**2. Strategic Direction and Hierarchy of Strategies**

**Charting a direction**

For a firm to be able to compete effectively and continue to serve its customers, it must have the guideposts to direct where it is going**.** These guideposts are provided for by the hierarchy of goals:

1. Strategic Vision
2. Strategic Mission
3. Strategic Objectives

 The Hierarchy of Goals

 General Long Time

 Vision Horizon

 Mission

 Objectives

 Specific Short Time

 Horizon

**1. Strategic Vision**

A vision is a goal that is “massively inspiring, overarching and long term. It represents an ideal situation that is driven by passion. For example Disneyland’s vision: “To be the happiest land on earth” or for McDonald’s vision: “To be the world’s best quick service restaurant”.

A vision may or may not succeed; it depends on whether everything else happens according to a firm’s strategy. However an organisation’s vision is initiated by the top management people and in some cases by the early founders.

Visions cannot be accurately measured by a specific indicator but they provide a fundamental statement of an organisation’s values, aspiration and goals. They go beyond the narrow financial objectives, and strive to capture both the minds and hearts of employees.

The vision statement may also contain a slogan, a diagram or picture. The aim is to capture the essence of the more formal parts of the vision in a few words that are easily remembered, yet evoke the spirit of the entire vision statement.

For example:

Canon’s slogan “Beat Xerox”

Motorola’s slogan “Total Customer Satisfaction”

Chevron’s slogan “To Become Better than the Best”

A strategic vision describes the *future* business scope (possibilities) of a firm indicating:

* What business the firm will be in.
* Where the firm will be going.
* What the firm will be.

McDonald’s vision for its business:

 “A limited menu, good tasting fast food products of consistent *quality*, fast and accurate

 *service*, *value* pricing, exceptional customer *care*, convenient *location* and global market

 *coverage*.”

McDonald’s vision of where it is going and what it wants to be:

 “… to be the leading provider of moderately priced quality food to anyone, anywhere.”

As for Coca-Cola – “.. a coke is in arm’s reach of any customer, no matter where that

customer is around the world.”

As for Chili (restaurant service) – “…each meal should be a fun and exciting experience.”

Vision statements are not a cure-all.

Sometimes they backfire and the leader’s credibility may be eroded.

Reasons for vision failure can be as follows:

1. The walk doesn’t match the talk – management behaviour is not consistent with the vision.
2. Irrelevance – a vision is not related to the environmental threats or opportunity or an organisation’s resources and capabilities i.e. not embedded in reality.
3. Not the holy grail – vision cannot cure all the ills of an organisation.
4. An ideal future irreconciled with the present – paints a rosy picture of the future but failed to take into account of the present situation.

Note:

Visions of firms do not set out the actual strategies, steps or methods for the firm to pursue its purpose (objective). This deficiency is provided by the Strategic Mission.

**2. Strategic Mission**

It describes the *present* business scope of a firm, indicating the business the firm is in

(what it is) and the customers it serves (what it does).

It is more specific than visions.

It provides guidelines of how to achieve the vision of the firm over a *certain time frame*

(e.g. 3 or 5 years).

McDonald’s mission statement:

 “High *quality* food, fast and courteous *service*, *clean* restaurant and *affordable* prices.”

McDonald’s mission is to implement each of the 4 policies (quality, service, cleanliness and value). This simple statement translated McDonald’s vision into reality.

Mission statements can vary in length and specificity. For example:

* To produce superior financial returns for our shareholders as we serve our customers with the highest quality transportation, logistics and e-commerce (Federal Express)
* To be the very best in the business. Our game plan is status go…… we are constantly looking ahead, building on our strengths and reaching for new goals. In our quest for these goals, we look at the three stars of the Brinker logo and are reminded of the basic values that are the strength of this company …. People, quality and profitability. Everything we do at Brinker must….

Few mission statements identify profit or any other financial indicator as the sole purpose of the firm. Most do not even mention profit or shareholder return.

A good mission statement must communicate why an organisation is special and different. Studies have found that most successful firms mentioned values other than profits.

Even though a mission statement is quite enduring and seldom changes, a firm’s mission can and should change when competitive conditions dramatically change or the firm is faced with new threats or opportunities.

