorities across four separate regional organizations. Leaders articulated a clear roadmap (vision) and then built a global development strategy based on common "local" needs. The entire process was carried out without significant loss of local identity, authority, or accountability. R&D output increased significantly while associated development costs actually declined 18% overall.

Why did Sunbeam fail miserably while Kimberly Clark thrived in the face of their respective paradoxes? The answer rests squarely on the shoulders of their leaders.

Poor leaders tend to swing back and forth between the poles demanding that both be achieved without recognizing or explaining the need for interconnectivity. Such leaders often appear inconsistent or mercurial to their constituencies. They are often baffled by their inability to engender loyalty and dedication from the troops, and often cloak their shortcomings in a "strong" leadership style (demanding, autocratic, wanting everything at once), which is actually no leadership at all.

Average leaders tend to ignore one of the variables in a paradox (perhaps hoping it will just go away, that someone else will resolve it, or that it will resolve itself). Many also try to cope by putting excessive focus on one of the variables to the unfortunate exclusion of the other.

However, great leaders recognize paradoxical situations and face them head-on. The best actually seem to do this almost intuitively, yet under closer study it is evident that they almost always follow four problem-resolution steps that help their organizations recognize when dichotomies exist and how they can be successfully managed. Those four steps are:

1. Clarifying the "poles" of the paradox

Simple statements such as "short term results" or "long term growth" may appear perfectly clear. They are, in fact, dangerously vague. It is this vagueness that, in many cases, is the source of the paradox, and therefore the starting point for resolution. This first step to successful Paradox Navigation requires, literally, defining your terms – clarifying the underlying forces that seem to be driving the poles on divergent paths. It is interesting to note that such clarification often miraculously exposes the flawed logic that made the two poles seem paradoxical in the first place.

2. Establishing a desired "hierarchy" of outcomes

This step is where a positive interconnectivity between the two poles is established – for example, that it is perfectly reasonable to pursue short- term profits and long-term growth. It is in this step that the leader helps the organization understand the relative priorities and tradeoffs between the goals. Without it, organizations remain confused about how to balance their focus between the poles.

This stage is analogous to the paradox that military M.A.S.H. units face in times of war. Though everyone knows that the ultimate goal is to save the most lives, doctors in war are also confronted with the paradoxical reality that they cannot afford to exhaust all their resources by completely healing one patient at a time, before moving on to the next. Therefore their relative hierarchy of acceptable outcomes goes something like this:

1. Stop the bleeding.
2. Stabilize all casualties.
3. Heal each patient.

Teams work to address all the patients in steps 1 and 2 before even starting on point 3. Working through this hierarchy of mission-critical outcomes is known as "triage." Without it, chaos would rapidly ensue resulting in the failure of the unit to achieve its primary objective.

Some leadership approaches attempt to address this interconnectivity by "balancing" the focus on each pole. I refer to this as the "United Way approach" – allocating scarce resources to each of the poles versus correctly aligning them. The M.A.S.H. example above serves as a good illustration for why the United Way approach is not always particularly effective. Allocating medical personnel to each of the three blocks of work at the same time actually reduces the total number of patients saved. Another metaphor that helps to clarify this point is that of the musical ensemble, some instruments must take precedence over others at different stages in the score.

3. *Developing "auto pilot" navigation tools and processes*

Effective leaders develop methods and procedures that drive the responsibility of Paradox Navigation down into the organization, and equip decision-makers to support and "run with" the Paradox Navigation process. A business paradox is successfully resolved only when all decision-makers/managers are empowered to self-manage through the problem on an ongoing basis.

Auto pilot tools can take many forms, however one especially effective approach was established by P. Newton White, a senior executive at Scott Paper. White observed that, despite periodic strategic reviews, some front line leaders are unable to maintain a consistent approach to navigating a paradox over time. Instead, they tend to "stray," emphasizing one pole of the paradox over another based on their own leadership styles or historic ways of doing things. White found that an effective way to correct for this tendency was to establish a standard communication format for all formal and informal planning and progress-review meetings. Every time he met with one of his leaders or teams, they were required to list the "Top 5" key initiatives that they were pursuing to advance specific business goals that were critical to the company at that particular time.

