

14th Edition

# Crafting and Executing Strategy

The Quest for Competitive Advantage

CONCEPTS AND CASES

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Chapter

# 2

## **The Managerial Process of Crafting and Executing Strategy**

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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.”**

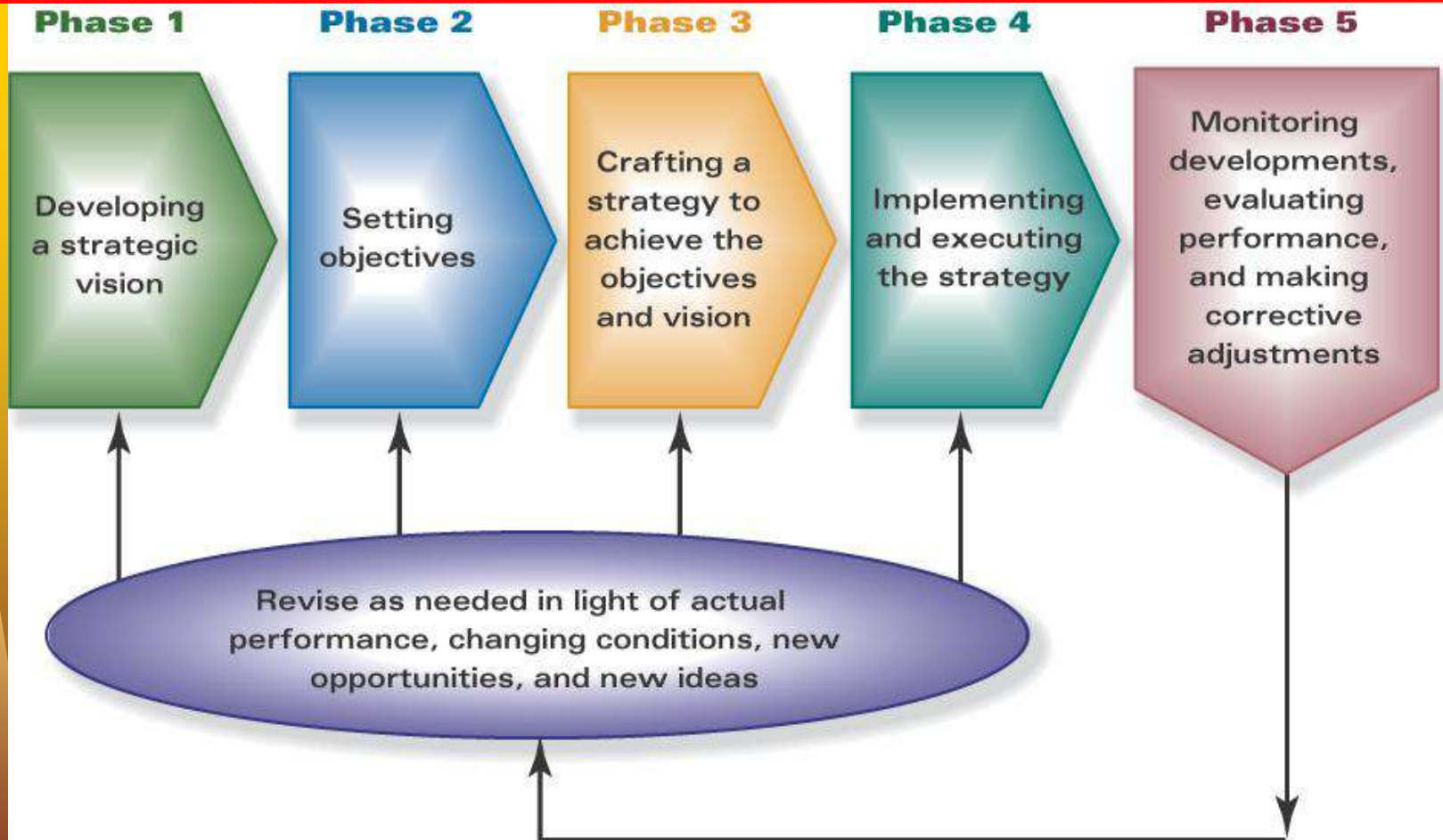
John W. Teets



# 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* is a road map showing the route a company intends to take in developing and strengthening its business. It paints a picture of a company's destination and provides a rationale for going there.

## *table 2.1* Factors to Consider in Deciding to Commit the Company to One Directional Path versus Another

### External Considerations

- Is the outlook for the company promising if it simply maintains its present product/market/customer/technology focus? Does sticking with the company's present strategic course present attractive growth opportunities?
- Are changes under way in the market and competitive landscape enhancing or weakening the outlook for the company's present business?
- 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 and which ones should it avoid?
- Should the company plan to abandon any of the markets, market segments, or customer groups we are currently serving?

