ROBERT SIMONS

SEVEN STRATEGY QUESTIONS

A SIMPLE APPROACH FOR BETTER EXECUTION

Premise – To stay ahead of the pack, you must translate your organization's competitive strategy into day-to-day actions that will enable your company to win in the marketplace. To achieve this you should continually ask the right (provocative) questions to uncover gaps in your execution focus. The seven questions address seven (7) implementation imperatives that your organization must learn to successfully implement your strategy:

- **Build Strong Foundation** – (1) Allocating resources to customers & (2) Prioritising core values;
- **Focus on Strategic Agenda** – (3) Tracking performance goals & (4) Controlling strategic risk;
- **Facilitate Behaviours Needed** – (5) Spurring innovation & (6) Building commitment;
- **Future Proof** – (7) Adapting to change

By using the interrelated questions you will identify the unstated assumptions that, if poorly conceived, can sap your business of its energy and potential, and then help you find ways to tighten your thinking so your business thrives.

Tough Questions for Business Leaders

Executing strategy successfully requires tough, often uncomfortable, choices based on simple logic and clear principles. We too often fall into the comfortable habit of avoiding choice in the mistaken belief that we can have it all.

- The questions use counterintuitive arguments to challenge assumptions and force uncomfortable decisions. But they also provide the focus and direction that will assure the successful execution of your strategy'
- It's pointless to propose a one-size-fits-all solution to the issues you confront. Because every business and industry is unique and you know much more about your business
- To implement strategy successfully you must have active discussions with the people in your organization, These discussions must be an ongoing face-to-face debate with the people around you about emerging data, unspoken assumptions, difficult choices, and ultimately, action plans

Financial Performance Measures

At a minimum, you should be holding managers accountable for revenue, expenses, and profit margins. If you want to do more than the bare minimum, add accountability for cash flow measures to ensure that you are managing working capital efficiently. If you want to be in the best-practices camp, you should be holding your managers not only accountable for profit and cash flow, but also balance sheet Return on Capital Employed (ROCE) measures to ensure that all assets are managed effectively.
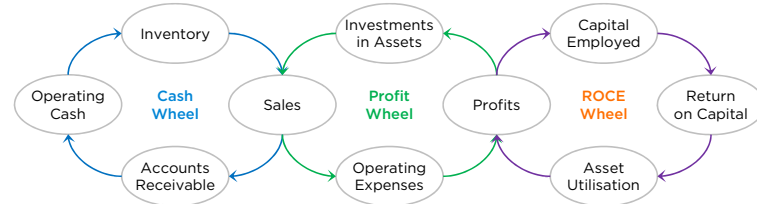
Who is your primary customer?

Choosing your primary customer – as difficult as it may be – is the foundation for resource allocation, and for every winning strategy.

The idea is simple: allocate all possible resources to meet and exceed the needs of your primary customer. Conversely minimise the resources dedicated to everything that does not create value – directly or indirectly – for your customer. Your choice as to who should be your primary customer will depend on the history of your firm and its founders, the preferences and skills of executives, the nature and intensity of competition, the availability of technical resources, and emerging opportunities that only you can see.

Once you've defined who your primary customer is, you must ensure that you and everyone in the business understand what that customer values. Everyone in your company should be aware of, and dedicated to, those preferences. Then ensure that the bulk of your company's resources is dedicated to providing what your customer values.

By bringing clarity to your choice of primary customers, understanding what that customer values, and then organising your company around those needs, you strengthen your company's ability to compete for- and win – that customer.

- **Does everyone know what your customer values?**
- **How have you organised to deliver maximum value to your customers?**
- **Have you minimised resources devoted to your other constituents?**

What critical performance variables are you tracking?

In many organizations, people feel overwhelmed with too many initiatives and too many measures, It's your job to cut through this clutter by clarifying your theory of value creation, identifying what could cause your strategy to fail, and focusing on the few critical performance measures that will lead to success.

To evaluate the usefulness of any performance measures, you must first decide if they are measuring the right things. To do this you need to explain your theory of value creation for your business so that everyone can understand how the different variables fit together and your reason for selecting the variables you track.

Less is more. Management attention is your scarcest resource. As you add more and more measures to your scorecards, you pay an opportunity cost. People have less time to focus on what really matters. Manager's should be accountable for 7 measures (+/- 2)

Instead of envisioning success, imagine the worst and make a list of how you can fail instead. These areas / critical variables should be at the very top of the things that you, and your management team, track and monitor. Are they?

Once you've identified the critical variables and eliminated the distractions, you must embed them in a broader system of goal setting, accountability and rewards – linked to consequences

- **What is your theory of value creation?**
- **What could cause your strategy to fail?**
- **How do you create accountability for performance?**

How are you generating creative tensions?

No matter what the nature of your business – large or small – if you operate in competitive markets, you must innovate constantly to stay ahead of the game. You need to spur innovation by creating creative tension.

One of your primary jobs is to import market pressures inside your business – to motivate people to think and act like competitors by

- Setting stretch goals – you ask people to compete against their past levels of personal performance
- Ranking individuals and use this to determine rewards and promotions (and exits)
- Ranking units – similarly, rannking can be applied across units

Creative tension can, if executed badly, foster anxiety, fear, and a temptation to cut corners. To ensure that the pressure you are applying is productive and healthy you must:

- People should know their minimum level of responsibility and how to make trade-offs
- You must set clear boundaries. People can have no uncertainty about the behaviours and actions that are unacceptable
- You must create an environment where people throughout the business are committed to helping each other succeed.

