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Crafting & Executing
STRATEGY

Chapter 2

**Charting a Company's Direction: Its Vision and Mission,
Objectives, and Strategy**

LEARNING OBJECTIVES

THIS CHAPTER WILL HELP YOU UNDERSTAND:

1. Why it is critical for company managers to have a clear strategic vision of where a company needs to head and why
2. The importance of setting both strategic and financial objectives
3. Why the strategic initiatives taken at various organizational levels must be tightly coordinated to achieve companywide performance targets
4. What a company must do to achieve operating excellence and to execute its strategy proficiently
5. The role and responsibility of a company's board of directors in overseeing the strategic management process

STRATEGY-MAKING PROCESS

THIS CHAPTER WILL HELP YOU UNDERSTAND:

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 achieve its objectives
4. Executing the chosen strategy efficiently and effectively
5. Monitoring developments, evaluating performance, and initiating corrective adjustments

STRATEGY-MAKING PROCESS

Strategy-making

Strategy-execution

STAGE 1

STAGE 2

STAGE 3

STAGE 4

STAGE 5

Developing a strategic vision, mission and core values

Setting objectives

Crafting a strategy to achieve the objectives and the company vision

Executing the strategy

Monitoring developments, evaluating performance and initiating corrective adjustments

Revise as needed in light of the company's actual performance, changing conditions, new opportunities and new ideas

STRATEGY-MAKING PROCESS

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

DEVELOPING A STRATEGIC VISION

- Developing a strategic vision
 - Delineates management's 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

CORE CONCEPT

A **strategic vision** describes management's aspirations for the company's future and the course and direction charted to achieve them.

WORDING A VISION STATEMENT

The Dos

Be graphic. Paint a clear picture of where the company is headed and the market position(s) the company is striving to stake out.

Be forward-looking and directional. Describe the strategic course that will help the company prepare for the future.

Keep it focused. Focus on providing managers with guidance in making decisions and allocating resources.

Have some wiggle room. Language that allows some flexibility allows the directional course to be adjusted as market, customer, technology circumstances change.

The Donts

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.

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."

Don't use overly broad language. All-inclusive language that gives the company license to pursue any opportunity must be avoided.

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.

WORDING A VISION STATEMENT

The Dos

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.

Indicate why the directional path makes good business sense. The directional path should be in the long-term interests of stakeholders, especially shareowners, employees, and suppliers.

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.”

The Don'ts

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.

Don't rely on superlatives. Visions that claim the company's strategic course is one of being the “best” or “most successful” usually lack specifics about the path the company is taking to get there.

Don't run on and on. A vision statement that is not short and to the point will tend to lose its audience.

WHOLE FOODS VISION STATEMENT

| Vision Statement | Effective Elements | Shortcomings |
|--|---|--|
| <p>Whole Foods Whole</p> <p>Whole Market is a dynamic leader in the quality food business. We are a mission-driven company that aims to set the standards of excellence for food retailers. We are building a business in which high standards permeate all aspects of our company. Quality is a state of mind at Whole Foods Market. Our motto—Whole Foods, Whole People, Whole Planet—emphasizes that our vision reaches far beyond just being a food retailer. Our success in fulfilling our vision is measured by customer satisfaction, team member happiness and excellence, return on capital investment, improvement in the state of the environment and local and larger community support. Our ability to instill a clear sense of interdependence among our various stakeholders (the people who are interested and benefit from the success of our company) is contingent upon our efforts to communicate more often, more openly, and more compassionately. Better communication equals better understanding and more trust.</p> | <ul style="list-style-type: none">• Forward-looking• Graphic• Focused• Makes good business sense | <ul style="list-style-type: none">• Too long• Not memorable |

WHOLE FOODS VISION STATEMENT

| Vision Statement | Effective Elements | Shortcomings |
|--|--|---|
| <p>Keurig Become the world's leading personal beverage systems company.</p> | <ul style="list-style-type: none">• Focused• Flexible• Makes good business sense | <ul style="list-style-type: none">• Not graphic• Lacks specifics• Not forward-looking |
| <p>Nike NIKE, Inc. fosters a culture of invention. We create products, services and experiences for today's athlete* while solving problems for the next generation. *If you have a body, you are an athlete.</p> | <ul style="list-style-type: none">• Forward-looking• Flexible | <ul style="list-style-type: none">• Vague and lacks detail• Not focused• Generic• Not necessarily feasible |

COMMUNICATING THE 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

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 forward in the intended direction.

COMMUNICATING THE VISION

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

WHY A SOUND 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 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

DEVELOPING A MISSION STATEMENT

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 the scope and purpose of its *present* business ("who we are, what we do, and why we are here").

A GOOD 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

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
- Match the firm's vision, mission, and strategy, contributing to the firm's business success

PATAGONIA, A VALUES-DRIVEN CO.

- 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

PATAGONIA, A VALUES-DRIVEN CO.

- Examining 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, challenging and 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

CORE CONCEPTS

Objectives are an organization's performance targets - the specific results management wants to achieve.

CORE CONCEPTS

Stretch objectives set performance targets high enough to stretch an organization to reach its full potential and deliver the best possible results.

CORE CONCEPTS

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.

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.

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.

SETTING ST & LT 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.

CORE CONCEPTS

Strategic objectives relate to target outcomes that indicate a company is strengthening its market standing, competitive position, and future business prospects.

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

- 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

- 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

CORE CONCEPTS

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.

BALANCED APPROACH TO SETTING OBJECTIVES

- 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 FINANCIAL PERFORMANCE NOT ENOUGH

- Current financial results are **lagging indicators** of past decisions and actions
 - Does not translate into a stronger competitive capability or 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.

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 AT ALL LEVELS

- Chief executive officer (**CEO**)
 - Has ultimate responsibility for leading the strategy-making process as strategic visionary and 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 firms, 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 A COLLABORATIVE EFFORT?

- 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!**

STRATEGY-MAKING HIERARCHY

1. **Corporate** strategy

- Multi-business strategy - how to gain synergies from managing a portfolio of businesses together rather than as separate businesses

2. **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

STRATEGY-MAKING HIERARCHY

3. **Functional** area strategies

- Add relevant detail to the “hows” of business strategy
- Provide a game plan for managing a particular activity in ways that support the business strategy

4. **Operational** strategies

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

NOTE: These four strategies all impact each other.

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.

CORE CONCEPTS

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.

STRATEGIC MANAGEMENT PRINCIPLE

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

ELEMENTS OF A STRATEGIC PLAN



CORE CONCEPTS

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

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 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 to achieve best practices

MANAGING THE EXECUTION PROCESS

- 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 3: MAKING ADJUSTMENTS

- Evaluating performance
 - Deciding whether the enterprise is passing the three tests of a winning strategy—good fit, competitive advantage, strong performance.
- Initiating corrective adjustment
 - Deciding whether to continue or change the firm's vision and mission, objectives, strategy, and strategy execution methods
 - Applying lessons based on organizational learning

STRATEGIC MANAGEMENT PRINCIPLE

A company's vision, mission, objectives, strategy, and approach to strategy execution are **never final**; reviewing whether and when to make revisions is an ongoing process.

CORPORATE GOVERNANCE

- Obligations of the board of directors:
 - Oversee the firm's financial accounting and reporting practices compliance with GAAP principles
 - 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.

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 intensely involved in debating the pros and cons of key strategic decisions and actions

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.