Unless we change our direction we are likely to end up where we are headed.
—Ancient Chinese proverb

If we can know where we are and something about how we got there, we might see where we are trending—and if the outcomes which lie naturally in our course are unacceptable, to make timely change.
—Abraham Lincoln

If you don’t know where you are going, any road will take you there.
—The Koran

Management’s job is not to see the company as it is . . . but as it can become.
—John W. Teets
Former CEO
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 top executives—involved in the process? In this chapter we present an overview of the managerial 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 examine which kinds of strategic decisions are made at which levels of management and the roles and responsibilities of the company’s board of directors in the strategy-making, strategy-executing process.

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

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

1. Developing a strategic vision of where the company needs to head and what its future product/market/customer technology focus should be.
2. Setting objectives and using them as yardsticks for measuring the company’s performance and progress.
3. Crafting a strategy to achieve the objectives and move the company along the strategic course that management has charted.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Evaluating performance and initiating corrective adjustments in the company’s long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities.

Figure 2.1 displays this five-phase process. Let’s examine each phase in enough detail to set the stage for the forthcoming chapters and give you a bird’s-eye view of what this book is about.
Very early in the strategy-making process, a company’s senior managers must wrestle with the issue of what path the company should take and what changes in the company’s product/market/customer/technology focus would improve its market position and future prospects. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to modify the company’s business makeup and what market position it should stake out. A number of direction-shaping factors need to be considered in deciding where to head and why such a direction makes good business sense—see Table 2.1.

Top management’s views and conclusions about the company’s direction and future product/market/customer/technology focus constitute a strategic vision for the company. A strategic vision delineates management’s aspirations for the business, providing a panoramic view of “where we are going” and a convincing rationale for why this makes good business sense for the company. A strategic vision thus points an organization in a particular direction, charts a strategic path, and molds organizational identity. A clearly articulated strategic vision communicates management’s aspirations to stakeholders 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. 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. A strategic vision proclaiming management’s quest “to be the market leader” or “to be the first choice of customers” or “to be the most innovative” or “to be recognized as the best company in the industry” offers scant guidance about a company’s direction and what changes and challenges lie on the road ahead.

For a strategic vision to function as a valuable managerial tool, it must (1) provide understanding of what management wants its business to look like and (2) provide managers with a reference point in making strategic decisions and preparing the company for the future. It must say something definitive about how the company’s leaders intend to position the company beyond where it is today. A good vision always needs to be a bit beyond a company’s reach, but progress toward the vision is what unifies the efforts of company personnel. Table 2.2 lists some characteristics of an effectively worded strategic vision.

A sampling of strategic visions currently in use shows a range from strong and clear to overly general and generic. A surprising number of the visions found on company Web sites and in annual reports are vague and unrevealing, saying very little about the company’s future product/market/customer/technology focus. Some are nice-sounding but say little. Others read like something written by a committee to win the support of different stakeholders. And some are so short on specifics as to apply to most any company in any industry. Many read like a public relations statement—high-sounding 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 the most

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**Table 2.1** Factors to Consider in Deciding to Commit the Company to One Path versus Another

<table>
<thead>
<tr>
<th>External Considerations</th>
<th>Internal Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Is the outlook for the company promising if it simply maintains its product/market/customer/technology focus? Does sticking with the company’s current strategic course present attractive growth opportunities?</td>
<td>• What are the company’s ambitions? What industry standing should the company have?</td>
</tr>
<tr>
<td>• Are changes under way in the market and competitive landscape acting to enhance or weaken the company’s prospects?</td>
<td>• Will the company’s present business generate sufficient growth and profitability in the years ahead to please shareholders?</td>
</tr>
<tr>
<td>• What, if any, new customer groups and/or geographic markets should the company get in position to serve?</td>
<td>• What organizational strengths ought to be leveraged in terms of adding new products or services and getting into new businesses?</td>
</tr>
<tr>
<td>• Which emerging market opportunities should the company pursue? Which ones should not be pursued?</td>
<td>• Is the company stretching its resources too thin by trying to compete in too many markets or segments, some of which are unprofitable?</td>
</tr>
<tr>
<td>• Should the company plan to abandon any of the markets, market segments, or customer groups it is currently serving?</td>
<td>• Is the company’s technological focus too broad or too narrow? Are any changes needed?</td>
</tr>
</tbody>
</table>

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common shortcomings in strategic vision statements. The one- or two-sentence vision statements most companies make available to the public, of course, provide only a glimpse of what company executives are really thinking and the strategic course they have charted—company personnel nearly always have a much better understanding of where the company is headed and why that is revealed in the official vision. But the real purpose of a strategic vision is to serve as a management tool for giving the organization a sense of direction. Like any tool, it can be used properly or improperly, either clearly conveying a company’s strategic course or not.

**Table 2.2 Characteristics of an Effectively Worded Strategic Vision**

<table>
<thead>
<tr>
<th>Graphic</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directional</td>
<td>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.</td>
</tr>
<tr>
<td>Focused</td>
<td>Is specific enough to provide managers with guidance in making decisions and allocating resources.</td>
</tr>
<tr>
<td>Flexible</td>
<td>Is not a once-and-for-all-time statement—the directional course that management has charted may have to be adjusted as product/market/customer/technology circumstances change.</td>
</tr>
<tr>
<td>Feasible</td>
<td>Is within the realm of what the company can reasonably expect to achieve in due time.</td>
</tr>
<tr>
<td>Desirable</td>
<td>Indicates why the chosen path makes good business sense and is in the long-term interests of stakeholders (especially shareowners, employees, and customers).</td>
</tr>
<tr>
<td>Easy to communicate</td>
<td>Is explainable in 5–10 minutes and, ideally, can be reduced to a simple, memorable slogan (like Henry Ford’s famous vision of “a car in every garage”).</td>
</tr>
</tbody>
</table>


**Table 2.3 Common Shortcomings in Company Vision Statements**

| Vague or incomplete | Is short on specifics about where the company is headed or what the company is doing to prepare for the future. |
| Not forward-looking | Does not indicate whether or how management intends to alter the company’s current product/market/customer/technology focus. |
| Too broad | Is so umbrella-like and 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 or future prospects. |
| Not distinctive | Provides no unique company identity; could apply to companies in any of several industries (or at least several rivals operating in the same industry or market arena). |
| Too reliant on superlatives | Does not say anything specific about the company’s strategic course beyond the pursuit of such lofty accolades as best, most successful, recognized leader, global or worldwide leader, or first choice of customers. |

Illustration Capsule 2.1
Examples of Strategic Visions—How Well Do They Measure Up?

Using the information in Tables 2.2 and 2.3, critique the following strategic visions and rank them from 1 (best) to 7 (in need of substantial improvement).

RED HAT
To extend our position as the most trusted Linux and open source provider to the enterprise. We intend to grow the market for Linux through a complete range of enterprise Red Hat Linux software, a powerful Internet management platform, and associated support and services.

WELLS FARGO
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.

