STRATEGY
Core Concepts and Analytical Approaches

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CHAPTER 2

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

Presentation Design by Charlie Cook

"If we can know where we are and something about how we got there, we might see where we are trending—and if the outcomes which lie naturally in our course are unacceptable, to make timely change."

— Abraham Lincoln

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"If you don't know where you are going, any road will take you there." – the Cheshire Cat to Alice

— Lewis Carroll, ***Alice in Wonderland***

 0–3

"One secret to maintaining a thriving business is recognizing when it needs a fundamental change."

— Mark W. Johnson, Clayton M. Christensen, and Henning Kagermann

 0–4

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 core values
2. Setting objectives for measuring performance and progress
3. Crafting a strategy to achieve the objectives and the intended strategic vision and mission
4. Executing the chosen strategy efficiently and effectively
5. Monitoring strategic developments, evaluating performance, and initiating corrective adjustments

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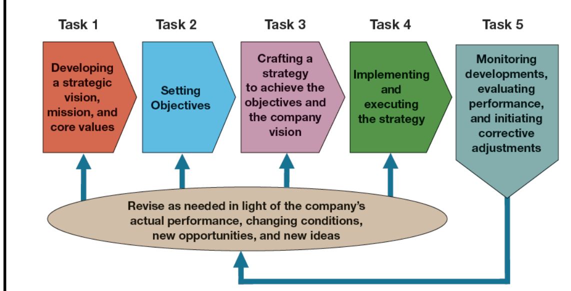
FIGURE 2.1 The Strategy-Making, Strategy-Executing Process



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

- Developing a strategic vision entails
  - Thinking strategically about the firm's future direction—"where we are going."
  - Considering how the firm's competitiveness and overall business performance could be improved by changing:
    - The products it offers
    - The markets in which it participates
    - The customers it caters to
    - The businesses in which it engages

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 only a bunch of words that do not matter unless:
  - It paints a clear picture of "where we are headed"—specifically, the market(s) and competitive arena(s) in which top management wants the firm to compete
  - 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?

 2–12

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

Core Concept: Vision Statement

A ***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.

 2–14

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 firm is headed
  - Evokes positive support and excitement
  - Arouses a committed organizational effort to move in a common direction

 2–15

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.

 2–16

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 for changes that will propel the firm along its chosen strategic path
- It guides lower-level managers' operating decisions in their pieces of the business
- It helps the firm prepare for the future

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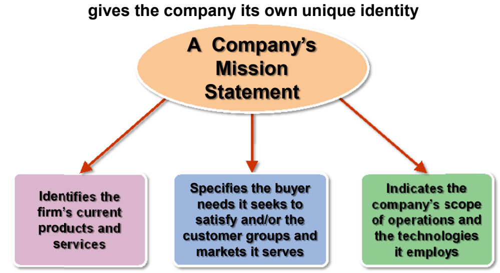
What Is a Company Mission Statement All About?

The role of a company mission statement is to briefly describe the enterprise's present business and purpose in language that gives the company its own unique identity



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A Strategic Vision Covers Different Ground than a Mission Statement

- A strategic vision
  - Focuses on a firm's strategic course–***"the direction we are headed."***
  - Describes the firm's intended future business makeup:
    - 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."***
  - Describes the firm's present business:
    - Products or services
    - Buyer needs being served
    - Customer groups it sells to
    - Scope of operations and technologies
  - ***Is seldom forward-looking***

 2–19

Characteristics of a Mission Statement

- Has a *here and now* theme
- Provides an overview of the firm's present business make-up and purpose by identifying:
  - The firm's present products/services and/or the industries it participates in
  - The types of buyers who purchase the firm's products
  - The buyer needs being satisfied
  - The geographic scope of the firm's operations
- Uses language specific enough to set the firm apart from other enterprises—hiding behind generic language that disguises "who we are and what we do" serves no useful purpose

 2–20

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 Apple all aspire to make a profit, but are vastly different businesses (and thus their missions are different)
- A firm's answer to "make a profit doing ***what*** and for ***whom***?" reveals its true mission and what its business is all about

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

 2–21

Example of a Mission Statement

Advance Auto Parts

It is the Mission of Advance Auto Parts to provide personal vehicle owners and enthusiasts with the vehicle related products and knowledge that fulfill their wants and needs at the right price. Our friendly, knowledgeable and professional staff will help inspire, educate and problem-solve for our customers.

 2–22

Example of A Mission Statement

Harley-Davidson

We fulfill dreams through the experience of motorcycling, by providing to motorcyclists and to the general public an expanding line of motorcycles and branded products and services in selected market segments.

 2–23

Example of a Mission Satement

The Walt Disney Company

The mission of The Walt Disney Company is to be one of the world's leading producers and providers of entertainment and information. Using our portfolio of brands to differentiate our content, services and consumer products, we seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world.

