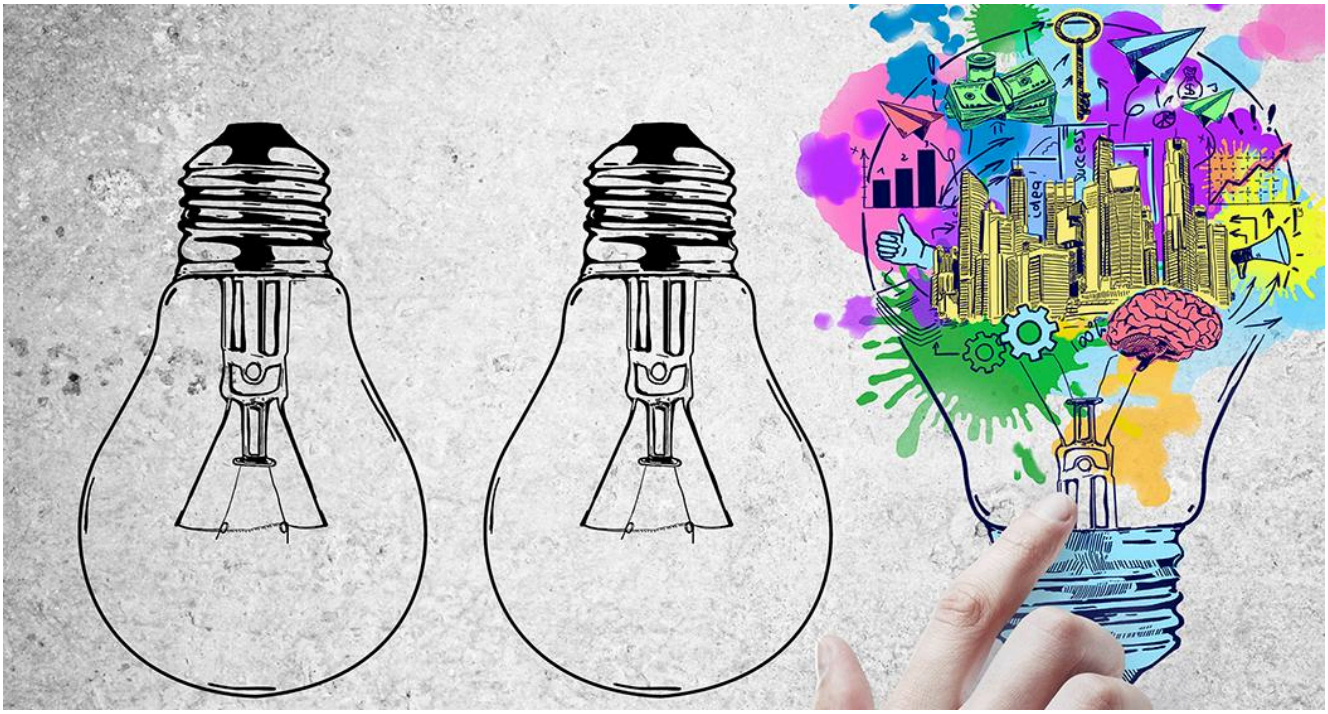
Inspire, diverge, converge: 3 steps to better decisions

Business leaders are under more pressure than ever to resolve strategic dilemmas. Citing research contained in his book, IESE professor Stefan Stremersch proposes a three-pronged approach that can spur your organization toward greater profitability and success.



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As trade wars heat up between Western companies and their Asian counterparts, managers must grapple with some knotty dilemmas. For instance, should you lower your prices to preserve volume? Or should you keep your prices high, accepting a short-term loss of volume that you can hopefully recover longer term? Yet, what happens if your customers get used to

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your lower prices and don't see them as temporary like you do? And what will you do if the customers you lost because you kept your prices high don't come back as expected?

