Chapter 2

Charting a Company’s Direction: Vision and Mission, Objectives, and Strategy

Learning Objectives

LO1 Grasp why it is critical for company managers to have a clear strategic vision of where a company needs to head and why.

LO2 Understand the importance of setting both strategic and financial objectives.

LO3 Understand why the strategic initiatives taken at various organizational levels must be tightly coordinated to achieve companywide performance targets.

LO4 Become aware of what a company must do to achieve operating excellence and to execute its strategy proficiently.

LO5 Become aware of the role and responsibility of a company’s board of directors in overseeing the strategic management process.
Crafting and executing strategy are the heart and soul of managing a business enterprise. But exactly what is involved in developing a strategy and executing it proficiently? What are the various components of the strategy-making, strategy-executing process and to what extent are company personnel—aside from senior management—involved in the process? This chapter presents an overview of the ins and outs of crafting and executing company strategies. Special attention will be given to management’s direction-setting responsibilities—charting a strategic course, setting performance targets, and choosing a strategy capable of producing the desired outcomes. We will also explain why strategy making is a task for a company’s entire management team and discuss which kinds of strategic decisions tend to be made at which levels of management. The chapter concludes with a look at the roles and responsibilities of a company’s board of directors and how good corporate governance protects shareholder interests and promotes good management.

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

The managerial process of crafting and executing a company’s strategy consists of five integrated stages:

1. Developing a strategic vision that charts the company’s long-term direction, a mission statement that describes the company’s business, and a set of core values to guide the pursuit of the strategic vision and mission.
2. Setting objectives for measuring the company’s performance and tracking its progress in moving in the intended long-term direction.
3. Crafting a strategy for advancing the company along the path to management’s envisioned future and achieving its performance objectives.
4. Implementing and executing the chosen strategy efficiently and effectively.

![Figure 2.1: The Strategy-Making, Strategy-Executing Process](image)
5. **Monitoring developments, evaluating performance, and initiating corrective adjustments** that are needed in the company’s long-term direction, objectives, strategy, or approach to strategy execution.

Figure 2.1 displays this five-stage process. The model illustrates the need for management to evaluate a number of external and internal factors in deciding upon a strategic direction, appropriate objectives, and approaches to crafting and executing strategy (see Table 2.1). Management’s decisions that are made in the strategic management process must be shaped by the prevailing economic conditions and competitive environment and the company’s own internal resources and competitive capabilities. These strategy-shaping conditions will be the focus of Chapters 3 and 4.

The model shown in Figure 2.1 also illustrates the need for management to evaluate the company’s performance on an ongoing basis. Any indication that the company is failing to achieve its objectives calls for corrective adjustments in one of the first four stages of the process. The company’s implementation efforts might have fallen short and new tactics must be devised to fully exploit the potential of the company’s strategy. If management determines that the company’s execution efforts are sufficient, it should challenge the assumptions underlying the company’s business strategy and alter the strategy to better fit competitive conditions and the company’s internal capabilities. If the company’s strategic approach to competition is rated as sound, then perhaps management set overly ambitious targets for the company’s performance.

<table>
<thead>
<tr>
<th>External Considerations</th>
<th>Internal Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does sticking with the company’s present strategic course present attractive opportunities for growth and profitability?</td>
<td>Does the company have an appealing customer value proposition?</td>
</tr>
<tr>
<td>What kind of competitive forces are industry members facing and are they acting to enhance or weaken the company’s prospects for growth and profitability?</td>
<td>What are the company’s competitively important resources and capabilities and are they potent enough to produce a sustainable competitive advantage?</td>
</tr>
<tr>
<td>What factors are driving industry change and what impact on the company’s prospects will they have?</td>
<td>Does the company have sufficient business and competitive strength to seize market opportunities and nullify external threats?</td>
</tr>
<tr>
<td>How are industry rivals positioned and what strategic moves are they likely to make next?</td>
<td>Are the company’s prices and costs competitive with those of key rivals?</td>
</tr>
<tr>
<td>What are the key factors of future competitive success and does the industry offer good prospects for attractive profits for companies possessing those capabilities?</td>
<td>Is the company competitively stronger or weaker than key rivals?</td>
</tr>
</tbody>
</table>
The evaluation stage of the strategic management process shown in Figure 2.1 also allows for a change in the company’s vision, but this should be necessary only when it becomes evident to management that the industry has changed in a significant way that renders its vision obsolete. Such occasions can be referred to as strategic inflection points. When a company reaches a strategic inflection point, management has tough decisions to make about the company’s direction because abandoning an established course carries considerable risk. However, responding to unfolding changes in the marketplace in a timely fashion lessens a company’s chances of becoming trapped in a stagnant or declining business or letting attractive new growth opportunities slip away.

The first three stages of the strategic management process make up a strategic plan. A strategic plan maps out where a company is headed, establishes strategic and financial targets, and outlines the competitive moves and approaches to be used in achieving the desired business results.¹

**STAGE 1: DEVELOPING A STRATEGIC VISION, A MISSION, AND CORE VALUES**

At the outset of the strategy-making process, a company’s senior managers must wrestle with the issue of what directional path the company should take and whether its market positioning and future performance prospects could be improved by changing the company’s product offerings and/or the markets in which it participates and/or the customers it caters to and/or the technologies it employs. Top management’s views about the company’s direction and future product-customer-market-technology focus constitute a strategic vision for the company. A clearly articulated strategic vision communicates management’s aspirations to stakeholders about “where we are going” and helps steer the energies of company personnel in a common direction. For instance, Henry Ford’s vision of a car in every garage had power because it captured the imagination of others, aided internal efforts to mobilize the Ford Motor Company’s resources, and served as a reference point for gauging the merits of the company’s strategic actions.

