

# Book Review and Commentary

*Good Strategy/Bad Strategy: The Difference and Why It Matters*

Richard Rumelt

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Strategy is in trouble: noted shortcomings include a failure to anticipate the financial crisis, exposed deficiencies in its economic heritage, and once lauded companies succumbing to complacency and inertia (e.g. Nokia and Kodak). In addition, the language of strategy (mission, vision, objectives, etc.) has become increasingly empty, promoting convergence and similarity as opposed to divergence and uniqueness. According to Rumelt, the real problem is not that companies are getting strategy wrong but that they 'aren't getting it all' (Hill, 2011). With a 40-year track record and McKinsey's designation as 'strategy's strategist', Rumelt commands attention when discussing issues of strategy. His contributions are not known for their regularity (there is a 37-year interval since his last strategy text) but, critically, they are known for their impact. Conceptually, Rumelt's (1979) work unpacking the dynamics of strategy evaluation is still a classic. Empirically, Rumelt (1982) was one of the first to demonstrate a relationship between corporate strategy and profitability. His 1991 paper 'How Much Does Industry Matter?' provided the much needed empirical impetus for the resource-based view of the firm, indicating that the characteristics of individual firms were actually more predictive of profitability than traditionally assumed industry characteristics (Rumelt, 1991). The implication was that being good at what you do mattered a lot more than what industry you were in. This theme is transferred to *Good Strategy/Bad Strategy*, and here it is clear that 'good strategy' is the exception, while its antithesis is the rule. So how does the distinction between good and bad strategy play out?

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### BAD STRATEGY

In Part 1 of the text Rumelt explores the hallmarks of 'bad strategy'. First up is a failure to face the problem at hand. Here Rumelt injects a sense of realism, arguing that strategy does not equate to 'a list of things you wish would happen' (p. 43). Too often companies understand strategy as constituting stretch goals which focus on ideal states of affairs instead of directly identifying and analysing the obstacles in their path. As Rumelt puts it, 'you can't discern the elephant studying the plan because the plan doesn't mention it' (p. 42). A second error is mistaking goals for strategy. Frequently, ambitious goals are presented without any in-depth consideration of the means by which they will be achieved. In contrast, Rumelt poses the critical question 'What has to happen?', highlighting that strategic objectives should address a specific process or accomplishment. In this way, 'strategy is like a lever that magnifies force' (p. 46). Related, a third hallmark of bad strategy is fuzzy or bad strategic objectives. These occur when objectives fail to address critical issues, when they are multiple and confused ('dog's dinner objectives'), or when they are impracticable. It follows that a successful leader's job is to constantly adjust the bridge between goals (broad) and objectives (more operational) to ensure a viable pathway. The final hallmark of 'bad strategy', which arguably is common to the previous three, is the notion of 'fluff'; that is, 'a restatement of the obvious, combined with a generous sprinkling of buzzwords that masquerade as expertise' (p. 37). Here bland, ubiquitous statements are presented as if they were decisive insights. Making his point, Rumelt (p. 67) provides a tongue-in-cheek template for this task:

*The Vision: Fill in your vision of what the school/business/nation will be like in the future. Currently popular visions are to be the best or the leading or the best known.*

*The Strategies: Fill in some aspirations/goals but call them strategies. For example, 'to invest in a portfolio of performance businesses that create value for our shareholders and growth for our customers'.*

This is an important point, as one of the unspoken problems of strategy is a vocabulary made up of high sounding words and poetic turns of phrase which arguably serve to conceal meaning rather than reveal it (Caulkin, 2011). This ambiguity may even be purposeful, serving to hide impractical objectives or uncertainty as to future direction (p. 37). The vocabulary of strategy is also used as a flawed, retrospective explanatory logic such that ascribing the success of companies such as Ford and Apple via concepts like 'vision' serves as a 'radical distortion of history' (p. 74). But if bad strategy is so bad what explains its dominance? For Rumelt the answer is clear: a failure by top management to work hard and make tough choices, the legacy of 'fill in the blank' strategy templates, and a flawed reliance on a positive mind set as a basis to succeed (see Ehrenreich, 2009). The 'bad strategy' criticism may seem harsh, but recent global events and the downfall of once great companies render it justified. But what then is the alternative put forward that constitutes 'good' strategy?

