

Chapter 3

Strategic direction

Learning outcomes

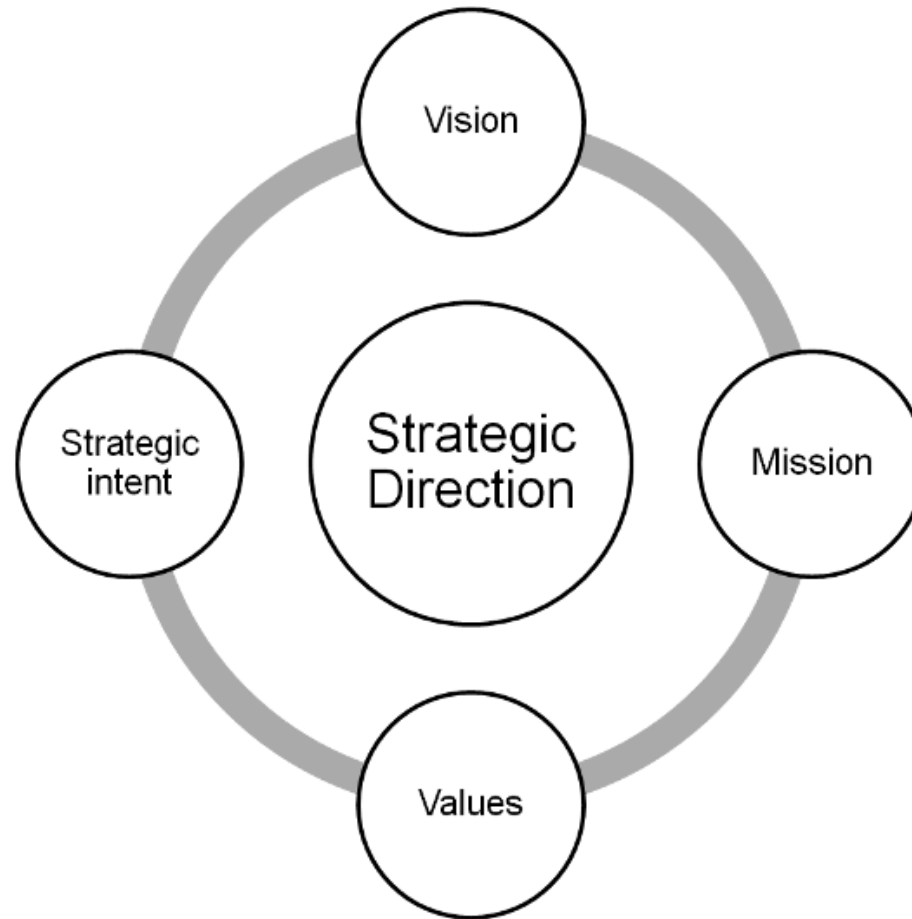
After reading this chapter, you should be able to:

- justify the indispensability of a clear strategic direction for an organisation
- explain what strategic intent is
- explain what a vision statement is, and justify the role of the vision statement as the basis of the organisation's strategy
- explain what a mission statement is, and explain how it is aligned with the vision statement
- expound on the components of a mission statement
- critically evaluate the way that strategic direction is expressed by an organisation
- explain the alignment between an organisation's strategic direction and strategic objectives
- explain the alignment between an organisation's strategic direction and its operational level.

3.1 Introduction

- The purpose of this chapter is to:
 1. Introduce the nature of strategic direction.
 2. Consider the strategic tools organisations employ to set their strategic direction: strategic intent, vision statements, mission statements, value statements, and balanced scorecards.
 3. Provide a guide to the structure and content of the strategic direction framework (see the next slide).

3.1.1 Strategic direction framework



3.2 Strategic intent

- Hamel and Prahalad introduced the concept of strategic intent in 1989 to address different notions of competitive strategy expressed and practiced by Western and Far Eastern organisations.
- At the time they argued that Western organisations focused on trimming their ambitions to match their resources and, as a result, searched only for those advantages they could sustain.
- They called this maintaining strategic fit.
- By contrast, Japanese organisations leveraged resources by accelerating the pace of organisational learning and tried to attain seemingly impossible goals.
- To achieve these goals, Japanese organisations fostered the desire to succeed among their employees, and maintained it by spreading the vision of global leadership.