HILTON HOTELS CORPORATION
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:
- Consistently delighting our customers
- Investing in our team members
- Delivering innovative products and services
- Continuously improving performance
- Increasing shareholder value
- Creating a culture of pride
- Strengthening the loyalty of our constituents

THE DENTAL PRODUCTS DIVISION OF 3M CORPORATION
Become the supplier of choice to the global dental professional markets, providing world-class quality and innovative products.
[Note: All employees of the division wear badges bearing these words, and whenever a new product or business procedure is being considered, management asks “Is this representative of THE leading dental company?”]

CATERPILLAR
Be the global leader in customer value.

eBAY
Provide a global trading platform where practically anyone can trade practically anything.

H. J. HEINZ COMPANY
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.

Sources: Company documents and Web sites.

Illustration Capsule 2.1 provides examples of strategic visions of several prominent companies. See if you can tell which ones are mostly meaningless or nice-sounding and which ones are managerially useful in communicating “where we are headed and the kind of company we are trying to become”.

A Strategic Vision Covers Different Ground than the Typical Mission Statement

The defining characteristic of a well-conceived strategic vision is what it says about the company’s future strategic course—“the direction we are headed and what our future product/market/customer/technology focus will be.”

In contrast, the mission statements that one finds in company annual reports or posted on company Web sites typically provide a brief overview of the company’s present business purpose and raison d’être, and sometimes its geographic coverage.
or standing as a market leader. They may or may not single out the company’s present products/services, the buyer needs it is seeking to satisfy, the customer groups it serves, or its technological and business capabilities. But rarely do company mission statements say anything about where the company is headed, the anticipated changes in its business, or its aspirations; hence, they lack the essential forward-looking quality of a strategic vision in specifying a company’s direction and future product/market/customer/technology focus.

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 provides no sense of “where we are headed.” (Some companies use the term business purpose instead of mission statement in describing themselves; in practice, there seems to be no meaningful difference between the terms mission statement and business purpose—which one is used is a matter of preference.)

There is value in distinguishing between the forward-looking concept of a strategic vision and the here-and-now theme of the typical mission statement. Thus, to mirror actual practice, we will use the term mission statement to refer to an enterprise’s description of its present business and its purpose for existence. Ideally, a company mission statement is sufficiently descriptive to identify the company’s products/services and specify the buyer needs it seeks to satisfy, the customer groups or markets it is endeavoring to serve, and its approach to pleasing customers. Not many company mission statements fully reveal all of these facets (and a few companies have worded their mission statements so obscurely as to mask what they are about), but most company mission statements do a decent job of indicating “who we are, what we do, and why we are here.”

An example of a well-formed mission statement with ample specifics is that of the U.S. government’s 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 the company: “to organize the world’s information and make it universally accessible and useful.” Likewise, Blockbuster has a brief mission statement that cuts right to the chase: “To help people transform ordinary nights into BLOCKBUSTER nights by being their complete source for movies and games.”

An example of a not-so-revealing mission statement is that of the present-day Ford Motor Company: “We are a global family with a proud heritage passionately committed to providing personal mobility for people around the world. We anticipate consumer need and deliver outstanding products and services that improve people’s lives.” A person who has never heard of Ford would not know from reading the company’s mission statement that it is a global producer of motor vehicles. Similarly, Microsoft’s mission statement—“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. Coca-Cola, which markets nearly 400 beverage brands in over 200 countries, also has an overly general mission statement: “to benefit and refresh everyone it touches.” A mission statement that provides scant indication of “who we are and what we do” has no substantive value.

Occasionally, companies couch their mission statements in terms of making 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, McDonald’s, Shell Oil, Procter & Gamble, Nintendo, and Nokia are each striving to earn a profit for shareholders; but plainly the fundamentals of their businesses are substantially different when it comes to “who we are and what we do.” It is management’s answer to “Make a profit doing what and for whom?” that reveals a company’s true substance and business purpose. A well-conceived mission statement distinguishes a company’s business makeup from that of other profit-seeking enterprises in language specific enough to give the company its own identity.

Communicating the Strategic Vision

Effectively communicating the strategic vision down the line to lower-level managers and employees is as important as choosing a strategically sound long-term direction. Not only do people have a need to believe that senior management knows where it’s trying to take the company and understand what changes lie ahead both externally and internally, but unless and until frontline employees understand why the strategic course that management has charted is reasonable and beneficial, they are unlikely to rally behind managerial efforts to get the organization moving in the intended direction.

Winning the support of organization members for the vision nearly always means putting “where we are going and why” in writing, distributing the written vision 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. An engaging and convincing strategic vision has enormous motivational value—for the same reason that a stonemason is more inspired by “building a great cathedral for the ages” than by “laying stones to create floors and walls.” When managers articulate a vivid and compelling case for where the company is headed, organization members begin to say, “This is interesting and has a lot of merit. I want to be involved and do my part to helping make it happen.” The more that a vision evokes positive support and excitement, the greater its impact in terms of arousing a committed organizational effort and getting company personnel to move in a common direction. Thus executive ability to paint a convincing and inspiring picture of a company’s journey and 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:

- Levi Strauss & Company: “We will clothe the world by marketing the most appealing and widely worn casual clothing in the world.”
- Nike: “To bring innovation and inspiration to every athlete in the world.”
Creating a short slogan to illuminate an organization’s direction and purpose 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.

Breaking Down Resistance to a New Strategic Vision

It is particularly important for executives to provide a compelling rationale for a dramatically new strategic vision and company direction. When company personnel don’t understand or accept the need for redirecting organizational efforts, they are prone to resist change. Hence, reiterating the basis for the new direction, addressing employee concerns head-on, calming fears, lifting spirits, and providing updates and progress reports as events unfold all become part of the task of mobilizing support for the vision and winning commitment to needed actions.

Just stating the case for a new direction once is not enough. Executives must repeat the reasons for the new direction often and convincingly at company gatherings and in company publications, and they must reinforce their pronouncements with updates about how the latest information confirms the choice of direction and the validity of the vision. Unless and until more and more people are persuaded of the merits of management’s new vision and the vision gains wide acceptance, it will be a struggle to move the organization down the newly chosen path.

Recognizing Strategic Inflection Points

Sometimes there’s an order-of-magnitude change in a company’s environment that dramatically alters its prospects and mandates radical revision of its strategic course. Intel’s former chairman Andrew Grove has called such occasions strategic inflection points—Illustration Capsule 2.2 relates Intel’s two encounters with strategic inflection points and the resulting alterations in its strategic vision. As the Intel example forcefully demonstrates, when a company reaches a strategic inflection point, management has some tough decisions to make about the company’s course. Often it is a question of what to do to sustain company success, not just how to avoid possible disaster. Responding quickly to unfolding changes in the marketplace lessens a company’s chances of becoming trapped in a stagnant or declining business or letting attractive new growth opportunities slip away.

