

Strategic Management

Chapter 2

Mission and Objectives

outline

- Background
- Vision
- Mission
- Setting objectives

background

- If you remember the strategy process

- Set objective
- Analyze
- Choose strategy
- Implement (and control)

feedback



- Vision, mission, setting objectives is the first step

background

- What is a vision?
- What is a mission?
- Is there any difference?

- One of the roles of the CEO is to develop a vision within which the resources of the company can be mobilized
- Logic dictates: *write a clear mission statement*
- *However*, that is hard to do in practice
 - Understanding business is hard
 - Choosing strategies is hard

Understanding business is hard

- What business are you in?
- Book example
 - Soft drinks
 - Do you control all stages of production or do you purchase all ingredients and merely mix and bottle?
 - Do you control distribution and marketing channels?
 - Are you competing in the soft drinks or beverage market?
 - Is your drink a stand alone or is it also intended as a mixer?

- Mixes and matches in
 - Productive scope
 - Market positioning
 - Breadth and focus
 - Different markets
- Both in the soft drink business
 - A one stage producer which bottles the product and sells it on to supermarkets.
 - An integrated producer which projects the brand image of a healthy drink which has an appeal to sports orientated consumers.

Deriving the mission statement

- Once the business has been clearly identified it is possible to derive a statement of how the company intends to operate within that business area.
- In terms of
 - Quality?
 - Market?
 - Differentiation?
 - etc.

- *The operational **usefulness of the mission statement can be exaggerated**, and it can often be argued that the **mission statement is merely a description of what the company is** rather than providing any new direction to employees*

Disaggregating the mission statement

- Mission for marketing?
- Mission for human resources?
- Mission for finance?
- Mission for operations?

Setting objectives

- Once the general vision of the company has been established, and the mission identified, it is necessary to determine what has to be achieved for the mission to be successful
 - Good for giving sense of direction
 - Accountability (known targets)

Strategic objectives

- Strategic objectives relate to gaining and strengthening competitive advantages
- Examples of strategic objectives
 - Increase market share by 10 per cent
 - Reduce unit cost to 5 per cent less than that of major competitors
 - Develop a strong reputation for reliability by reducing defect rates to 1 per cent
 - Develop the image of a technological leader by launching at least two new products each year
 - Expand internationally by exporting 20 per cent of output

Financial objectives

- Financial objectives relate to profit maximization objective
- Examples of financial objectives
 - Increase share price by 15 per cent
 - Reduce gearing ratio from 65 per cent to 40 per cent
 - Increase the return on capital (ROI) from 8 per cent to 12 per cent
 - Increase net cash flow from \$5 million per year to \$10 million per year

priority

- Strategic or financial?
 - Is it good for a company to simply aim to produce the HIGHEST quality product?
 - What if competition forces you out, because you could not sustain quality?
 - Is it good for a company to simply be the most profitable?
 - What if the market shrinks due to the emergence of a new product?
- There is always the short-run/long-run tradeoff to consider

- From a profit-maximizing point, investing in two unknown phd dropouts for a new internet business, when giants already exist was a BAD idea
- Not investing in Google seems like an idiot's idea

Good objectives are...

- Related to employees
- Credible
- Achievable
- Disaggregated

Level

Objective

- | | |
|--------------|---------------------------------|
| ■ Strategic | ■ Achieve market leadership |
| ■ Financial | ■ Increase turnover by 25% |
| ■ SBU | ■ Increase market shares |
| ■ Sales | ■ Penetrate new market segments |
| ■ Production | ■ Increase productivity |

Who sets objectives

- Companies can have strategy makers
- Process view requires continual feedback
 - So employees are implicitly a part of this
- Trial and error is possible
- *“A strong leader, who made the company excellent in the first place, was a recurring factor in almost every case.”*

- *The success of the Asda chain of superstores in the UK between 1992 and 1996, when the Asda share price grew at twice the rate of the stock exchange index, was largely attributed to Archie Norman; during his five years he not only changed the company culture and rescued it from collapse, but also fought a wider battle against price fixing and had a significant effect on competition in the retail industry.*

Who is the strategist?

- Obviously a manager. But which one?
 - Need to understand what a manager does (right)
- *Examples of the difficulty involved in identifying the characteristics of an effective strategic planner can be seen in the books written by successful managers. The accounts are typically idiosyncratic and it is virtually impossible to identify the key characteristics which contributed to success rather than to failure. This is partly because few professional managers are trained in the scientific approach, and this is compounded by the fact that their accounts are at least partially concerned with portraying themselves in a favorable light.*

- It is known that there is a difference between what a manager does and what theory tells him to do
- For example, to get data
 - Theory suggests rigor
 - Managers rely on informal practices
- Since we do not know what exactly managers do, we cannot claim to know who (which manager) is the strategist!

Characteristics of strategists

Different modes of behavior:

- Prospector *new markets?*
- Analyzer *sophisticated analysis of info*
- Defender *maintaining current position*
- Reactor *react to circumstances as they arise*