STRATEGY: Core Concepts and Analytical Approaches

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2nd Edition

CHAPTER 2

Charting a Company's Long-Term Direction: Vision, Mission, Objectives, and Strategy

PowerPoint Presentation by Charlie Cook

Chapter 2 Learning Objectives

1. Learn the five tasks that comprise the strategy-making, strategy-executing process.
2. Grasp why it is critical for company managers to think long and hard about where a company needs to head and why.
3. Understand the role that a company's core values play in conducting its business and pursuing its strategic vision and mission.
4. Understand the importance of setting objectives and why both strategic and financial objectives are needed.
5. Become aware of why crafting a strategy is a task for a company's entire management team and why a company's strategy is a collection of strategic initiatives and actions taken at many organizational levels.
6. Learn the role and responsibility of a company's board of directors in overseeing the strategy-making, strategy-executing process.

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Chapter 2 Roadmap

- What Does the Strategy-Making, Strategy-Executing Process Entail?
  - ***Task 1***: Developing a Strategic Vision, Mission, and Core Values
  - ***Task 2***: Setting Objectives
  - ***Task 3***: Crafting a Strategy
  - ***Task 4***: Implementing and Executing the Strategy
  - ***Task 5***: Evaluating Performance and Initiating Corrective Adjustments
- Corporate Governance: The Role of the Board of Directors in the Strategy-Making, Strategy-Executing Process

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What Does the Strategy-Making, Strategy-Executing Process Entail?

1. Developing a strategic vision, a mission, and a set of values.
2. Setting objectives for measuring performance and progress.
3. Crafting a strategy to achieve those objectives.
4. Executing the chosen strategy efficiently and effectively.
5. Monitoring strategic developments, evaluating execution, and making necessary adjustments.

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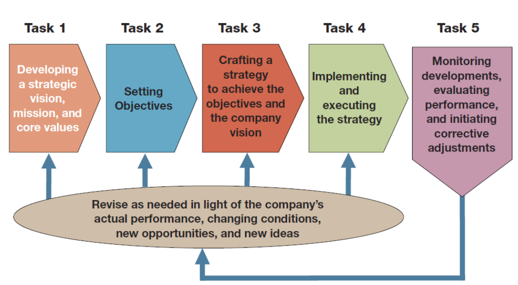
Figure 2.1 The Strategy-Making, Strategy-Executing Process



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Task 1: Developing a Strategic Vision, Mission, and Core Values

- Task 1 starts with developing a ***strategic vision***
  - Thinking strategically about the firm's future direction—***"where we are going."***
  - Considering whether the firm's market positioning and future performance could be improved by changing:
    - The company's product offerings
    - The markets in which it participates
    - The customers it caters to
    - The technologies it employs

Well-conceived visions are distinctive and specific to a particular organization.

 2–9

Core Concept

A *strategic vision* describes the route a firm intends to take in developing and strengthening its business. It lays out the firm's strategic course in preparing for the future.

It provides a panoramic view of "where we are going" and why this direction and strategic path make good business sense.

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An Important Point about Vision Statements

- A vision statement remains just a bunch of words that do not really matter ***unless***:
  - ***It paints a clear picture of "where we are headed"*** … specifically, the market(s) and competitive arena(s) that top management wants the firm to compete in.
  - ***There is genuine top management commitment to pursue this strategic course***.

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Table 2.1 Factors to Consider in Deciding on a Firm's Future Direction

External Considerations	Internal Considerations
Does sticking with the firm's present strategic course present attractive opportunities for growth and profitability?	How well is the firm faring vis-à-vis key competitors? Is the firm gaining ground or losing ground, and why?
Are the winds of change—most especially those in the firm's market and competitive arena—acting to enhance or weaken the firm's prospects?	Does the firm have sufficient business and competitive strength to achieve attractive gains in revenues and profits in the years ahead?
What, if any, new customer groups and/or geographic markets should the firm get in position to serve?	What organizational and resource strengths can the firm leverage and which resource weaknesses need to be corrected?
Which emerging market opportunities should the firm pursue and which ones should not be pursued?	Is the firm competing in too many markets or product categories where profits are skimpy or nonexistent?
Should the firm begin to deemphasize or eventually abandon any of the markets or customer groups it is currently serving?	Is the firm at risk because of growing technological obsolescence or deficient skills and capabilities?

