



Book Good Strategy / Bad Strategy

The Difference and Why It Matters

Richard Rumelt
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Recommendation

Wouldn’t it be worthwhile to sit down for an extended session with a top business thinker while he discusses the fine points of corporate strategy with you? You can, at least in an editorial sense, when you read Richard Rumelt’s work on business strategy. The prestigious *McKinsey Quarterly* calls Rumelt “strategy’s strategist,” and *The Economist* includes him on its list of the 25 most influential people in business management today. Who does he think he is, a rocket scientist? Well, yes, he also worked as an engineer on the US *Voyager* mission to Jupiter. Distilling a lifetime of experience, and delving into history and the classics to illustrate strategy’s importance, Rumelt shares ways to discern good strategy from bad and tells you how to implement the good. *BooksInShort* recommends his fascinating, informative, enjoyable, erudite book and considers it necessary reading for executives and managers on the topic of strategy.

Take-Aways

- A “good strategy” is not about vision or goals. It is a carefully researched and well-thought-out action plan designed to meet a challenge.
- However, leaders often substitute targets, exhortations and slogans for strategy.
- “Bad strategy,” a form of magical thinking, contains “fluff,” dodges problems, “mistakes goals for strategy” and sets unrealistic objectives.
- Good strategy focuses on critical issues and decides how to address them.
- It requires research and analysis, hard choices, decisive planning, and action.
- The first steps in strategizing are to identify and leverage your competitive advantages.
- A “diagnosis,” a “guiding policy” and a “set of coherent actions” form the “kernel” of a good strategy.
- “Master strategists” design their own novel approaches to solving a problem; they don’t choose from standard options.
- Strategic objectives should always be practical and feasible.
- Good strategy represents a hypothesis, an educated guess, about how to increase your business in the most productive way.

Summary

Our Strategy? To Be the Best!

A graphics firm asked author and strategic management consultant Richard Rumelt for his assistance in defining its strategy. At their first meeting, the CEO said he had a “20/20 plan” that would serve as the company’s basic strategy: Each year the firm’s revenues would increase 20% and its profit margin reach achieve 20% or better. The plan listed projections of costs, revenues and profits, and it included strategy statements such as, “We will be the graphics arts services firm of choice,” and “We will delight our customers with unique and creative solutions to their problems.”

“A good strategy recognizes the nature of the challenge and offers a way of surmounting it. Simply being ambitious is not a strategy.”

After reading the report, Rumelt asked the CEO how the company planned to attain these objectives. The CEO replied that setting such ambitious goals would inspire his employees to realize them. After listening to the executive expound on the power of motivation, Rumelt explained to the CEO that his projections were big plans, but they were not a strategy. Rather than focusing merely on broad objectives, the CEO and his team should instead work to uncover opportunities and determine the best way to pursue them. Success depends not just on motivated employees and grand visions but also on competencies and strategic insights.

“Good Strategy”

Good strategy is simple and straightforward. It involves “strength applied to the most promising opportunity.” Strategizing means identifying pivotal issues within your market and industry, and making a plan to focus forceful, results-oriented action on those crucial points. Strategy has little to do with ambitious goals, vision, leadership, innovation or determination. For many business leaders, unfortunately, strategy is nothing more than an exhortative exercise that generates impressive (but generally unrealistic) goals and meaningless slogans.

“For many people in business, education and government, the word ‘strategy’ has become a verbal tic.”

A good business strategy presents a specific action plan to overcome a defined challenge. Good strategy involves multiple analyses and the painstaking development of thoughtful, expertly implemented policies, designed to surmount obstacles and move the firm profitably ahead. Good strategy is a highly focused, problem-solving activity that tackles fundamental issues, not ancillary or specious ones. It uses the intelligent application of advantage to reach new heights.

The Importance of Advantage

Recognize the major differences or “asymmetries” that can help your business secure important advantages over your competitors. Often, those asymmetries come from identifying strengths where others might see only weaknesses. Take, for example, the biblical story of David slaying Goliath: The small, defenseless shepherd boy uses his precision with a slingshot to exploit the armored warrior’s only weak spot – his unprotected forehead.

