CHAPTER 2

CHARTING A COMPANY’S DIRECTION:
Its Vision, Mission, Objectives, and Strategy

Learning Objectives

THIS CHAPTER WILL HELP YOU UNDERSTAND:

LO 1 Why it is critical for company managers to have a clear strategic vision of where a company needs to head and why.

LO 2 The importance of setting both strategic and financial objectives.

LO 3 Why the strategic initiatives taken at various organizational levels must be tightly coordinated to achieve companywide performance targets.

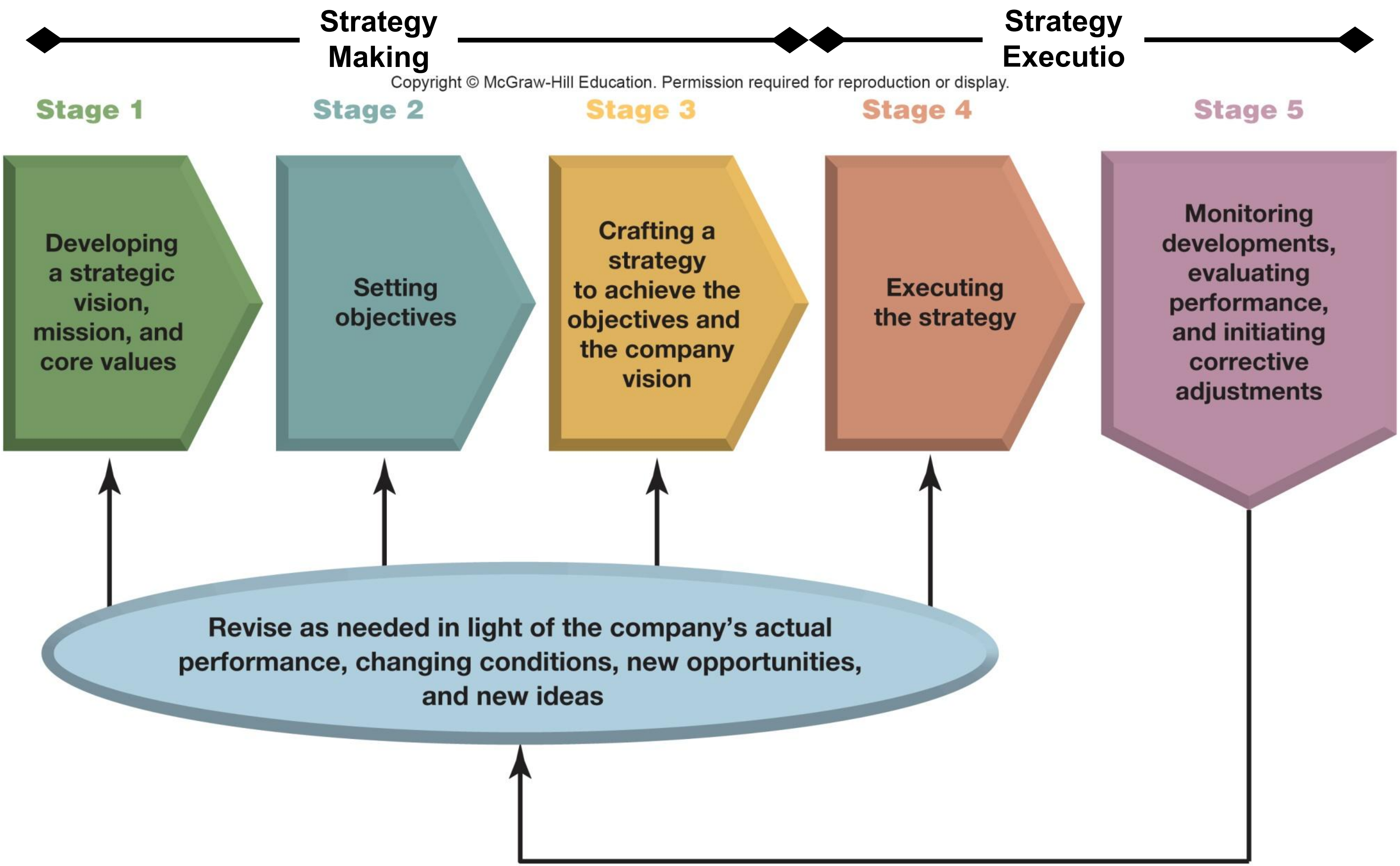
LO 4 What a company must do to achieve operating excellence and to execute its strategy proficiently.

LO 5 The role and responsibility of a company's board of directors in overseeing the strategic management process.

WHAT DOES THE STRATEGY-MAKING, STRATEGY-EXECUTING PROCESS ENTAIL?

