Strategic Planning for Entrepreneurs

CHAPTER 9

Source: master_art/Shutterstock

"Vision without action is merely a dream. Action without vision just passes the time. Vision with action can change the world."
—Joel Barker, educator, businessman, and author

Learning Objectives

- Explain the importance of vision, values, and mission statements.
- Identify organizational values or guiding principles.
- Describe the basic elements of a mission statement.
- Write an effective vision statement for an organization.
- Explain how to evaluate vision, values, and mission statements.
- Explain the importance of setting objectives.
- Understand the characteristics of good objectives.
- Describe the types of objectives included in a strategic plan.

Chapter Outline

Introduction

This chapter focuses on the steps in the strategic-planning process: defining your organization's vision, values, and mission and establishing objectives. Without a clear and carefully considered statement of vision and mission, all other stages of the planning process will be misguided. Visioning is not only important for emerging new organizations but also for existing organizations because consumer tastes and preferences are in flux, and developing new technologies change the way we live. Companies and organizations cannot assume that what made them successful in the past will guarantee them success in the future, and such an outlook can even blind organizations from seeing new opportunities. According to Joel Barker, "Your successful past will block your visions of the future" (BrainyQuote, n.d.).

The Importance of Defining Vision, Values, and Mission

vision A statement that describes where the organization is headed in the future.

The first and probably most important consideration when developing a strategic plan is to define the **vision** of the organization or any specific unit of the organization. This is usually a difficult process because the statement describes where the organization is headed in the future: What should our organization be like 10 to 15 years from now to be successful?

Organizations need a clear definition of the vision because it communicates to stakeholders where the organization is headed and provides a way to focus the energy of personnel in a common, shared direction. As Reverend Theodore Hesburgh, former president of Notre Dame University, remarked, "The very essence of leadership is that you have a vision. It's got to be a vision you articulate clearly and forcefully on every occasion.

ENTREPRENEUR PROFILE

Jeff Bezos

"A brand for a company is like a reputation for a person. You earn reputation by trying to do hard things well."

Age: 55 (born January 12, 1964)
Estimated Net Worth: $110 billion (as of 2019)
Company: Founder and chief executive officer (CEO) of Amazon
Industry: E-commerce

Jeff Bezos graduated from Princeton University with degrees in electrical engineering and computer science. Five years after starting work in the banking industry, he decided that he wanted to start his own company. It began as an online bookstore named Cadabra but was later changed to Amazon. This is when it was transformed into more than just a bookstore and sold all sorts of products. His initial capital was $300,000 from his parents, which helped begin his journey.

As noted by Biography.com:

> Entrepreneur and e-commerce pioneer Jeff Bezos is the founder and CEO of the e-commerce company Amazon, owner of *The Washington Post*, and founder of the space exploration company Blue Origin. His successful business ventures have made him one of the richest people in the world. Born in 1964 in New Mexico, Bezos had an early love of computers and studied computer science and electrical engineering at Princeton University. After graduation, he worked on Wall Street, and in 1990, he became the youngest senior vice president at the investment firm D.E. Shaw. Four years later, Bezos quit his lucrative job to open Amazon.com, an online bookstore that became one of the Internet's biggest success stories. In 2013, Bezos purchased *The Washington Post*, and in 2017 Amazon acquired Whole Foods.

Source: lev radin/Shutterstock

Source: Ashwini. (2020). *List of famous entrepreneurs you must know about.* Retrieved from https://startuptalky.com/famous-entrepreneur-world/; Biography.com. (n.d.). *Jeff Bezos*. Retrieved from https://www.biography.com/business-figure/jeff-bezos

An effective vision statement has the following characteristics:

1. Looks forward and describes the strategic course management has carved out and the kinds of changes that will help the organization be successful
2. Portrays the kind of organization it is striving to be in the future
3. Is focused enough to give the administration guidance in making decisions
4. Is flexible enough to allow changes as the operating environment changes
5. Is achievable
6. Is desirable in that it makes sense
7. Is easily communicates to stakeholders

FIGURE 9.1. Basic Elements of Good Vision Statements

You can't blow an uncertain trumpet" (Zuckerman, 2006). Vision statements are specific to each organization and should avoid generalities or platitudes that sound good but don't give a sense of direction. According to Kotter (1996), good vision statements have the characteristics described in Figure 9.1.

Good vision statements can be easily communicated to all stakeholders.
Source: Gustavo Frazao/Shutterstock

Clearly, if the vision is defined casually or introspectively, the basis for how an organization goes about achieving its objectives rests on shaky foundations. If we do not know what we are about, then anything we do, regardless of its true effectiveness, can be made to sound as if it were the best course of action. This can be self-deluding and self-defeating, taking us away from the long-run basis for existence: meeting customers' needs.

It is not always easy to formulate a statement of vision. The vision statement should embody the dream and vision of what the organization wants to be. Senior management and the board of directors should try to visualize what they want the organization to be. If they can see where they are going and have an image of the real vision of the organization, the implementation of their plans will fall more easily into place.

It is important to understand this concept of vision to have a successful organizational operation. The vision unites your staff members and spurs them to higher performance. Without a long-term perspective, an organization will continually swerve off course instead of moving with steadiness and certainty toward its goals. Some sample vision statements are as follows:

"To help people and businesses throughout the world realize their full potential." —Microsoft

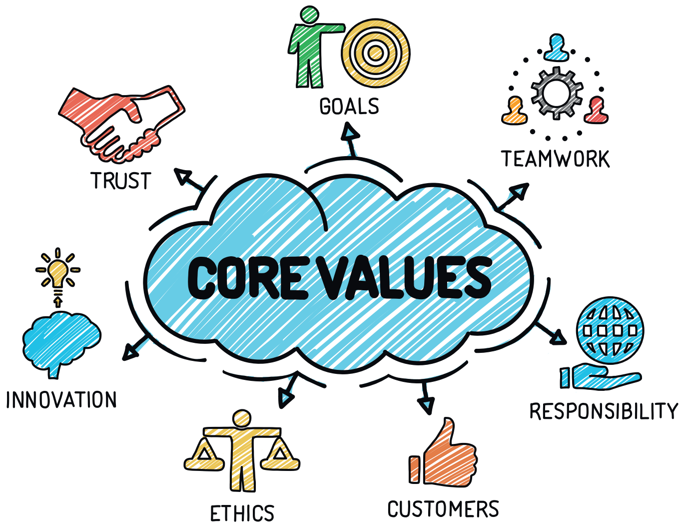
"To become the world's most loved, most flown, and most profitable airline." —Southwest Airlines

