The Australian Strategic Planning Institute

Executive Leadership Checklist -
Topic: Testing Assumptions & Expectations

Overview

When considering the outcomes achieved by organisations, the two biggest contributors to disappointment and missed targets are *Invalid Assumptions*, and *Unrealistic Expectations*. With some more effective thinking prior to the formulation of a Strategic Plan, neither your assumptions nor expectations should expose you to increased risk

The likely success of an organisation's ability to deliver on its desired outcomes is based on the quality of strategic thinking the organisation uses PRIOR to implementation of its operational activities. It is in the planning stage that success or failure is hardwired into the organisation, and no amount of reallocated resources, cut backs or calls for 'greater effort' are likely to overcome the basic errors of Invalid Assumptions and Unrealistic Expectations.

Assumptions are no more than habits of thinking. We use our past experiences (history) and somewhat automatically believe that history will repeat itself. Yet extensive research and documented case studies show that 'past performance is no guarantee of future success'.   Reliance on untested Assumptions unnecessarily exposes us to further risk because we increase our belief that an outcome is more certain than it may in fact be, allowing us to 'push the boundaries' of expected outcomes. This increased expectation not only makes failure more painful, it creates a 'bias of belief' hurdle that makes adaptation to changing circumstances, so much harder than it needs to be.

Testing Assumptions

Assumptions are a necessary part of running a business. It would be physically and mentally impossible to run a business if we never assumed that certain actions would lead to certain outcomes. If you allow your organisation to keep second guessing itself, no decisions or actions would ever be taken and your business would grind to a halt.

But there are some critical times when an organisation ought to deliberately and systematically question its own beliefs about the world in which it operates -

- When sudden changes have occurred in your industry sector or a related sector.
- When a major and unexpected disruption has occurred to your business
- When Environmental Scanning data suggests the possible emergence of a new competitor or a competing process with the potential to impact upon your business
- At times of economic change
- As part of a Strategic Planning process
- At all Board or Senior Management meetings

The process of testing Assumptions need not be complex – just open to possibility. The best way to test assumptions is via a short and focused question series:
1. What are our existing habits of operation? (or, 'what do we currently rely on to get things done?')
2. Are we aware of anything that might disrupt those habits? ('what does our scanning tell us about the potential for near or mid term change?')
3. If change was to occur, what capabilities do we currently have available to us to adapt?

(or 'could we cope if our world was disrupted or an opportunity emerged?')
4. Given what we now understand the potential for change to be, how valid are our assumptions upon which we are making our strategic choices?

For example a beverage manufacturer might ask whether its habit of having ready access to water is valid given changes in environmental issues; a plastic pipe maker might discover that its raw inputs are being bought by a non competitor from outside their industry for use in another application; or a not for profit might question whether calls for a piece of new legislation might turn into something that could impact on its ability to attract and retain staff.

Testing for the validity of assumptions acts to ensure that an organisation questions whether their view of the world is legitimate and prompts them to look for the existence of alternatives. It is the art of removing an organisation's blinkers to identify blind spots – what I call Strategic Scotomas, so that the management team as a more complete picture of its current and potential operating environment.

Testing Expectations

Expectations differ from assumptions in that they are the articulation (the establishment of a stated goal or outcome) of an interpretation of selected information. In other words, having assumed that certain information is accurate and valid, a senior management team will determine how that information influences their understanding of a likely future environment.

On other occasions a management team will discover that there are multiple valid pieces of data to consider and the management team will choose which one(s) they feel are most useful to them in creating operational strategy. Expectations take the known and perceived understanding of a senior management team or Board, and then combine that with the organisation's existing capabilities.

It is at this point that the trap of setting unrealistic expectations begins to emerge such as:

- Stretch Goals without previous signs of growth (setting sales targets at levels previously unmet and/or without an increase in the skills or capacity required to deliver)
- Competing Strategic Initiatives (creating a strategy aimed at ensuring that service levels improve whilst another part of the strategy is looking to automate customer support)
- Ignoring signs of pending change (relying on a key customer relationship despite signals from that customer that a better service or offering is available from a competitor)
- Playing off Operational Silos against each other (CEOs that demand sales growth from their Sales Managers whilst demanding cost savings from their CFO)

These and many others lead to unrealistic expectations – often that staff are aware that what is being asked of them by senior management is not likely to be delivered. Some will agitate for a dose of realism from senior management but too often they will be branded as cynics.

As Horn, Lovallo and Viguerie explain in their paper '*Learning to let go – making better exit decisions*' unrealistic expectations often lead to an ego driven refusal to see the 'writing on the wall' when things begin to go wrong. Rather than exit from a bad situation, Senior Managers tend to throw more money and resources at the problem, only exacerbating the end result.

The link between Assumptions and Expectations exists is forged in the organisation's capabilities. But the best place to start is to test those assumptions in the first place, and greater operational awareness gained through processes like Environmental Scanning is a key initiative CEOs can undertake.