### Internal Considerations

- What are our ambitions for the company? What industry standing does management want the company to have?
- Will the company's present business generate sufficient growth and profitability in the years ahead to please shareholders?
- What organizational strengths ought the company be trying to leverage in terms of adding new products or services and/or getting into new businesses?
- Is the company stretching its resources too thin by trying to compete in too many markets or segments? Are some pieces of the company's business 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 –
- ◆ Charts a strategic path for the future  
*“Where are we going?”*
- ◆ Steers energies of employees in a common direction
- ◆ Molds organizational identity
- ◆ Is *distinctive* and *specific* to a particular organization
- ◆ *Avoids use of generic language*
- ◆ Triggers *strong emotions*
- ◆ Is *challenging, uncomfortable, nail biting*





## **table 2.2** Characteristics of an Effectively Worded Vision Statement

Graphic	A well-stated vision paints a picture of the kind of company that management is trying to create and the market position the company is striving to stake out.
Directional	A well-stated vision says something about the company's journey or destination and signals the kinds of business and strategic changes that will be forthcoming.
Focused	A well-stated vision is specific enough to provide managers with guidance in making decisions and allocating resources.
Flexible	A well-stated vision is not a once-and-for-all-time pronouncement—visions about a company's future path may need to change as events unfold and circumstances change.
Feasible	A well-stated vision is within the realm of what the company can reasonably expect to achieve in due time.
Desirable	A well-stated vision appeals to the long-term interests of stakeholders—particularly shareowners, employees, and customers.
Easy to communicate	A well-stated vision is explainable in less than 10 minutes and ideally can be reduced to a simple, memorable slogan (like Henry Ford's famous vision of "a car in every garage").

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## table 2.3 Common Shortcomings in Company Vision Statements

1. Incomplete—short on specifics about where the company is headed or what kind of company management is trying to create.
2. Vague—doesn't provide much indication of whether or how management intends to alter the company's current product/market/customer/technology focus.
3. Bland—lacking in motivational power.
4. Not distinctive—could apply to most any company (or at least several others in the same industry).
5. Too reliant on such superlatives as *best*, *most successful*, *recognized leader*, *global or worldwide leader*, or *first choice of customers*.
6. Too generic—fails to identify the business or industry to which it is supposed to apply. The statement could apply to companies in any of several industries.
7. So broad that it really doesn't rule out most any opportunity that management might opt to pursue.

# Exelon's Strategic Vision



## *One Company, One Vision.*

**Exelon strives to build exceptional value - by becoming the best and most consistently profitable electricity and gas company in the United States.**

**To succeed, we must . . .**

**Live up to our commitments . . .**

**Perform at world-class levels . . .**

**Invest in our consolidating industry . . .**

# Examples of Strategic Visions

## Red Hat Linux



**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

## Wyeth

**Our vision is to lead the way to a healthier world. By carrying out this vision at every level of our organization, we will be recognized by our employees, customers, and shareholders as the best pharmaceutical company in the world, resulting in value for all. We will achieve this by:**

- ◆ **Leading the world in innovation by linking pharmaceutical, biotech, and vaccines technologies**
- ◆ **Making quality, integrity, and excellence hallmarks of the way we do business**
- ◆ **Attracting, developing, and motivating the best people**
- ◆ **Continually growing improving our business**



# 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?”]**



**Nike**



**To bring innovation inspiration to every athlete in the world.**

# Examples of Strategic Visions

Intel

The Intel logo, consisting of the word "intel." in a blue, lowercase, sans-serif font, is displayed within a white rectangular box.

**Our vision: Getting to a billion connected computers worldwide, millions of servers, and trillions of dollars of e-commerce. Intel's core mission is being the building block supplier to the Internet economy and spurring efforts to make the Internet more useful.**

**Being connected is now at the center of people's computing experience. We are helping to expand the capabilities of the PC platform and the Internet . . . We have seen only the early stages of deployment of digital technologies.**

# Examples of Strategic Visions

## Heinz



**Our vision, quite simply, is to 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.**



## General Electric



**We will become number one or number two in every market we serve, and revolutionize this company to have the speed and agility of a small enterprise.**

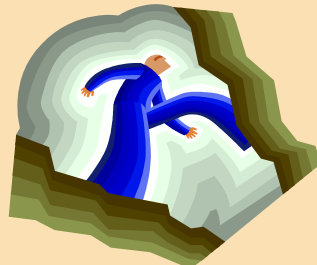




# Strategic Vision vs. Mission

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

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



◆ The *mission statement* of most companies focuses on *current* business activities - "*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

- ◆ Defines **current** business activities, highlighting **boundaries** of current business
  - Present products and services
  - Types of customers served
- ◆ Conveys
  - **Who** we are,
  - **What** we do, and
  - **Why** we are here



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!**

# Key Elements of a Mission Statement

## ◆ Three factors to consider

→ Customer needs –  
*What is being satisfied*

→ Customer groups –  
*Who is being satisfied*

→ Technologies/resources/business approaches used and activities performed –  
*How customer needs are satisfied*



# 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.**

# Linking the Vision With Company Values

- ◆ A *statement of values* is often provided to guide the company's pursuit of its vision
- ◆ *Values* – Beliefs, business principles, and ways of doing things that are incorporated into
  - ➔ Company's operations
  - ➔ Behavior of workforce
- ◆ *Values statements*
  - ➔ Contain between four and eight values
  - ➔ Are ideally tightly connected to and reinforce company's vision, strategy, and operating practices



