CHAPTER 2

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

Chapter Summary

Chapter Two presents an overview of the managerial tasks associated with developing and executing company   
strategies. Special attention is given to the importance of a clear vision for the company and the strategic and   
financial objectives that will guide the way. The importance of setting objectives at all levels of the organization   
is explored along with the role of operating excellence in the successful execution of strategy. The chapter wraps   
us with an exploration of the role of the company’s board of directors in overseeing the strategic management   
process.

Lecture Outline

I. Introduction—Crafting and executing a strategy are the heart and soul of managing a business enterprise. II. What Does the Process of Crafting and Executing Strategy Entail?

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

a. Developing a strategic vision of the company’s long term direction, a mission that describes the   
 company’s purpose, and a set of values to guide the pursuit of the vision and mission.

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

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

d. Executing the chosen strategy efficiently and effectively.

e. Monitoring developments, evaluating performance, and initiating corrective adjustments in the   
 company’s vision and mission, objectives, strategy, or execution in light of actual experience,   
 changing conditions, new ideas, and new opportunities.

2. Figure 2.1, The Strategy-Making, Strategy-Executing Process illustrates this process.   
III. Task 1: Developing a Strategic Vision, A Mission Statement, and a Set of Core Values

1. Developing a Strategic Vision

a. Top management’s views and conclusions about the company’s long-term direction and what   
 product-market-customer mix seems optimal for the road ahead constitute a strategic vision for   
 the company.

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b. A number of factors need to be considered in deciding what words to use when creating the vision   
 which will tell the company ‘where we are going.’ Table 2.1, Wording a Vision Statement—the   
 Dos and Don’ts, explores some of these critical word choices.

CORE CONCEPT

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

2. Communicating the Strategic Vision

a. A strategic vision has little value to the organization unless it’s effectively communicated down the   
 line to lower-level managers and employees.

b. 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.

c. A 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.

ILLUSTRATION CAPSULE 2.1

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

Discussion Question: 1. What appears to be missing from the Coca-Cola vision statement presented in Capsule 2.1?

Answer: (1) Brevity—the statement is very long which makes it difficult to meet the 5-10 minute

insider/outsider explanation criteria. (2) Future—the statement does not include a forward looking component which makes it very static.

Discussion Question: 2. What is effective in the Proctor & Gamble vision statement presented in Capsule 2.1?

Answer: The statement is short, making it focused and memorable. The vision described is feasible and makes good business sense.

d. The Vision Statement 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; (3) it is a tool for winning the support   
 of organization members to help make the vision a reality; (4) it provides a beacon for lower-level   
 managers in setting departmental objectives and crafting departmental strategies that are in sync   
 with the company’s overall strategy; and (5) it helps an organization prepare for the future. When   
 management is able to demonstrate significant progress in achieving these five benefits, it can count   
 its efforts to create an effective vision for the company as successful.

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3. Developing a Company Mission Statement

a. The distinction between a strategic vision and a mission statement is fairly clear-cut: A strategic   
 vision portrays a company’s aspirations for its *future* (“where we are going”), whereas a company’s   
 mission describes its *purpose* and its *present* business (“who we are, what we do, and why we are   
 here”).

b. A company mission statement should ideally (1) identifies the company’s products/services, (2)   
 specifies the buyer needs that it seeks to satisfy and the customer groups or markets it serves, and

(3) gives the company its own identity.

4. Linking the Vision/Mission with Company Values

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

CORE CONCEPT

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

b. Most companies have articulated four to eight core values that company personnel are expected to   
 display and that are supposed to be mirrored in how the company conducts its business.

ILLUSTRATION CAPSULE 2.2

Patagonia, Inc.: A Values-Driven Company

Discussion Question: Patagonia states in its mission statement that it builds the best products,   
causes no unnecessary harm, and uses business to inspire and implement solutions to the   
environmental crisis. How are these core values expressed in the operations of the firm?

Answer: Patagonia operationalizes its values in key areas of the operation:

• Routinely, the company opts for more expensive materials and labor to maintain internal   
 consistency with the mission.

• Patagonia holds its manufacturers accountable through a variety of auditing partnerships and   
 alliances.

• The company uses sustainable and recyclable materials which are ethically procured.

