How do you figure out the best way to implement your business strategy? There’s no one-size-fits-all answer. It takes hard work to shape a successful path forward, one that's tailored to the nature and needs of your organization. But you can start by fully exploring the answers to seven key strategy questions.

Robert Simons, Professor of Business Administration at Harvard Business School, has spent 25 years determining the seven key strategy questions. These questions, that he’s refined through extensive studies and explored in two previous books, now form the backbone of the strategy implementation curriculum in Harvard’s Advanced Management Program.

The seven questions aren’t intended to help you determine your strategy. Rather, they were developed to help you execute your strategy in the most successful way possible. And they aren’t meant to be asked as part of a one-time planning session. Instead, Simons suggests they be used as a guide, and a prod for your leadership team.

Executing strategy requires tough choices. And those choices need to be based on simple logic and clear principles. We need to challenge assumptions. And we need to talk to our colleagues face-to-face about new data, old assumptions, and hard choices, on a frequent and ongoing basis.

The order in which you ask the questions is important, as they delve into very different aspects of your organization. The first two questions assess whether you’ve built a strong enough foundation to allow you to execute your strategy successfully. The next two explore the ability of your team to focus. Five and six look at whether you have encouraged the kind of behaviors that will enable success. And the last question looks at the ability of your organization to adapt to change.

1. Who is your primary customer?

It’s critical to define your primary customer. Once you’ve settled on this definition, you can decide where and how to allocate your resources. Simons says: “This is one of the most strategic, make-or-break decisions that any company can make.” Why? Because once you have hammered out this definition, you can then direct all possible resources...
to serving your primary customer, and minimize the resources you direct to activities that don’t create value for them.

**Define your primary customer**

To define your primary customer, you need to look at three important variables: perspective, capabilities and profit potential.

Perspective takes into account your company’s history, executives, and preferences. Capabilities include all of the resources you have at your disposal and profit potential refers to the rate of return you might expect from various approaches.

You may think you have multiple customers. But, according to Simons, trying to serve many different customers most often results in serving none of them well - and losing business to those competitors who are focusing all their resources on a single primary customer.

The users of your product or service might not in fact be your primary customers. Mary Kay Cosmetics has defined the independent beauty consultants who sell its products as its primary customers, rather than the end users, and allocates a major portion of its resources to supporting these consultants, with training, product support and distribution centers.

In identifying your primary customer, you might be tripped up by two hurdles: figuring out who is not a customer; and managing the needs of other constituents who are not customers, but who are still important to your business.

Simons shares his experience at Harvard, where a few years ago faculty told students that they were customers of the University. When students began to demand a voice in how curriculum was shaped and resources allocated, administrators realized that Harvard’s primary customer was not its students, but was instead its academic experts, who generate new ideas and knowledge. The students play an important role in this process, but as participants, not primary customers.

While you will devote the lion’s share of your energies and resources to serving your primary customer, you have other important constituents that cannot be ignored. These other interests and groups will also vie for your attention. By delegating the responsibility for other important (non-customer) constituents to specific staff groups (like regulatory affairs, human resources and investor relations) you can keep your customer-focused teams and departments from getting distracted.

You’ll also need to determine how much of your resources you’ll dedicate to these other groups. In allocating resources to your staff groups, Simons advises: “Serve their legitimate needs, but no more.”

Online retail giant Amazon has chosen the consumer as its primary customer. In making hard decisions, CEO Jeff Bezos asks “What’s better for the consumer?” and acts accordingly. This doesn’t always please the third-party retailers that provide more than one-third of Amazon’s revenue, but no matter - for Amazon this approach has resulted in the best retailer customer loyalty score in the U.S.
Once you’ve defined your primary customer, you need to understand them, inside and out. And this extends to everyone in your organization, from marketing and senior management to receptionists and warehouse employees.

Then, you’re ready to commit to meeting the needs of your primary customer, and allocating your resources in the most effective way to deliver what that primary customer wants.