3.2 Strategic intent (cont.)

- In a quest to understand which approach, i.e. Western or Eastern, was the most successful, Hamel and Prahalad studied organisations across the world that had risen to global leadership.
- They observed that these organisations invariably began with ambitions that were out of all proportion to their resources and capabilities.
- The organisations succeeded by creating an obsession with winning at all levels of the organisation.
- Hamel and Prahalad termed this obsession ‘strategic intent’.
- According to these authors, **strategic intent** envisions a desired leadership position as well as the criteria to be used to measure progress.
- At the time, the best known examples were Komatsu’s intent to ‘encircle Caterpillar’, Canon’s intent to ‘beat Xerox’, and Honda that set out to ‘become a second Ford’.

3.2 Strategic intent (cont.)

- Strategic intent is more than an unfettered ambition.
- It also has to 'encompass an active management process that includes focusing the organisation's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change, and using intent consistently to guide resource allocation.'
- Strategic intent, therefore, captures the essence of winning, setting out a 10 to 20 year quest for global leadership.

3.3 Vision statements

- Similarly to strategic intent, a **vision statement** also goes beyond mere planning and strategy by challenging organisational members to go beyond the status quo in pursuit of a long-term goal.
- While a vision statement is similar to strategic intent in its emotional effects, it goes further as it has connotations of encouraging strong corporate values in the strategic process.
- Both strategic intent and vision are important as the theory of reasoned action proposes that people need a reason for an action.
- Thus, if an organisation wants its employees to give their best performance, it should provide employees with a proper reason for doing so.
- A vision statement can serve as a guide to an organisation by providing direction of progress and by indicating the core ideology to be preserved.
- A vision is a picture of what the organisation wants to be and, in broad terms, what it ultimately wants to achieve.
- The vision statement should therefore articulate the ideal description of the organisation and give shape to its intended future.

3.3.1 The visionary process

- There is much disagreement about the process an organisation should use to develop a vision statement.
- Some argue that a vision is developed, while others maintain that a vision exists in the organisation and should be discovered.
- Regardless of the process followed when developing a vision statement, it is important to point out that setting the vision is a creative process.
- The implication of this, of course, is that it is not possible to judge a particular vision as right or wrong.

3.3.1 The visionary process (cont.)

- Three basic approaches apply to developing a vision, namely the intuitive approach, the analytical approach, and the benchmarking approach:
 - The *intuitive approach* is based primarily on structured introspection. The resultant visions can take many different shapes due to differences in leaders and in leadership styles.
 - The *analytical approach* focuses on gathering information from various individuals about the direction of the organisation. Due to the complexity of individual perceptions, this participative approach requires strong leadership in the process, and in the promotion and support of that vision.
 - Finally, the *benchmark approach* looks to the competition for standards, and creates a vision based on subsequent findings.

3.3.2 The vision content

- The attainment of a vision requires a certain level of unreasonable confidence and commitment.
- This is called strategic stretch.
- The content should thus support such a challenge.
- Some useful guidelines pertaining to the attributes associated with and the proposed content of visions include:
 - brevity; clarity; abstractness; challenge; future orientation; focused; understandable to all employees; stability; and the ability to inspire.
 - organisation's core ideology or philosophy as well as the organisation's values are key ingredients in vision statements.
- Other descriptors associated with vision statements included action-orientated; responsive to competition; long term; purposeful; bottom-line orientated; setting audacious or ambitious goals or challenges; product of leadership; focused; strategic; flexible; and planned.

3.3.3 Vision implementation

- In some organisations, a vision statement might grace the walls of the boardroom, or it might appear on websites and in marketing material, but it fails to capture the hearts and minds of employees.
- ‘As is true for any plan, if vision does not take on meaning for individuals and the organisation as a whole, it isn’t worth the time spent crafting it’.
- Successful ‘implementation requires either an extremely clear and meaningful vision, or someone who can decode or translate the vision into meaningful parts’.
- Without such clarity and the required leadership, a vision is indeed a daydream and the nightmare starts when undirected actions result in poor performance.
- As a vision statement gives people a sense of meaning in their work, leaders should aim to make people excited about their view of the future while inviting others to help crystallise that image.
- ‘If they realise other people aren’t joining in or buying into the vision, they don’t just turn up the volume; they engage in a dialogue about the reality they hope to produce.’

