

ROBERT SIMONS

SEVEN STRATEGY QUESTIONS



A SIMPLE APPROACH
FOR BETTER EXECUTION

HARVARD BUSINESS REVIEW PRESS



1436641

ROBERT SIMONS

SEVEN STRATEGY QUESTIONS



• — • —
A SIMPLE APPROACH
FOR BETTER EXECUTION



Harvard Business Review Press
Boston, Massachusetts

Copyright 2010 Robert Simons

All rights reserved

Printed in the United States of America

12 11 10 9 8 7 6 5 4 3

No part of this publication may be reproduced, stored in or introduced into a retrieval system, or transmitted, in any form, or by any means (electronic, mechanical, photocopying, recording, or otherwise), without the prior permission of the publisher. Requests for permission should be directed to permissions@hbsp.harvard.edu, or mailed to Permissions, Harvard Business School Publishing, 60 Harvard Way, Boston, Massachusetts 02163.

Library of Congress Cataloging-in-Publication Data

Simons, Robert.

Seven strategy questions : a simple approach for better execution / Robert Simons.

p. cm.

ISBN 978-1-4221-3332-3 (hbk. : alk. paper) 1. Strategic planning—Management. 2. Business planning—Management.

I. Title.

HD30.28.S437 2010

658.4'012—dc22

2010011510

The paper used in this publication meets the requirements of the American National Standard for Permanence of Paper for Publications and Documents in Libraries and Archives Z39.48-1992.

CONTENTS

| | |
|---|----------|
| <i>Introduction</i> | <i>1</i> |
| 1. WHO IS YOUR PRIMARY CUSTOMER? | 17 |
| 2. HOW DO YOUR CORE VALUES PRIORITIZE SHAREHOLDERS, EMPLOYEES, AND CUSTOMERS? | 41 |
| 3. WHAT CRITICAL PERFORMANCE VARIABLES ARE YOU TRACKING? | 65 |
| 4. WHAT STRATEGIC BOUNDARIES HAVE YOU SET? | 87 |
| 5. HOW ARE YOU GENERATING CREATIVE TENSION? | 109 |
| 6. HOW COMMITTED ARE YOUR EMPLOYEES TO HELPING EACH OTHER? | 133 |

CONTENTS

| | |
|--|-----|
| 7. WHAT STRATEGIC UNCERTAINTIES KEEP YOU AWAKE AT NIGHT? | 155 |
| <i>Checklist: The Seven Questions</i> <i>(with Follow-up Questions)</i> | 179 |
| <i>Notes</i> | 183 |
| <i>Index</i> | 195 |
| <i>Acknowledgments</i> | 207 |
| <i>About the Author</i> | 209 |

INTRODUCTION



Many executives are skeptical of new management techniques. And for good reason. Consultants and the business press are constantly trumpeting new approaches that promise breakthrough performance. But these ideas are often poorly suited to different business situations or not worth the trouble.

I have always worried about the hubris of promoting one-size-fits-all solutions to complex business problems. As a professor at Harvard Business School, I have seen management fads come and go, and I've become leery of prepackaged prescriptions based on the latest theories and techniques.

Writing books and offering high-level consulting advice is easy. Running a business is not. You cannot be aloof and above it all. You must roll up your sleeves and get involved in the details.

There are no easy answers to the issues you face. They are different for every business. But after teaching executives for twenty-five years—facilitating discussions and

sharing case studies on successes and failures—I've learned that there is one approach that will add value to every business, including yours: asking the right questions.

TOUGH QUESTIONS FOR BUSINESS LEADERS

The approach of this short book—coaching you to ask yourself and others the right questions to ensure the best implementation of your strategy—is based on three propositions.

First, I believe that executing strategy successfully requires tough, often uncomfortable, choices based on simple logic and clear principles. We often lose sight of these fundamentals in the complexity of techniques and frameworks that consultants and the business press promote in a quixotic attempt to find the magic solution. Simple questions can strip away the confusion that obfuscates clear thinking, allowing us to focus on the key issues that underpin important decisions.

We too often fall into the comfortable habit of avoiding choice in the mistaken belief that we can have it all. Instead of focusing on one primary customer, we have multiple types of customers. Instead of instilling core values, we develop lists of desired behaviors. Instead of focusing on a few critical measures, we build scorecards

SEVEN STRATEGY QUESTIONS

with an overload of measures. We work hard to avoid making choices.

The questions in this book 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.

Second, because every business and industry is unique, it's pointless for me to propose one-size-fits-all solutions to the issues you confront. You know much more about your business than I can ever know.