 2–24

Example of a Mission Statement

Family Dollar Store

For Our Customers: A compelling place to shop . . .by providing convenience and low prices

For Our Associates: A compelling place to work . . . by providing exceptional opportunities and rewards for achievement

For Our Investors: A compelling place to invest . . . by providing outstanding returns

 2-25

Many Firm's Have a Set of Core Values to Guide Pursuit of the Vision and Mission

- Developing a set of core values serves to guide the actions and behavior of company personnel in conducting the firm's business
- Typically, core values relate to such things as
  - Fair and equitable treatment, honor and integrity, ethical standards, innovativeness, teamwork, a passion for top-notch quality or superior customer service, and exhibiting good community citizenship
  - Deeply-held values become ***core values*** and part of a firm's DNA
- At some firms, the stated values are mere window dressing and exist mainly to put a little more polish on the company's public image, but they have little or no impact on how business is conducted or the behavior of personnel.

 2-26

Core Concept

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.

At enterprises where the values are genuine and deeply-entrenched, senior managers craft visions, missions, strategies, and operating practices that match these values, and they hold company personnel responsible for displaying them.

 2-27

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

 2-28

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– 54 things the company does not value are singled out, including losing, bureaucracy, "good enough," arrogance, status quo, formality, quick fixes…

 2-29

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

- Managers connect core values to pursuit of the 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 success
- At some companies, the strategic vision, mission, and values are combined into a single statement circulated to all personnel (and often posted on the firm's Web site)

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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***

 2–31

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.

 2–32

The Imperative of Setting Challenging or Stretch Objectives

- To promote outstanding performance, managers must deliberately set high performance targets to challenge the firm to perform at its full potential and deliver the best possible results
- ***Stretch objectives*** are an effective means of pushing company personnel to:
  - Be more inventive
  - Exhibit more urgency in improving the firm's business position
  - Be more focused and intentional in their actions

 2–33

How Not to Handle the Task of Setting Objectives

Objective-setting approaches to be avoided

- **Setting targets that have no adverse consequences for organizational members if they are not achieved**
- **Setting targets that, if achieved, represent "average" performance**
- **Setting unspecific performance targets (e.g., "become more efficient" or "reduce costs") that fail to specify "how much" or "by when"**

 2–34

Every Firm Needs Two Types of Objectives

Financial Objectives	Strategic Objectives
Outcomes focused on improving the firm's ***financial performance***	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 capital investment

 2–37

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 up-to-date products to market ahead of rivals

 2–38

Good Strategic Performance Fosters Better Financial Performance

- Setting and achieving well-chosen strategic objectives is of prime importance!
  - Setting and achieving financial objectives is necessary but not sufficient: current results are "lagging indicators" that reflect past decisions and actions—good current profitability does not guarantee even better future financial results.
  - A firm with growing competitive strength and an improving market position is better able to deliver stronger financial results.
  - A firm with eroding competitive strength and a deteriorating market position lacks ability to improve its financial performance
- Hence, the degree to which a company's managers set, pursue, and achieve stretch strategic objectives is a reliable "leading indicator" of whether the company's future financial performance will improve or stall or deteriorate.

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Core Concept

A stronger market standing and greater competitive vitality—especially when it results in competitive advantage—is what enables and empowers a company to improve its financial performance.

An improved likelihood of achieving better financial performance is what makes setting, pursuing, and achieving strategic objectives so important !

 2–40

A Balanced Scorecard Approach–Pursuing Both Strategic and Financial Objectives

- A balanced scorecard for measuring a firm's performance is optimal; it entails:
  - Setting both financial and strategic objectives
  - Placing ***balanced emphasis*** on achieving ***both*** types of objectives
- A balanced scorecard approach to measuring company performance gives managers a more complete and balanced view of a company's overall performance than just looking at financial outcomes alone.

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A Balanced Scorecard Is Usually Superior to an Unbalanced Scorecard

- A firm's ***surest path*** to sustained future profitability is the relentless pursuit of strategic outcomes that strengthen its market position and competitiveness vis-à-vis rivals!
- However, extra heavy emphasis on achieving financial objectives as opposed to balanced pursuit of financial and strategic objectives may be essential whenever a firm is in such dire financial condition that its very survival depends on achieving big gains in short-term profitability.

 2–42

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
  - Are important because they require managers to consider *what to do **now** to put the firm in position to perform better **later**.*

Objectives Are Needed at All Organizational Levels

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

Core Concept: Strategic Intent

A firm 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.

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.
  - Alters the market contest and tilts rules for competing in its favor.
  - Rallies its personnel in efforts to make its strategic intent a reality.

Firms with strategic intent are more formidable competitors than rivals with modest strategic objectives and market ambitions.

