Good Strategy/Bad Strategy by Richard Rumelt

The Difference And Why It Matters

Book Review & Key Takeaways

Mark Coming

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Richard Rumelt: The Mind Behind the Strategy

- Professor at UCLA Anderson School of Management, specializing in strategy and competitive advantage.
- Recognized as one of the world's most influential thinkers on strategy and management.
- Authored numerous articles and books, including "Good Strategy/Bad Strategy: The Difference and Why It Matters."
- Consulted for top corporations and government organizations globally.
- Known for his pragmatic and insightful approach to understanding complex strategic challenges.

Why This Book Matters

- Strategy is often misunderstood
- Rumelt challenges "vision + goals" thinking
- Practical framework used in business, policy, and leadership

What is Strategy?

- Coherent Analyses & Actions

  A set of analyses, policies, and coordinated actions designed to overcome a significant challenge.

- Facing Critical Problems

  It's about confronting a high-stakes problem and making deliberate choices to address it effectively.

- Focused & Guided Response

  A targeted approach to an important challenge, grounded in clear diagnosis, a guiding policy, and synchronized actions.

Rumelt's Central Thesis

Strategy ≠ ambition or vision

Rumelt argues that true strategy is not merely about aspirations or grand visions, but a focused approach to overcoming specific challenges.

Strategy = problem solving

At its core, a good strategy identifies a critical challenge and outlines a coherent approach—a 'kernel'—to solve it.

Good strategy is rare but powerful

While common, good strategy is often overlooked. When implemented, it provides a distinct advantage and catalyzes effective action.

What Strategy Is NOT

- Buzzwords
- Stretch goals
- Inspirational slogans
- "Trying harder" or "wanting more"

The Strategy Gap - Bad Strategy Hides Behind:

Complexity

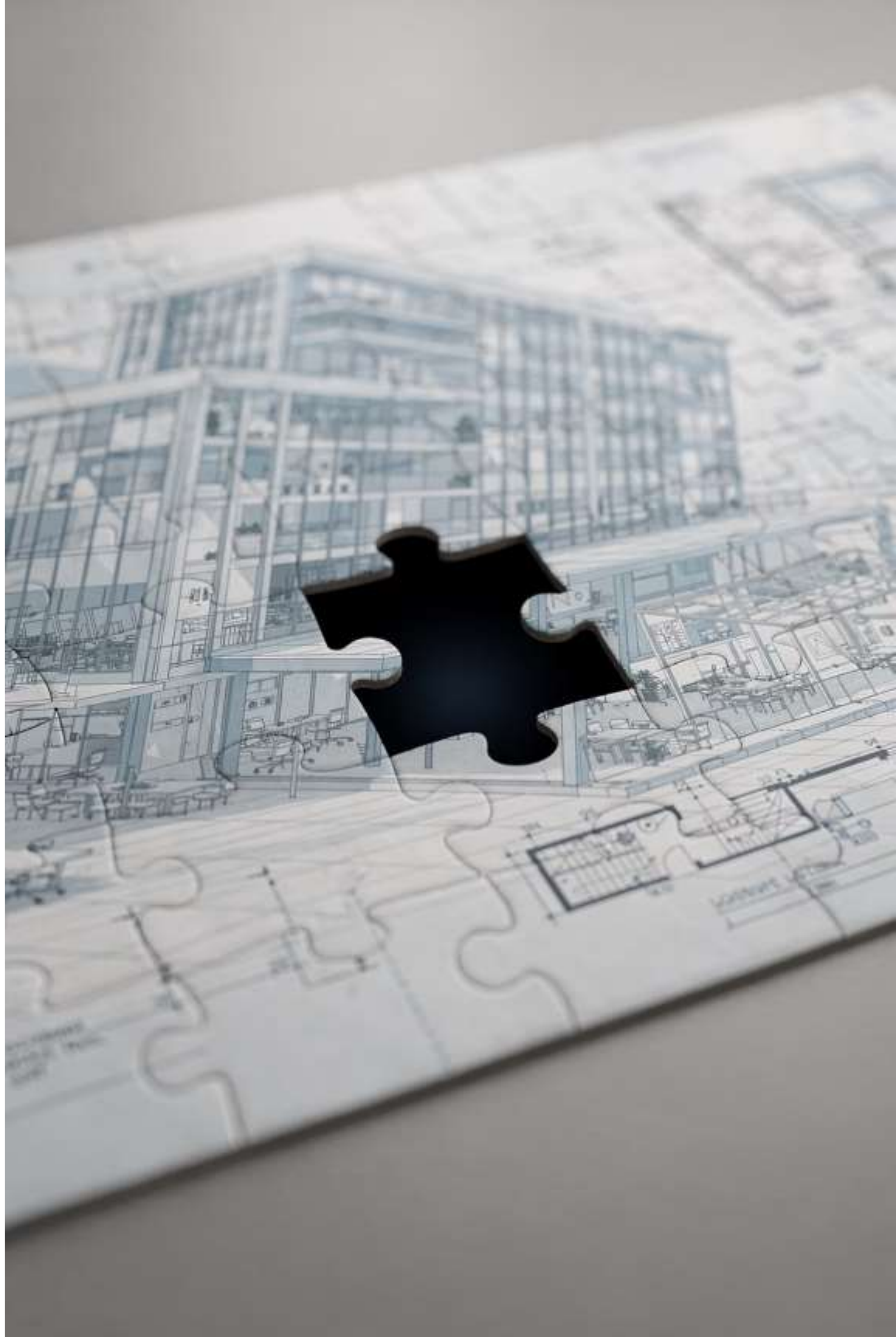
"We will leverage synergies across multiple stakeholder ecosystems to drive holistic transformation"