"A world without Alzheimer's disease." —Alzheimer's Association

"To see God through Christ deliver individuals from the bondage of sin, disciple them into faithful followers of Christ, and deploy them as leaders to the nations for the glory of God." —Brainerd Baptist (Chattanooga, Tennessee)

"To be one of the world's leading producers and providers of entertainment and information." —Walt Disney Company

"Bring inspiration and innovation to every athlete in the world. (*If you have a body, you are an athlete.)" —Nike*



Your core values tell stakeholders who you are.
Source: garagestock/Shutterstock

"To create the most compelling car company of the 21st century by driving the world's transition to electric vehicles." —Tesla

"To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online." —Amazon

"To move with velocity to drive profitable growth and become an even better McDonald's serving more customers delicious food each day around the world." —McDonald's

Organizations' Values or Guiding Principles

Many organizations develop values or guiding principle statements to demonstrate what **values** the organization emphasizes in its operations. The statements express the core beliefs of the organization and help the staff members become aware of the goals and priorities that are most important. These statements help form the culture of the organization. The Mayo Clinic (n.d.) uses terms like *respect, compassion, healing, teamwork*, and *innovation* to underscore its core value: "the needs of the patient come first."

values What the organization emphasizes in its operations; often part of the vision and mission statements.

The Walmart values statement is based on four key principles: service to the customer, respect for the individual, strive for excellence, and act with integrity. The four core values are further defined in Figure 9.2.

Service to the Customer

- **Customer first:** Listen to, anticipate, and serve customer wants and needs.
- **Frontline focused:** Support and empower associates to serve customers every day.
- **Innovative and agile:** Be creative, take smart risks, and move with speed.

Respect for the Individual

- **Listen:** Be visible and available, collaborate with others, and be open to feedback.
- **Lead by example:** Be humble, teach and trust others to do their jobs, and give honest and direct feedback.
- Inclusive: Seek and embrace differences in people, ideas, and experiences.

Strive for Excellence

- **High performance:** Set and achieve aggressive goals.
- **Accountable:** Take ownership, celebrate successes, and be responsible for results.
- **Strategic:** Make clear choices, anticipate changing conditions, and plan for the future.

Act with Integrity

- **Honest:** Tell the truth, keep your promises, and be trustworthy.
- **Fair:** Do right by others; be open and transparent.
- **Courageous:** Speak up, ask for help, make tough calls, and say no when appropriate.

FIGURE 9.2. Walmart's Core Values
Source: Walmart. (n.d.). *Working at Walmart*. Retrieved from https://corporate.walmart.com/our-story/working-at-walmart

Effective mission statements define who we are and what we do.
Source: enciktepstudio/Shutterstock

ENTREPRENEUR PROFILE

Michael Saul Dell

Source: https://www.flickr.com/photos/49291777@N05/4540424707/. © Copyright under the Creative Commons--CC-BY-SA; Silber_Mel.

Age: 54 (born February 23, 1965)
Estimated Net Worth: $20.8 billion (as of 2017)
Company: Dell Technologies
Industry: Technology

"There are a lot of things that go into creating success. I don't like to do just the things I like to do. I like to do things that cause the company to succeed. I don't spend a lot of time doing my favorite activities."

Michael Dell was one of many entrepreneurs to charge into the computer industry in the late 1980s and early 1990s. However, he was among the smaller number who became successful, and he is the computer industry's longest-tenured CEO.

As noted by Britannica.com:

> As a student of the University of Texas at Austin, Dell started his computer business (originally called PCs Limited) in 1984 with $1,000 in start-up capital. By the second half of his freshman year, Dell had sold $80,000 worth of computers. He dropped out of college at age 19 to run his company full-time, eventually going public in 1988. PCs Limited later became the Dell Computer Corporation and ultimately Dell Inc., when the product line expanded to include more than personal computers. Dell's business philosophy was to gain PC market share through a combination of cutting costs, reducing delivery time, and providing excellent customer service. To do so, he hired experienced executives, both to fill jobs in the company and to act as personal mentors, and he emphasized direct sales outside the usual retail outlets. In 1992 Dell became the youngest CEO in history to have his firm enter *Fortune* magazine's list of the top 500 corporations. In his book *Direct from Dell: Strategies That Revolutionized an Industry* (1999), Dell outlined the story of the company's development and provided strategies applicable to all businesses.

Source: Ashwini. (2020). *List of famous entrepreneurs you must know about.* Retrieved from https://startuptalky.com/famous-entrepreneur-world/; Editors of Encyclopedia Britannica. (n.d.). *Michael Dell.* Retrieved from https://www.britannica.com/biography/michael-dell

Basic Elements of an Effective Mission Statement

mission statement Focused on the current organization and answers three basic questions: (1) What do we do (what services or products do we provide)? (2) Whom do we do it for (what are our markets)? (3) How do we do what we do (what are our technologies)?

A **mission statement** differs from a vision statement in that a vision statement is focused on the future of the organization, whereas the mission statement is focused on the current organization. A mission statement answers three basic questions:

1. What do we do? (What services or products do we provide?)
2. Whom do we do it for? (What are our markets?)
3. How do we do what we do? (What are our technologies?)

In developing a mission statement, several basic elements describing the organization should be reflected: history, distinctive competencies, needs, segments, technologies, and the operating environment. Every organization has a history that includes past problems, accomplishments, objectives, and policies. The mission statement should reflect the historical significance of such characteristics.

Distinctive competencies identify what the organization is uniquely equipped to do because of its location, personnel, resources, or historical position. Although most organizations can do many things, they can do some things so well that they have an advantage over competitive organizations in certain areas.

The mission statement must reflect what the organization will do (needs met or value received by clients), for whom the company will do it (patient/client groups or segments to be served because an organization can't be all things to all people), and what technology will be used (how needs will be met). Also, each organization operates in an environment that dictates the opportunities and threats that must be dealt with when a mission statement is developed. Laws structuring insurance policies and fear of transmitted diseases are examples of environmental factors that influence an organization's ability to achieve its mission.