1. Developing a strategic vision, a mission statement, and a set of core values.
2. Setting objectives for measuring the firm's performance and tracking its progress.
3. Crafting a strategy to move the firm along its strategic course and to achieve its objectives.
4. Executing the chosen strategy efficiently and effectively.
5. Monitoring developments, evaluating performance, and initiating corrective adjustments.

FIGURE 2.1 The Strategy-Making, Strategy-Executing Process



STRATEGIC MANAGEMENT PRINCIPLE

- A company's **strategic plan** lays out its future direction, performance targets, and strategy.

STAGE 1: DEVELOPING A STRATEGIC VISION, A MISSION STATEMENT, AND A SET OF CORE VALUES

- Developing a Strategic Vision:
  - Delineates management's future aspirations for the firm to its stakeholders.
  - Provides direction—"where we are going."
  - Sets out the compelling rationale (strategic soundness) for the firm's direction.
  - Uses *distinctive* and *specific* language to set the firm apart from its rivals.

STRATEGIC MANAGEMENT PRINCIPLE

- A **strategic vision** describes management's aspirations for the future and delineates the company's strategic course and long-term direction.

TABLE 2.1 Wording a Vision Statement—the Dos and Don'ts

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The Dos	The Don'ts
Be graphic. Paint a clear picture of where the company is headed and the market position(s) the company is striving to stake out.	**Don't be vague or incomplete.** Never skimp on specifics about where the company is headed or how the company intends to prepare for the future.
Be forward-looking and directional. Describe the strategic course that will help the company prepare for the future.	**Don't dwell on the present.** A vision is not about what a company once did or does now; it's about "where we are going."
Keep it focused. Focus on providing managers with guidance in making decisions and allocating resources.	**Don't use overly broad language.** Avoid all-inclusive language that gives the company license to pursue any opportunity.
Have some wiggle room. Language that allows some flexibility allows the directional course to be adjusted as market, customer, and technology circumstances change.	**Don't state the vision in bland or uninspiring terms.** The best vision statements have the power to motivate company personnel and inspire shareholder confidence about the company's future.
Be sure the journey is feasible. The path and direction should be within the realm of what the company can accomplish; over time, a company should be able to demonstrate measurable progress in achieving the vision.	**Don't be generic.** A vision statement that could apply to companies in any of several industries (or to any of several companies in the same industry) is not specific enough to provide any guidance.
Indicate why the directional path makes good business sense. The directional path should be in the long-term interests of stakeholders (especially shareholders, employees, and suppliers).	**Don't rely on superlatives.** Visions that claim the company's strategic course is the "best" or "most successful" usually lack specifics about the path the company is taking to get there.
Make it memorable. To give the organization a sense of direction and purpose, the vision needs to be easily communicated. Ideally, it should be reducible to a few choice lines or a memorable slogan.	**Don't run on and on.** A vision statement that is not short and to the point will tend to lose its audience.

Sources: John P. Kotter, *Leading Change* (Boston: Harvard Business School Press, 1996); Hugh Davidson, *The Committed Enterprise* (Oxford: Butterworth Heinemann, 2002); and Michel Robert, *Strategy Pure and Simple II* (New York: McGraw-Hill, 1992).

ILLUSTRATION CAPSULE 2.1

Examples of Strategic Visions—How Well Do They Measure Up?

Vision Statement for Coca-Cola

Our vision serves as the framework for our Roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth.

- People: Be a great place to work where people are inspired to be the best they can be.
- Portfolio: Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people's desires and needs.
- Partners: Nurture a winning network of customers and suppliers; together we create mutual, enduring value.
- Planet: Be a responsible citizen that makes a difference by helping build and support sustainable communities.
- Profit: Maximize long-term return to shareowners while being mindful of our overall responsibilities.
- Productivity: Be a highly effective, lean and fast-moving organization.

Effective Elements

- Graphic
- Focused
- Makes good business sense
- Flexible

Shortcomings

- Long
- Not forward-looking

ILLUSTRATION CAPSULE 2.1

Examples of Strategic Visions—How Well Do They Measure Up?

Vision Statement for Proctor & Gamble

We will provide branded products and services of superior quality and value that improve the lives of the world's consumers, now and for generations to come. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders and the communities in which we live and work to prosper.

Effective Elements	Shortcomings
• Forward-looking • Flexible • Feasible • Makes good business sense	• Not graphic • Not focused • Not memorable

ILLUSTRATION CAPSULE 2.1

Examples of Strategic Visions—How Well Do They Measure Up?

Vision Statement for Heinz

We define a compelling, sustainable future and create the path to achieve it.