Note: ***The mission statement does not provide tangible goals or objectives that must be***

 ***met to achieve the firm’s purposes.***

As a consequence of this, objectives are needed to provide a number of direct, measurable tasks that can help to achieve the strategic mission.

**3. Strategic Objectives**

They help an organisation to move towards its mission and vision.

Strategic objectives can be distinguished into two categories:

1. Strategic objectives in financial terms:

* Increase sales growth 6%to 8% and accelerate core net earnings growth 13% to 15% share in each of the next five years. (Procter and Gamble)
* Generate Internet related revenue of $1.5 billion (Automation)
* Cut corporate overhead costs by #30 million per year. (Fortune Brands)
1. Strategic Objectives in nonfinancial terms:
* We want a majority of our customers, when surveyed to say they consider Wells Fargo the best financial institution in the community. (Wells Fargo)
* We want to operate 6,000 stores by 2010 – up from 3000 in the year 2000. (Walgreen’s)
* Reduce greenhouse gas by 10% (from a 1990 base) by 2010. (BP Amoco)

For objectives to be meaningful, they need to satisfy several factors:

1. Measurable – a standard to be met.
2. Specific – a clear message of what is to be measured.
3. Appropriate – must be consistent with the mission and vision.
4. Realistic – can be achieved based on the capabilities of the organisation and the opportunity in the environment.

5. Timely – a timeframe for achieving the objective.

When objectives satisfy the above criteria, there are many benefits for the organisation:

1. Help channel employee efforts to common goals.
2. To motivate and inspire employees to higher commitment and effort.
3. Help to resolve conflict within the organisation.
4. Provide the means for fair and equitable rewards and incentives.

There are also other objectives that can be more specific and these are usually the short-term objectives.

The targets or levels of performance set by the objectives must be able to get the firm to reach its full potential. It must be challenging to the firm.

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**Strategic Intent**

It refers to the position the firm wants to pursue or achieve in the long run. It has long term duration such as 10 to 20 years. It is the desired state of the organisation.

For example:

Honda wants to become a second Ford.

Canon wants to beat Xerox.

Komatsu wanted to encircle Caterpillar. It had this strategic intent since 1960s, when it was less than 1/3 the size of Caterpillar and its market was mainly in Japan.

By late1980, Komatsu succeeded and achieved sales in North America, Europe

and Asia.

Note that it took more than 10 years for Komatsu to achieve its strategic intent.

**Overview**

The competitive position of an organisation involves three elements:

1. An understanding of the organisation’s mission and objectives
2. An analysis of the environment
3. An analysis of the organisation’s skills and competences.

The mission and objectives provide the values (V) envisaged by the organisation of

what it wants to be, and that these values must be realistic with the situations in the

environment (E) and the resources (R) and capabilities available in the organisation.

In other words, E-V-R congruence is crucial to achieve the strategic competitive position

of an organisation.

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**Crafting (Crating) a Strategy**

A strategy is a plan of action that provides the direction and scope for a firm to achieve the objectives (i.e. short-term goals) and ultimately, toward the achievement of its fundamental purposes.

A plan of action can be in the forms of ideas, plans, moves and supports that the firm uses to compete successfully against its competitors, thereby enabling the firm to attain sustainable competitive advantage.

Note

A strategy is not a fixed thing, it must be able to evolve over time i.e. it must be able to change as and when the environmental changes require the strategy to change.

**Hierarchy of Strategies**

Levels of Strategy in a company/firm (also known as the Strategy Making Pyramid):

1. Corporate level strategy – is prepared by the highest level of managers.
2. Business level strategy – is prepared by the top-level managers.
3. Functional level strategy – is prepared by functional managers.
4. Operating level strategy – is prepared by heads of operating units within the company.

The different strategy levels can be arranged to form a hierarchy and it gives rise to a pyramid. Fewer people are involved in the strategy making at the top of the pyramid than at the bottom of the pyramid.

In a diversified company the 4 levels of strategy can be identified but in a single business company only 3 levels of strategy are distinguished (because the same people do the corporate level and business level strategies).

