

# How to recognise “bad” strategy - *and what to do about it*

Business failure is often associated with poor strategy.

We make the distinction between “good” and “bad” strategy - and offer some guidelines to improve the quality of your own strategy.



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## What's the problem?

A recent Dun & Bradstreet analysis<sup>1</sup> reports on the alarming rate of small business failure over the last 12 months. The report states that Australian business failures have trended steadily upwards since 2008, with the greatest increase in the last three years. Clearly, the economic and tight credit conditions are significant contributors. A key finding of the D&B report<sup>2</sup> states that these failures place Australia in the same risk category as a number of countries being impacted by the euro-zone debt crisis, such as Portugal, Spain and Italy!

But a further analysis of these failures reveals something more alarming. The more in-depth analysis of this situation by the Australian Securities and Investment Commission<sup>3</sup> (ASIC) reveals that the “poor strategic management” of these businesses was a much higher contributor to failure than the poor economic and trading conditions. And this applies to medium and larger businesses as well!

I am concerned by the view expressed by several leaders and commentators that strategy is “unimportant” or “irrelevant” in these uncertain and complex times. I believe it reveals a knee-jerk reaction and superficial understanding of the concept of strategy. Moreover, it often encourages ad-hoc and poorly conceived responses to a very challenging operating environment.

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<sup>1</sup> Yahoo!7 Small Business, February 2012

<sup>2</sup> D&B Business Failures and Start-ups Analysis for the December 2011 quarter

<sup>3</sup> [Australian Insolvency Statistics, Australian Securities and Investment Commission, 20 December 2010](#)

## What is “good” strategy?

To assist in defining “bad” strategy, it is useful to begin with a description of “good” strategy.

Strategy is about capturing and understanding the logic of a situation, and then developing a coherent program of actions to address it. Note that there is no separation between “strategy” and the “execution”. True strategy captures the overall challenge faced by the organisation and outlines a way of dealing with it. It represents how and why the organisation will move forward in response to a specific challenge.

Rumelt<sup>4</sup> identifies the three essential elements of any strategy:

### 1. Diagnosis of the situation

This is essentially a situation analysis that defines the nature of the problem or challenge from a systems perspective. We need to understand:

- why this problem or challenge exists
- the key elements that make it up, and
- how these elements are related.

### 2. Guiding policy

This is an outline of the approach to dealing with the situation described above. It describes the overall direction and philosophy of the approach, without necessarily going into the detailed actions.

### 3. Coherent program of action

This outlines the program of coordinated initiatives and resources that will be deployed to bring about the guiding policy.

Critically, “good” strategy includes all three elements in a coherent set of analyses, arguments and actions. Stand-alone initiatives or exaltations such as “we will gain 5% market share” are NOT strategy - they are simply a set of intentions or imperatives from leadership.

## And “bad” strategy?

Clearly, “bad” strategy is everything that good strategy is not. But more than that, we can define some of the classical hallmarks of “bad” strategy<sup>5</sup>:

### 1. Use of fluffy statements

These are superficial statements of the obvious, combined with lots of buzzwords - eg: “*Our strategy is to add value to all stakeholders by leveraging our proprietary intellectual property across all geographies*”. These meaningless statements often mask the fact that leadership has failed to do the analysis or thinking to produce real competitive advantage.

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<sup>4</sup> Richard Rumelt (2012), *Good strategy, Bad strategy*, Profile Books, London

<sup>5</sup> Rumelt, op cit

## 2. Confusing planning with strategy

Planning is where we state a goal, develop some objectives and a plan of action to achieve this. So, we may have a goal of “*increasing our market share*” and a series of objectives and actions that outline how much share we want to win in each of our market segments. But where is the strategy?

Where is the analysis of how market share is won in this market or why we currently perform at the level we do? Do we understand the key drivers of share in this market? Do we know how we perform against these key drivers? And what about our guiding policy that will address these challenges and the real problem of winning market share?

Only when these elements of diagnosis and guiding policy are included in our analysis and thinking, can we consider this to be a strategy. Otherwise, we have little more than a well structured wish list!

## 3. Avoiding the real challenge

Many of us have sat through meetings where no one dared to mention the “elephant in the room” - ie: the real problem or challenge that was not being confronted. It’s almost as if people hope the elephant / big problem will disappear if they ignore it and carry on with business as usual.