Effective Elements	Shortcomings
• Forward-looking • Flexible	• Not graphic • Not focused • Confusing • Not memorable • Not necessarily feasible

ILLUSTRATION CAPSULE 2.1

Examples of Strategic Visions—How Well Do They Measure Up?

- For which of these businesses is it the most difficult to create a vision statement?
- How does the scope of a business affect the language of its vision statement?
- How would you reword the Coca-Cola mission statement to reduce it to less than 100 words?
(Coca-Cola currently = 121 words)

COMMUNICATING THE STRATEGIC VISION

- Why Communicate the Vision:
  - Fosters employee commitment to the firm's chosen strategic direction.
  - Ensures understanding of its importance.
  - Motivates, informs, and inspires internal and external stakeholders.
  - Demonstrates top management support for the firm's future strategic direction and competitive efforts.

STRATEGIC MANAGEMENT PRINCIPLE

- An effectively communicated vision is a valuable management tool for enlisting the commitment of company personnel to engage in actions that move the company forward in the intended direction.

PUTTING THE STRATEGIC VISION IN PLACE

- Put the vision in writing and distribute it.
- Hold meetings to personally explain the vision and its rationale.
- Create a memorable slogan that captures the essence of the vision.
- Emphasize the positive payoffs for making the vision happen.

WHY A SOUND, WELL-COMMUNICATED STRATEGIC VISION MATTERS

- It crystallizes senior executives' own views about the firm's long-term direction.
- It reduces the risk of rudderless decision making.
- It is a tool for winning the support of organization members to help make the vision a reality
- It provides a beacon for lower-level managers in setting departmental objectives and crafting departmental strategies that are in sync with the firm's overall strategy.
- It helps an organization prepare for the future.

DEVELOPING A COMPANY MISSION STATEMENT

- The Mission Statement:
  - Uses specific language to give the firm its own unique identity.
  - Describes the firm's current business and purpose—"who we are, what we do, and why we are here."
  - Should focus on describing the firm's business, not on "making a profit"—earning a profit is an objective not a mission.

STRATEGIC MANAGEMENT PRINCIPLE

- The distinction between a strategic vision and a mission statement is fairly clear-cut:
  - **A strategic vision** portrays a firm's aspirations for its future ("where we are going")
  - A firm's **mission** describes its purpose and its present business ("who we are, what we do, and why we are here").

THE IDEAL MISSION STATEMENT

- Identifies the firm's product or services.
- Specifies the buyer needs it seeks to satisfy.
- Identifies the customer groups or markets it is endeavoring to serve.
- Specifies its approach to pleasing customers.
- Sets the firm apart from its rivals.
- Clarifies the firm's business to stakeholders.

LINKING THE VISION AND MISSION WITH CORE VALUES

- **Core Values**
  - Are the beliefs, traits, and behavioral norms that employees are expected to display in conducting the firm's business and in pursuing its strategic vision and mission.
  - Become an integral part of the firm's culture and what makes it tick when strongly espoused and supported by top management.
  - Matched with the firm's vision, mission, and strategy contribute to the firm's business success.

CORE CONCEPT

- A firm's **core values** are the beliefs, traits, and behavioral norms that the firm's personnel are expected to display in conducting the firm's business and pursuing its strategic vision and mission.

ILLUSTRATION CAPSULE 2.2

Patagonia, Inc.: A Values-Driven Company

- Patagonia's Mission Statement
  - Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.
- Patagonia's Core Values
  - **Quality:** Pursuit of ever-greater quality in everything we do.
  - **Integrity**: Relationships built on integrity and respect.
  - **Environmentalism**: Serve as a catalyst for personal and corporate action.
  - **Not Bound by Convention**: Our success—and much of the fun—lies in developing innovative ways to do things.