Well-conceived visions are distinctive and 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 And they are not the product of a committee charged with coming up with an innocuous but well-meaning one-sentence vision that wins consensus approval from various stakeholders. Nicely worded vision statements with no specifics about the company’s product-market-customer-technology focus fall well short of what it takes for a vision to measure up.

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. It must
say something definitive about how the company’s leaders intend to position the company beyond where it is today. Table 2.2 lists some characteristics of effective vision statements.

A surprising number of the vision statements found on company websites and in annual reports are vague and unrevealing, saying very little about the company’s future product-market-customer-technology focus. Some could apply to most any company in any industry. Many read like a public relations statement—lofty words that someone came up with because it is fashionable for companies to have an official vision statement. Table 2.3 provides a list of

### TABLE 2.2

**Characteristics of Effectively Worded Vision Statements**

- **Graphic**—Paints a picture of the kind of company that management is trying to create and the market position(s) the company is striving to stake out.
- **Directional**—Is forward looking; describes the strategic course that management has charted and the kinds of product-market-customer-technology changes that will help the company prepare for the future.
- **Focused**—Is specific enough to provide managers with guidance in making decisions and allocating resources.
- **Flexible**—Is not so focused that it makes it difficult for management to adjust to changing circumstances in markets, customer preferences, or technology.
- **Feasible**—Is within the realm of what the company can reasonably expect to achieve.
- **Desirable**—Indicates why the directional path makes good business sense.
- **Easy to communicate**—Is explainable in 5 to 10 minutes and, ideally, can be reduced to a simple, memorable “slogan” (like Henry Ford’s famous vision of “a car in every garage”).


### TABLE 2.3

**Common Shortcomings in Company Vision Statements**

- **Vague or incomplete**—Short on specifics about where the company is headed or what the company is doing to prepare for the future.
- **Not forward looking**—Doesn’t indicate whether or how management intends to alter the company’s current product-market-customer-technology focus.
- **Too broad**—So all-inclusive that the company could head in most any direction, pursue most any opportunity, or enter most any business.
- **Bland or uninspiring**—Lacks the power to motivate company personnel or inspire shareholder confidence about the company’s direction.
- **Not distinctive**—Provides no unique company identity; could apply to companies in any of several industries (including rivals operating in the same market arena).
- **Too reliant on superlatives**—Doesn’t say anything specific about the company’s strategic course beyond the pursuit of such distinctions as being a recognized leader, a global or worldwide leader, or the first choice of customers.

## EXAMPLES OF STRATEGIC VISIONS—HOW WELL DO THEY MEASURE UP?

<table>
<thead>
<tr>
<th>VISION STATEMENT</th>
<th>EFFECTIVE ELEMENTS</th>
<th>SHORTCOMINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coca-Cola</strong></td>
<td>• Focused</td>
<td>• Long</td>
</tr>
<tr>
<td>Our vision serves as the framework for our roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth.</td>
<td>• Flexible</td>
<td>• Not forward-looking</td>
</tr>
<tr>
<td></td>
<td>• Feasible</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Desirable</td>
<td></td>
</tr>
<tr>
<td>People: Be a great place to work where people are inspired to be the best they can be.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio: Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people’s desires and needs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partners: Nurture a winning network of customers and suppliers, together we create mutual, enduring value.</td>
<td></td>
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</tr>
<tr>
<td>Planet: Be a responsible citizen that makes a difference by helping build and support sustainable communities.</td>
<td></td>
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</tr>
<tr>
<td>Profit: Maximize long-term return to shareowners while being mindful of our overall responsibilities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Productivity: Be a highly effective, lean and fast-moving organization.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>UBS</strong></td>
<td>• Focused</td>
<td>• Not forward-looking</td>
</tr>
<tr>
<td>We are determined to be the best global financial services company. We focus on wealth and asset management, and on investment banking and securities businesses. We continually earn recognition and trust from clients, shareholders, and staff through our ability to anticipate, learn and shape our future. We share a common ambition to succeed by delivering quality in what we do. Our purpose is to help our clients make financial decisions with confidence. We use our resources to develop effective solutions and services for our clients. We foster a distinctive, meritocratic culture of ambition, performance and learning as this attracts, retains and develops the best talent for our company. By growing both our client and our talent franchises, we add sustainable value for our shareholders.</td>
<td>• Feasible</td>
<td>• Bland or uninspiring</td>
</tr>
<tr>
<td></td>
<td>• Desirable</td>
<td></td>
</tr>
<tr>
<td><strong>Walmart</strong></td>
<td>• Focused</td>
<td>• Not forward-looking</td>
</tr>
<tr>
<td>Saving People Money So They Can Live Better</td>
<td>• Easy to communicate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Feasible</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Flexible</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Desirable</td>
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</tbody>
</table>
the most common shortcomings in company vision statements. Like any tool, vision statements can be used properly or improperly, either clearly conveying a company’s strategic course or not. Concepts & Connections 2.1 provides a critique of the strategic visions of several prominent companies.

The Importance of Communicating the Strategic Vision
A strategic vision has little value to the organization unless it’s effectively communicated down the line to lower-level managers and employees. It would be difficult for a vision statement to provide direction to decision makers and energize employees toward achieving long-term strategic intent unless they know of the vision and observe management’s commitment to that vision. Communicating the vision to organization members nearly always means putting “where we are going and why” in writing, distributing the statement organizationwide, and having executives personally explain the vision and its rationale to as many people as feasible. Ideally, executives should present their vision for the company in a manner that reaches out and grabs people’s attention. An engaging and convincing strategic vision has enormous motivational value—for the same reason that a stonemason is inspired by building a great cathedral for the ages. Therefore, an executive’s ability to paint a convincing and inspiring picture of a company’s journey to a future destination is an important element of effective strategic leadership.

