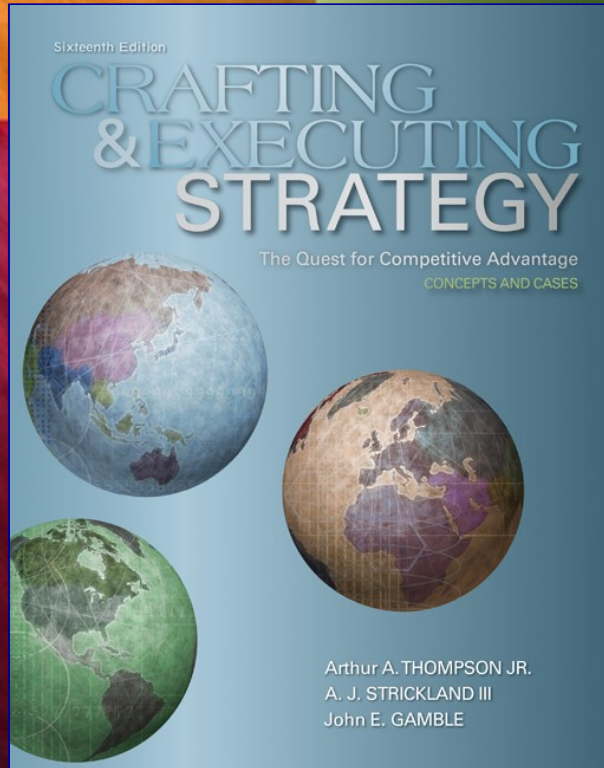


2



The Managerial Process of Crafting and Executing Strategy

16/e PPT

Screen graphics created by:
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**“If you don’t know
where you are going,
any road will take
you there.”
The Koran**

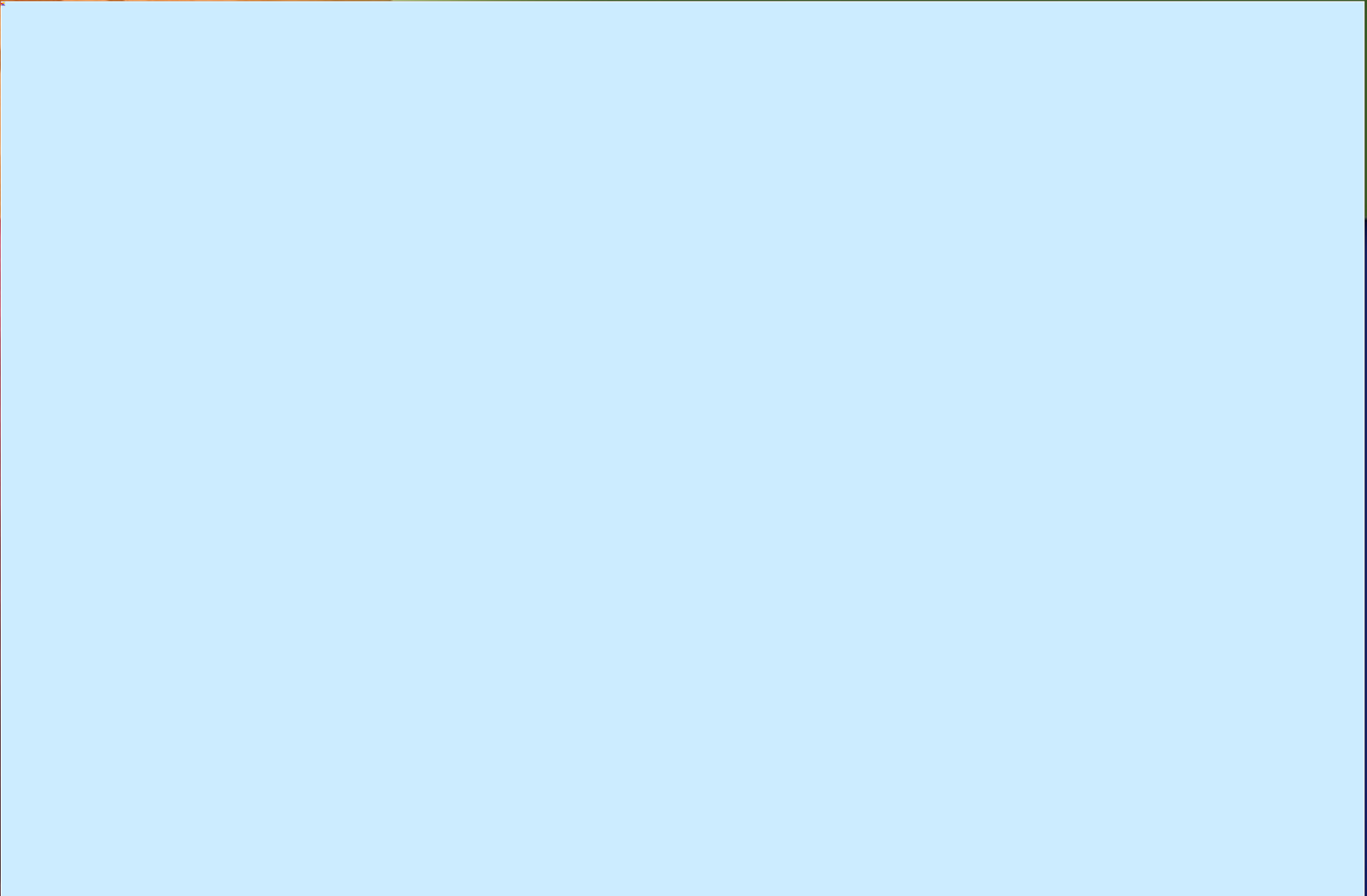


**“Management’s job is
not to see the company
as it is
. . . but as it can
become.”**

Chapter Roadmap

- ◆ What Does the Process of Crafting and Executing Strategy Entail?
- ◆ Developing a Strategic Vision: **Phase 1** of the Strategy-Making, Strategy-Executing Process
- ◆ Setting Objectives: **Phase 2** of the Strategy-Making, Strategy-Executing Process
- ◆ Crafting a Strategy: **Phase 3** of the Strategy-Making, Strategy-Executing Process
- ◆ Implementing and Executing the Strategy: **Phase 4** of the Strategy-Making, Strategy-Executing Process
- ◆ Initiating Corrective Adjustments: **Phase 5** of the Strategy-Making, Strategy-Executing Process
- ◆ Corporate Governance: The Role of the Board of Directors in the Strategy-Making, Strategy-Executing Process

Fig. 2.1: The Strategy-Making, Strategy-Executing Process



Developing a Strategic Vision

Phase 1 of the Strategy-Making Process

◆ Involves thinking strategically about



- Future direction of company
- Changes in company's product/market/customer technology to improve
 - Current market position
 - Future prospects

A *strategic vision* describes the route a company intends to take in developing and strengthening its business. It lays out the company's strategic course in preparing for the future.

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

External Considerations	Internal Considerations
<ul style="list-style-type: none">• 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?• Are changes under way in the market and competitive landscape acting to enhance or weaken the company's prospects?• What, if any, new customer groups and/or geographic markets should the company get in position to serve?• Which emerging market opportunities should the company pursue? Which ones should not be pursued?• Should the company plan to abandon any of the markets, market segments, or customer groups it is currently serving?	<ul style="list-style-type: none">• What are the company's ambitions? What industry standing should the company have?• Will the company's present business generate sufficient growth and profitability in the years ahead to please shareholders?• What organizational strengths ought to be leveraged in terms of adding new products or services and getting into new businesses?• Is the company stretching its resources too thin by trying to compete in too many markets or segments, some of which are unprofitable?• Is the company's technological focus too broad or too narrow? Are any changes needed?