4. *Communicating, empowering, and assessing organizational alignment*

There are actually very few "bad" strategies developed for businesses. The reason that so many do not succeed is that they are not implemented effectively. Many leaders create compelling Visions for their companies but fall short in clarifying the "how" and "what" to do. Successful leaders, on the other hand, empower and inspire their organizations to be self-navigating, by adhering to the following credos:

• ***Say it 1000 times*. As in learning a sport, repetition builds focus and quick auto-reflexes.**

• ***What gets measured gets done*. Changing behavior requires continuous audit and follow-up. Too many plans and directives make it in but not out of an organization's file cabinets. "Weekly Letter" progress reports are, by their very nature, good because they are so "intrusive" on one's work habits.**

• ***Practice what you preach*. No one may be excused from the navigation process, especially the leader. Consistent, visible use of the tools by the leadership is critical to "institutionalizing" the navigation process.**

• ***Invest in building "Skill" as well as "Will".* Focused training and realignment of reward systems must be implemented simultaneously with the establishment of the paradox resolution tools and processes. Implementing one before the other will surely result in failure to achieve desired results.**

• ***Keep it simple*. As outlined, there are really only four key process steps required to successfully navigate strategic paradoxes. The most effective leaders drive the process steps without trying to overwhelm their organizations with the nuances and complexity of each step.**

Now, in light of the four strategies outlined above, let's consider three common paradoxes and how different leaders succeeded or failed to resolve them:

- **Short-term results versus long-term growth**
- **Global leverage versus local connectedness**
- **Doing more with less**

Short-term results versus long-term growth

This may be the most frequently encountered business paradox of all. In a world of constrained resources and saturated markets, leaders are constantly challenged to achieve and maintain "reinvestable" profitability rates and, at the same time, grow market share. In reality, only a few leaders have consistently succeeded in balancing their resources effectively as they navigate the tradeoffs. Although, as noted above, leaders need to empower their subordinates to assist in the Paradox Navigation process, too many executives fail because they cavalierly delegate the task downward, directing their subordinates to "figure it out," or issuing the directionless edict -- "I want them both, now." Successful leaders have been able to achieve both short-term profits and long-term growth by:

Clarifying the poles

They have worked to achieve consensus and buy-in on the specific objectives underlying their goals, by asking:

- **What does "short term" mean?**
  - **Temporary (timing)?**
  - **Immediate (urgency)?**
  - **Minimum acceptable threshold (scale)?**

- **What does "results" mean?**
  - **Revenues?**
  - **Costs?**
  - **Profits?**
  - **Margins (EBIT / EVA)?**
  - **Return (ROI / IRR / ROE)?**
  - **Cash flow?**
  - **Market Share?**

- **What does "long term" mean?**
  - **Enduring (timing)?**
  - **Eventual (urgency)?**
  - **World class (scale)?**

- **What does "growth" mean?**
  - **Revenues?**
  - **Market Share?**
  - **Profits?**

Keep in mind also that, to say that many of the above elements are of equal importance is to provide no leadership at all.

In addition, there is never a single, best definition applicable to all organizations at all times. That's part of the reason for the "stubbornness" of this paradox. A company that is losing money at the gross profit line has different realities to face than one that is marginally profitable at the net income line. Likewise, an organization that has reinvestable returns has other priorities altogether.

Thus, for example, the poles could be clarified as follows:

Short-term results could be defined as a minimum standard of acceptability. Business teams/divisions that have achieved or can be made to achieve a minimum EBITDA of 20% in less than 24 months would receive "max expansion" resource investment. Those that have covered or can be made to cover full operating cost plus the cost of capital in under 24 months (but not 20% EBITDA) get cost reduction investment *only* for "quick payback" (9 month) programs. All others would shift to "pay as you go," and be evaluated as to their future with the business.

Long term growth could be defined as “annual net revenue growth rates greater than competition/total market growth.” Note that "invest" must also be clarified. In this example we define the term to include: capital equipment, working capital, advertising, promotion, R&D, and discretionary SG&A.