Expressing the Essence of the Vision in a Slogan
The task of effectively conveying the vision to company personnel is assisted when management can capture the vision of where to head in a catchy or easily remembered slogan. A number of organizations have summed up their vision in a brief phrase. Nike’s vision slogan is “To bring innovation and inspiration to every athlete in the world.” The Mayo Clinic’s vision is to provide “The best care to every patient every day,” while Greenpeace’s envisioned future is “To halt environmental abuse and promote environmental solutions.” Creating a short slogan to illuminate an organization’s direction and then using it repeatedly as a reminder of “where we are headed and why” helps rally organization members to hurdle whatever obstacles lie in the company’s path and maintain their focus.

Why a Sound, Well-Communicated Strategic Vision Matters
A well-thought-out, forcefully communicated strategic vision pays off in several respects: (1) it crystallizes senior executives’ own views about the firm’s long-term direction; (2) it reduces the risk of rudderless decision making by management at all levels; (3) it is a tool for winning the support of employees to help make the vision a reality; (4) it provides a beacon for lower-level managers in forming departmental missions; and (5) it helps an organization prepare for the future.
Developing a Company Mission Statement

The defining characteristic of a well-conceived strategic vision is what it says about the company’s future strategic course—“where we are headed and what our future product-customer-market-technology focus will be.” The mission statements of most companies say much more about the enterprise’s present business scope and purpose—“who we are, what we do, and why we are here.” Very few mission statements are forward looking in content or emphasis. Consider, for example, the mission statement of Trader Joe’s (a specialty grocery chain):

The mission of Trader Joe’s is 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.

Note that Trader Joe’s mission statement does a good job of conveying “who we are, what we do, and why we are here,” but it provides no sense of “where we are headed.”

An example of a well-stated mission statement with ample specifics about what the organization does is that of the Occupational Safety and Health Administration (OSHA): “to assure the safety and health of America’s workers by setting and enforcing standards; providing training, outreach, and education; establishing partnerships; and encouraging continual improvement in workplace safety and health.” Google’s mission statement, while short, still captures the essence of what the company is about: “to organize the world’s information and make it universally accessible and useful.” An example of a not-so-revealing mission statement is that of Microsoft. “To help people and businesses throughout the world realize their full potential” says nothing about its products or business makeup and could apply to many companies in many different industries. A well-conceived mission statement should employ language specific enough to give the company its own identity. A mission statement that provides scant indication of “who we are and what we do” has no apparent value.

Ideally, a company 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.
- Give the company its own identity.

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. Moreover, earning a profit is the obvious intent of every...
commercial enterprise. Such companies as BMW, Netflix, Shell Oil, Procter & Gamble, Google, and McDonald’s are each striving to earn a profit for shareholders, but the fundamentals of their businesses are substantially different when it comes to “who we are and what we do.”

**Linking the Strategic Vision and Mission with Company Values**

Many companies have developed a statement of **values** (sometimes called **core values**) to guide the actions and behavior of company personnel in conducting the company’s business and pursuing its strategic vision and mission. These values are the designated beliefs and desired ways of doing things at the company and frequently relate to such things as fair treatment, honor and integrity, ethical behavior, innovativeness, teamwork, a passion for excellence, social responsibility, and community citizenship.

Most companies normally have four to eight core values. At Kodak, the core values are respect for the dignity of the individual, uncompromising integrity, unquestioned trust, constant credibility, continual improvement and personal renewal, and open celebration of individual and team achievements. Home Depot embraces eight values—entrepreneurial spirit, excellent customer service, giving back to the community, respect for all people, doing the right thing, taking care of people, building strong relationships, and creating shareholder value—in its quest to be the world’s leading home improvement retailer.  

Do companies practice what they preach when it comes to their professed values? Sometimes no, sometimes yes—it runs the gamut. At one extreme are companies with window-dressing values; the professed values are given lip service by top executives but have little discernible impact on either how company personnel behave or how the company operates. At the other extreme are companies whose executives are committed to grounding company operations on sound values and principled ways of doing business. Executives at these companies deliberately seek to ingrain the designated core values into the corporate culture—the core values thus become an integral part of the company’s DNA and what makes it tick. At such values-driven companies, executives “walk the talk” and company personnel are held accountable for displaying the stated values. Concepts & Connections 2.2 describes how core values drive the company’s mission at Zappos, a widely known and quite successful online shoe and apparel retailer.

**STAGE 2: SETTING OBJECTIVES**

The managerial purpose of setting objectives is to convert the strategic vision into specific performance targets. Objectives reflect management’s aspirations for company performance in light of the industry’s prevailing economic and competitive conditions and the company’s internal capabilities. Well-stated objectives are **quantifiable**, or **measurable**, and contain a **deadline for achievement**. Concrete, measurable objectives are managerially valuable.
We’ve been asked by a lot of people how we’ve grown so quickly, and the answer is actually really simple. We’ve aligned the entire organization around one mission: to provide the best customer service possible. Internally, we call this our WOW philosophy.

These are the 10 core values that we live by:

**Deliver Wow through Service.** At Zappos, anything worth doing is worth doing with WOW. WOW is such a short, simple word, but it really encompasses a lot of things. To WOW, you must differentiate yourself, which means doing something a little unconventional and innovative. You must do something that’s above and beyond what’s expected. And whatever you do must have an emotional impact on the receiver. We are not an average company, our service is not average, and we don’t want our people to be average. We expect every employee to deliver WOW.

