Chapter 2

CHARTING A COMPANY'S DIRECTION: VISION AND MISSION, OBJECTIVES, AND STRATEGY

Chapter Summary

Chapter Two presents an overview of the managerial ins and outs of crafting and executing company strategies. Special attention is given to management's direction-setting responsibilities – charting a strategic course, setting performance targets, and choosing a strategy capable of producing the desired outcomes. The chapter also examines which kinds of strategic decisions are made at what levels of management and the roles and responsibilities of the company's board of directors in the strategy-making, strategy-executing process.

LECTURE OUTLINE

I. The Strategic Management Process

1. Crafting and executing a company's strategy is a five-phase managerial process:

    a. Developing a strategic vision of where the company needs to head and what its future product-consumer-market-technology focus should be

    b. Setting objectives and using them as yardsticks for measuring the company's performance and progress

    c. Crafting a strategy to achieve the objectives and move the company along the strategic course that management has charted

    d. Implementing and executing the chosen strategy efficiently and effectively

    e. Monitoring developments and initiating corrective adjustments in the company's long-term direction, objectives, strategy, or execution in light of the company's actual experience, changing conditions, new ideas, and new opportunities

2. **Figure 2.1, The Strategic Management Process,** displays this five-stage process, and the need for management to evaluate the company's performance on an ongoing basis.

3. **Table 2.1**, **Factors Shaping Decisions in the Strategic Management Process**, exhibits the external and internal considerations that come into play in the strategic management process.

4. The evaluation stage of the strategic management process shown in Figure 2.1 also allows for a change in the company's vision when it becomes evident to management that the industry has changed and rendered its vision obsolete. Such occasions can be referred to as **strategic inflection points**.

5. The first three stages of the strategic management process make up a strategic plan.

II. Stage 1: Developing a Strategic Vision, a Mission, and Core Values

Top management's views about the company's direction and future product-customer-market-technology focus are shaped by its views of the external industry and competitive environment and the internal situation and constitute a strategic vision for the company.

1. Well conceived visions are specific to a particular organization; they avoid generic, feel-good statements like "We will become a global leader and the first choice of customers in every market we choose to serve" – which could apply to any of hundreds of organizations.

2. Top management's views and conclusions about the company's direction and the product-consumer- market-technology focus constitute a **strategic vision**.

➔ **CORE CONCEPT**

A **strategic vision** describes "where we are going"—the course and direction management has charted and the company's future product-customer-market-technology focus.

3. **Table 2.2, Characteristics of an Effectively Worded Vision Statement**, lists some characteristics of effective vision statements. For a strategic vision to function as a valuable managerial tool, it must provide understanding of what management wants its business to look like and provide managers with a reference point in making strategic decisions.

4. **Table 2.3, Common Shortcomings in Company Vision Statements**, provides a list of the most common shortcomings in company vision statements.

5. **Concepts & Connections, 2.1, Examples of Strategic Visions – How Well Do They Measure Up?** provides examples of strategic visions of several prominent companies.

CONCEPTS & CONNECTIONS 2.1

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

Discussion Question: Are any of the Strategic Visions truly effective? Why or why not? What changes would you make to them?

Answer: Table 2.3 provides most of the answers. For example, UBS has an uninspiring vision statement. It fails to motivate personnel or to inspire shareholders and is not forward looking. Coca-Cola's vision statement is focused but is too long and is not forward looking. Of the group presented, the vision statement from WalMart seems to be the most effective.

A. **The Importance of Communicating the Strategic Vision**

1. Effectively communi-cating the strategic vision down the line to lower-level managers and employees is as im-portant as the strategic soundness of the journey and destination for which top management has opted.

2. Winning the support of organization members for the vision nearly always means putting "where we are going and why" in writing, distributing the statement organization wide, and having executives personally explain the vision and its rationales to as many people as feasible

3. An engaging and convincing strategic has enormous motivational value.

➔ CORE CONCEPT

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

B. **Developing a Company Mission Statement**: The chief concern of a strategic vision is with the company's future strategic course; a company's mission statement usually deals with a company's present business purpose.