# Example: Company Values

## *Home Depot*



# Example: Company Values

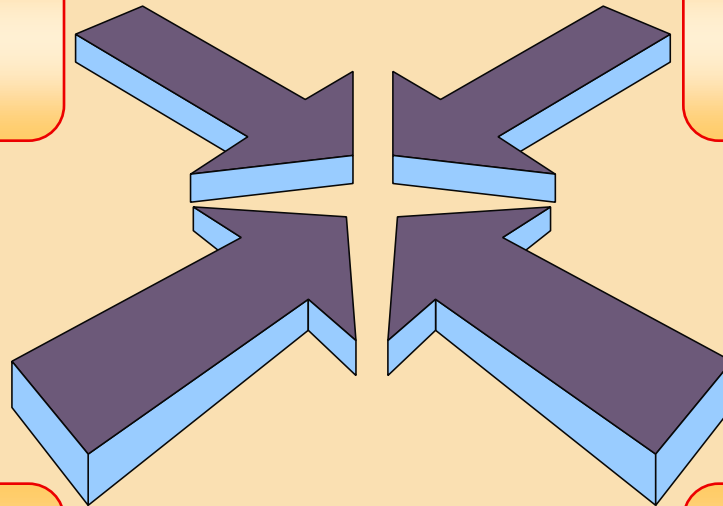
## *Du Pont*

**Safety**

**Ethics**

**Respect for  
people**

**Environmental  
stewardship**



*The miracles of science*

# Communicating the Strategic Vision

- ◆ An *exciting, inspirational* vision
  - Contains memorable language
  - Clearly maps company's future direction
  - Challenges and motivates workforce
  - Provokes emotion and enthusiasm
- ◆ Winning *support* for the vision involves
  - Putting “where we are going and why” in writing
  - Distributing the statement organization-wide
  - Having executives explain the vision to the workforce





# Examples: Vision Slogans

## Levi Strauss & Company



“We will clothe the world by marketing the most appealing and widely worn casual clothing in the world.”

## Microsoft Corporation

**Microsoft**

“Empower people through great software—any time, any place, and on any device.”

## 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



# Strategic Inflection Points

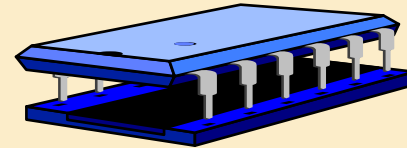
- ◆ There are times when companies come to a major fork in the road.
  - ➔ Perhaps because market conditions are changing rapidly in ways that threaten or endanger the company's business prospects
  - ➔ Perhaps because the strategy simply runs out of steam
  - ➔ Perhaps because the actions of competitors block the success of the company's present strategic course and strategy
- ◆ Critical decisions have to be made about where do we go from here
  - ➔ A major new directional path may have to be taken
  - ➔ A major new strategy may be needed

# 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 the Internet economy

# Payoffs of a Clear Strategic Vision

- ◆ *Crystallizes* an organization's long-term direction
- ◆ *Reduces risk* of rudderless decision-making
- ◆ Assists in *gaining support* of organizational members for changes to make the vision a reality
- ◆ Helps keep *strategy-related actions* of managers on common path
- ◆ Helps an organization *prepare for the future*



# Setting Objectives

## Phase 2 of the Strategy-Making Process

### ◆ *Purpose of setting objectives*

- Converts vision into specific performance targets
- Creates yardsticks to track performance
- Pushes firm to be inventive, intentional, and focused in its actions

### ◆ *Setting challenging, achievable objectives guards against*

- Complacency
- Internal confusion
- Status quo performance



# Characteristics of Objectives

- ◆ Represent commitment to achieve *specific performance targets*
- ◆ Spell-out *how much* of *what kind* of performance *by when*
- ◆ Well-stated objectives are
  - *Quantifiable*
  - *Measurable*
  - Contain a *deadline* for achievement



**Establishing objectives *converts* the  
*vision* into *concrete performance outcomes!***



# Types of Objectives Required

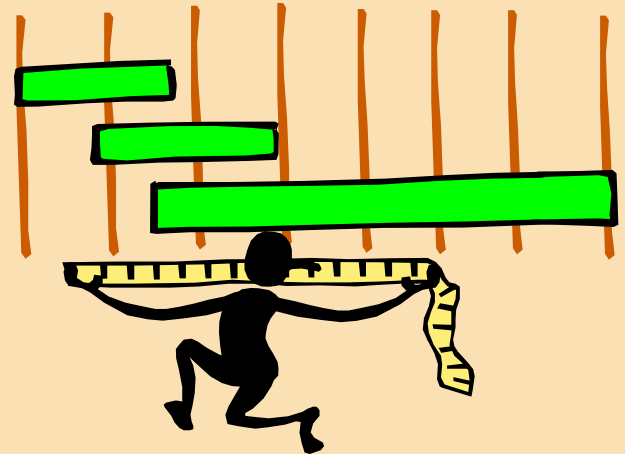
## Financial Objectives

Outcomes focused on improving *financial performance*

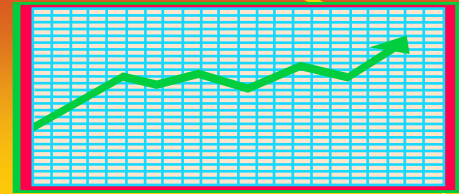


## Strategic Objectives

Outcomes focused on improving *long-term competitive 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

# Unilever's Strategic and Financial Objectives

- ◆ **Grow annual revenues by 5-6% annually**
- ◆ **Increase operating profit margins from 11% to 16% within 5 years**
- ◆ **Trim company's 1200 food, household, and personal care products down to 400 core brands**
- ◆ **Focus sales and marketing efforts on those brands with potential to become respected, market-leading global brands**
- ◆ **Streamline company's supply chain**



# The Kroger Company's Strategic and Financial Objectives

- ◆ **Reduce our operating and administrative cost by \$500 million by year-end 2003**
- ◆ **Leverage our \$51 billion size to achieve greater economies of scale**
- ◆ **Reinvest in our core business to increase sales and market share**
- ◆ **Grow earnings per share by 10-12% in 2002-2003 and by 13-15% annually starting in 2004.**