Jargon

"Our strategic imperatives align with best-in-class paradigm shifts"

Optimism

"We will be the market leader by trying harder and wanting success more"



The Kernel of Good Strategy

3 essential components:

1. Diagnosis
2. Guiding Policy
3. Coherent Actions

1. Diagnosis

The first crucial step in developing a good strategy is a clear and insightful diagnosis of the situation:

- Identifies the critical challenge
- Simplifies reality
- Focuses attention on what matters most

Diagnosis - Case Example

Apple was on the brink of failure because it had a fragmented product line, weak brand focus, and was spread too thin competing across too many markets without a clear advantage.

Key insight: Apple's problem was not lack of effort or innovation—it was lack of focus.

2. Guiding Policy

- Overall approach to overcoming the challenge
- Sets boundaries and direction
- Not a goal, but a method

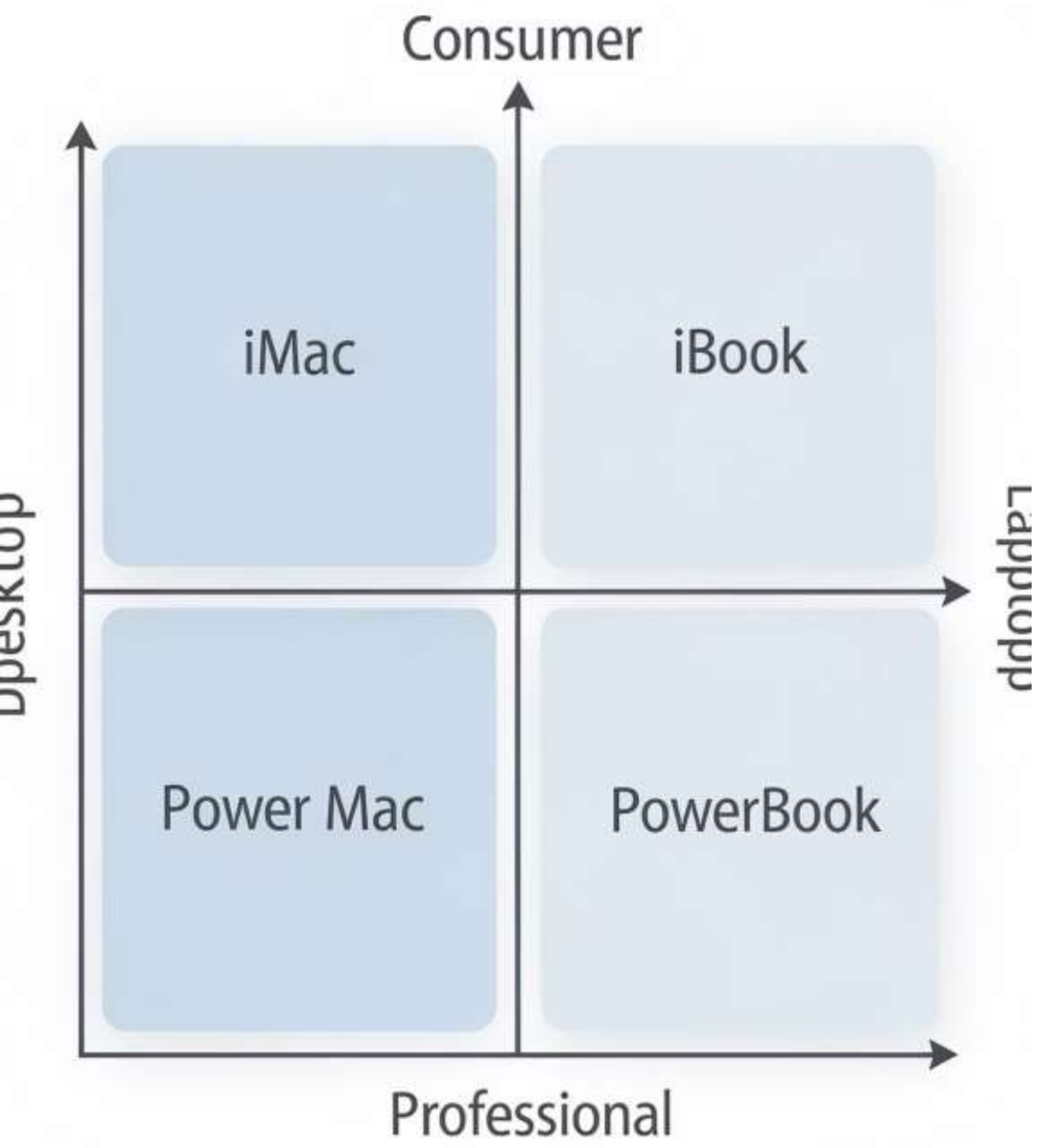
Guiding Policy: Case Example

Apple would focus on a small number of beautifully designed, integrated products aimed at customers who valued design, simplicity, and user experience.

