

Paul Leinwand and Cesare Mainardi, *The Essential Advantage: How to Win with a Capabilities-Driven Strategy* (Harvard Business Review Press, 2011)

Michael A. Cusumano, *Staying Power: Six Enduring Principles for Managing Strategy and Innovation in an Uncertain World* (Oxford University Press, 2010)

Richard P. Rumelt, *Good Strategy, Bad Strategy: The Difference and Why It Matters* (Crown Business, 2011)

# STRATEGY

## Asking the Right Questions

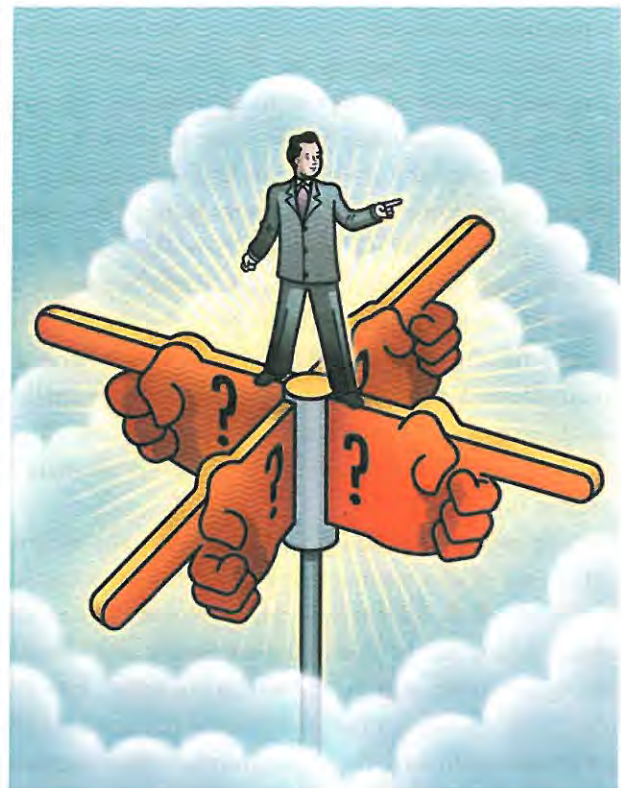
by Phil Rosenzweig

**THIS YEAR'S BEST BUSINESS BOOKS** on strategy are notable primarily for what they're not. They're not one more treatment of global strategy, with particular attention to the BRIC countries (Brazil, Russia, India, and China). They're not about finding the next new thing, thriving in turbulent times, or some new technological frontier, like social media. Nor do they claim to reveal the secret of corporate success, guaranteeing breakthrough performance or market leadership if we follow this or that formula.

Instead, the best strategy books of the year emphasize basic principles that should never be far from the mind of the practitioner. Although they differ in scope and tone as well as perspective — two are written by academics and one by consultants — they converge on a handful of timeless themes. If each is a valuable addition to the strategy bookshelf, in combination they offer even more, helping to remind us of the most important questions in the discipline.

### Premium on Coherence

*The Essential Advantage: How to Win with a Capabilities-Driven Strategy*, by Paul Leinwand and Cesare Mainardi, partners at Booz & Company (the publisher of this magazine), provides a solid overview of current strategic thinking. The two consultants open the book by introducing the intriguing concept of “the right to win.” (See “The Right to Win,” by Cesare Mainardi



with Art Kleiner, *s+b*, Winter 2010.) At first glance, the phrase makes no sense: A company may have a right to compete, yes, but surely not a right to win. Success is earned; it's not an entitlement. But that's the point. The phrase forces us to ask: Does our strategy, along with the resources and capabilities that back it up, give us a reasonable chance of success? Are we just playing the game, or do we have what it takes to win?

When Leinwand and Mainardi write, “The essential advantage in business is coherence. Our insight is that simple,” they take their place in the line of strategic thought that stresses not a single part of the organization, but how all the parts work together — a notion sometimes called *fit* or *alignment*. Coherence, they say, means that a company must be focused and clear-

minded about three elements: its market positioning (or “way to play”), its most distinctive capabilities, and its product and service portfolio. “In a coherent company,” they argue, “the right lineup of products and services naturally results from conscious choices about the capabilities needed for a deliberate way to play.”

The authors ground their argument by showing a correlation between recent financial performance and coherence in the consumer packaged goods industry, and claim that the same relationship holds true across industries, whether financial services, telecommunications, healthcare, or something else. They contend that a premium “accrues to any company that moves along the continuum to align its way to play, capabilities system, and product and service fit.” Perhaps so, yet even if there is a correlation, the direction of causality isn’t clear. Are coherent firms more successful than others, or do successful firms remain coherent? (One of the books the authors cite, *Profit from the Core* [Harvard Business School Press, 2001] by Chris Zook, a partner at Bain & Company, has the same problem: Are focused companies the most profitable, or do profitable firms remain focused while less-profitable ones feel compelled to diversify?) These questions, although fundamental in any empirical examination of company performance, remain unanswered.