Understanding the Payoffs of a Clear Vision Statement

In sum, a well-conceived, 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 organizational members for internal changes that will help make the vision a reality; (4) it provides a beacon for lower-level managers in forming departmental missions, setting departmental objectives, and crafting functional and 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, the first step in organizational direction setting has been successfully completed.
Linking the Vision/Mission with Company Values

Many companies have developed a statement of values to guide the company’s pursuit of its vision/mission, strategy, and ways of operating. By values (or core values, as they are often called), we mean the beliefs, traits, and ways of doing things that management has determined should guide the pursuit of its vision and strategy, the conduct of company’s operations, and the behavior of company personnel.

Values, good and bad, exist in every organization. They relate to such things as fair treatment, integrity, ethical behavior, innovation, teamwork, top-notch quality, superior customer service, social responsibility, and community citizenship. Most companies have built their statements of values around four to eight traits that company personnel are expected to display and that are supposed to be mirrored in how the company conducts its business.

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 strategy.
At Kodak, the core values are respect for the dignity of the individual, uncom-
promising 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 by operating warehouse stores filled
with a wide assortment of products at the lowest prices with trained associates giving
absolutely the best customer service in the industry. Toyota preaches respect for and
development of its employees, teamwork, getting quality right the first time, learning,
continuous improvement, and embracing change in its pursuit of low-cost, top-notch
manufacturing excellence in motor vehicles.4 DuPont stresses four values—safety, eth-
ics, respect for people, and environmental stewardship; the first three have been in
place since the company was founded 200 years ago by the DuPont family. Heinz uses
the acronym PREMIER to identify seven values that “define to the world and to our-
selves who we are and what we stand for”:

- **P**assion . . . to be passionate about winning and about our brands, products and
  people, thereby delivering superior value to our shareholders.
- **R**isk Tolerance . . . to create a culture where entrepreneurship and prudent risk
  taking are encouraged and rewarded.
- **E**xcellence . . . to be the best in quality and in everything we do.
- **M**otivation . . . to celebrate success, recognizing and rewarding the achievements
  of individuals and teams.
- **I**nnovation . . . to innovate in everything, from products to processes.
- **E**mpowerment . . . to empower our talented people to take the initiative and to
  do what’s right.
- **R**espect . . . to act with integrity and respect towards all.

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 values statement is merely a collection of nice words
and phrases that may be given lip service by top executives but have little discernible
impact on either how company personnel behave or how the company operates. Such
companies have values statements because such statements are in vogue and are seen
as making the company look good. At the other extreme are companies whose execu-
tives take the stated values very seriously—the values are widely adopted by company
personnel, are ingrained in the corporate culture, and are mirrored in how company
personnel conduct themselves and the company’s business on a daily basis. Top ex-
ecutives at companies on this end of the values-statement gamut genuinely believe in
the importance of grounding company operations on sound values and ways of doing
business. In their view, holding company personnel accountable for displaying the
stated values is a way of infusing the company with the desired character, identity, and
behavioral norms—the values become the company’s equivalent of DNA.

At companies where the stated values are real rather than cosmetic, managers
connect values to the pursuit of the strategic vision and mission in one of two ways.
In companies with long-standing values that are deeply entrenched in the corporate
culture, senior managers are careful to craft a vision, mission, and strategy that
match established values, and they reiterate how the values-based behavioral norms
contribute to the company’s business success. If the company changes to a different
vision or strategy, executives take care to explain how and why the core values continue to be relevant. Few companies with sincere commitment to established core values ever undertake strategic moves that conflict with ingrained values.

In new companies or companies with weak or incomplete sets of values, top management considers what values, behaviors, and business conduct should characterize the company and that will help drive the vision and strategy forward. Then values and behaviors that complement and support vision are drafted and circulated among managers and employees for discussion and possible modification. A final values statement that incorporates the desired behaviors and traits and that connects to the vision/mission is then officially adopted. Some companies combine their vision and values into a single statement or document, circulate it to all organization members, and in many instances post the vision/mission and values statement on the company’s Web site. Illustration Capsule 2.3 describes the connection between Yahoo’s mission and its core values.

Of course, a wide gap sometimes opens between a company’s stated values and its actual business practices. Enron, for example, touted four corporate values—respect, integrity, communication, and excellence—but some top officials engaged in dishonest and fraudulent maneuvers that were concealed by “creative” accounting; the lack of integrity on the part of Enron executives and their deliberate failure to accurately communicate with shareholders and regulators in the company’s financial filings led directly to the company’s dramatic bankruptcy and implosion over a six-week period, along with criminal indictments, fines, or jail terms for over a dozen Enron executives. Once one of the world’s most distinguished public accounting firms, Arthur Andersen was renowned for its commitment to the highest standards of audit integrity, but its high-profile audit failures and ethical lapses at Enron, WorldCom, and other companies led to Andersen’s demise—in 2002, it was indicted for destroying Enron-related documents to thwart investigators.

**SETTING OBJECTIVES: PHASE 2 OF THE STRATEGY-MAKING, STRATEGY-EXECUTING PROCESS**

The managerial purpose of setting objectives is to convert the strategic vision into specific performance targets—results and outcomes the company’s management wants to achieve. Objectives represent a managerial commitment to achieving particular results and outcomes. Well-stated objectives are quantifiable, or measurable, and contain a deadline for achievement. As Bill Hewlett, cofounder of Hewlett-Packard, shrewdly observed, “You cannot manage what you cannot measure. ... And what gets measured gets done.” Concrete, measurable objectives are managerially valuable because they serve as yardsticks for tracking a company’s performance and progress—a company that consistently meets or beats its performance targets is generally a better overall performer than a company that frequently falls short of achieving its objectives. Indeed, the experiences of countless companies and managers teach that precisely spelling out how much of what kind of performance by when and then pressing forward with actions and incentives calculated to help achieve the targeted outcomes greatly improve a company’s actual performance. Such an approach definitely beats setting vague targets like “maximize profits,” “reduce costs,” “become more efficient,” or “increase sales,” which specify neither how much nor when. Similarly, exhorting
company personnel to try hard or do the best they can, and then living with whatever results they deliver, is clearly inadequate.

**The Imperative of Setting Stretch Objectives** Ideally, managers ought to use the objective-setting exercise as a tool for *stretching an organization to perform at its full potential and deliver the best possible results*. Challenging company personnel to go all out and deliver “stretch” gains in performance pushes an enterprise to be more inventive, to exhibit more urgency in improving both its financial performance and its business position, and to be more intentional and focused in its actions. Stretch objectives spur exceptional performance and help companies guard against contentment with modest gains in organizational performance. 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.” *There’s no better way to avoid ho-hum results than by setting stretch objectives and*
using compensation incentives to motivate organization members to achieve the stretch performance targets.