1. Some companies prefer the term *business purpose* to *mission statement*, but the two phrases are essentially conceptually identical and are used interchangeably.

2. Company mission statements almost never say anything about where the company is headed, the anticipated changes in its business, or its aspirations. The mission statement of most companies say much more about the enterprise's *present business scope and purpose.*

3. Ideally, a company's mission statement is sufficiently descriptive to:

   - *Identify the company's products or services.*
   - *Specify the buyer needs it seeks to satisfy.*
   - *Specify the customer groups or markets it is endeavoring to serve.*
   - *Specify its approach to pleasing customers.*

4. Occasionally, companies state that their mission is to simply earn a profit. This is misguided – Profit is more correctly an *objective* and a *result* of what a company does.

C. **Linking the Vision/Mission with Company Values**

1. By **values or core values**, we mean the beliefs, traits, and ways of doing things that management has determined should guide the pursuit of its vision and mission.

➔ CORE CONCEPT

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

2. Company values statements tend to contain between four and eight values, which ideally, are tightly connected to and reinforce the company's vision, strategy, and operating practices.

3. Company managers connect values to the strategic vision in one of two ways:

a. In companies with long-standing and deeply entrenched values, mangers go to great lengths to explain how the vision is compatible with the company's value set, occasionally reinterpreting the meaning of existing values to indicate their relevance in pursuing the strategic vision.

b. In new companies or companies with weak or incomplete sets of values, top management considers what values, beliefs, and operating principles will help drive the vision forward.

c. The extent to which company values translate into actually living the values varies widely. At one extreme values become the company's genetic makeup—its DNA. At the other extreme values are simply window dressing.

III. Stage 2: Setting Objectives

A. What Kinds of Objectives to Set

1. Two very distinctive types of performance yardsticks are required:

   a. Those relating to financial performance

   b. Those relating to strategic performance

2. Achieving acceptable financial results is a must. Without adequate profitability and financial strength, a company's pursuit of its strategic vision, as well as its long-term health and ultimate survival, is jeopardized.

3. Of equal or greater importance is a company's strategic performance – outcomes that indicate whether a company's market position and competitiveness are deteriorating, holding steady, or improving.

➔ CORE CONCEPT

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 vitality, and future business prospects.

4. **Illustration Capsule 2.2, shows how Zappo's mission and core values work together**

CONCEPTS & CONNECTIONS 2.2

Zappo's Mission and Core Values

Discussion Question: Zappo states that its mission statement is influenced by a set of ten core values. What are these values and how do they influence the mission statement?

Answer: Zappo's mission is based upon their internal philosophy of "WOW" which is externally expressed as: to provide the best customer service possible. Each value statement focuses on a different facet of the enterprise and discusses how that facet helps provide the "WOW" through service, change, fun, creativity, growth, learning, positive attitude, passion, frugality, and humility.

5. **The Case for a Balanced Scorecard: Improved Strategic Performance Fosters Better Financial Performance**: A company's financial performance measures are really lagging indicators that reflect the results of past decisions and organizational activities. The best and most reliable leading indicators of a company's future financial performance and business prospects are strategic outcomes that indicate whether the company's competitiveness and market position are stronger or weaker. The degree to which a company's managers set, pursue, and achieve stretch strategic objectives tends to be a reliable leading indicator of its ability to generate higher profits from business operations. This is further explored in table 2.4, The Balanced Scorecard Approach to Performance Management.

➔ 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.

6. **Short-Term and Long-Term Objectives:** A company's set of financial and strategic objectives ought to include both short-term and long-term performance targets. Short-term objectives focus attention on delivering performance improvements in the current period, while long-term targets force the organization to consider how actions currently under way will affect the company at a later date. Specifically, long-term objectives stand as a barrier to a nearsighted management philosophy and an undue focus on short-term results.