• The company has established foundations to support ecological causes, even giving 1 percent   
 of profits to conservation causes.

IV. Task 2: Setting Objectives

1. 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.

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CORE CONCEPT

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

CORE CONCEPT

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

2. Well-stated objectives are specific, quantifiable or measurable and contain a deadline for achievement.

3. Concrete, measurable objectives are managerially valuable for three reasons: (1) They focus efforts   
 and align actions throughout the organization, (2) they serve as *yardsticks* for tracking a company’s   
 performance and progress, and (3) they motivate employees to expend greater effort and perform at a   
 high level.

CORE CONCEPT

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.

4. The Imperative of Setting Stretch Objectives—The experiences of countless companies and managers   
 teach that one of the best ways to promote outstanding company performance is for managers to   
 deliberately set performance targets high enough to stretch an organization to perform at its full potential   
 and deliver the best possible results.

5. What Kinds of Objectives to Set

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

• Those relating to financial performance

• Those relating to strategic performance

b. A company’s set of financial and strategic objectives should include both near-term and longer-term   
 performance targets.

c. When trade-offs have to be made between achieving long-term objectives and achieving short-term   
 objectives, long-term objectives should generally take precedence.

CORE CONCEPT

Financial objectives relate to the financial performance targets management has established for the organization to achieve.

Strategic objectives relate to target outcomes that indicate a company is

strengthening its market standing, competitive vitality, and future business prospects.

6. The Need for a Balanced Approach to Objective Setting—Of equal or greater importance than financial   
 performance is a company’s strategic performance—outcomes that indicate whether a company’s   
 market position and competitiveness are deteriorating, holding steady, or improving.

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CORE CONCEPT

The Balanced Scorecard is a widely used method for combining the use of   
both strategic and financial objectives, tracking their achievement, and giving   
management a more complete and balanced view of how well an organization is   
performing.

ILLUSTRATION CAPSULE 2.3

Examples of Company Objectives

Discussion Question: 1. What is the prominent purpose of an organization’s stated objectives?

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

Discussion Question: 2. What are some specific examples that are included in the Capsule:

Answer: Each of these companies has clearly stated what the company intends to do in specific   
terms:

Pepsico—Accelerate top-line growth by… Improve our water use by… Maintain appropriate financial flexibility by…

Walgreens—Increase revenues by… Increase operating income by… Generate cost savings by…   
Yum Brands—Increase operating profits by… Increase number of KFC units in … Increase annual   
cash flow by…

7. Setting Objectives at Every Organizational Levels

a. Objective setting should not stop with top management’s establishing of companywide performance   
 targets.

b. Each area of the organization does its part and contributes directly to the desired companywide   
 outcomes and results.

c. This means setting performance targets for each organization unit that support, rather than conflict   
 with or negate, the achievement of companywide strategic and financial objectives.

V. Task 3: Crafting a Strategy

1. Strategy formulation should involve Managers at all organizational levels.

2. In most companies, crafting strategy is a *collaborative team effort* that includes managers in various   
 positions and at various organizational levels. Crafting strategy is rarely something only high-level   
 executives do.

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CORE CONCEPT

Corporate strategy establishes an overall game plan for managing a *set of businesses* in a diversified, multi-business company.

Business strategy is primarily concerned with strengthening the company’s market position and building competitive advantage in a single business company or a single business unit of a diversified multi-business corporation.

3. 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.   
 Figure 2.2, A Company’s Strategy Making Hierarchy illustrates this concept.

4. In diversified, multi-business companies where the strategies of several different businesses have to   
 be managed, the strategy-making task involves four distinct types or levels of strategy, each of which   
 involves different facets of the company’s overall strategy:

a. Corporate strategy establishes an overall game plan for managing a set of businesses in a diversified,   
 multi-business company.

b. Business strategy is primarily concerned with strengthening the company’s market position and   
 building competitive advantage in a single business company or a single business unit of a diversified   
 multi-business corporation.

c. Functional-area strategies concern the actions related to particular functions or processes within a   
 business.

d. Operating strategies concern the relatively narrow strategic initiatives and approaches for managing   
 key operating units.