To capture the benefits of coherence, the authors advise the reader to take a series of deliberate steps “to reconsider your current strategy, overcome the conventional separation between outward-facing and inward-facing activities, and bring your organization into focus.” *The Essential Advantage* goes on to examine each of these steps in some depth, beginning with an exploration of external forces, and then shifting toward a consideration of internal resources and capabilities. Along the way, the authors set forth the notion of the “capabilities-driven portfolio,” which is evaluated on two dimensions, financial value (from attractive to unattractive) and strategic value (which considers the portfolio’s alignment with the organization’s capabilities system). The implication is that we should think of a portfolio of activities not merely in terms of growth and profit, but in terms of how they fit together and contribute to the overall performance of the company. The final section addresses the process of developing a strategy that is based on “what you do, not what you have,” and the organization design and people issues that accompany it.

For the practitioner who wishes to take concrete steps toward sound strategic decisions and ensure that

they are aligned with the necessary resources, *The Essential Advantage* is a solid and practical book. It provides managers with a framework to follow, while always keeping in mind the question, Do we have the right to win?

### Patterns of Success

Michael A. Cusumano, a veteran researcher at MIT, looks for patterns of lasting success in his latest book, *Staying Power: Six Enduring Principles for Managing Strategy and Innovation in an Uncertain World*. In it, he reviews the companies he has studied in depth during his career — first, Toyota and the broader Japanese auto industry in the late 1980s, and then Microsoft, Intel, and other information technology companies in the 1990s — to identify “the big ideas that create staying power and superior performance.” These are the principles that should have enormous value for managers in all industries. (See “The Enduring Principles of High-Tech Success,” by David K. Hurst, *s+b*, Autumn 2011.)

As the book’s title indicates, Cusumano is concerned with success over the long term. He writes, “I concluded that a handful of principles — I have chosen six — appear to have been essential to the effective management of strategy and innovation over long periods of time.” It’s worth noting his use of words like *appear* and *I concluded*, which admit subjective judgment, rather than claiming a measure of truth or scientific precision. Indeed, there’s no pretense of conducting quantitative analysis in this book; rather, it represents an effort to seek patterns from in-depth case studies.

The first two principles describe fundamentally different ways of thinking about strategy and business models. *Platforms, not just products* draws on the successes of Toyota and Microsoft to illustrate the power of a strategy that generates complementary products, builds positive feedback, and makes incumbents harder to dislodge. In both companies, global leadership was based on the ability to create platforms, not just stand-alone products. *Services, not just products (or platforms)*, the second principle, stresses the importance of offering services as an effective way to avoid the commoditization of products. Not only do services add revenue, often at a higher profit margin, but they are also harder to replace.

The next four principles are all related to agility — to sensing and responding quickly and flexibly. *Capabilities, not just strategy* stresses the need to develop capabilities over time, rather than rely on any single strategic

decision. *Pull, not just push* is associated with Japanese manufacturing methods, but, according to Cusumano, it goes far beyond that application. It pertains to product design, for example, because the ability to draw on customer preferences and ideas early in the process can confer an advantage. *Scope, not just scale* reminds us that in addition to the benefits of scale, which can lead to lower per-unit cost, successful companies seek out economies across activities such as research, product development, engineering, and more, sharing ideas and applying novel insights from one part of the company to others, allowing the whole to be greater than the sum of its parts and often more robust and better able to withstand downturns. Finally, *flexibility, not just efficiency* stresses the importance of pursuing efficiency while also remaining able to adapt to changes in the marketplace as well as seeking advantages of innovation.

These six principles represent a set of guidelines that executives in any company or industry should consider in order to achieve high performance over the long term. Take them together, and instead of a conventional strategy aimed at pushing scale-efficient products, for example, we would think of developing capabilities that enable us to offer flexible platforms of services and products. For Cusumano, staying power comes not just from discrete strategic moves but ultimately from a mind-set of agility and responsiveness.

### Strategy Plain and Simple

The year's best and most original addition to the strategy bookshelf is Richard P. Rumelt's *Good Strategy, Bad Strategy: The Difference and Why It Matters*. Rumelt is a longtime strategy professor at UCLA, and before that at Harvard Business School, where he wrote a landmark work of scholarship and empirical rigor, *Strategy, Structure, and Economic Performance* (Harvard University Press, 1974), which was based on his prize-winning doctoral dissertation.

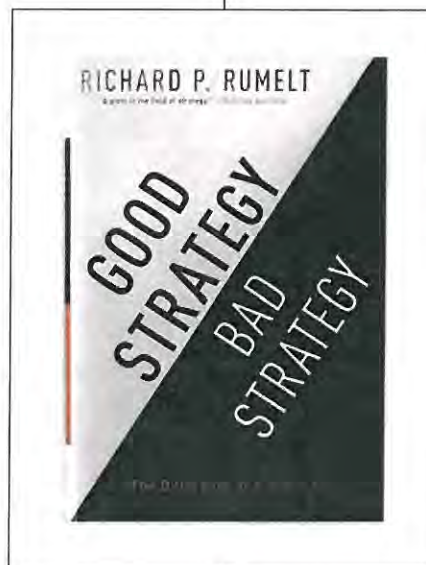
This book, however, takes a decidedly different tone. It is informal and personal, sprinkled with anecdotes and opinions, which are often contrarian. It is as if Rumelt decided, after years of scholarly restraint, to write a book that laid out exactly what he has learned

and observed over the last four decades. It is also a wide-ranging exploration, moving from business to politics to aerospace to the military, from the ancient to the modern, from diversified public corporations to family businesses, that places strategy in a broad context.