ILLUSTRATION CAPSULE 2.2

Patagonia, Inc.: A Values-Driven Company

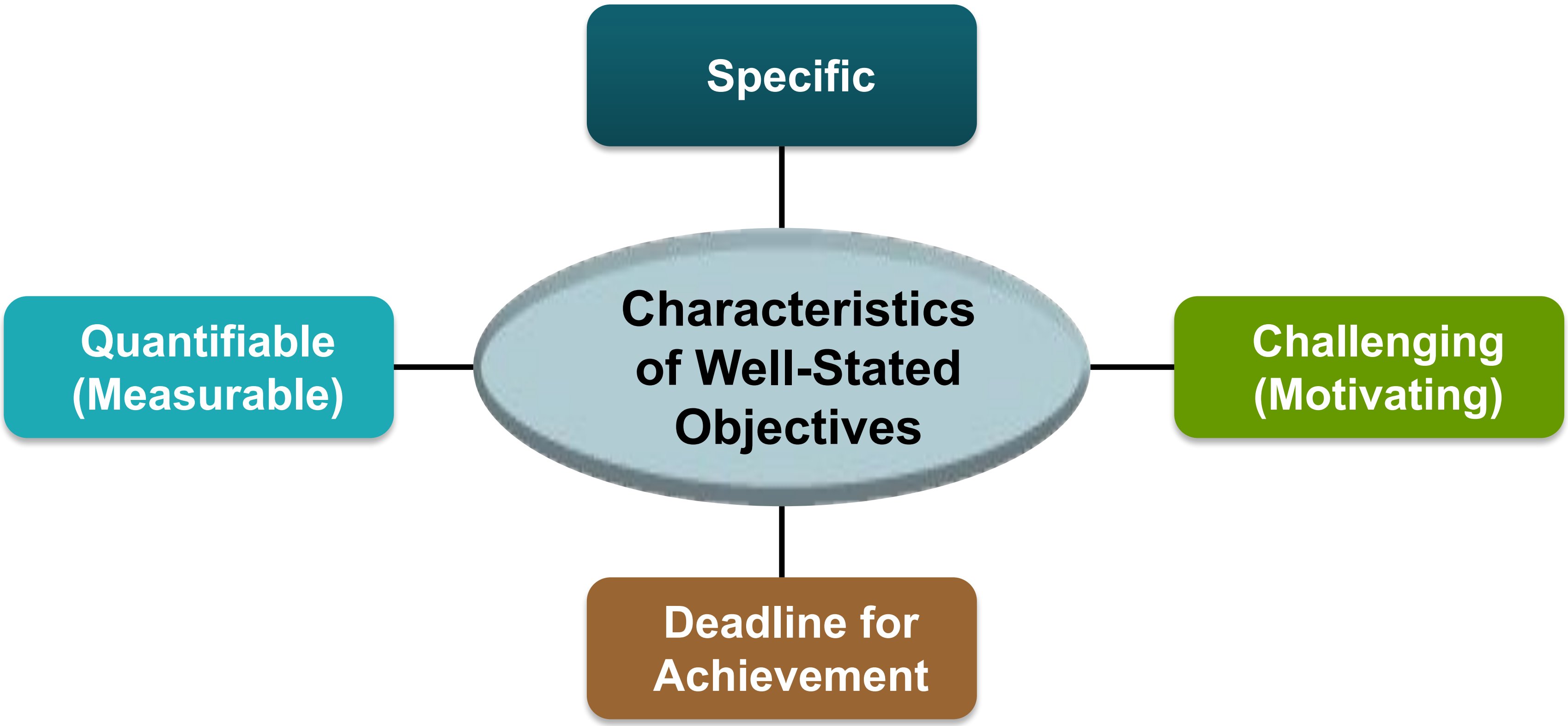
♦ Patagonia's Core Values

- How do Patagonia's core values reflect the value it places on its human capital?
- What effects do Patagonia's core values have on its hiring practices?
- How does Patagonia's relentless attention to the management of its supply chain support its core values?
- Why has Patagonia been successful in holding its contract manufacturers accountable when other firms have not?

STAGE 2: SETTING OBJECTIVES

- The Purposes of Setting Objectives:
  - To convert the vision and mission into specific, measurable, timely performance targets.
  - To focus efforts and align actions throughout the organization.
  - To serve as yardsticks for tracking a firm's performance and progress.
  - To provide motivation and inspire employees to greater levels of effort.

CONVERTING THE VISION AND MISSION INTO SPECIFIC PERFORMANCE TARGETS



CORE CONCEPT

- **Objectives** are an organization's performance targets—the specific results management wants to achieve.
- **Stretch objectives** set performance targets high enough to stretch an organization to perform at its full potential and deliver the best possible results.

CORE CONCEPT

- A company exhibits **strategic intent** when it relentlessly pursues an ambitious strategic objective, concentrating the full force of its resources and competitive actions on achieving that objective.

CHARACTERISTICS OF STRATEGIC INTENT

- Indicates firm's intent to making *quantum gains* in competing against key rivals and to establishing itself as a winner in the marketplace, often against long odds.
- Involves establishing a *grandiose performance target* out of proportion to immediate capabilities and market position but then devoting the firm's full resources and energies to achieving the target over time.
- Entails *sustained, aggressive actions* to take market share away from rivals and achieve a much stronger market position.

THE IMPERATIVE OF SETTING STRETCH OBJECTIVES

- Setting stretch objectives promotes better overall performance because stretch targets:
  - Push a firm to be more inventive.
  - Increase the urgency for improving financial performance and competitive position.
  - Cause the firm to be more intentional and focused in its actions.
  - Act to prevent internal inertia and contentment with modest to average gains in performance.