**Embrace and Drive Change.** Part of being in a growing company is that change is constant. For some people, especially those who come from bigger companies, the constant change can be somewhat unsettling at first. If you are not prepared to deal with constant change, then you probably are not a good fit for the company.

**Create Fun and a Little Weirdness.** At Zappos, We’re Always Creating Fun and A Little Weirdness! One of the things that makes Zappos different from a lot of other companies is that we value being fun and being a little weird. We don’t want to become one of those big companies that feels corporate and boring. We want to be able to laugh at ourselves. We look for both fun and humor in our daily work.

**Be Adventurous, Creative, and Open Minded.** At Zappos, we think it’s important for people and the company as a whole to be bold and daring (but not reckless). We do not want people to be afraid to take risks and make mistakes. We believe if people aren’t making mistakes, then that means they’re not taking enough risks. Over time, we want everyone to develop his/her gut about business decisions. We want people to develop and improve their decision-making skills. We encourage people to make mistakes as long as they learn from them.

**Pursue Growth and Learning.** At Zappos, we think it’s important for employees to grow both personally and professionally. It’s important to constantly challenge and stretch yourself and not be stuck in a job where you don’t feel like you are growing or learning.

**Build Open and Honest Relationships with Communication.** Fundamentally, we believe that openness and honesty make for the best relationships because that leads to trust and faith. We value strong relationships in all areas: with managers, direct reports, customers (internal and external), vendors, business partners, team members, and co-workers.

**Build a Positive Team and Family Spirit.** At Zappos, we place a lot of emphasis on our culture because we are both a team and a family. We want to create an environment that is friendly, warm, and exciting. We encourage diversity in ideas, opinions, and points of view.

**Do More with Less.** Zappos has always been about being able to do more with less. While we may be casual in our interactions with each other, we are focused and serious about the operations of our business. We believe in working hard and putting in the extra effort to get things done.

**Be Passionate and Determined.** Passion is the fuel that drives us and our company forward. We value passion, determination, perseverance, and the sense of urgency. We are inspired because we believe in what we are doing and where we are going. We don’t take “no” or “that’ll never work” for an answer because if we had, then Zappos would have never started in the first place.

**Be Humble.** While we have grown quickly in the past, we recognize that there are always challenges ahead to tackle. We believe that no matter what happens we should always be respectful of everyone.

because they serve as yardsticks for tracking a company’s performance and progress toward its vision. Vague targets such as “maximize profits,” “reduce costs,” “become more efficient,” or “increase sales,” which specify neither how much nor when, offer little value as a management tool to improve company performance. Ideally, managers should develop challenging, yet achievable objectives that stretch an organization to perform at its full potential. As Mitchell Leibovitz, former CEO of the auto parts and service retailer Pep Boys, once said, “If you want to have ho-hum results, have ho-hum objectives.”

**What Kinds of Objectives to Set**

Two very distinct types of performance yardsticks are required: those relating to financial performance and those relating to strategic performance. **Financial objectives** communicate management’s targets for financial performance. Common financial objectives relate to revenue growth, profitability, and return on investment. **Strategic objectives** are related to a company’s marketing standing and competitive vitality. The importance of attaining financial objectives is intuitive. Without adequate profitability and financial strength, a company’s long-term health and ultimate survival is jeopardized. Furthermore, subpar earnings and a weak balance sheet alarm shareholders and creditors and put the jobs of senior executives at risk. However, good financial performance, by itself, is not enough.

A company’s financial objectives are really lagging indicators that reflect the results of past decisions and organizational activities. The results of past decisions and organizational activities are not reliable indicators of a company’s future prospects. Companies that have been poor financial performers are sometimes able to turn things around, and good financial performers on occasion fall upon hard times. Hence, the best and most reliable predictors of a company’s success in the marketplace and future financial performance are strategic objectives. Strategic outcomes are leading indicators of a company’s future financial performance and business prospects. The accomplishment of strategic objectives signals the company is well positioned to sustain or improve its performance. For instance, if a company is achieving ambitious strategic objectives, then there’s reason to expect that its future financial performance will be better than its current or past performance. If a company begins to lose competitive strength and fails to achieve important strategic objectives, then its ability to maintain its present profitability is highly suspect.

Consequently, utilizing a performance measurement system that strikes a balance between financial objectives and strategic objectives is optimal. Just tracking a company’s financial performance overlooks the fact that what ultimately enables a company to deliver better financial results is the achievement of strategic objectives that improve its competitiveness and market
strength. Representative examples of financial and strategic objectives that companies often include in a balanced scorecard approach to measuring their performance are displayed in Table 2.4.\(^8\)

In 2010, nearly 50 percent of global companies used a balanced scorecard approach to measuring strategic and financial performance.\(^9\) Examples of organizations that have adopted a balanced scorecard approach to setting objectives and measuring performance include SAS Institute, UPS, Ann Taylor Stores, Fort Bragg Army Garrison, Caterpillar, Daimler AG, Hilton Hotels, Susan G. Komen for the Cure, and Siemens AG.\(^{10}\) Concepts & Connections 2.3 provides selected strategic and financial objectives of three prominent companies.

### Short-Term and Long-Term Objectives

A company’s set of financial and strategic objectives should include both near-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 an undue focus on short-term results by nearsighted management. When trade-offs have to be made between achieving long-run and short-run objectives, long-run objectives should take precedence (unless the achievement of one or more short-run performance targets has unique importance).

