**Chapter 2 Lecture Note**

**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. What Does The Strategy-Formulation, Strategy-Execution Process Entail?**

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

a. 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.

b. Setting objectives for measuring the company’s performance and tracking its progress in moving in the intended long-term direction.

c. Crafting a strategy for advancing the company along the path to management’s envisioned future and achieving its performance objectives.

d. Implementing and executing the chosen strategy efficiently and effectively.

e. Evaluating and analyzing the external environment and the company’s internal situation and performance to identify corrective adjustments that are needed in the company’s long-term direction, objectives, strategy, or approach to strategy execution.

2. **Figure 2.1, The Strategy Formulation, Strategy Execution Process,** displays this five-stage process, and the need for management to evaluate the company’s performance on an ongoing basis.

3. **Table 2.1**, **Factors Shaping Decisions in the Strategy Formulation, Strategy Execution Process**, exhibits the external and internal considerations that come into play in the strategic management process.

4. The evaluation stage of the strategic management process shown in Figure 2.1 also allows for a change in the company’s vision when it becomes evident to management that the industry has changed and rendered its vision obsolete. Such occasions can be referred to as **strategic inflection points**.

5. The first three stages of the strategic management process make up a strategic plan.

**II. Stage 1: Developing a Strategic Vision, a Mission, and Core Values**

Top management’s views about the company’s direction and future product-customer-market-technology focus are shaped by its views of the external industry and competitive environment and the internal situation and constitute a strategic vision for the company.

1. The Vision Statement
2. 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.
3. 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.
4. **Table 2.2, Characteristics of an Effectively Worded Vision Statement**, lists some characteristics of effective vision statements. 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.
5. **Table 2.3, Common Shortcomings in Company Vision Statements**, provides a list of the most common shortcomings in company vision statements.
6. A strategic vision has little value to the organization unless it’s effectively communicated down the line to lower-level managers and employees.

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.

1. An effectively communicated vision is a valuable management tool for enlisting the commitment of company personnel to engage in actions that move the company in the intended direction.

Concepts & Connections, 2.1, Examples of Strategic Visions – How Well Do They Measure Up?

Discussion Question: Are any of the Strategic Visions truly effective? Why or why not? What changes would you make to them?

Answer:Table 2.3 provides most of the answers. For example, UBS has an uninspiring vision statement. It fails to motivate personnel or to inspire shareholders and is not forward looking. Coca-Cola’s vision statement is focused but is too long and is not forward looking. Of the group presented, the vision statement from Procter & Gamble seems to be the most effective. While it does have several shortcomings, it is flexible, directional, and forward looking. These three offset the broad nature of the statement.

1. The Mission Statement

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

CORE CONCEPT

A well-conceived **mission statement** conveys a company’s purpose in language specific enough to give the company its own identity.

2. Ideally, a company’s mission statement is sufficiently descriptive to:

a. Identify the company’s products or services.

b. Specify the buyer needs it seeks to satisfy.

c. Specify the customer groups or markets it is endeavoring to serve.

d. Specify its approach to pleasing customers.

3. 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.

1. Linking the Vision/Mission with Company Values

1. 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.

2. Company values statements tend to contain between four and eight values, which ideally, are tightly connected to and reinforce the company’s vision, strategy, and operating practices.

3. The extent to which company values translate into actually living the values varies widely:

a. 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.

b. 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.

Concepts & Connections, 2.2, Zappo’s Mission and Core Values

Discussion Question: Zappo states that its mission statement is influenced by a set of ten core values. What are these values and how do they influence the mission statement?

Answer: Zappo’s mission is based upon their internal philosophy of “WOW” which is externally expressed as: to provide the best customer service possible. Each value statement focuses on a different facet of the enterprise and discusses how that facet helps provide the “WOW” through service, change, fun, creativity, growth, learning, positive attitude, passion, frugality, and humility.

**III Stage 2: Setting Objectives**

A. What Kinds of Objectives to Set

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

a. Those relating to financial performance

b. Those relating to strategic performance

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.

2. Achieving acceptable financial results is a must. Without adequate profitability and financial strength, a company’s pursuit of its strategic vision, as well as its long-term health and ultimate survival, is jeopardized.

3. As a result of often competing objectives, utilizing a performance measurement system that strikes a *balance* between financial objectives and strategic objectives is optimal. This Balanced Scorecard approach is illustrated in **Table 2.4 The Balanced Scorecard Approach to Performance Management.**

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.

4. Short-Term and Long-Term Objectives: 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.

5. The Need for Objectives at All Organizational Levels: 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.

Concepts & Connections, 2.3, Examples of Company Objectives

Discussion Question: 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. Each of these companies has clearly stated what the company intends to do in specific terms. As an example, Pepsico - Accelerate top-line growth by… Improve our water use by… Maintain appropriate financial flexibility by…

**IV. Stage 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.

CORE CONCEPT

**Corporate strategy** establishes an overall game plan for managing a *set of businesses* in a diversified, multibusiness 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 multibusiness 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.