2. How do your core values prioritize shareholders, employees and customers?

Defining your core values is crucial to your business. Whether you put the needs of your shareholders, employees or customers first, those core values will help you determine whose needs to prioritize when making difficult decisions.

This is independent of defining your primary customer. Selecting your primary customer shapes how you structure your business and determines how you allocate your resources. Defining your core values will give you direction, within this structure, when you need to make hard choices that will benefit one constituency over another.

Merck: whether to put patients, or shareholders, first

A hard choice might be whether to withdraw a profitable drug from the market, in the face of health concerns. In 2004, pharmaceutical giant Merck started to receive reports that patients receiving its arthritis pain drug Vioxx were suffering an increased number of cardiovascular events. Senior management had to decide whether Merck’s primary responsibility was to patients taking the drug, or to its shareholders, who would be adversely affected if Merck pulled one of its leading products.

In the end, the choice was easy, since Merck is guided by a set of principles set out by its former CEO. “Where patients come first,” is the company’s mission, and executives believe that putting patients first will deliver profits in the long term. And while Merck’s market value dropped $25 billion following the announcement, it gained in trust and market confidence.

Pfizer: opts for shareholders, but protects patients too

Merck’s competitor, Pfizer, had the same issue with its pain drug Celebrex. Instead of withdrawing the drug, Pfizer opted to leave the drug on the market, but added a black-box warning so that doctors and patients would be fully aware of the risks and benefits. In this way, Pfizer put the needs of its shareholders first, but also ensured that patients were not harmed by the decision.
Southwest: prioritizing employees

Perhaps your organization wants to prioritize the needs of employees. Happy, engaged employees translate into satisfied customers at many organizations, including Southwest Airlines.

Or for some companies, such as private equity or trading entities, increasing shareholder profit can be the core value.

However you define the core values of your organization, it's important to remember that you also have a responsibility to those constituencies that fall outside of them. This is where “corporate responsibility” comes in. Companies like Walmart and Nike have responded to criticism about social responsibility by launching new initiatives that address labor and environmental concerns.

Once you have defined your core values, it's important to make sure that everyone understands and “lives” them, throughout your organization.

3. What critical performance variables are you tracking?

Are your performance measures contributing to your company's success, or detracting from it? Companies can inadvertently set up performance scorecards that don't truly reflect how value is created in their business. Your performance measures can also be so complicated that they're impossible for employees to understand, and live up to.

Simons explains that you must first ensure that your performance variables are measuring the right things. To start, outline exactly how value is created for your business and all the steps that are necessary for value creation. Then, you can link the different variables - inputs, outputs, processes - to performance measures that are tied to the value created.

Identify your critical performance measures by exploring what would cause your company to fail

What are the three key variables that are absolutely critical to your success? Access to materials at the right price point, or quality level? Skilled employees? Relationships with government agencies? Take the time to identify what variables could most seriously affect your business, and make sure these are at the top of your list of performance measures.

How many performance measures should you have?

Simons is clear on this point - “Seven, plus or minus two.” Why this narrow range? Having too many will cause confusion, and loss of focus for employees. Having too few dulls the edge for many people - there's just not enough to foster creativity and innovation.
Once you’ve identified your strategic variables, and you’re tracking them with the right measures, you still need to keep a sharp focus on financial performance measures. Simon suggests that managers be accountable for revenue, expenses and profit margins, at the very least.

**Tying performance measures to consequences**

Define the financial and non-financial performance measures that are appropriate for your business. Then, they need to be tied to consequences, through the setting of goals, accountability and compensation.

What approach does your company have with respect to consequences? Some CEOs expect strict accountability, and “punish” by withholding bonuses or firing. Others - like former GM CEO Rick Wagoner - did little about poor results and poor performers – the end result was $70 billion in losses over four years.

