

Good Strategy Bad Strategy: The Difference and Why it Matters

Book Review

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Overview

The book “**Good Strategy Bad Strategy the Difference and Why it matters**” is written by Richard Rumelt who received his doctoral degree from Harvard Business School and is a professor at UCLA Anderson School of Management, also a consultant to small and giant firms as well as to organizations in the educational and not-for-profit worlds. He is considered to be one of the world’s most prominent thinkers on strategy and management. He has always challenged dominant thinking: in 1972, he was the first person to uncover a statistical link between corporate strategy and profitability.

The purpose of this book of Richard Rumelt is to wake up the reader to the dramatic differences between good and bad strategies that helps an organization to run its business smoothly. In his book, Rumelt has used realistic and relevant examples from the global history and different businesses that helps to recognize and formulate and implement a good strategy. These fascinating examples help to recognize and reject bad strategy. This book presents so many ways of thinking that can help reader to create better strategies. The author forces the reader through his words to “think like a strategist” and to form an independent judgment about the important issues and which open up minds of reader for new possibilities.

The Core Idea

The core idea in this book is that if you are serious about your business then you must have a serious strategy. Many organizations rely heavily on mission and vision statements, list of

goals and resources plans are made to guide their companies. These are not considered to be the strategies. Strategy comes from three basic steps which Rumelt has called “The Kernel”. It consists of figuring out or diagnosing the nature of the challenge a business is facing, designing a guiding policy that deals with the challenge and last but not the least creating a set of coordinated actions to carry out the guiding policy.

The book is organized into three parts as follows:

- Part-I titled as “Good and Bad Strategy” presents the basic idea of strategy and a very important concept *kernel* of good strategy.
- Part-II titled as “Sources of Power” explores the sources of power such as leverage, proximate objectives, inertia and entropy and their effects in formulating a good strategy.
- Part-III under the heading of “Thinking like a Strategist” presents ways of thinking by which one can create better strategies.

Review

There is always a better strategy than the one you have; you just haven't through of it yet

Sir Brian Pitman

PART I

Good and bad strategy

This section of the book presents the basic idea of strategy and a very important concept kernel of good strategy.

Chapter 1: Good Strategy Is Unexpected

In this chapter Rumelt describes that the first strategy advantage of good strategy arises because other organizations are failed to have one and such organizations don't expect that you have the one either. This chapter describes that a good strategy is rare and it is the one that has got coherence, coordinating actions, policies and resources so as to meet the organizational objectives. Most of the organizations do not have a good strategy rather they have number a of goals they wish to achieve. There must be focused

strategies made by leaders who are willing to say no to a wide variety of actions and interests.

Chapter 2: Discovering Power

Rumelt has given an innovative idea about good strategy that a good strategy is about the application of your strengths against weaknesses. You need to apply your strength to the opportunity that is available to you. When a strategist looks at things from a different angle or perspective, it gives him the advantage. In this way, he discovers his power and uses it which helps in providing an efficient way to compete. The discovery of hidden power in the situation is the best way to compete with your rivals.

Rumelt has narrated a story in 1030 B.C, when a shepherd boy David defeated the warrior Goliath who was nine feet tall and whose bronze helmet and body shone in sunlight. David took a stone and launched it in the forehead of Goliath. The strength of the boy was the sign and he knew the weakness of Goliath which was that his armor didn't cover the vital area of his forehead and this discovered power in David which resulted in a victory.

Chapter 3: Bad Strategy

Rumelt describes in this chapter that:

- Once we are able to develop the ability to detect bad strategy, we can then dramatically improve our effectiveness about judgment and creation of strategy.
- Bad strategy has got *fluff (buzzwords)* which is just statement of desires rather than plans for overcoming obstacles.
- The most important job of a leader is to create and constantly adjust the strategic bridge between **goals** (values and desires) and **objectives** (specify operational targets).
- The bad strategy is the result when there are “**Dog Dinner Objectives**” which contain a long list of things to do which are mislabeled as strategies or objectives.
- Bad strategy has got “**Blue- Sky Objectives**” which contains statement of desired set of affairs or challenge and no clue as how to get there.