It is not unusual for an organization to work on a mission statement for months or even years before deciding that it really portrays the ultimate aim of the organization. Once developed, the mission statement is not a once-and-forever document. As the organization adapts itself to the demands of a changing environment, the mission statement should reflect this adaptation. It must be reviewed periodically and updated as appropriate to continually reflect the organization's fundamental mission. This reevaluation is a difficult and thought-provoking process when approached correctly, but it must be done. As stated earlier, what an organization does (objectives and strategies) should flow from what the organization is (vision/mission).

Sometimes an organization already has a mission statement but has not developed a vision statement. It is possible to use the mission statement to craft the vision statement. Answering the following three questions is a good starting point in drafting a vision statement:

1. **What kind of organization are we?** In other words, what services or methods of service delivery do we offer that make us unique among our competitors?
2. **What kind of organization do we want to be?** This deals with what we aspire to be as a service provider as opposed to what we currently do. For many organizations, this distinction is important because there is often a performance gap between what we actually do and who we truly are versus our view of what we hope to become and eventually accomplish. Answering this question is the basis of the organization's vision for the future.
3. **What kind of organization should we be?** This final question is perhaps the most important of the three when we consider the possibility that what we are and what we hope to be could both be wrong. In changing environments, who we are and what we do must continually adapt in order to achieve continued organizational vitality.

The following set of guidelines offers helpful tips on writing and evaluating a mission statement. This process is especially meaningful if different employees or departments develop a statement independently and then compare what they have written.

Identify Principal Methods for Delivering Need Satisfaction

This step focuses on the basic activities and functions your organization will employ to meet the needs of your clientele. Verbs are the key here. *Produce*, *provide*, *market*, *offer*, and *serve* are all action words representative of basic delivery activities. Here, the organization must deal with the issue of to what extent it will develop products or services in-house as opposed to acquiring them from outside sources and then coordinate their delivery in a way that provides value to the client.

Determine the Scope of the Mission

This step involves determining the markets your organization intends to serve. Proper deliberation here focuses attention outside the nuts and bolts of internal activities. It forces managers to consider the intended recipients of the organization's functions. At a practical level, the scope identifies the breadth of delivery—local neighborhood, community-wide, regional, national, or international. If your operation is part of a larger organization, the parent organization becomes part of your clientele served because your mission should support the parent organization's mission, on the one hand, and be accountable to it, on the other. In effect, you are writing a mission for your unit that delivers on the larger organization's mission for a constituency that is smaller than that of the parent organization. For instance, the mission of a large restaurant chain is to serve customers all over the world. But a local restaurant within the franchise network should define *its* mission by applying the world mission to a specific constituency, such as the local community.

Determine That Portion of the Organization's Mission Statement for Which the Individual Unit Is Accountable

Whereas a national chain's mission might include many services, such as managed care, help in ending chemical dependency, and psychiatric care, a local hospital's capabilities within the chain may be more limited, for example, focusing on traditional acute care services. The mission statement should reflect these differences where they exist.

Sample Mission Statements

At this point, it might be helpful to examine some potential mission statements prepared by various types of organizations (see Figure 9.3). Note that although these statements vary in their comprehensiveness, they all attempt to reflect the uniqueness of the organizations in terms of their reason for being and also serve as guidelines for what the organizations should be doing. These statements would be developed through a process

Organization	Mission Statement
Tesla Motors	To accelerate the world's transition to sustainable energy.
Nordstrom	To give customers the most compelling shopping experience possible.
JetBlue	To inspire humanity—both in the air and on the ground.
IKEA	To create a better everyday life for many people.
Patagonia	Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.
Under Armour	Under Armour makes you better.
The Wounded Warrior Project	The mission of the Wounded Warrior Project is to honor and empower Wounded Warriors.

FIGURE 9.3. Sample Mission Statements

Source: Jose Gil/Shutterstock

involving many people. The initial statements were likely revised many times to add specificity and clarity to the terms used to define the mission.

In summary, a mission statement needs to be built around several points. The first of these involves internal operations and functions. Typically, this includes a description of the fundamental activities the organization engages in, specifically, the basic services provided, such as inpatient acute care, outreach clinics, managed care systems, wellness programs, health education and training, and so on. This aspect of the statement thus answers the "What do we do?" question.

A final area that should be addressed is needs served. The emphasis here is on the needs of constituencies that will be met. These are the ultimate ends we hope to achieve, such as better preventive healthcare, more comprehensive acute care services, improved access to healthcare services for the region, and so on. This section identifies who we are and hope to be, giving our staff an identity to hold on to in uncertain times and the leeway to stretch toward new services and greater goal attainment of existing ones.

The mission statements in Figure 9.3 are included to demonstrate variety in actual practice. The reader can see that many do not contain all the elements that constitute a well-written mission statement. A final thought here: What needs to be avoided in mission statements is an overly philosophical tone that, in essence, says, "We are going to do something good for someone out there somewhere." A mission statement should create a distinct sense of unity and mission. If it is too general and all-encompassing, it is not meaningfully actionable—the ultimate mission of a mission statement.

ENTREPRENEUR PROFILE

Anne Wojcicki

Age: 46 (born July 28, 1973)
Estimated Net Worth: $800 million
Company: 23andMe
Industry: DNA Testing

Anne Wojciciki at the 24th Vanity Fair Oscar After-Party at the Wallis Annenberg Center for the Performing Arts on March 4, 2018 in Beverly Hills, CA

Source: Kathy Hutchins/Shutterstock

Wojcicki graduated from Yale University with a bachelor's degree in biology. She worked the healthcare to field as a researcher and investment analyst. She later pursued her interest in healthcare through personal genetic testing that led to her development of 23andMe, alongside Linda Avey. Although faced with much controversy, the business took off, and in 2008, its genetic testing from saliva was named *Time* magazine's Invention of the Year.

Wojcicki's 23andMe is a privately-owned, direct to consumer DNA testing company, which allows for consumers to test for ancestry and health risks. Consumers can purchase testing kits for $99, $199, and $499 which provide information on ancestry, health, and genetic traits.

The company takes saliva samples that are mailed in by buyers and processes the genetic information, posting the results online for the buyer to view.

The company is named for the 23 pairs of chromosomes in a normal human cell. From 2015, the FDA started to give approval to 23 and Me's health-related tests, including risk from cystic fibrosis, sickle cell anemia, certain cancers, Alzheimer's, Parkinson's, and coeliac disease.