3.3.3 Vision implementation (cont.)

- It is also important never to underestimate the power of a vision.
- Finally, organisations must also be careful of the ‘We have arrived!’ syndrome.
- Visions are expected to be achieved, and by the time they are achieved, the next vision should have been timeously set.
- Failure to do so will result in complacent lethargy because a vision is the energising force of any organisation.
- A vision is not a magic potion.
- All it does is provide the context for awakening the dynamism that exists in any organisation. Building a visionary organisation requires 1% vision and 99% alignment.

3.4 Mission statements

- Since the inception of business management as a discipline, scholars have emphasised the importance of formulating a mission statement as one of the fundamental steps in the strategic management process.
- A vision statement forms the foundation for an organisation's mission statement.
- A vision statement tends to be enduring, while an organisation's mission statement can change in light of changing environmental conditions.
- A clearly defined mission statement can give executives the necessary direction to develop strategies in line with changing trends in the form of 'real-time planning'.
- A mission statement is thus more concrete than the vision statement, but like a vision statement, it should also establish the organisation's individuality, and should be inspiring and relevant to all stakeholders.
- Together, the vision and mission statements provide the foundation the organisation needs to choose and implement one or more strategies.

3.4.1 Content of a mission statement

- A good mission statement should describe the fundamental objectives of the business, and should include what people refer to as guiding principles, credos, or corporate philosophies.
- If formulated correctly, the mission statement should answer the following fundamental questions:
 - Why is this organisation in business?
 - What are our economic goals?
 - What is our operating philosophy in terms of quality, organisational image, and self-concept?
 - What are our core competencies and competitive advantage?
 - What customers do and can we serve?
 - How do we view our responsibilities to shareholders, employees, communities, the environment, social issues, and competitors?

Mission statements – key elements

- Business activity
- Economic goals
- Organisation philosophy
- Public image
- Organisation self-concept
- Primary stakeholders

3.4.2 Formulating the mission statement

- Although there is much speculation about the length of such a statement, 'all that is necessary is that the mission is long enough to reach the target audience.
- For some organisations, a single sentence is sufficient.
- Others have produced great, lengthy documents that begin with a mission and include vision statements, values, philosophies, objectives, plans and strategies in supporting roles'.
- Best practice suggests that a statement should be long enough to describe an organisation's objectives in adequate detail, and short enough so that stakeholders can read, understand, and use it.
- In general, the aim should be for a statement to fit on one page.
- It is, however, not necessary, as some suggest, that it should be short enough for everyone to memorise and recite it.

3.5 Value statements

- A value statement specifies an organisation's basic beliefs, values, aspirations and philosophical priorities to which strategic decision makers are committed in managing the organisation. Value statements should:
 - Clearly state how managers and employees should conduct themselves
 - Provide guidelines as to how business is done in the organisation
 - Paint a picture about the kind of organisation that is needed to realise the vision and mission.

3.6 Benefits of clear strategic direction

Clear strategic direction:

- guides human behaviour and defines working relationships
- helps to shape employee relationships with each other and the external public or stakeholders, especially with customers
- can lead to better performance by aiding strategy formulation and implementation
- serves as a benchmark for resource allocation
- creates confidence that the intended strategies will not compromise the interests of the various stakeholder groups in the organisation
- can inspire employees throughout the organisation, and remind them of the purpose of the organisation and each individual's role in achieving its goal.

3.7 Challenges of creating a clear strategic direction

- A contrarian belief holds that vision and mission statements have little tangible value.
- This school of thought argues that vision and mission statements are nothing more than a fad and an attempt at window dressing.
- In some instances this is true if:
 - The vision and mission statements are not accompanied by corresponding manager behaviour
 - The articulated thoughts are not communicated to stakeholders and there is lack of 'buy in'
 - The statements do not produce results unless coupled with an overall strategic education process.
 - To address these challenges, strategic direction should be translated into operational objectives that enable all members of staff to understand their role in the bigger picture.

3.8 Translating strategic direction into operational terms

- Vision, mission and value statements are difficult to translate into operational terms.
- They should be expressed and communicated as an integrated set of objectives and measures that describe the long-term drivers of success.
- Organisations use the balanced scorecard as a means of translating strategic direction into operational objectives.