**What Kinds of Objectives to Set: The Need for a Balanced Scorecard**

Two very distinct types of performance yardsticks are required: those relating to financial performance and those relating to strategic performance—outcomes that indicate a company is strengthening its marketing standing, competitive vitality, and future business prospects. Examples of commonly used financial objectives and strategic objectives include the following:

<table>
<thead>
<tr>
<th>Financial Objectives</th>
<th>Strategic Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>• An x percent increase in annual revenues</td>
<td>• Winning an x percent market share</td>
</tr>
<tr>
<td>• Annual increases in after-tax profits of x percent</td>
<td>• Achieving lower overall costs than rivals</td>
</tr>
<tr>
<td>• Annual increases in earnings per share of x percent</td>
<td>• Overtaking key competitors on product performance or quality or customer service</td>
</tr>
<tr>
<td>• Annual dividend increases</td>
<td>• Deriving x percent of revenues from the sale of new products introduced within the past five years</td>
</tr>
<tr>
<td>• Larger profit margins</td>
<td>• Achieving technological leadership</td>
</tr>
<tr>
<td>• An x percent return on capital employed (ROCE) or return on equity (ROE)</td>
<td>• Having better product selection than rivals</td>
</tr>
<tr>
<td>• Increased shareholder value—in the form of an upward trending stock price and annual dividend increases</td>
<td>• Strengthening the company’s brand-name appeal</td>
</tr>
<tr>
<td>• Strong bond and credit ratings</td>
<td>• Having stronger national or global sales and distribution capabilities than rivals</td>
</tr>
<tr>
<td>• Sufficient internal cash flows to fund new capital investment</td>
<td>• Consistently getting new or improved products to market ahead of rivals</td>
</tr>
<tr>
<td>• Stable earnings during periods of recession</td>
<td></td>
</tr>
</tbody>
</table>

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. Furthermore, subpar earnings and a weak balance sheet not only alarm shareholders and creditors but also put the jobs of senior executives at risk. However, good financial performance, by itself, is not enough. Of equal or greater importance is a company’s strategic performance—outcomes that indicate whether a company’s market position and competitiveness are deteriorating, holding steady, or improving.

**The Case for a Balanced Scorecard: Improved Strategic Performance Fosters Better Financial Performance**

A company’s financial performance measures are really lagging indicators that reflect the results of past decisions and organizational activities. But a company’s past or current financial performance is not a reliable indicator of its future prospects—poor financial performers often turn things around and do better, while good financial performers can fall on hard times. The best and most reliable leading indicators of a company’s future financial performance and business prospects are strategic outcomes that indicate whether the
company’s competitiveness and market position are stronger or weaker. For instance, if a company has set aggressive strategic objectives and is achieving them—such that its competitive strength and market position are on the rise, then there’s reason to expect that its future financial performance will be better than its current or past performance. If a company is losing ground to competitors and its market position is slipping—outcomes that reflect weak strategic performance (and, very likely, failure to achieve its strategic objectives), then its ability to maintain its present profitability is highly suspect. Hence, the degree to which a company’s managers set, pursue, and achieve stretch strategic objectives tends to be a reliable leading indicator of whether its future financial performance will improve or stall.

Consequently, a balanced scorecard for measuring company performance—one that tracks the achievement of both 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 from its operations is the achievement of strategic objectives that improve its competitiveness and market strength. Indeed, the surest path to boosting company profitability quarter after quarter and year after year is to relentlessly pursue strategic outcomes that strengthen the company’s market position and produce a growing competitive advantage over rivals.

Roughly 36 percent of global companies and over 100 nonprofit and governmental organizations used the balanced scorecard approach in 2001. A more recent survey of 708 companies on five continents found that 62 percent were using a balanced scorecard to track performance. Organizations that have adopted the balanced scorecard approach to setting objectives and measuring performance include Exxon Mobil, CIGNA, United Parcel Service, Sears, Nova Scotia Power, BMW, AT&T Canada, Chemical Bank, DaimlerChrysler, DuPont, Motorola, Siemens, Wells Fargo, Wendy’s, Saatchi & Saatchi, Duke Children’s Hospital, U.S. Department of the Army, Tennessee Valley Authority, the United Kingdom’s Ministry of Defense, the University of California at San Diego, and the City of Charlotte, North Carolina.

Illustration Capsule 2.4 shows selected objectives of five prominent companies—all employ a combination of strategic and financial objectives.

Both Short-Term and Long-Term Objectives Are Needed As a rule, a company’s set of financial and strategic objectives ought to include both near-term and longer-term performance targets. Having quarterly and annual objectives focuses attention on delivering immediate performance improvements. Targets to be achieved within three to five years prompt considerations of what to do now to put the company in position to perform better later. A company that has an objective of doubling its sales within five years can’t wait until the third or fourth year to begin growing its sales and customer base. By spelling out annual (or perhaps quarterly) performance targets, management indicates the speed at which longer range targets are to be approached. Long-term objectives take on particular importance because it is generally in the best interest of shareholders for companies to be managed for optimal long-term performance. When trade-offs have to be made between achieving long-run objectives and achieving short-run objectives, long-run objectives should take precedence (unless the achievement of one or more short-run performance targets have unique importance). Shareholders are seldom well-served by repeated management actions that sacrifice better long-term performance in order to make quarterly or annual targets.

Strategic Intent: Relentless Pursuit of an Ambitious Strategic Objective Very ambitious companies often establish a long-term strategic objective that clearly
signals **strategic intent** to be a winner in the marketplace, often against long odds. A company’s strategic intent can entail unseating the existing industry leader, becoming the dominant market share leader, delivering the best customer service of any company in the industry (or the world), or turning a new technology into products capable of changing the way people work and live. Nike’s strategic intent during the 1960s was to overtake Adidas; this intent connected nicely with Nike’s core purpose “to experience the emotion of competition, winning, and crushing competitors.” Canon’s strategic intent in copying equipment was to “beat Xerox.” For some years, Toyota has been driving to overtake General Motors as the world’s largest motor vehicle producer—and it surpassed Ford Motor Company in total vehicles sold in 2003, to move into second place. Toyota has expressed its strategic intent in the form of a global market share objective of 15 percent by 2010, up from 5 percent in 1980 and 10 percent in 2003. Starbucks’ strategic intent is to make the Starbucks brand the world’s most recognized and respected brand.
Ambitious companies that establish exceptionally bold strategic objectives and have an unshakable commitment to achieving them almost invariably begin with strategic intents that are out of proportion to their immediate capabilities and market grasp. But they pursue their strategic target relentlessly, sometimes even obsessively. They rally the organization around efforts to make the strategic intent a reality. They go all out to marshal the resources and capabilities to close in on their strategic target (which is often global market leadership) as rapidly as they can. They craft potent offensive strategies calculated to throw rivals off-balance, put them on the defensive, and force them into an ongoing game of catch-up. They deliberately try to alter the market contest and tilt the rules for competing in their favor. As a consequence, capably managed up-and-coming enterprises with strategic intents exceeding their present reach and resources are a force to be reckoned with, often proving to be more formidable competitors over time than larger, cash-rich rivals that have modest strategic objectives and market ambitions.

The Need for Objectives at All Organizational Levels

Objective setting should not stop with top management’s establishing of companywide performance targets. 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. Company performance can’t reach full potential unless each organizational unit sets and pursues performance targets that contribute directly to the desired companywide outcomes and results. Objective setting is thus a top-down process that must extend to the lowest organizational levels. And it means that each organizational unit must take care to set performance targets that support—rather than conflict with or negate—the achievement of companywide strategic and financial objectives.