4. **What strategic boundaries have you set?**

Setting strategic boundaries safeguards your company against two pitfalls: employees who might harm your business strategy through poor performance or by damaging your company’s reputation; or by spending time and resources on projects that don’t align with your business goals.

To control this risk, should you tell your employees what to do, or what not to do? It depends on your business type. If you want to encourage innovation and new approaches, be specific about what staff should not do, otherwise let them flourish. On the other hand, if you’re running a nuclear power plant, it’s crucial to tell employees what to do, very precisely.

Says Simon: “Boundaries should specify the behaviors that are unacceptable in your business and will not be tolerated under any circumstances.”

At Walmart, boundaries extend all the way to not accepting a cup of coffee from a supplier, to avoid any hint of preferential treatment. For consulting firm McKinsey, employees who violate rules on disclosing information are terminated, even if it’s information disclosed to an employee’s spouse.

Sometimes you don’t realize how important strategic boundaries are until you are faced with a business crisis. For GE, this wake-up call came when two junior engineers mishandled pricing for a defense contract. GE was quickly suspended as a supplier to the U.S. government, jeopardizing billions of dollars in annual revenue.

How do you defend against this type of costly mistake? You must be very clear in outlining what is unacceptable behavior for your organization, and make sure that everyone understands the seriousness of breaching your strategic boundaries. Your employees should also understand the consequences of going beyond the boundaries, and you should be prepared to enact the consequences, be it firing, or even bringing in police, SEC, or other
appropriate officials.

Keeping within your strategic boundaries should also apply to the initiatives and expansions that your company pursues. By deciding not to develop a PDA, Apple ensured it had the resources to successfully focus on the iPod.

Contrary to what it might initially seem, boundaries actually enable and encourage innovation, by keeping the creative energies of your team focused squarely and efficiently on your strategic goals.

5. How are you generating creative tension?

Competitive pressure leads to innovation. New products and new approaches appear when market forces have crushed an old order. But the forces that spur innovation in your markets don’t necessarily encourage innovative behavior inside your organization. Employees are often rewarded for behaviors that have nothing to do with innovation - like following orders and maintaining the status quo.

It’s not enough just to set up conditions at your company that encourage innovation. Simon’s techniques are aimed at pushing people to their creative limits, taking them way outside of their comfort zones. Why so aggressive? Because those companies that don’t innovate will be left behind, lost in their comfortable routines and policies.

Andy Grove, former CEO of Intel, said: “The most important role of managers is to create an environment in which people are passionately dedicated to winning in the marketplace.”

Are you managing in this way? If not, there are techniques you can use to encourage innovation within your organization.

Set tough “stretch” goals. Ask your people to compete against their past levels of performance. When the goal is so big that incremental improvements alone won’t help to achieve it, people will come up with brand new approaches and solutions. If they feel too comfortable, this will never happen. Employees at General Motors got complacent - and the rest is bankruptcy history.

Publicly emphasize individual performance reporting and ranking. This is not easy. Performance evaluations such as “surpasses expectations” keep everyone happy, and relationships around the water cooler cordial. But they don’t drive innovation. At GE, under Jack Welch’s tenure, employees were ranked and the bottom 5% dismissed. But there can be dangers in humiliating your employees.

Consider ranking units instead. Instead of publicly ranking people, rank business units and teams. This can generate the same desires to “win,” but without the negative effects of ranking individuals.

Hold people accountable for broad measures. At Siebel Systems (originators of CRM software), managers across many departments were responsible for “customer satisfaction,” even when their area of responsibility could only partially contribute to the success of this
measure. This forced the managers to widen their focus beyond those resources over which they had direct control, and work together like entrepreneurs.

Set up cross unit teams and consider matrix accountability. Cross unit teams can help cross-pollinate ideas, and force new perspectives. “Matrix accountability” takes this to the furthest extreme, giving every manager two bosses and conflicting objectives. This can create a choking level of bureaucracy, though. Global giants such as P&G and HP abandoned the matrix model, for this reason.