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Table 2.2 Wording a Vision Statement — The Do's and Don'ts

The Dos	The Don'ts
Be graphic—paint a clear picture	Don't be vague or incomplete—no foggy language!
Be forward-looking and directional	Don't dwell on the present
Keep it focused and specific	Don't use overly broad language
Have some wiggle room	Don't state the vision in bland or uninspiring terms
Be sure the journey is feasible	Don't be generic
Indicate why the directional path makes good business sense	Don't rely on superlatives only

 2–13

Example of a Strategic Vision

Red Hat

To extend our position as the most trusted Linux and open source provider to the enterprise. We intend to grow the market for Linux through a complete range of enterprise Red Hat Linux software, a powerful Internet management platform, and associated support and services.

 2–14

Example of a Strategic Vision

To provide a global trading platform where practically anyone can trade practically anything.

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Core Concept

A **strategic vision statement** must clearly convey a firm's long-term direction, not obscure it in foggy language.

An effectively communicated vision is a valuable management tool for enlisting the commitment of the firm's personnel to actions that will move the firm in its intended strategic direction.

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Communicating the Strategic Vision

- Winning support for the vision involves
  - Putting "where we are going and why" in writing
  - Distributing the statement organization-wide
  - Having executives explain vision to employees
- An engaging, inspirational vision
  - Challenges and motivates workforce
  - Articulates a compelling case for where a company is headed
  - Evokes positive support and excitement
  - Arouses a committed organizational effort to move in a common direction

 2–17

Expressing the Essence of the Vision in a Slogan

- There's merit in capturing the vision in a catchy or easily remembered slogan.
  - FedEx: "Satisfying worldwide demand for fast, time-definite, reliable distribution."
- A good slogan
  - Illuminates an organization's direction and purpose.
  - Reminds personnel "where we are headed and why."
  - Rallies personnel to hurdle any obstacles that lie in the organization's path and maintains their focus.

 2–18

Why a Sound, Well-Communicated Strategic Vision Matters

- It crystallizes senior executives' views about the firm's long-term direction.
- It reduces the risk of rudderless decision making.
- It wins support of others for changes that will propel the firm along its chosen strategic path.
- It provides guidance for lower-level managers in making operating decisions in their pieces of the business.
- It helps the firm prepare for the future.

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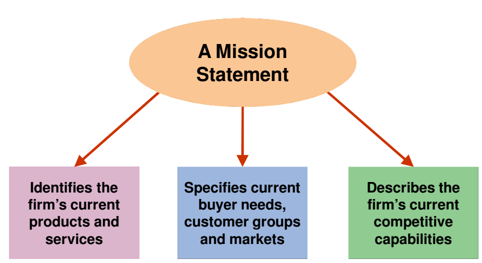
Developing a Mission Statement



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A Strategic Vision Covers Different Ground than a Mission Statement

- A strategic vision focuses on a firm's future strategic course–***"the direction we are headed."***
- It describes what the firm's future business makeup will be:
  - Customers
  - Markets
  - Technologies
- ***Is always forward looking***

- A firm's mission statement focuses on ***"who we are, what we do, and why we are here."***
- It describes the firm's present business:
  - Current products or services
  - Buyer needs being served
  - Customer groups it sells to
  - Current technological and business capabilities
- ***Is almost never forward-looking***

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Characteristics of a Mission Statement

- Has a here and now theme.
- Provides an overview of the firm's present business make-up and purpose.
- Ideally, a firm's mission statement identifies:
  - The firm's present products/services
  - The types of buyers who purchase the firm's products
  - The buyer needs being satisfied
- But some mission statements are less informative
- Ideally, a mission statement uses language specific to the firm so as to set it apart from other enterprises and give the firm its own identity.