Chapter 4: Why So Much Bad Strategy

In this chapter, Rumelt has identified few reasons of so much bad strategies in organizations and these are:

1. It is active avoidance of the hard work of designing a good strategy. When leaders are unwilling to make choices (means setting aside some goals in favor of others) among competing values and parties.
2. When the siren song of template style strategy is adopted i.e. filling in the blanks with missions, visions, values and strategies.
3. Another reason is The New Thought which is the belief that all you need to succeed is a positive mental approach.

Chapter 5: The Kernel of Good Strategy

This chapter describes the core idea of this book. Rumelt calls that a good strategy has an essential logical structure called *the kernel*. It has got three elements:

1. **A diagnosis: it defines or explains the nature of challenge.**
A good diagnosis identifies the critical elements for the situation. Selecting the right diagnosis is a judgment which involves human element.
2. **A guiding policy:** it guides you how to deal the challenge and overcome the obstacles identified in diagnosis. It facilitates focused actions.
3. **A set of coherent actions:** Guiding policy is not the strategy. Strategy is about doing something. A set of coherent actions are designed to carry out the guiding policy. These are the steps that should be coordinated with one another to work together in accomplishing the guiding policy.

PART II

Sources of power

This section of a book explores the sources of power such as leverage, proximate objectives, inertia and entropy and their effects in formulating a good strategy

Chapter 6: Using Leverage

In this chapter of the book, Rumelt argues that source of power known as “leverage” draws power from minds that are focused and as a result produces a number of favorable outcomes and hence a good strategy is made. In order to make a good strategy, strategists may have insight into the act of looking forward the aspects of behavior of other that can be turned to advantage. For example, a strategy made to invest in real estate is based on this anticipation that people’s future demand in this real estate will increase its value. He states that the organizations should concentrate on a few critical issues at any one time and these factors that give rise to concentration are “threshold effects” which effect the change.

Chapter 7: Proximate Objectives

This chapter states that leaders must be able to create good proximate objectives that are feasible. Proximate objective is a target that is expected to be achieved. For example President Kennedy’s call for the US to place a man on moon by the end of the 1960s was a proximate strategic objective as it was feasible at hand and engineers knew how to design and build rockets and space craft. A major responsibility of a leader is to resolve ambiguity. When uncertainty is high and the situation is dynamic, the proximate objectives must be more proximate. The proximate objectives cascade down in hierarchies and in time. What may be proximate for one person or organization may not be proximate but out of reach to another.

Chapter 8: Chain-Link Systems

Chain link system has been described very well in this chapter by Rumelt insisting that whenever there exists a weak link in a chain; one can’t make it stronger by strengthening the other links. Before investing in any business, investor must identify the limiting factors that can be fixed. He must have a special skill so as to remove it. As a chain link system an organization should not just work for the improvement of one link because it will get stuck, instead whole chain link system should be worked on to get sustained profitability? He gives an example that if a government

improves the roads but not the ports; it means it is working on betterment of just one weak link. It should improve both the roads and ports. Similarly, an improvement in sales and quality can't save the firm until costs are reduced. In short, it must have a chain-link system and it requires a direct leadership.

Chapter 9: Using Design

In this chapter, Rumelt has pointed out three aspects of strategy and these are premeditation, the anticipation of behaviors of others and the purposeful design of coordinated actions. Many effective strategies are designs not decisions that are more constructed than chosen. The greater challenge faced by the firm, the greater will be the need for a good design type strategy. Resources and tight coordination are partial substitutes for each other.

Chapter 10: Focus

Rumelt has explored a particular mixture of policy and positioning called "focus". Most of the large complex companies do not have strategies. In fact, strategy is about being focused and these companies do not focus their resources and pursue multiple goals at once. Hence such organizations should focus themselves and stop thinking about multiple goals but they force them not to focus on their resources. To begin identifying a company's strategy it is helpful to thoroughly examine the competitive environment.