“The truth is that many companies, especially large complex companies, don’t really have strategies.”

In business, such advantages separate winners from losers, but no company leads in every area. Your job is to pinpoint your firm’s particular advantages so you can leverage them in the most effective way. Never engage in any form of competition in which you hold little or no edge. Such a situation is akin to “wrestling the gorilla” – it’s completely counterproductive and gives someone else the upper hand. For instance, a pioneering start-up firm that has developed a revolutionary new fiber for textiles would lose its advantage by diverting its talent and resources to building a clothing company, an entirely different business that demands different skills.

“Strategy is at least as much about what an organization does not do as it is about what it does.”

Make change an advantage. The quicker you “grab the high ground” – that is, discern change, get out in front of it and turn it to the benefit of your firm – the more strategic success you can achieve. You must be able to deal with the granular details of your particular situation to get a jump start on your competitors, particularly those that are mired in inertia.

“Bad Strategy”

Bad strategy isn’t just the opposite of good strategy; bad strategy materializes from “specific misconceptions and leadership dysfunctions.”

“Good strategy is built on functional knowledge about what works, what doesn’t and why.”

Four characteristics typify most bad strategies:

1. **“Fluff”** – Empty slogans filled with trendy buzzwords take the place of important insights. Consider this example from a bank’s internal report: “Our fundamental strategy is one of customer-centric intermediation,” or, translated into plain English, “Our bank’s fundamental strategy is being a bank.” Many so-called strategies are equally banal.
2. **“Failure to face the challenge”** – You can’t have a strategy if you don’t isolate and identify your firm’s main problem. Heavy-equipment maker International Harvester sought to revamp its organization with charts and analyses but never addressed the main cause of its internal issues: poor employee relations.
3. **“Mistaking goals for strategy”** – Objectives are just a wish list if you don’t pair them with concrete action steps.
4. **“Bad strategic objectives”** – Leaders must set overarching, but always realistic, aims.

“A good strategy is, in the end, a hypothesis about what will work. Not a wild theory, but an educated judgment.”

Executives who develop bad strategies tend to ignore problems or to see them as pesky irritants; indeed, some believe that acknowledging difficult issues equates to negative thinking. Bad strategy, then, becomes no more than a rallying cry, similar to the speeches of a football player who exhorts his teammates to win. It can be motivational, but it is not strategic.

“Growth is the outcome of a successful strategy, and attempts to engineer growth are exercises in magical thinking.”

Bad strategy is distressingly common because it is much easier to conceive than good strategy, which involves rigorous analysis, logical thinking, difficult choices and focused action. Instead, bad strategy involves fill-in-the-blank, template-style thinking.

The Core of Good Strategy

Good strategy always starts with the “kernel,” a foundation with three components:

1. “Diagnosis”

Don’t just ask, “What’s going on here?” Take the next step to identify patterns and facts that might steer your thinking into new and different areas. Strategizing is an exercise in thinking and imagination, but it also involves judgment and evaluation. To improve your judgment, list your strategic ideas. Cataloging your ideas gives you a reliable system for turning concepts into actions, and it also helps you counter your biases and shortcomings, the mental myopia that afflicts everyone. The more knowledge you gain about your company’s challenges and the ramifications of its strategic options, the better positioned you are to tackle a diagnosis.

“A leader does not need to get it totally right – the organization’s strategy merely has to be more right than those of its rivals.”

After you’ve made a diagnosis, don’t settle on the first solution or insight that presents itself. Instead, attack the ideas you develop with a “create-destroy” mind-set. Develop robust alternative viewpoints that can open up new avenues of thinking. Then do everything you can to tear them apart to demonstrate how well the ideas stand up to pressure. To help in this aspect, create a “virtual panel of experts”: Imagine how people you greatly respect would evaluate your views, and hone in on their possible critiques. Experts that Rumelt mentally summons to challenge his ideas include the late Steve Jobs, chairman of Apple.