7. **The Need for Objectives at All Organizational Levels:** Objective setting should not stop with top management's establishing of companywide performance targets. Company objectives need to be broken down into performance targets for each of the organization's separate businesses, product lines, functional departments, and individual work units, employees within various functional departments, and individual work units. Objective setting is a top-down process that must extend to the lowest organizational levels.

CONCEPTS & CONNECTIONS 2.3

Examples of Company Objectives

Discussion Question: What is the prominent purpose of an organization's stated objectives?

Answer: Objectives identify an organization's performance targets. They serve to function as measures for tracking the organization's performance and progress toward achievement of desired goals.

IV. Crafting a Strategy: Phase 3 of the Strategy-Making, Strategy-Executing Process

1. Strategy Making Involves Managers at all Organizational Levels. Management's strategic approach to achieving organizational objectives, competing successfully, and building competitively important capabilities must be well-matched to the company's external and internal situation.

➔ CORE CONCEPT

Corporate strategy ensures consistency in strategic approach among businesses of a diversified, multibusiness corporation. **Business strategy** is primarily considered with strengthening the company market position and building competitive advantage in a single business company or a single business unit of a diversified multibusiness corporation

2. A Company's Strategy Making Hierarchy. **Figure 2.2** illustrates the strategy levels of a single business company with a relatively simple business structure.
3. As shown in Figure 2.2, a company's **business strategy** is the responsibility of the CEO and other senior executives and is primarily concerned with strengthening the company's market position and building competitive advantage.
4. **Functional-area strategies** concern the actions related to particular functions or processes within a business.
5. **Operating strategies** concern the relatively narrow strategic initiatives and approaches for managing key operating units.

V. Stage 4: Implementing and Executing the Chosen Strategy

1. Easily, the most time demanding and consuming part is managing the implementation and execution of the strategy-management process.
2. In most situations, managing the strategy-execution process includes the following principal aspects:
    a. Staffing the organization with the needed skills and expertise
    b. Allocating ample resources to activities critical to good strategy execution.
    c. Ensuring that policies and operating procedures facilitate rather than impede effective execution
    d. Installing information and operating systems that enable company personnel to better carry out their strategic roles
    e. Tying rewards and incentives directly to the achievement of performance objectives and good strategy execution

f. Creating a company culture and work climate conducive to successful strategy implementation and execution

g. Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution

VI. Stage 5: Evaluating Performance and Initiating Corrective Adjustments

1. The fifth phase of the strategy-management process – monitoring new external developments, evaluating the company's progress, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company vision, objectives, strategy, and/or strategy-execution methods.

2. Successful strategy execution entails vigilantly searching for ways to continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.

VII. Corporate Governance: The Role of the Board of Directors in the Strategy Making – Executing Process

1. Although senior managers have lead responsibility for crafting and executing a company's strategy, it is the duty of the board of directors to exercise strong oversight and see that the five tasks of strategic management are done in a manner that benefits shareholders, in the case of investor-owned enterprises, or stakeholders, in the case of not-for-profit organizations.

2. The board of directors have four important roles:

    a. Oversee the company's financial accounting and financial reporting practices.

    b. Diligently critique and oversee the company's direction, strategy, and business approaches.

    c. Evaluate the caliber of senior executives' strategy-making and strategyexecuting skills.

    d. Institute a compensation plan for top executives that rewards them for actions and results that serve shareholder interests

CONCEPTS 2.4

Corporate Governance Failures at Fannie Mae and Freddie Mac

Discussion Question: What was the result of failed Corporate Governance at government sponsored mortgage giants Fannie Mae and Freddie Mac? Why did governance fail?

Answer: The result of failed governance was a failure to understand the risks of the subprime mortgage strategies. Decisions were not adequately monitored. Poor governance allowed for manipulation of financial data and the use of improper accounting procedures which overstated financial performance. Fannie Mae executives had fraudulently inflated earnings to receive bonuses linked to financial performance. Governance failed because the politically appointed boards didn't have the knowledge to understand what was happening, and did not adequately monitor managers, particularly the CEO.