5. In single-business enterprises, the corporate and business levels of strategy making merge into one   
 level—business strategy. Thus, a single-business enterprise has only three levels of strategy:

a. Business strategy for the company as a whole.

b. Functional-area strategies for each main area within the business.

c. Operating strategies undertaken by lower echelon managers to flesh out strategically significant   
 aspects for the company’s business and functional-area strategies.

6. Uniting the Strategy-Making Effort

a. Ideally, the pieces and layers of a company’s strategy should fit together like a jigsaw puzzle.   
 Anything less than a unified collection of strategies weakens company performance.

b. Achieving unity in strategy making is partly a function of communicating the company’s basic   
 strategy theme effectively across the whole organization and establishing clear strategic principles   
 and guidelines for lower-level strategy making.

7. A Strategic Vision + Objectives + Strategy = A Strategic Plan

a. Developing a strategic vision, setting objectives, and crafting a strategy are basic direction-setting   
 tasks. Together, they constitute a strategic plan for coping with industry and competitive conditions,   
 the expected actions of the industry’s key players, and the challenges and issues that stand as   
 obstacles to the company’s success.

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CORE CONCEPT

A strategic plan lays out the company’s future direction, performance targets, and   
strategy.

b. In companies committed to regular strategy reviews and the development of explicit strategic plans,   
 the strategic plan may take the form of a written document that is circulated to managers and   
 perhaps, to selected employees.

c. In small, privately owned companies, it is rare for strategic plans to exist in written form. VI. Task 4: Executing the Strategy

1. Managing the implementation of a strategy is easily the most demanding and time consuming part of the   
 strategy management process.

2. Converting strategic plans into actions and results tests a manager’s ability to direct organizational   
 action, motivate people, build and strengthen competitive capabilities, create and nurture a strategy-  
 supportive work climate, and meet or beat performance targets.

3. In most situations, managing the strategy execution process includes the following principal aspects:

• Creating a strategy-supporting structure.

• Staffing the organization to obtain 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 the work effort along the lines of best practice.

• Installing information and operating systems that enable company personnel to perform essential   
 activities.

• Motivating people and tying rewards 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.

4. Good strategy execution requires diligent pursuit of operating excellence and it is a job for a company’s   
 whole management team.

VII. Task 5: Evaluating Performance and Initiating Corrective Adjustments

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

2. As long as the company’s strategy continues to pass the three tests of a winning strategy, simply fine-  
 tuning the strategic plan and continuing with efforts to improve strategy execution are sufficient.

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

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

2. A company’s board of directors has four important obligations to fulfill:

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

b. Critically appraise the company’s direction, strategy, and business approaches.

c. Evaluate the caliber of senior executives’ strategic leadership skills.

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

ILLUSTRATION CAPSULE 2.4

Corporate Governance Failures at Fannie Mae and Freddie Mac

Discussion Question: In what way did the Board of Directors at Fannie Mae and Freddie Mac contribute to the financial failure faced by both organizations?

Answer: The government appointed boards failed to understand the risks associated with the   
sub-prime mortgage loan strategies their respective organizations were pursuing. The audit   
and compensation committees at both organizations were ineffective and allowed management   
to effectively substantiate their own performance bonuses with internally developed financial   
reports. In the case of Freddie Mac, management went so far as to manipulate financial data   
to improve bonus pay. The boards of both companies also failed to heed internal and external   
warnings of the impending financial crisis which lead to losses for both firms totaling more than   
$100 billion in 2008.

3. Every corporation should have a strong independent board of directors that:

a. Is well informed about the company’s performance.

b. Guides and judges the CEO and other top executives.

c. Has the courage to curb management actions the board believes are inappropriate or unduly risky.

d. Certifies to shareholders that the CEO is doing what the board expects.

e. Provides insight and advice to management.

f. Is intensely involved in debating the pros and cons of key decisions and actions.

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ASSURANCE OF LEARNING EXERCISES

1. Using the information in Table 2.1, 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.

Response:

The student should produce a table similar to the following:

|  |  |  |
| --- | --- | --- |
| Company Name | Effective Elements | Shortcomings |
| Amazon | • Graphic  • Feasible  • Easy to communicate | • Vague  • Not distinctive |
| BASF | • Directional  • Focused  • Desirable | • Not forward looking |
| Mastercard | • Desirable  • Easy to communicate | • Vague or incomplete  • Not distinctive |
| Hilton Hotels Corporation | • Directional  • Focused  • Feasible  • Desirable | • Not forward-looking  • Not distinctive |

A suggested ranking of the vision statements from best to worst is: Hilton Hotels Corporation, BASF, Amazon, MasterCard.