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.

**V. Stage 4: Implementing and Executing the Chosen Strategy**

1. Easily, the most time demanding and consuming part is managing the implementation and execution of the strategy-management process.

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

a. Staffing the organization with the needed skills and expertise

b. Allocating ample resources to activities critical to good strategy execution.

c. Ensuring that policies and operating procedures facilitate rather than impede effective execution

d. Installing information and operating systems that enable company personnel to better carry out their strategic roles

e. Pushing for continuous improvement in how value chain activities are performed.

f. Tying rewards and incentives directly to the achievement of performance objectives and good strategy execution

g. Creating a company culture and work climate conducive to successful strategy implementation and execution

h. Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution

**VI. Stage 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 vision, objectives, strategy, and/or strategy-execution methods.

2. Successful strategy execution entails vigilantly searching for ways to continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.

3. A company’s vision, objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process, not an every-now-and-then task.

**VII. Corporate Governance: The Role of the Board of Directors in the Strategy-Formulation, Strategy-Execution 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. The board of directors share four important roles:

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

b. Diligently critique and oversee the company’s direction, strategy, and business approaches.

c. Evaluate the caliber of senior executives’ strategy-formulation and strategy-execution skills.

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

Concepts & Connections, 2.4, Corporate Governance Failures at Fannie Mae and Freddie Mac

Discussion Question: What was the result of failed Corporate Governance at government sponsored mortgage giants Fannie Mae and Freddie Mac? Why did governance fail?

Answer:The result of failed governance was a failure to understand the risks of the subprime mortgage strategies. Decisions were not adequately monitored. Poor governance allowed for manipulation of financial data and the use of improper accounting procedures which overstated financial performance**.** Fannie Mae executives had fraudulently inflated earnings to receive bonuses linked to financial performance. Governance failed because the politically appointed boards didn’t have the knowledge to understand what was happening, and did not adequately monitor managers, particularly the CEO.

Assurance of Learning Exercises

1. Using the information in Table 2.2 and Table 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.

Response:

The student should develop a table similar to the following:

|  |  |  |
| --- | --- | --- |
| Company Name | Effective Elements | Shortcomings |
| Wells Fargo | * Graphic * Feasible * Easy to communicate | * Vague * Not distinctive |
| Hilton Hotels Corporation | * Directional * Focused * Feasible * Desirable | * Not forward-looking * Not distinctive |
| BASF | * Directional * Focused * Desirable | * Not forward looking |

The student should rank vision statements from best to worst as: Hilton Hotels Corporation, BASF, and Wells Fargo.

2. Go to the company investor relations websites for ExxonMobil ([ir.exxonmobil.com](http://ir.exxonmobil.com)), Pfizer ([www.pfizer.com/investors](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 2013 2nd Quarter Report:

The Kearl oil sands project in Alberta, Canada will initially produce 110,000 barrels per day, with the expansion project expected to double production capacity by late 2015 (Strategic).

Expansions to increase premium base stocks production at the Baytown, Texas and Singapore refineries, expected to increase capacity by 30% beginning in early 2015 (Strategic).

Singapore Chemical Plant with its world-scale steam cracker will provide improved feedstock flexibility and position the Singapore complex for growth markets in Asia Pacific (Strategic).

Begin development of a LNG operation in Russia in partnership with Rosneft as part of their 2011 Strategic Cooperation Agreement (Strategic).

Pfizer, From their 2013 2nd Quarter Report:

Plans to repurchase in the mid-teens of billions of dollars of our common stock in 2013 leveraging strong operating cash flow and proceeds generated from portfolio actions (Financial).

Accelerated growth (high-single-digit percentage) in revenue in emerging markets in the second half of 2013, along with overall operational revenue growth (mid-single-digit percentage) for 2013 (Financial).

Expand the therapeutic use of an existing drug Xeljanz, to include inhibition of progression of structural damage with an FDA decision by February 2014 (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 2013 2nd Quarter Report:

Prioritize company R&D activities to create the best products for the fast growing ultra-mobile market segment (Strategic).

Third Quarter 2013 Revenue projection of $13.5 billion, plus or minus $500 million (Financial).

Fiscal 2013 revenue projections are approximately flat year-on-year, down from prior expectations of low single digit percentage increase.

Fiscal 2013 gross margin percentage approximately 59 percent, plus or minus a couple percentage points, down from prior expectations of 60 percent (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 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.

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?

Response:

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](http://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>)

* 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.
* 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 Concepts & Connections 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