 2–22

What a Firm's Mission Is *Not* About

- A firm's mission is *not* to make a profit! Making a profit is the ***intent*** of ***every*** commercial enterprise.
  - McDonald's, Google, and Bank of America all aspire to make a profit, but clearly their businesses are vastly different (and thus their missions are different).
- It is a firm's answer to "make a profit doing ***what*** and for ***whom***?" that reveals the substance of its true mission and what its business is all about.

Profit is more correctly an objective and a result of what a company does.

 2–23

Example of a Mission Statement

TRADER JOE'S

To give our customers the best food and beverage values that they can find anywhere and to provide them with the information required for informed buying decisions. We provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, and company spirit.

 2–24

More Mission Statement Examples

Home Depot

"Helping people improve the places where they live and work."

Charles Schwab

"To provide customers with the most useful and ethical financial services in the world."

FedEx

"Satisfying worldwide demand for fast, time-definite, reliable distribution."

 2–25

A Firm's Core Values Guide the Pursuit of Its Strategic Vision and Mission

- At many firms, personnel are expected to pursue the vision and mission and to conduct the firm's business in accordance with its self-established values
  - Values relate to such traits and behaviors as fair and equitable treatment, honor and integrity, ethical standards, innovativeness, teamwork, a passion for top-notch quality or superior customer service, and being a good community citizen
- Such values, if deeply-held, become ***core values*** and part of a firm's DNA
- At some firms, however, values are only window dressing and do not impact their vision and mission or the behavior of their personnel.

 2–26

Core Concepts

A firm's **values** or **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.

In enterprises with deeply-entrenched values, senior managers are careful to craft visions, missions, strategies, and operating practices that match these values, and ***they hold company personnel responsible for displaying them***.

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Example: Toyota's Core Values

- Respect for and development of employees
- Teamwork
- Getting quality right the first time
- Learning
- Continuous improvement
- Embracing change in pursuit of low-cost, top-notch manufacturing excellence in motor vehicles

Example: Yahoo's Core Values

- **Excellence**–committed to winning with integrity.
- **Innovation**–thrive on creativity and ingenuity.
- **Customer Fixation**–respect our customers above all else.
- **Teamwork**–treat one another with respect and communicate openly.
- **Community**–share an infectious sense of mission to make an impact on society.
- **Fun**–believe humor is essential to success.

What Yahoo Doesn't Value–singles out 54 things it does not value: losing, bureaucracy, "good enough," arrogance, status quo, formality, quick fixes…

Linking the Strategic Vision and Mission to the Firm's Core Values

- At a firm where there's genuine commitment to the stated values, managers connect core values to the pursuit of its strategic vision and mission by:
  - Crafting a vision, a mission, a strategy, and a set of operating practices that matches established values.
  - Repeatedly emphasizing how the values-based behavioral norms contribute to the firm's business success.
  - Combining their strategic vision, mission, and values into a single statement circulated to all personnel (and often posting it on the firm's Web site).

Task 2: Setting Objectives

- ***Objectives*** *represent a managerial commitment to achieving particular results and outcomes.*
- To be well-worded and properly-phrased, an objective must:
  - Be ***quantifiable*** or ***measurable***
  - Contain a ***deadline*** for achievement
  - Spell-out ***how much*** of ***what kind*** of performance ***by when***

Core Concept

Objectives are an organization's performance targets—the results and outcomes management wants to achieve. They function as yardsticks for measuring how well the organization is doing.