Key Elements of a Strategic Vision

- ◆ Delineates management's aspirations for the business
- ◆ Provides a panoramic view of "where we are going"
- ◆ Charts a strategic path
- ◆ Is **distinctive** and **specific** to a particular organization
 - ➔ Avoids use of generic language that is dull and boring and that could apply to most any company
- ◆ Captures the emotions of employees and steers them in a common direction
- ◆ Is challenging and a bit beyond a company's immediate reach



Role of a Strategic Vision

- ◆ A well-conceived and well-communicated vision functions as a valuable managerial tool to
 - ➔ Give the organization a sense of direction, mold organizational identity, and create a **committed** enterprise
 - ➔ Inform company personnel and other stakeholders what management wants its business to look like and “where we are going”
 - ➔ Spur company personnel to action
 - ➔ Provide managers with a reference point to
 - Make strategic decisions
 - Translate the vision into hard-edged objectives and strategies
 - Prepare the company for the future



A strategic vision exists only as words and has no organizational impact *unless and until it wins the commitment of company personnel and energizes them to act* in ways that move the company along the intended strategic path!

Table 2.2 Characteristics of an Effectively Worded Strategic Vision

Graphic	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.
Directional	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.
Focused	Is specific enough to provide managers with guidance in making decisions and allocating resources.
Flexible	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.
Feasible	Is within the realm of what the company can reasonably expect to achieve in due time.
Desirable	Indicates why the chosen path makes good business sense and is in the long-term interests of stakeholders (especially shareholders, employees, and customers).
Easy to communicate	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").

Source: Based partly on John P. Kotter, *Leading Change* (Boston: Harvard Business School Press, 1996), p. 72.

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 <i>best</i> , <i>most successful</i> , <i>recognized leader</i> , <i>global or worldwide leader</i> , or <i>first choice of customers</i> .

Sources: Based on information in Hugh Davidson, *The Committed Enterprise: How to Make Vision and Values Work* (Oxford: Butterworth Heinemann, 2002), Chapter 2, and Michel Robert, *Strategy Pure and Simple II* (New York: McGraw-Hill, 1992), Chapters 2, 3, and 6.

Examples of Strategic Visions

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 success financially, be the premier provider of financial services in every one of our markets, and be known as one of America's great companies.

Examples of Strategic Visions

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.

Examples of Strategic Visions

Dental Products Division of 3M Corporation



Become THE supplier of choice to the global dental professional markets, providing world-class quality and innovative products. [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.

Examples of Strategic Visions

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.

eBay

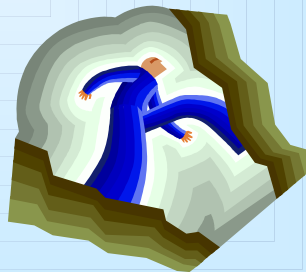


Provide a global trading platform where practically anyone can trade practically anything.

Strategic Vision vs. Mission

◆ A **strategic vision** concerns a firm's **future** business path - "**where we are going**"

- Markets to be pursued
- Future product/market/customer/technology focus
- Kind of company management is trying to create



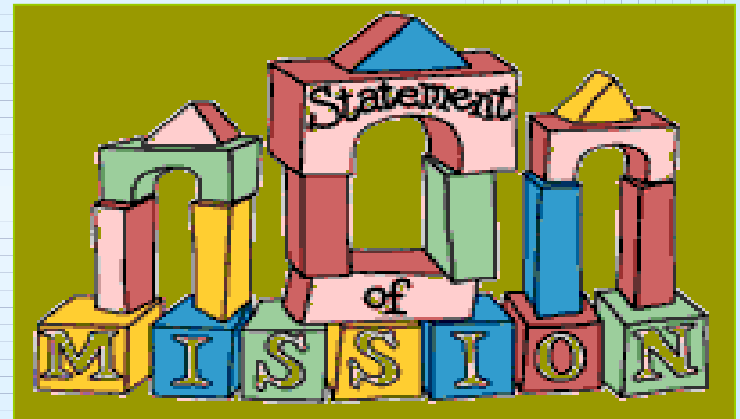
◆ The **mission statement** of a firm focuses on its **present** business purpose - "**who we are and what we do**"

- Current product and service offerings
- Customer needs being served
- Technological and business capabilities



Characteristics of a Mission Statement

- ◆ Identifies the **boundaries** of the **current** business and highlights
 - Present products and services
 - Types of customers served
 - Geographic coverage
- ◆ Conveys
 - **Who** we are,
 - **What** we do, and
 - **Why** we are here



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 identify!**

Key Elements of a Mission Statement

- ◆ Three factors need to be identified for completeness

- Customer needs being met

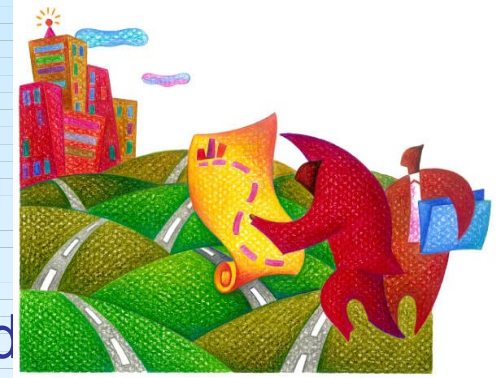
What is being satisfied

- Customer groups or markets being served

Who is being satisfied

- What the organization does (in terms of business approaches, technologies used, and activities performed) to satisfy the target needs of the target customer groups

How customer needs are satisfied



A company's mission is *not* to make a profit! Its true mission is its answer to *“What will we do to make a profit?”*
Making is profit is an *objective* or *intended outcome!*

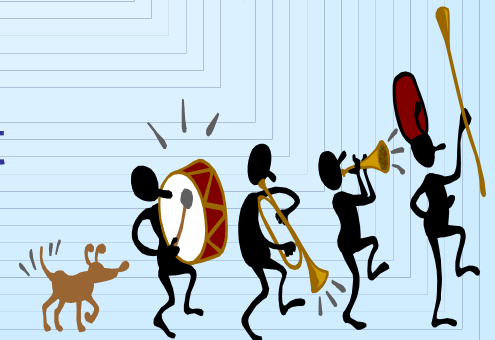
Trader Joe's Mission Statement

TRADER JOE'S
(a unique grocery store chain)

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.

Communicating the Strategic Vision

- ◆ Winning *support* for the vision involves
 - Putting “where we are going and why” in writing
 - Distributing the statement organization-wide
 - Having executives explain vision to the workforce
- ◆ An *engaging, inspirational* vision
 - Challenges and motivates workforce
 - Articulates a compelling case for where company is headed
 - Evokes positive support and excitement
 - Arouses a committed organizational effort to move in a common direction



Examples: Vision Slogans

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.”

Mayo Clinic



“The best care to every patient every day.”

Examples: Vision Slogans

Scotland Yard

The Scotland Yard
ON-LINE STORE

“To make London the safest major city in the world.”

Greenpeace

GREENPEACE

“To halt environmental abuse and promote environmental solutions.”

Charles Schwab

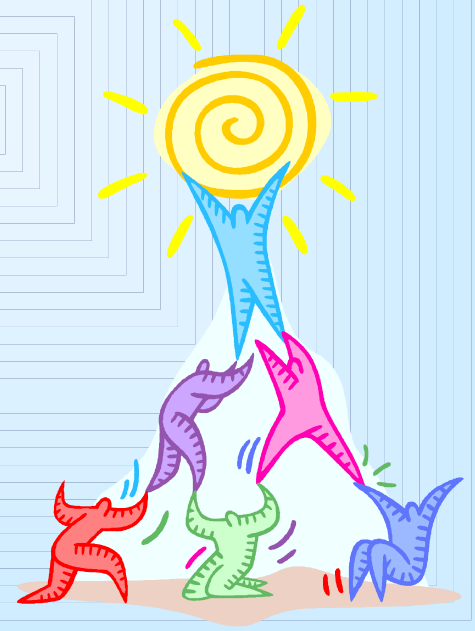
Charles Schwab

“To provide customers with the most useful and ethical financial services in the world.”