Source: Celebrity Net Worth. (n.d.). *Anne Wojcicki net worth.* Retrieved from https://www.celebritynetworth.com/richest-businessmen/ceos/anne-wojcicki-net-worth/; Rogers, K. (n.d.). *Anne Wojcicki.* Retrieved from https://www.britannica.com/biography/Anne-Wojcicki; 23andMe. Retrieved from https://en.wikipedia.org/wiki/Anne_Wojcicki#cite_note-12

Establishing Organizational Objectives

Objectives help management measure performance.
Source: Ivelin Radkov/Shutterstock

Clearly, one cannot achieve goals if no goals exist. Although this idea is quite simple, many people overlook it. In order to accomplish anything, we must have a clear understanding of what is to be accomplished. Strategic objectives are the tool by which organizations define their goals and sketch out a specific road map to achieving them. If we fail to set specific objectives, we simply waste our time and energy by going in circles. Later, we look back at what we accomplished and wonder where the time went. Being busy and involved in activities does not mean we are accomplishing what we need to accomplish.

The focus in this section of the chapter is the need to establish objectives, characteristics of good objectives, and the process of writing objectives. After the vision and mission of the organization have been defined and the internal and external analysis have been completed, then relevant objectives are developed for the strategic plan.

Objectives can be defined as clear, concise written statements outlining what is to be accomplished in key areas in a certain time period, in measurable terms. Peter Drucker (1989) argues that "objectives are not fate; they are direction. They are not commands, but they are commitments. They do not determine the future, but they are the means by which the resources and energies of the operation can be mobilized for the making of the future" (Drucker, 1989, p. 102).

objectives Clear, concise written statements outlining what is to be accomplished in key areas in a certain time period, in measurable terms.

key-result areas Areas where long-range objectives can be set at upper organizational levels, such as range of service offerings, productivity, level of client satisfaction, market share, profitability, financial resources, physical resources, staff development and attitudes, and commitment to social responsibilities as an organization.

The words *key results*, *goals*, and *targets* are often used synonymously when talking about both short- and long-term objectives. Whatever the label used, the idea is to focus on a specific set of target activities and outcomes to be accomplished. People get confused and disorganized if they do not know where they are going. In large measure, the success or failure of an organization is based on its ability to set goals, as well as on tools with which to measure progress toward those goals. Objectives can be set at upper organizational levels in **key-result areas**, such as range of service offerings, productivity, level of client satisfaction, market share, profitability, financial resources, physical resources, staff development and attitudes, and commitment to social responsibilities as an organization. Every manager should consider long-range objectives in each of these areas.

Objectives are also needed in the subunits, departments, or divisions of an organization. Objectives can be classified in various ways, such as by their nature, including routine, problem solving, and innovative, or by their function, including team, personal, and budget performance. Most important, all organizational objectives must be consistent. Thus, a department's objectives should lead to accomplishing the organization's overall goals.

Objectives serve two fundamental purposes. First, they serve as a road map. Objectives are the results desired upon completion of the planning period. In the absence of objectives, no sense of direction can be attained in decision making. In planning, objectives answer one of the basic questions posed in the planning process: Where do we want to go? These objectives become the focal point for strategy decisions.

Another basic purpose served by objectives is in the evaluation of performance. The objectives in the strategic plan become the yardsticks used to evaluate performance. As will be pointed out later, it is impossible to evaluate performance without some standard by which results can

Objectives mean accountability.
Source: Light and Dark Studio/Shutterstock

be compared. The objectives become the standards for evaluating performance because they are the statement of results desired by the planner.

Characteristics of Good Objectives

For objectives to accomplish their purpose of providing direction and a standard for evaluation, they must possess certain characteristics. The more these attributes are possessed by a given objective, the more likely it will achieve its basic purpose. Sound internal objectives (as opposed to external objectives for public consumption, which may have to be more generalized) should have the following characteristics:

1. **Objectives should be clear and concise.** Objectives should be clear to everyone in the organization. There should not be any room for misunderstanding what results are sought in a given objective. The use of long statements with words or phrases that may be defined or interpreted in different ways by different people should be avoided.
2. **Objectives should be in written form.** This helps solve two problems: unclear, ineffective communication and altering of the unwritten objectives over time. First, everyone who has played the game of "gossip" realizes that oral statements can be unintentionally altered as they are communicated. Written statements avoid this problem and permit ease of communication. A second problem involves the tendency to want to "look good," often at the expense of actual performance. Unwritten objectives can be altered to fit current circumstances.
3. **Objectives should name specific results in key areas.** The key areas in which objectives are needed were identified earlier. Specific results, such as "acquiring 5,000 new customers within the next year" rather than "increasing new customers," should be used to avoid doubt about what result is sought.
4. **Objectives should be stated for a specific time period.** Objectives should be stated for specific time periods. Objectives can be set for a short-run, nearly immediate time period, such as 6 months to 1 year. Building on longer and longer time frames, the accomplishment of short-term objectives should lead to the successful completion of longer-run objectives. The time period specified becomes a deadline for producing results and sets up the final evaluation of the success of a strategy.
5. **Objectives should be stated in measurable terms.** Objectives must be measurable. Concepts that defy precise definition and quantification should be avoided. "Customer satisfaction" is an example of a concept that is important but difficult to define and measure. If a planner felt customer satisfaction was a concept that needed to be measured, a measure or measures (possibly indirect in nature) would have to be developed. An objective related to customer satisfaction that would be capable of quantification might be stated as follows: "To have at least 85% of our customers rate our company as the best company in the area in our annual survey." Phrases such as "improve staffing" not only are not clear or specific but also are statements that cannot be measured. What does "improve" mean? Increase the number of employees by 5%? By 40%? In what areas? If the statement is specified as "increase the number of full-time customer service representatives by 10% within the next 18 months," it can be objectively measured. The accomplishment or failure of such a stated objective can be readily evaluated.
6. **Objectives at each administrative level must be consistent with overall organizational objectives and purpose.** The objectives developed for each unit of the company must be consistent with the overall objectives of the organization. This idea has been previously stated but must be continually reemphasized because of the need for organizational unity.
7. **Objectives should be attainable but of sufficient challenge to stimulate effort.** Objectives need to be attainable but also challenging. Two problems can be avoided if this characteristic is achieved. One is the avoidance of frustration produced by objectives that cannot be attained or that cannot be attained within the specified

time period. For instance, large-percentage increases in customers served online can be an unrealistic goal if the company lacks the necessary resources, especially information technology and call-center personnel. The desirability and likelihood of substantial increases become doubtful.

