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Good Strategy Bad Strategy: The Difference and Why It Matters

by Richard Rumelt

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65 Highlights

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Good strategy almost always looks this simple and obvious and does not take a thick deck of PowerPoint slides to explain.

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The core of strategy work is always the same: discovering the critical factors in a situation and designing a way of coordinating and focusing actions to deal with those factors.

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biggest challenges to forward progress and devising a coherent approach to overcoming them.

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A good strategy honestly acknowledges the challenges being faced and provides an approach to overcoming them.

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Bad strategy tends to skip over pesky details such as problems. It ignores the power of choice and focus, trying instead to accommodate a multitude of conflicting demands and interests. Like

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a strategy is a coherent set of analyses, concepts, policies, arguments, and actions that respond to a high-stakes challenge.

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good strategy includes a set of coherent actions. They are not “implementation” details; they are the punch in the strategy. A strategy that fails to define a variety of plausible and feasible immediate actions is missing a critical component.

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A good strategy has an essential logical structure that I call the kernel. The kernel of a strategy contains three elements: a diagnosis, a guiding policy, and coherent action.

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generating a bad strategy that tries to cover all the bases rather than focus resources and actions.

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The creation of new strengths through subtle shifts in viewpoint. An insightful reframing of a competitive situation can create whole new patterns of advantage and weakness. The most powerful strategies arise from such game-changing insights.

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pointing to the next window of opportunity,

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either. He just smiled and said, “I am going to wait for the next big thing.” Jobs did not enunciate some simple-minded growth or market share goal. He did not pretend that pushing on various levers would somehow magically restore Apple to market leadership in personal computers. Instead, he was actually focused on the sources of and barriers to success in his industry—recognizing the next window of opportunity, the next set of forces he could harness to his advantage, and then having the quickness and cleverness to pounce on it quickly like a perfect predator. There was no pretense that such windows opened every year or that one could force them open with incentives or management tricks. He knew how it worked. He had done it before with the Apple II and the Macintosh and then with Pixar. He had tried to force it with NeXT, and that had not gone well. It would be two years before he would make that leap again with the iPod and then online music. And, after that, with the iPhone. Steve Jobs’s answer that day—“to wait for the next big thing”—is not a general formula for success. But it was a wise approach to Apple’s situation at that moment, in that industry, with so many new technologies seemingly just around the corner.

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magazine described the Iraqi defenses this way:

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we are surprised when a complex organization, such as Apple or the U.S. Army, actually focuses its actions. Not because of secrecy, but because good strategy itself is unexpected.

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Having conflicting goals, dedicating resources to unconnected targets, and accommodating incompatible interests are the luxuries of the rich and powerful, but they make for bad strategy.

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Good strategy requires leaders who are willing and able to say no to a wide variety of actions and interests. Strategy is at least as much about what an organization does not do as it is about what it does.

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Bad strategy fails to recognize or define the challenge. When you cannot define the challenge, you cannot evaluate a strategy or improve it.

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Strategic objectives are “bad” when they fail to address critical issues or when they are impracticable.

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“All too much of what is put forward as strategy is not. The basic problem is confusion between strategy and strategic goals.”

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Bad strategy is long on goals and short on policy or action. It assumes that goals are all you need. It puts forward strategic objectives that are incoherent and, sometimes, totally impracticable. It uses high-sounding words and phrases to hide these failings.

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A hallmark of true expertise and insight is making a complex subject understandable. A hallmark of mediocrity and bad strategy is unnecessary complexity—a flurry of fluff masking an absence of substance.

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If you fail to identify and analyze the obstacles, you don’t have a strategy. Instead, you have either a stretch goal, a budget, or a list of things you wish would happen.

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Good strategy works by focusing energy and resources on one, or a very few, pivotal objectives whose accomplishment will lead to a cascade of favorable outcomes.

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The second form of bad strategic objectives is one that is “blue sky.” A good strategy defines a critical challenge. What is more, it builds a bridge between that challenge and action, between desire and immediate objectives that lie within grasp. Thus, the objectives a good strategy sets should stand a good chance of being accomplished, given existing resources and competence. (See the discussion of proximate objectives in chapter 7.) By contrast, a blue-sky objective is usually 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.