Finally, to implement strategy successfully, I believe that you must have active discussions with the people in your organization. There is no magic bullet, no metric or scorecard that will tell you where the pitfalls of your business strategy are. There is only one path to success: you must engage in ongoing, face-to-face debate with the people around you about emerging data, unspoken assumptions, difficult choices, and, ultimately, action plans.

The questions in this book should be your constant companion. Carry them as a back-pocket checklist to stimulate strategic thinking. Use them to guide your discussions at strategy retreats and board meetings, where I have seen them used to great success. In day-to-day meetings, you can ask the questions to guide and test subordinates, or to prod superiors to action. Since they demand

honest dialogue about business fundamentals and prospects, you should use them as a catalyst for engaging people in the decisions that your company makes.

You—and the people around you—should be able to give consistent, clear answers to these questions. Then, and only then, can you be confident that you're on track for successful implementation of your company's strategy.

SEVEN QUESTIONS

I have purposely kept this book concise. If I could, I would prefer to simply hand you a laminated page with the seven key questions.

I should emphasize two points about these questions. First, they focus on how to execute your business strategy, not how to formulate it. The path you have chosen to create value for your customer and differentiate your products and services is the starting point—a given. But, if your strategy is poorly conceived, the questions will expose those deficiencies and force you to sharpen your thinking.

Second, these questions are not a random list, either in how they are presented or in how they were developed. I present the questions—which you can recall easily if you remember seven C's—in the following sequence: The first two questions (customer, core values) test whether you've built a strong *foundation* for strategy execution.

Seven Strategy Questions

1. Who is your primary customer?
 2. How do your core values prioritize shareholders, employees, and customers?
 3. What critical performance variables are you tracking?
 4. What strategic boundaries have you set?
 5. How are you generating creative tension?
 6. How committed are your employees to helping each other?
 7. What strategic uncertainties keep you awake at night?
-

The next two (critical performance variables, constraints) address your ability to *focus* everyone's attention on your strategic agenda. Questions five and six (creative tension, commitment) ask whether you have done enough to *facilitate* the behaviors needed for success. The final question (contingencies) focuses on the *future* and your company's ability to adapt to change.

The development of these questions began twenty-five years ago with an intensive study of performance management systems. Over a ten-year period, I interviewed scores of executives, wrote case studies describing

successes and failures, and published papers outlining the techniques senior executives use to balance innovation and control. I summarized this work in my book *Levers of Control*.

Next, I turned my attention to the second big topic of strategy implementation: organization design. After more than five years studying prominent executives and how they created structures and accountability systems to deploy resources efficiently in their organizations, I published the results of this work in a second book, *Levers of Organization Design*.

Together, these two books—the first focusing on systems and the second on structure—highlight seven variables that, in my opinion, are the keys to successful strategy implementation in any business.

Turning these variables into the right questions was the final, and most critical, step. Over several years, I worked with executive teams, such as those at Daiichi-Sankyo, Henkel, Honeywell, Lockheed Martin, Marriott, A.P. Moller-Maersk, and Standard Chartered to test and refine the questions. Most recently, these seven questions have formed the backbone of the strategy implementation curriculum in Harvard's Advanced Management Program: this book will allow you to engage the same approach and materials that I use with executive participants in this program.

IMPLEMENTATION IMPERATIVES

Why are these seven questions so vital to your company's success? Each is the crux of a larger "implementation imperative"—a topic or process that you must learn to successfully implement your strategy. I do not use the word *imperative* lightly. Some executives master these imperatives, allowing them to execute winning strategies. Others fail to do so, exposing their business to significant risk.

The importance of these imperatives is driven home when you consider *Lessons from the Top*, a book published ten years ago that profiles fifty top business leaders.¹ Its stories are compelling, and its lessons seem worth learning.

When I read down the list of names—Michael Dell, Bill Gates, Lou Gerstner—I get an uneasy feeling in the pit of my stomach, however. Mixed in with these business luminaries is another set that includes executives such as Bob Eaton (DaimlerChrysler), Hank Greenberg (AIG), and Frank Raines (Fannie Mae).

This second group is not associated with success, but with failure. Each of these executives, we know in hindsight, followed a strategy that ultimately failed. The only lessons here are in figuring out how to avoid similar mistakes!

The seven questions—and the imperative each represents—will help you avoid the pitfalls that trapped these formerly successful executives. Here's a preview of what each chapter of this book will cover, the questions, and their larger imperatives:

Who Is Your Primary Customer?