Guiding policy: Concentrate resources on differentiation through design and integration rather than trying to compete broadly on price or market share.

Coherent Actions

- Coordinated steps aligned with the policy
- Reinforce each other
- Require trade-offs



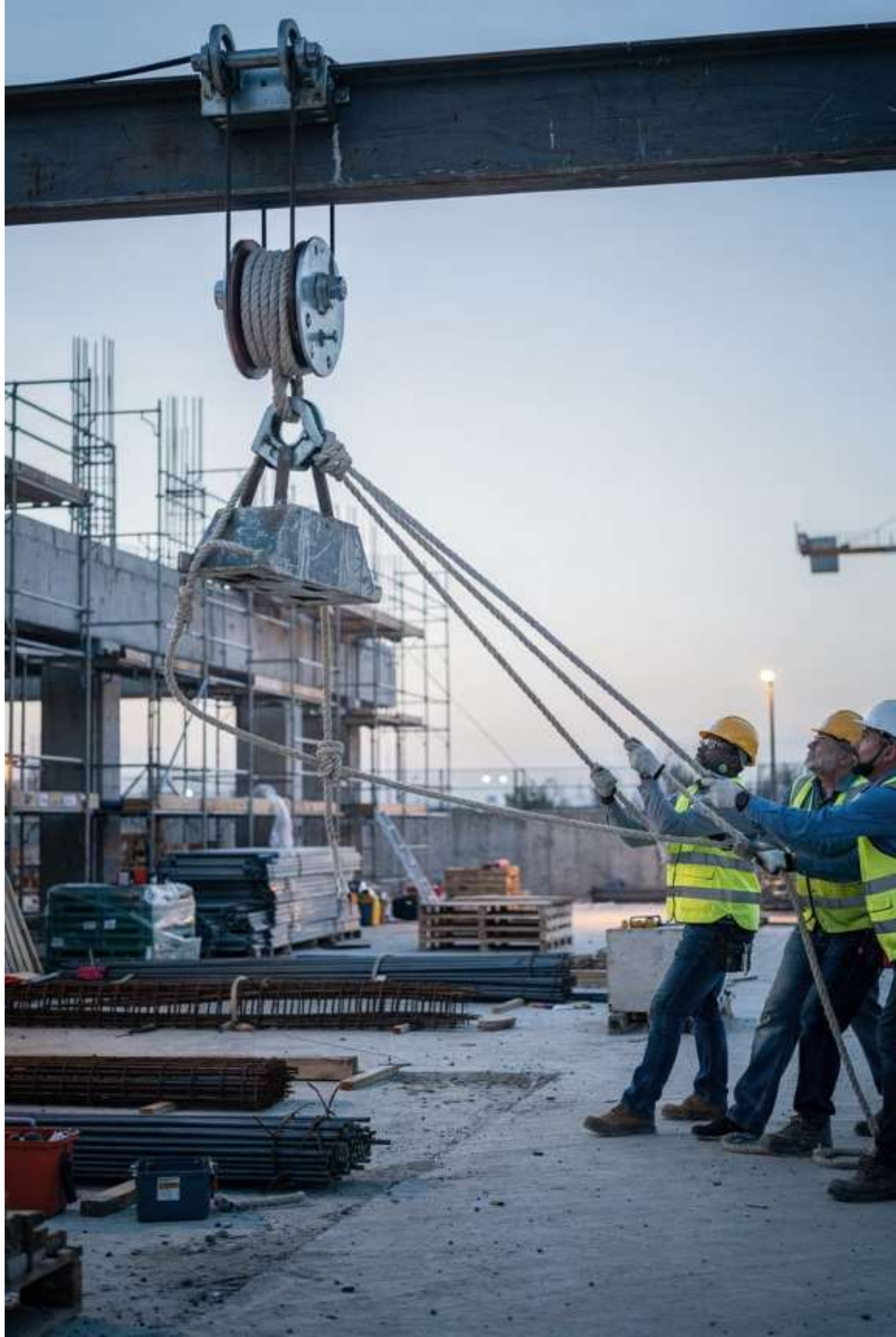
Coherent Actions: Case Example

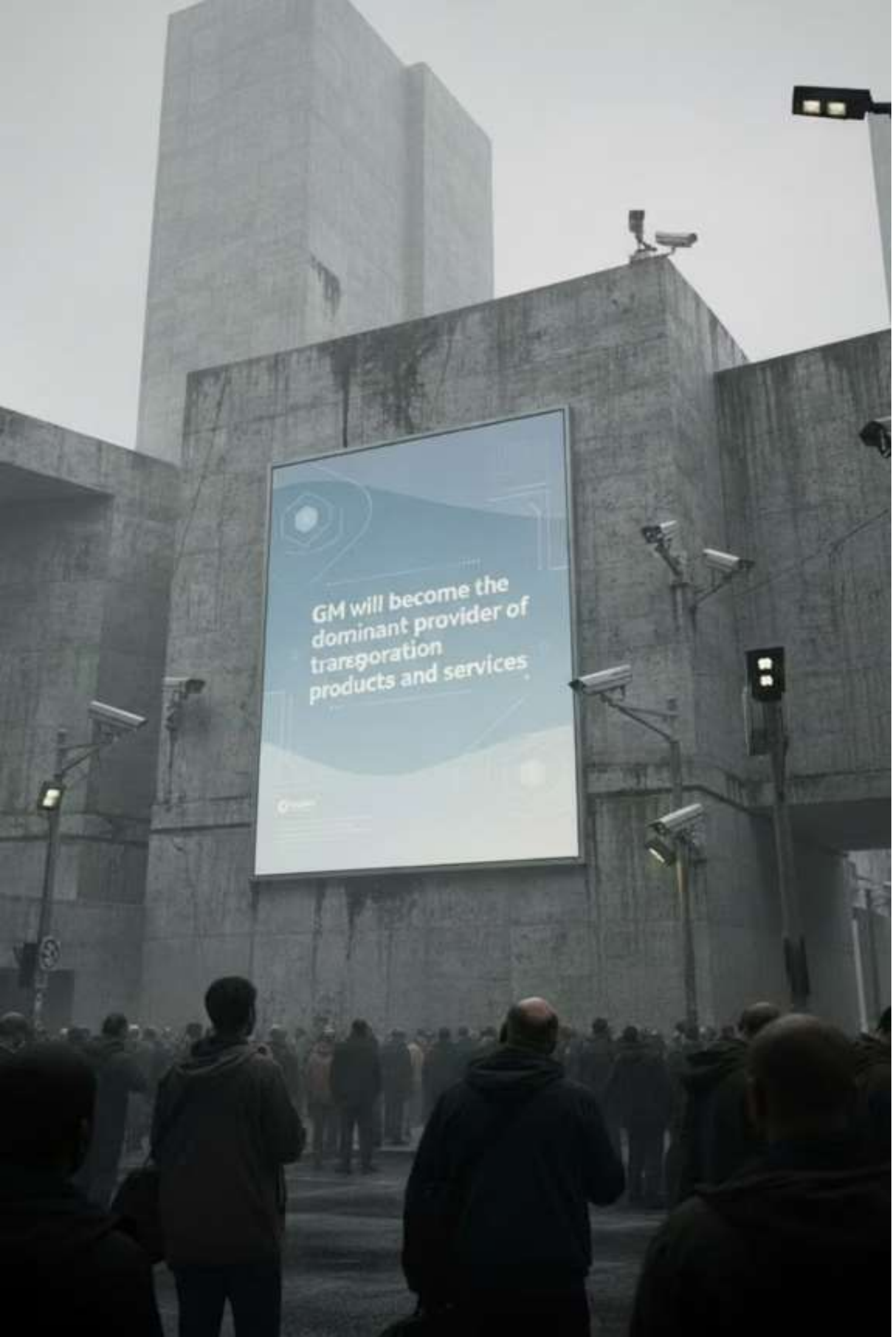
- Cut the product line from dozens to a simple 2×2 matrix (consumer/professional × desktop/laptop)
- Invest heavily in industrial design and user experience
- Tight integration of hardware and software
- Exit licensing and peripheral businesses
- Align marketing around a clear brand message

Why this works: Each action reinforces the others and directly supports the guiding policy.

Why the Kernel -(Diagnosis, Guiding Policy, Coherent Action) Works

- Forces clarity
- Aligns effort
- Enables leverage





Hallmarks of Bad Strategy

1. Fluff
Vague, abstract language that sounds profound but lacks substance or clear meaning.

2. Failure To Face The Challenge
Avoids identifying or confronting the fundamental obstacles, pretending problems don't exist.

3. Mistaking Goals For Strategy
Confuses aspiration (what you want to achieve) with the actual plan (how you will achieve it).

4. Bad Strategic Objectives
Goals that are unfeasible, internally inconsistent, or fail to address the critical problems identified.

5. The Dog's Dinner Strategy
Attempts to achieve too many disparate goals simultaneously, resulting in a lack of focus and ineffective execution.

6. Strategy As Optimism
Strategies that rely on wishful thinking or unrealistic optimism rather than facing hard realities and making difficult choices.

