strategy+business

ISSUE 60 AUTUMN 2010

Getting Tensions Right

How CEOs can turn conflict, dissent, and disagreement into a powerful tool for driving performance.

BY KEN FAVARO AND SAJ-NICOLE JONI

REPRINT 10301

booz&co.

Illustration by Lars Leetaru

Getting Tensions Right

How CEOs can turn conflict, dissent, and disagreement into a powerful tool for driving performance.

by Ken Favaro and Saj-nicole Joni

Chief executives most often work in a pressure-cooker atmosphere where two kinds of tension are present. The first kind is the natural tension that exists among top teams, in which talented, driven people who have to work together are also competing with one another for results, power, and stature. The other kind is performance tension: the stress caused by three pairs of important objectives that, in many companies, come into conflict on a daily basis. These are profitability versus growth, the short term versus the long term, and the success of the organization as a whole versus that of its individual parts. Over many years, we have worked with hundreds of CEOs as they confronted difficult situations, and we have observed that the most successful chief executives are the ones who get these tensions right. They have an uncanny ability to turn conflict, dissent, and disagreement into progress. Their mind-set is that having the "right fights" — embracing the right tensions and making them work for you — is the most effective way for companies and teams to move forward. As Brian Pitman, the former chief executive of Lloyds TSB, liked to put it: "You need real disagreement first to get true agreement later."

The dynamics that exist within boardrooms and top teams vary widely, but most fall somewhere on what we call the relationship spectrum. At one end of this spectrum are the boards and teams that could be characterized as *dysfunctional in a friendly way*. The inclination to avoid conflict and to be in agreement is so strong that important issues never really get resolved. Consensus in these groups really means the absence of apparent disagreement rather than the presence of a shared commitment to decisions and actions. The lack of tension in the atmosphere fools everyone into thinking that the team members are aligned and collegial when in fact they are neither.

At the other end of the spectrum are the teams that are *dysfunctional in an unfriendly way*. This is where personal agendas, excessive pride, and turf battles over lesser issues get in the way of the real work that could improve a company's performance and potential. The tension in the air is so thick you could cut it with a knife. But people are fighting against one another rather than for the company's good.

The place to be is in between, as a *productively tense* team. Here there is enough like-mindedness on foundational matters (mission, goals, the facts, and so on) to allow the group to have the right fights in the right way over what matters most to the company's current and future performance. The tension is real, but it creates a positive energy that moves the company forward. It is good tension — productive and healthy for the company.

Too little tension puts a company to sleep; too much bad tension diverts precious energy into the friction it creates. In our experience, creating a productively tense dynamic is essential to having a high-performance company. Therefore, instead of trying to eradicate tensions, leaders must choose to cultivate them productively.

Embracing the Right Tensions

Every business faces the opposing forces of the pull for more growth against the pull for more profitability; the demand to show profit today against the need to invest in the company's future; and the call for optimizing the whole against the tendency of individual parts to maximize their own performance. The three performance tensions — growth versus profitability, short term versus long term, and whole versus parts — provide fundamental energy that can be harnessed to deliver superior, sustainable results. The ability of the board, CEO, and executive team to navigate these tensions largely determines their company's ability to both create wealth and serve society.

If the CEO, the top team, and the board aren't spending the majority of their time on issues that address at least one of these three tensions, they are wasting their time on matters that are relatively unimportant. Conversely, they are engaged in the right fights when they wrestle with how to get more growth without sacrificing profitability (or the other way around); when they fight about how to improve current results without mortgaging the future, or how to sustain investment for the long term when short-term results are suffering; and when they battle over individual versus collective performance. Three examples — one for each tension — illustrate our point:

1. Profitability versus Growth. John Sunderland, the former CEO of Cadbury Schweppes, often responded with a parable when an executive argued that the business could increase either margins or sales, but not both. Sunderland would remind the executive of a time when people lived in mud huts and struggled to get both light and heat: Put a hole in the side of your hut, and you let the daylight in, but also the cold; block the opening, and you stayed warm, but sat in the dark. The invention of glass made it possible to have both light and heat. He would then ask, "Where is the glass?" He wanted them to look for ideas that would expand both their margins *and* their top line. By demanding both growth and profitability from the company's strategies, Sunderland purposely added tension for his executives. He found that it created more energy and raised the quality of thinking and debate.

