Embracing a Strategic Paradox

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By Toshiro Wakayama and Karen Lapierre

The writer F. Scott Fitzgerald once observed, “The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time, and still retain the ability to function.”

But within a business, opposing ideas typically lead to conflict, and in the face of conflicting demands, managers will feel anxiety, stress, and frustration. However, our research at Aeon Co. Ltd., one of Japan’s largest retailers, suggests that a positive approach to handling conflicts between opposing ideas can create new value for a company.

Like many retailers, Aeon faces a built-in conflict in its operations. On the one hand, managers in local stores want to adapt their stock to meet local communities’ preferences and needs. On the other hand, the executive team at Aeon’s national headquarters in Chiba, Japan, strives for greater economies of scale.

In many organizations, this kind of conflict tends to be resolved on the steamroller principle, with one side or the other eventually giving way. But Aeon operates differently. Rather than simply cope with the tension, Aeon considers the conflict to be an opportunity to invent fresh solutions that add value to the whole company.

In our research, which included 46 interviews with managers at every level of the organization, we found that Aeon uses these local versus national conflicts as an opportunity to invent creative solutions that satisfy both local and national objectives. Two examples illustrate how this process works.

At a store in a Japanese ski resort community, the manager was puzzled by weak sales. The head office had mandated that her store sell a staid collection of clothes that fit the urban stereotype of what rural women wanted, but the sales were not meeting her expectations. When she looked into why, she discovered that the women in her region were actually interested in trendier, yet still not urban, fashions. She proposed a new women’s boutique based on an up-to-date, soft-color, natural-look concept. Initially, managers at both the regional and national headquarters opposed the idea, as the creation of such a boutique for local taste would likely reduce the floor space allocated for Aeon’s national collections. However, after a series of meetings, these managers gradually became supportive of her proposal, as they came to believe that deeper localization would likely boost traffic to the store and sales of their core products. The proposed boutique was created at the store and proved a great success.

Other times, the tension focuses on the supply rather than the demand side, such as when figuring out how to bring a local product to a national audience. The story of the Le Lectier pear is one case in point. Niigata Prefecture is known as the Japanese home of a special pear, the smooth and aromatic Le Lectier, a highly valued fruit often given as a gift (the pears, packaged in an attractive box of three, can sell for around $50). The local Le Lectier farmers wanted to find a commercial use for pears that were too small, oddly shaped, or too...
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more localization (as in the ski town’s fashion boutique), others for chain-wide products that use a local ingredient (as in the development of the Niigata Le Lectier cocktail). Some are led by one particular layer of management, while others develop through collaboration among the headquarters, regional headquarters, and local stores (as in the Le Lectier drinks). But in each case, managers solve the problem not by trying to ignore tensions but by acknowledging the needs of each side. They see the conflict not as an impasse but as an opportunity — a set of constraints that spurs creativity.

Aeon does this by nurturing a culture that emphasizes the importance of each strategic mandate. At the national headquarters, managers are taught to focus largely on strategies that can help the entire network. Local managers, meanwhile, are trained to look for ways to meet the needs of the community and customers they serve, in addition to implementing the instructions of the regional managers. Finally, the regional managers’ responsibility includes listening to both the national and local managers’ proposals, trying to understand where those demands conflict, and working through new approaches to overcome those conflicts. In addition, the people in these different layers spend time getting to know each other. Executives say this creates a social glue that helps keep the different managerial layers working together as a team despite the inevitable disputes.

The strategy of trying to reconcile opposing views isn’t a new one for the retailer. Aeon began as a family business in 1758. Founder Sozaemon Okada traded kimono fabrics and accessories in accordance with the beliefs of a group of fellow merchants (known as the Ohmi merchants) who had developed a philosophical idea of how a merchant should behave. Their theory consisted of three precepts, which don’t sound very different from contemporary ideas about sustainable business: A merchant should be good to his customers, good to his community, and good to his own company. The concept remains an important element of Aeon’s cultural DNA that even today, new employees are given a manga comic book that talks about the importance of being fair to every stakeholder.

Creating solutions that meet conflicting needs can do more than resolve a political dilemma. Because they are built with Aeon’s unique blend of local and national capabilities in mind, the complexity of the solutions often deters imitation. The consensus solution, whether it involves designing stylish clothes for women living in a Japanese ski village or finding a way to turn a tiny available quantity of pears into a national product, tends to be one that can be executed well by Aeon but not easily copied by anyone else.

Of course, resolving these conflicts requires ongoing work. Managing this built-in strategic paradox of pursuing both localization and nationwide standardization demands the continual attention of management. To keep the atmosphere positive, Aeon’s top management, including the CEO, frequently communicate their commitment to their dual strategy to managers at each level of the organization. Each side is encouraged to feel free to make a proposal and equally free to counter an idea with a different concept. Even when a temptingly simple one-sided solution seems plausible, Aeon’s managers find that wrestling with the problem until a solution emerges that satisfies everyone results in a better outcome. As one executive told us, “The greater the tension, the better the action.”

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ACKNOWLEDGMENTS
The underlying research for this article benefited from discussions with Hisashi Kurata, Ayako Ogawara, and Steven White in its early stages.

Reprint 58302.
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