7. Vision Without Coherent Action
Possessing grand aspirations or a compelling future state without a clear, coordinated, or practical plan of action to realize them.

1. Fluff & Jargon

What it is:

Empty language that sounds impressive but avoids making choices.

Typical signs:

- Vision statements full of jargon
- No clear diagnosis or action
- Everyone agrees with it because it commits to nothing

Example:

A company strategy statement like:
"We will become a customer-centric, innovative, world-class provider of integrated solutions."

**Many corporate and university strategic plans that are pure fluff—
long on adjectives, short on decisions**

2. Failure To Face The Challenge

This bad strategy arises from refusing to acknowledge the real problem or pretending the situation is better than it truly is.

Example: General Motors (pre-2008)

GM leadership focused on goals like:

- Earnings growth
- Market share targets

...but failed to directly confront:

- Legacy labor costs
- Uncompetitive cost structure
- Product quality problems

GM's problem wasn't a lack of goals—it was a lack of honest diagnosis.

3. Mistaking Goals For Strategy

What it is:

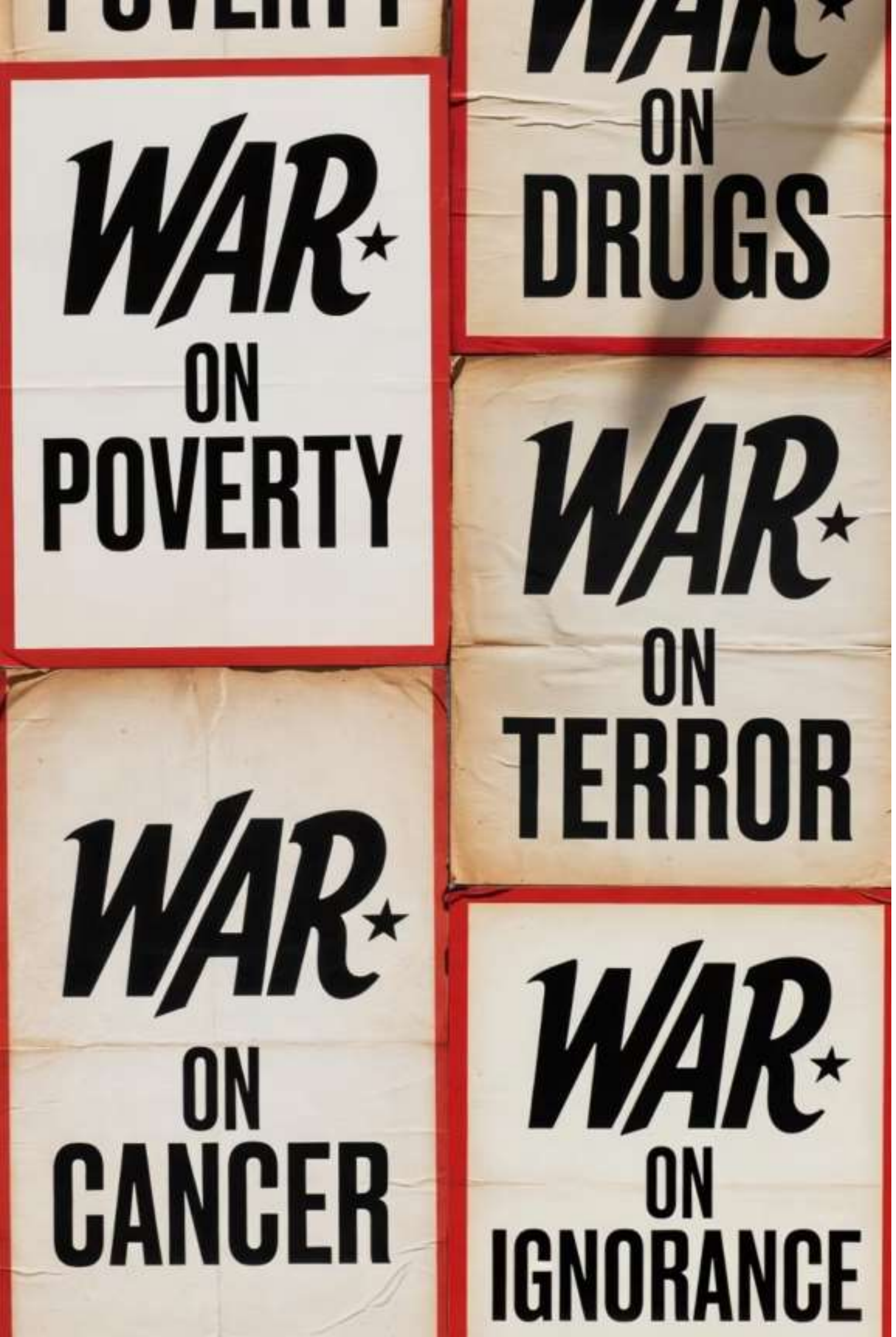
Stating what you want to happen, not how you’ll make it happen. It's confusing aspiration with the actual plan to achieve it.

