

## BOOK REVIEW

*Good strategy, bad strategy: the difference and why it matters*, By Richard P. Rumelt. New York, NY: Random House, 2011. 336pp.

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Students, professors, and practitioners of strategy will welcome Richard Rumelt's new book *Good Strategy, Bad Strategy: The Difference and Why it Matters* (Rumelt, 2011). Executive MBA students will especially welcome its unconventional, yet intuitive, treatment of the subject. Professor Rumelt's thesis is that strategy is a coordinated and coherent response to competition and limited resources that identifies and prioritizes how, why, and where leadership and attention can be focused to move an organization towards specific aims. Many ideas that we call 'strategic' are actually hollow because they do not diagnose the specific challenges blocking these aims. They instead confuse us through mistaking end-goals, buzzwords, and fluff for honest appraisals and concrete action plans. If it is not a plan for overcoming specific difficulties or obstacles, it is not a strategy.

The book is divided into three sections: 'Good and Bad Strategy'; 'Sources of Power'; and 'Thinking like a Strategist'. In the first section of the book, Rumelt differentiates between good and bad strategy and offers this distinction in five chapters: good and bad strategy, good strategy is unexpected, discovering power, bad strategy, why so much bad strategy, and the kernel of good strategy.

In the second part of the book – Chapters 6 to 15, Rumelt dedicates a chapter to each source of power: leverage, proximate objectives, chain-link systems, using design, focus, growth, using advantage, using dynamics, and inertia and entropy. This list, says Rumelt, is not exhaustive as there are more sources of power that strategists employ. To conclude the section, Chapter 15 integrates the above nine sources of power.

The third and final section of the book, 'Thinking Like a Strategist', has three chapters: the science of strategy, using your head, and keeping your head. In Chapter 17, 'Using Your Head', Rumelt poses five questions to help a manager or strategist identify sources of power: 'What are you trying to accomplish, i.e. what is the purpose of your division, or department you are in charge of? How is the competition in your sector/industry? What are your division's strengths or weaknesses?' and 'what are the most difficult management issues you have faced in your position?'. According to Rumelt, the most common obstacle to all strategic situations is the strategist's myopia or cognitive biases. To overcome this limitation, Rumelt suggests that strategists have to cultivate the ability to question their own judgement, summon a variety of tools to fight cognitive biases, and record their judgements often. Following these techniques, he advises, will increase the likelihood that the strategic decisions they make will be consistent, coherent, and effective. The author draws heavily from decades of experience consulting to business, political, and military leaders to offer readily recognizable and accessible case studies. Some which illustrate good strategic thinking at work, others which show the bad variety.

To situate *Good Strategy, Bad Strategy* in the strategy literature, I will cite definitions of strategy from three books representative of textbooks used at undergraduate and graduate level in the United States. Most textbooks on strategy give almost identical process-based definitions of strategic management. In one textbook, strategic management is defined as 'environmental scanning (both external and internal), strategy formulation (strategic or long-range planning), strategy

implementation, and evaluation and control' (Wheelen & Hunger, 2002, p. 2). According to David (2008, p. 4), 'strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives'. Similarly, Gamble and Thompson (2009, p. 3) contend that strategy aims to address three questions: What is the current state of the business? What is the desired state of the business? And, how does the company reach that desired state? Thus, they argue, a company's strategy 'consists of the competitive moves and business approaches management has developed to attract and please customers, conduct operations, grow the business, and achieve performance objectives'. To achieve performance objectives and the vision, Gamble and Thompson propose a five-stage linear strategic management process: stage 1 – develop a strategic vision; stage 2 – set objectives; stage 3 – craft a strategy to achieve the objectives and the vision; stage 4 – implement and execute the strategy; and stage 5 – monitor developments, evaluate performance, and initiate corrective actions (Gamble & Thompson, 2009, p. 15). Rumelt calls the above approaches template-style strategies.

In contrast to the above linear process of strategic management, Rumelt argues that a strategy begins with a hypothesis about what the crucial factors are in a given situation and what actions could work to address those factors. Beginning with these educated and testable assumptions, good strategic thinking must then involve induction, analogy, judgement, and insight. Furthermore, he suggests that good strategy is a hard nut to crack and once cracked will contain three layers: a diagnosis, guiding policies, and a set of coherent actions.

The diagnosis layer defines the nature of the challenge. It identifies the aspects of the situation that are critical to the organization. It also classifies the challenge into a certain type so that if a company has prior experience with similar challenges it can retrieve the appropriate response from its existing toolbox. It is in the diagnosis layer, he argues, where the organization can revisit the current strategy and make adjustments if it is not achieving the intended outcomes. Often a diagnosis is a judgement call and cannot be proven, especially when the challenges presented are ill-structured or intertwined.

Next are the guiding policies. Once you have identified the challenge, you need to have a set of guidelines, procedures, or policies that advise how you deal with the situation. Good policies, Rumelt asserts, direct and constrain action; define methods for grappling with the situation; draw upon sources of advantage; reduce complexity and ambiguity; and build on each other to leverage gains.

The last and third layer in the strategy nut is a coherent set of actions. These are coordinated actions taken to implement the guiding policies. To be effective, argues Rumelt, a strategy must coordinate actions across the organization and, when executed properly, effective coordination in itself may indeed be an additional source of competitive advantage.

*Good Strategy, Bad Strategy* is a well-written book that breaks the monotony of the hitherto linear, monolithic treatment of strategy by incumbent textbooks. Practitioners, educators, and students of strategy will find this book a welcome addition to current strategy textbooks. The book uses ample real-world examples to make the discussion of strategy engaging and grounded in recognizable experiences. The examples come from such a wide cross-section of industries that their lessons apply to any situation including an individual's self-drive for personal excellence.

## References

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- Wheelen, T. L., & Hunger, J. D. (2002). *Strategic management and business policy*. Upper Saddle River, NJ: Prentice-Hall.