Another problem is setting objectives that are so easy to attain that only minimal effort is needed. This results in performance evaluations that look good from a distance because every goal is being accomplished, but in reality, it only camouflages lackluster performance well short of potential. Easy goals fail to maximize the contribution of a given strategic plan. Figure 9.4 provides examples of poor and effective objectives.

Types of Objectives Included in a Strategic Plan

Strategic plans often include many different types of objectives, often depending on the type of business or organization. Two of the most common types of objectives are financial and strategic. Financial objectives typically refer to sales growth, growth in earnings or profits, and higher dividends (see Figure 9.5). Strategic objectives include such things as a higher market share, lower costs than your competitors, technology leadership, and the ability to get new products to market faster than your competition.

Certainly, financial objectives are important to companies—just ask any investor! But strategic objectives are equally important, and sometimes conflict develops over whether the financial objectives or strategic objectives should be the priority. In the short term, financial objectives might be considered more important, but in the long term, some would argue that strategic objectives are more important. For example, Amazon went several years without earning a profit in order to build market share for the future.

Long-Term Versus Short-Term Objectives

In addition to overall objectives that are to be accomplished in the long-term, another set of short-term objectives will need to be developed. Short-term objectives support the attainment of long-term objectives—for example, having a 1% decrease in supply cost each year supports a long-term objective of decreasing supply cost by 5% over the next 5 years.

Poor	Better	Remarks
Our objective is to lower the rate of medication errors.	Our objective is to lower our medication error rate by 10% within 12 months.	How much is "lower"? The statement is not subject to measurement. What criterion or yardstick will be used to determine if and when actual error rates are equal to those desired? In addition, no deadline is specified.
Our objective is to increase our hotel occupancy rates.	Our objective this calendar year is to increase hotel occupancy rates by 5%.	How much? A single-customer-per-day increase will meet that objective, but is that really the desired target?
Our objective is to boost advertising expenditures by 15%.	Our objective is to boost patient revenues by 10% in each of the next 5 years with the help of a 15% annual increase in advertising expenditures.	Advertising is an activity, not a result. The advertising objective should be stated in terms of what result the extra advertising is intended to produce.
Our objective is to be the best hotel/hospitality organization in our area.	We will strive to become the number-one hospitality/hotel organization of its kind in the metropolitan area, in terms of the number of customers served, within 5 years.	Not specific enough; what measures of "best" are to be used? Number of customers served? The amount of money customers spent? Number of new programs started? Services offered? Number of hospitality staff?

FIGURE 9.4. Examples of Effective Objectives

Financial Objectives	Strategic Objectives
Revenue growth	Larger market share
Earnings growth	Better product quality than competitors
Increased dividends	Faster on-time delivery than the competition
Higher profit margins	Technological leadership
Increased return on investment	Shorter time from design to market
Higher earnings per share	Lower overall costs than competitors
Increased stock price	Wider geographic coverage than competitors
Improved cash flow	Consistently first to market with new products

FIGURE 9.5. Sample Financial and Strategic Objectives

Source: Adapted from David, F., & David, F. (2017). *Strategic management: Concepts and cases* (16th ed.). Edinburgh, England: Pearson Education.

Short-term objectives are stated for the operating period only, normally 1 year, whereas long-term objectives often span 5 to 10 years. For example, 5-year objectives can be set in areas such as customers served, products offered, services offered, and so forth. Although the definition of "long term" varies, companies and organizations should be planning at least as far into the future as present-day obligations commit them. For instance, the planned construction of a new building with a 45-year life means that the organization should be looking 45 to 50 years into the future regarding the effective use of the facility.

In setting objectives, we first state them in terms of what we want to accomplish, but as we develop the organizational strategy, we may discover that we cannot afford what we want. The available resources committed to a given program or service may not be sufficient enough to achieve a stated objective, and if the planning process is resource controlled, the objectives must be altered. It must be remembered that objectives are not fate, but they are direction. They are not commands, but they become commitments. Planners should avoid falling into the trap of thinking that once objectives are established, they cannot or should not be altered.

Periodic Review of Objectives

Management should develop a periodic review of objectives to verify that progress toward meeting the stated objectives is being made. If not, management needs to step in and make the changes necessary to catch up and meet the objective completion date. One practical, easy way to record, communicate, measure, and update objectives is through a *performance plan book* or *management plan book*. The performance or management plan book aids management in determining how well it is achieving its objectives. Measuring progress toward major objectives allows management to make any necessary adjustments. For example, the economic environment may have changed, making the objectives more difficult to achieve. Management can then determine whether to change the objective or devote more resources to it. Each part of the book should be kept by the manager responsible for achieving certain objectives and reviewed by senior management on a regular basis. All objectives for the organization should be in this book. Objectives can be reviewed each quarter and updated. This process greatly reduces paperwork and provides a convenient method for review.

Setting objectives is another major part of the strategic planning process. The necessity for objectives and an overview of their characteristics were presented here to lay the groundwork for identifying basic types of objectives for such key-result areas as customer service, revenue generation, and operational productivity. The statements of objectives given as examples in this chapter possess the basic characteristics needed to serve as both a source of direction and in the evaluation of the strategies developed in the plan.

If what you have been doing is not working, it is time to change your strategy.
Source: Sk Design/Shutterstock

Internal Analysis/SWOT Analysis

After you have identified the vision and mission and considered the environment in which you operate, it is important to objectively assess the strengths and weaknesses of your organization's internal operations and the external opportunities and threats that may be present. Managers need to learn from athletic coaches in this area. Coaches constantly assess the strengths and weaknesses of their team and the opponent. They try to maximize their strengths on game day, and during practice, they remedy their weaknesses.

Organizations have certain strengths that make them uniquely suited to carry out their tasks. Conversely, they have certain weaknesses that inhibit their abilities to fulfill their purposes. Organizations that seek greater effectiveness need to carefully evaluate their strengths and weaknesses.