Examples:

- “Increase shareholder value”
- “Become the market leader”
- “Improve student achievement”

Rumelt frequently points to public policy and education reform initiatives that declare ambitious outcomes without addressing the mechanisms needed to achieve them.

A goal without a plan to overcome obstacles is not a strategy.



4. Bad Strategic Objectives

What it is:

- Too broad
- Internally inconsistent
- Detached from reality

Example: U.S. “War on Terror” (as framed early on)

Rumelt criticizes it as a label, not a strategy:

- No clear definition of the enemy
- No prioritization of threats
- No coherent theory of success or clear end-state

The objective sounded strong but provided no guidance for action

5. The Dog's Dinner Strategy

What it is:

- A strategy that tries to do everything at once without focus or prioritization, resulting in a scattered, incoherent mess of initiatives.

Typical signs:

- Multiple conflicting priorities
- No clear trade-offs or choices
- Resources spread too thin
- Lack of focus or coherence

Example:

An organization announcing a strategy that includes:

- Cost cutting
- Innovation
- Growth
- Global expansion
- Customer intimacy

Without a clear diagnosis or guiding policy, these become a jumbled mess, resembling a "dog's dinner" – a mix of ingredients with no unifying flavor or purpose.

6. Strategy As Optimism

What it is:

Believing that positive thinking or bold ambition can substitute for rigorous analysis, difficult choices, or a concrete plan to overcome obstacles.

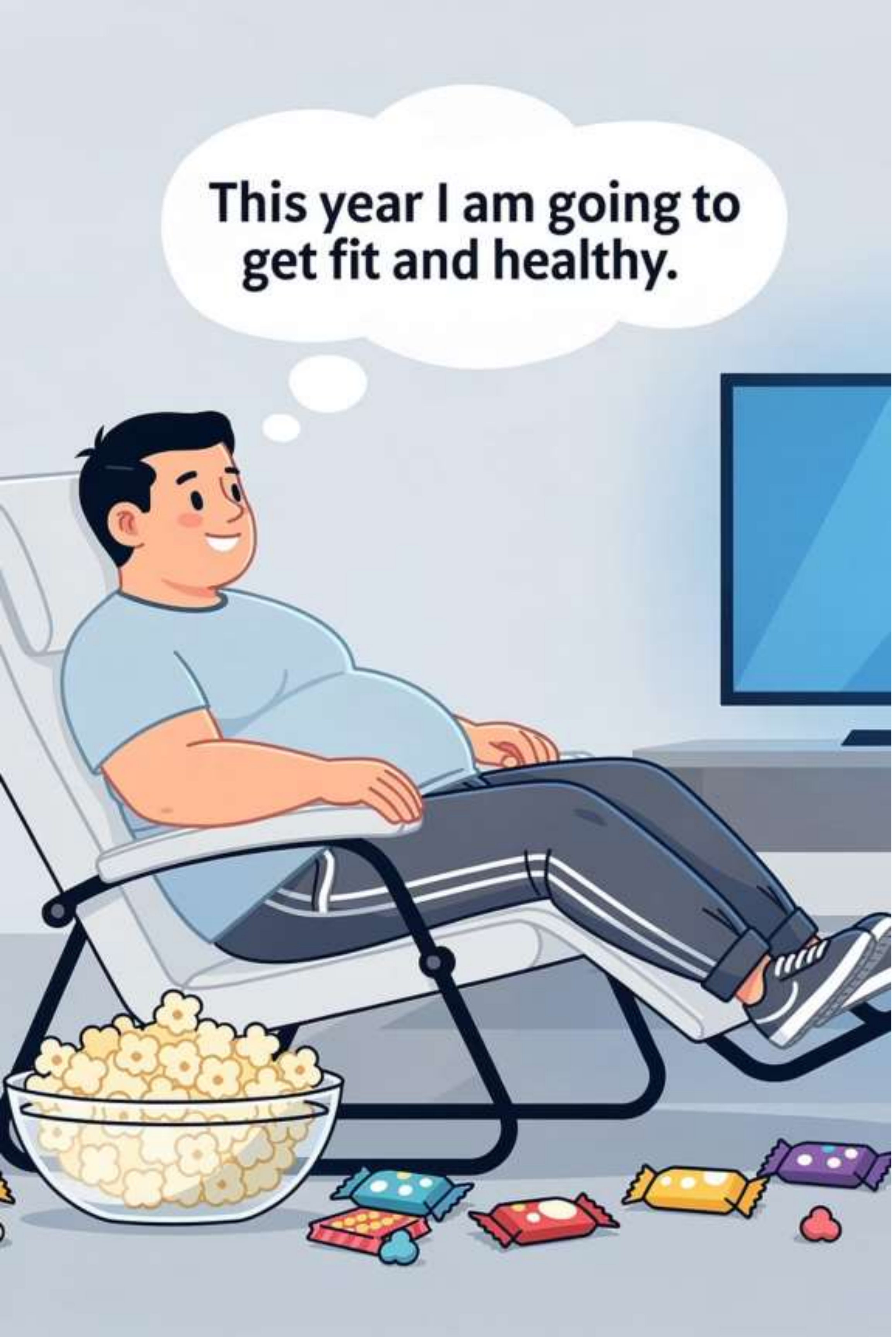
Example:

Companies entering highly competitive markets often fall into this trap, assuming:

- “Our culture will win”
- “Execution will sort it out”
- “The market is huge”

This optimistic bias leads to a strategy built on hope rather than a clear path forward.