# Seagate Technology's 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 (i.e. video recorders)**
- ◆ **Take share away from Western Digital in providing disk drives for Microsoft's Xbox**
- ◆ **Capture a 10% share of the market for 2.5-inch hard drives for notebook computers by 2004**



# Heinz's Financial and Strategic Objectives



- ◆ **Achieve earnings per share in the range of \$2.15-\$2.25 in 2004**
- ◆ **Increase operating cash flow by 45% to \$750 million**
- ◆ **Reduce net debt by \$1.3 billion in 2003 and further strengthen the company balance sheet in 2004**
- ◆ **Continue to introduce new and improved food products**
- ◆ **Remove the clutter in the company product offerings by reducing the number of SKUs**
- ◆ **Increase spending on trade promotion and advertising by \$200 million to strengthen the recognition and market shares of the company's core brands**
- ◆ **Divest non-core underperforming product lines**

# DuPont's Financial and Strategic Objectives

- ◆ **To achieve annual revenue growth of 5 to 6% and annual earnings-per-share growth averaging 10%**
- ◆ **Grow per-share profits faster than revenues by**
  - (a) Increasing productivity,**
  - (b) Selling enough new products each year that average prices and average margins rise, and**
  - (c) Using surplus cash to buy back shares**
- ◆ **Sell the company's low-margin textiles and interiors division (with sales of \$6.6 billion and operating profits of only \$114 million)**





# 3M Corporation's Financial and Strategic Objectives

- ◆ **To achieve 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**
- ◆ **Have at least 30% of sales come from products introduced in the past four years**



# Strategic Performance Fosters Better Financial Performance

- ◆ A company's achievement of satisfactory *financial performance*, by itself, *is not enough*
  - ➔ Financial performance measures are "*lagging indicators*" reflecting results of past decisions and actions
- ◆ Of equal or greater importance is a company's performance on measures of its *strategic well-being* — its *competitiveness* and *market position*
  - ➔ Strategic performance measures are "*leading indicators*" of a company's future financial performance and business prospects
  - ➔ Achievement of strategic performance targets
    - Signals growing competitiveness
    - Signals growing strength in the marketplace



# Balanced Scorecard Approach – Strategic *and* Financial Objectives

- ◆ *Balanced scorecard approach* for measuring company performance *requires both* –
  - Financial objectives
  - Strategic objectives
- ◆ *Emphasis* on *financial performance* may *assume priority* over strategic performance *when* company's
  - Financial performance is dismal *and*
  - Survival is threatened
- ◆ *Otherwise*, management is advised to put more *emphasis* on achieving *strategic objectives*



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

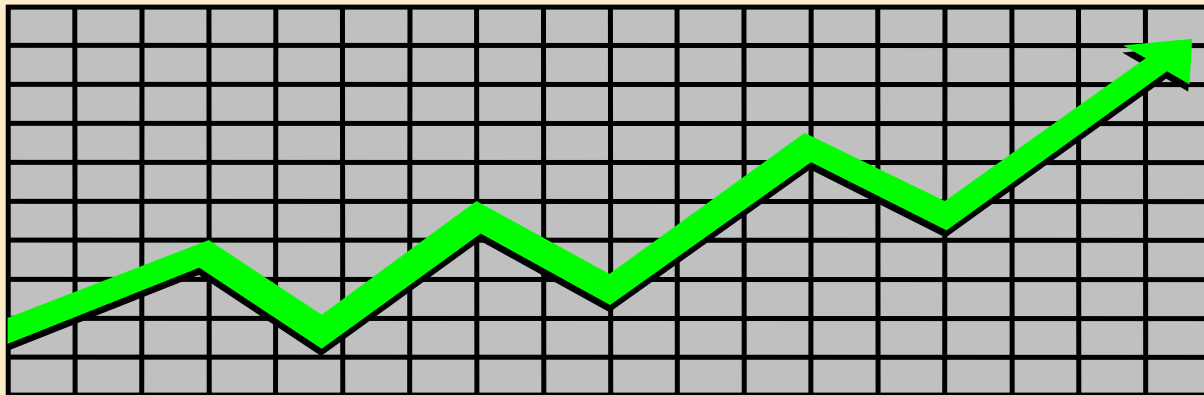
## ◆ *Long-term objectives*

- 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* and concentrates its competitive actions and energies 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* that is out of proportion to its immediate capabilities and market position but then devoting the company's full resources and energies to achieving the target over time
- ◆ Signals relentless *commitment* to *achieving* a *particular market position* and *competitive standing*



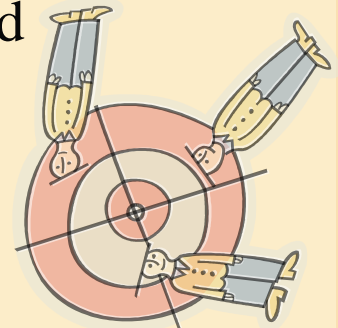
# Objectives Are Needed at All Levels

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

- ◆ **Guide** objective-setting and strategy-making at lower levels
- ◆ **Ensures** financial and strategic **performance targets** for all business units, divisions, and departments are **directly connected** to achieving **company-wide objectives**
- ◆ **Integration** of **objectives** has two advantages
  - ➔ Helps **produce cohesion** among objectives and strategies of different parts of organization
  - ➔ Helps **unify internal efforts** to move a company along the chosen strategic path





# Crafting a Strategy

## Phase 3 of the Strategy-Making Process

- ◆ *Strategy-making* involves *entrepreneurship* – searching for opportunities
  - To do new things *or*
  - To do existing things in new or better ways
- ◆ *Strategizing* involves
  - Picking up on happenings in the external environment *and*
  - Steering company activities in new directions dictated by shifting market conditions