THE NEED FOR SHORT-TERM AND LONG-TERM OBJECTIVES

- **Short-Term Objectives:**
  - Focus attention on quarterly and annual performance improvements to satisfy near-term shareholder expectations.
- **Long-Term Objectives:**
  - Force consideration of what to do now to achieve optimal long-term performance.
  - Stand as a barrier to an undue focus on short-term results.

CORE CONCEPTS

- **Financial objectives** relate to the financial performance targets management has established for the organization to achieve.
- **Strategic objectives** relate to target outcomes that indicate a company is strengthening its market standing, competitive position, and future business prospects.

WHAT KINDS OF OBJECTIVES TO SET

- Financial Objectives
  - Communicate top management's goals for financial performance.
  - Are focused internally on the firm's operations and activities.
- Strategic Objectives
  - Are the firm's goals related to marketing standing and competitive position.
  - Are focused externally on competition vis-à-vis the firm's rivals.

SETTING FINANCIAL OBJECTIVES

Examples of Financial Objectives

- An *x* percent increase in annual revenues
- Annual increases in after-tax profits of *x* percent
- Annual increases in earnings per share of *x* percent
- Annual dividend increases of *x* percent
- Profit margins of *x* percent
- An *x* percent return on capital employed (ROCE) or return on shareholders' equity investment (ROE)
- Increased shareholder value—in the form of an upward-trending stock price
- Bond and credit ratings of *x*
- Internal cash flows of *x* dollars to fund new capital investment

SETTING STRATEGIC OBJECTIVES

Examples of Strategic Objectives
♦ Winning an *x* percent market share ♦ Achieving lower overall costs than rivals ♦ Overtaking key competitors on product performance or quality or customer service ♦ Deriving *x* percent of revenues from the sale of new products introduced within the next five years ♦ Having broader or deeper technological capabilities than rivals ♦ Having a wider product line than rivals ♦ Having a better-known or more powerful brand name than rivals ♦ Having stronger national or global sales and distribution capabilities than rivals ♦ Consistently getting new or improved products and services to market ahead of rivals

CORE CONCEPT

- The **Balanced Scorecard** is a widely used method for combining the use of both strategic and financial objectives, tracking their achievement, and giving management a more complete and balanced view of how well an organization is performing.

THE NEED FOR A BALANCED APPROACH TO OBJECTIVE SETTING

- A balanced scorecard measures a firm's optimal performance by:
  - Placing a balanced emphasis on achieving both financial and strategic objectives.
  - Tracking both measures of financial performance and measures of whether a firm is strengthening its competitiveness and market position.

GOOD STRATEGIC PERFORMANCE IS THE KEY TO BETTER FINANCIAL PERFORMANCE

- Good financial performance is not enough:
  - Current financial results are *lagging indicators* of past decisions and actions which does not translate into a stronger competitive capability for delivering better financial results in the future.
  - Setting and achieving *stretch strategic objectives* signals a firm's growth in both competitiveness and strength in the marketplace.
  - Good strategic performance is a *leading indicator* of a firm's increasing capability to deliver improved future financial performance.

SETTING OBJECTIVES FOR EVERY ORGANIZATIONAL LEVEL

- Breaks down performance targets for each of the organization’s separate units.
- Fosters setting performance targets that support achievement of firm-wide strategic and financial objectives.
- Extends the top-down objective-setting process to all organizational levels.

ILLUSTRATION CAPSULE 2.3

Examples of Company Objectives

- Walgreens, Pepsico, Yum! Brands
  - Which company included no strategic objectives in its listing of objectives?
  - Which company has the shortest-term focus based on it objectives? Which has the longest-term focus?
  - Which company's listing of objectives appears to best fit the balanced scorecard concept?

STAGE 3: CRAFTING A STRATEGY

- **Strategy Making:**
  - Addresses a series of strategic *how's*.
  - Requires choosing among strategic alternatives.
  - Promotes actions to do things differently from competitors rather than running with the herd.
  - Is a *collaborative team effort* that involves managers in various positions at all organizational levels.

STRATEGY MAKING INVOLVES MANAGERS AT ALL ORGANIZATIONAL LEVELS

- Chief Executive Officer (CEO)
  - Has ultimate responsibility for *leading* the strategy-making process as strategic visionary and as chief architect of strategy.
- Senior Executives
  - Fashion the major strategy components involving their areas of responsibility.
- Managers of subsidiaries, divisions, geographic regions, plants, and other operating units (and key employees with specialized expertise)
  - Utilize on-the-scene familiarity with their business units to orchestrate their specific pieces of the strategy.