Once the poles have been clearly defined, our two desired business goals no longer appear to be in direct conflict with one another, and can now be restated in more complementary terms:

> "Maximize short term EBIT while investing in growth"
> or
> "Achieve 20% EBIT before investing in long term growth"
> or
> "Invest in growth while maximizing EBIT"

Note, however, that each of these restatements means something very different. Though the goal is no longer as vague and the paradoxical contradiction is removed, there is an implied relative priority between the two poles. Thus, the leader must now identify and clarify the "relative hierarchy" of acceptable outcomes in order to clarify the implicit dependence of one variable on the other.

Establishing a desired hierarchy of outcomes

For our example, "Achieving 20% EBIT before investing in long term growth," we can construct the following interconnectivity between the clarified poles based on these simplified beliefs:

- There are only three fundamental thresholds of profitability:
  - Losing money (EBIT<0)
  - Covering cost only (0)>EBIT<20%)
  - Reinvestable (EBIT>20%)

- There are only three fundamental thresholds of growth:
  - Declining
  - Growth proportionate to market share
  - Growth disproportionate to market share ("more" or "less")

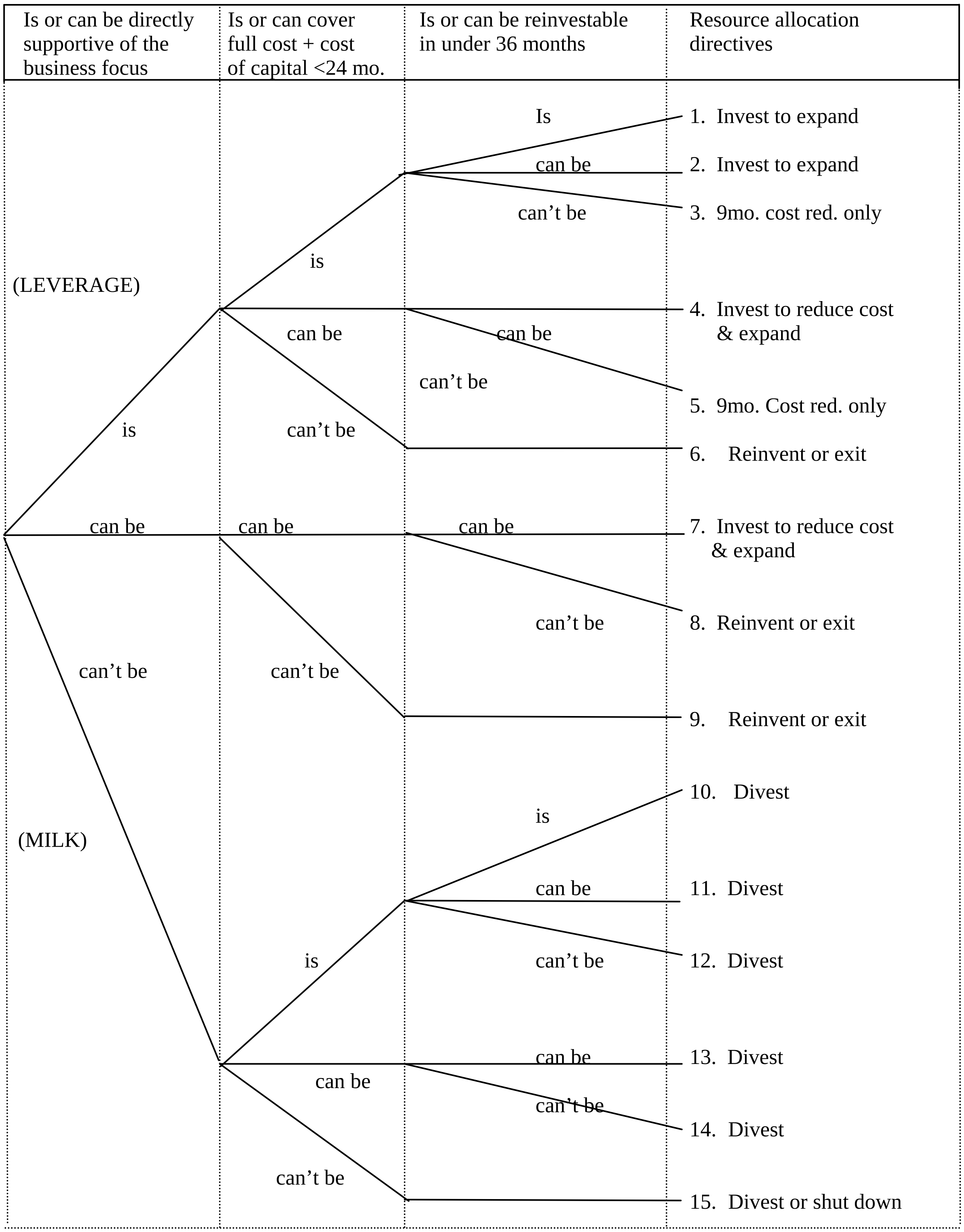
The interconnectivity now must be established among these thresholds. In other words, leaders must decide what combinations of outcomes take precedence over others for scarce resources, and what actions should be taken as a result of each outcome. They can do this by constructing an “interconnectivity matrix” as illustrated below.