### The Need for Objectives at All Organizational Levels

Objective setting should not stop with the establishment of companywide performance targets. Company objectives need to be broken into performance targets for each of the organization’s separate businesses, product lines, functional

### Table 2.4

#### The Balanced Scorecard Approach to Performance Measurement

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<thead>
<tr>
<th>FINANCIAL OBJECTIVES</th>
<th>STRATEGIC OBJECTIVES</th>
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</thead>
<tbody>
<tr>
<td>• An x percent increase in annual revenues</td>
<td>• Win an x percent market share</td>
</tr>
<tr>
<td>• Annual increases in earnings per share of x percent</td>
<td>• Achieve customer satisfaction rates of x percent</td>
</tr>
<tr>
<td>• An x percent return on capital employed (ROCE) or shareholder investment (ROE)</td>
<td>• Achieve a customer retention rate of x percent</td>
</tr>
<tr>
<td>• Bond and credit ratings of x</td>
<td>• Acquire x number of new customers</td>
</tr>
<tr>
<td>• Internal cash flows of x to fund new capital investment</td>
<td>• Introduce x number of new products in the next three years</td>
</tr>
<tr>
<td></td>
<td>• Reduce product development times to x months</td>
</tr>
<tr>
<td></td>
<td>• Increase percentage of sales coming from new products to x percent</td>
</tr>
<tr>
<td></td>
<td>• Improve information systems capabilities to give frontline managers defect information in x minutes</td>
</tr>
<tr>
<td></td>
<td>• Improve teamwork by increasing the number of projects involving more than one business unit to x</td>
</tr>
</tbody>
</table>

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.
examples of company objectives

PepsiCo
Accelerate top-line growth; build and expand our better-for-your snacks and beverages and nutrition businesses; improve our water use efficiency by 20 percent per unit of production by 2015; reduce packaging weight by 350 million pounds by 2012; improve our electricity use efficiency by 20 percent per unit of production by 2015; maintain appropriate financial flexibility with ready access to global capital and credit markets at favorable interest rates.

Goodyear
Increase operating income from $917 million in 2010 to $1.6 billion in 2013; increase operating income from international tire division from $899 million in 2010 to $1,150 million in 2013; increase operating income from North American division from $18 million in 2010 to $450 million in 2013; reduce the percentage of non-branded replacement tires sold from 16 percent in 2010 to 9 percent in 2013; improve brand awareness in Mexico; increase number of retail outlets in China from 735 in 2010 to 1,555 in 2015; increase fuel efficiency of automobile and truck tires; improve braking distance on new tire designs; improve tread-life on new tire designs; collaborate with regulatory agencies in the U.S. and Europe to develop tire labeling standards by 2013.

Yum! Brands (KFC, Pizza Hut, Taco Bell, Long John Silver’s)
Increase operating profit derived from international operations from 65 percent in 2010 to 75 percent in 2010; increase operating profit derived from operations in emerging markets from 48 percent in 2010 to 60 percent in 2015; increase number of KFC units in Africa from 655 in 2010 to 2,100 in 2020; increase KFC revenues in Africa from $865 million in 2010 to $1.94 billion in 2014; increase number of KFC units in India from 101 in 2010 to 1,250 in 2020; increase number of KFC units in Vietnam from 87 in 2010 to 500 in 2020; increase number of KFC units in Russia from 150 in 2010 to 500 in 2020; open 100 new Taco Bell units in international markets in 2015; increase annual cash flows from operations from $1.5 billion in 2010 to $2 billion in 2015.


Stage 3: Crafting a Strategy

As indicated earlier, the task of stitching a strategy together entails addressing 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, and how to achieve the company’s performance targets. It also means choosing among the various strategic alternatives and proactively searching for opportunities to do new things or to do existing things in new or better ways. 11

LO3
Understand why the strategic initiatives taken at various organizational levels must be tightly coordinated to achieve companywide performance targets.
Strategy Making Involves Managers at All Organizational Levels

In some enterprises, the CEO or owner functions as strategic visionary and chief architect of the strategy, personally deciding what the key elements of the company’s strategy will be, although the CEO may seek the advice of key subordinates in fashioning an overall strategy and deciding on important strategic moves. However, it is a mistake to view strategy making as a top management function—the exclusive province of owner-entrepreneurs, CEOs, high-ranking executives, and board members. The more a company’s operations cut across different products, industries, and geographical areas, the more that headquarters executives have little option but to delegate considerable strategy-making authority to down-the-line managers. On-the-scene managers who oversee specific operating units are likely to have a more detailed command of the strategic issues and choices for the particular operating unit under their supervision—knowing the prevailing market and competitive conditions, customer requirements and expectations, and all the other relevant aspects affecting the several strategic options available.

A Company’s Strategy-Making Hierarchy

The larger and more diverse the operations of an enterprise, the more points of strategic initiative it will have and the more managers at different organizational levels will have a relevant strategy-making role. In diversified companies, where multiple and sometimes strikingly different businesses have to be managed, crafting a full-fledged strategy involves four distinct types of strategic actions and initiatives, each undertaken at different levels of the organization and partially or wholly crafted by managers at different organizational levels, as shown in Figure 2.2. A company’s overall strategy is therefore a collection of strategic initiatives and actions devised by managers up and down the whole organizational hierarchy. Ideally, the pieces of a company’s strategy up and down the strategy hierarchy should be cohesive and mutually reinforcing, fitting together like a jigsaw puzzle.

As shown in Figure 2.2, corporate strategy is orchestrated by the CEO and other senior executives and establishes an overall game plan for managing a set of businesses in a diversified, multibusiness company. Corporate strategy addresses the questions of how to capture cross-business synergies, what businesses to hold or divest, which new markets to enter, and how to best enter new markets—by acquisition, creation of a strategic alliance, or through internal development. Corporate strategy and business diversification are the subject of Chapter 8, where they are discussed in detail.

