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Accelerating Progress Toward Your Key Business Objectives

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Tip: To sustain growth, balance optimism with a healthy dose of pessimism

One of the wonderful aspects of companies that are in growth mode is the positive "can do" energy and excitement that infuses the organization. However, just as with any strength overused, I've found that unbridled optimism about the benefits of a strategy or initiative without uncovering its downside risks often leads to getting blindsided by unexpected problems that can gridlock progress. How, then, do you use pessimism to your advantage without damaging optimism?

Obviously, it's essential to be optimistic in order to grow. However, as business conditions continue to evolve in ways no one can predict, we need to look at challenges from different angles in order to effectively address these issues. A healthy dose of pessimism (see "Ask the Expert") balances the benefits of a strategy along with the downside risks. This enables you to increase your understanding of the situation, overcome obstacles (see "Trend Watch" below), and expand options for moving forward on a sustained basis. Before committing to any strategy, ask the following questions:

- What are the potential benefits, and what is the evidence?
- What are the potential risks, and what is the evidence?
- How can we minimize the risks and maximize the benefits? (See "Digging Deeper" below)

For example, senior executives of a manufacturing company decided to integrate several divisions based upon financial data, customer feedback, and best practices from other companies. The evidence indicated that this initiative would result in better service, smoother workflow, and significant cost savings from eliminating redundant positions. However, there were also downside risks associated with the initiative that the executives needed to assess. These included the financial and morale costs of laying off a number of long-term employees, and factors in the culture that indicated that there could be a loss of productivity and temporary reduction in service as the result of layoffs, lower morale, and workflow changes. When the leadership team spent time reviewing the above questions, they were able to identify a number of ways to minimize problems and maximize benefits of the integration.

Bottom line: Knowledge is power. The more concrete evidence you have to support both benefits and risks of a strategy, the more likely it is that you'll be able to prevent some problems from occurring, overcome obstacles that do occur, and accelerate progress toward your objectives.

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Trend Watch: Unchecked optimism over M&A deals is causing increased concern

While merger and acquisition activity in 2007 still appears strong, an interesting trend that Gary Patterson ("The Fiscal Doctor": www.fiscaldoctor.com) is starting to hear "off the record" from lenders is concern that buyers have less regard for downside risks, which could lead to unrealistic financial expectations and more unsuccessful deals in the future. If you are considering M&A as a growth strategy, what types of risk do you need to know about?

As with every strategy and initiative, it's critical to consider what I call "the three categories of risk" before making commitments:

- **Risks you *can* anticipate:** These are scenarios that have a high probability of occurring. For example, commonly anticipated downside risks of M&A are losing key employees and culture clashes, which can lead to increased costs for hiring and training, as well as lower productivity and missed goals.
- **Risks you *can't* anticipate:** These are scenarios that occur with no warning. For example, unanticipated risks of M&A include major changes in the economy, with customers and suppliers that draw attention away from the integration process and projected timelines for meeting objectives.
- **Risks that sneak up on you:** These are small changes that slowly build over time. For example, during M&A integration, risks that sneak up include a steady stream of minor policy and procedure changes and shifts in job responsibilities. When taken individually, these changes seem inconsequential. However, taken collectively, they can have major impact on operations, goals, customer satisfaction, revenues, and profitability.

Far from being deal killers, this type of healthy pessimism enables you and your team to prepare contingency plans and set milestones and checkpoints for assessing progress so that your organization can take early control of problems as well as capitalize on new opportunities.

Bottom line: While it's essential to be optimistic about a deal's success, a healthy level of pessimism about downside risks increases your organization's strength and resilience during integration.

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Digging Deeper: Understanding the full challenge

When you're focused solely on the benefits of a strategy or initiative, it's easy to overlook or underestimate the downside risks. How can you generate a more complete assessment of the challenge your company faces?

While computer printouts have a place, I've found that nothing gets to the heart of the matter like a strategic thinking and planning session. To increase the effectiveness these meetings

- **Encourage multiple perspectives**. If time and confidentiality permits, you can get valuable input from both internal stakeholders (e.g. employee groups, management groups, other executives, and directors), as well as external stakeholders (e.g. customers, shareholders, suppliers, alliance partners, outsource providers, the government, and other community groups. Remember that each group has its own concerns and needs, and their level of buy-in is critical to a successful outcome.

- **Uncover assumptions about your organization:** For example, I've identified seven types of common but mistaken assumptions that leaders tend to make about their organizations. Every organization is unique and has specific circumstances, capability, and cultural issues that will impact business performance.
- **List factors that can both accelerate and gridlock progress:** When you consider the evidence supporting each point of view, you can more realistically assess the benefit as well as the level and types of risk you're willing to assume.

Bottom line: Taking a balanced approach to strategic thinking and planning enables you to more effectively assess whether your optimism about a particular strategy is warranted, or whether a different option will be necessary to produce a return on investment in the timeframe you need.

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Ask the Expert:

Q: What is a "healthy" dose of pessimism?

A: When someone has a healthy dose of pessimism, he or she is realistically assessing the risks of an approach and using this information to prevent or minimize potential problems. Unhealthy pessimism happens when someone becomes paralyzed by fear so that he or she is unable to take prudent risks and grow.

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