### ENTER GOOD STRATEGY AND SOURCES OF POWER

Rumelt's saviour is a strategy that has at its core the 'discovery of critical factors in a situation, and designing a way of co-ordinating and focusing actions to deal with those factors' (p. 2). In essence, 'good strategy' involves an honest acknowledgement of challenges and a means to overcome them in a cohesive manner. The driving logic is one of focus; strategy constitutes a 'cohesive response to a challenge' (Rumelt, 2009: 35). This perspective moves strategy beyond simplistic, dreamy visions of success to honestly acknowledge challenges and barriers. Rumelt captures this importance succinctly with the observation that 'all analysis starts with the consideration of what may happen, including unwelcome events. I would not care to fly in an airplane designed by people who focused only on an image of a flying airplane and never considered models of failure' (p. 76). Thus strategy does not equate to buzzwords, slogans, plug and play solutions or financial goals. Instead the 'kernel' of good strategy includes diagnosis, which explores the nature of the challenge; a guiding policy – the overall approach chosen to overcome the obstacles identified; and, finally, coherent action which equates to coordinated steps to enable accomplishment of policy. Strategy is thus a mixture of argument and action which focuses attention and ultimately resources on some objectives at the expense of others. Based on these criteria few organisations are said to have a strategy, let alone a good one. The latter half of the text unpacks this logic by exploring a number of fundamental sources of power used in good strategies. These include leverage, proximate objectives, chain-link systems, design, focus, growth, advantage, dynamics, inertia and entropy. Rumelt argues that, having identified the critical issues, talented leaders use these pivot points to multiply the effectiveness of effort.

### THE GOOD, THE BAD AND THE ...?

This text is written in an extremely engaging style and user-friendly tone, balancing academic insight with practical understanding. Drawing upon 'hard-won lessons of a life time experience of strategy work' (p. 4) means that Rumelt offers an authoritative voice. This is reinforced by the wealth of in-depth examples deployed, stemming from politics to sport, from the ancient to the modern and from classic companies to corner stores. Notably, these include some of Rumelt's own tales from the battlefield drawing upon personal conversations with Steve Jobs and Andy Grove. Some might argue that the good strategy/bad strategy contrast is somewhat simplistic and a little forced, but this could also be read as an application of the logic of simplicity and focus which underpins the text. That said, the second section of the book, which explores sources of power, lacks focus of the kind Rumelt himself would prescribe. The ten chapters in this section cover a diversity of topics, from leverage through to system linkages and inertia. While conscious of Rumelt's desire to move away from rigid frameworks and templates, a greater logic or rationale (beyond 'generality' and 'freshness' (p. 94)) for sequencing and content would have sharpened the analysis and enhanced the application.

Perhaps somewhat underdeveloped in the text, Rumelt's argument has major implications for how strategy c(sh)ould be researched and taught. Indeed, according to Rumelt

a key problem in strategy is that 'systems of deduction and computation do not produce new interesting ideas, no matter how hard one winds the crank' (p. 243). Arguably much thinking in strategy is caught in a normal science agenda which privileges the status quo both with respect to existing modes of teaching and research. By contrast, the best science involves confronting uncertainty, including unwelcome effects and embracing challenge (p. 76). This mandates more dialogue and internal conversations and less dogma and prescription than is currently the case (Dunne and Martin, 2006). As Rumelt noted some time ago, 'the kind of situations that call for strategic thinking are ill structured, characterised by difficulty and ambiguity' (1979: 198). Perhaps the greatest tool the student of strategy can acquire 'is the ability to think about your own thinking, to make judgements about your own judgements' (p. 267).

More critically minded scholars may question if there is a purposefulness and political utility stemming from the retention of so-called 'bad strategy'. Is it likely that challenges will be openly confronted and discussed, especially if they threaten certain pockets of power? Perhaps it is more likely that top management will verbally articulate the desirability of good strategy, while privately behaving as per the ways of old (Pech, 2001). It is also well recognised that ambiguous concepts may serve to promote one agenda, retaining a current order while silencing or distancing others. This begs the question of good strategy for whom? In Rumelt's narrow account top management and the corporation seem to reign supreme.

Overall, in writing this text Rumelt has proved that he is one who is not frightened to take up the challenges of strategy. It is certainly about time somebody climbed off the strategy pedestal and told it more like it is. This book goes some way, shedding the strait-jacket of prescription to offer a more problem-driven approach to strategising. The focus on understanding is much welcomed and is likely to have great practitioner import. In advancing 'good strategy' some may claim there is really not much that is novel or new here – but why should there be? Perhaps our understanding of strategy has simply lost focus. In reconceptualising strategy as honestly acknowledging key problems and deciding priorities, before developing coherent solutions, Rumelt has done much to put us back on track. Moreover, in so doing Rumelt has deftly combined the many faces of strategy – Porterian focus, Grove/Gladwell's inflection/tipping points, Druckerian hard graft – wrapped in a mode of questioning and learning that Mintzberg would be sympathetic towards (see Rumelt, 1996). Early in the text Rumelt notes that 'a hallmark of true expertise and insight is making a complex subject understandable' (p. 40). With *Good Strategy/Bad Strategy* there is little doubt he has achieved this task. It is now for others to understand the difference and why it matters.

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