Overcoming Resistance to a New Strategic Vision

◆ Mobilizing *support* for a *new vision* entails

- Reiterating basis for the new direction
- Addressing employee concerns head-on
- Calming fears
- Lifting spirits
- Providing updates and progress reports as events unfold



Test Your Knowledge

The difference between a company's mission statement and the concept of a strategic vision is that

- A.** the mission statement lays out the desire to make a profit, whereas the strategic vision addresses what strategy the company will employ in trying to make a profit.
- B.** a mission statement deals with “where we are headed ” whereas a strategic vision provides the critical answer to “how will we get there?”
- C.** a mission deals with what a company is trying to do and a vision concerns what a company ought to do.
- D.** a mission statement typically concerns an enterprise’s *present* business scope and purpose—“who we are, what we do, and why we are here”—whereas the focus of a strategic vision is on the direction the company is headed and what its future product-customer-market-technology focus will be.
- E.** a mission is about what to accomplish for shareholders whereas a strategic vision concerns what to accomplish for customers.

Recognizing Strategic Inflection Points

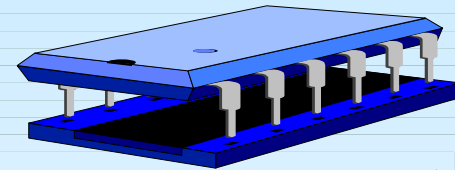
- ◆ Sometimes an order-of-magnitude change occurs in a company's environment that
 - Dramatically alters its future prospects
 - Mandates radical revision of its strategic course
- ◆ Critical decisions have to be made about where to go from here
 - A major new directional path may have to be taken
 - A major new strategy may be needed
- ◆ Responding quickly to unfolding changes in the marketplace lessons a company's chances of
 - Becoming trapped in a stagnant business *or*
 - Letting attractive new growth opportunities slip away

Intel's "Strategic Inflection Points"



◆ *Prior to mid-1980s*

→ Focus on memory chips



◆ *Starting in mid-1980s*

→ Abandon memory chip business (due to lower-cost Japanese companies taking over the market) and

- Become preeminent supplier of microprocessors to PC industry
- Make PC central appliance in workplace and home
- Be undisputed leader in driving PC technology forward



◆ *1998*

→ Shift focus from PC technology to becoming the preeminent building block supplier to Internet economy

Payoffs of a Clear Strategic Vision

- ◆ **Crystallizes** an organization's long-term direction
- ◆ **Reduces risk** of rudderless decision-making
- ◆ Creates a **committed enterprise** where organizational members enthusiastically pursue efforts to make the vision a reality
- ◆ Provides a beacon to keep **strategy-related actions** of all managers on common path
- ◆ Helps an organization **prepare for the future**



Linking the Vision with Company Values

- ◆ Companies often develop a **statement of values** to guide a company's pursuit of its vision and strategy and paint the white lines for how the company's business is to be conducted
 - Company values statements typically contain four to eight beliefs, traits, and behaviors relating to such things as
 - Integrity, doing the right thing, product quality, customer satisfaction, treatment of people, teamwork, operating excellence, giving back to the community
- ◆ But **values statements remain a bunch of nice words until** the espoused beliefs, traits, and behaviors
 - Are incorporated into company's operations and work practices
 - Are used as the benchmark for job appraisal, promotions, and rewards



If company personnel are not held accountable for displaying company values in doing their jobs, then the company values statement is an empty box!

Example: Company Values

Kodak

Respect for the dignity of the individual

Uncompromising integrity

Unquestioned trust

Constant credibility

Continual improvement and personal renewal

Open celebration of individual and team achievements

Example: Company Values

Home Depot



Example: Company Values

Du Pont

Safety

Ethics

Respect for
people

Environmenta
l stewardship



The miracles of science[®]

Example: Company Values

The Heinz logo, featuring the word "Heinz" in a red, cursive font inside a white oval with a red border.

Heinz

The Heinz logo, featuring the word "Heinz" in a red, cursive font inside a white oval with a red border.

Passion . . . to be passionate about winning and about our brands, products and people, thereby delivering superior value to our shareholders.

Risk Tolerance . . . to create a culture where entrepreneurship and prudent risk taking are encouraged and rewarded.

Excellence . . . to be the best in quality and in everything we do.

Motivation . . . to celebrate success, recognizing and rewarding the achievements of individuals and teams.

Innovation . . . to innovate in everything, from products to processes.

Empowerment . . . to empower our talented people to take the initiative and to do what's right.

Respect . . . to act with integrity and respect towards all.

Setting Objectives

Phase 2 of the Strategy-Making Process

◆ *Purpose of setting objectives*

- Converts vision into specific performance targets
- Creates yardsticks to track performance

◆ *Well-stated objectives* are

- *Quantifiable*
- *Measurable*
- Contain a *deadline* for achievement

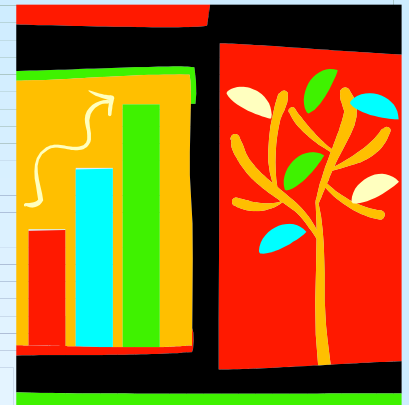
◆ Spell-out *how much* of *what kind* of performance *by when*



Importance of Setting Stretch Objectives

◆ **Objectives** should be set at levels that stretch an organization to

- Perform at its full potential, delivering the best possible results
- Push firm to be more inventive
- Exhibit more urgency to improve its business position
- Be intentional and focused in its actions

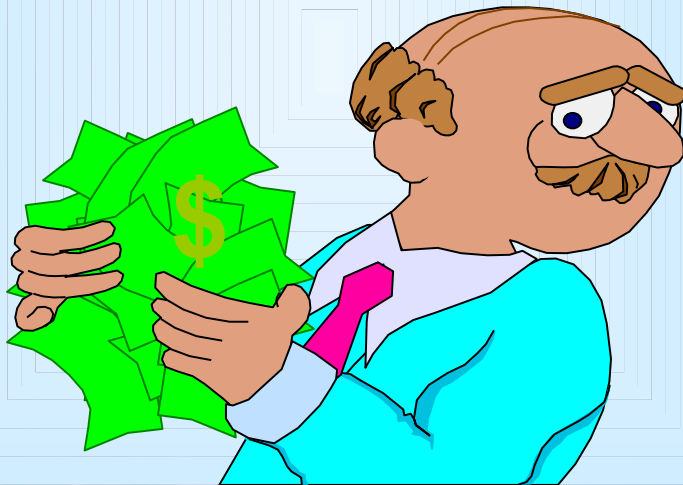


There's no better way to *avoid ho-hum results* than by *setting stretch objectives* and *using compensation incentives to motivate* organization members to achieve the stretch performance targets!