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When a leader characterizes the challenge as underperformance, it sets the stage for bad strategy. Underperformance is a result. The true challenges are the reasons for the underperformance. Unless leadership offers a theory of why things haven’t worked in the past, or why the challenge is difficult, it is hard to generate good strategy.

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bad strategy is vacuous and superficial, has internal contradictions, and doesn’t define or address the problem. Bad strategy generates a feeling of dull annoyance when you have to listen to it or read it. The

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Bad strategy flourishes because it floats above analysis, logic, and choice, held aloft by the hot hope that one can avoid dealing with these tricky fundamentals and the difficulties of mastering them.

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bad strategy is the active avoidance of the hard work of crafting a good strategy. One common reason for choosing avoidance is the pain or difficulty of choice. When leaders are unwilling or unable to make choices among competing values and parties, bad strategy is the consequence.

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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 amorphous strategy is the result.

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Serious strategy work in an already successful organization may not take place until the wolf is at the door—or even until the wolf’s claws actually scratch on the floor—because good strategy is very hard work.

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the essential difficulty in creating strategy is not logical; it is choice itself. Strategy does not eliminate scarcity and its consequence—the necessity of choice. Strategy is scarcity’s child and to have a strategy, rather than vague aspirations, is to choose one path and eschew others.

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Good strategy is coherent action backed up by an argument, an effective mixture of thought and action with a basic underlying structure I call the kernel. A good strategy may consist of more than the kernel, but if the kernel is absent or misshapen, then there is a serious problem. Once you apprehend this kernel, it is much easier to create, describe, and evaluate a strategy. The kernel is not based on any one concept of advantage. It does not require one to sort through legalistic gibberish about the differences between visions, missions, goals, strategies, objectives, and tactics. It does not split strategies into corporate, business, and product levels. It is very straightforward. The kernel of a strategy contains three elements: 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. 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. 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.

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It leaves out visions, hierarchies of goals and objectives, references to time span or scope, and ideas about adaptation and change. All of these are supporting players. They represent ways of thinking about strategy,

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A great deal of strategy work is trying to figure out what is going on. Not just deciding what to do, but the more fundamental problem of comprehending the situation.

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Good guiding policies are not goals or visions or images of desirable end states. Rather, they define a method of grappling with the situation and ruling out a vast array of possible actions.

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Good strategy is not just “what” you are trying to do. It is also “why” and “how” you are doing it.

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A guiding policy creates advantage by anticipating the actions and reactions of others, by reducing the complexity and ambiguity in the situation, by exploiting the leverage inherent in concentrating effort on a pivotal or decisive aspect of the situation, and by creating policies and actions that are coherent, each building

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The kernel of a strategy must contain action. It does not need to point to all the actions that will be taken as events unfold, but there must be enough clarity about action to bring concepts down to earth. To have punch, actions should coordinate and build upon one another, focusing organizational energy.

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we always hope that a brilliant insight or very clever design will allow us to accomplish several apparently conflicting objectives with a single stroke, and occasionally we are vouchsafed this kind of deliverance. Nevertheless, strategy is primarily about deciding what is truly important and focusing resources and action on that objective. It is a hard discipline because focusing on one thing slights another.

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Neither of these crucial policies would have emerged out of decentralized decision making among the Departments of State and War, the various war production boards, and multiple military commands. On the other hand, the potential gains to coordination do not mean that more centrally directed coordination is always a good thing. Coordination is costly, because it fights against the gains to specialization, the most basic economies in organized activity. To specialize in something is, roughly speaking, to be left alone to do just that thing and not be bothered with other tasks, interruptions, and other agents' agendas. As is clear to anyone who has belonged to a coordinating committee, coordination interrupts and de-specializes people.

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we should seek coordinated policies only when the gains are very large.

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The brilliance of good organization is not in making sure that everything is connected to everything else. Down that road lies a frozen maladaptive stasis. Good strategy and good organization lie in specializing on the right activities and imposing only the essential amount of coordination.