2. Go to the company investor relations websites for ExxonMobil (ir.exxonmobil.com), Pfizer ([www.pfizer.](http://www.pfizer./)   
 com/investors), and Intel ([www.intc.com](http://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.

Response:

The student should identify objectives similar to the following:

Exxon Mobil, From their May 2014 Shareholders Meeting Presentation:

The company presents a multi-part strategy centered on shareholder value. Primary goal is to Deliver Superior, Long-Term Total Returns to Shareholders. This is accomplished by the following interrelated elements which are largely Strategic in nature:

• Employ Effective Risk Management and Lead Industry in Operational Excellence

• Manage a Diversified and Balanced Portfolio

• Leverage Integration Benefits

• Select and Execute Most Attractive Investment Opportunities

• Develop Advanced Technologies

• Attract and Retain a Talented, Diverse Workforce

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A particular focus was on Increasing Advantage in the Downstream supported by the following elements which are largely Financial in nature:

• Lowering Raw Material Costs

• Increasing high value product yield

• Expanding logistics capability

• Reducing operating costs

• Disciplined portfolio management

Pfizer, From their 2014 2nd Quarter Report:

Given our strong operating cash flow, we continue to expect to repurchase approximately

$5 billion of our shares this year, with $2.9 billion repurchased through July 28. These 2014 repurchases and planned repurchases are expected to reduce total shares outstanding by   
approximately 100 million shares by the end of the year after factoring in actual and projected dilution related to employee compensation programs.” (Financial)

The company will continue to pursue Mergers & Acquisitions as a key element of their growth strategy:

• Pfizer and Cellectis announced that they have entered into a global strategic collaboration to develop   
 Chimeric Antigen Receptor T-cell (CAR-T) immunotherapies in the field of oncology directed at select   
 cellular surface antigen targets. Cellectis (Strategic).

• Pfizer and InnoPharma, Inc. (InnoPharma), a privately held pharmaceutical development company,   
 announced that they have entered into an agreement under which Pfizer will acquire InnoPharma   
 (Strategic).

Continue to expand the line of sterile injectables in the US and abroad. Focusing on five markets globally hat probably represent about 80% of the total profit pool in sterile injectables. The US is obviously one of those markets. The other markets would include China, Japan, France and Italy (Strategic).

Move forward with plans to internally separate its commercial operations into three business segments,   
two of which will include Innovative business lines and a third which will include the Value business line   
(Strategic).

Intel, From their 2014 2nd Quarter Report:

Our strong product portfolio continues to evolve as we expect to introduce several new products, across the market segments we serve, in the second half of 2014 (Strategic).

We are now forecasting full-year 2014 gross margin to be 63%, plus or minus a couple percentage points, up from our original Business Outlook of 61% (Financial).

On track to achieve our 40 million unit sales goal for tablets in fiscal year 2014 (Strategic).

With the cash generated from operations, we intend to increase our repurchases of common stock, and as a result reduce our cash balances (Financial).

3. American Airlines’ Chapter 11 reorganization plan filed in 2012 involved the company reducing operating   
 expenses by $2 billion, while increasing revenues by $1 billion. The company’s strategy to increase revenues   
 included expanding the number of international flights and destinations and increasing daily departures for   
 its five largest markets by 20 percent. The company also intended to upgrade its fleet by spending $2 billion   
 to purchase new aircraft and refurbish the first-class cabins for planes not replaced. A final component of the   
 restructuring plan included a merger with US Airways to create a global airline with more than 56,700 daily

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flights to 336 destinations in 56 countries. The merger was expected to produce cost savings from synergies of more than $1 billion and result in a stronger airline capable of paying creditors and rewarding employees and shareholders. Explain why the strategic initiatives at various organizational levels and functions require tight coordination to achieve the results desired by American Airlines.

Response:

The student should identify that company objectives need to be broken down into performance targets for each of the organization’s separate businesses, product lines, functional departments, and individual work units, employees within various functional departments, and individual work units. This is because 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. This is illustrated in figure 2.2, A Company’s Strategy Making Hierarchy.

