

Business Policy and Strategy

CHAPTER 2

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

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LEARNING OBJECTIVES

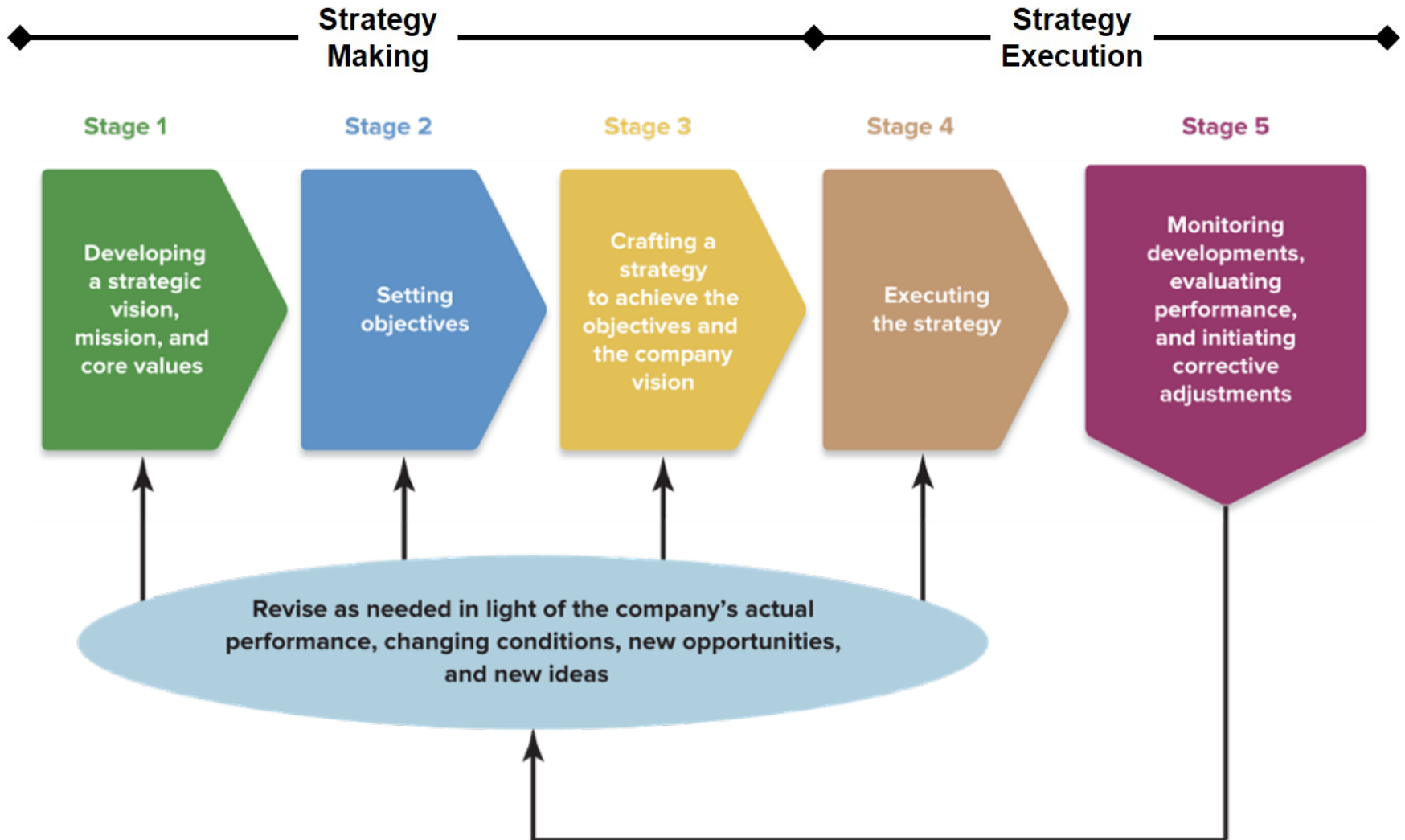
THIS CHAPTER WILL HELP YOU UNDERSTAND:

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

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

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

FIGURE 2.1 The Strategy-Making, Strategy-Executing Process



[Jump to Appendix 1 long image description](#)

STAGE 1: DEVELOPING A STRATEGIC VISION, A MISSION STATEMENT, AND A SET OF CORE VALUES

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

TABLE 2.1 Wording a Vision Statement—the Dos and Don'ts (1 of 2)

The Dos	The Don'ts
Be graphic. Paint a clear picture of where the company is headed and the market position(s) the company is striving to stake out.	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.
Be forward-looking and directional. Describe the strategic course that will help the company 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."
Keep it focused. Focus on providing managers with guidance in making decisions and allocating resources.	Don't use overly broad language. All-inclusive language that gives the company license to pursue any opportunity must be avoided.
Have some wiggle room. Language that allows some flexibility allows the directional course to be adjusted as market, customer, technology circumstances change.	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.

TABLE 2.1 Wording a Vision Statement—the Dos and Don'ts (2 of 2)

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

Expressing the Essence of the Vision in a Slogan

- ◆ There's merit in capturing the vision in a catchy or easily remembered slogan.
 - Walmart's visionary slogan is “saving people money so they can live better”—often shortened to the tag line “Save Money. Live Better.”
- ◆ A good slogan
 - Illuminates an organization's direction and purpose.
 - Reminds personnel “where we are headed and why.”

COMMUNICATING THE STRATEGIC VISION

Why communicate the vision?

COMMUNICATING THE STRATEGIC 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

PUTTING THE STRATEGIC VISION IN PLACE

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.