Hope Is Not A Strategy



7. Vision Without Coherent Action

What it is:

A big-picture vision that never translates into coordinated moves.

Example:

Many corporate “2020” or “2030” visions Rumelt examined:

- Had lofty future states
- But no explanation of what will be done differently tomorrow

A vision without a concrete plan is just a dream.

Summary: Good Strategy Checklist

What is the challenge?

What is our guiding policy?

Are actions coherent?

What are we not doing?

Avoid Common Pitfalls

Over-analysis

Avoiding tough trade-offs

Confusing planning with strategy

Criticisms of the Book

Conceptual, not procedural

Limited step-by-step tools

Retrospective case bias

Rumelt vs. Porter: Two Strategic Frameworks

Richard Rumelt's Kernel

- **Diagnosis:** Identify the critical challenge
- **Guiding Policy:** Overall approach to overcome the challenge
- **Coherent Actions:** Specific steps to implement the policy

Michael Porter's Strategy

- **Competitive Positioning:** Unique value proposition
- **Five Forces:** Industry structure analysis
- **Generic Strategies:** Cost Leadership, Differentiation, Focus

While **Rumelt** emphasizes problem-solving and actionable steps, **Porter** focuses on competitive advantage and industry analysis.

Both frameworks offer powerful lenses for strategic thinking and can be used **complementarily** to build robust strategies.

Porter's Generic Strategies: Overview

Michael Porter identified three fundamental generic strategies that organizations can pursue to achieve competitive advantage: Cost Leadership, Differentiation, and Focus (which can be either Cost Focus or Differentiation Focus).

These strategies are defined by two key dimensions: **Competitive Advantage** (pursuing lower cost or differentiation) and **Competitive Scope** (targeting a broad market or a narrow segment).

Cost Leadership

Aim for the lowest cost of production and distribution to appeal to a broad market, often achieved through economies of scale, tight cost control, and process efficiency.

Differentiation

Offer unique products or services that are perceived as having higher value across a broad market, allowing for premium pricing due to distinct features, brand image, or customer service.