Identifying strengths and weaknesses within the organization involves a thorough internal analysis, or strategic audit, of the organization. A complete study of the organization's emphasis on its products and how well they are delivered is the goal. In looking for strengths and weaknesses in the functioning of an organization, a strength is some significant aspect of your operations that is done exceedingly well. What we mean by a "significant operational aspect" is some fundamental activity that is highly likely to affect the performance of your company in a major way. Conversely, a weakness is some inadequacy in a major activity or resource that reduces the organization's ability to achieve its goals.

Several different benchmarks can be used to identify whether an activity should be considered a strength or a weakness. One internal standard is how well this activity meets its operational goals when compared to other major functions. This comparison can be made over time to establish trends in effectiveness. Another standard is how well your business handles this activity when compared with this function in other businesses that might be considered your immediate competitors. This is called a *strategic group comparison*. A strategic group consists of the companies in a particular industry that compete and their closest rivals. Another important benchmark for an organization is how well the activity contributes to the company's ability to satisfy the expectations of stakeholders. But perhaps the most fundamental standard is how well an activity meets the immediate and long-term needs and interests of your customers.

Using a SWOT Analysis

The process of reviewing an organization's internal operations for strengths and weaknesses and scanning the organization's external environment for opportunities and threats is called a *SWOT analysis*. As stated in an earlier chapter, *SWOT* is an acronym for strengths, weaknesses, opportunities, and threats.

The ultimate goals of a SWOT analysis include, on the one hand, the matching of vital operational strengths with major environmental opportunities. On the other hand, a SWOT analysis provides a basis for eliminating weaknesses or at least minimizing them and avoiding or

Source: Trueffelpix/Shutterstock

managing environmental threats to the organization's operations. Ideally, a SWOT study helps identify a distinctive competence that can be used to tap an important opportunity in a company's operating environment, allowing a firm to effectively fulfill its strategic objectives and mission.

Figure 9.6 illustrates one format for evaluating internal strengths and weaknesses in light of external opportunities by taking into consideration the application of major organizational resources. Each factor—capacity, personnel, marketing, finance, and management—is rated in relation to an opportunity on a quantitative basis.

An alternate approach is to analyze these resources as strengths or weaknesses in relation to opportunities in the organization's environment. This approach is shown in Figure 9.7. Each strength and weakness flows logically from the identification of the resources relative to the opportunity. Each resource, when evaluated within this framework, can be labeled as a strength or weakness, and the implications of that strength or weakness for a specific opportunity can be evaluated.

RATING					
	Very Good	Good	Fair	Poor	Very Poor
	(1)`	(2)	(3)	(4)	(5)
Operations/Services					
Production Capacity					
Cost Structure					
Technology					
Personnel Skills					
Production					
Operations Score					
Marketing					
Marketing Skills					
Facilities					
Location					
Marketing Score					
Finance					
Fixed Capital Investments					
Working Capital Requirements					
Finance Score					
Managerial					
Number					
Depth					
Experience					
Managerial Score					
Total Score					

FIGURE 9.6. SWOT Analysis Rating Sheet

Factor		Opportunity Implication
A.	Marketing Resources	
	1. Strengths: Established facilities	New service could use the same facilities
	2. Weaknesses: No in-house advertising	Service needs strong advertising effort; use outside ad agency
B.	Financial Resources	
	1. Strengths: Good cash position and strong earnings	Consider new service offerings; must fund through internal sources
	2. Weaknesses: Higher-than-average debt/asset ratio	Must fund through internal resources
C.	Service capacity	
	1. Strengths: High-quality operations	Offer additional sophisticated services
	2. Weakness: Low professional staff	Restricts new service offerings
D.	Managerial resources	
	1. Strengths: Strong planning	Cost-effectiveness in operations
	2. Weaknesses: No experience with new service	Consider alternative services

FIGURE 9.7. Analysis of Strengths and Weaknesses
Source: Adapted from Rowoldt, S. H., Scott, J. R., & Warshaw, M. R. (1977). *Introduction to marketing management.* Homewood, IL: Richard D. Irwin.

As is shown in Figure 9.7, it is also desirable to view the strengths and weaknesses of each functional area's resource impact on opportunities. In Figure 9.7, the strengths and weaknesses of each functional area are related to potential actions regarding the opportunities available to a firm.

Assessing Strengths and Weaknesses: The Search for a Competitive Advantage

The definitive goal of an internal strengths-and-weaknesses analysis is to identify a distinctive competence that can become the basis of a competitive advantage for a company. A distinctive competence is some function that you do extraordinarily well. It represents a level of mastery that makes an organization extremely effective in meeting customer needs, particularly when the typical effectiveness of a strategic group in this area of operation is considered. In other words, a distinctive competence is a super strength that gives an organization an edge in serving customers' needs and delivering customer satisfaction and becomes the basis for a competitive advantage.

As each competitive firm's strategy, strengths, and weaknesses are analyzed for each market segment, the market analyst is looking for those segments not being served or not being served well by the existing competition. Successful entry and exploitation of a marketing opportunity will be much easier if a firm finds some competitive advantage in the market. *A competitive advantage gives one firm an edge over competitors and becomes a basis of*

ENTREPRENEUR PROFILE

Kevin Systrom

Age: 36 (December 30, 1983)
Estimated Net Worth: $1.6 billion
Company: Instagram
Industry: Social media

Systrom was the founder of the social networking app Instagram, launched in 2010. Two years following its launch, Facebook bought Instagram for $1 billion in stock and cash. Systrom continued to run the company even with it under Facebook. With Systrom as CEO, Instagram became a fast-growing app with approximately 1 billion monthly users.

Systrom, the Massachusetts-born Stanford University grad, created the app because of his love of photography. The photo-sharing app has since become a global sensation, amassing over a billion users and making Systrom a billionaire. The company was later sold to Facebook because Systrom wanted to spend more time with his family.

Source: By Christopher Michel from San Francisco, USA. https://en.wikipedia.org/wiki/Kevin_Systrom#/media/File:Kevin_Systrom_2018_(40980041741)_(cropped).jpg

Source: Pines, E. (n.d.). *Kevin Systrom*. Retrieved from https://www.forbes.com/profile/kevin-systrom/#37035fb17396

differentiating one firm from another in the market. The basis of the advantage could be price, product improvements, promotional appeals, product innovation, and so forth.