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strategic leverage arises from a mixture of anticipation, insight into what is most pivotal or critical in a situation, and making a concentrated application of effort.

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A pivot point magnifies the effect of effort.

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An important duty of any leader is to absorb a large part of that complexity and ambiguity, passing on to the organization a simpler problem—one that is solvable. Many leaders fail badly at this responsibility, announcing ambitious goals without resolving a good chunk of ambiguity about the specific obstacles to be overcome.

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the farther ahead a leader must look. This is illogical. The more dynamic the situation, the poorer your foresight will be. Therefore, the more uncertain and dynamic the situation, the more proximate a strategic objective must be. The proximate objective is guided by forecasts of the future, but the more uncertain the future, the more its essential logic is that of “taking a strong position and creating options,” not of looking far ahead.

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skills at coordination as if they were rungs on a ladder, with higher rungs in reach only when the lower rungs had been attained. Indeed, PJ’s concept of a layering of skills explains why some organizations can concentrate on issues that others cannot. This understanding has helped shape the advice I offer clients. For example, when I work with a small start-up company, their problems often revolve around coordinating engineering, marketing, and distribution. Asking the CEO of such a firm to concentrate on opening offices in Europe may be pointless, because the company has not yet mastered the basics of “flying” the business.

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There are little or no payoffs to incremental improvements in chain-link systems, but Marco avoided this problem by shutting down the normal system of local measurement and reward, refocusing on change itself as the objective.

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Because IKEA’s many policies are different from the norm and because they fit together in a coherent design, IKEA’s system has a chain-link logic. That means that adopting only one of these policies does no good—it adds expense to the competitor’s business without providing any real competition to IKEA.

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many effective strategies are more designs than decisions—are more constructed than chosen. In these cases, doing strategy is more like designing a high-performance aircraft than deciding which forklift truck to buy or how large to build a new factory. When someone says “Managers are decision makers,” they are not talking about master strategists, for a master strategist is a designer.

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A good strategy coordinates policies across activities to focus the competitive punch.

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a set bundle of resources, the greater the competitive challenge, the greater the need for the clever, tight integration of resources and actions.

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Given a set level of challenge, higher-quality resources lessen the need for the tight integration of resources and actions.

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With less challenge, it is normally better to have a bit less specialization and integration so that a broader market can be addressed.

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looking at each policy of the company and noticing those that are different from the norm in the industry. We then try to figure out the common target of such distinctive policies—what they are coordinated on accomplishing.”

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is human nature to welcome the first seemingly reasonable answer that pops into mind, as if it were a life preserver in a choppy sea. The discipline of analysis is to not stop there,

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When another person speaks you hear both less and more than they mean. Less because none of us can express the full extent of our understanding, and more because what another says is constantly mixing and interacting with your own knowledge and puzzlements.

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The other way to grab the high ground—the way that is my focus here—is to exploit a wave of change. Such waves of change are largely exogenous—they are mostly beyond the control of any one organization.

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An organization creates pools of proprietary functional knowledge by actively exploring its chosen arena in a process called scientific empiricism.

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A strategy is, like a scientific hypothesis, an educated prediction of how the world works. The ultimate worth of a strategy is determined by its success, not its acceptability to a council of philosophers or a board of editors.

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intersection between what was important and what was actionable. Carnegie paid because Taylor's list-making exercise forced him to reflect upon his more fundamental purposes and, in turn, to devise ways of advancing them.

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This personal skill is more important than any one so-called strategy concept, tool, matrix, or analytical framework. It is the ability to think about your own thinking, to make judgments about your own judgments.

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cultivate the habit of making and recording judgments so that you can improve.

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invoke a virtual panel of experts that I carry around in my mind. This panel of experts is a collection of people whose judgments I value. I use an internal mental dialogue with them to both critique my own ideas and stimulate new ones. I

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strategies are usually "corner solutions." That is, they emphasize focus over compromise. They focus on one aspect of the situation, not trying to be all things to all people.