*There's no better way to avoid ho-hum results than by setting **stretch objectives** and using compensation incentives to motivate organization members to perform at their full potential.*

The Imperative of Setting Challenging or Stretch Objectives

- To promote outstanding performance, managers should deliberately set performance targets high enough to challenge the firm to perform at its full potential and deliver the best possible results.
- ***Stretch objectives***
  - Push the whole enterprise to be more inventive
  - Exhibit more urgency to improve its business position
  - Be intentional and focused in its actions

How *Not* to Handle the Task of Setting Objectives

Approaches to be avoided

- Setting objectives with targets that have no adverse consequences for underperformance
- Setting targets that, if achieved, represent "average" performance
- Setting objective with unspecific performance targets (e.g., "become more efficient" or "reduce costs")

 2–34

Every Firm Needs Two Types of Objectives

Financial Objectives

Outcomes focused on improving the firm's ***financial performance***

Strategic Objectives

Outcomes focused on strengthening the firm's ***market standing, competitive vitality,*** and ***future business prospects***

 2–35

Core Concept

Financial objectives relate to the financial performance targets management has established for the firm to achieve.

Strategic objectives relate to targeted outcomes that indicate the firm is strengthening its market standing, competitive vitality, and future business prospects.

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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

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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 past 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 to market ahead of rivals

 2–38

Good Strategic Performance Fosters Better Financial Performance

- ***Setting and achieving financial objectives is necessary but not sufficient***
  - Current results are ***"lagging indicators,"*** reflecting ***past*** decisions and actions—***good profitability now does not translate into stronger capability for delivering even better financial results later***
- But setting and achieving strategic objectives signals ***growing competitiveness vis-à-vis rivals and a stronger market position***
  - ***Such outcomes are reliable "leading indicators"*** of a firm's capability to boost its ***future*** financial performance

A firm with more competitive muscle and greater market strength has improved capability to deliver better financial results in the years ahead

Setting and achieving well-chosen strategic objectives is thus of prime importance!!!

 2–39

A Balanced Scorecard Approach– Pursuing Strategic *and* Financial Objectives

- ***A balanced scorecard*** for measuring a firm's performance is optimal; it entails:
  - Setting financial ***and*** strategic objectives
  - ***Placing balanced emphasis on achieving both types of objectives***
- However, if a firm is in distress because of poor financial results, then stressing achievement of financial objectives and temporarily de-emphasizing strategic objectives may have merit.

 2–40

Core Concept

A **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 a firm is performing.

A firm's surest path to sustained future profitability is the relentless pursuit of strategic outcomes that strengthen its market position and produce a growing competitive advantage over rivals!

 2–41

Both Short-Term and Long-Term Objectives Are Needed

- Short-Term Objectives
  - Are targets to be achieved soon
  - Serve as milestones or stair steps for reaching long-range performance targets
- Long-Term Objectives
  - Are targets to be achieved within 3 to 5 years
  - Require managers to consider *what to do **now** to put the firm in position to perform better later.*

 2–42

Objectives Are Needed at All Organizational Levels

- Objective setting should not stop with top management's establishment of company-wide performance targets.
  - Company objectives need to be broken down into performance targets for each separate business, product line, functional department, and individual work unit.
  - Each organizational unit needs performance targets that support the achievement of company-wide strategic and financial objectives.

 2–43

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.

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Why Does It Matter If a Firm Exhibits Strategic Intent?

- A firm with an unshakable—often obsessive—commitment to achieving its strategic intent typically:
  - Goes all out to marshal resources and capabilities to close in on its strategic target.
  - Crafts potent offensive strategies to throw rivals off-balance, put them on the defensive, and force them into a game of catch-up.
  - Tries to alter the market contest and tilt the rules for competing in its favor.
  - Rallies its personnel in efforts to make its strategic intent a reality.

Firms with strategic intent are thus a force to be reckoned with and often are more formidable competitors than rivals having modest strategic objectives and market ambitions.

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Questions for Simulation Company Co-Managers

- Has your company's management team considered the merits of crafting a strategic vision for your company?
- Has your company established both long-run and short-run stretch objectives?
  - Do you deliberately strive to craft a strategy and make decision entries calculated to achieve these stretch performance targets?
  - Or do you just enter decisions until you arrive at projected outcomes that "look pretty good"—without any real managerial commitment to achieving stretch performance targets?
- Has your company's management team established a strategic intent and begun taking actions to achieve it? *If not*, is there a good reason why you haven't?