- **How are you motivating everyone to think like winning competitors?**
- **How do you encourage innovation across units?**
- **Have committees and dual reporting made your organisation too complex?**

What strategic uncertainties keep you awake at night?

Nothing in your business is set in stone. Change is inevitable. The only question is whether you will be prepared.

To adapt successfully over the long term, you must learn how to ask the right questions to ensure that people in your business are constantly anticipating – and responding – to the changes around you. You must activate an on-going focus on strategic uncertainties – the threats and contingencies that could invalidate the assumptions underpinning your strategy.

To focus everyone's attention on a specific set of uncertainties, focus on these yourself. Visible and consistently. This will signal to everyone how important these issues are to you and your company.

If you focus consistently on the same set of data – asking questions & probing – so will everyone else in your business. You need to have an interactive control system: it must (1) contain simple and easy-to-understand info, (2) require face-to-face interaction between operation managers, (3) focus debate & dialogue on strategic uncertainties, & (4) generate new action plans. There are 3 questions to ask: "What has changed?", "Why?" & "What are we going to do about it?"

An interactive control system uses questions from the top to stimulate the flow of information from the bottom. For the system to work, you must reward those individuals who have the courage to tell you bad news or suggest that your assumptions may be flawed.

- **How do you focus everyone's attention on these uncertainties?**
- **What system do you use interactively to stimulate change?**
- **How do you encourage bottom-up information sharing?**

How do your core values prioritise shareholders, employees and customers?

The adjective core is used to remind you that tough choices are necessary. Defining core values is not just a "feel good" thing to do. It's a critical business decision.

The more decentralised you are – allowing people throughout your business to make choices about how to create value and for whom – the more your employees need to know how to make these choices. Values help you to make those decisions, in a way that is consistent with your culture and brand, with who you are as a company.

In addition, you must ensure that there is no confusion about your responsibility to others. You must stipulate the minimum level of corporate responsibility that you want people in your business to shoulder for others. For example, a clear, do-no harm standard can be your aspiration.

Senior leaders must show commitment through the tough choices they make and through decisions on promotions and reward. Good practise is to survey employees about which values they understand and why.

Your core values state whose interests come first, and your employees are clear about how to make tough trade-offs.

- **What tough decisions have been guided by your core values?**
- **Do your core values recognise your business' responsibility to others?**
- **Is everyone committed to your core values?**

What strategic boundaries have you set?

With clear strategic boundaries, everyone is free to exercise his or her full creative potential in support of your strategy.

Boundaries leverage the power of negative thinking to create freedom. You should always state boundaries in the negative. This has three benefits:

- Telling people what not to do provide absolute clarity about where you have drawn the line in the sand
- People pay more attention when you tell them what will get them fired than when you tell them about your new vision & strategy
- Defining what is unacceptable gives them the freedom to act without uncertainty and worry that you might later judge their actions as inappropriate

There are 2 kinds of risks that strategic boundaries protect against and you should develop them from this perspective:

- The possibility that people will engage in behaviours that could damage your company's reputation
- The risk that resources will be diverted to opportunities that don't align with your current strategy.

Strategic boundaries are similar to codes of conduct, with one exception. They are tailored to the specific strategic risks of your business and define what you will not do. You must be willing to discipline – and fire, if necessary – anyone stepping over the line.

- **What are your major reputation risks?**
- **Does everyone know what actions are off limits?**
- **What strategic initiatives will you not support?**

How committed are your employees to helping each other?

You must establish norms so that people will help each other to succeed.

The first step in building high levels of commitment is to clarify your theory of motivation. Once this is clear in your own mind, the next step is to assess how good a job you've done applying it.

If you require shared responsibility for success ask yourself to what extent you have (or should have) applied the following techniques in your business:

- Pride in purpose – If people are proud of their organization's mission and the broader purpose it represents, they will want to assume shared responsibility for its success
- Identification with the group – membership of an exclusive group carries with it a responsibility to help others in the group
- Trust – If you trust someone, you are confident that your actions won't come back to haunt you and you will be willing to help
- Fairness – You require an ethics of fairness when it's time to share rewards

The interaction between compensation and commitment to helping others is complicated and you must consider: rewarding team performance and be careful of disparities between top earners and others.

- **What is your theory of motivation?**
- **How are you creating shared responsibility for success?**
- **How do your compensation policies affect commitment to help others?**

Engaging your organization

If you truly want to engage people by using these questions, you must follow some common sense rules:

- **You must pose the questions face to face** – The questioning process derives its power from people rolling up their sleeves and working side by side to solve problems and seize opportunities. You must be able to watch the subtle signals of body language that will tell you when to challenge, probe, and push, and when to offer encouragement and support
- **Discussions must cascade down the organization** – If you are consistent in your approach, people at lower levels will mimic your questions in preparation for their upcoming meetings with you. The tone you set will be replicated throughout the business
- **The process must truly "engage" operating managers** – This is the whole point. Staff groups can play a useful role in data input, facilitation, and follow-ups, but engagement necessarily involves operating managers who are responsible for results and can commit to action
- **Debate must be about what is right, not who is right** – You should encourage everyone to take risks, state unpopular opinions, and challenge the status quo. The success of the process will depend entirely on your commitment to acknowledge and reward innovative thinking
- **You must root every discussion in, "What are you going to do about it?"** – You think of the questions as the means to an end. They are tools that you can use to stimulate a new, more focussed understanding of critical business issues. But the purpose of your engagement is to generate decisions and, ultimately, action.