2. “A Guiding Policy”

Once you’ve diagnosed your firm’s strategic intent, you need an overarching methodology that will direct your teams’ actions. For example, Wells Fargo satisfies its objective of fulfilling all its clients’ financial demands by cross-selling its services, a guiding policy. Your guiding policy is a signpost that shows you the way to proceed.

“To see effective design-type strategy, you must usually look away from the long-successful incumbent toward the company that effectively invades its market space.”

Good strategy focuses on the advantages – the heart of strategy – your firm must leverage to overcome its obstacles. This leverage comes from the way you focus your policies and coordinate your actions to achieve a desired outcome – actually, a cascade of positive outcomes. A guiding policy provides the reasons for the actions you need to take to attain your objectives.

“A high-quality strategic resource yielding a powerful competitive advantage makes for great strategic simplicity.”

Consider the example of a corner grocery store. Its proprietor, Stephanie, knows that for her store to compete with its giant supermarket rivals, it must present some competitive advantage to its customers. She narrows down her strategic choices to serving the affluent but time-pressed professionals in her neighborhood in preference to the area’s numerous but cost-conscious student shoppers. With that as her guiding policy, Stephanie set up a prepared foods section, opened a second checkout line after 5 p.m. and allocated more parking spaces.

3. “A Set of Coherent Actions”

The concrete, “consistent and coordinated” activities your company undertakes to implement its strategy are critical tests. These steps should create the momentum your firm needs to succeed. A plan of action gets you where you need to go and calls for the thoughtful allocation of resources. For example, applying your sales and marketing knowledge to expand your capacity or alter your product is a coherent action, one that synthesizes your strengths. Think of strategy as something you impose on a challenging situation through your actions.

“Good strategy grows out of an independent and careful assessment of the situation, harnessing individual insight to carefully crafted purpose. Bad strategy follows the crowd, substituting popular slogan for insights.”

As you plan, be aware of “chain-link logic.” Any system or organization is only as strong as its weakest link. Reinforcing all your stronger units is fruitless unless you also improve your weakest area. In your analysis, determine if your potential bottlenecks – or weak links – can harm your strategic plan.

“It is hard to show your skill as a sailor when there is no wind. Similarly, it is in moments of industry transition that skills at strategy are most valuable.”

Chain-link logic also can have a positive aspect: Consider the example of IKEA, the Swedish assemble-it-yourself furniture retailer, which has a strong chain-link structure that rivals cannot easily replicate. With its overall dedication to excellence and quality, IKEA handles its marketing, manufacturing, inventory and product delivery with a distinct approach that defines its personality.

Design Your Strategy

“Master strategists” don’t choose or decide on a strategy; they design novel responses to challenges.

“Strategy is about action, about doing something.”

Strategy always involves three points:

1. **“Premeditation”** – Strategy represents planning carried out in advance of action; “winging it is not a strategy.”
2. **“Anticipation”** – Figuring out how others (for example, your competitors) will act in the future is an important part of the strategic planning process.
3. **“Design of coordinated action”** – Your strategy is far more than your choice among various options – it’s something you construct. You are customizing a performance race car, not choosing a souped-up vehicle from a car lot.

What About Growth?

Few businesspeople would question the concept that growth always equals value. Unfortunately, many CEOs will do almost anything to achieve growth, including making acquisitions for which they pay way too much. You create value when you buy good businesses for less than they are worth. Or you add special value that no other firm can parallel when you buy a business and improve it by leveraging your advantages. If you don't create value, the true worth of your enterprise remains static. Growth depends on such factors as innovation, increased product demand and upgraded offerings. Strategize about those hands-on factors and the steps you can take to shape them.

Prove Your Hypothesis

In the final analysis, the proof of your strategy will be if it actually works. Good strategy represents a hypothesis, an educated guess about how to increase your business in the most productive way. You will know if you guessed right whether your strategy has succeeded. If and when you attain strategic success, you can draw from it to develop valuable proprietary information that will help you finesse your operations to achieve even more in the future.

About the Author

Richard Rumelt is a professor at UCLA's Anderson School of Management and a consultant on strategic management issues.
