

GOOD STRATEGY/ BAD STRATEGY

Adapted from Richard Rumelt 'Good Strategy/Bad Strategy',
Profile Books, 2011



using and sharing world class business knowledge

Strategy

- ❑ **Strategy** – is about discovering the critical factors in a situation and designing a way to coordinate and focus resources and actions to deal with these
- ❑ **Strategy is more than Ambition** – good strategy is more than setting a goal, it acknowledges the challenges being faced and provides approach to overcome
- ❑ **Strategy is more than one Decision** – it involves a coherent analysis, and creation of coherent policies and actions to move an organisation forward

Components of Good Strategy

Effective mix of thought and action involving

- ❑ **1. Diagnosis of the challenge** – simplifies reality to key issues
- ❑ **2. Guiding policy** for dealing with the challenge – approach to overcome obstacles in diagnosis
- ❑ **3. Coherent & actions** coordinated steps to accomplish/ fulfill guiding policy

Examples of Good Strategy

- ❑ Nelson broke British fleet into 2 columns – instead of usual 1 – to compensate for being outnumbered
- ❑ Ikea – a) cost effective design, b) flat pack, c) outsource manufacture, d) manage logistics, with e) huge owned suburban stores
- ❑ Apple – a) imagine a great product, b) assemble team best engineers, c) make visually stunning and user friendly, d) tell the world really cool

Many Organisations have Bad Strategy

- ❑ Multiple goals
- ❑ Initiatives which symbolize progress
- ❑ No proper diagnosis of key challenges
- ❑ No coherent approach to overcome challenges
- ❑ Poor implementation

Hallmarks of Bad Strategy

- ❑ **Fluff** – gibberish masquerading as strategy – illusion of high level thinking
- ❑ **Failure to face the challenge** – not define the real challenge in the market or internally
- ❑ **Mistaking goals for strategy** – statements of desire rather than how to achieve
- ❑ **Bad strategic objectives** – when fail to address critical issues or impracticable dogs dinner/blue

Reasons for Bad Strategy

- ❑ Unwillingness to Choose e.g. DEC between boxes vs, solutions, vs new technology
- ❑ Fill in template. Reduce strategy to a formulae – steps be followed
- ❑ Focus on intention “New Age” belief often renewed e.g. The Secret

Ritualised Approach Strategy

- Vision
- Mission/Core Values
- Strategic Goals
- Strategies for each Goal
- Initiatives to fulfill Strategies

Examples of Bad Strategy

- ❑ **Afghanistan** – Each US soldier cost of \$1M per year with non existent ally, and enemy who has patience and less sensitive to casualties
- ❑ **Rover** – never addressed issue of culture & labour relations – even when had good car design
- ❑ **Coop Bank** – tried be like other banks and ignored lessons of RBS, Lloyds & Halifax
- ❑

Strategy Kernel

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Examples of Strategy

- ❑ Doctor diagnoses disease from symptoms, decides therapeutic approach and prescriptions for surgery, etc
- ❑ Foreign policy - decide aims of opponent and decide approach and specifics
- ❑ Business diagnosis of company situation and decide policy change/ how compete then allocate resources and formulate plans

Diagnosis

- ❑ What's going on here? Fundamental questions about current situation – linking facts into patterns
- ❑ Diagnosis replaces complexity with story/ metaphor that focuses crucial aspects – goes beyond explaining to define domain for action, e.g. student performance best predicted by social class, cold war 'containing' USSR
- ❑ e.g. Gerstner focused IBM on customer solutions > implied shift from systems engineering to IT consulting

Guiding Policy

- ❑ **Approach for overcoming the obstacles highlighted by diagnosis**
- ❑ More than goals or visions of desirable end states – but method of grappling with situation – enables cut out many options for action.
- ❑ Vision describes end state but not Guiding Policy!
- ❑ Depends on diagnosis to decide ‘what’ and ‘why’ & ‘how’
- ❑ Creates advantage by anticipating actions and reactions of others – e.g. choose customer groups will focus energy e.g. corner store focus on busy professional who little time to cook’

Coherent Action

- ❑ **Strategy about actions - which build on one another, focusing organisation energy**
- ❑ Decide which actions priority and take precedence & which actions be avoided
- ❑ Ford purchase of Jaguar & Volvo held promise of 1M+ sales on same platform but diluted unique features each brand
- ❑ Actions need be coherent & consistent leverage each other e.g. while 360 & spend more advertising useful – not themselves coherent.
- ❑ Good strategy depends on specialising on right activities & imposing only essential coordination

Focus & Leverage

- ❑ **Based Archimedes** principles of fulcrum to leverage the world!
- ❑ **Anticipation** – of downstream results of recent events & behaviour of others e.g. Toyota fuel efficiency resulted hybrid gas/electric engine
- ❑ **Pivot Points** – magnify impact of focused energy- small change has big impact – Apple ipad large iPone!
- ❑ **Concentration-** fewer & more limited objectives – threshold effect when achieve momentum -

Proximate objectives

- ❑ **Prox Objectives** are near enough to hit – with specific sub targets to attain
- ❑ **Resolve Ambiguity** – create specification- leaders role to absorb ambiguity and pass on simpler problem for org work on
- ❑ **More dynamic situation** require more proximate objectives
- ❑ **Hierarchies of objectives** – cascade through organisation- different levels of detail

Competitive Advantage

The Grail of 'Competitive Advantage' is not sufficient to make money. Also require one of:

- ❑ Deepening the advantage
- ❑ Broadening extent of advantage
- ❑ Creating higher demand for advantaged products
- ❑ Strengthening isolating mechanism that block replication & imitation

Innovation

- ❑ In military strategy defender prefers high ground as harder to attack
- ❑ Businesses create new high ground through pure innovation – e.g. Gore Tex, Intel 4004 processor,

Entropy Impact

- ❑ Organisation inertia causes unwillingness to adapt to changing world
- ❑ **Entropy may be bigger threat than external changes –**
 - ✓ Inertia of **Routine** – familiar blinds perception
 - ✓ **Cultural** Inertia – ossified due to habit
 - ✓ Inertia by **Proxy** –
- ❑ Entropy like weeds growing in garden!

Overcoming Entropy

- ❑ **Simplification** – eliminates complex routines that mask inefficiency
- ❑ **Fragment** operating units – allow units not interdependent work separately
- ❑ **Triage** – separate issues according priorities – some units closed, others fixed etc
- ❑ (overcoming entropy bread and butter of consultants!)

Creating New Strategy

- New strategy edge between known & unknown – involves ambiguity
- New strategy is a Hypothesis about what will work – educated judgement

New Strategy Comes From New Perceptions & Learning

- ❑ Creation of new strategy depends putting aside comfort and security of familiar
- ❑ New strategy requires breaking free from past – experiment as in Enlightenment
- ❑ Creation of new strategy involves new hypothesis about what works
- ❑ Apply learning from application hypothesis – as Schultz in Starbucks

New Strategy From New Perceptions

- ❑ Starts with awareness of cognitive limitations & biases
- ❑ Our own myopia is biggest obstacle
- ❑ Being more strategic means less myopic, let go of initial judgements
- ❑ Need skills
 - ❑ Skills to fight myopia
 - ❑ Question own judgment
 - ❑ Record judgments so can improve