Types of Objectives Required

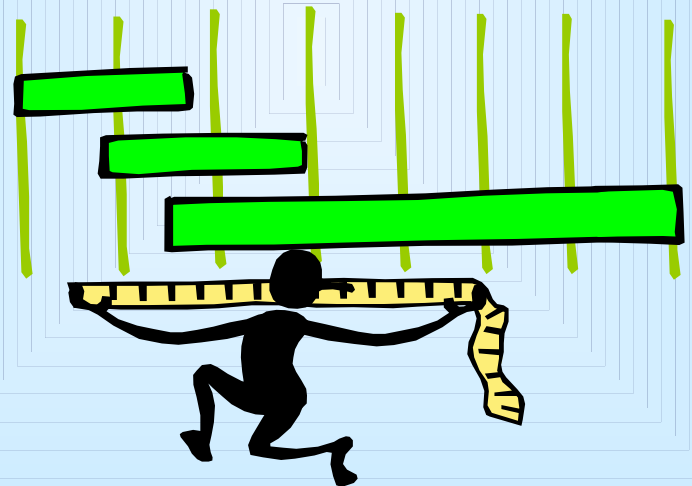
Financial Objectives

Outcomes focused on improving *financial performance*

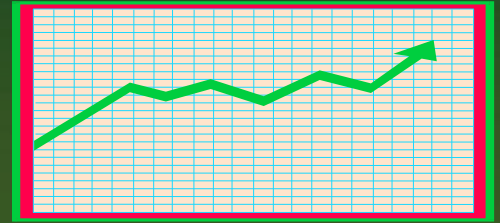


Strategic Objectives

Outcomes focused on improving *competitive vitality and future business position*



Examples: Financial Objectives



- ◆ X % increase in annual revenues
- ◆ X % increase annually in after-tax profits
- ◆ X % increase annually in earnings per share
- ◆ Annual dividend increases of X %
- ◆ Profit margins of X %
- ◆ X % return on capital employed (ROCE)
- ◆ Increased shareholder value
- ◆ Strong bond and credit ratings
- ◆ Sufficient internal cash flows to fund 100% of new capital investment
- ◆ Stable earnings during periods of recession

Examples: Strategic Objectives



- ◆ Winning an X % market share
- ◆ Achieving lower overall costs than rivals
- ◆ Overtaking key competitors on product performance or quality or customer service
- ◆ Deriving X % of revenues from sale of new products introduced in past 5 years
- ◆ Achieving technological leadership
- ◆ Having better product selection than rivals
- ◆ Strengthening company's brand name appeal
- ◆ Having stronger national or global sales and distribution capabilities than rivals
- ◆ Consistently getting new or improved products to market ahead of rivals

Nissan's Financial Objectives

- ◆ Increase sales to 4.2 million cars and trucks by 2008 (up from 3 million in 2003)
- ◆ Cut purchasing costs 20% and halve the number of suppliers
- ◆ Have zero net debt
- ◆ Maintain a return on invested capital of 20%
- ◆ Maintain a 10% or better operating margin



McDonald's Financial and Strategic Objectives

- ◆ Place more emphasis on delivering an exceptional customer experience
- ◆ Add approximately 350 net new McDonald's restaurants
- ◆ Reduce general and administrative spending as a percent of total revenues
- ◆ Achievements
 - Systemwide sales and revenue growth of 3-5%
 - Annual operating income growth of 6-7%
 - Annual returns on incremental invested capital in high teens



H. J. Heinz Company's Financial and Strategic Objectives



- ◆ Achieve 4-6% sales growth, 7-10% growth in operating income, EPS in the range of \$2.35 to \$2.45, and operating free cash flow of \$900 million to \$1 billion in fiscal 2006
- ◆ Pay dividends equal to 45-50% of earnings
- ◆ Increase focus on company's 15 power brands and give top resource priority to those brands with number one and two market positions
- ◆ Continue to introduce new and improved food products
- ◆ Add to the Heinz portfolio of brands by acquiring companies with brands that complement existing brands
- ◆ Increase sales in Russia, Indonesia, China, and India by 50% in fiscal year 2006 to roughly 6% of total sales
- ◆ By end of fiscal 2008, derive approximately 50% of sales and profits from North America, 30% from Europe, and 20% from all other markers



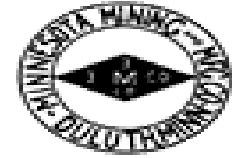
Seagate Technology's Financial and Strategic Objectives

- ◆ Solidify the company's No. 1 position in the overall market for hard-disk drives
- ◆ Get more Seagate drives into popular consumer electronics products
- ◆ Take share away from Western Digital in providing disk drives for Microsoft's Xbox
- ◆ Maintain leadership in core markets and achieve leadership in emerging markets
- ◆ Grow revenues by 10% per year
- ◆ Maintain gross margins of 24-26%
- ◆ Hold internal operating expenses to 13-13.5% of revenue

Seagate
We turn on ideas



3M Corporation's Financial and Strategic Objectives



- ◆ **To achieve**
 - Long term sales growth of 5-8% plus 2-4% from acquisitions
 - Annual growth in earnings per share of 10% or better, on average
 - A return on stockholders' equity of 20-25%
 - A return on capital employed of 27% or better
- ◆ **Double the number of qualified new 3M product ideas and triple the value of products that win in the marketplace**
- ◆ **Build the best sales and marketing organization in the world**

Test Your Knowledge

Which of the following represents the best example of a well-stated strategic objective (as opposed to a well-stated financial objective)?

- Achieve revenue growth of 150% annually
- Achieve a AA bond rating within 3 years and an annual cash flow of \$750 million
- Invest more money in R&D to enable the company to offer customers the widest selection of products in the industry
- Increase market share from 15% to 20% and achieve the lowest overall costs of any producer in the industry, both within three years
- Pay more attention to reducing costs over the next two years

For Discussion: Your Opinion

Which matters most to a company's future financial performance—setting and pursuing financial performance targets or setting and pursuing strategic performance targets?

What arguments support your answer?

Good Strategic Performance Is the Key to Better Financial Performance

- ◆ Achieving *good financial performance is not enough*
 - Current financial results are “*lagging indicators*” reflecting results of *past* decisions and actions—*good profitability now does not translate into stronger capability for delivering even better financial results later*
- ◆ However, meeting or beating strategic performance targets signals
 - *Growing competitiveness*
 - *Growing strength in the marketplace*
- ◆ *A company that is growing competitively stronger is developing the capability for better financial performance in the years ahead*
 - Good strategic performance is thus a “*leading indicator*” of a company’s capability to deliver improved *future* financial performance

Unless a company sets and achieves stretch strategic objectives, it is not developing the competitive muscle to deliver even better financial results in the years ahead!



A Balanced Scorecard Approach – Setting Strategic *and* Financial Objectives

- ◆ **A *balanced scorecard* for measuring company performance is optimal; it entails**
 - ➔ Setting financial ***and*** strategic objectives
 - ➔ ***Placing balanced emphasis on achieving both types of objectives***



(However, if a company's financial performance is dismal or if its very survival is in doubt because of poor financial results, then stressing the achievement of the financial objectives and temporarily de-emphasizing the strategic objectives may have merit)

- ◆ ***Just tracking financial performance overlooks the importance of measuring whether a company is strengthening its competitiveness and market position.***

The surest *path* to *sustained future profitability* year after year is to relentlessly *pursue strategic outcomes* that strengthen a company's business position and give it a growing *competitive advantage* over rivals!

