**View from the mountaintop**

Meet a brilliant strategist who is skeptical of strategic planning, the stock market, and PowerPoint presentations

By David Holt

Strategy and innovation have much in common, not all of it pretty. They are the questing beasts of mythology let loose in the world of business, which most of the time is concerned with process, maintenance, the status quo—what Richard Rumelt calls “doorknob polishing.” Rumelt is a professor of strategy at the Anderson School of Management at UCLA. Considered “the strategist’s strategist,” he was interviewed by the global management-consulting firm McKinsey & Company.

The high ground is natural to Rumelt. As a mountaineer he achieved several first ascents, and as an academic he was the first to find a link between strategy and profitability: moderately diversified companies outperform more diversified ones. He has also shown that being good at what you do matters more than what industry you are in.

Rumelt’s central themes: Most corporate strategic planning is an annual highly structured process, which is frustrating to many executives because it doesn’t add much value. To Rumelt, this exercise is really the setting of rolling multi-year budgets. While important, it is not strategy. In his view, the term “strategic planning” doesn’t even make sense. Planning is about how things are the same: taking the patterns of the past and extrapolating them into the future. The intention is to make incremental progress.

The goal of strategy, on the other hand, is to significantly improve performance. There are only two ways to do this, says Rumelt: to invent something new, which is a gamble; and to exploit a change in the environment (“take a position by investing in resources that will be made more valuable by the changes happening”). As a strategist, he clearly prefers the second option. (We in Atlantic Canada should take note. Around here, strategic innovation is mostly thought of as invention.)

Starting at the top, it is the CEO’s role to “absorb ambiguity” by defining the broad problem in narrower terms that the managers and business units can handle. By its nature, strategy involves a certain leap of faith. “Speculative judgments are the essence of strategic thinking— a substitute for having the clear connections between the positions we take and their economic outcomes,” says Rumelt. “They help us take a position in a world that is confusing and uncertain. You can’t get rid of ambiguity and uncertainty; they are the flip side of opportunity.”

Strategy “work” (his term) is best done by a small group of smart people. “Doing this kind of work is hard,” he says. “A strategic insight is essentially the solution to a puzzle, which is more likely to be done by an individual or a small team.”

Rumelt uses creative language, metaphors. Take a predatory posture, he says. Leap through the window of opportunity. In his descriptions, strategy appears episodic, unpredictable, and nonlinear—like the process of evolution. It is not something that can be put neatly on the calendar. During the interview, the word “insight” comes up again and again.

Entrepreneurial strategy is distinguished by a focus on the big wins and not on maintenance activities, he says. “There is no substitute for entrepreneurial insight, but almost all insight flows from the unexpected combination of two or more things.” The key for the company is to possess the skills to combine these elements effectively. Indeed, the great strategists in any field possess a rare gift: the ability to blend vision and creativity with current skills and abilities.

Although he has worked with a who’s who of corporate America, in his illustrations Rumelt keeps coming back to maverick Steve Jobs of Apple. A wonderful example of the “unexpected combination” is the iPod, which is the result of Apple’s ability to combine knowledge of three things: the music industry, hardware, and the Web.

To this mountaineer, the economic environment is “terrain,” with high ground and low ground. Today as never before, the terrain can be quickly shifted and even reversed by “earthquakes,” so strategy needs to be dynamic. In earlier decades it was usually static: performance was improved mostly by improving processes, not by changing direction.

The “locus of success” is a place that is difficult to replicate; it is based on intangible resources, such as how people do things. Competencies are created by activity, by doing: “They create advantages, but today advantages evaporate quickly.”

Rumelt also weighs in on what not to do. When companies get too diversified, some of the units are inevitably unprofitable and are carried by the others. “No one wants the unrewarding task of weeding the garden,” he says.

Rumelt also cautions the CEOs of public companies about the temptation of managing for stock prices, which respond to changes in expectations, not performance. His logical mind considers this a mild form of insanity. What’s more, the irrational volatility of the market produces a “signal-to-noise ratio that is very low,” says Rumelt, who began life as an electrical engineer. “For a CEO, living with the stock market as a constant factor in your life takes iron nerve and an ability to be detached.”

Finally, Rumelt loathes PowerPoint presentations. Putting things in point form hides contradictions, he asserts. Better to try to write three short clear paragraphs. Good writing is good thinking, I say. Amen to that.

*Strategy column in* Progress *magazine, 2008.*