A careful examination of the narrative on American Airlines Chapter 11 reorganization strategy provides such an example:

Corporate Objectives—Increase revenue by $1 billion while reducing expenses by $2 billion

Operational Objective—Expand international flights, destinations, and daily departures in the five largest   
 markets

Operational Objective—Upgrade fleet with $2 billion in refurbishment and new aircraft purchases.

Operational Objective—Complete merger with US Airways to create a global airline with 56,700 daily   
 flights to 336 destinations in 56 countries while saving $1 billion in costs.

The student should point out that the overall corporate objectives for revenue and cost control (thereby profit) cannot be fully realized if the operational objectives are not achieved. Further, the operational objectives are interrelated in that they rely on each other for success.

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

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

Engineering:

• Development of new cars

• Reducing engineering costs   
Finance:

• Improving the balance sheet   
Operations:

• Improving manufacturing competitiveness (unions)

• Reducing production capacity

• Reducing hourly headcount (unions)

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

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

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

• Walmart Discount Stores: Wide, clean, brightly-lit aisles and shelves stocked with a variety of quality,   
 value-priced general merchandise

• Walmart Superstores: Convenient, one-stop family shopping featuring our famous Every Day Low   
 Prices

• Walmart Neighborhood Markets: quick and convenient shopping experience for customers who need   
 groceries, pharmaceuticals, and general merchandise all at our famous Every Day Low Prices.

• Walmart Express Stores: offer low prices every day in a smaller format store that provides convenient   
 access for fill-in and stock-up shopping trips in rural and urban areas.

• Marketside: Small community pilot grocery stores specializing in fresh, delicious meals at great prices.

• Walmart.com: The convenience, great merchandise selection, friendly service and Every Day Low   
 Prices of your neighborhood Walmart to the Internet.

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

• Open Door: Our management believes open communication is critical to understanding and meeting our   
 associates’ and our customers’ needs. Associates can trust and rely on the open door; it’s one of the most   
 important parts of our culture.

• Sundown Rule: Observing the Sundown Rule means we do our best to answer requests by the close of   
 business on the day we receive them. Whether it’s a request from a store across the country or a call from   
 down the hall, we do our very best to give each other and our customers same-day service. We do this   
 by combining our efforts and depending upon each other to get things done.

• Grass Roots Process: Sam’s philosophy lives on today in Walmart’s Grass Roots Process, our formal   
 way of capturing associates’ ideas, suggestions and concerns.

• 3 Basic Beliefs & Values: Our unique culture has helped make Walmart one of the world’s most admired

companies. Since Sam Walton opened Walmart in 1962, our culture has rested on three basic beliefs. We live out these beliefs each day in our interactions with our customers and each other.

• 10-Foot Rule: The 10-foot Rule is one of our secrets to customer service. During his many store visits,

Sam Walton encouraged associates (employees) to take this pledge with him: “I promise that whenever   
I come within 10 feet of a customer, I will look him in the eye, greet him, and ask if I can help him.”

• Servant Leadership: Sam Walton believed that effective leaders do not lead from behind their desks.   
 “It’s more important than ever that we develop leaders who are servants, who listen to their partners—   
 their associates—in a way that creates wonderful morale to help the whole team accomplish an overall   
 goal,” Sam said.

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• Teamwork: Sam Walton, our founder, believed in the power of teamwork. As our stores grow and the   
 pace of modern life quickens, that philosophy of teamwork has only become more important over the   
 years.

• Walmart Cheer: Don’t be surprised if you hear our associates shouting this enthusiastically at your local   
 Walmart store. It’s our cheer, and while it might not sound serious, we take it seriously. It’s one way we   
 show pride in our company.

5. Based on the information provided in Illustration Capsule 2.4, 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?

Response:

The student should be able to provide an exhaustive list of failures of the Board of Directors. Leading failures resulting in the financial collapse include:

• It was a politically appointed board

• The Board did not understand the financial risks associated with the business strategy

• The Board did not monitor the decisions of the CEO

• The Board did not exercise effective oversight of the accounting principles employed which allowed   
 executives to manipulate earnings statements

• The Board approved an excessive compensation plan that allowed executives to gain performance   
 bonuses based upon the manipulated earnings