DEVELOPING A COMPANY 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"

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.
 - BMW, McDonald's, 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.

STRATEGIC MANAGEMENT PRINCIPLE

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").

Good Mission statements

“We help you organize the world’s information and make it universally accessible and useful.”

Good Mission statements

“To refresh the world...

To inspire moments of optimism and happiness...

To create value and make a difference.”

Good Mission statements

“Bring inspiration and innovation to every athlete in the world.”

Good Mission statements

“ to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.”

THE IDEAL 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

LINKING THE VISION AND MISSION WITH CORE VALUES

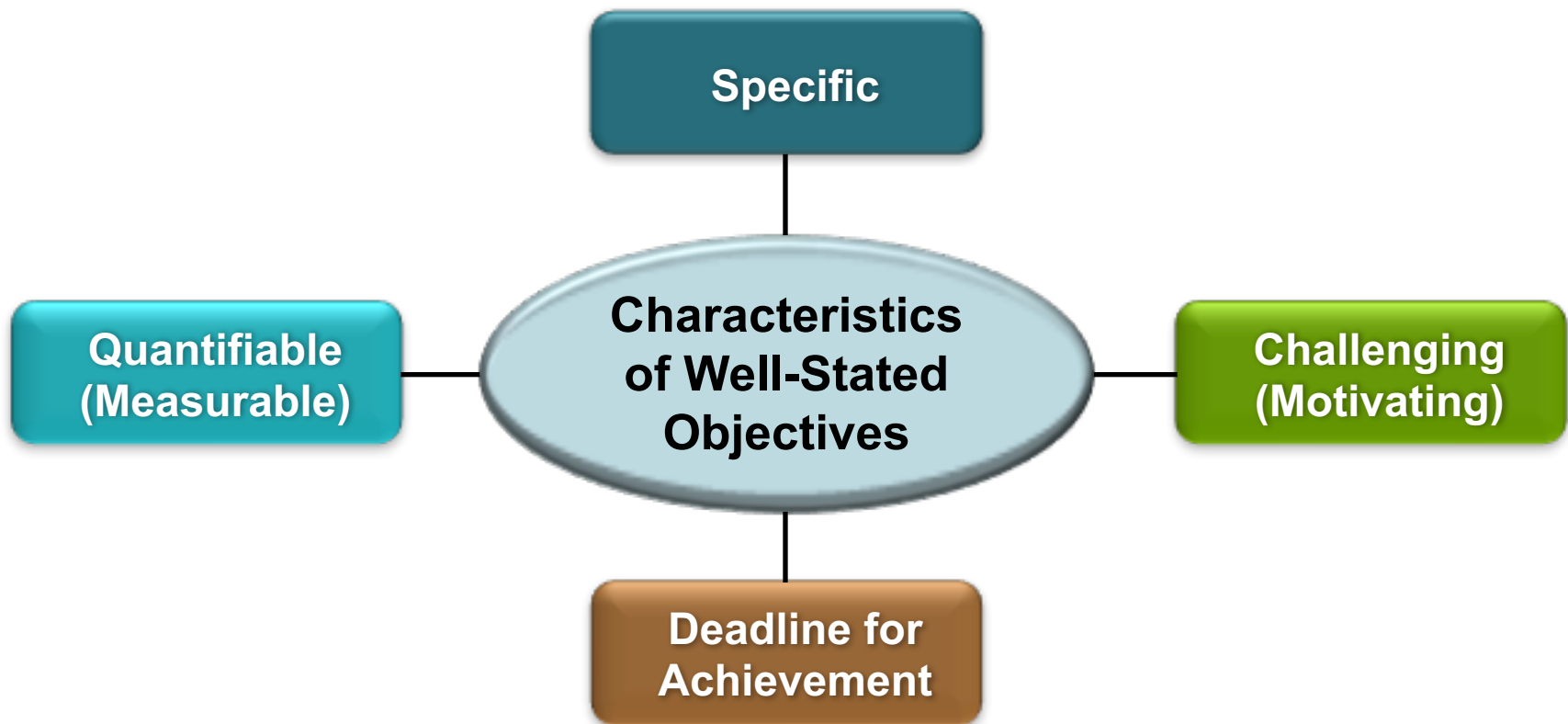
◆ Core values

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

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

CONVERTING THE VISION AND MISSION INTO SPECIFIC PERFORMANCE TARGETS



[Jump to Appendix 2 long image description](#)

CORE CONCEPTS

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

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

THE NEED FOR SHORT-TERM AND LONG-TERM 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.

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

WHAT 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

Discussion

Can we only focus on financial performance?

GOOD STRATEGIC PERFORMANCE IS THE KEY TO BETTER FINANCIAL PERFORMANCE

- ◆ Good financial performance is not enough:
 - Current financial results are lagging indicators of past decisions and actions which does not translate into a stronger competitive capability for delivering 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.

THE NEED FOR A BALANCED APPROACH TO OBJECTIVE SETTING

- ◆ 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.

SETTING OBJECTIVES FOR EVERY ORGANIZATIONAL LEVEL

- ◆ Breaks down performance targets for each of the organization's separate units.
- ◆ Fosters setting performance targets that support achievement of firm-wide strategic and financial objectives.
- ◆ Extends the top-down objective-setting process to all organizational levels.

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.

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.

STAGE 4: 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

STAGE 5: EVALUATING PERFORMANCE AND INITIATING CORRECTIVE 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.

Summary: A Strategic Vision + Mission + Objectives + Strategy = A Strategic Plan

◆ The elements of a firm's strategic plan are:

- Its strategic vision, business mission, and core values
- Its strategic and financial objectives
- Its chosen strategy