“Bad” strategy fails to confront the real challenge confronting the organisation, and focuses instead on dealing with the issues that are understood and can be managed. And so, we might have a situation where people turnover is very high and costly because of an inappropriate leadership style; but the strategy focuses on how we might reduce this turnover by increasing incentives and bonuses. The strategy avoids the real problem in the organisation because the diagnosis was not completed and the resulting guiding policy was unable to deal with the challenge.

# How can we improve the quality of our strategy?

Based on the analysis above, there are three approaches that can be followed to create “good” strategy:

## 1. Recognise the complexity in diagnosing situations

In most cases, the challenge or problem facing an organisation might be considered as *complex* - ie: there are multiple elements that define the situation, and these are connected in an interdependent way.

As we move from simple or complicated problems to *complex* problems, we know that the relationship between cause and effect diminishes rapidly<sup>6</sup>. Accordingly, there are rarely examples of best practice that could simply be “imported” into these situations to provide the solution or strategy for moving forward<sup>7</sup>.

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<sup>6</sup> David Snowden & Mary Boone (2007), *A Leader’s Framework for Decision Making*, HBR, November

<sup>7</sup> I often come across instances where an executive, who has been brought into an organisation to deal with a complex challenge, simply relies on strategies or approaches that has worked in the past. The results of failing to properly diagnose the new situation can be quite damaging

This means that we should bring multiple perspectives to bear on the diagnosis of a complex situation. Monarchies rarely foment their own overthrow, and executives should be acutely aware that they have a somewhat constricted view of the situation as a consequence of their position and perspective within the organisation. A multiple stakeholder view is invaluable as we seek to develop a richer understanding of a challenge and its key drivers. The richer the understanding of the challenge or problem, the better the chances of producing “good” strategy.

## **2. Accommodate alternative views of the future**

The purpose of strategy is to gain some form of competitive advantage by identifying the *decisive point* in a situation - ie: the event or initiative that shifts the existing order in the problem or challenge<sup>8</sup>. This is a critical point of difference between strategy and planning<sup>9</sup>.

Because any complex system is inherently unstable, complex challenges or problems can unfold in different ways when we seek to address them. Every move we make changes the situation and potentially shifts the outcome.

Accordingly, we should accommodate a series of alternative futures in our diagnosis of the situation - ie: scenarios that describe the different ways in which the situation might unfold. Each of these scenarios would then have a decisive point - ie: something that would address the challenge or problem and move the organisation ahead.

The implication is that “good” strategy implicitly embraces *learning* - ongoing learning that assesses the situation and judges which of the alternative scenarios are unfolding. It also requires *judgement* to discern between *outlier* events and those that signal that the diagnosis of the situation needs to shift to another scenario.

## **3. Ensure cohesion in the program of action**

Once the guiding policy is in place, leaders should ensure that the program of action is appropriately focused and internally consistent. Successfully exploiting a decisive point in a challenge requires a consistent and coherent set of initiatives. A study of complex systems and challenges suggests that the internal momentum in these situations is quite resilient to change in the early stages of intervention<sup>10 11</sup>.

Because of this, leadership has the important task of ensuring an ongoing resource focus on the strategy, and also to ensure that resources are not misdirected to those activities not directly associated with the strategy. Strategy is about deciding what we *won't do* as much as what we *will do*.

Finally, ensuring “good” strategy also encompasses the difficult task of assessing when to shift the guiding policy (hopefully after re-assessing the diagnosis) and to change the program of action and resource allocation. This is a difficult balancing act between

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<sup>8</sup> A classical illustration of this is Sun Tzu's concept that the *highest form of victory* is when the enemy doesn't come out to fight, because they understand that you have redefined the battle in a manner that they cannot win

<sup>9</sup> Planning simply focuses on the concentrated deployment of effort and resource around a given objective

<sup>10</sup> See Mark Roeder's (2010) excellent analysis of the GFC in *The Big Mo*, Harper Collins, Sydney

<sup>11</sup> See also the concept of “Strange Attractors” in complex systems theory - a phenomenon that explains why complex situations prove difficult to address in the short term

constant renewal of the diagnosis versus achieving some coherence and consistency in the guiding policy and program of action.

## Good vs Bad strategy

I have tried to dispel the view that strategy is less important in these complex and uncertain times. Instead, it appears as if the need for strategy is greater than ever in these difficult conditions.

Furthermore, the issue is *not* about strategy vs execution - it is really about *good vs bad* strategy, and what to do about improving the quality of your own strategy and strategic thinking.

I urge you to consider whether your strategy has a thorough diagnosis of the challenges facing the organisation, a logical guiding policy to address these challenges, and a coherent program of action to put all this into effect.

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