2. Short Term versus Long Term. Norman Bobins was the chief executive of LaSalle Bank (now a subsidiary of ABN AMRO) in the 1990s and early 2000s, when it was one of the most successful middle-market banks in the United States. He tells this story about how he turned the short term versus long term tension into a productive tool for driving performance: "One of my managers came forward and proposed a [US]$180 million profit plan. I had in my head that $200 million should be possible. The manager's response when I challenged him was, 'Just tell me what you want and I'll deliver it.' I said to him, 'You don't get it. It's not what I want; it's how I want it achieved.' The quality of earnings is as important as how much earnings are produced. It would be easy to achieve $200 million just by lending more to customers with poor credit histories. That's why in the budgeting and negotiating process with my managers, understanding how earnings will be generated next year is as important as how much earnings will be generated this year."

Bobins's approach was a masterful example of using the tension between short term and long term to improve the quality of management. He neither let the manager off the hook nor left him alone to sort out the tension for himself.

3. Whole versus Parts. Soon after Matthew Barrett became chief executive of Barclays PLC in 1999, he purposely introduced tension into a meeting of his executive committee (Exco), which included the executives who led different parts of Barclays. Barrett had become frustrated with how everyone put his or her part of the bank first. "When I'd been at Barclays about six months," he recalls, "I took the Exco out for an away-day. Over dinner the night before, I said, 'I've got some good news: I'm disbanding Exco.' There was a stunned silence around the room. Then the question: 'Why?' I said, 'I'm really respectful of your time, and it's not good for any of us to have a series of bilateral meetings with an audience.' They all objected. No one wanted to lose the status of being a member of Exco. So I said at the end, 'You either persuade yourselves that your first job is the co-management of the group and your second job is managing your piece, or I'm disbanding Exco.' I wanted to create a sense of ownership for the [group's most impor-

Test the Tensions within Your Board and Top Team

- How much time in your boardroom and with your top team is going toward the right tensions?
- How well are performance tensions being addressed by your strategy?
- How well do dissent, different views, and competing ideas surface, get discussed, and get productively decided?
- How good is your board's or team's alignment? Is it strong enough and focused enough to support right fights fought right?

tant] issues wherever they sat in the organization. It really turned things around. [They] understood I was serious."

Barrett created a right fight over one of the most important tensions that exists in any large, complex company: how to make the whole more than just the sum of the parts. He used tension deliberately, aiming it squarely at improving the team's effectiveness in driving the bank's performance.

These CEOs have in common a focus not just on the right tensions, but also on using them in the right way: to move things forward, to energize, to spark new thinking, to wake people up! This is how they transformed their companies into great performers.

No business can escape the three performance tensions that pull it in different directions. Any top team or board that tries to ignore them is fooling itself and taking productive tension out of the company.

Making Tensions Work for You

When CEOs, top teams, and boards are operating too close to either extreme of the relationship spectrum, at least one of three situations is nearly always present: The right tensions may be sitting under, rather than on, the surface. They may be recognized, but are not being resolved in the right way. Or there may be insufficient alignment around the foundations of high performance, such as vision, mission, goals, and facts.

The first step in replacing unproductive tension with productive tension is to embrace the reality of the often-conflicting demands that a company can never fully avoid. As we saw with Sunderland, Bobins, and Barrett, a productively tense dynamic at the top of a company keeps the most important tensions on the surface at all times for all to see. It calls for more growth *and* higher profitability; it spells out goals for short-term results *and* investment for long-term sustenance; and it addresses how the company will be more than just the sum of its businesses without undermining the accountability of those businesses and their ability to perform individually. This helps the entire company stay focused and prevents less-important matters from taking over the agenda.

But although keeping the right tensions on the surface at all times is the first step, it's not the whole story. Right fights fought badly usually produce terrible results, leading to volatility, unpredictability, and the loss of energy and momentum. The idea is to pick the right fights, put them on the table, and then fight them in the right way.

For example, when Rolf Classon took over as CEO at a large health-care company, he unexpectedly found himself facing a very tough call. The company was far down the path of considering an acquisition that would make it a dominant player in its market. The deal had been blessed by the former CEO, and the entire top team appeared to support it. But shortly after he took the job, Classon discovered that there were real doubters among the team members, including people whose opinions he respected.

Classon called together the team and told them he was uncertain about the acquisition. Some were angry — they thought it was a done deal. He invited all of them into a blunt, no-holds-barred discussion. He told them he didn't know the business and that this would make him a fair referee. His own mind was not made up. He wanted to know what the team thought and to have them dig deeper into the substance of the reservations that many felt but hadn't vocalized — questions for which there were no clear-cut right or wrong answers.

