

GENESIS MANAGEMENT CONSULTING

“Improving lives through better decisions”

Stress test your strategy

Executive summary of an article by Robert Simons, published in November 2010 edition of the Harvard Business Review.



Economic turbulence can quickly expose the weaknesses in a business strategy. To refine and hone it to adapt to the new circumstances requires us to make some tough strategic decisions. Robert Simons in his book “seven strategy questions: a simple approach to better execution” puts forward seven questions that we should be asking when undertaking a stress-test of our strategy.

Question 1: Who is your primary customer?

The answer to this question determines how to allocate resources. There are many industries where the primary customer is not the end-consumer, but an intermediary such as a retailer or a broker. In times of economic stress, the relative importance of these players may change and sometimes we have to change our strategy to recognise this.

Question 2: How do our core values prioritise shareholders, employees and customers?

At some companies, customers come first. At others it may be shareholders or employees. This may sound like heresy in the “customer is king” era, but if, for instance, you are a Fund Manager, it may be your key portfolio managers who are generating the exceptional returns for your clients. In that case, perhaps they must be your priority – after all, if they walk, your business walks too! So we need to make sure we understand our model and have core values that support it.



Question 3: What critical performance variables are you tracking?

Balanced scorecards are great but if we are not careful we end up measuring everything and the key variables get lost in the forest! In tough economic terms, we must make sure we are measuring and managing against those **critical** metrics – and for some of us that could be those that are

monitoring our survival!

Question 4: What strategic boundaries have we set?

Aggressive growth and profit targets often can lead us to stray into new areas. Generally, in recessionary times we need to be retaining our focus on the areas we understand and have proven competitive advantage. Although telling people what to do may seem compelling, it can also be constraining. If we have innovative and entrepreneurial people, it is better to set the boundaries and say where we are NOT playing and then let them exercise that creativity within defined limits.

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Question 5: How are we generating creative tension?



It is key that we allow the people in our business to feel outside market pressures. This allows them to act like winning competitors and move outside of comfortable routines. The author gives examples of how this can be done including setting stretch targets; ranking according to performance; setting spans of accountability that are greater than spans of control and creating cross-unit teams.

Question 6: Are our employees committed to helping each other?

Although employees must be trying to achieve their personal best, in times of crisis it is imperative that they are supporting each other as well. The four attributes that we should strive for are: pride in purpose; group identification; trust and fairness. Without trust, we are unwilling to make ourselves vulnerable by putting our reputation on the line to support others. Without fair and appropriately balanced compensation we take away the incentive to help others.



Question 7: What are the strategic uncertainties keeping us awake at night?



In times of economic turmoil, there are often fundamental changes taking place in trends and behaviours. Inflection points that result in the failure of previously successful business models. We need to be aware of our underlying assumptions and continually testing them. The author suggests that our business control systems can act as interactive tools to maintain this awareness. At Genesis we believe that ongoing strategic debate and independent challenge is also crucial to try and avoid having blind-spots in our strategic vision.

Execution and conclusion.

When undertaking this stress test, you will need to take some critical strategic decisions. To do this successfully, one must have the right decision-making processes in place and the appropriate tools understood and available. In addition, one must be aware of those behavioural aspects that can impact on judgment and perceptions.

For more information about undertaking this stress test; or building the necessary decision-making capability in your organisation, contact Simon Gifford at Genesis Management Consulting Limited (contact details below).



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