When this approach is used, the analyst begins to interpret "holes in the market" in terms of his or her own firm's ability to fill that niche. Thus, opportunities and abilities are matched.

The Five Forces Model of Industry Analysis

five forces model The five main forces that are representative of the actual driving mechanisms of any given industry: (1) the industry itself and the competitive decisions and activities engaged in by each company, (2) consumer/buyer composition, (3) supplier composition, (4) the possibility of new entrants, and (5) the availability of good product substitutes.

The forces of competition greatly influence the strategy-formation and market-opportunity decisions of an organization. Although each industry has its own unique characteristics, five main forces are representative of the actual driving mechanisms of any given industry and are often referred to as the **five forces model** of industry analysis (see Figure 9.8). These five forces are as follows:

1. The industry itself and the competitive decisions and activities engaged in by each company
2. Consumer/buyer composition
3. Supplier composition
4. The possibility of new entrants
5. Availability of good product substitutes

The industry and the individual companies within the industry are constantly involved in a dynamic interplay in an attempt to build a successful competitive edge over one another. The success of one organization's strategy in accomplishing this is based in large measure on the strategies of the other members. Constant monitoring of these interdependent strategic maneuvers is required to make the adjustments necessary to improve the organization's competitive position, and to achieve market success, multiple views of the industry are necessary.

Consumer/buyer composition can range from a few high-volume purchasers to a large number of low-volume purchasers. In one instance, losing a few customers can be the difference between success and failure, and at the other extreme, losing the same number

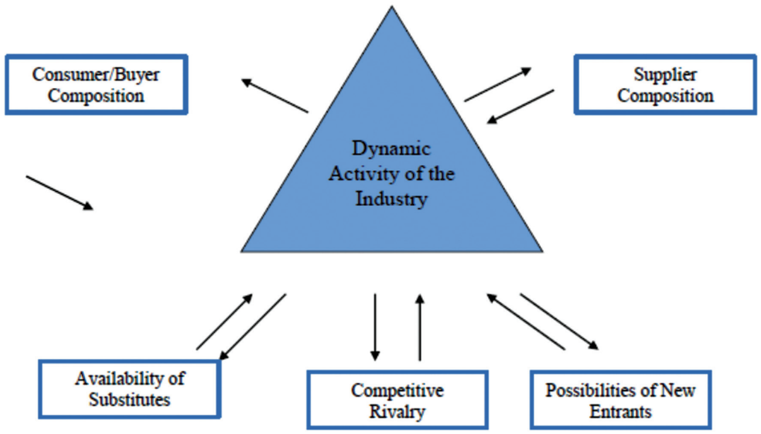


FIGURE 9.8. The Five Forces Model

of customers has essentially no impact. Most firms try to minimize the number of customers that can exert an adverse effect on their business.

Supplier composition also has an important influence on the competing position of individual organizations. The relative importance of the goods or services they supply will determine the strength of their competitive influence over firms in the industry. They can have a positive or negative impact on profit margins, inventory levels, product quality, and prices.

Source: Sergiu Ungureanu/Shutterstock

The possibility of new entrants into the market is a constant threat to altering market share, production capacity, and supply distribution within the industry. This threat can be minimal when there are strong barriers to entry, such as strong customer loyalty, large capital requirements, difficulty in establishing distribution channels, and a strong response of current market participants. When entry barriers are weak or the expected response of existing firms is weak, then the possibility of entry is stronger.

The fifth force in the model is the availability of good product substitutes. This is a major threat to existing firms when high-quality substitutes exist in ample quantity at competitive or comparable prices—for example, acupuncture versus more traditional medical treatments.

Assessing Opportunities and Threats

Opportunities and threats related to the external environment are analyzed to determine if any action (strategy) is needed to deal with them. Recognizing such threats and analyzing the possible ramifications of events helps avoid many crises through the development of contingency plans for dealing with such situations. Some have referred to this as "what if" and "what then" analysis. In other words, asking the questions, "What if this happens?" and then "What do we do if this happens?" helps an organization deal with major events that might be detrimental to their operations.

The more you know about the customers being served, the better you can meet their needs. Thus, the organization's customer base should be a prime element for study. Here, it is useful to build a database. Many successful businesses, such as Walmart, are continually doing research to learn more about their customers. Information can be gathered on such factors as marital status, family size, ages of family members, occupations, housing, means of transportation, healthcare needs, reasons for shopping, and length of time using the organization's services. All of these are good subjects for asking questions and gathering information. However, in spite of such efforts by Walmart, the company appeared to underestimate the impact of Amazon and its growth in the online retail arena.

Scanning the environment of a business's operation for significant trends, especially in changing times, is an ongoing effort. This stage in the planning process cannot consist of simply gathering data, getting the data on paper, and forgetting about it. The environment must be constantly monitored.

Summary of Learning Objectives

The significance of verbalizing and putting in writing the vision the leadership of an organization has for its operation was covered in this chapter. By committing it to writing, management has, in effect, expressly stated the unique reason for the organization's existence. This provides a sense of identity, direction, and focus for what will be done. What an organization does must be a function of who the organization is. Statements of mission and vision translate the firm's long-run dreams and aspirations into tangible form and build a stronger foundation for their fulfillment.