It's a familiar dilemma, but one that is occurring more often, owing to radical changes in business models and technology that are increasing both in their speed and disruptive impact. In this article, I'll share an effective model for tackling dilemmas called Inspire, Diverge, Converge. It's derived from real-life case studies and a survey of 308 companies that colleagues and I conducted as part of a large-scale research project. Although the research was carried out in the Netherlands and Belgium, the insights are widely applicable, as many of the organizations that I work with have since attested.

Three core dilemmas

Let's start by considering three core dilemmas that business leaders face today. These are by no means the only ones, but my research has shown that 9 out of 10 businesses are facing at least one of these, and half of the companies we studied have confronted at least two of the following:

1. Large volume vs. high price. This dilemma, as described at the beginning, highlights a basic rule in economics: the negative correlation between volume and price. The product volume sold by a firm will go up as prices go down; and, when the firm raises prices, volume drops. How you choose to resolve this dilemma depends on your particular corporate strategy: Hermès opts for high price, while Zara chooses large volume. If you choose lower prices, you might be able to sell greater volume; however, this could undermine your market position, especially in the long term.

Complicating this dilemma are economies of scale. In the technology industry, companies like Apple need to engage in volume battles to maintain a premium price position in the long term. Some markets defy the law of supply and demand: so-called Giffen goods, named after economist Sir Robert Giffen, are those that are increasingly consumed as they become more expensive.

2. Short vs. long term. Should you satisfy a need immediately or wait for a larger, perhaps better, future reward? This dilemma looms large in a business context. Former General Electric CEO and Chairman Jack Welch put it this way: "Anybody can manage short. Anybody can manage long. Balancing those two things is what management is." This tenet has taken central stage in the aftermath of the global financial crisis as the cost of wrong choices between the short and long term was made painfully apparent.

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Short-term financial goals may become more attainable when, say, R&D investments are cut back. However, this move might threaten long-term earnings, as you will be unable to launch new products or services. On the other hand, large investments in projects that are only profitable in the long run may lead to bankruptcy, due to lack of liquidity. Investors may lose patience waiting for long-term gains.

In terms of overall strategy, if you focus too much on the long term, you might miss out on unexpected opportunities that emerge along the way. But if you are excessively swayed by the issues of the day and pounce on anything that moves, you may become an organization adrift, no longer able to distinguish yourself in any way.

3. Local vs. global. A market consists of local niches, each with their own equilibrium between supply and demand. Many companies start out as niche companies, specializing in a particular customer or product group. Winners, however, move beyond their original niche and typically become more global. European soccer clubs can only survive at the top level (Champions League) if they're able to become global brands. FC Barcelona, for instance, has managed to navigate this challenge effectively.

But you can also wander too far away from your niche. Lego discovered this after entering the businesses of theme parks, television, electronics and jewelry. The company has since gone back to its core: the Lego brick. Often, the local/global dilemma boils down to choosing which niches you would like to operate in, who your target market is, and which niches you should avoid.

The usual approaches

To resolve these dilemmas, business leaders typically apply one of the following decision-making models:

- **The consensus model.** The leadership team seeks the middle path on which everyone can agree, which rarely strays too far from the status quo (usually based on something the company did in the past).
- **The conflict model.** Members of the leadership team fight it out among themselves, each in defense of their own interest and of doing it their own preferred way. This usually ends in a solution that not everyone is happy with.
- **The analysis model.** The leadership team spends an inordinate amount of time thinking and learning about the problem in order to identify the "right" answer (as if there is only one correct solution), thereby delaying (sometimes forever) execution.

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In my research, I found that the consensus model was the most common approach, with 44% of firms using it to make decisions. The analysis model was the least used, coming in at just 13%. The conflict model fell in the middle at around 20%.

However, in measuring the extent to which organizations confronted core dilemmas, the profit pressure on the organization and the impact of profitability on employment in the organization, I detected another decision-making method, used by 22% of firms, which outperformed the other approaches.

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