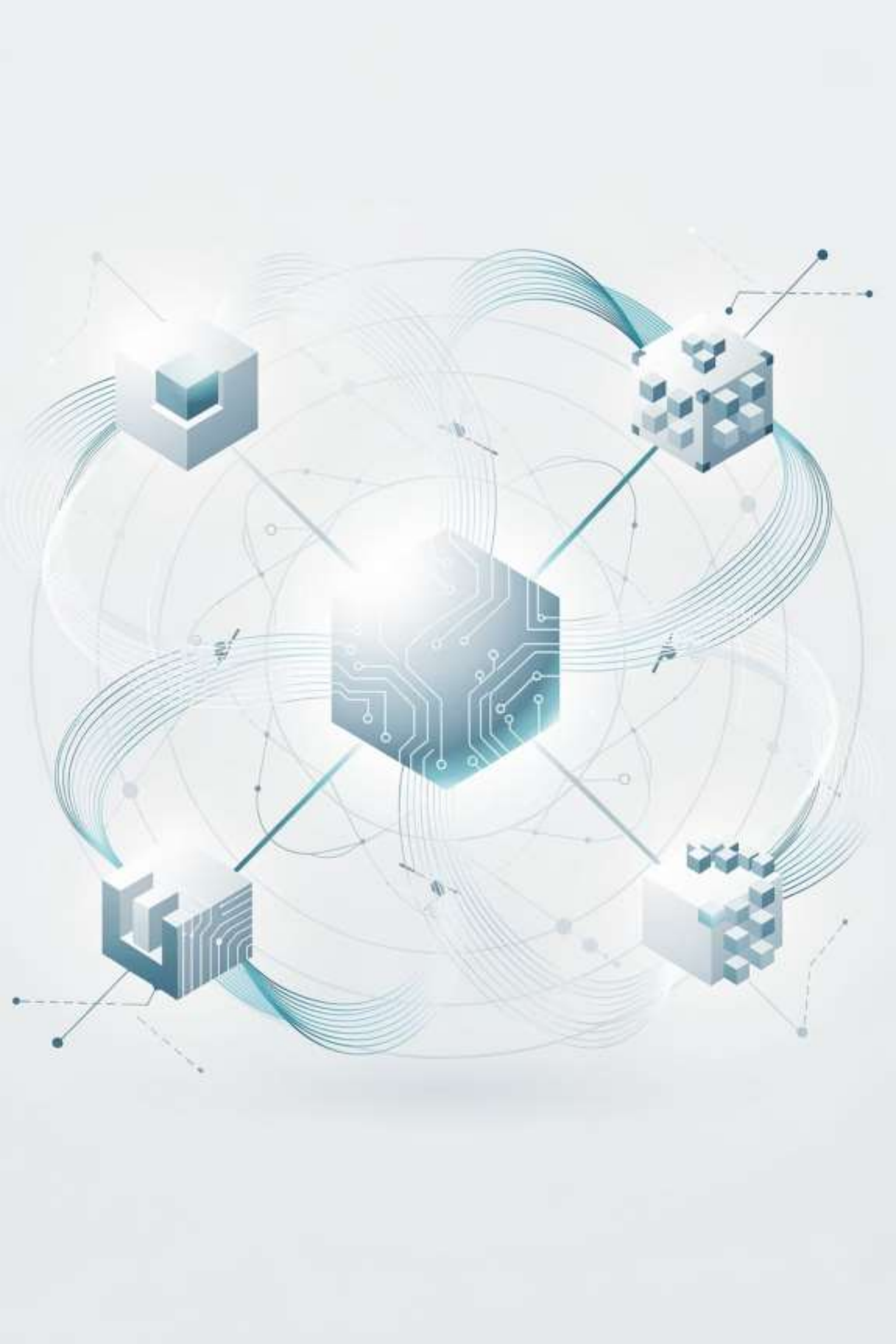
Cost Focus

Target a narrow market segment and aim to be the lowest-cost provider within that specific niche, leveraging localized efficiencies or specialized production methods.

Differentiation Focus

Target a narrow market segment and offer unique, highly valued products or services tailored to the specific needs of that niche, commanding premium prices within that segment.

A critical warning from Porter is the danger of being "stuck in the middle"—trying to pursue multiple generic strategies simultaneously without committing fully to one. This often leads to underperformance as the organization lacks a clear competitive advantage.

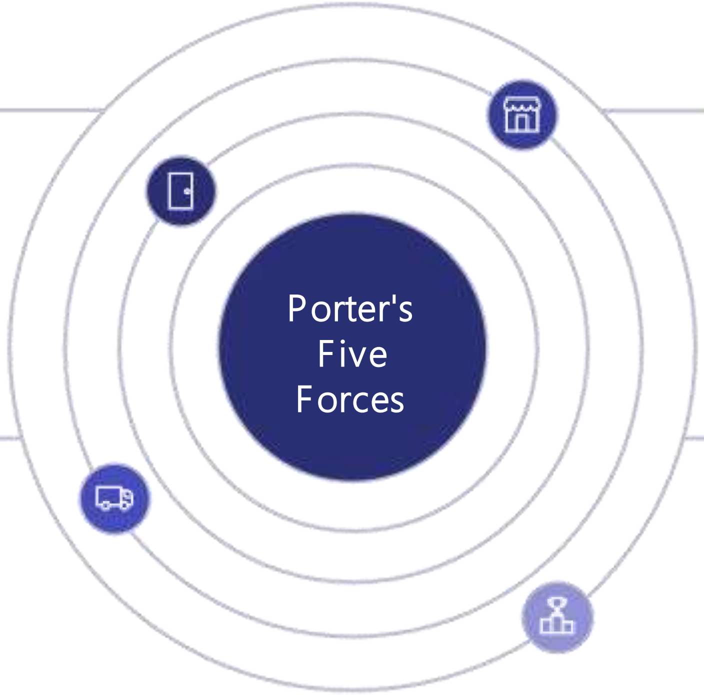


Porter's Five Forces Model

Michael Porter's Five Forces Framework is a powerful tool for understanding the competitive intensity and attractiveness of an industry. It helps analyze an industry's underlying profitability by looking beyond direct competitors.

Threat of New Entrants
Potential new competitors entering the market

Bargaining Power of Buyers
Customers' ability to drive prices and terms



Bargaining Power of Suppliers
Suppliers' influence over costs and inputs

Rivalry Among Competitors
Intensity of competition within the industry

By evaluating these five forces, businesses can identify structural factors that influence profitability and develop strategies to achieve a sustainable competitive advantage.

Rumelt vs. Porter: Distinct Approaches

Rumelt's Model: Foundational Guidance

Rumelt's framework, centered on the "kernel" of strategy (Diagnosis, Guiding Policy, Coherent Action), offers a conceptual roadmap for developing sound strategy. It emphasizes understanding the core challenge and designing a cohesive approach to overcome it, primarily focusing on avoiding the pitfalls of bad strategy.

Porter's Models: Analytical Tools

Porter's Generic Strategies and Five Forces are specific analytical tools. They help companies pinpoint their competitive position and understand industry dynamics. These models are designed to identify an appropriate market strategy and analyze how external forces influence that strategy and profitability.

Rumelt provides the "how to think," Porter provides the "what to analyze."