

# The perils of bad strategy

**Richard Rumelt**

Bad strategy abounds, says UCLA management professor Richard Rumelt. Senior executives who can spot it stand a much better chance of creating good strategies.

**Horatio Nelson had a problem.** The British admiral's fleet was outnumbered at Trafalgar by an armada of French and Spanish ships that Napoleon had ordered to disrupt Britain's commerce and prepare for a cross-channel invasion. The prevailing tactics in 1805 were for the two opposing fleets to stay in line, firing broadsides at each other. But Nelson had a strategic insight into how to deal with being outnumbered. He broke the British fleet into two columns and drove them at the Franco-Spanish fleet, hitting its line perpendicularly. The lead British ships took a great risk, but Nelson judged that the less-trained Franco-Spanish gunners would not be able to compensate for the heavy swell that day and that the enemy fleet, with its coherence lost, would be no match for the more experienced British captains and gunners in the ensuing melee. He was proved right: the French and Spanish lost 22 ships, two-thirds of their fleet. The British lost none.<sup>1</sup>

Nelson's victory is a classic example of good strategy, which almost always looks this simple and obvious in retrospect. It does not pop out of some strategic-management tool, matrix, triangle, or fill-in-the-blanks scheme. Instead, a talented leader has identified the one or two critical issues in a situation—the pivot points that can multiply the effectiveness of effort—and then focused and concentrated action and resources on them. A good strategy does more than urge us forward

<sup>1</sup> Nelson himself was mortally wounded at Trafalgar, becoming, in death, Britain's greatest naval hero. The battle ensured Britain's naval dominance, which remained secure for a century and a half.



This article is adapted from Richard Rumelt's *Good Strategy/Bad Strategy: The Difference and Why It Matters*, to be published in July 2011 by Crown Publishing.

toward a goal or vision; it honestly acknowledges the challenges we face and provides an approach to overcoming them.

Too many organizational leaders say they have a strategy when they do not. Instead, they espouse what I call “bad strategy.” Bad strategy ignores the power of choice and focus, trying instead to accommodate a multitude of conflicting demands and interests. Like a quarterback whose only advice to his teammates is “let’s win,” bad strategy covers up its failure to guide by embracing the language of broad goals, ambition, vision, and values. Each of these elements is, of course, an important part of human life. But, by themselves, they are not substitutes for the hard work of strategy.

In this article, I try to lay out the attributes of bad strategy and explain why it is so prevalent. Make no mistake: the creeping spread of bad strategy affects us all. Heavy with goals and slogans, governments have become less and less able to solve problems. Corporate boards sign off on strategic plans that are little more than wishful thinking. The US education system is rich with targets and standards but poor at comprehending and countering the sources of underperformance. The only remedy is for us to demand more from those who lead. More than charisma and vision, we must demand good strategy.

## The hallmarks of bad strategy

I coined the term bad strategy in 2007 at a Washington, DC, seminar on national-security strategy. My role was to provide a business and corporate-strategy perspective. The participants expected, I think, that my remarks would detail the seriousness and growing competence with which business strategy was created. Using words and slides, I told the group that many businesses did have powerful, effective strategies. But in my personal experiences with corporate practice, I saw a growing profusion of bad strategy.

In the years since that seminar, I have had the opportunity to discuss the bad-strategy concept with a number of senior executives. In the process, I have condensed my list of its key hallmarks to four points: the failure to face the challenge, mistaking goals for strategy, bad strategic objectives, and fluff.

### Failure to face the problem

A strategy is a way through a difficulty, an approach to overcoming an obstacle, a response to a challenge. If the challenge is not defined, it

is difficult or impossible to assess the quality of the strategy. And, if you cannot assess that, you cannot reject a bad strategy or improve a good one.

International Harvester learned about this element of bad strategy the hard way. In July 1979, the company's strategic and financial planners produced a thick sheaf of paper titled "Corporate Strategic Plan: International Harvester." It was an amalgam of five separate strategic plans, each created by one of the operating divisions.