STRATEGIC MANAGEMENT PRINCIPLE

- In most companies, crafting and executing strategy is a ***collaborative team*** effort in which every manager has a role for the area he or she heads; it is rarely something that only high-level managers do.

WHY IS STRATEGY-MAKING OFTEN A COLLABORATIVE PROCESS?

- The many complex strategic issues involved and multiple areas of expertise required can make the strategy-making task too large for one person or a small executive group.
- When operations involve different products, industries and geographic areas, strategy-making authority must be delegated to functional and operating unit managers such that *all managers have a strategy-making role—ranging from major to minor—for the area they head!*

A FIRM'S STRATEGY-MAKING HIERARCHY

Corporate Strategy	Multibusiness Strategy—how to gain synergies from managing a portfolio of businesses together rather than as separate businesses

Two-Way Influence

Business Strategy	• How to strengthen market position and gain competitive advantage • Actions to build competitive capabilities of single businesses • Monitoring and aligning lower-level strategies

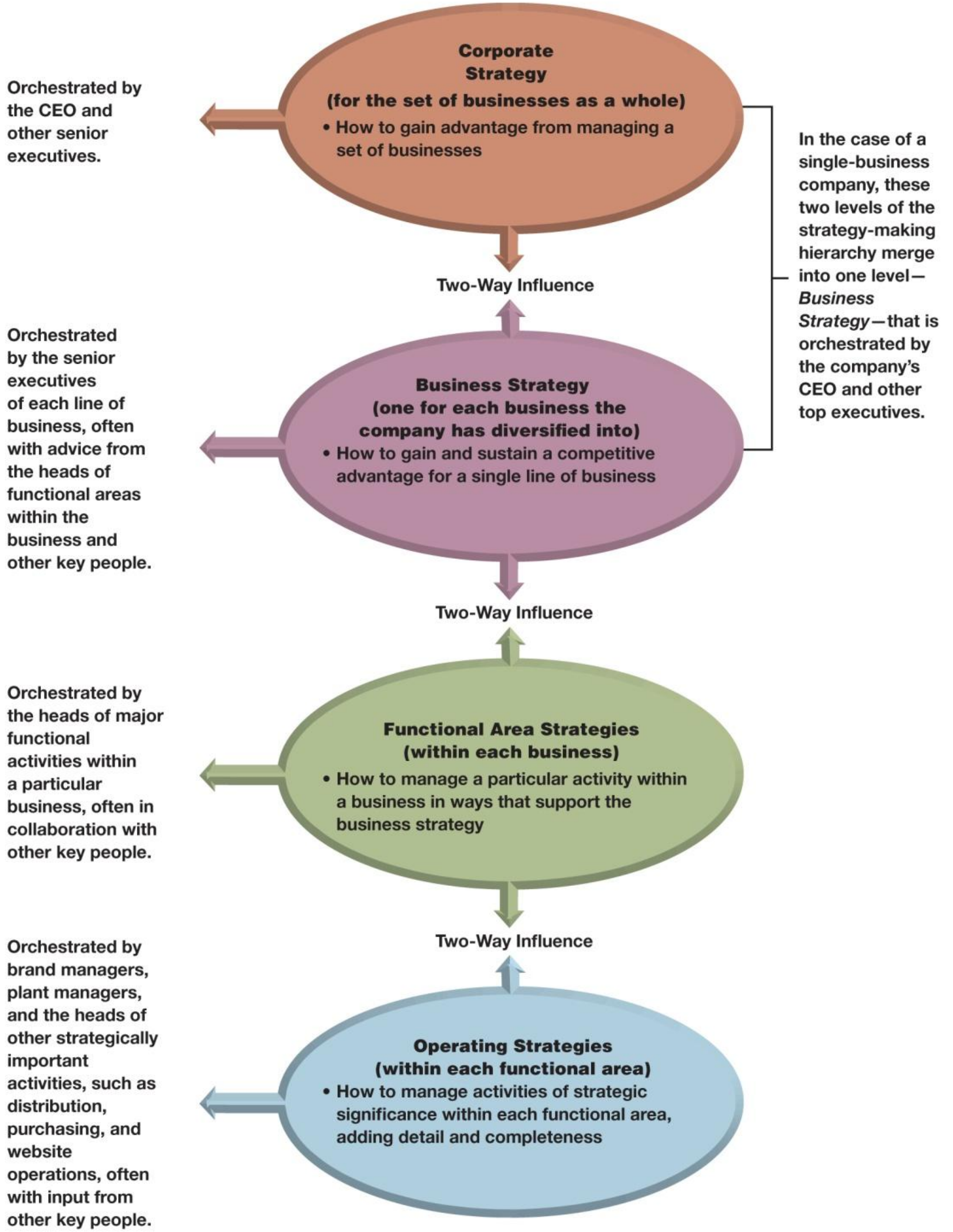
Two-Way Influence

Functional Area Strategies	• Add relevant detail to the how's of the business strategy • Provide a game plan for managing a particular activity in ways that support the business strategy