Chapter 11: Growth

Healthy growth in the firm is the result of expanded capabilities and superior products and skills. Growth is the reward for being so innovative and efficient and creative. It shows continuous gain in market rate with heavy profits. The core idea is that healthy growth is not engineered rather it is the result of increased demand for special and extended capabilities.

Chapter 12: Using Advantage

One can't be good at everything. Every person, team, firm and nations have got advantages in few things. One must exploit the

weaknesses of rivals by using the advantage. One must not go to *wrestle with gorilla* (a completely different game) just like U.S did with Taliban as Taliban has the advantage of being the most patient and least sensitive to causalities and collateral damage. In business, a term sustainable advantage means the competitors can't duplicate the resources underlying the advantage. Wealth increases with increase in competitive advantage or with the increased demand of scarce resources. In short, one can get wealthier by strengthening a competitive advantage.

Chapter 13: Using Dynamics

The advantaged position can be attained by a firm in two ways. The first is by doing innovation and the second is to exploit a wave of change, which is beyond the control of an organization. This change can be due to number of factors such as shift and advancement in technology, cost, competition, politics and perception of buyers. For instance the trip from Boston to Cambridge in 1880 on horseback was a full day journey but only five years later, the same trip was done in 20 minutes on a ride on electric streetcar. Modern patterns of advertising and consumer branding are results of a successful exploitation of such a wave of change. A leader must deal with this change in its early stage of development.

According to Rumelt, some guideposts of industry transition are as follows:

- Guidepost 1: Rising fixed costs especially developmental costs as long as the largest competitors can cover these fixed charges and hence the industry will be consolidated.
- Guidepost 2: Deregulation in government policy also causes movement or transitions in industry.
- Guidepost 3: In the wave of change, firm must be able to understand the predictable biases in forecasting.
- Guidepost 4: Incumbent Response to a wave of change is also a guidepost to understand the transition
- Guidepost 5: Attractor state of an industry determines that how the industry should work in technological forces and structure of demand, and meeting the demand of buyers efficiently.

Chapter 14: Inertia and Entropy

Inertia is the inability and unwillingness of a firm to adapt to the new wave of change. Some organizations take years to respond to this new change. Entropy means disorder in the system. It makes it crucial and mandatory for leaders to work on maintaining entropy. A firm's major threats are not always external; rather it can be inertia and entropy. In such a case, organization should transform itself and managers should identify cause and effects of inertia and entropy.

Types of Inertia

1. **The Inertia of Routine:** It means when the standard routine procedure in a firm are effected due to inertia, it's a kind of shock for it. In such a case, inertia can be fixed by hiring such people from other firms who can use better methods or acquiring a firm with superior methods to reorganize business units.
2. **The inertia of culture:** It means a shock faced by a firm due to frozen culture. The cultures of firms are tightly held so in order to deal with inertia of culture, first the firm should go for simplification by stripping out excess layers of administration and sell off, spin off non-essential operations. It helps to illuminate bad behavior that was hidden. Secondly, the firm should go for fragmenting the operating units that do not work in close coordination. Thirdly, firm should perform a triage which is to be based on performance and culture. The repair of triage must be done through individual transformation. To change the norms of group, alpha member must be replaced by the one who has got different norms and values.
3. **Inertia by proxy:**
It is the inability of the organization to respond to the change due to fear of losing its streams of profits. In other words, inertia by proxy is hanging on to the old profit streams. It can be dealt by companies who feel that we should adapt to the changed circumstances as it is more important than to stick to the old stream of profits.

Entropy

Disorder in the system is an internal threat in the organization. Rumelt has introduced a way of seeing entropy at work by plotting a “hump chart”. Whenever a company assigns profits to its individual products, segments, areas or any portion of the total, it builds a hump chart. If operations of the business are separable, the result is a distinct hump which is sustained over time and indicates a lack of management. In such a case, the good deal of sense is to close those operations which are under performing and fix the weak locations so that company earns double.