PROFITABILITY

		EBIT<0	*0>EBIT<20%*	*EBIT>20%*
	Declining	**Reinvent or Exit**	**?**	**Fix growth trend**
GROWTH	**<Market**	**?**	**?**	**?**
	>Market	**Fix profit**	**?**	**Max investment**

It is quite easy to establish "navigation directives" for the four corners of this grid. However, the typical business mix tends to be based on the other five boxes, which are more difficult to define. Organizations successfully navigate paradoxes when the "rules of the game" are clear and understood for all of the boxes in the grid and at all levels of the organization. To achieve this next level of clarification, the hierarchy of thresholds must be drawn out in ways that all can follow/predict. One of the most effective tools for clearly mapping the new decision rules is a "triage decision tree," which is extremely effective in clarifying actual investment opportunities.

Resource Triage Tree illustrating "Short term EBIT before long term growth investment"



Note: New as well as established business opportunities must be run through this triage tree exercise at the same time to clarify all investment opportunities.

Developing "auto pilot" navigation tools

It is not sufficient simply to pass a matrix and triage decision tree to lower level leaders and expect apparent paradoxes to be resolved in a timely and coordinated fashion. Top executives must, literally, take the lead in ensuring that front line leaders take an informed, consistent approach to achieving corporate goals. The approach taken by Scott Paper's P. Newton White is extremely effective in "hard wiring" the organization to take a unified approach. To resolve the short-term profit/long-term growth paradox, White required his leaders and teams to list their main initiatives within the context of the following focus areas, at the beginning of every progress review:

- **Maximize profits within the fiscal year**
    1.
    2.
    3.

- **Improve relative competitive strengths (or weaknesses)**
    1.
    2.
    3.

- **Build the business of the future**
    1.
    2.
    3.

White pre-set the relative emphasis across these three focus areas by establishing and monitoring the overall number of initiatives, the expected impact of each initiative, and the progress on each initiative, by each of the three areas. For example, a profit center that was barely covering its cost would not have many, if any, "business building" initiatives versus a profit center that was "reinvestable".

This simple but effective "auto pilot" tool helped to drive his division to over 15 years of consistent revenue and profit growth at reinvestable margins (EBIT > 19%) and to growth rates far greater than total market growth, in an industry that, traditionally, barely covers its cost of capital.

Communicating, Empowering, and Assessing Organizational Skill & Will

White's auto pilot navigation tool proved to be extremely effective in helping all front line leaders to remain "on the same page." But effective Paradox Navigation also requires continuous, broad-based, varied communications. Thus, White and other successful leaders have supplemented their approaches with company announcements, newsletters, "town meetings," Q&As, surveys, and other tools to ensure that the troops are informed and on-board.

Global Reach versus Local Connectedness

Local business economics are increasingly affected by influences outside the immediate marketplace. “global” does not just mean “international.” It can also apply to “national” versus “regional” vs “selling area” or “corporate vs “subsidiary.” And the meaning of the term “global” will only continue to expand for all businesses, given the mobility of populations and every-increasing tools of commerce, most notably the Internet.

When a market-leading consumer products company tried to improve its meager margins in Europe, it was consistently confounded by “local” issues of culture and control. The problem was that its corporate cost reduction and efficiency initiatives continually tried to force country-based business functions to adopt regional, one-size-fits-all approaches.

The successful resolution was developed as follows:

Clarifying the poles

The Leadership realized that the issue was not a matter of local versus regional (or global) organizational tradeoffs. It was how resources should be allocated to increase overall profitability while preserving both local and regional accountability and authority for results.

