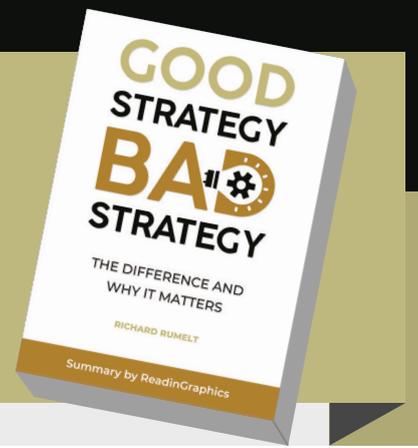


GOOD STRATEGY BAD STRATEGY

THE DIFFERENCE AND WHY IT MATTERS

Richard Rumelt



Strategy is often confused with ambition, innovation, inspiring leadership, goal-setting, high-level decision-making, determination or successful outcomes.



A strategy should be a cohesive blend of ideas, analyses, policies, and actions in response to an important, high-stake challenge. It focuses your energy and resources on what matters the most.

Good Strategy vs Bad Strategy



The Kernel of Good Strategy

A good strategy has 3 components that form its core or “kernel”.



Diagnosis

Define the **key challenge** in clear, simple terms.

Distill an overwhelming situation into a **simpler story** that people can act upon (or use a metaphor, analogy, or accepted framework).

Identify **critical aspects** of the situation, so there's a focal point for problem-solving and resource allocation.



Guiding Policy

Define a **clear direction** for addressing the challenge.

Provide **parameters** (e.g. target customers, values, behavioral guidelines) that will guide all your decisions.



Coherent Actions

Define how to **execute** the guiding policy.

Create a set of actions (policies, resources, moves) that are **aligned and reinforce** each other.

Build **strategic coordination** into your systems.



Good strategies focus your limited energy and resources on pivotal objectives that have a good chance of being achieved with your abilities and resources.



Beware of Bad Strategy

Bad strategy is not just the absence of good strategy. It comes from misconceptions that hinder sound strategy.



4 hallmarks of a bad strategy

Fluff: gibberish or abstract buzzwords masquerading as strategic concepts.

Not facing or defining the **challenge**.

Mistaking **goals/desires** for strategy.

Objectives that don't address the critical issues or are unfeasible.



Why bad strategy's so prevalent

Unwillingness/inability to choose between different values or stakeholder priorities.

Using a standard **template-style approach** that lacks the analysis and coherent actions of a real strategy.

New thought beliefs that rely on positive thinking alone to “attract” success.

Sources of Power in a Good Strategy

Strategy is about applying your biggest strengths to your biggest opportunity. Harness sources of power and apply them where they'll have the biggest impact on your strategic goals.



Strategic Leverage

Exploit an imbalance to get a disproportionate payoff, or direct limited resources toward 1 pivotal objective. You'll need a mix of:

- An insightful prediction or **anticipation** of others' behavior.
- Pivot points** that can magnify the effects of focused effort.
- Concentrated effort** on the few most crucial objectives.



Proximate Objectives

In face of crippling uncertainty, choose a proximate objective that's feasible & could make the biggest difference if achieved.

- Leaders must **resolve ambiguity** and simplify the problem so it's solvable.
- The more dynamic a situation, the more you must **take a stand** to create options.
- Have a **hierarchy of objectives** that cascade down the organization and across time.



Focus

Serve a **specific market segment** much better than other players. Focus your resources and policies on that segment instead of spreading them too thinly.



Growth

Healthy growth (reflected in market share gain & superior profits) should come from successful **innovation and efficiency**. Don't try to engineer growth through mergers and acquisitions, as they won't add value.



Chain-Link Systems

In such systems, overall performance is limited by the weakest link(s).

- In a poor-quality system, you can only **get unstuck** by tackling the bottlenecks one at a time until the whole system is upgraded.
- If you build quality into all your core activities and chain-link them tightly, you'll create a level of **excellence** that's hard for rivals to replicate.



Design

Every part of the system should be designed to meet the overall system needs and avoid wasteful duplication.

- The more resource-constraints & challenges you face, the more you need a **tightly-designed strategy**. Balance the trade-off between the benefits vs risks of a narrow focus.
- If you have **strategic resources** that offer lasting advantages, use the lead time to create more such resources.



Inertia

Exploit big competitors' inability or aversion to change, including:

- Operational **routines** that people are familiar with & affect their perceptions.
- Culture:** entrenched social behaviors or meaning.

Conscious decisions not to respond (to protect **existing profit streams**).



Dynamics

Ride the waves of change that roll over an industry. Do your own analysis & detect waves with these 5 guideposts:

- Rising fixed costs** which may cause industry consolidation.
- Changes in government policy, esp. **deregulation**.
- Predictable forecasting **biases**.
- Incumbents' likely responses**.
- The **attractor state**, i.e. how an industry should end up if it meets buyer needs as efficiently as possible.



Using Advantages

Know your relative strengths/weaknesses vs your rivals'. Press your advantages & exploit their weaknesses. To sustain an advantage and translate it to real wealth/value:

- Deepen** an advantage: increase buyer value, reduce costs, or both.
- Extend** the advantage to new areas.
- Create **higher demand** for the advantaged products/services.
- Create & strengthen **isolating mechanisms** to prevent rivals from duplicating you, e.g. network effects, patents, reputations, relationships.



Entropy (Disorder)

Organizations naturally become **less focused and organized** with time, e.g. loss of focus in product lines, late delivery. Maintain your purpose processes while exploiting rivals' entropy.

Thinking Like a Strategist



One of the most vital areas you can improve is to change the way you think about thinking.



The Science of Strategy

A good strategy is basically a **well-formed hypothesis** of what'll work. Test your beliefs & insights against established principles and accumulated business knowledge, then against real-world data. Treat anomalies as an opportunity to discover valuable insights.



Use & Keep Your Head



Improve your strategic thinking with these **techniques**: List 10 things that're important & actionable, check if an insight meets the kernel of a good strategy, consider why something is being done, imagine a virtual panel of experts critiquing your ideas, and write down your judgments on an issue in advance to learn faster.



Form an **independent judgment** about important issues instead of following the crowd.



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