When the team members realized that Classon was engaging them in a new kind of inquiry — based on his belief that the relationships at the top had sufficient trust and respect to tolerate and even embrace dissent — a lot of new thinking came forward. In the end, the team concluded that the deal would probably work from a financial perspective, but that it wasn't as good a fit strategically as many had thought. They decided to pass. Six months later, a much better acquisition opportunity came along, and the team had the resources, the time, and the mutual trust to act. The resulting acquisition took the company to another level.

In orchestrating this right fight, Classon had one important thing going for him: a strong foundation

Ken Favaro
ken.favaro@booz.com
is a senior partner with Booz & Company based in New York. He leads the firm's work in enterprise strategy and finance.

Saj-nicole Joni
saj@camix.com
is a business strategist and confidential advisor to CEOs and their top executives around the globe. She is the founder and CEO of Cambridge International Group.

Examples in this article were drawn from *The Right Fight: How Great Leaders Use Healthy Conflict to Drive Performance, Innovation, and Value*, by Saj-nicole Joni and Damon Beyer (HarperBusiness, 2010), and *The Three Tensions: Winning the Struggle to Perform without Compromise*, by Dominic Dodd and Ken Favaro (Jossey-Bass, 2007).

of alignment on which to build success. Another CEO, Douglas Conant, had no such foundation when he took the chief executive role at Campbell Soup Company in 2001. Throughout the previous decade, in the pursuit of higher margins, the prior management team had systematically cheapened the company's products while raising their prices. They'd even taken the chicken out of their chicken soup. Without a common view of what the organization was trying to accomplish, the leadership had become consumed with conflicting priorities and infighting, blaming one another for the financial mess they were in. The once revered American brand had lost its way and become the poorest-performing major food company in the world.

Conant faced each of the three performance tensions — in spades. But he was in no position to tackle them right away. He first had to build a foundation of alignment. So in his first 90 days, he worked with the leadership team to create a values statement, an "employees matter" promise, and a mission statement that defined Campbell's purpose as "nourishing people's lives everywhere, every day." Fixing the company's performance was important, but the mission had to come first.

At the same time, Conant knew he had to re-energize the organization and make it more innovative — and efficient. He started at the top, rearranging the hierarchy into a matrix to provide team members with broader lines of sight to facts (avoiding silos), and requiring them to "own" more than one perspective. This new structure encouraged senior leaders to produce visions and plans that affected more than just their own departments. It provided a foundation for Conant to build Campbell's ability to take on right fights and fight them right.

Conant was candid about Campbell's problems, telling his team that the company couldn't "talk its way out of a situation it had behaved its way into." He promised consistent, well-measured improvement, year over year. Slowly but surely, his focus on the future began to work. Pricing came into line. Product quality improved. The innovation pipeline became full again.

By the end of 2008, Campbell's was ranked in the top 10 percent of food companies in financial performance and in the top quartile of Fortune 500 companies in employee morale.

By starting with building sufficient alignment on vision, mission, goals, and facts, and then structuring a way forward that made the lines of tension visible and safe, Conant stopped all the fighting about things that didn't really matter and turned his team's attention to fighting really well about the few critical things that did.

By demanding both growth and profitability at Cadbury Schweppes, John Sunderland purposely added tension for his executives.

Becoming Productively Tense

Many boards and top teams have too little good tension in them; they fear that open dissent and disagreement will undermine their collective effectiveness. Many others have too much bad tension in them; the members are too focused on their individual results, power, and stature to attend to the tensions that really matter (profitability versus growth, the short term versus the long term, and the collective whole versus its individual parts). Both dynamics are dysfunctional and ultimately undermine a company's ability to realize its full potential.

The sweet spot is the dynamic of being productively tense — where the fights are primarily about the right performance tensions, where the fights are conducted in the right way, and where there is sufficient alignment to make dissent and disagreement work in favor of better decision making, faster learning, and more effective solutions.

Every CEO must master the management of tensions, raising and lowering them. This is one of the most important tools a top leader can use to realize a company's and team's true potential. Chances are, there is at least one thing your team is fighting about that's not worth the effort, and one thing the team has let pass that needs to be addressed now. +

Reprint No. 10301

strategy+business magazine
is published by Booz & Company Inc.
To subscribe, visit www.strategy-business.com
or call 1-877-829-9108.

For more information about Booz & Company,
visit www.booz.com

www.strategy-business.com
www.facebook.com/strategybusiness
101 Park Ave., 20th Floor, New York, NY 10178