By looking more deeply into the driving forces behind the paradox, the assumption that regionalization or centralization of some traditionally local functions would result in profit improvement was quickly exposed as faulty. As a result, the leadership was able to redefine the paradox in ways that all constituencies could work from:

“Resource (locate) for effectiveness (vs. efficiency) all the work that directly enhances the competitive advantage of the business, while resourcing (locating) all the other work for maximum cost efficiency.”

Establishing a desired hierarchy of outcomes

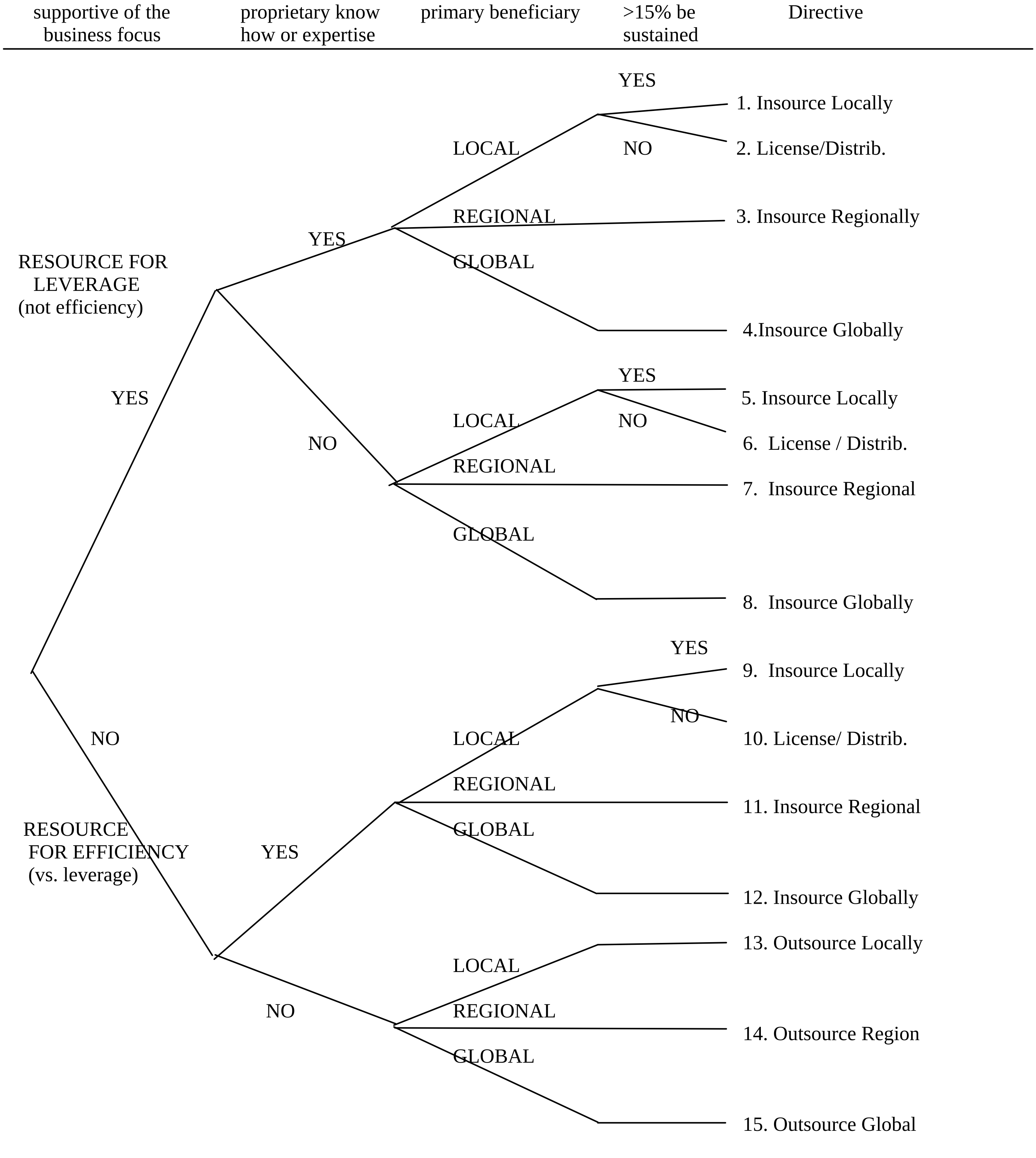
Based on the redefinition of the paradox, leaders then identified specific, relevant blocks of work, and determined where geographically those resources could best achieve the desired results. To do this they constructed a matrix with: the key blocks of work required to achieve the business concept, essential “governance” tasks, and the top four to five specific tasks needed to accomplish each block of work.