Two-Way Influence

Operating Strategies	• Add detail and completeness to business and functional strategies • Provide a game plan for managing specific operating activities with strategic significance

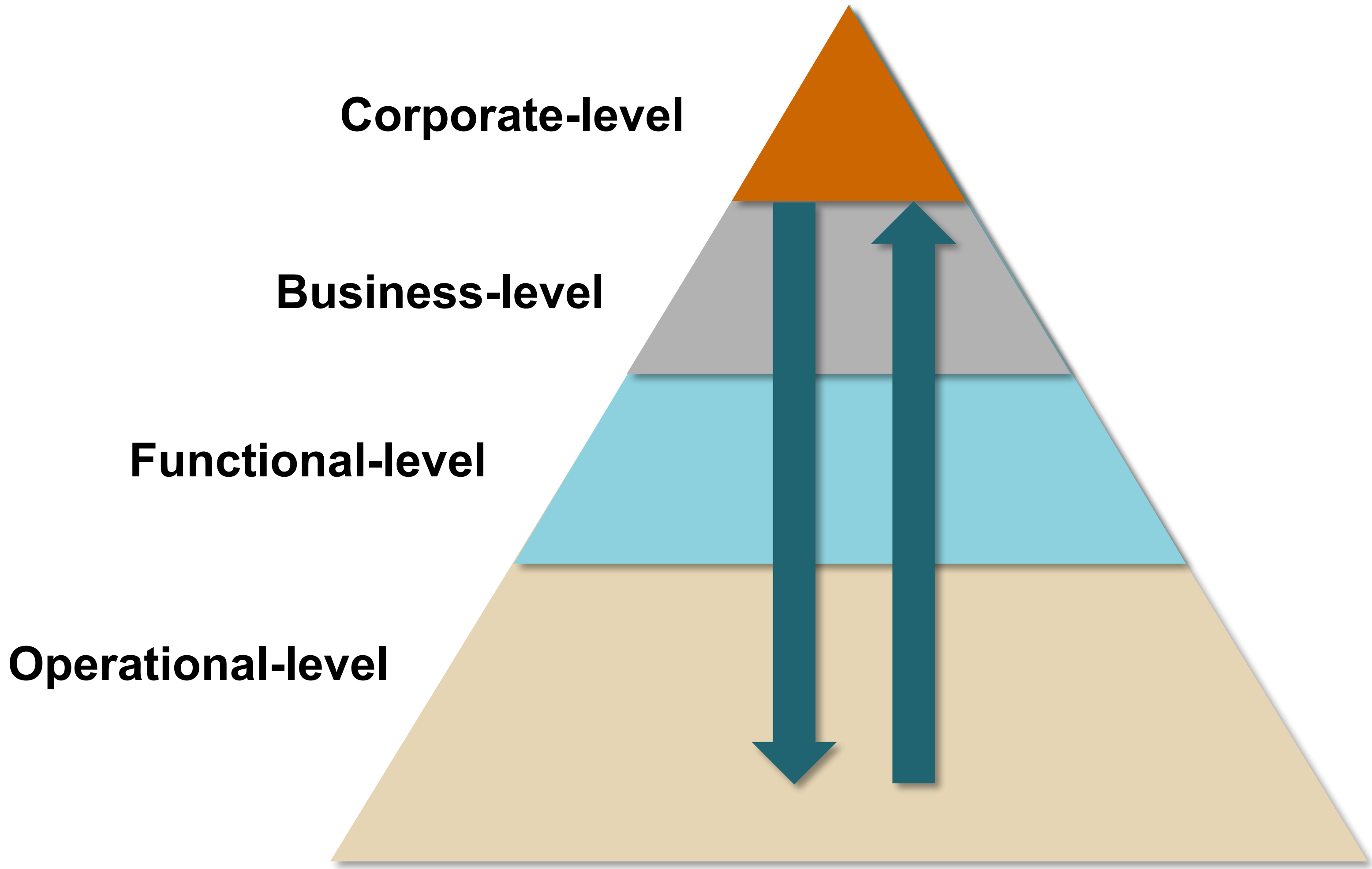
FIGURE 2.2


Corporate Strategy
(for the set of businesses as a whole)
• How to gain advantage from managing a set of businesses
Orchestrated by the CEO and other senior executives.
Two-Way Influence
Business Strategy
(one for each business the company has diversified into)
• How to gain and sustain a competitive advantage for a single line of business
Orchestrated by the senior executives of each line of business, often with advice from the heads of functional areas within the business and other key people.
In the case of a single-business company, these two levels of the strategy-making hierarchy merge into one level—Business Strategy—that is orchestrated by the company's CEO and other top executives.
Two-Way Influence
Functional Area Strategies
(within each business)
• How to manage a particular activity within a business in ways that support the business strategy
Orchestrated by the heads of major functional activities within a particular business, often in collaboration with other key people.
Two-Way Influence
Operating Strategies
(within each functional area)
• How to manage activities of strategic significance within each functional area, adding detail and completeness
Orchestrated by brand managers, plant managers, and the heads of other strategically important activities, such as distribution, purchasing, and website operations, often with input from other key people.

CORE CONCEPTS

- **Corporate strategy** is strategy at the *multi-business level*, concerning how to improve company performance or gain competitive advantage by managing a set of businesses simultaneously.
- **Business strategy** is strategy at the single-business level, concerning how to improve the performance or gain a competitive advantage in a particular line of business.

UNITING THE STRATEGY-MAKING HIERARCHY



STRATEGIC MANAGEMENT PRINCIPLE

- A company's strategy is at full power only when its many pieces are united. *Anything less than a unified collection of strategies weakens the overall strategy and is likely to impair company performance.*

A STRATEGIC VISION + OBJECTIVES + STRATEGY = A STRATEGIC PLAN

Elements of a Firm's Strategic Plan

- Its strategic vision, business mission, and core values
- Its strategic and financial objectives
- Its chosen strategy

STAGE 4: EXECUTING THE STRATEGY

- Converting strategic plans into actions requires:
  - Directing organizational action.
  - Motivating people.
  - Building and strengthening the firm's competencies and competitive capabilities.
  - Creating and nurturing a strategy-supportive work climate.
  - Meeting or beating performance targets.

MANAGING THE STRATEGY EXECUTION PROCESS

- Creating a strategy-supporting structure.
- Staffing the firm with the needed skills and expertise.