ASSURANCE OF LEARNING EXERCISES

1. Using the information in Table 2.2 and Table 2.3, critique the adequacy and merit of the following vision statements, listing effective elements and shortcomings. Rank the vision statements from best to worst once you complete your evaluation.

Company Name	Effective Elements	Shortcomings
Wells Fargo	• Graphic • Feasible • Easy to communicate	• Vague • Not distinctive
Hilton Hotels Corporation	• Directional • Focused • Feasible • Desirable	• Not forward-looking • Not distinctive
H. J. Heinz Corporation	• Graphic • Flexible • Easy to Communicate	• Vague • Not forward-looking
BASF	• Directional • Focused • Desirable	• Not forward looking

A suggested ranking of the vision statements from best to worst is: Hilton Hotels Corporation, H. J. Heinz Corporation, BASF, and Wells Fargo.

2. Go to the company Web sites for Home Depot (`http://corporate.homedepot.com/`); Avon (`www.avoncompany.com`); and Intel (www.intc.com) to find some examples of strategic and financial objectives. Make a list of four objectives for each company and indicate which of these are strategic and which are financial. Below are examples that students might find:

Home Depot

1. 10-K Statement, Exit Home Décor market segment (Strategic).
2. 10-K Statement, Focus on Do It Yourself, Do It For Me, and Professional Customer market segments (Strategic).
3. 2nd Quarter fiscal 2010 Press Release, Grow sales by 2.6% for the year (Financial).
4. 2nd Quarter fiscal 2010 Press Release, Raise EPS to $1.90 for the year (Financial).

Avon

1. 10-K Statement, improving brand competitiveness by focusing research and development resources on product innovation and by increasing our advertising (Strategic).
2. 10-K Statement, elevating organizational effectiveness by redesigning our structure to eliminate layers of management in order to take full advantage of our global scale and size (Strategic).
3. 4th Quarter fiscal 2009 and Year Press Release, 5% revenue growth during 2010 (Financial)
4. 4th Quarter fiscal 2009 and Year Press Release, operating margin reaching 15% by 2013 (Financial).

3. The primary strategic initiatives of Ford Motor Company's restructuring plan executed between 2005 and 2010 involved accelerating the development of new cars that customers would value, improving its balance sheet, working with its union employees to improve manufacturing competitiveness, reducing product engineering costs, reducing production capacity by approximately 40 percent, and reducing hourly head count by 40 to 50 percent. At the conclusion of the restructuring plan in 2010, Ford was ranked first among U.S. automobile manufacturers by J.D. Power in initial quality and had earned more than $5.4 billion in pre-tax profit on net revenues of $64.4 billion. Explain why its strategic initiatives taken at various organizational levels and functions were necessarily tightly coordinated to achieve its commendable results.

   The student should point out that Ford's restructuring plans were comprehensive and impacted virtually all aspects of the business. In order to deliver on the plan several key functions were involved:

   Engineering:

   - Development of new cars
   - Reducing engineering costs

   Finance:

   - Improving the balance sheet

   Operations:

   - Improving manufacturing competitiveness (unions)
   - Reducing production capacity
   - Reducing hourly headcount (unions)

The student should note that of all of these specific objectives, the one that presented the most significant challenge was operations where key goals were directly related to renegotiation of union terms. Finally, the student should illustrate that no single objectives could stand on their own. In other words, the company would only achieve success if all functions delivered on the plan.

4. Go to the investor relations website for Walmart (**http://investors.walmartstores.com**) and review past presentations it has made during various investor conferences by clicking on the Events option in the navigation bar. Prepare a one- to two-page report that outlines what Walmart has said to investors about its approach to strategy execution. Specifically what has management discussed concerning staffing, resource allocation, policies and procedures, information and operating systems, continuous improvement, rewards and incentives, corporate culture, and internal leadership at the company?