Each task was tested against a “triage tree” designed to determine which blocks of work (not “functions”):

- •Directly enhanced the competitive advantage of the business
- • Required proprietary internal expertise or knowledge
- • Was sponsored /required by whom (who was the beneficiary)
- • Could remain local & still meet the standards of reinvestability (15%EBIT or more).

Resource Location Triage Tree (Global leverage vs. Local connectedness)

Is or can be directly	Requires internal	Who is the sponsor	Can an EBIT	Resourcing



The result was an organized and objective ordering of all the key work to be done in ways that all stakeholders could understand. New job descriptions and staffing

decisions were also made quickly and logically based on the outcome.

Developing "auto pilot" navigation tools

With this specificity and clarity of where work should be done and how it should be prioritized, "activity-based job descriptions" were finalized and communicated in ways that allowed all constituencies to understand their levels of accountability and how their efforts fit into the overall effort. Traditional "functionally myopic" job descriptions were happily discarded and replaced.

***For example*, blocks of work such as:**

> ***"Established franchise profit improvement and growth"***

Were broken down into specific key tasks such as:

- ❑ Pull through marketing programs implementation
- ❑ Selling/order taking
- ❑ Customer pricing / promotion management authorization
- ❑ Price management, direction setting & implementation
- ❑ Customer management troubleshooting
- ❑ SKU rationalization
- ❑ Sales & Marketing capability building
- ❑ Competitive understanding & troubleshooting

These tasks were run through the triage tree resulting in the following integrated activity-based job descriptions:

Local Market Work (not a complete list),

Internally resourced if 15% EBIT is achievable:

- ❑ Pull through marketing programs implementation
- ❑ Selling/order taking
- ❑ Customer management / troubleshooting
- ❑ Customer /Consumer response desk

Outsourced:

- ❑ Warranty repairs service (to global site or region shops)
- ❑ Accounts receivable / collection / credit admin.
- ❑ Payroll

Regionally resourced work (not a complete list),

Internally resourced:

- **Customer pricing / promotion management authorization**
- **Price realization / mix max direction setting & implementation**
- **New product development support**
- **New product launch marketing**
- **New license / distributor / channel prospecting**
- **Inbound / outbound & inventory administration**
- **Financial accounting and reporting**
- **Labor / HR management & negotiation**

Outsourced:

- **Tax / tariff / legal compliance administration**

Globally resourced work (not a complete list):

Internally resourced:

- **rationalization (process leadership by category)**
- **Sales and Marketing capability / effectiveness building**
- **Competitive tracking / troubleshooting**
- **Accounts payable / purchasing**

Outsourced:

- **New License / distribution technology agreement negotiation**

This work was then integrated into a clear and actionable "Advantaged Business Concept" that was communicated throughout the organization:

European Strategic Intent (2 - 4 year horizon):

We want to build a leading "cleaning products" business in Europe with a significant and defensible competitive advantage via:

Customer Satisfaction Leadership (via):

- **The most effective in use and/or lowest cost in use product systems in core categories.**
- **Eco-friendly composition, manufacturing and utility based product systems.**
- **The most effective trial & repeat (loyalty) building marketing and service systems.**
- **The most stimulating pace of commercialization innovation in key (target) markets, based on tangible utility to the customer**

European (and Worldwide) Resource Leverage

- **Borderless advantaged sourcing processes (versus country asset optimization processes).**
- **Minimization of organizational levels. Minimization of non -development, commercialization, productivity improvement resources. Minimization of country redundancies.**
- **Shared learning business culture focus (teamwork); with a commitment to "make it better for less every day" principles.**
- **Advantaged management decision (info) support.**
- **Communication and consolidation of learning and results**
- **"Market" in addition to "legal" entity EVA reporting**
- **Benchmarking (financial & non-financial) internally & externally**

While achieving and maintaining reinvestable returns of 19% EBIT or better.