# Activities Involved in Crafting a Strategy

- ◆ **Studying** market trends and actions of competitors
- ◆ **Listening** to customers, anticipating their changing needs
- ◆ **Scrutinizing** business possibilities based on new technology
- ◆ **Building** firm's market position via acquisitions or new products
- ◆ **Pursuing** ways to strengthen firm's competitive capabilities



# Who Participates in Crafting a Company's Strategy?

- ◆ Chief executive officer - CEO
- ◆ Senior corporate executives
- ◆ Chief financial officer - CFO
- ◆ Managers of business divisions and major product lines
- ◆ Key VPs for production, marketing, human resources, and other functional departments



***Every company manager has a strategy-making, strategy-executing role*** – ranging from minor to major –  
**for the area he or she heads!**

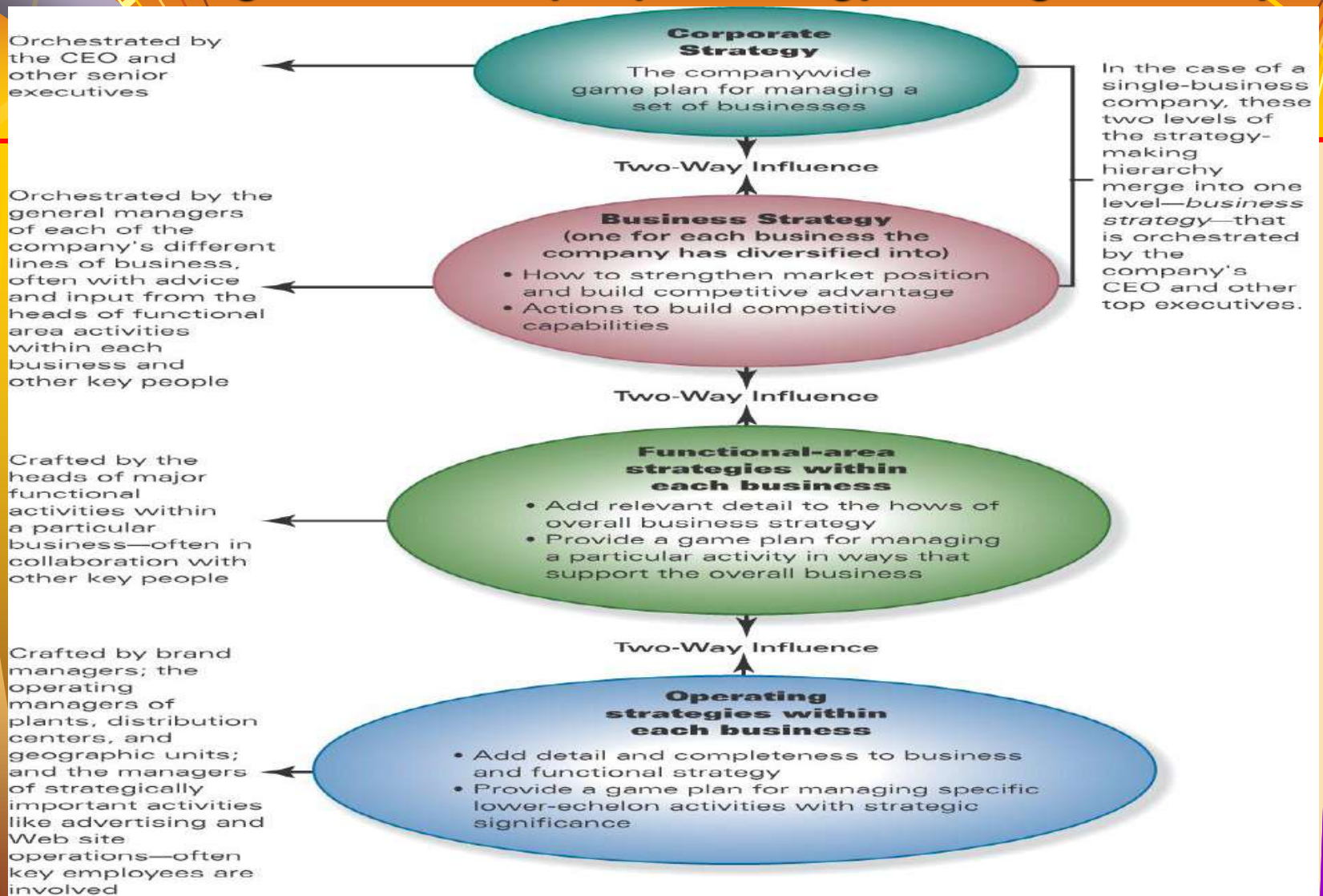
# Strategizing: An Individual or Team Responsibility?