The first imperative—and the heart of every successful strategy implementation—is *allocating resources to customers*. Continuously competing demands for resources—from business units, support functions, and external partners—require a method for judging whether the allocation choices you have made are optimal.

Therefore, the most critical strategic decision for any business is determining who it is you are trying to serve. Clearly identifying your primary customer will allow you to devote all possible resources to meeting their needs and minimize resources devoted to everything else. This is the path to competitive success.

It's easy to try to duck the tough choice implied by the adjective *primary* by responding that you have more than one type of customer. This answer is a guaranteed recipe for underperformance: the competitor that has clarity about its primary customer and devotes maximum resources to meet their specific needs will beat you every time.

SEVEN STRATEGY QUESTIONS

How Do Your Core Values Prioritize Shareholders, Employees, and Customers?

Along with identifying a primary customer, you must also define your core values in a way that ranks the priority of shareholders, employees, and customers. Value statements that are lists of aspirational behaviors aren't good enough. Real core values indicate whose interest comes first when faced with difficult trade-offs.

Prioritizing core values should be the second pillar of your business strategy. For some companies, shareholders come first. For others, it may be employees. In other companies, it may be customers. There is no right or wrong, but choosing is necessary. To illustrate this point, I'll contrast Merck's \$20 billion decision to pull Vioxx from the market with Pfizer's decision to continue marketing Celebrex.

What Critical Performance Variables Are You Tracking?

Once you're confident that the foundation of your implementation is sound—you've allocated resources correctly and provided guidance for tough decisions—it's time to get everyone who works for you focused on the job at hand.

Tracking performance goals—the third implementation imperative—requires you to set the right goals,

assign accountability, and monitor performance. It's easy to fail this imperative by focusing on the wrong performance indicators or monitoring scorecards that have an overload of irrelevant measures. Underperformance is the result.

It's your job to ensure that your managers are tracking the right things by singling out those variables that spell the difference between strategic success and failure. Like the preceding two questions, the focus in this question is again on an adjective, this time the word *critical*. I will show you a simple but counterintuitive technique that you can use to be sure you're tracking the right things, and I will describe how companies such as Nordstrom and Apple illustrate some unorthodox performance measurement choices that provide the pathway to superior results.

What Strategic Boundaries Have You Set?

Every strategy brings with it the risk that an individual's actions will pull the business off course. Here again, it's easy to fail to inoculate the business against this risk. As we will see, the trick is in setting clear boundaries.

Controlling strategic risk is the fourth implementation imperative. Strategic boundaries—which are always stated in the negative—ensure that the entrepreneurial initiative of your employees aligns with the desired direction of the business. Strategic boundaries can also protect you

SEVEN STRATEGY QUESTIONS

from the types of errant actions that destroyed Enron and brought financial service firms such as Fannie Mae and Lehman Brothers to their knees.

How Are You Generating Creative Tension?

Once you're satisfied that you are tracking the right performance goals and controlling strategic risk, it's time to turn to the fifth implementation imperative: *spurring innovation*. This imperative is woven into the fabric of every healthy organization, and we all know that companies that fail to innovate will eventually die. No company is immune.

But sustaining ongoing innovation in organizations is notoriously difficult. People fall into comfortable habits, sticking with what they know and rejecting things that cause them to change their ways.

To overcome such inertia, you must push people out of their comfort zones and spur them to innovate. I will provide a menu of techniques you can use to generate creative tension to ensure that everyone is thinking and acting like a winning competitor.

How Committed Are Your Employees to Helping Each Other?

For most companies, it's critically important to build norms so that people will help each other succeed—especially when you're asking people to innovate. But

there are exceptions. Some organizations can, and should, be built on self-interest, with every man or woman working for him- or herself.

I suspect that the choice between commitment to help others and self-interest is deeply ingrained in your organization, yet has never been discussed. But if you haven't addressed this choice explicitly—and worked to make it happen—you have increased the potential that your strategy implementation will fail.

Building commitment is the sixth implementation imperative. I will offer a menu of techniques to foster commitment to achieving shared goals. Or, if rewarding self-interest is more appropriate for your business, I will explore alternative approaches you should employ.

What Strategic Uncertainties Keep You Awake at Night?

No matter how good your current strategy is, it won't work forever. There will be booms and busts, customer preferences will change, competitors will introduce new products, and disruptive new technologies will emerge in unexpected places.

This brings us to the final implementation imperative: *adapting to change*. Adapting is critical to survival, but it's extremely difficult to do. With change constantly surrounding us, employees often do not know where to look or how to respond.