Unlike the many authors of business books and articles who use elaborate phrases and neologisms, Rumelt prefers candor and simplicity at every turn — beginning with the title. Duke Ellington was once asked to define jazz, and he famously replied: “There are only two kinds of music. Good music, and the other kind.” He felt no need to complicate matters with lots of theory and abstract concepts, and Rumelt clearly feels the same way about corporate strategy. Rumelt urges us to set aside fine-grained distinctions and unnecessary complications, in order to focus on the simplest distinction of all — good and bad. He has seen so much bad thinking about strategy that this basic dichotomy is important. It’s a way to remind us that for all the efforts we make to complicate things, good strategy is not all that complicated. If we can just avoid bad thinking and foolishness, we’re much of the way there.

What are the elements of bad strategy? Rumelt points to four: the failure to face the challenge, mistaking goals for strategy, bad strategic objectives, and “fluff.”

At its root, bad strategy reflects an inability to think clearly and to make sound choices based on analysis. The author dismisses those who would substitute wishful thinking for careful analysis, epitomized in his opinion of the New Thought movement, which goes back to the 1800s, but more recently has surfaced as the power of positive thinking and banishing negative thoughts. Shared visions of success cannot be the basis of strategy, says Rumelt, because “all analysis starts with the consideration of what may happen, including unwelcome events. I would not care to fly in an airplane designed by people who focused only on an image of a flying airplane and never considered models of failure.” Regarding vision and mission statements, Rumelt finds that they represent a “class of verbiage [that] is the mutant offspring of charismatic, then transformational, leadership. In reality, these are the flat-



footed attempts of organization men to turn the magic of personal charisma into a bureaucratic concept—charisma-in-a-can.”

So what is good strategy? It requires three things: a diagnosis that defines the challenge; a guiding policy for dealing with the challenge, and a set of coherent actions designed to carry out that policy. To help navigate the way forward, Rumelt offers numerous “guideposts”: vigilance about escalating fixed costs, awareness of transitions caused by deregulation, predictable biases in forecasting that draw on behavioral economics, and anticipation of incumbent responses. Sound strategic decisions are not enough, however; execution is essential, too. “Strategy is about action, about doing something. The kernel of a strategy must contain action,” writes Rumelt. “To have punch, actions should coordinate and build upon one another, focusing organizational energy.”

Good strategy calls for effective management and concerted efforts to combat entropy. It calls for the discipline needed to identify low performers and raise the level of overall performance. One “cannot fully understand the value of the daily work of managers unless one accepts the general tendency of unmanaged human structures to become less ordered, less focused, and more blurred around the edges,” writes Rumelt. He admires Alfred P. Sloan of General Motors Company, who insisted on a rigorous review to analyze performance and take action, writing, “Sloan’s product policy is an example of design, of order imposed on chaos. Making such a policy work takes more than a plan on a piece of paper. Each quarter, each year, each decade, corporate leadership must work to maintain the coherence of the design.”

Anyone hoping for a simple formula for strategic success will be disappointed. But in fact the message of *Good Strategy, Bad Strategy* is liberating. It reminds us that strategy need not be complicated. It’s not rocket science. And furthermore, you can spot the nonsense, simplify, and clarify. “A good strategy is, in the end, a hypothesis about what will work. Not a wild theory, but an educated judgment,” concludes Rumelt. “Good strategy grows out of an independent and careful assessment of the situation, harnessing individual insight to carefully crafted purpose. Bad strategy follows the

crowd, substituting popular slogans for insights.”

Many of the ideas in Rumelt’s book reinforce key points in *The Essential Advantage* and *Staying Power*. Like Paul Leinwand and Cesare Mainardi, he stresses the need for coherence. Like Michael Cusumano, he emphasizes strategic thinking as a process — a hypothesis to be answered with openness to new ideas. Each of these books reminds us of the basic elements of strategy: the need for clear-eyed analysis, courage to make specific choices, action in support of those decisions, and alignment throughout the organization. They are all about coherence, about developing capabilities not once but in a dynamic manner, and ultimately, about the agility needed to succeed over time.

None of these books guarantee success — not

“A good strategy is...a hypothesis about what will work,” concludes Rumelt. “Not a wild theory, but an educated judgment.”

Rumelt’s good strategy, not Cusumano’s six principles, not Leinwand and Mainardi’s essential advantage. In an uncertain and intensely competitive business world, even the best of actions don’t lead predictably to desired outcomes. Strategy is necessarily about competition, where performance is inherently relative, not absolute — a message driven home by the cover of *The Essential Advantage*, which shows a race among five runners, suggesting that success isn’t about being fast but about being faster than your competitors. Each of these authors knows that fundamental truth and doesn’t try to tell readers otherwise. Their books do an important service by keeping us focused on the most important questions about strategy. +

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