Communicating, Empowering, and Assessing Organizational skill & will

Most correspondence, meetings, and analyses were organized to follow an agenda that drew directly from the document above to "institutionalize" the organization's focus on global initiatives within the context of this paradox resolution work.

All internal and external suppliers of training were evaluated and aligned with one of the eight key initiatives to ensure deep and wide penetration of and adherence to the initiatives.

As a result, total related profit margins increased from nearly 0% to 18.6% in the first year of implementation. Organizational "stress" appeared to decrease dramatically as well. The number of non-value-added intercompany conflicts between Global, Regional, and Local resources declined to an all-time low and stayed there.

Paradox Resolution Failure

In sharp contrast to the example above, Unisource Worldwide Inc., one of the nation's largest distributors of office supplies was experiencing a consistent, debilitating financial spiral. Among other issues, Unisource faced a similar "national reach versus local connectedness" paradox. Its overriding business "strategy" was to halt the earnings erosion by acquiring many smaller regional distributors and achieving cost saving synergies by merging the "back rooms" of the operations. The integration of many of the acquisitions did not go as planned, and the company was forced to initiate restructuring reserves twice in three years to fund new attempts at getting value from the acquisitions.

Unisource then decided that there were significant savings to be made by centralizing previously decentralized ("local") customer service resources. Ignoring the underlying paradox, management shifted resources based primarily on cost savings (versus addressing the "customer service effectiveness" pole as well). In doing so the company alienated many key employees and customers. Sales and profits deteriorated to the point where the business failed and was forced to seek a merger into another company (Georgia Pacific) to remain fiscally viable.

Doing More With Less

In the endless pursuit of productivity improvement, most organizations find themselves facing one of the most difficult paradoxes of all, "Doing more with less." The challenge comes in many forms whether working to turn around sick businesses or slowing overhead costs in a growth business. Navigating this paradox can seem almost impossible at times, but the essence of its resolution is actually analogous to learning a sport like golf. In the beginning the learner swings erratically, misses a lot and walks around too much (in the pursuit of errant balls). But over time one swings less, hits more, and walks in straighter lines to each hole. Too much information in the learning process distracts us from the few keys that actually drive our improvement.
The key to this paradox can most times be found in clarifying the poles via a

process similar to that outlined in the "Short term profit vs. long term growth" paradox reviewed earlier (the EBIT X Growth matrix).

We then can organize the "types of work" into four distinct acceptable outcomes:

Work that directly drives the competitive advantage
Work that strategically supports the competitive advantage work
Work that is essential to keeping the lights on
Work that is non essential to any of the above

And then build a "Triage Tree" much the same as shown above, but specifically for resource allocation

As shown in the earlier examples, this auto pilot tool combined with clear communication and follow up will take the conflict out of the paradox in ways organizations can allocate scarce resources effectively to do more with less.

Summary

Unrecognized or poorly addressed paradoxes have undermined the success of countless business strategies. In most cases, paradoxes have derailed organizations because leaders have issued multiple directives without clearly defining them, explaining why both/all support the company, articulating a roadmap for achieving them, and communicating how their business cases intersect.

Thus, the best definition of Paradox Navigation may be: The ability to prove to an organization why apparent paradoxes are not really paradoxical at all. Put another way, the litmus test for successful Paradox Navigation is whether the leader has been able to slay the paradox.

Whether a leader consciously recognizes the need for Paradox Navigation or whether he/she does it intuitively, all successful navigators appear to advance through four critical steps to resolution:

1. **Clarification of the poles**
2. **Establishment of a desired hierarchy of outcomes**
3. **Development of auto pilot navigation tools to empower and educate the organization**
4. **Communication and follow-up/oversight**

It is a tricky and absolutely essential leadership skill. Think of it as the ultimate in conflict resolution – the ability to mediate apparently divergent poles – to articulate a convincing business case for each objective, perform some insightful triage, and determine how the initiatives to, say, cut costs and improve quality, should be prioritized and orchestrated. Like a General poring over maps of the battlefield, the business leader has to figure out how to take objectives whose origins seem to come out of both right and left fields and make all roads converge at a single point – the competitive strength of the organization.