- Developing and strengthening strategy-supporting resources and capabilities.
- Allocating ample resources to the activities critical to strategic success.
- Ensuring that policies and procedures facilitate effective strategy execution.
- Organizing work effort along the lines of best practice.

MANAGING THE STRATEGY EXECUTION PROCESS (CONT'D)

- Installing information and operating systems that enable company personnel to perform essential activities.
- Motivating people and tying rewards and incentives directly to the achievement of performance objectives.
- Creating a company culture conducive to successful strategy execution.
- Exerting the internal leadership needed to propel implementation forward.

STAGE 5: EVALUATING PERFORMANCE AND INITIATING CORRECTIVE AJUSTMENTS

- Evaluating Performance:
  - Deciding whether the enterprise is passing the three tests of a winning strategy—good fit, competitive advantage, strong performance.
- Initiating Corrective Adjustments:
  - Deciding whether to continue or change the firm's vision and mission, objectives, strategy, and/or strategy execution methods.
  - Based on organizational learning.

STRATEGIC MANAGEMENT PRINCIPLE

- A company's vision and mission, as well as its objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process.

THE ROLE OF THE BOARD OF DIRECTORS IN CORPORATE GOVERNANCE

- Obligations of the Board of Directors:
  - Oversee the firm's financial accounting and reporting practices compliance with the Sarbanes-Oxley Act.
  - Critically appraise the firm's direction, strategy, and business approaches.
  - Evaluate the caliber of senior executives' strategic leadership skills.
  - Institute a compensation plan that rewards top executives for actions and results that serve stakeholder interests—especially shareholders.

ACHIEVING EFFECTIVE CORPORATE GOVERNANCE

- A strong, independent board of directors:
  - Is well informed about the firm’s performance.
  - Guides and judges the CEO and other executives.
  - Can curb management actions the board believes are inappropriate or unduly risky.
  - Can certify to shareholders that the CEO is doing what the board expects.
  - Provides insight and advice to top management.
  - Is actively involved in debating the pros and cons of key strategic decisions and actions.

STRATEGIC MANAGEMENT PRINCIPLE

- Effective corporate governance requires the board of directors to oversee the company's strategic direction, evaluate its senior executives, handle executive compensation, and oversee financial reporting practices.

ILLUSTRATION CAPSULE 2.4

Corporate Governance Failures at Fannie Mae and Freddie Mac

- Why were the audit and compensation committees at Fannie Mae's ineffective?
- Was the conduct of the committees legal? Was it ethical?
- What did linking executive compensation to financial objectives do to promote misconduct in both organizations?
- Could setting "stretch" objectives have discouraged misconduct by top management?