The student should be able to identify core strategic elements focused on low cost and value:

- Walmart Discount Stores: Wide, clean, brightly-lit aisles and shelves stocked with a variety of quality, value-priced general merchandise
- Walmart Superstores: Convenient, one-stop family shopping featuring our famous Every Day Low Prices
- Walmart Neighborhood Markets: quick and convenient shopping experience for customers who need groceries, pharmaceuticals, and general merchandise all at our famous Every Day Low Prices.
- Walmart Express Stores: offer low prices every day in a smaller format store that provides convenient access for fill-in and stock-up shopping trips in rural and urban areas.
- Marketside: Small community pilot grocery stores specializing in fresh, delicious meals at great prices.
- Walmart.com: The convenience, great merchandise selection, friendly service and Every Day Low Prices of your neighborhood Walmart to the Internet.

The student should be able to identify core cultural elements that impact all aspects of life as a Walmart employee (Source: **http://walmartstores.com/AboutUs/295.aspx:**)

- Open Door: Our management believes open communication is critical to understanding and meeting our associates' and our customers' needs. Associates can trust and rely on the open door; it's one of the most important parts of our culture.
- Sundown Rule: Observing the Sundown Rule means we do our best to answer requests by the close of business on the day we receive them. Whether it's a request from a store across the country or a call from down the hall, we do our very best to give each other and our customers same-day service. We do this by combining our efforts and depending upon each other to get things done.
- Grass Roots Process: Sam's philosophy lives on today in Walmart's Grass Roots Process, our formal way of capturing associates' ideas, suggestions and concerns.
- 3 Basic Beliefs & Values: Our unique culture has helped make Walmart one of the world's most admired companies. Since Sam Walton opened Walmart in 1962, our culture has rested on three basic beliefs. We live out these beliefs each day in our interactions with our customers and each other.
- 10-Foot Rule: The 10-foot Rule is one of our secrets to customer service. During his many store visits, Sam Walton encouraged associates (employees) to take this pledge with him: "I promise that whenever I come within 10 feet of a customer, I will look him in the eye, greet him, and ask if I can help him."

- Servant Leadership: Sam Walton believed that effective leaders do not lead from behind their desks. "It's more important than ever that we develop leaders who are servants, who listen to their partners – their associates – in a way that creates wonderful morale to help the whole team accomplish an overall goal," Sam said.
- Teamwork: Sam Walton, our founder, believed in the power of teamwork. As our stores grow and the pace of modern life quickens, that philosophy of teamwork has only become more important over the years.
- Walmart Cheer: Don't be surprised if you hear our associates shouting this enthusiastically at your local Walmart store. It's our cheer, and while it might not sound serious, we take it seriously. It's one way we show pride in our company.

5. Go to **www.dell.com/leadership** and read the sections dedicated to its board of directors and corporate governance. Is there evidence of effective governance at Dell in regard to (1) accurate financial reports and controls, (2) a critical appraisal of strategic action plans, (3) evaluation of the strategic leadership skills of the CEO, and (4) executive compensation?

   Students should recognize there is evidence the board of directors for Dell has responsibility to exercise oversight and direction over management. First, there are 12 directors, and 10 of these directors are independent. The definition of independence is: "A director will be considered to be "independent" only if the Board affirmatively determines that the director does not have any direct or indirect material relationship with Dell that may impair, or appear to impair, the director's ability to make independent judgments."

   The Board has established a set of Corporate Governance Principles that are designed to reflect a set of core values that provide the foundation for the Board's approach to governance. These Principles clearly outline the roles of the Board and management. A review of these roles indicates the Board has significant responsibilities in the following areas: management planning and oversight, strategic and operational planning, major corporate actions, financial reporting, governance, compliance and risk management, and general advice to management.

   The Principles distinctly outline the following: Board composition and structure which includes standards for a Board member to be declared independent; guidelines for the conduct of Board meetings; and activities related to other Board operations and practices which includes open access to management. The information in the Principles indicates the four obligations outlined in this chapter for a company's Board of Directors are most likely fulfilled.