The strategic plan did not lack for texture and detail. Looking, for example, within the agricultural-equipment group—International Harvester's core, dating back to the McCormick reaper, which was a foundation of the company—there is information and discussion about each segment. The overall intent was to strengthen the dealer/distributor network and to reduce manufacturing costs. Market share in agricultural equipment was also projected to increase, from 16 percent to 20 percent.

The 'great pushes' during World War I led to the deaths of a generation of European youths. Maybe that's why motivational speakers are not the staple on the European management-lecture circuit that they are in the United States.

That was typical of the overall strategy, which was to increase the company's share in each market, cut costs in each business, and thereby ramp up revenue and profit. A summary graph, showing past and forecast profit, forms an almost perfect hockey stick, with an immediate recovery from decline followed by a steady rise.

The problem with all this was that the plan didn't even mention Harvester's grossly inefficient production facilities, especially in its agricultural-equipment business, or the fact that Harvester had the *worst* labor relations in US industry. As a result, the company's profit margin had been about one-half of its competitors' for a long time. As a corporation, International Harvester's main problem was its inefficient work organization—a problem that would not be solved by investing in new equipment or pressing managers to increase market share.

By cutting administrative overhead, Harvester boosted reported profits for a year or two. But following a disastrous six-month strike, the company quickly began to collapse. It sold off various businesses—including its agricultural-equipment business, to Tenneco. The truck division, renamed Navistar, is today a leading maker of heavy trucks and engines.

To summarize: if you fail to identify and analyze the obstacles, you don't have a strategy. Instead, you have a stretch goal or a budget or a list of things you wish would happen.

### Mistaking goals for strategy

A few years ago, a CEO I'll call Chad Logan asked me to work with the management team of his graphic-arts company on "strategic thinking." Logan explained that his overall goal was simple—he called it the "20/20 plan." Revenues were to grow at 20 percent a year, and the profit margin was to be 20 percent or higher.

"This 20/20 plan is a very aggressive financial goal," I said. "What has to happen for it to be realized?" Logan tapped the plan with a blunt forefinger. "The thing I learned as a football player is that winning requires strength and skill, but more than anything it requires the will to win—the drive to succeed. . . . Sure, 20/20 is a stretch, but the secret of success is setting your sights high. We are going to keep pushing until we get there."

I tried again: "Chad, when a company makes the kind of jump in performance your plan envisions, there is usually a key strength you are building on or a change in the industry that opens up new opportunities. Can you clarify what the point of leverage might be here, in your company?"

Logan frowned and pressed his lips together, expressing frustration that I didn't understand him. He pulled a sheet of paper out of his briefcase and ran a finger under the highlighted text. "This is what Jack Welch says," he told me. The text read: "We have found that by reaching for what appears to be the impossible, we often actually do the impossible." (Logan's reading of Welch was, of course, highly selective. Yes, Welch believed in stretch goals. But he also said, "If you don't have a competitive advantage, don't compete.")

The reference to "pushing until we get there" triggered in my mind an association with the great pushes of 1915–17 during World War I, which led to the deaths of a generation of European youths. Maybe

that’s why motivational speakers are not the staple on the European management-lecture circuit that they are in the United States. For the slaughtered troops did not suffer from a lack of motivation. They suffered from a lack of competent strategic leadership. A leader may justly ask for “one last push,” but the leader’s job is more than that. The job of the leader—the strategist—is also to create the conditions that will make the push effective, to have a strategy worthy of the effort called upon.

### Bad strategic objectives

Another sign of bad strategy is fuzzy strategic objectives. One form this problem can take is a scrambled mess of things to accomplish—a dog’s dinner of goals. A long list of things to do, often mislabeled as strategies or objectives, is not a strategy. It is just a list of things to do. Such lists usually grow out of planning meetings in which a wide variety of stakeholders suggest things they would like to see accomplished. Rather than focus on a few important items, the group sweeps the whole day’s collection into the strategic plan. Then, in recognition that it is a dog’s dinner, the label “long term” is added, implying that none of these things need be done today. As a vivid example, I recently had the chance to discuss strategy with the mayor of a small city in the Pacific Northwest. His planning committee’s strategic plan contained 47 strategies and 178 action items. Action item number 122 was “create a strategic plan.”