Business strategy is primarily concerned with building competitive advantage in a single business unit of a diversified company or strengthening the
market position of a nondiversified single business company. Business strategy is also the responsibility of the CEO and other senior executives, but key business-unit heads may also be influential, especially in strategic decisions affecting the businesses they lead. In single-business companies, the corporate and business levels of the strategy-making hierarchy merge into a single level—business strategy—because the strategy for the entire enterprise involves only one distinct business. So, a single-business company has three levels of strategy: business strategy, functional-area strategies, and operating strategies.

Functional-area strategies concern the actions related to particular functions or processes within a business. A company’s product development strategy, for example, represents the managerial game plan for creating new products that are in tune with what buyers are looking for. Lead responsibility for functional strategies within a business is normally delegated to the heads of the respective functions, with the general manager of the business having final approval over functional strategies. For the overall business strategy to have maximum impact, a company’s marketing strategy, production strategy, finance strategy, customer service strategy, product development strategy, and human resources strategy should be compatible and mutually reinforcing rather than each serving its own narrower purpose.
Operating strategies concern the relatively narrow strategic initiatives and approaches for managing key operating units (plants, distribution centers, geographic units) and specific operating activities such as materials purchasing or Internet sales. Operating strategies are limited in scope, but add further detail to functional-area strategies and the overall business strategy. Lead responsibility for operating strategies is usually delegated to frontline managers, subject to review and approval by higher-ranking managers.

STAGE 4: IMPLEMENTING AND EXECUTING THE CHOSEN STRATEGY

Managing the implementation and execution of strategy is easily the most demanding and time-consuming part of the strategic management process. Good strategy execution entails that managers pay careful attention to how key internal business processes are performed and see to it that employees’ efforts are directed toward the accomplishment of desired operational outcomes. The task of implementing and executing the strategy also necessitates an ongoing analysis of the efficiency and effectiveness of a company’s internal activities and a managerial awareness of new technological developments that might improve business processes. In most situations, managing the strategy execution process includes the following principal aspects:

- Staffing the organization to provide needed skills and expertise.
- Allocating ample resources to activities critical to good strategy execution.
- Ensuring that policies and procedures facilitate rather than impede effective execution.
- Installing information and operating systems that enable company personnel to perform essential activities.
- Pushing for continuous improvement in how value chain activities are performed.
- Tying rewards and incentives directly to the achievement of performance objectives.
- Creating a company culture and work climate conducive to successful strategy execution.
- Exerting the internal leadership needed to propel implementation forward.

STAGE 5: EVALUATING PERFORMANCE AND INITIATING CORRECTIVE ADJUSTMENTS

The fifth stage 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’s vision, objectives, strategy, and/or strategy execution methods.
So long as the company’s direction and strategy seem well matched to industry and competitive conditions and performance targets are being met, company executives may well decide to stay the course. Simply fine-tuning the strategic plan and continuing with efforts to improve strategy execution are sufficient.

But whenever a company encounters disruptive changes in its environment, questions need to be raised about the appropriateness of its direction and strategy. If a company experiences a downturn in its market position or persistent shortfalls in performance, then company managers are obligated to ferret out the causes—do they relate to poor strategy, poor strategy execution, or both?—and take timely corrective action. A company’s direction, objectives, and strategy have to be revisited any time external or internal conditions warrant.

Also, it is not unusual for a company to find that one or more aspects of its strategy implementation and execution are not going as well as intended. Proficient strategy execution is always the product of much organizational learning. It is achieved unevenly—coming quickly in some areas and proving nettlesome in others. Successful strategy execution entails vigilantly searching for ways to improve and then making corrective adjustments whenever and wherever it is useful to do so.

CORPORATE GOVERNANCE: THE ROLE OF THE BOARD OF DIRECTORS IN THE STRATEGY-MAKING, STRATEGY-EXECUTING PROCESS

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). In watching over management’s strategy-making, strategy-executing actions, a company’s board of directors has four important corporate governance obligations to fulfill:

1. Oversee the company’s financial accounting and financial reporting practices. While top management, particularly the company’s CEO and CFO (chief financial officer), is primarily responsible for seeing that the company’s financial statements accurately report the results of the company’s operations, board members have a fiduciary duty to protect shareholders by exercising oversight of the company’s financial practices. In addition, corporate boards must ensure that generally acceptable accounting principles (GAAP) are properly used in preparing the company’s financial statements and determine whether proper financial controls are in place to prevent fraud and misuse of funds. Virtually all boards of directors monitor the financial reporting activities by appointing an audit committee, always composed entirely of outside directors (inside directors hold management positions in the company and either directly or indirectly report to
the CEO). The members of the audit committee have lead responsibility for overseeing the decisions of the company’s financial officers and consulting with both internal and external auditors to ensure that financial reports are accurate and adequate financial controls are in place. Faulty oversight of corporate accounting and financial reporting practices by audit committees and corporate boards during the early 2000s resulted in the federal investigation of more than 20 major corporations between 2000 and 2002. The investigations of such well-known companies as AOL Time Warner, Global Crossing, Enron, Qwest Communications, and WorldCom found that upper management had employed fraudulent or unsound accounting practices to artificially inflate revenues, overstate assets, and reduce expenses. The scandals resulted in the conviction of a number of corporate executives and the passage of the Sarbanes-Oxley Act of 2002, which tightened financial reporting standards and created additional compliance requirements for public boards.

2. **Diligently critique and oversee the company’s direction, strategy, and business approaches.** Even though board members have a legal obligation to warrant the accuracy of the company’s financial reports, directors must set aside time to guide management in choosing a strategic direction and to make independent judgments about the validity and wisdom of management’s proposed strategic actions. Many boards have found that meeting agendas become consumed by compliance matters and little time is left to discuss matters of strategic importance. The board of directors and management at Philips Electronics hold annual two- to three-day retreats devoted to evaluating the company’s long-term direction and various strategic proposals. The company’s exit from the semiconductor business and its increased focus on medical technology and home health care resulted from management–board discussions during such retreats.  