The ideal situation is a team effort in which each organizational unit strives to produce results in its area of responsibility that contribute to the achievement of the company’s performance targets and strategic vision. Such consistency signals that organizational units know their strategic role and are on board in helping the company move down the chosen strategic path and produce the desired results.

Objective Setting Needs to Be Top-Down Rather than Bottom-Up

To appreciate why a company’s objective-setting process needs to be more top-down than bottom-up, consider the following example. Suppose the senior executives of a diversified corporation establish a corporate profit objective of $500 million for next year. Suppose further that, after discussion between corporate management and the general managers of the firm’s five different businesses, each business is given a stretch profit objective of $100 million by year-end (i.e., if the five business divisions contribute $100 million each in profit, the corporation can reach its $500 million profit objective). A concrete result has thus been agreed on and translated into measurable action commitments at two levels in the managerial hierarchy. Next, suppose the general manager of business unit A, after some analysis and discussion with functional area managers, concludes that reaching the $100 million profit objective will require selling 1 million units at an average price of $500 and producing them at an average cost of $400 (a $100 profit margin times 1 million units equals $100 million profit). Consequently, the general manager and the manufacturing manager settle on a production objective of 1 million units at a unit cost of $400; and the general manager and the marketing manager agree on a sales objective of 1 million units and a target selling price of $500. In turn, the marketing manager, after consultation with regional
sales personnel, breaks the sales objective of 1 million units into unit sales targets for each sales territory, each item in the product line, and each salesperson. It is logical for organizationwide objectives and strategy to be established first so they can guide objective setting and strategy making at lower levels.

A top-down process of setting companywide performance targets first and then insisting that the financial and strategic performance targets established for business units, divisions, functional departments, and operating units be directly connected to the achievement of company objectives has two powerful advantages: One, it helps produce cohesion among the objectives and strategies of different parts of the organization. Two, it helps unify internal efforts to move the company along the chosen strategic path. If top management, desirous of involving many organization members, allows objective setting to start at the bottom levels of an organization without the benefit of companywide performance targets as a guide, then lower-level organizational units have no basis for connecting their performance targets to the company’s. Bottom-up objective setting, with little or no guidance from above, nearly always signals an absence of strategic leadership on the part of senior executives.

CRAFTING A STRATEGY: PHASE 3 OF THE STRATEGY-MAKING, STRATEGY-EXECUTING PROCESS

The task of crafting a strategy entails answering a series of hows: how to grow the business, how to please customers, how to outcompete rivals, how to respond to changing market conditions, how to manage each functional piece of the business and develop needed competencies and capabilities, how to achieve strategic and financial objectives. It also means exercising astute entrepreneurship in choosing among the various strategic alternatives—proactively searching for opportunities to do new things or to do existing things in new or better ways. The faster a company’s business environment is changing, the more critical the need for its managers to be good entrepreneurs in diagnosing the direction and force of the changes under way and in responding with timely adjustments in strategy. Strategy makers have to pay attention to early warnings of future change and be willing to experiment with dare-to-be-different ways to alter their market position in preparing for new market conditions. When obstacles unexpectedly appear in a company’s path, it is up to management to adapt rapidly and innovatively. Masterful strategies come partly (maybe mostly) by doing things differently from competitors where it counts—outinnovating them, being more efficient, being more imaginative, adapting faster—rather than running with the herd. Good strategy making is therefore inseparable from good business entrepreneurship. One cannot exist without the other.

Who Participates in Crafting a Company’s Strategy?

A company’s senior executives obviously have important strategy-making roles. The chief executive officer (CEO) wears the mantles of chief direction setter, chief objective setter, chief strategy maker, and chief strategy implementer for the total enterprise. Ultimate responsibility for leading the strategy-making, strategy-executing process rests with the CEO. In some enterprises the CEO functions as strategic visionary and chief architect of strategy, personally deciding what the key elements of the company’s strategy will be, although others may well assist with data gathering and analysis, and the CEO may seek the advice of other senior managers and key employees in fashioning
an overall strategy and deciding on important strategic moves. A CEO-centered approach to strategy development is characteristic of small owner-managed companies and sometimes large corporations that have been founded by the present CEO or that have CEOs with strong strategic leadership skills. Meg Whitman at eBay, Andrea Jung at Avon, Jeffrey Immelt at General Electric, and Howard Schulz at Starbucks are prominent examples of corporate CEOs who have wielded a heavy hand in shaping their company’s strategy.

In most companies, however, strategy is the product of more than just the CEO’s handiwork. Typically, other senior executives—business unit heads, the chief financial officer, and vice presidents for production, marketing, human resources, and other functional departments—have influential strategy-making roles and help fashion the chief strategy components. Normally, a company’s chief financial officer (CFO) is in charge of devising and implementing an appropriate financial strategy; the production vice president takes the lead in developing the company’s production strategy; the marketing vice president orchestrates sales and marketing strategy; a brand manager is in charge of the strategy for a particular brand in the company’s product lineup; and so on.

But even here it is a mistake to view strategy making as a top management function, the exclusive province of owner-entrepreneurs, CEOs, and other senior executives. The more that 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 in charge of particular subsidiaries, divisions, product lines, geographic sales offices, distribution centers, and plants. On-the-scene managers with authority over specific operating units are in the best position to evaluate the local situation in which the strategic choices must be made and can be expected to have detailed familiarity with local market and competitive conditions, customer requirements and expectations, and all the other aspects surrounding the strategic issues and choices in their arena of authority. This gives them an edge over headquarters executives in keeping the local aspects of the company’s strategy responsive to local market and competitive conditions.

Take a company like Toshiba, a $43 billion corporation with 300 subsidiaries, thousands of products, and operations extending across the world. While top-level Toshiba executives may well be personally involved in shaping Toshiba’s overall strategy and fashioning important strategic moves, it doesn’t follow that a few senior executives at Toshiba headquarters have either the expertise or a sufficiently detailed understanding of all the relevant factors to wisely craft all the strategic initiatives taken for 300 subsidiaries and thousands of products. They simply cannot know enough about the situation in every Toshiba organizational unit to decide upon every strategy detail and direct every strategic move made in Toshiba’s worldwide organization. Rather, it takes involvement on the part of Toshiba’s whole management team—top executives, subsidiary heads, division heads, and key managers in such geographic units as sales offices, distribution centers, and plants—to craft the thousands of strategic initiatives that end up comprising the whole of Toshiba’s strategy. The same can be said for a company like General Electric, which employs 300,000 people in businesses ranging from jet engines to plastics, power generation equipment to appliances, medical equipment to TV broadcasting, and locomotives to financial services (among many others) and that sells to customers in over 100 countries.