 2–46

Task 3: Crafting a Strategy

- Crafting a strategy entails stitching together management's answers to a series of "hows":
  - *How* to attract and please customers
  - *How* to compete against rivals
  - *How* to position the company in the marketplace and capitalize on attractive opportunities to grow the business
  - *How* best to respond to changing economic and market conditions
  - *How* to manage each functional piece of the business
  - *How* to achieve the company's performance targets.

And this stitching together must result in a coherent and coordinated game plan for running the firm successfully.

 2–47

Strategy-Making and Good Entrepreneurship

- Good strategy-making always entails astute entrepreneurship:
  - Proactively searching for opportunities to do new things or to do existing things in new or better ways.
  - Diagnosing the direction and force of shifting market conditions and other early warnings of future change.

Masterful strategies often involve doing things differently from competitors where it counts—being more innovative, more efficient, more imaginative, and adapting faster—rather than running with the herd.

 2–48

Core Concept

In most firms, crafting and executing strategy is a ***collaborative team effort*** where every manager has a role for the area he or she heads.

It is flawed thinking to view crafting and executing strategy as something only high-level managers do.

 2–49

Crafting Strategy Involves Managers at All Organizational Levels

- Chief Executive Officer (CEO)
  - Has ultimate responsibility for leading the strategy-making process.
  - Is accountable for results that the strategy produces.
- Other Senior Executives
  - Have strategy-making roles and help fashion the strategy elements for their areas of responsibility.
- Managers of subsidiaries, divisions, geographic regions, plants, and other operating units

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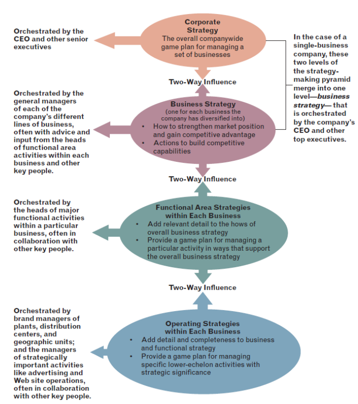
Figure 2.2
A Company's Strategy-Making Hierarchy



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Corporate Strategy

- Concerns the overall companywide game plan for managing a set of businesses.
- Is orchestrated by the CEO and other senior headquarters' executives.
- Involves crafting strategic initiatives to:
  - Diversify into different industries
  - Boost the combined performance of the firm's different businesses
  - Capture cross-business synergies and turn them into competitive advantage

 2–52

Business Strategy

- Concerns actions and approaches to produce performance in a specific line of business.
- Is the responsibility of the manager in charge of the business and involves:
  - Crafting responses to changing market circumstances
  - Initiating actions to build competitive advantage and to develop strong competitive capabilities.
  - Seeing that lower-level strategies are well-matched to the overall business strategy
  - Getting business-level strategic moves approved at the corporate-level

 2–53

Functional-Area Strategies

- Concern actions, approaches, and practices to be employed in managing particular functions or business processes or key activities:
  - Functional strategies flesh out the details of a firm's business strategy.
  - Lead responsibility for functional strategies is assigned to the head managers of functional areas.
  - The general manager has final approval over the various functional strategies and may exert strong influence over the content of the functional strategies.

 2–54

Operating Strategies

- Concern the narrow strategic initiatives and approaches for managing key operating units and strategically-relevant operating activities
  - Add further detail and completeness to functional-area and business strategies
  - Are crafted by frontline managers
  - Are subject to review and approval by higher-ranking managers

 2–55

Uniting the Strategy-Making Effort

- A Unified Overall Strategy
  - Entails creating a cohesive collection of mutually reinforcing initiatives that fit together like jigsaw puzzle pieces
    - Conflicting or inconsistent strategic elements impair a firm's performance.
  - Requires that lower-level strategies be scrutinized for conflicting elements that require modification to fit with higher-level strategies.
  - Should be adapted to accommodate more appealing lower-level strategy ideas and initiatives as they arise.