6. How committed are your employees to helping each other?

What type of commitment do you need from your employees? It depends on your business. Employees can be motivated by self-interest, where it’s every man for himself, or be encouraged to work as a team, helping each other.

In most organizations, success comes from a mix of these two types of commitment. In these companies, employees strive to achieve their personal best, against such measures as stretch goals and individual performance rankings, but also see themselves as members of a team.

Simons identifies four areas that are key to building a culture with high levels of commitment:

Pride in Purpose - Companies often use slogans to embody the pride employees have in their organization. For the U.S. Marine Corps, Semper Fidelis (Always Faithful) represents pride, commitment, and much more.

Identification With the Group - Out of all the people who apply to work at Southwest Airlines, only 2% are accepted. As a result, those who are hired feel they’re part of an elite group, among the few who are able to meet Southwest’s stringent requirements. In addition, Southwest executives invite employees to play a significant role in the process of hiring their fellow workers, which fosters pride and a feeling of responsibility for the company’s achievements.

Trust - Does your company have an “us and them” view of executives and employees, or is everyone working together? When executives are seen as supportive and trustworthy, the culture benefits.

Fairness - Is everyone rewarded in the same way? Executives are paid more, but do they also need big offices, parking spaces, and other perks? And when your effort benefits another, say your boss, or other members of your team, are you personally recognized for your contribution?

7. What strategic uncertainties keep you awake at night?

Not all companies that are thriving today will be here in 25 years, even those that seem rock-solid. Who would have guessed that stalwarts like Eastman Kodak, or Sears Roebuck, would
flounder?

But some companies do adapt, and continue to succeed. Looking outward, and to the future, is critical. Worry isn’t a bad thing - it’s actually the key to staying ahead of market and competitive developments.

Send the right signals

You know the strategic uncertainties that could derail your organization. But do your managers, and your teams? Make sure you’re keeping the issues that are important to you, and to your company, at the forefront of everybody’s consciousness - not just your own.

Implement - and use - interactive control systems

Once you’ve outlined the strategic uncertainties that are of relevance to your business, you can select the interactive system that will highlight any and all changes, developments and trends that occur in relation to them.

While any information system can be used interactively, an interactive control system differs from standard performance measures, such as cost accounting systems or profit plans, that are typically used diagnostically. Once you set up these standard performance measures, and set the related annual goals, they can be managed by staff specialists, who provide you with ongoing reports.

An interactive control system, on the other hand, is at the heart of an organization. Simons outlines four characteristics of an effective system:

- it must be simple;
- it must require face-to-face interaction between relevant managers;
- it needs to generate an exploration of strategic uncertainties;
- it should lead to the creation of action plans.

Simons shares an example of one CEO to illustrate the best use of an interactive control system. This executive carried a leather binder, that he used to track the issues and responsibilities that were his primary concern. Members of his team had their own binders, too, that they’d created so they’d be up-to-date on those issues.

In this way, team members always had the latest information on the most important strategic uncertainties readily available. At operating meetings they were able to share informed interpretations on trends and developments, and build action plans together.

Simplicity is central to an effective interactive control system. Some organizations present new initiatives through “one-pagers” that encapsulate everything executives need to know before making a decision.
Some companies might use a measure like P&L to gauge the risk level of particular strategic uncertainties. For Goldman Sachs, a small but critical variation in the daily P&L was the flag that allowed it to steer clear of the mortgage-backed securities disaster.

For Walmart, during Sam Walton’s tenure, regional managers flew in for a weekly face-to-face meeting to discuss sales and local conditions, along with action plans.

**Conclusion**

Simplicity is key. Be prepared to cut through the clutter, make hard choices, and make your team leaders a little uncomfortable. The answers to the seven strategy questions will shift as your business, markets, and priorities change. The important thing is to keep asking questions and analyzing the responses as they apply to your organization.