Short-Term vs. Long-Term Objectives

◆ *Short-term objectives*

- Targets to be achieved soon
- Milestones or stair steps for reaching long-range performance

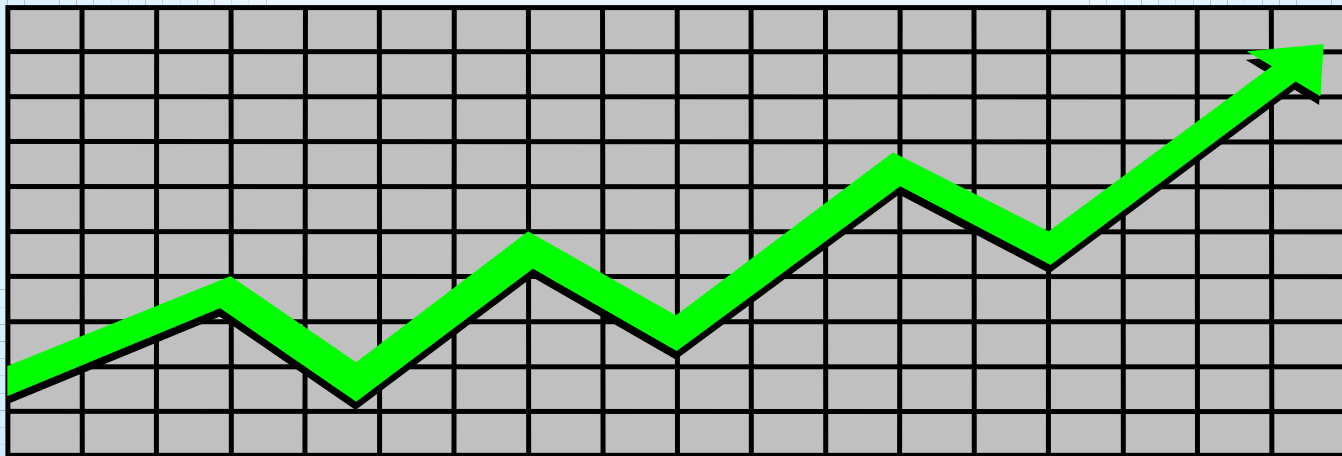
◆ *Long-term objectives*

- Targets to be achieved within 3 to 5 years
- Prompt actions now that will permit reaching targeted long-range performance later



Concept of Strategic Intent

A company exhibits *strategic intent* when it relentlessly pursues an *ambitious strategic objective*, concentrating the full force of its resources and competitive actions on achieving that objective!



Characteristics of Strategic Intent

- ◆ Indicates firm's *intent* to making *quantum gains* in competing against key rivals and to establishing itself as a winner in the marketplace, often against long odds
- ◆ Involves establishing a *grandiose performance target* out of proportion to immediate capabilities and market position but then devoting a firm's full resources and energies to achieving the target over time
- ◆ Signals relentless *commitment* to *achieving a particular market position* and *competitive standing*



Test Your Knowledge

A company pursues strategic intent when

- A.** it pursues its strategic vision.
- B.** it crafts a strategy and proceeds to implement it.
- C.** it adopts a strategic plan and tries to execute it.
- D.** it sets objectives and pursues their achievement.
- E.** it relentlessly pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective.

Objectives Are Needed at All Levels

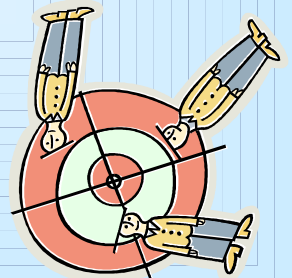
The process is more top-down than bottom up

1. First, establish **organization-wide** objectives and performance targets
2. Next, set **business** and **product line** objectives
3. Then, establish **functional** and **departmental** objectives
4. **Individual** objectives are established last



Importance of Top-Down Objectives

- ◆ **Provides guidelines** for objective-setting and strategy-making in lower-level organizational units
- ◆ **Ensures** financial and strategic **performance targets** for all business units, divisions, and departments are **directly connected** to achieving **company-wide objectives**
- ◆ **Top-down objective-setting** has **two advantages**
 - ➔ Leads to **cohesive** and **compatible objectives** and **strategies** up and down the organization
 - ➔ Helps **unify internal efforts** to move company along the chosen strategic path



Crafting a Strategy

Phase 3 of the Strategy-Making Process

◆ *Strategy-making* involves *entrepreneurship*

- Actively searching for opportunities to do new things
or
- Actively searching for opportunities to do existing things in new or better ways

◆ *Strategizing* involves

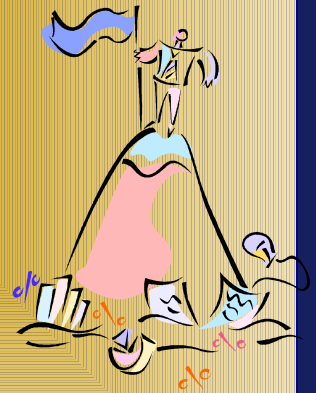
- Developing timely responses to happenings in the external environment
and
- Steering company activities in new directions dictated by shifting market conditions



What Does Good Strategy Making Entail?

Masterful strategies come partly (maybe mostly) by doing things differently from competitors where it counts

- Out-innovating them**
- Being more efficient**
- Being more imaginative**
- Adapting faster**



Rather than running with the herd!

The Hows That Define a Firm's Strategy

- ◆ **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 (R&D, production, marketing, HR, finance, and so on)
- ◆ **How** to achieve targeted levels of performance



Who Participates in Crafting Strategy?

◆ CEO (chief executive officer)

- Has ultimate responsibility for leading the strategy-making, strategy-executing process
- Functions as strategic visionary and chief architect of strategy



◆ Senior executives

- Typically exercise influential strategy-making roles
- Lead efforts to fashion chief strategy components in their own areas of responsibility

◆ Managers of subsidiaries, divisions, plants, other important operating units (and, often, key employees)

- Brings on-the-scene people with detailed familiarity with local competitive conditions and customer requirements/expectations into the strategy-making process

Why Are Collaborative Efforts Used in the Strategy-Making Process?

- ◆ Many strategic issues are complex or cut across multiple areas of expertise
- ◆ Ideas of people with different expertise and perspectives strengthen the strategizing effort
- ◆ A team effort in crafting the strategy, especially a team that includes people responsible for implementing it, enhances motivation, commitment, and accountability in executing the strategy and making it work



For Discussion: Your Opinion

Crafting a company's strategy is really a job for senior executives and the company's board of directors.

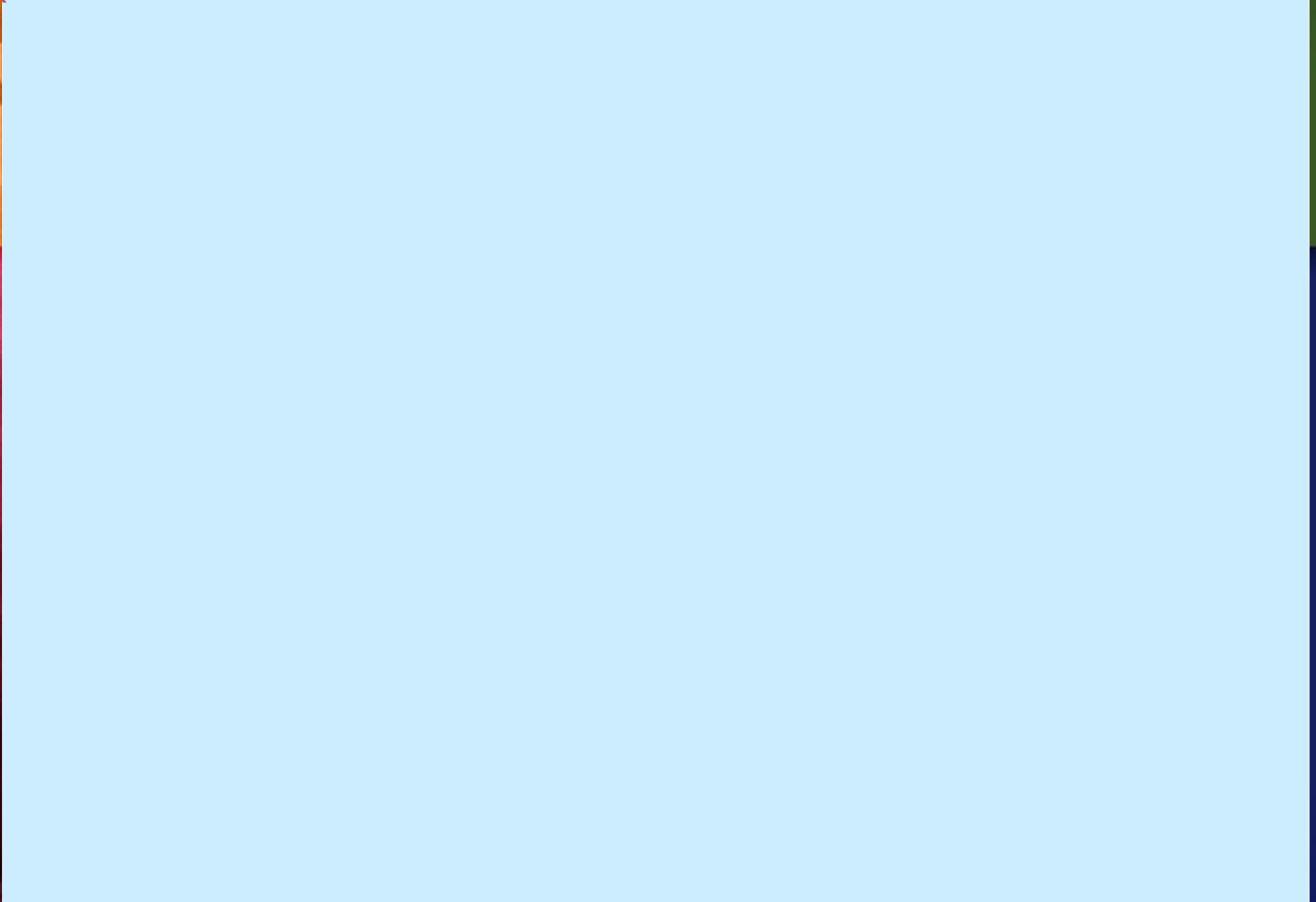
True or false? Discuss and explain.