## ◆ *Teams* are increasingly used because

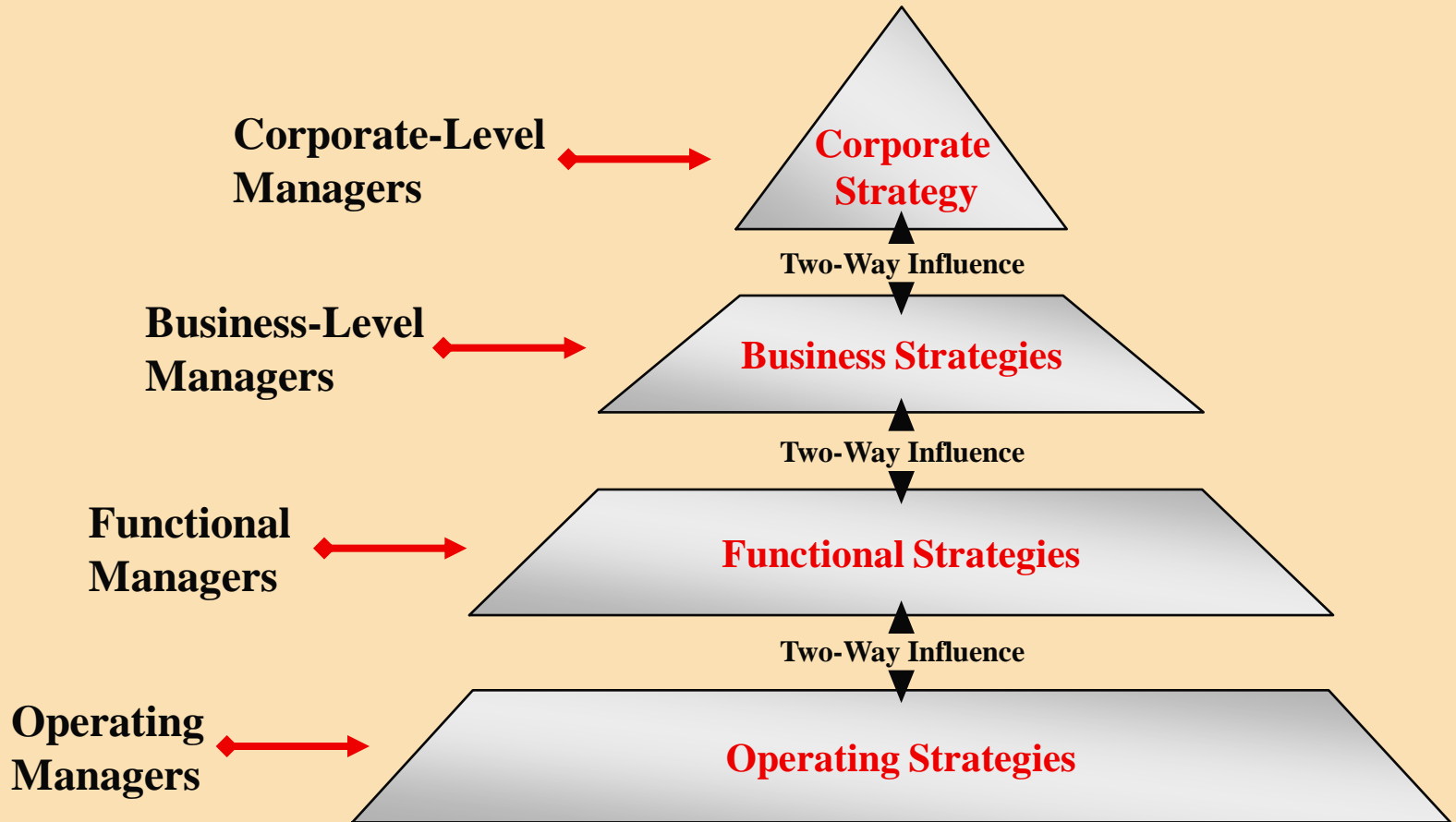
- Finding market- and customer-driven solutions is necessary
- Complex strategic issues cut across functional areas and departmental units
- Ideas of people with different backgrounds and experiences strengthen strategizing effort
- Groups charged with crafting the strategy often include the people charged with implementing it



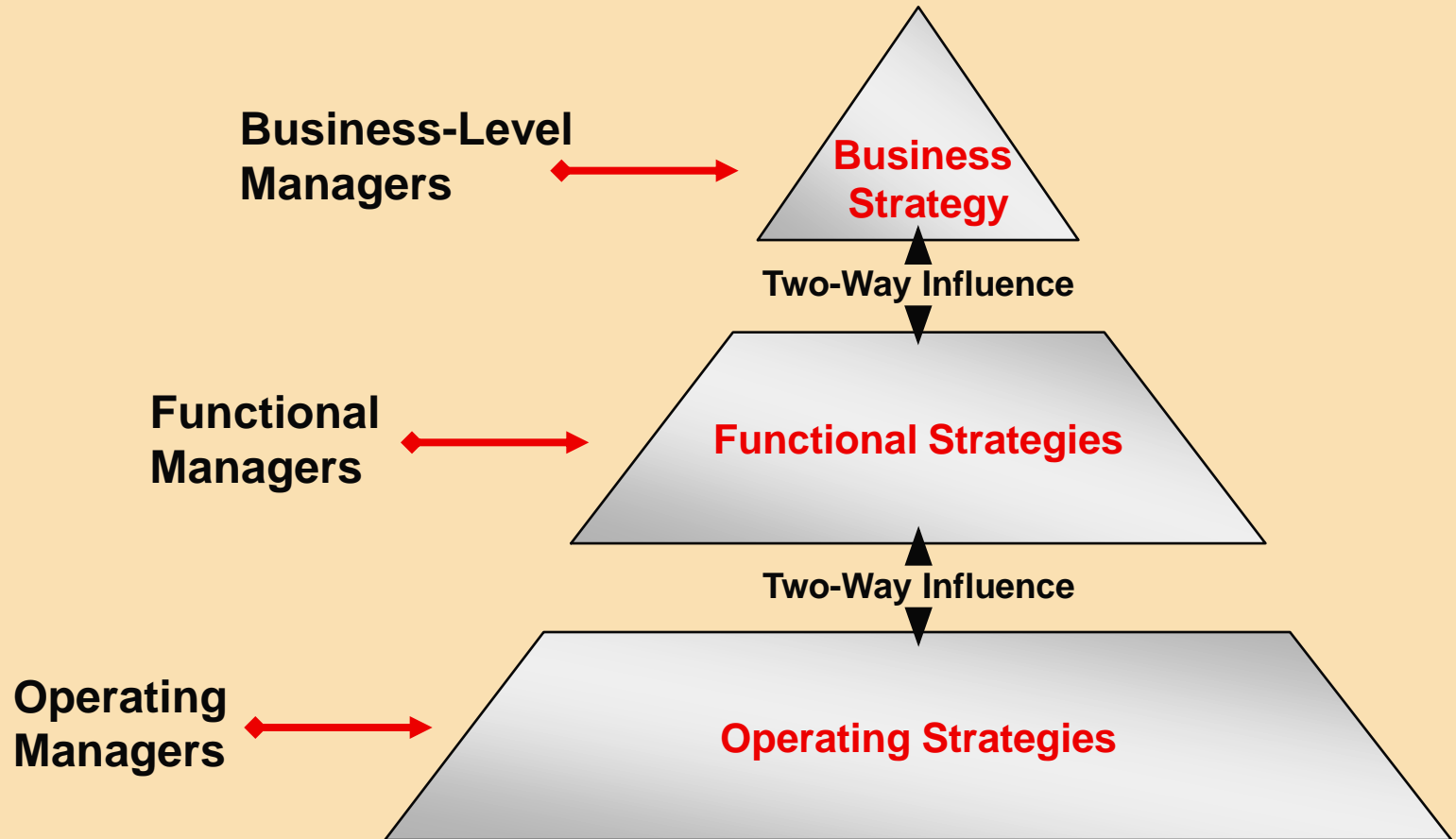
# Fig. 2.2: A Company's Strategy-Making Hierarchy