3. **Evaluate the caliber of senior executives’ strategy-making and strategy-executing skills.** The board is always responsible for determining whether the current CEO is doing a good job of strategic leadership and whether senior management is actively creating a pool of potential successors to the CEO and other top executives. Evaluation of senior executives’ strategy-making and strategy-executing skills is enhanced when outside directors go into the field to personally evaluate how well the strategy is being executed. Independent board members at GE visit operating executives at each major business unit once per year to assess the company’s talent pool and stay abreast of emerging strategic and operating issues affecting the company’s divisions. Home Depot board members visit a store once per quarter to determine the health of the company’s operations.

4. **Institute a compensation plan for top executives that rewards them for actions and results that serve shareholder interests.** A basic principle of corporate governance is that the owners of a corporation delegate operating authority and managerial control to top management in return for compensation. In their role as an agent of shareholders, top executives have a clear
Executive compensation in the financial services industry during the mid-2000s ranks high among examples of failed corporate governance. Corporate governance at the government-sponsored mortgage giants Fannie Mae and Freddie Mac was particularly weak. The politically appointed boards at both enterprises failed to understand the risks of the sub-prime loan strategies being employed, did not adequately monitor the decisions of the CEO, did not exercise effective oversight of the accounting principles being employed (which led to inflated earnings), and approved executive compensation systems that allowed management to manipulate earnings to receive lucrative performance bonuses. The audit and compensation committees at Fannie Mae were particularly ineffective in protecting shareholder interests, with the audit committee allowing the government-sponsored enterprise's financial officers to audit reports prepared under their direction and used to determine performance bonuses. Fannie Mae's audit committee also was aware of management's use of questionable accounting practices that reduced losses and recorded one-time gains to achieve EPS targets linked to bonuses. In addition, the audit committee failed to investigate formal charges of accounting improprieties filed by a manager in the Office of the Controller.

Fannie Mae's compensation committee was equally ineffective. The committee allowed the company's CEO, Franklin Raines, to select the consultant employed to design the mortgage firm's executive compensation plan and agreed to a tiered bonus plan that would permit Raines and other senior managers to receive maximum bonuses without great difficulty. The compensation plan allowed Raines to earn performance-based bonuses of $52 million and total compensation of $90 million between 1999 and 2004. Raines was forced to resign in December 2004 when the Office of Federal Housing Enterprise Oversight found that Fannie Mae executives had fraudulently inflated earnings to receive bonuses linked to financial performance. Securities and Exchange Commission investigators also found evidence of improper accounting at Fannie Mae and required it to restate its earnings between 2002 and 2004 by $6.3 billion.

Poor governance at Freddie Mac allowed its CEO and senior management to manipulate financial data to receive performance-based compensation as well. Freddie Mac CEO Richard Syron received 2007 compensation of $19.8 million while the mortgage company's share price declined from a high of $70 in 2005 to $25 at year-end 2007. During Syron's tenure as CEO the company became embroiled in a multibillion-dollar accounting scandal, and Syron personally disregarded internal reports dating to 2004 that warned of an impending financial crisis at the company. Forewarnings within Freddie Mac and by federal regulators and outside industry observers proved to be correct, with loan underwriting policies at Freddie Mac and Fannie Mae leading to combined losses at the two firms in 2008 of more than $100 billion. The price of Freddie Mac's shares had fallen to below $1 by Syron's resignation in September 2008.

Both organizations were placed into a conservatorship under the direction of the U.S. government in September 2008 and were provided bailout funds of more than $150 billion by early 2011. The U.S. Federal Housing Finance Agency estimated the bailout of Fannie Mae and Freddie Mac would potentially reach $200 billion to $300 billion by 2013.

outside the company, to develop a salary and incentive compensation plan that rewards senior executives for boosting the company’s long-term performance and growing the economic value of the enterprise on behalf of shareholders; the compensation committee’s recommendations are presented to the full board for approval. But during the past 10 to 15 years, many boards of directors have done a poor job of ensuring that executive salary increases, bonuses, and stock option awards are tied tightly to performance measures that are truly in the long-term interests of shareholders. Rather, compensation packages at many companies have increasingly rewarded executives for short-term performance improvements—most notably, achieving quarterly and annual earnings targets and boosting the stock price by specified percentages. This has had the perverse effect of causing company managers to become preoccupied with actions to improve a company’s near-term performance, often motivating them to take unwise business risks to boost short-term earnings by amounts sufficient to qualify for multimillion-dollar bonuses and stock option awards (that, in the view of many people, were obscenely large). The greater weight being placed on short-term performance improvements has worked against shareholders since, in many cases, the excessive risk-taking has proved damaging to long-term company performance—witness the huge loss of shareholder wealth that occurred at many financial institutions in 2008–2009 because of executive risk-taking in subprime loans, credit default swaps, and collateralized mortgage securities in 2006–2007. As a consequence, the need to overhaul and reform executive compensation has become a hot topic in both public circles and corporate boardrooms. Concepts & Connections 2.4 discusses how weak governance at Fannie Mae and Freddie Mac allowed opportunistic senior managers to secure exorbitant bonuses, while making decisions that imperiled the futures of the companies they managed.