Strategy-Making Role of Corporate Intrapreneurs

- ◆ Encouraging lower-level managers/employees to be good entrepreneurs and join in on the strategy-making effort
 - ➔ Unleashes talents and energies of employees to brainstorm and champion proposals for
 - New technologies or technological applications
 - New products or product lines
 - New business ventures
 - New strategic initiatives
- ◆ Requires that senior executives
 - ➔ Provide organizational and budgetary support for worthwhile proposals
 - ➔ Create an organizational climate where free-thinking and new ideas are welcome

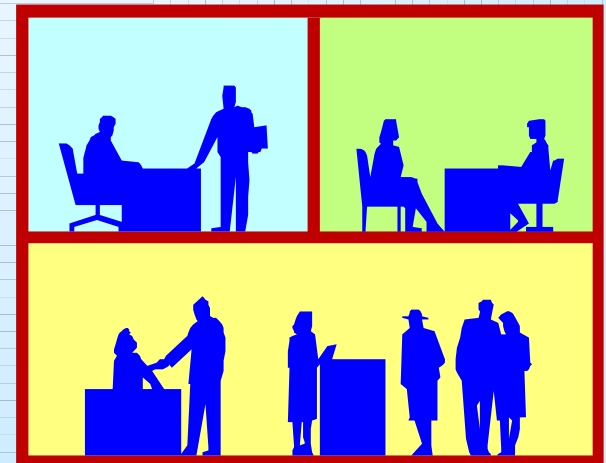


Fig. 2.1: A Company's Strategy-Making Hierarchy



Tasks of Corporate Strategy

- ◆ Moves to achieve *diversification*
- ◆ Actions to *boost performance* of individual businesses
- ◆ Capturing valuable *cross-business synergies* to provide $1 + 1 = 3$ effects!
- ◆ Establishing *investment priorities* and steering *corporate resources* into the most attractive businesses



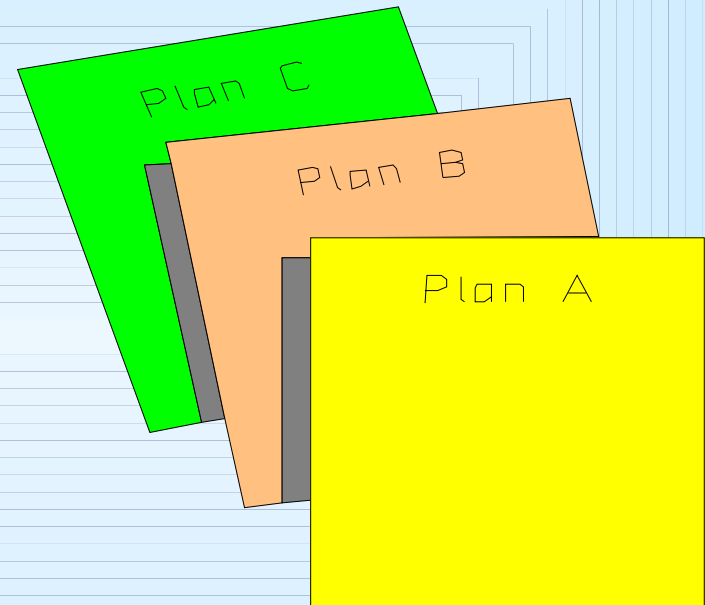
Tasks of Business Strategy

- ◆ Initiating approaches to **produce successful performance** in a specific business
- ◆ Crafting competitive moves to **build sustainable competitive advantage**
- ◆ Developing **competitively valuable competencies and capabilities**
- ◆ Uniting **strategic activities of functional areas**
- ◆ Gaining **approval of business strategies** by corporate-level officers and directors



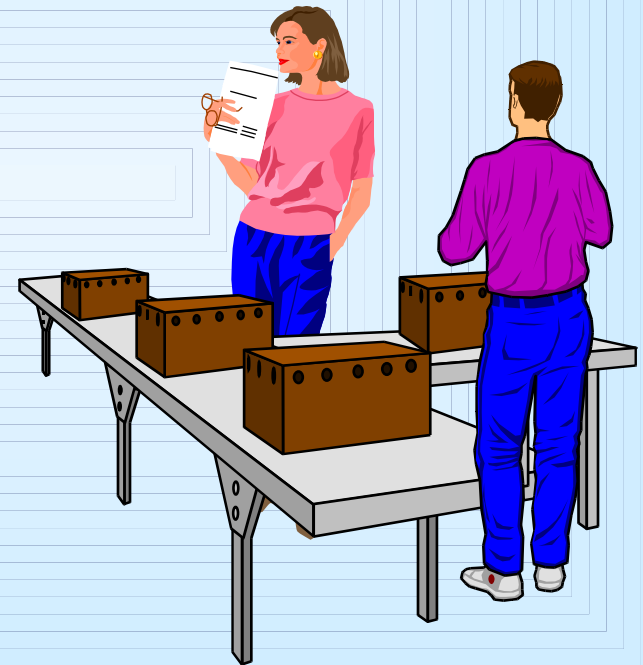
Tasks of Functional Strategies

- ◆ **Game plan** for a strategically-relevant function, activity, or business process
- ◆ Detail **how key activities** will be **managed**
- ◆ Provide **support** for **business strategy**
- ◆ Specify **how functional objectives** are to be **achieved**