Questions for Simulation Company Co-Managers

- Has your management team considered the merits of crafting a strategic vision for your company?
- Has your team 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 team defined its strategic intent and begun taking actions to achieve it? *If not*, why haven't you?

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 firm in the marketplace to capitalize on attractive opportunities to grow the business
  - *How* to respond to changing economic and market conditions
  - *How* to manage each functional piece of the business
  - *How* to achieve the firm's performance targets

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

Strategy-Making and Good Entrepreneurship

- Good strategy-making always entails astute entrepreneurship in:
  - 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 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.

 2–49

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.

Crafting and executing strategy are definitely NOT tasks performed only by high-level managers.

 2–50

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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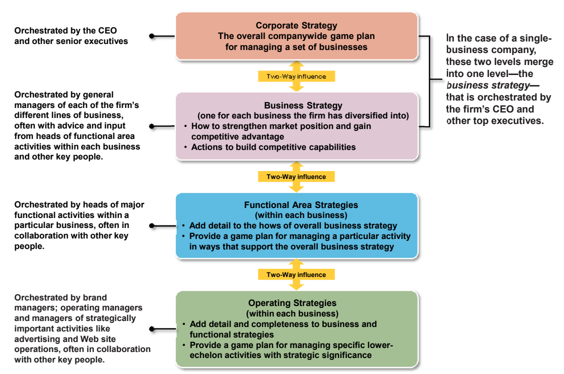
FIGURE 2.2 A Company's Strategy-Making Hierarchy



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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

 2–53

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

 2–54

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
  - General managers have final approval over the various functional strategies and may exert strong influence over the content of the functional strategies

 2-55

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

 2-56

Uniting the Strategy-Making Effort

- Ideally, the pieces of a company's strategy up and down the strategy pyramid should be cohesive and mutually reinforcing, fitting together like a jigsaw puzzle
- Achieving unity entails
  - Removing or modifying lower-level initiatives or strategy elements that conflict with or do not support higher-level strategies ***and/or***
  - Adapting higher-level strategies to accommodate more appealing strategy initiatives that have been developed at lower organizational levels in the strategy hierarchy

A company's strategy is at full power only when its many pieces are united.

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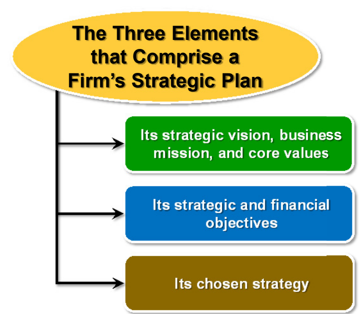
What Is a Strategic Plan?



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Task 4: Implementing and Executing the Strategy

- Implementation and execution of strategy
  - Is the operations-oriented, make-things-happen, strategy-supportive performance of core business activities
  - 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

 2-59

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

 2-60

Judging the Success of a Company's Strategy Execution Effort

- Good strategy execution
  - Requires diligent pursuit of operating excellence and is a job for a company's entire management team
  - Hinges upon the skills and cooperation of operating managers who can push needed changes in their organization units and consistently deliver good results
- There are two tests for determining whether management's handling of the strategy execution process should be deemed successful:
  - Has the company met or exceeded its strategic and financial performance targets?
  - Is the company making good progress in achieving its strategic vision?

Task 5: Evaluating Performance and Initiating Corrective Adjustments

- This task involves:
  - Deciding to continue or to change the firm's vision, objectives, strategy, and/or strategy execution methods

    Stay the course? Fine-tune? Do a major overhaul?
  - Assessing which of the company's operating methods and approaches to strategy execution merit continuation and which need improvement
  - Making adjustments that will move the firm closer to operating excellence

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.

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

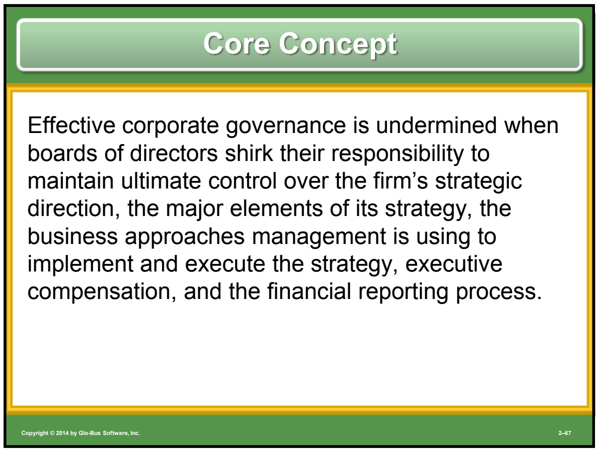
- Senior managers have lead responsibility for performing all five strategy-making, strategy-executing tasks
- It is the duty of a firm's board of directors to:
  - Exercise strong oversight of how the firm's business is being conducted and managed
  - Make sure that management performs its strategy-making,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

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

1. Diligently critique the firm'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
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.