While managers farther down in the managerial hierarchy obviously have a narrower, more specific strategy-making role than managers closer to the top, the important understanding here is that in most of today’s companies every company manager typically has a strategy-making role—ranging from minor to major—for the area he or she
heads. Hence, any notion that an organization’s strategists are at the top of the management hierarchy and that midlevel and frontline personnel merely carry out the strategic directives of senior managers needs to be cast aside. In companies with wide-ranging operations, it is far more accurate to view strategy making as a collaborative or team effort involving managers (and sometimes key employees) down through the whole organizational hierarchy.

In fact, the necessity of delegating some strategy-making authority to down-the-line managers has resulted in it being fairly common for key pieces of a company’s strategy to originate in a company’s middle and lower ranks. Electronic Data Systems conducted a yearlong strategy review involving 2,500 of its 55,000 employees and coordinated by a core of 150 managers and staffers from all over the world. J. M. Smucker, best-known for its jams and jellies, formed a team of 140 employees (7 percent of its 2,000-person workforce) who spent 25 percent of their time over a six-month period looking for ways to rejuvenate the company’s growth. Involving teams of people to dissect complex situations and come up with strategic solutions is an often-used component of the strategy-making process because many strategic issues are complex or cut across multiple areas of expertise and operating units, thus calling for the contributions of many disciplinary experts and the collaboration of managers from different parts of the organization. A valuable strength of collaborative strategy-making is that the team of people charged with crafting the strategy can easily include the very people who will also be charged with implementing and executing it. Giving people an influential stake in crafting the strategy they must later help implement and execute not only builds motivation and commitment but also means those people can be held accountable for putting the strategy into place and making it work—the excuse of “It wasn’t my idea to do this” won’t fly.

The Strategy-Making Role of Corporate Intrapreneurs In some companies, top management makes a regular practice of encouraging individuals and teams to develop and champion proposals for new product lines and new business ventures. The idea is to unleash the talents and energies of promising “corporate intrapreneurs,” letting them try out untested business ideas and giving them the room to pursue new strategic initiatives. Executives judge which proposals merit support, give the chosen intrapreneurs the organizational and budgetary support they need, and let them proceed freely. Thus, important pieces of company strategy can originate with those intrapreneurial individuals and teams who succeed in championing a proposal through the approval stage and then end up being charged with the lead role in launching new products, overseeing the company’s entry into new geographic markets, or heading up new business ventures. W. L. Gore and Associates, a privately owned company famous for its Gore-Tex waterproofing film, is an avid and highly successful practitioner of the corporate intrapreneur approach to strategy making. Gore expects all employees to initiate improvements and to display innovativeness. Each employee’s intrapreneurial contributions are prime considerations in determining raises, stock option bonuses, and promotions. Gore’s commitment to intrapreneurship has produced a stream of product innovations and new strategic initiatives that have kept the company vibrant and growing for nearly two decades.

A Company’s Strategy-Making Hierarchy

It thus follows that a company’s overall strategy is a collection of strategic initiatives and actions devised by managers and key employees up and down the whole
organizational hierarchy. The larger and more diverse the operations of an enterprise, the more points of strategic initiative it has and the more managers and employees at more levels of management that have a relevant strategy-making role. Figure 2.2 shows who is generally responsible for devising what pieces of a company’s overall strategy.

In diversified, multibusiness 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:

1. **Corporate strategy** consists of the kinds of initiatives the company uses to establish business positions in different industries, the approaches corporate executives pursue to boost the combined performance of the set of businesses the company has diversified into, and the means of capturing cross-business synergies and turning them into competitive advantage. Senior corporate executives normally have lead responsibility for devising corporate strategy and for choosing from among whatever recommended actions bubble up from the organization below. Key business-unit heads may also be influential, especially in strategic decisions affecting the businesses they head. Major strategic decisions are usually reviewed and approved by the company’s board of directors. We will look deeper into the strategy-making process at diversified companies when we get to Chapter 9.

2. **Business strategy** concerns the actions and the approaches crafted to produce successful performance in one specific line of business. The key focus is crafting responses to changing market circumstances and initiating actions to strengthen market position, build competitive advantage, and develop strong competitive capabilities. Orchestrating the development of business-level strategy is the responsibility of the manager in charge of the business. The business head has at least two other strategy-related roles: (a) seeing that lower-level strategies are well conceived, consistent, and adequately matched to the overall business strategy, and (b) getting major business-level strategic moves approved by corporate-level officers (and sometimes the board of directors) and keeping them informed of emerging strategic issues. In diversified companies, business-unit heads may have the additional obligation of making sure business-level objectives and strategy conform to corporate-level objectives and strategy themes.

3. **Functional-area strategies** concern the actions, approaches, and practices to be employed in managing particular functions or business processes or key activities within a business. A company’s marketing strategy, for example, represents the managerial game plan for running the sales and marketing part of the business. A company’s product development strategy represents the managerial game plan for keeping the company’s product lineup fresh and in tune with what buyers are looking for. Functional strategies add specifics to the hows of business-level strategy. Plus, they aim at establishing or strengthening a business unit’s competencies and capabilities in performing strategy-critical activities so as to enhance the business’s market position and standing with customers. The primary role of a functional strategy is to support the company’s overall business strategy and competitive approach.

Lead responsibility for functional strategies within a business is normally delegated to the heads of the respective functions, with the general manager of
Orchestrated by the CEO and other senior executives.

Orchestrated by the general managers of each of the company’s different lines of business, often with advice and input from the heads of functional area activities within each business and other key people.

Crafted by the heads of major functional activities within a particular business—often in collaboration with other key people.

Crafted by brand managers; the operating managers of plants, distribution centers, and geographic units; and the managers of strategically important activities like advertising and Web site operations—often key employees are involved.

In the case of a single-business company, these two levels of the strategy-making hierarchy merge into one level—business strategy—that is orchestrated by the company’s CEO and other top executives.

**Figure 2.2** A Company’s Strategy-Making Hierarchy

- **Corporate Strategy**
  - The companywide game plan for managing a set of businesses

- **Business Strategy**
  - (one for each business the company has diversified into)
  - How to strengthen market position and build competitive advantage
  - Actions to build competitive capabilities

- **Functional-area strategies within each business**
  - Add relevant detail to the hows of overall business strategy
  - Provide a game plan for managing a particular activity in ways that support the overall business strategy

- **Operating strategies within each business**
  - Add detail and completeness to business and functional strategy
  - Provide a game plan for managing specific lower-echelon activities with strategic significance
the business having final approval and perhaps even exerting a strong influence over the content of particular pieces of the strategies. To some extent, functional managers have to collaborate and coordinate their strategy-making efforts to avoid uncoordinated or conflicting strategies. For the overall business strategy to have maximum impact, a business’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 purposes. If inconsistent functional-area strategies are sent up the line for final approval, the business head is responsible for spotting the conflicts and getting them resolved.