Corporate Level Strategy

Four initiatives are involved at this strategy level:

1. Take action to establish positions in different business to achieve diversification.
2. Take action to bring about the combined performance of the various businesses of the firm.
3. Take action to capture strategic fits among the various business lines and to gain competitive advantage.
4. Take action to establish investment priorities and steer the corporate resources into business areas of higher earning potentials.

Business Level Strategy

This refers to the making of strategy for a single business. This is usually done by top level managers and the corporate and business level strategy are one and the same. The main concern is “How to build and strengthen the long-term competitive position in the market place.”

 Ways to achieve this:

1. Forming responses to changes in the industry
2. Creating competitive moves and makrdt approaches to gain sustainable competitive advantage.
3. Building competitively valuable competencies and capabilities from the key functional strategies and
4. Uniting and coordinating the strategic initiatives of functional departments to make proactive moves to out compete rivals.

Therefore a business level strategy is good only if there is a well match between the conditions in the external and internal environments of a company. This is necessary to enable the company to achieve a sustainable competitive advantage in order to attain above-average profits.

To attain sustainable competitive advantage it will involve three important aspects:

1. Able to decide what product or service characteristics (attributes) that can outwit the competitors.
2. Able to develop expertise, resource strength and competitive capabilities tha the company becomes different from the rivals and
3. Able to insulate the company from the actions of the rivals and other threatening competitive development.

Functional Level Strategy

This refers to the strategy made by the department, a unit or a process area, within a business. E.g. a marketing strategy, research and development strategy, manufacturing strategy, customer service strategy, human resource strategy or a finance strategy. All these functional level strategies must be united and coordinated to support the company’s competitive approach and overall business strategy.

Operating Level Strategy

This is about narrower strategic actions and approaches taken by managers involving in key front-line operating units such as plants, sales districts, distribution centers and for performing strategically significant operating tasks such as advertising campaign, material purchasing, inventory control, maintenance or shipping. The operating strategies provide more detail and completeness to functional strategies and to the overall business plan.

Uniting the Strategy-Making Effort

The company’s strategic plan is the result of the collaborative effort of all the managers in the organisation.

The top management initiates the organisation’s objectives and develops the organisation’s strategies. These then transmitted to the next level of the managers in the organisation’s hierarchy. This is usually the divisional or departmental level managers. They then develop their own objectives and strategies in order to achieve the organisation’s objectives and strategies. Next the objectives and strategies of each department are presented to the next lower level of managers in the hierarchy i.e. the functional unit managers to enable them t6o develop their own objectives and strategies in order to achieve the objectives and strategies of the department. This process goes on until the lowest level of managers i.e. the operating level managers in the hierarchy is reaches.

From the above development, it is clear that the objectives and strategies become unified from all levels of management in the organisation. This definitely requires team efforts, where there is profound intensity of coordination and collaboration among the people involved. As a consequence, there is understanding among the managers of the orgnsation’s long-term objectives and strategies.

Following factors can influence the strategy of an organisation:

1. Elements in the external environment - PEST
2. Technology
3. Size
4. Culture
5. Competitors
6. Opportunities and Threats
7. Strengths and Weaknesses
8. Personal ambition, business philosophies and ethical beliefs of managers.

**Ethical issues** - a company has ethical duties to owners, employees, customers, suppliers, the communities where it operates and the public at large.

A winning strategy has the following features:

1. Strategy fits the external and internal situation.
2. The company is able to sustain its competitive advantage
3. There is gain in profitability, in competitive strength and long-term market position.

Additional criteria to judge the merit of a strategy:

* Completeness and coverage of all the bases.
* Internal consistency among all the pieces of strategy.
* Clarity
* The degree of risk involved and
* Flexibility

Case Study: Manchester United

Read the above case in pp. 662 to 666 in the textbook, Exploring Corporate Strategy, 2008 to apply some of the theories and concepts especially in relation to organisational purpose, ownership, governance and stakeholder power.

**Assignment**

1. Find out about the mission statements of the following organisations:

 a. Electrolux d. GSK

 b. Body Shop e. Nike

 c. Nokia

2. What is the vision of British-American Tobacco? (www.bat.com)

3. What is a mission statement? What is its purpose in an organisation?

4. Is a mission and values statement helpful to strategy building? Explain your answer.