

DONALD SULL:

THE CASE FOR SIMPLICITY



BY JULIE BARLOW

To be able to tackle new challenges and ensure steady growth, companies should revisit and simplify their management rules. Gestion magazine spoke to Professor Donald Sull about why simple rules are the best for managing businesses.

Business strategy doesn't hold many secrets for Donald Sull, professor at the MIT Sloan School of Management at Massachusetts Institute of Technology and strategic advisor to the Bill & Melinda Gates Foundation. In his 2015 book, *Simple Rules: How to Thrive in a Complex World (2015)*, written with Kathleen M. Eisenhardt of the University of Stanford, Donald Sull explains how a few simple management rules can help companies overcome failure, rebuild business, and ensure growth. *Gestion* magazine talked with Donald Sull.

GESTION (G): WHAT INSPIRED YOU TO STUDY MANAGEMENT RULES?

DONALD SULL (DS): We know a lot about good business strategies. There are about 30,000 books published on the topic every year, and every MBA program offers at least one course on them. But strangely, there are almost no studies about how to actually implement a business strategy.

G: WHY IS IT IMPORTANT FOR BUSINESS RULES TO BE SIMPLE?

DS: To be successful, a business strategy must, above all, be based on simple, clear rules. Simplicity has several benefits when it comes to translating strategy into action. One is that it forces prioritization. If you need a 200-slide power point to explain your management rules, then you aren't prioritizing at all. Whatever is important in the message gets diluted or obscured. Simple rules must also be easy to communicate. I've seen companies where managers fill binders with complex rules that sit on shelves and collect dust because no one ever opens them. To be useful, business rules must fit on a

single page. Because you are not trying to dictate everything, simple rules give employees more scope for exercising discretion, using judgment, and for local initiative, all of which are crucial when it comes to executing a strategy.

G: WHY IS "BEING SIMPLE" SO HARD FOR MANAGERS?

DS: Simple rules and clear ideas go hand in hand. You also have to accept that rules can't account for every possibility. In our book, we give the example of a European company, active on the internet, which had simple rules for developing new products. It was a well-endowed company operating in a rapidly growing market. It had a lot of opportunities for new products and employees with creative ideas. The problem was that the engineering team, the marketing team, the sales team, and the finance team each had their own strategy group, each with their own rules and when they met up to develop the common rules, everybody brought their own to the table. They ended up with 30 or 40 rules. A lot of organizations stop there. Everyone brings their rules and they write them all down and that becomes their management rules. But obviously, when this happens, the benefits of simplicity are lost. Teams need a mechanism they can use to reduce the number of shared rules down to a handful.

G: CAN YOU GIVE AN EXAMPLE OF A COMPANY THAT USED SIMPLE RULES TO OVERCOME A MAJOR CHALLENGE?

DS: Around 2007 or 2008, a major equipment manufacturer in the oil and gas industry, let's call it the Herkimer Corporation [fictitious name], was going through a bad patch. Oil and

gas prices were tanking, the economy as a whole was in bad shape and they'd burned through three CEOs in four years. The company was in a crisis. Internally, it was a situation of open warfare. Each member of senior management had a different strategy. The new CEO Victor Belmondo [a pseudonym] was brought in to solve it. He started by focusing on the biggest problem the company had and the first thing he did was implement simple management rules. At the time, Herkimer was bidding on 90% of all the RFPs they got, but only winning 4% of those. After studying the process, the new executive team decided to bid on only 20% of the RFPs. Even though they bid on far fewer, the absolute number they won increased fivefold. People could see that focusing on the most promising proposals, rather than trying to win each and every one, got much better results. It really helped the team come together.



WILL EMPLOYEES REALLY FOLLOW THE RULES DEVELOPED BY SENIOR MANAGEMENT OR BY A FIRM OF CONSULTANTS?

G: BUT WHY ARE SIMPLE RULES NECESSARY TO IMPLEMENT A BUSINESS STRATEGY?

DS: A business strategy is a framework that guides the decisions a company has to make to get from where they are, to where they want to be. It is typically articulated as a set of strategic priorities, usually as three to five things a company has to do to move towards its desired future in the next three to five years. To achieve those goals, the company has to carry out hundreds of activities and make as many decisions about which customers to pursue, which new products to create, which employees to hire, which capacity building to prioritize, and so on. The problem is, if the company doesn't have any guiding principles for making these decisions, employees end up running in different directions – or worse, they pull in opposite directions and cancel each other's work. If there's no guidance, the activities will not be aligned and won't support the overall strategy of the business. Simple rules provide enough guidance so employees

understand the broad strokes of what they need to be doing, and set the boundaries within which they must operate. But they are also flexible enough so companies can adapt their activities to local circumstances, seize unexpected opportunities whenever they pop up, and deal with unexpected circumstances.

G: HOW DO YOU RECOGNIZE SIMPLE RULES?

DS: Simple rules are limited to a handful, which makes them easier to communicate. You have to make tradeoffs so people will understand them. Simple rules also have to be applied or focused to a specific activity or decision. Unlike, say, the Ten Commandments that apply to everything, simple rules must be tailored to a specific activity or decision, which means they can provide focused guidance rather than trying to cover every possible process. They are not

a mathematical formula. Simple rules basically provide a framework within which decisions or activities take place. They provide guidance but leave scope within that for people to exercise their own judgment and creativity and initiative. There are certain sets of recurrent issues that all organizations face and set rules work well for those situations. For instance, a small company with limited resources should have rules about what level of investment, types of opportunities and clients it is seeking and what type of employee it needs to hire. Prioritizing rules can also be very useful.

G: HOW DOES AN ORGANIZATION CREATE SIMPLE RULES?

DS: Whether it's managers or employees, you want the people using the rules to be involved in the process of developing them. The rules should be articulated in language that resonates for those people and their colleagues, as opposed to the language of management consultants, or the language used in the upper echelons

of the organization. The managers who are going to have to apply the rules are also ambassadors who explain them in language their colleagues and teams will understand. Using clear and familiar language gives managers more credibility.

It is also important to use data when creating rules. In the book I talk about the case of a Canadian company that sells dental supplies. There are literally tens of thousands of dentists in Canada that the company could target but it doesn't make sense to try to reach them all. The company has a limited sales team with limited time to sell. So how did they prioritize which dentists to focus on? Each director came with their own ideas, but the company decided to build a strategy based on simple rules. Working from its own data, the company defined the characteristics of the customers who were most likely to buy their product in the largest quantities. Once you have the data to make the selection rules like these, then you use the data to test the rules and you see if they work. I always stress this when I'm talking to business: make provisional rules first and then run a test to see if they work.

G: SO IT IS NOT THE MANAGEMENT TEAM THAT CREATES SIMPLE RULES?

DS: They can. They often do. The question you have to ask is, why are rules that come down from the top less likely to work? Will employees really follow the rules developed by senior management or by a firm of consultants? There are real advantages to involving people who are using the rules in the process of creating them. The employees who participate will gain a better understanding of the compromises that were necessary in creating the rules. When you operate with simple rules, you can't anticipate every possible situation. In a complex organization, each service, whether it's sales, finance, production or administration, must participate in the formulation of rules that apply to everyone. Otherwise the staff will see them as a passing fad.

REFERENCES

Eisenhardt, K., & Sull, D. N. (2015). *Simple rules: How to thrive in a complex world*. Boston, MA: Mariner Books.