4. **Operating strategies** concern the relatively narrow strategic initiatives and approaches for managing key operating units (plants, distribution centers, geographic units) and specific operating activities with strategic significance (advertising campaigns, the management of specific brands, supply chain–related activities, and Web site sales and operations). A plant manager needs a strategy for accomplishing the plant’s objectives, carrying out the plant’s part of the company’s overall manufacturing game plan, and dealing with any strategy-related problems that exist at the plant. A company’s advertising manager needs a strategy for getting maximum audience exposure and sales impact from the ad budget. Operating strategies, while of limited scope, add further detail and completeness to functional strategies and to the overall business strategy. Lead responsibility for operating strategies is usually delegated to frontline managers, subject to review and approval by higher-ranking managers.

Even though operating strategy is at the bottom of the strategy-making hierarchy, its importance should not be downplayed. A major plant that fails in its strategy to achieve production volume, unit cost, and quality targets can undercut the achievement of company sales and profit objectives and wreak havoc with strategic efforts to build a quality image with customers. Frontline managers are thus an important part of an organization’s strategy-making team because many operating units have strategy-critical performance targets and need to have strategic action plans in place to achieve them. One cannot reliably judge the strategic importance of a given action simply by the strategy level or location within the managerial hierarchy where it is initiated.

In single-business enterprises, the corporate and business levels of strategy making merge into one level—business strategy—because the strategy for the whole company involves only one distinct line of business. Thus, 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 to flesh out strategically significant aspects for the company’s business and functional-area strategies. Proprietorships, partnerships, and owner-managed enterprises may have only one or two strategy-making levels since their strategy-making, strategy-executing process can be handled by just a few key people.

**Uniting the Strategy-Making Effort**

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. To achieve such unity, the strategizing process requires leadership from the top. It is the responsibility of top executives to provide strategy-making direction and clearly articulate key strategic themes that paint the white lines for lower-level strategy-making efforts. **Mid-level and frontline managers cannot craft unified strategic moves without first**
understanding the company’s long-term direction and knowing the major components of the overall and business strategies that their strategy-making efforts are supposed to support and enhance. Thus, as a general rule, strategy making must start at the top of the organization and then proceed downward through the hierarchy from the corporate level to the business level and then from the business level to the associated functional and operating levels. Strategy cohesion requires that business-level strategies complement and be compatible with the overall corporate strategy. Likewise, functional and operating strategies have to complement and support the overall business-level strategy of which they are a part. When the strategizing process is mostly top-down, with lower-level strategy-making efforts taking their cues from the higher-level strategy elements they are supposed to complement and support, there’s less potential for strategy conflict between different levels. An absence of strong strategic leadership from the top sets the stage for some degree of strategic disunity. The strategic disarray that occurs in an organization when there is weak leadership and too few strategy guidelines coming from top executives is akin to what would happen to a football team’s offensive performance if the quarterback decided not to call a play for the team but instead let each player do whatever he/she thought would work best at his respective position. In business, as in sports, all the strategy makers in a company are on the same team and the many different pieces of the overall strategy crafted at various organizational levels need to be in sync. Anything less than a unified collection of strategies weakens the overall strategy and is likely to impair company performance.

There are two things that top-level executives can do to drive consistent strategic action down through the organizational hierarchy. One is to effectively communicate the company’s vision, objectives, and major strategy components to down-the-line managers and key personnel. The greater the numbers of company personnel who know, understand, and buy into the company’s long-term direction and overall strategy, the smaller the risk that organization units will go off in conflicting strategic directions when strategy making is pushed down to frontline levels and many people are given a strategy-making role. The second is to exercise due diligence in reviewing lower-level strategies for consistency and support of higher level strategies. Any strategy conflicts must be addressed and resolved, either by modifying the lower-level strategies with conflicting elements or by adapting the higher-level strategy to accommodate what may be more appealing strategy ideas and initiatives bubbling from below. Thus, the process of synchronizing the strategy initiatives up and down the organizational hierarchy does not necessarily mean that lower-level strategies must be changed whenever conflicts and inconsistencies are spotted. When more attractive strategies ideas originate at lower organizational levels, it makes sense to adapt higher-level strategies to accommodate them.

**A Strategic Vision + Objectives + Strategy = A Strategic Plan**

Developing a strategic vision and mission, setting objectives, and crafting a strategy are basic direction-setting tasks. They map out where a company is headed, the targeted strategic and financial outcomes, and the competitive moves and internal action approaches to be used in achieving the desired business results. 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.¹⁵
In companies that do regular strategy reviews and develop explicit strategic plans, the strategic plan usually ends up as a written document that is circulated to most managers and perhaps selected employees. Near-term performance targets are the part of the strategic plan most often spelled out explicitly and communicated to managers and employees. A number of companies summarize key elements of their strategic plans in the company’s annual report to shareholders, in postings on their Web site, or in statements provided to the business media. Other companies, perhaps for reasons of competitive sensitivity, make only vague, general statements about their strategic plans. In small, privately owned companies, it is rare for strategic plans to exist in written form. Small companies’ strategic plans tend to reside in the thinking and directives of owners/executives, with aspects of the plan being revealed in meetings and conversations with company personnel, and the understandings and commitments among managers and key employees about where to head, what to accomplish, and how to proceed.

**IMPLEMENTING AND EXECUTING THE STRATEGY:**
**PHASE 4 OF THE STRATEGY-MAKING, STRATEGY-EXECUTING PROCESS**

Managing the implementation and execution of strategy is an operations-oriented, make-things-happen activity aimed at performing core business activities in a strategy-supportive manner. It is easily the most demanding and time-consuming part of the strategy management process. Converting strategic plans into actions and results tests a manager’s ability to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create and nurture a strategy-supportive work climate, and meet or beat performance targets. Initiatives to put the strategy in place and execute it proficiently have to be launched and managed on many organizational fronts.

Management’s action agenda for implementing and executing the chosen strategy emerges from assessing what the company will have to do differently or better, given its particular operating practices and organizational circumstances, to execute the strategy competently and achieve the targeted financial and strategic performance. Each company manager has to think through the answer to “What has to be done in my area to execute my piece of the strategic plan, and what actions should I take to get the process under way?” How much internal change is needed depends on how much of the strategy is new, how far internal practices and competencies deviate from what the strategy requires, and how well the present work climate/culture supports good strategy execution. Depending on the amount of internal change involved, full implementation and proficient execution of company strategy (or important new pieces thereof) can take several months to several years.

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

- Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- Allocating ample resources to those activities critical to strategic success.
- Ensuring that policies and procedures facilitate rather than impede effective execution.
Good strategy execution requires diligent pursuit of operating excellence. It is a job for a company’s whole management team. And success hinges on the skills and cooperation of operating managers who can push needed changes in their organization units and consistently deliver good results. Strategy implementation 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.

**EVALUATING PERFORMANCE AND INITIATING CORRECTIVE ADJUSTMENTS: PHASE 5 OF THE STRATEGY-MAKING, STRATEGY-EXECUTING PROCESS**

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, objectives, strategy, 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 anytime external or internal conditions warrant. It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time.