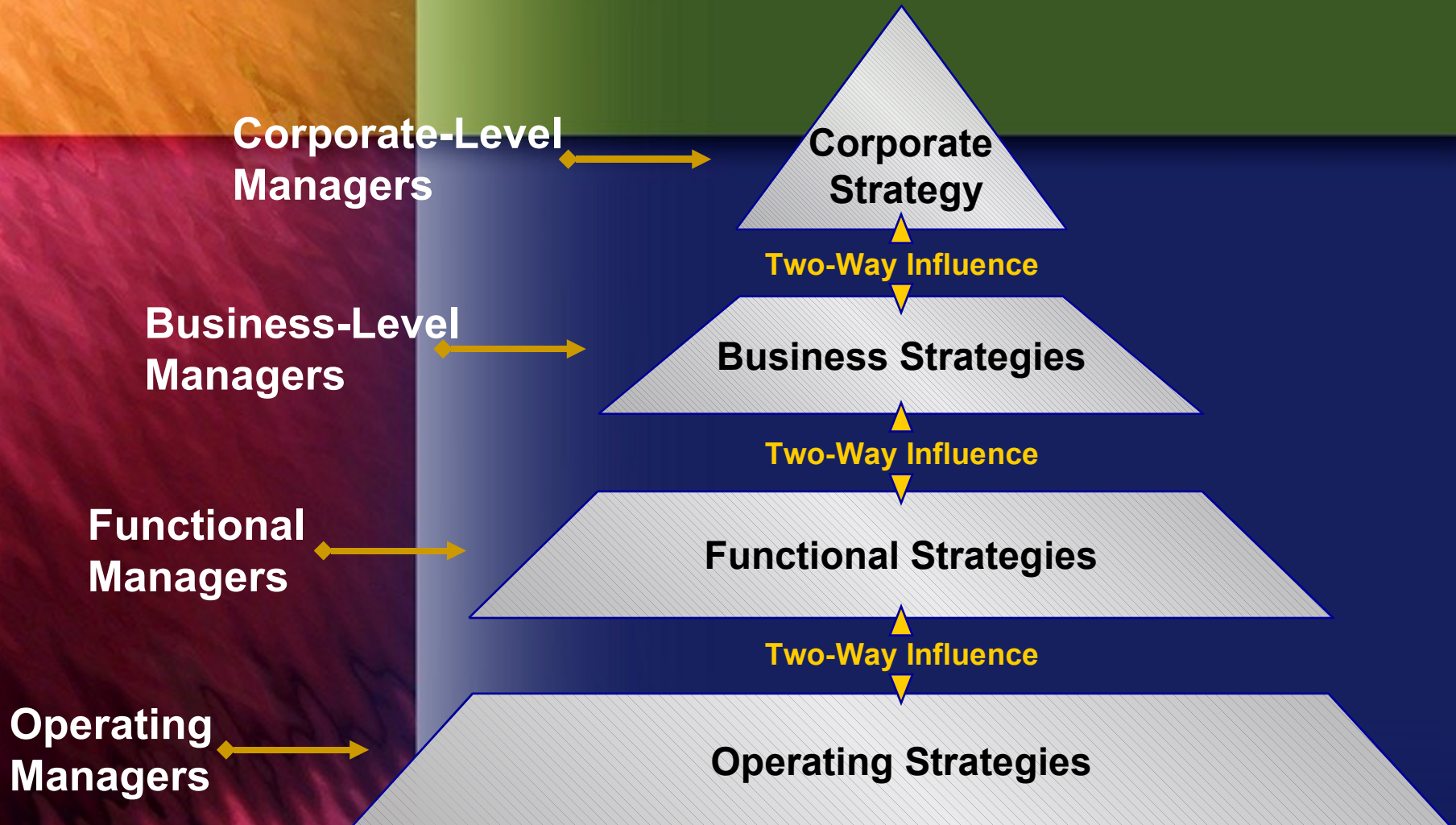


Tasks of Operating Strategies

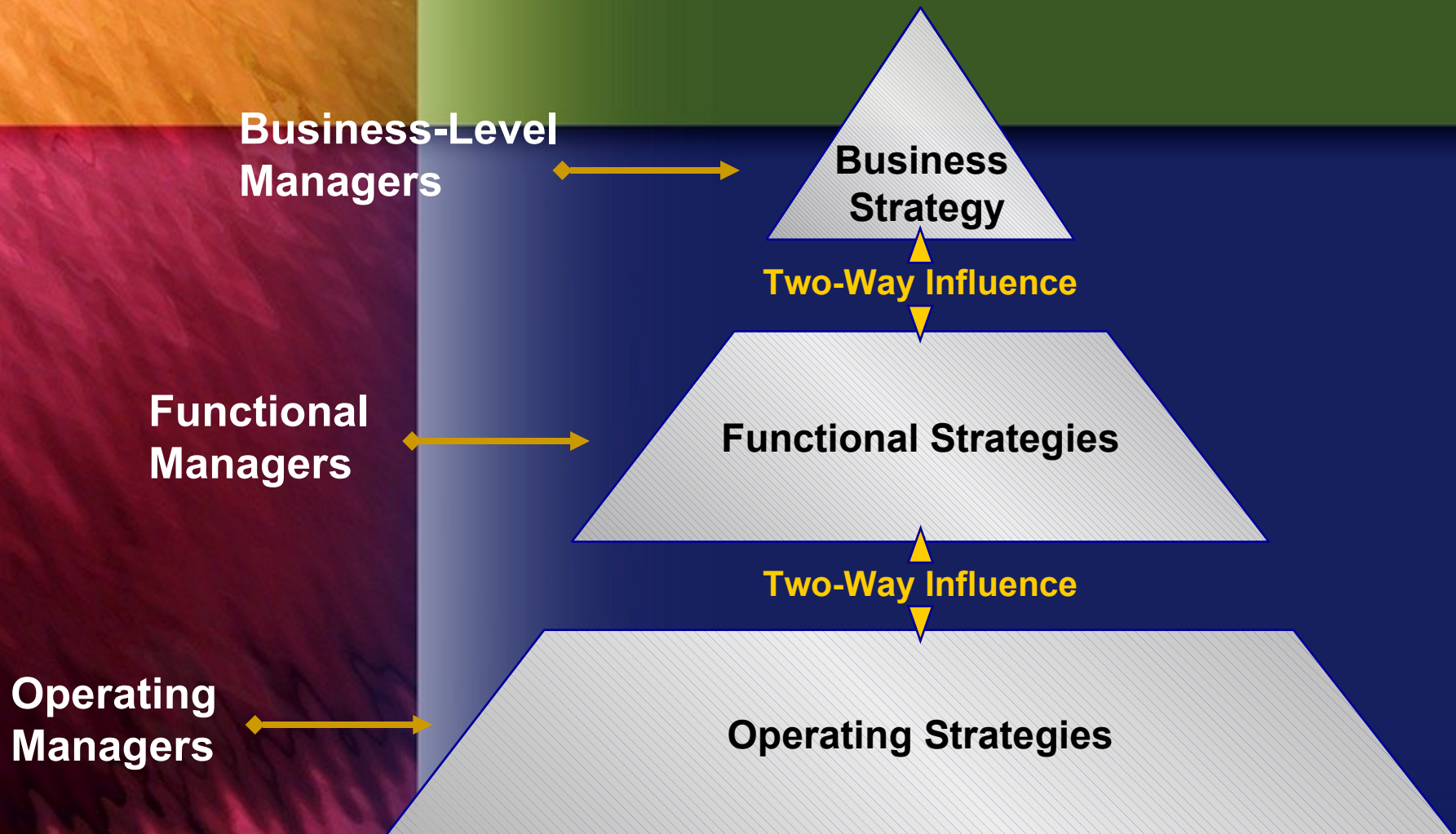
- ◆ Concern **narrow strategic approaches** to manage key operating units and strategically-relevant operating activities
- ◆ Add **detail** to business and functional strategies
- ◆ **Delegation** of responsibility to frontline managers



Levels of Strategy-Making in a Diversified Company



Levels of Strategy-Making in a Single-Business Company



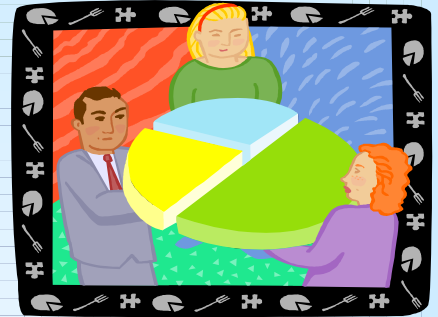
Test Your Knowledge

The strategy-making hierarchy in a single business company consists of

- A.** it pursues business strategy, divisional strategies, and departmental strategies.
- B.** business strategy, functional strategies, and operating strategies, whereas in a diversified company it consists of corporate strategy, business strategies (one for each business the diversified company is in), functional strategies, and operating strategies.
- C.** business strategy and operating strategy.
- D.** company strategy, divisional strategies, and functional strategies.
- E.** corporate strategy, divisional strategies, and departmental strategies.