# Levels of Strategy-Making in a Diversified Company

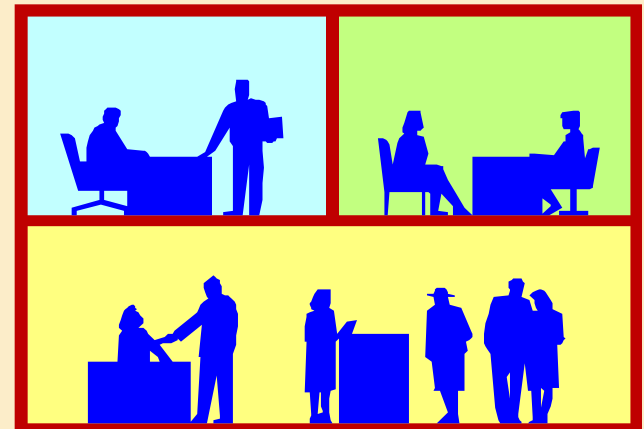


# Levels of Strategy-Making in a Single-Business Company



# 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





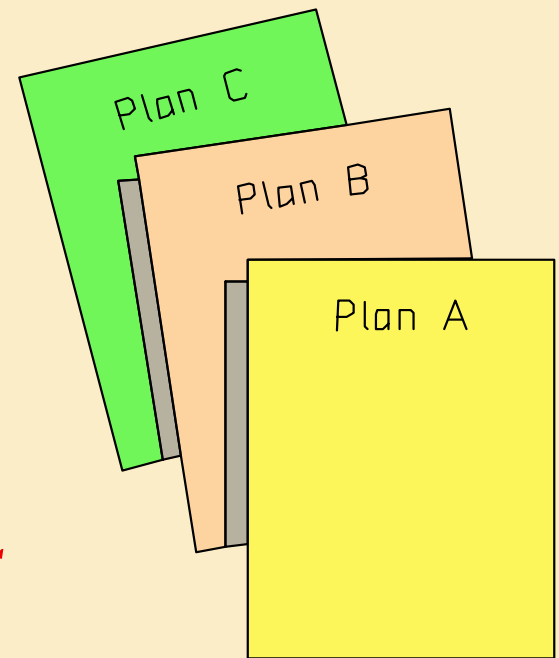
# Tasks of Business Strategy

- ◆ 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



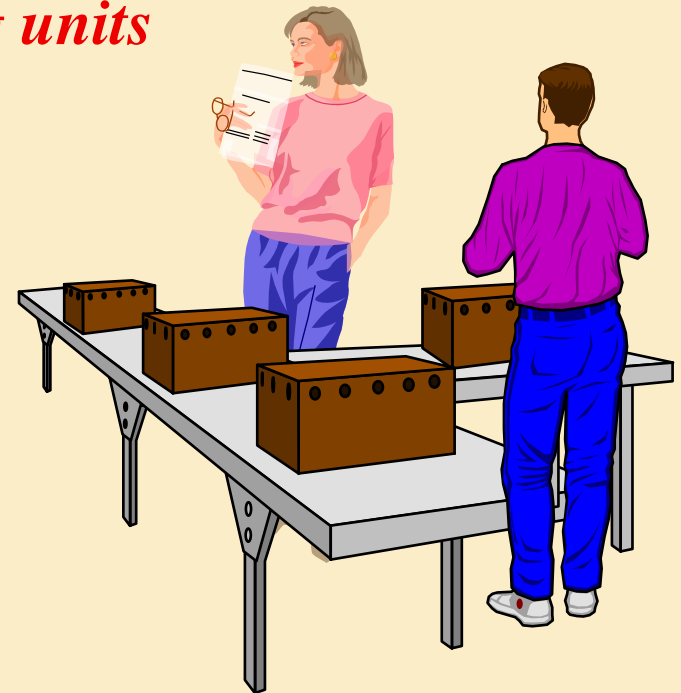
# Tasks of Functional Strategies

- ◆ *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*



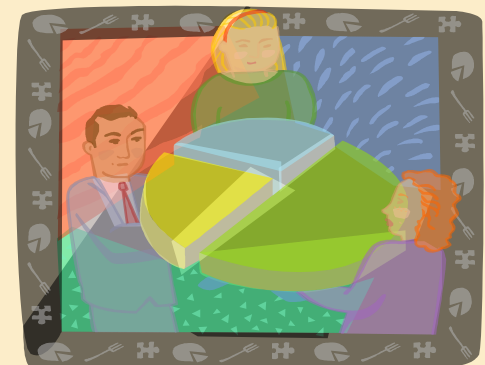
# Tasks of Operating Strategies

- ◆ Concern *narrower strategies* for managing grassroots activities and strategically-relevant *operating units*
- ◆ Add *detail* to business and functional strategies
- ◆ *Delegation* of responsibility to frontline managers



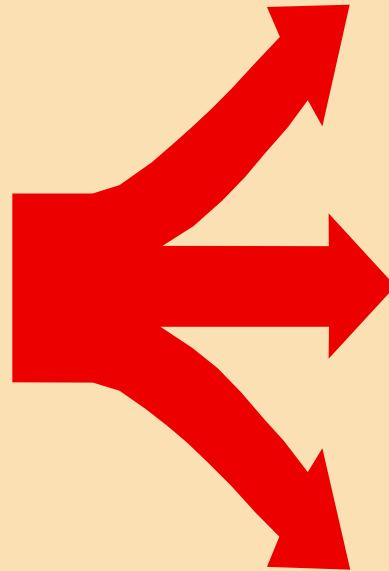
# Uniting the Company's Strategy-Making Effort

- ◆ A firm's strategy is really a *collection of initiatives* undertaken by managers at all levels in the organizational hierarchy
- ◆ All the various strategic initiatives must be unified into a *cohesive*, company-wide *action plan*
- ◆ Pieces of *strategy* should *fit* together like the pieces of a *puzzle*



# 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

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



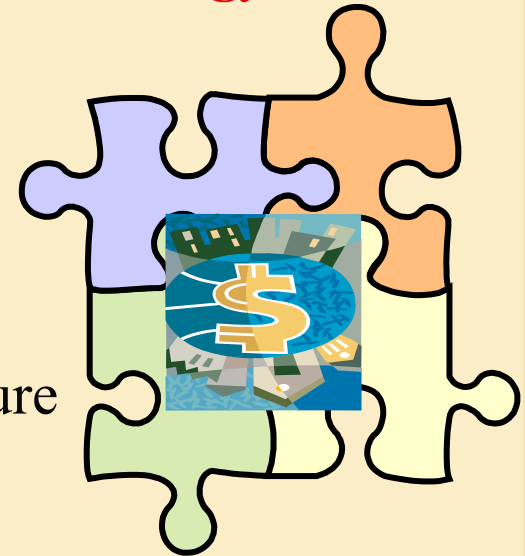
# What Does Strategy Implementation Involve?

- ◆ 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