1. **Explain the importance of vision, values, and mission statements.**
   Vision, mission, and values statements provide management with the transition from ideas about the company or organization to the framework for how the company will operate, what direction it will take, and where the company is heading. As the business or organization grows, the values statements may be revised or updated, as reflected in revised vision or mission statements.
2. **Identify organizational values or guiding principles.**
   Many organizations develop value or guiding principle statements to demonstrate what values the organization emphasizes in its operations. The statements express the core beliefs of the organization and help the staff become aware of the goals and priorities that are most important. These statements help form the culture of the organization.
3. **Describe the basic elements of a mission statement.**
   The mission statement is focused on the current organization and answers three basic questions:
   What do we do? (What services or products do we provide?)
   Whom do we do it for? (What are our markets?)
   How do we do what we do? (What are our technologies?)
   Just as the military transitions from a peacetime mission to a wartime mission when necessary, a company will change its mission when called for.
4. **Write an effective vision statement for an organization.**
   One of the best corporate vision statements is the vision statement of Southwest Airlines: "To become the world's most loved, most flown, and most profitable airline." This vision statement clearly answers the question, "What do we want to become?"
5. **Explain how to evaluate vision, values, and mission statements.**
   A vision statement should be customer focused, not product focused, and clearly communicate what the company wants to become in the future. Mission statements should be broad in scope and inspiring, and they typically refer to employees, products, markets, and technology. In addition, mission statements do not refer to financial goals or objectives but, rather, will often state the company's concern for environmental and socially responsible business practices.
   Many organizations develop value or guiding principle statements to demonstrate what values the organization emphasizes in its operations. The statements express the core beliefs of the organization and help the staff members become aware of the goals and priorities that are most important. These statements help form the culture of the organization. For example, the Walmart values statement is based on four key principles: service to the customer, respect for the individual, strive for excellence, and act with integrity.
6. **Explain the importance of setting objectives.**
   When objectives are clearly written and communicated, they provide direction to management and employees at all levels. In addition, objectives help management in allocating resources and assist in performance evaluation. Objectives often fall under the two broad categories of strategic objectives and financial objectives, and they may be expressed in terms of sales, profitability, market share, and other key measures defined by the company or organization.

7. **Understand the characteristics of good objectives.** First, objectives should be clear to everyone in the organization so that there is no room for misunderstanding. Second, objectives should also be written. This helps solve two problems: unclear, ineffective communication and altering of the unwritten objectives over time. Third, objectives should name specific results in key areas and call for specific results, such as "acquiring 5,000 new customers within the next year" rather than "increasing new customers." Fourth, objectives should be stated for a specific time period. The time period specified becomes a deadline for producing results and sets up the final evaluation of the success of a strategy. Fifth, objectives should be stated in measurable terms. Concepts that defy precise definition and quantification should be avoided. Sixth, objectives at each administrative level must be consistent with the overall organizational objectives and purpose: The objectives developed for each unit of the company must be consistent with the overall objectives of the organization. Finally, objectives should be challenging but reasonably attainable.
8. **Describe the types of objectives included in a strategic plan.** Objectives fall under two broad categories: strategic and financial. Financial objectives might include revenue growth, earnings growth, increased dividends, higher profit margins, increased return on investment, higher earnings per share, increase stock price, or improved cash flow. Strategic objectives might include larger market share, better product quality than competitors, faster on-time delivery than the competition, technological leadership, shorter design to market time, lower overall costs than competitors, wider geographic coverage than competitors, and being consistently first to market with new products.

Key Terms

five forces model, p. 152
key-result areas, p. 145
mission statement, p. 142
objectives, p. 145
values, p. 140
vision, p. 138

Case Study: Rita's Tex-Mex Restaurant

Rita Green pushed back from her computer as her assignment for the entrepreneurial class began to print. Not only had she completed the assignment, but she had put her business dream on paper. This project was a joy to work on because she planned to use it to launch her own restaurant.

Rita graduated from college 10 years earlier and had worked her way through college in various jobs, mainly in the restaurant business. Her last job in college led her to a career in the restaurant industry and the opportunity to become a manager for a regional chain of Mexican-style restaurants. Two years ago, she started an online MBA degree with an emphasis in entrepreneurship, and the current course required all students to prepare a business plan on some business they might be interested in starting in the future.

She had learned every aspect of the restaurant business, from procurement to food preparation to serving, and all the duties of a manager in overseeing the entire restaurant operation. One thing she quickly learned was that Tex-Mex-style food, as it was referred to in the Southwest, was one of the most profitable types of restaurants because of the reduced food costs. Other than the chicken and beef used in some menu items, most of the meal components consist of beans, rice, lettuce, and tortillas.

Her current task was to review the business plan for the restaurant and then begin working on developing financial backing for the venture. She had a couple of relatives who said they would invest in the restaurant, but she knew she would probably need a bank loan to secure enough capital to start the business.

Rita's strategic plan was as follows:

Rita's Tex-Mex Restaurant Strategic Plan

Vision: The vision of Rita's is to be an affordable, family restaurant that serves well-prepared Tex-Mex food in a friendly atmosphere.

Mission: Our mission is to create quality Tex-Mex food for local/transient and online customers using fresh ingredients prepared by experienced chefs/cooks and delivered by a friendly and experienced waitstaff and delivery staff.

(*continued*)

Case Study: Rita's Tex-Mex Restaurant (*continued*)

Core Values: Our core values, remembered by the acronym **FISH,** include the following:

Fairness—treating others fairly, the way we want to be treated.

Integrity—keeping our word in any commitments we make.

Service—to all stakeholders, including the communities we serve.

Honesty—being truthful in dealing with all stakeholders—customers, employees, suppliers, financiers, and the community.

Long-Term Objectives:

1. To create a profitable business model that will reach break-even at the end of year 1 and create a 20% return on investment beginning in year 2.
2. To create a business model that can be duplicated in other market areas as we expand using internally generated funds.
3. To create an image of quality food that is affordable for the whole family and served in a pleasant atmosphere.

Strategy: Our strategy will focus on differentiating our restaurant from the competition based on the quality of the food served and the competitiveness of our menu prices. We will focus on high-traffic, leased locations with a seating capacity of 50 to 60 people to minimize startup investment. The chef/cook staff and waitstaff will have experience in a Tex-Mex restaurant environment to reduce training expenses and maximize the efficiency of operations.

Startup capital will come from personal savings, family investors, and a bank loan. A web-page designer will be used to design the restaurant's web page, and a standardized online ordering system will be used for online orders/delivery.

Implementation/evaluation: The owner/manager will be responsible for implementing all phases of the strategy, including securing a location and negotiating with investors, landlords, decorators, and equipment and food vendors. The owner/manager will also be responsible for hiring a chef, cook staff, waitstaff, and service staff. The chef with be responsible for managing the cook staff and service staff. The owner/manager will be responsible for managing the waitstaff and delivery staff and will also handle customer complaints. Customer and employee satisfaction will be monitored weekly, and revenue/costs will be evaluated on a monthly basis. Short-term objectives will be established to ensure that the strategy is on track to accomplish the long-term objectives.

Questions for Discussion

1. Evaluate the strategic plan Rita has put together. What additions should be made to the plan?
2. With this document, does she have enough to go to a bank for a loan or attract investors?
3. What additional analysis does she need to do to make the restaurant a viable option for her to pursue?

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