3.9 Balanced scorecard

- **Financial perspective** – How do we appear to our stakeholders? “To succeed financially, how should we appear to our shareholders?”
- **Customer perspective** – How do we appear to our customers? “To achieve our vision, how should we appear to our customers?”
- **Internal business processes** – What must we excel at? “To satisfy our shareholders and customers, what business processes must we excel at?”
- **Learning and growth perspective** – How can we continue to improve and create value? “To achieve our vision, how will we sustain our ability to change and improve?”

3.9 Balanced scorecard (cont.)

The balanced scorecard is about:

- Clarifying and translating vision into strategy
- Communicating and linking strategic objectives and measures
- Planning, setting targets, and aligning strategic initiatives
- Enhancing strategic feedback and learning.

3.9.1 Clarifying and translating vision into strategy

- A gap often exists between the vision and mission statements and employees' knowing how their day-to-day actions could contribute to realising the organisation's strategy.
- Senior executives may also agree on the words used to express the strategic statements, yet each person may interpret the terminology differently.
- The perspectives of the balanced scorecard require the executives to clarify the meaning of the strategy statement by developing operational measures for the four scorecard perspectives, i.e. financial, customers, internal business processes, and learning and growth.
- The executives must state in specific terms the 'definition of success' in each of these areas as well as their relative importance weightings.
- The translation of their vision into terms that have meaning to the employees who must realise the strategy will enable the employees to embrace these requirements in their day-to-day activities.
- In addition, the scorecard also highlights gaps in employees' skills and other resources required to pursue long-term objectives.

3.9.2 Communicating and linking strategic objectives and measures

- The second process, communicating and linking, allows managers to communicate their strategy throughout the organisation, and to link it to departmental and individual objectives.
- To do this, scorecard users generally engage in three activities, namely communicating and educating, setting goals, and linking rewards to performance measures.
- High-level strategic objectives and measures must be translated into objectives and measures for operating units and individuals.
- To accommodate this, the scorecard contains three levels of information:
 - The first level describes corporate objectives, measures, and targets.
 - The second level allows corporate targets to be translated into targets for each business unit.
 - The third level converts business unit and corporate objectives to individual and team objectives that set targets for each measure and allow up to five performance measures per objective.

3.9.3 Planning, setting targets, and aligning strategic initiatives

- Many organisations have separate procedures and organisational units for strategic planning, resource allocation, and budgeting.
- Often, senior management is responsible for formulating the strategic plan, while the financial department conducts a separate resource allocation and budgeting process to set financial targets for revenues, expenses, profits, and investments for the next fiscal year.
- The result is that the budget produced generally bears little relation to the targets in the strategic plan, resulting in conflicting priorities and reporting.
- A balanced scorecard forces organisations to integrate their strategic planning and budgeting processes, and therefore helps to ensure that their budgets support their strategies.
- Building a scorecard thus enables an organisation to link its financial budgets with its strategic goals.
- The scorecard measures can also be used as the basis for allocating resources and setting priorities by prioritising initiatives according to their contribution towards the long-term strategic objectives.

3.10 Summary

- This chapter considered the strategic tools organisations employ to set the strategic direction of their organisations.
- These tools include strategic intent, vision statements, mission statements, value statements, and balanced scorecards.
- Setting the strategic direction is an important first step of strategic planning and management, as it informs and shapes how an organisation defines itself and where it finds its unique strategic advantage.
- Strategic direction also motivates and challenges organisation members to go beyond the status quo in pursuit of a long-term quest.

3.10 Summary (cont.)

- The development of strategic direction is a creative process.
- Although various guidelines exist, organisations generally apply an individual approach suited to their operational requirements.
- The strategic leader plays an important role in setting the strategic direction, and is responsible for encouraging organisation members to participate.
- The executive team should communicate the strategic direction to all stakeholders.
- Statements should be very clear or alternatively be decoded or translated into meaningful parts.
- This can be achieved by applying the balanced scorecard tool.

Discussion questions

1. Explain why strategic intent might be regarded as the first indispensable step in the strategic planning or management process.
2. Expound on the similarities of and differences between strategic intent and vision statements.
3. Discuss the key elements of a mission statement.
4. Distinguish between strategic and financial objectives and comment on why it is important to develop both types of objectives to achieve long-term survival and profitability.
5. Explain the role of the Balanced Scorecard in setting strategic direction.
6. Explain the link between an organisation's strategic direction and its strategy.
7. How can strategic direction be translated into operational terms?