Likewise, 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. It is both normal and desirable to periodically assess strategy execution to determine which aspects are working well and which need improving. 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 and making sure that executive actions are not only proper but also aligned with the interests of stakeholders, a company’s board of directors has four important obligations to fulfill:

1. Be inquiring critics and oversee the company’s direction, strategy, and business approaches. Board members must ask probing questions and draw on their business acumen to make independent judgments about whether strategy proposals have been adequately analyzed and whether proposed strategic actions appear to have greater promise than alternatives. If executive management is bringing well-supported and reasoned strategy proposals to the board, there’s little reason for board members to aggressively challenge or pick apart everything put before them. Asking incisive questions is usually sufficient to test whether the case for management’s proposals is compelling. However, when the company’s strategy is failing or is plagued with faulty execution, and certainly when there is a precipitous collapse in profitability, board members have a duty to express their concerns about the validity of the strategy and/or operating methods, initiate debate about the company’s strategic path, hold one-on-one discussions with key executives and other board members, and perhaps directly intervene as a group to alter the company’s executive leadership and, ultimately, its strategy and business approaches.

2. 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 (as a basis for awarding salary increases and bonuses and deciding on retention or removal). Boards must also exercise due diligence in evaluating the strategic leadership skills of other senior executives in line to succeed the CEO. When the incumbent CEO steps down or leaves for a position elsewhere, the board must elect a successor, either going with an insider or deciding that a better-qualified outsider is needed to perhaps radically change the company’s strategic course.

3. Institute a compensation plan for top executives that rewards them for actions and results that serve stakeholder interests, and most especially those of shareholders. 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 and unequivocal duty to make decisions and operate the company in accord with shareholder interests (but this does not mean disregarding the interests of other stakeholders, particularly those of employees, with whom they also have an agency relationship). Most boards of directors have a compensation committee, composed entirely of outside directors, to develop a salary and incentive compensation plan that makes it in the self-interest of executives to operate the business in a manner that benefits the owners; the compensation committee’s recommendations are presented to the full board for approval. But in addition to creating compensation plans intended to align executive actions with owner interests, the board of directors must put a halt to self-serving executive perks and privileges that simply line the financial pockets of executives. Numerous media reports have recounted instances in which boards of directors have gone along with opportunistic executive efforts to secure excessive, if not downright obscene, compensation of one kind or another (multimillion-dollar interest-free loans, personal use of corporate aircraft, lucrative severance and retirement packages, outsized stock incentive awards, and so on).

4. **Oversee the company’s financial accounting and financial reporting practices.** While top managers, particularly the company’s CEO and CFO, are primarily responsible for seeing that the company’s financial statements fairly and accurately report the results of the company’s operations, it is well established that board members have a fiduciary duty to protect shareholders by exercising oversight of the company’s financial practices, ensuring that generally accepted accounting principles (GAAP) are properly used in preparing the company’s financial statements, and determining 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. The members of the audit committee have lead responsibility for overseeing the company’s financial officers and consulting with both internal and external auditors to ensure accurate financial reporting and adequate financial controls.

The number of prominent companies penalized because of the actions of scurrilous or out-of-control CEOs and CFOs, the growing propensity of disgruntled stockholders to file lawsuits alleging director negligence, and the escalating costs of liability insurance for directors all underscore the responsibility that a board of directors has for overseeing a company’s strategy-making, strategy-executing process and ensuring that management actions are proper and responsible. Moreover, holders of large blocks of shares (mutual funds and pension funds), regulatory authorities, and the financial press consistently urge that board members, especially outside directors, be active and diligent in their oversight of company strategy and maintain a tight rein on executive actions.

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 inappropriate or unduly risky management actions, (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.14 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 (perhaps because the board is stacked with the CEO’s cronies) abdicate their duty to represent and protect shareholder interests. The whole fabric of effective corporate governance is undermined when boards of directors shirk their responsibility to maintain ultimate control over the company’s strategic direction, the major elements of its strategy, the
business approaches management is using to implement and execute the strategy, executive compensation, and the financial reporting process. Thus, even though lead responsibility for crafting and executing strategy falls to top executives, boards of directors have a very important oversight role in the strategy-making, strategy-executing process.

Key Points

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

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

2. Setting objectives to spell out for the company how much of what kind of performance is expected, and by when. The objectives need to require a significant amount of organizational stretch. 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. Crafting strategy is concerned principally with forming responses to changes under way in the external environment, devising competitive moves and market approaches aimed at producing sustainable competitive advantage, building competitively valuable competencies and capabilities, and unifying the strategic actions initiated in various parts of the company. The more that a company’s operations cut across different products, industries, and geographical areas, the more that strategy making becomes a team effort involving managers and company personnel at many organizational levels. The total strategy that emerges in such companies 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 frontline operating managers. The larger and more diverse the operations of an enterprise, the more points of strategic initiative it has and the more managers and employees at more levels of management that have a relevant strategy-making role. 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 to flesh out strategically significant aspects for the company’s business and functional-area strategies. 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 phase 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.

A company’s strategic vision, objectives, and strategy constitute a strategic plan for coping with industry and competitive conditions, outcompeting rivals, and addressing the challenges and issues that stand as obstacles to the company’s success.

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) critically appraise and ultimately approve strategic action plans; (2) evaluate the strategic leadership skills of the CEO and others in line to succeed the incumbent CEO; (3) institute a compensation plan for top executives that rewards them for actions and results that serve stakeholder interests, most especially those of shareholders; and (4) ensure that the company issues accurate financial reports and has adequate financial controls.

Exercises

1. Go to the Investors section of Heinz’s Web site (www.heinz.com) and read the letter to the shareholders in the company’s fiscal 2003 annual report. Is the vision for Heinz articulated by Chairman and CEO William R. Johnson sufficiently clear and well defined? Why or why not? Are the company’s objectives well stated and appropriate? What about the strategy that Johnson outlines for the company? If you were a shareholder, would you be satisfied with what Johnson has told you about the company’s direction, performance targets, and strategy?

2. Consider the following mission statement of the American Association of Retired People (AARP):

<table>
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<tr>
<th>AARP Mission Statement</th>
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<tr>
<td>• AARP is a nonprofit, nonpartisan membership organization for people age 50 and over.</td>
</tr>
<tr>
<td>• AARP is dedicated to enhancing quality of life for all as we age. We lead positive social change and deliver value to members through information, advocacy and service.</td>
</tr>
<tr>
<td>• AARP also provides a wide range of unique benefits, special products, and services for our members. These benefits include AARP Web site at <a href="http://www.aarp.org">www.aarp.org</a>, “AARP The Magazine,” the monthly “AARP Bulletin,” and a Spanish-language newspaper, “Segunda Juventud.”</td>
</tr>
<tr>
<td>• Active in every state, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, AARP celebrates the attitude that age is just a number and life is what you make it.</td>
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Is AARP’s mission statement well-crafted? Does it do an adequate job of indicating “who we are, what we do, and why we are here”? Why or why not?

3. How would you rewrite/restate the strategic vision for Caterpillar in Illustration Capsule 2.1 so as to better exemplify the characteristics of effective vision statements presented in Tables 2.2 and 2.3? Visit www.caterpillar.com to get more information about Caterpillar and figure out how a more appropriate strategic vision might be worded.