Chapter 15: Putting it together

In this chapter, Rumelt has given detailed examples of Nvidia, 3-D Graphics, UTAH and SGI, Gamers who put together everything that has been described in the previous chapters and got success. They all followed the kernel of a good strategy diagnosis, guiding policy and coherent action. Building blocks of a good strategy is like intelligent anticipation, power of design, focus, using advantage, role of inertia and rivals have been followed very well.

- Nvidia at “LSI Logic” made a progress in the semiconductor industry by reducing the size of a transistor as smaller transistors were cheap and consumed less power. Through this rate of progress the company achieved “*Moore’s Law*”. She has been opening up access to the computing power of the graphic chips and a light weight Tegra based device which is capable of playing HD film for ten hours on a single battery charge. In this way, Nvidia is troubling her competitors.
- “3-D Graphics, UTAH and SGI” provided highest performing graphics hardware, developed a special graphics language (GL) that was a standard for that industry.
- “Doom & Quake” redefined action games, rendered 3-D graphics fast on personal computer, visual effects were fast.

Part iii

Thinking like a Strategist

This section of a book focuses on ways of thinking about thinking that helps in creating a good strategy.

Chapter 16: The Science of Strategy

According to Rumelt, a good strategy is like a *hypothesis* and to implement it is actually doing experiment. In other words, there is an analogy between a strategy and scientific hypothesis. In science, one makes a hypothesis and if it is contradicted by the past experiments or basic principles, the scientist do an experiment in order to see the results. In the same way, a strategist test a new strategy insight against the already established principles and against the accumulated knowledge related to business. If it passes the hurdles, the phase of experimentation comes regarding what happens. Briefly, a good strategy is a hypothesis an educated judgment regarding what will work.

Rumelt also argues that there is a problem that most of organizations treat strategy like a problem in deduction which means *assuming that everything worth knowing is already known or available through consultation*. It blocks improvements in organizations and societies to believe that what way they are adopting is the best way. In order to devise a good strategy, this presumption of deduction should be put aside.

Chapter 17: Using Your Head

In this chapter, Rumelt has:

- Identified and explained different techniques which help in understanding of readers about strategy. These techniques are the kernel, Problem-solution, Create- Destroy.
- Emphasized the importance of the advice of Frederick Taylor who gave to Carneige who was one of the movers and shakers and received a cheque for 10,000 \$ and the advice was “*I would advise you to make a list of the ten most important things you can do and then start doing number one*”. The act of making list forces us to reflect on the importance of issues and to resolve concerns into actions. It helps strategist being less myopic- less short sighted than others. The deeper truth in this story is that we must think through the intersection between what is important and what is actionable. It helps to reflect upon more fundamental purposes and in turn devise ways of advancing them.

- Raised another point that good ideas basically pop into our heads which is called “insights”. When we work under pressure to develop a way out of the difficulty, the first idea is a welcome relief.

People who are poor at strategy must develop following habits:

1. When one is facing myopia, he/she must have different tools of fighting them.
2. One must develop the ability to question his own judgment so that one can stand in the face of competition.
3. One must have the habit of making and recording judgments to improve him.

Chapter 18: Keeping Your Head

In this chapter, Rumelt argues that good strategy is always made by an independent and careful assessment of the whole situation. The strategist is required to form an independent judgment about the most important issues which means keeping his head. After the careful assessment of the situation, a good strategy can be made.

Analysis

- The best quality about the author is that he has not used jargons rather a simple and easy-to-understand words have been used which help readers understanding the core idea.
- Every small point has been described by giving detailed and lengthy examples which bores the reader. Small examples could have been used to clarify the idea.
- Few important points have not been written separately or italicized which makes it difficult to the reader to grasp the key points.
- Repetition has been observed in few the chapters like the main theme of focus in Chapter 10 has already been described in Chapter 1 and the idea of using the strength has been described in Chapter 2 and Chapter 12.

The book “**Good strategy Bad Strategy: The difference and why it matters**” is a very good book as it open up minds of the strategy makers for new opportunities and possibilities. This book

addresses some clear advice at an individual level on how to think strategically and implement policies. This book should be taught to the management students so as to help them out knowing the basic strategies and relevant examples which small and large companies have adopted to be a successful.