A second type of weak strategic objective is one that is “blue sky”—typically a simple restatement of the desired state of affairs or of the challenge. It skips over the annoying fact that no one has a clue as to how to get there. A leader may successfully identify the key challenge and propose an overall approach to dealing with the challenge. But if the consequent strategic objectives are just as difficult to meet as the original challenge, the strategy has added little value.

Good strategy, in contrast, works by focusing energy and resources on one, or a very few, pivotal objectives whose accomplishment will lead to a cascade of favorable outcomes. It also builds a bridge between the critical challenge at the heart of the strategy and action—between desire and immediate objectives that lie within grasp. Thus, the objectives that a good strategy sets stand a good chance of being accomplished, given existing resources and competencies.

### Fluff

A final hallmark of mediocrity and bad strategy is superficial abstraction—a flurry of fluff—designed to mask the absence of thought.

Fluff is a restatement of the obvious, combined with a generous sprinkling of buzzwords that masquerade as expertise. Here is a quote from a major retail bank's internal strategy memoranda: "Our fundamental strategy is one of customer-centric intermediation." Intermediation means that the company accepts deposits and then lends out the money. In other words, it is a bank. The buzzphrase "customer-centric" could mean that the bank competes by offering better terms and service, but an examination of its policies does not reveal any distinction in this regard. The phrase "customer-centric intermediation" is pure fluff. Remove the fluff and you learn that the bank's fundamental strategy is being a bank.

## Why so much bad strategy?

Bad strategy has many roots, but I'll focus on two here: the inability to choose and template-style planning—filling in the blanks with "vision, mission, values, strategies."

### The inability to choose

Strategy involves focus and, therefore, choice. And choice means setting aside some goals in favor of others. When this hard work is not done, weak strategy is the result. In 1992, I sat in on a strategy discussion among senior executives at Digital Equipment Corporation (DEC). A leader of the minicomputer revolution of the 1960s and 1970s, DEC had been losing ground for several years to the newer 32-bit personal computers. There were serious doubts that the company could survive for long without dramatic changes.

To simplify matters, I will pretend that only three executives were present. "Alec" argued that DEC had always been a computer company and should continue integrating hardware and software into usable systems. "Beverly" felt that the only distinctive resource DEC had to build on was its customer relationships. Hence, she derided Alec's "Boxes" strategy and argued in favor of a "Solutions" strategy that solved customer problems. "Craig" held that the heart of the computer industry was semiconductor technology and that the company should focus its resources on designing and building better "Chips."

Choice was necessary: both the Chips and Solutions strategies represented dramatic transformations of the firm, and each would require wholly new skills and work practices. One wouldn't choose either risky alternative unless the status quo Boxes strategy was likely to fail. And one wouldn't choose to do both Chips and Solutions at the same



## Scan through template-style planning documents and you will find pious statements of the obvious presented as if they were decisive insights.

time, because there was little common ground between them. It is not feasible to do two separate, deep transformations of a company's core at once.

With equally powerful executives arguing for each of the three conflicting strategies, the meeting was intense. DEC's chief executive, Ken Olsen, had made the mistake of asking the group to reach a consensus. It was unable to do that, because a majority preferred Solutions to Boxes, a majority preferred Boxes to Chips, and a majority also preferred Chips to Solutions. No matter which of the three paths was chosen, a majority preferred something else. This dilemma wasn't unique to the stand-off at DEC. The French philosopher Nicolas de Condorcet achieved immortality by first pointing out the possibility of such a paradox arising, and economist Kenneth Arrow won a Nobel Prize for showing that "Condorcet's paradox" cannot be resolved through cleverer voting schemes.

Not surprisingly, the group compromised on a statement: "DEC is committed to providing high-quality products and services and being a leader in data processing." This fluffy, amorphous statement was, of course, not a strategy. It was a political outcome reached by individuals who, forced to reach a consensus, could not agree on which interests and concepts to forego.

Ken Olsen was replaced, in June 1992, by Robert Palmer, who had headed the company's semiconductor engineering. Palmer made it clear that the strategy would be Chips. One point of view had finally won. But by then it was five years too late. Palmer stopped the losses for a while but could not stem the tide of ever more powerful personal computers that were overtaking the firm. In 1998, DEC was acquired by Compaq, which, in turn, was acquired by Hewlett-Packard three years later.

