



Good Strategy Bad Strategy · Richard P. Rumelt

This book is one of the books on strategy that has impacted us most by its clarity and practicality. According to the author, the question for the strategy is 'What's going on here?'

The kernel of a strategy contains three elements:

1. A *diagnosis* that defines or explains the nature of the challenge. A good diagnosis simplifies the often overwhelming complexity of reality by identifying certain aspects of the situation as critical.
2. A *guiding policy* for dealing with the challenge. This is an overall approach chosen to cope with or overcome the obstacles identified in the diagnosis.
3. A set of *coherent actions* that are designed to carry out the guiding policy. These are steps that are coordinated with one another to work together in accomplishing the guiding policy.

The author offers some examples regarding these three elements. We share on with you: 'For a doctor, the challenge appears as a set of signs and symptoms together with a history. The doctor makes a clinical diagnosis, naming a disease or pathology. The therapeutic approach chosen is the doctor's guiding policy. The doctor's specific prescriptions for diet, therapy, and medication are the set of coherent actions to be taken.'

However, he mentions that, 'in many large organizations, the challenge is often diagnosed as internal. That is, the organization's competitive problems may be much lighter than the obstacles imposed by its own outdated routines, bureaucracy, pools of entrenched interests, lack of cooperation across units, and plain-old bad management. Thus, the guiding policy lies in the realm of reorganization and renewal. And the set of coherent actions are changes in people, power, and procedures. In other cases the challenge may be building or deepening competitive advantage by pushing the frontiers of organizational capability.'

This is how it begins...

The most basic idea of strategy is the application of strength against weakness. Or, if you prefer, strength applied to the most promising opportunity. The standard modern treatment of strategy has expanded this idea into a rich discussion of potential strengths, today called "advantages." There are advantages due to being a first mover: scale, scope, network effects, reputation, patents, brands, and hundreds more. None of these are logically wrong, and each can be important. Yet this whole midlevel framework misses two huge, incredibly important natural sources of strength:

1. *Having a coherent strategy—one that coordinates policies and actions...*
2. *The creation of new strengths through subtle shifts in viewpoint...*