Uniting the Company's Strategy-Making Effort

- ◆ A firm's strategy is a **collection of initiatives** undertaken by managers at all levels in the organizational hierarchy
- ◆ Pieces of **strategy** should **fit** together like the pieces of a **puzzle**
- ◆ Key approaches used to unify all strategic initiatives into a **cohesive, company-wide action plan**
 - **Effectively communicate** company's vision, objectives, and major strategies to all personnel
 - **Exercise due diligence** in reviewing lower-level strategies for consistency and support of higher-level strategies



What Is a Strategic Plan?

**A
Company's
Strategic Plan
Consists of**



Its *strategic vision*
and *business mission*

Its *strategic* and
financial objectives

Its *strategy*

Implementing and Executing Strategy

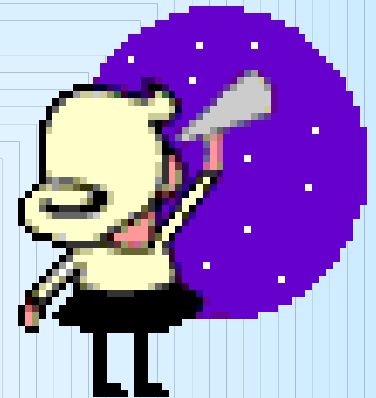
Phase 4 of the Strategy-Making Process

- ◆ **Operations-oriented** activity aimed at performing core business activities in a strategy-supportive manner
- ◆ **Tougher** and **more time-consuming** than **crafting strategy**
- ◆ **Key tasks** include
 - ➔ Improving efficiency of strategy being executed
 - ➔ Showing measurable progress in achieving targeted results



What Does Strategy Implementation Involve?

- ◆ Building a *capable organization*
- ◆ *Allocating resources* to strategy-critical activities
- ◆ Establishing *strategy-supportive policies*
- ◆ Instituting *best practices* and programs for *continuous improvement*
- ◆ Installing *information, communication,* and *operating systems*
- ◆ *Motivating* people to pursue the target objectives
- ◆ *Tying rewards* to achievement of *results*
- ◆ Creating a *strategy-supportive corporate culture*
- ◆ Exerting the *leadership* necessary to drive the process forward and keep improving



Characteristics of Good Strategy Execution

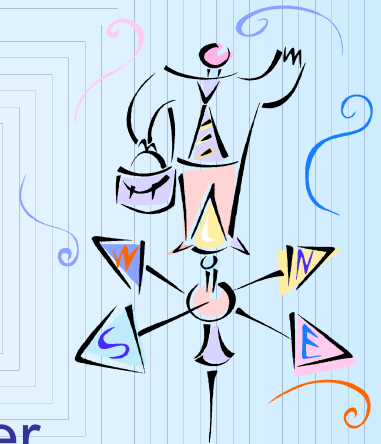
- ◆ Requires *diligent pursuit* of *operating excellence*
- ◆ Involves a company's *entire management team*
- ◆ Hinges on *skills* and *cooperation* of operating managers who
 - Push needed changes in their organizational units
 - Consistently deliver good results
- ◆ *Success* involves
 - Meeting or beating performance targets
 - Showing progress in achieving the strategic vision



Evaluating Performance and Making Corrective Adjustments

Phase 5 of the Strategy-Making Process

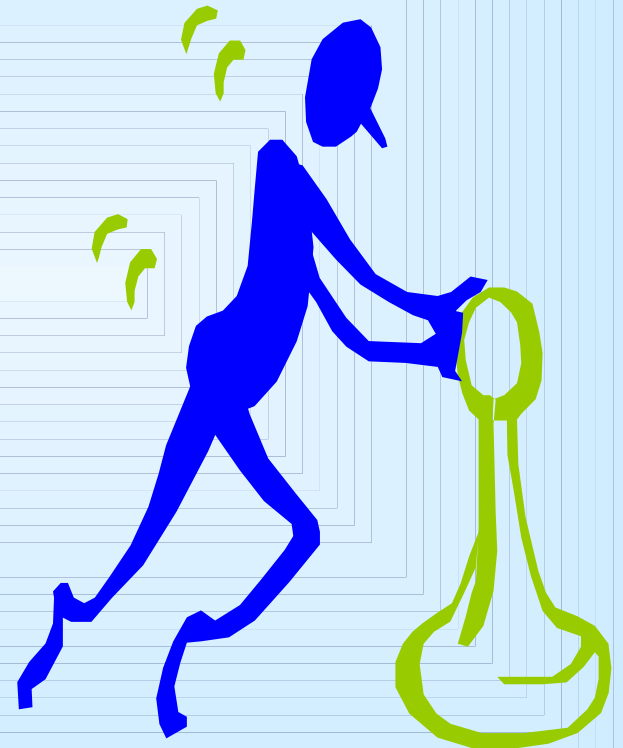
- ◆ **Tasks** of crafting and implementing the strategy are **not a one-time exercise**
 - Customer needs and competitive conditions change
 - New opportunities appear; technology advances; any number of other outside developments occur
 - One or more aspects of executing the strategy may not be going well
 - New managers with different ideas take over
 - Organizational learning occurs
- ◆ All these trigger a need for **corrective actions** and **adjustments** on an as-needed basis



Monitoring, Evaluating, and Adjusting as Needed

◆ **Taking actions** to **adjust** to the march of events tends to result in one or more of the following

- Altering long-term direction and/or redefining the mission/vision
- Raising, lowering, or changing performance objectives
- Modifying the strategy
- Improving strategy execution



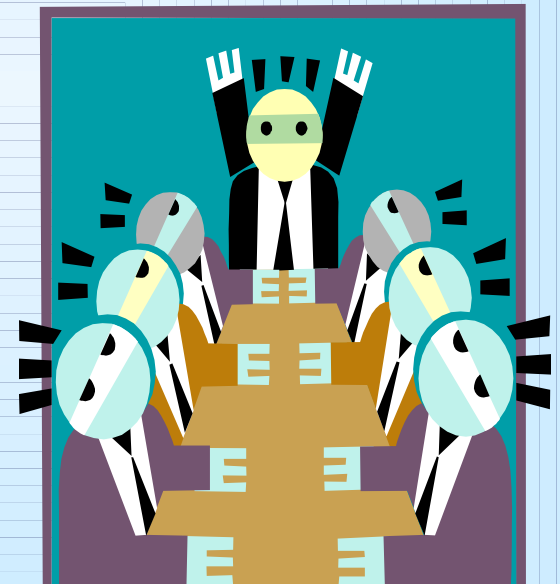
Corporate Governance: Strategic Role of a Board of Directors

- ◆ Exercise **strong oversight** to ensure five tasks of strategic management are executed to **benefit**
 - Shareholders **or**
 - Stakeholders
- ◆ Make sure **executive actions** are not only **proper** but also **aligned with interests of stakeholders**



Obligations of a Board of Directors

- ◆ Be *inquiring critics* and *overseers*
- ◆ *Evaluate caliber* of *senior executives'* strategy-making and strategy-executing *skills*
- ◆ *Institute* a *compensation plan* for top executives rewarding them for results that serve interests of
 - Stakeholders *and*
 - Shareholders
- ◆ *Oversee* a company's *financial accounting* and *reporting practices*



Key Roles of a Board of Directors

- ◆ Be well informed about a company's performance
- ◆ Guide and judge CEO and other top executives
- ◆ Exhibit courage to curb inappropriate or unduly risky management actions
- ◆ Certify to shareholders that CEO is doing what board expects
- ◆ Provide insight and advice to management
- ◆ Intensely involved in debating pros and cons of key actions and decisions



A board of directors has a very important oversight role in the strategy-making, strategy-executing process!