## Template-style strategy

The Jack Welch quote about “reaching for what appears to be the impossible” is fairly standard motivational fare, available from literally hundreds of motivational speakers, books, calendars, memo pads, and Web sites. This fascination with positive thinking has helped inspire ideas about charismatic leadership and the power of a shared vision, reducing them to something of a formula. The general outline goes like this: the transformational leader (1) develops or has a vision, (2) inspires people to sacrifice (change) for the good of the organization, and (3) empowers people to accomplish the vision.

By the early 2000s, the juxtaposition of vision-led leadership and strategy work had produced a template-style system of strategic planning. (Type “vision mission strategy” into a search engine and you’ll find thousands of examples of this kind of template for sale and in use.) The template looks like this:

**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 Mission.** Fill in a high-sounding, politically correct statement of the purpose of the school/business/nation. Innovation, human progress, and sustainable solutions are popular elements of a mission statement.

**The Values.** Fill in a statement that describes the company’s values. Make sure they are noncontroversial. Key words include “integrity,” “respect,” and “excellence.”

**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 template-style planning has been enthusiastically adopted by corporations, school boards, university presidents, and government agencies. Scan through such documents and you will find pious statements of the obvious presented as if they were decisive insights. The enormous problem all this creates is that someone who actually wishes to conceive and implement an effective strategy is surrounded by empty rhetoric and bad examples.



## The kernel of good strategy

By now, I hope you are fully awake to the dramatic differences between good and bad strategy. Let me close by trying to give you a leg up in crafting good strategies, which have a basic underlying structure:

**1. A diagnosis:** an explanation of the nature of the challenge. A good diagnosis simplifies the often overwhelming complexity of reality by identifying certain aspects of the situation as being the critical ones.

**2. A guiding policy:** an overall approach chosen to cope with or overcome the obstacles identified in the diagnosis.

**3. Coherent actions:** steps that are coordinated with one another to support the accomplishment of the guiding policy.

I'll illustrate by describing Nvidia's journey from troubled start-up to market leader for 3-D graphics chips. Nvidia's first product, a PC add-in board for video, audio, and 3-D graphics, was a commercial failure. In 1995, rival start-up 3Dfx Interactive took the lead in serving the burgeoning demand of gamers for fast 3-D graphics chips. Furthermore, there were rumors that industry giant Intel was thinking about introducing its own 3-D graphics chip. The diagnosis: "We are losing the performance race."

Nvidia CEO Jen-Hsun Huang's key insight was that given the rapid state of advance in 3-D graphics, releasing a new chip every 6 months, instead of at the industry standard rate of every 18 months, would make a critical difference. The guiding policy, in short, was to "release a faster, better chip three times faster than the industry norm."

To accomplish this fast release cycle, the company emphasized several coherent actions: it formed three development teams, which worked on overlapping schedules; it invested in massive simulation and emulation facilities to avoid delays in the fabrication of chips and in the development of software drivers; and, over time, it regained control of driver development from the branded add-in board makers.

Over the next decade, the strategy worked brilliantly. Intel introduced its 3-D graphics chip in 1998 but did not keep up the pace, exiting the business of discrete 3-D graphics chips a year later. In 2000, cred-

itors of 3Dfx initiated bankruptcy proceedings against the company, which was struggling to keep up with Nvidia. In 2007, *Forbes* named Nvidia the “Company of the Year.”<sup>2</sup>



Despite the roar of voices equating strategy with ambition, leadership, vision, or planning, strategy is none of these. Rather, it is coherent action backed by an argument. And the core of the strategist’s work is always the same: discover the crucial factors in a situation and design a way to coordinate and focus actions to deal with them. ○

<sup>2</sup>The effectiveness of even good strategies isn’t permanently assured. ATI, now part of AMD, has become a powerful competitor in graphics processing units, and Nvidia has been challenged in the fast-growing mobile-graphics business, where cost is often more important than performance.

**Richard Rumelt** is the Harry and Elsa Kunin Professor of Business and Society at the UCLA Anderson School of Management.