Every corporation should have a strong, independent board of directors that (1) is well informed about the company’s performance, (2) guides and judges the CEO and other top executives, (3) has the courage to curb management actions it believes are inappropriate or unduly risky, (4) certifies to shareholders that the CEO is doing what the board expects, (5) provides insight and advice to management, and (6) is intensely involved in debating the pros and cons of key decisions and actions. Boards of directors that lack the backbone to challenge a strong-willed or “imperial” CEO or that rubber-stamp most anything the CEO recommends without probing inquiry and debate abandon their duty to represent and protect shareholder interests.
KEY POINTS

The strategic management process consists of five interrelated and integrated stages:

1. **Developing a strategic vision** of where the company needs to head and what its future product-customer-market-technology focus should be. This managerial step provides long-term direction, infuses the organization with a sense of purposeful action, and communicates to stakeholders management’s aspirations for the company.

2. **Setting objectives** and using the targeted results as yardsticks for measuring the company’s performance. Objectives need to spell out how much of what kind of performance by when. A balanced scorecard approach for measuring company performance entails setting both financial objectives and strategic objectives.

3. **Crafting a strategy to achieve the objectives** and move the company along the strategic course that management has charted. The total strategy that emerges is really a collection of strategic actions and business approaches initiated partly by senior company executives, partly by the heads of major business divisions, partly by functional-area managers, and partly by operating managers on the frontlines. A single business enterprise has three levels of strategy—business strategy for the company as a whole, functional-area strategies for each main area within the business, and operating strategies undertaken by lower-echelon managers. In diversified, multibusiness companies, the strategy-making task involves four distinct types or levels of strategy: corporate strategy for the company as a whole, business strategy (one for each business the company has diversified into), functional-area strategies within each business, and operating strategies. Typically, the strategy-making task is more top-down than bottom-up, with higher-level strategies serving as the guide for developing lower-level strategies.

4. **Implementing and executing the chosen strategy efficiently and effectively.** Managing the implementation and execution of strategy is an operations-oriented, make-things-happen activity aimed at shaping the performance of core business activities in a strategy supportive manner. Management’s handling of the strategy implementation process can be considered successful if things go smoothly enough that the company meets or beats its strategic and financial performance targets and shows good progress in achieving management’s strategic vision.

5. **Evaluating performance and initiating corrective adjustments** in vision, long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities. This stage of the strategy management process is the trigger point for deciding whether to continue or change the company’s vision, objectives, strategy, and/or strategy execution methods.

The sum of a company’s strategic vision, objectives, and strategy constitutes a strategic plan.

Boards of directors have a duty to shareholders to play a vigilant role in overseeing management’s handling of a company’s strategy-making, strategy-executing process. A company’s board is obligated to (1) ensure that the company issues accurate financial reports and has adequate financial controls, (2) critically appraise and ultimately approve strategic action plans, (3) evaluate the strategic leadership skills of the CEO, and (4) institute a compensation plan for top executives that rewards them for actions and results that serve stakeholder interests, most especially those of shareholders.
ASSURANCE OF LEARNING EXERCISES

LO1

1. Using the information in Tables 2.2 and 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.

<table>
<thead>
<tr>
<th>VISION STATEMENT</th>
<th>EFFECTIVE ELEMENTS</th>
<th>SHORTCOMINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wells Fargo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We want to satisfy all of our customers' financial needs, help them succeed financially, be the premier provider of financial services in every one of our markets, and be known as one of America's great companies.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hilton Hotels Corporation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our vision is to be the first choice of the world’s travelers. Hilton intends to build on the rich heritage and strength of our brands by:</td>
<td>• Consistently delighting our customers</td>
<td>• \</td>
</tr>
<tr>
<td></td>
<td>• Investing in our team members</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Delivering innovative products and services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Continuously improving performance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Increasing shareholder value</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Creating a culture of pride</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Strengthening the loyalty of our constituents</td>
<td></td>
</tr>
<tr>
<td>H. J. Heinz Company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Be the world's premier food company, offering nutritious, superior tasting foods to people everywhere. Being the premier food company does not mean being the biggest but it does mean being the best in terms of consumer value, customer service, employee talent, and consistent and predictable growth.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BASF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We are “The Chemical Company” successfully operating in all major markets.</td>
<td>• Our customers view BASF as their partner of choice.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Our innovative products, intelligent solutions and services make us the most competent worldwide supplier in the chemical industry.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• We generate a high return on assets.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• We strive for sustainable development.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• We welcome change as an opportunity.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• We, the employees of BASF, together ensure our success.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company websites and annual reports.

LO2

2. Go to the company investor relations websites for Home Depot (http://corporate.homedepot.com/wps/portal), Avon (www.avoncompany.com/), and Intel (www.intc.com) to find examples of strategic and financial objectives. List four objectives for each company and indicate which of these are strategic and which are financial.

LO3

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.

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?

5. Based on the information provided in Concepts & Connections 2.4 on page 31, explain how corporate governance at Freddie Mac failed the enterprise’s shareholders and other stakeholders. Which important obligations to shareholders were fulfilled by Fannie Mae’s board of directors? What is your assessment of how well Fannie Mae’s compensation committee handled executive compensation at the government-sponsored mortgage giant?

EXERCISES FOR SIMULATION PARTICIPANTS

1. Meet with your co-managers and prepare a strategic vision statement for your company. It should be at least one sentence long and no longer than a brief paragraph. When you are finished, check to see if your vision statement meets the conditions for an effectively worded strategic vision set forth in Table 2.2 and avoids the shortcomings set forth in Table 2.3. If not, then revise it accordingly. What would be a good slogan that captures the essence of your strategic vision and that could be used to help communicate the vision to company personnel, shareholders, and other stakeholders?

2. What are your company’s financial objectives? What are your company’s strategic objectives?

3. What are the three or four key elements of your company’s strategy?

ENDNOTES


4. Ibid.


10. Information posted on the website of Balanced Scorecard Institute, accessed May 27, 2011.


13. Ibid., p. 110.
