**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.
2. 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.

**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.

**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