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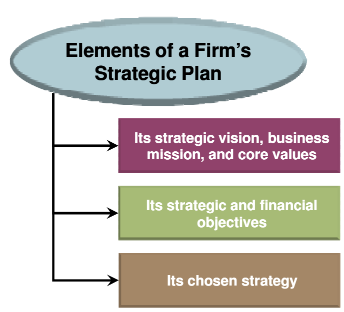
What Is a Strategic Plan?



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Task 4: Implementing and Executing the Strategy

- Implementation and execution of strategy
  - Is an operations-oriented, make-things-happen task aimed at performing core business activities in a strategy-supportive manner.
  - Is the most demanding and time-consuming part of the strategy management process.
- Converting plans into actions tests a manager's ability to:
  - Direct organizational change to build and strengthen company competencies and competitive capabilities
  - Create and nurture a strategy-supportive work climate that motivates people to meet or beat performance targets.
  - To put the strategy in place and execute it proficiently on many organizational fronts.

 2–58

What Does Managing the Strategy Execution Process Involve?

- Staffing the firm with needed skills and expertise to build and strengthen strategy-supportive competencies and competitive capabilities.
- Allocating ample resources to activities critical to strategic success.
- Ensuring policies and procedures facilitate rather than impede execution.
- Using best practices to perform core business activities and push for continuous improvement.
- Installing information and operating systems that enable personnel to better carry out their strategic roles.
- Tying rewards and incentives directly to the achievement of performance objectives and good strategy execution.
- Creating a culture and work climate conducive to strategy execution.
- Exerting the internal leadership needed to drive implementation and keep improving on how the strategy is being executed.

 2–59

Successful Strategy Execution

- Strategy execution
  - Is a job for the entire management team and requires diligent pursuit of operating excellence.
  - Hinges upon the skills and cooperation of operating managers who can push needed changes in their units and consistently deliver good results.
- Handling of the strategy implementation/execution process is considered successful if the firm:
  - Achieves or exceeds strategic and financial performance targets.
  - Shows good progress in achieving its strategic vision.

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Task 5: Evaluating Performance and Initiating Corrective Adjustments

- This task involves:
  - Deciding whether or not to continue or change the firm's current vision, objectives, strategy, and/or strategy execution methods.
  - Examining one or more aspects of the firm's strategy implementation and execution to determine if all is going as well as intended.
  - Evaluating organizational learning about strategy execution and making adjustments that will move the firm closer to operating excellence.

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Core Concept

A company's vision, objectives, strategy, and approach to strategy execution are never final. Managing strategy is an ongoing process, not an every-now-and-then task.

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Corporate Governance:
The Role of the Board of Directors in the Strategy-Making, Strategy-Executing Process

- Senior managers have lead responsibility for performing all five strategy-making, strategy-executing tasks
- It is the clear and inescapable duty of a firm's board of directors to:
  - Exercise strong oversight of how the firm's business is being conducted and managed.
  - Make sure that management performs the five strategy-making, strategy-executing tasks in a manner that is in the best interests of shareholders and other stakeholders.

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The Four Essential Obligations of a Firm's Board of Directors

1. Diligently critique the company's direction, strategy, and business approaches.
2. Evaluate caliber of senior executives' strategy-making and strategy-executing skills.
3. Institute a compensation plan for top executives that rewards them for actions and results that serve stakeholder interests, and most especially those of shareholders.
4. Oversee the firm's financial accounting and reporting practices

What Are the Key Responsibilities of Board Members?

- To be well informed about the firm's performance
- To provide insight and advice to management
- To judge the performance of the CEO and other top executives
- To have the courage to curb inappropriate or unduly risky management actions
- To confirm that the CEO is doing what the board expects and has approved
- To be intensely involved in debating pros and cons of key actions and decisions

Core Concept

The whole fabric of effective corporate governance is undermined when boards of directors shirk their responsibility to maintain ultimate control over the firm's strategic direction, the major elements of its strategy, the business approaches management is using to implement and execute the strategy, executive compensation, and the financial reporting process.