- ◆ Involves *creating strong “fits” between strategy* and
  - Organizational capabilities
  - Reward structure
  - Internal operating systems
  - Organization’s work climate and culture
- ◆ The *stronger the “fits”* the
  - Better the execution
  - Higher a company’s odds of achieving its performance targets





# Evaluating Performance and Making Corrective Adjustments

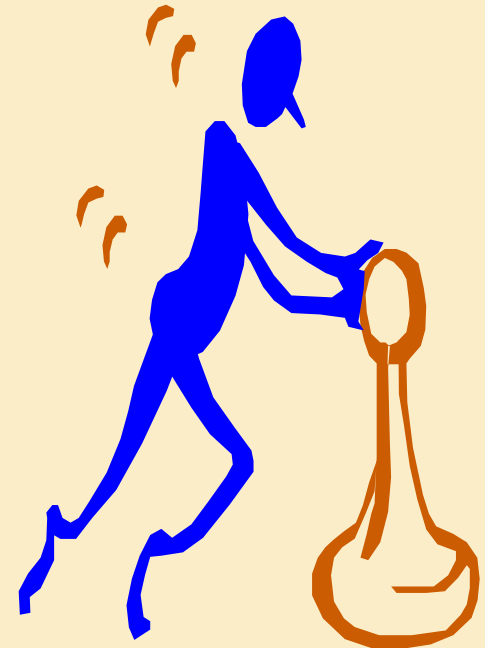
## Phase 4 of the Strategy-Making Process

- ◆ **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 the 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 the 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
- ◆ Have courage to *intervene* when things are not going well or to rein in a CEO who steps “out of bounds”



# Good Corporate Governance Matters

- ◆ The *whole fabric of effective corporate governance is undermined when boards of directors shirk their responsibility* to maintain ultimate control over
  - Company's strategic direction,
  - Major elements of its strategy, *and*
  - Business approaches management is using to implement and execute the strategy
- ◆ Board members are obligated to rein in a CEO who oversteps the bounds of sound business principles and ethical behavior
  - A rubber stamp board abdicates its responsibility to shareholders

***Boards of directors* have a very *important oversight role* in the strategy-making, strategy-executing process!**