STRATEGY FORMULATION: CORPORATE STRATEGY

Vision, Mission, and Objectives

The following are the critical elements that an organization must develop prior to strategy formulation:

- **Vision.** It refers to a "big picture" of what an organization desires to achieve. It communicates the beliefs and governing principles of a company to the community and the members of its organization. A good vision statement should be brief and clear. In addition, it must demonstrate the long-term goal of the company based on a desired future state. Stoner (n.d.) summarized the characteristics of an effective vision statement as follows:

  1. **Demanding purpose.** A vision must help in understanding the importance of work and must provide meaning to the daily activities of an organization.
  2. **Results-oriented.** A vision must describe a clear picture of what the future will look like for an organization.
  3. **Illuminating values.** A vision must connect to the morals and principles of the employees of an organization.
  4. **Vibrant.** A vision must be based on a proactive goal of a company.
  5. **Identifiable.** A vision must be concise and accurate.
  6. **Never-ending.** A vision must demonstrate a clear magnitude larger than the thought of beating the competition.
  7. **Guiding.** A vision must provide direction for daily decisions and actions of an organization.

  EXAMPLE: The vision statement of San Miguel Corporation: *We are San Miguel. Guided by a strong sense of social, environmental, and economic responsibility, our businesses will lead efforts to deliver on national goals, setting the pace of progress in the Philippines.*

- **Mission.** It is a general statement describing how an organization will achieve its vision. The mission statement is more concrete and "action-oriented" than the vision. It may refer to a social problem such as inadequate housing or healthcare issues. The following are the general characteristics of a good mission statement:
  1. **Concise.** A mission must be able to deliver its point across in just one (1) sentence.
  2. **Outcome-oriented.** A mission must explain the overarching results that an organization is working to achieve.
  3. **Inclusive.** A mission must include all the stakeholders involved in the implementation of a company's strategy.

  EXAMPLE: The mission statement of San Miguel Corporation: *To provide goods and vital services well within the reach of every Filipino, making everyday life a celebration.*

- **Objectives.** These are the specific and measurable results focused on achieving the mission of an organization. An organization's objectives generally lay out how much of what will be accomplished by when. The following are the three (3) basic types of objectives:

  1. **Behavioral.** These objectives consider changing the actions of people and the products or results of their actions.
     EXAMPLE: By December 2020, the company will increase parent engagement by 30% with children under two (2) years of age.
  2. **Community-level.** These are related to behavioral outcome objectives but are more focused on a communal level instead of an individual level.
     EXAMPLE: By 2025, the company will increase the percentage of families that own their home by 30%.
  3. **Process objectives.** These include the implementation of activities necessary to achieve other objectives.
     EXAMPLE: By June 2019, the company will implement training programs for all volunteers of the housing project.

KEY POINTS: In some companies, values statement is defined separately from the vision, mission, and objectives (VMO) using a Vision, Mission, Values (VMV) approach to ensure that the company strategies are aligned with their organizational values. In other cases, the values statement is integrated into the mission statement.

Corporate Strategy

Bamford, Hoffman, Hunger, and Wheelen (2018) cited the three (3) key issues being addressed by the corporate strategy of a corporation:

- **Directional strategy.** It refers to the firm's overall orientation toward growth, stability, or retrenchment.
- **Portfolio analysis.** It includes the industries or markets in which the firm competes through its products and business units.
- **Parenting strategy.** It is how the management coordinates activities, transfers resources, and cultivates capabilities among product lines and business units.

Directional Strategy

Bamford et al. (2018) stated that a corporation's directional strategy is composed of three (3) general orientations:

- **Growth strategies.** These refer to the firm's actions to expand its activities. The two (2) basic growth strategies involve *concentration* on the current or innovative product lines in one (1) industry and *diversification* into other product lines or other industries. Concentration strategies mainly involve the following:
  1. **Vertical growth**. It can be achieved by taking over a function previously provided by a supplier or distributor. The company, in effect, grows by making its own supplies and/or by distributing its own

products. Companies may take this initiative to reduce costs, gain control over a scarce resource, guarantee the quality of key input, or obtain access to potential customers. More specifically, assuming a function previously provided by a supplier is called *backward integration*. For example, Jollibee Foods Corporation (JFC) may buy farms and start planting their own ingredients to obtain a cheaper deal instead of buying ingredients from a supplier. On the other hand, buying component companies in a company's distribution chain or assuming a function previously provided by a distributor is labeled as *forward integration*. For example, Jollibee Foods Corporation (JFC) continuously expand its market share by purchasing Chowking Food Corp., Greenwich Pizza Corp., and Baker Fresh Foods Philippines, among others.

2. **Horizontal growth**. It can be achieved by expanding a company's operation into other geographic locations and/or by increasing the range of products and services offered to current markets. For example, Jollibee Foods Corp. (JFC) is beefing up capital spending in 2019 to P17.2 billion as it continues to expand its store network globally (Francia, 2019).

   The diversification strategies involve the following:

   a. **Concentric diversification**. It can be achieved through enlargement of production portfolio by adding new products to fully utilize the potential of existing technologies and marketing system. It occurs when the organization adds related products or markets to its existing product line. For example, PepsiCo adopted a concentric diversification strategy when it broadened its product line from soft drinks to fast food franchises and snack foods.
   b. **Conglomerate diversification**. It can be achieved by moving new products or services that have no technological or commercial relation with current products, equipment, distribution channels, but which may appeal to new groups of customers. For example, the parent company of Google is Alphabet which operates in many other areas such as life sciences projects, driverless cars, start-up investing, fiber optics, and home devices among others (Sarokin, 2018).

- **Stability strategies.** These refer to the firm's actions to make no changes at all in its current activities. The following are the types of stability strategies:

  1. **Pause/Proceed-with-Caution Strategy**. It is typically conceived as a temporary strategy to be used until the environment becomes more hospitable or to enable a company to consolidate its resources after prolonged rapid growth. For example, Dell followed after its growth strategy by selling personal computers by mail, which brought massive profits for the organization. However, it resulted in more growth than the company capacity could handle. Subsequently, the management was forced to temporarily put a stop on the marketing effort until they were able to hire additional managers, improve their company structure, and build new facilities.
  2. **No-Change Strategy.** It is a decision to do nothing new. It is demonstrated by a management choice to continue current operations and policies for the foreseeable future of a company.
  3. **Profit Strategy.** It is a decision to do nothing new in a worsening situation but instead to act as though the company's problems are only temporary. The profit strategy is an attempt to artificially

support profits when a company's sales are declining by reducing investment and short-term discretionary expenditures.

- **Retrenchment strategies.** These refer to the firm's actions to pursue cutback or ultimate divestment when it has a weak competitive position in some or all of its product lines resulting in poor performance. The following are the types of retrenchment strategies:

1. **Turnaround Strategy**. It emphasizes the improvement of operational efficiency and most appropriate to implement when a corporation's problems are pervasive but not yet critical. Companies improve their performance by cutting costs and expenses or by selling off assets. This strategy involves three phases: *Contraction*, *Consolidation*, and *Rebirth*. *Contraction* is the initial effort to quickly "stop the bleeding" with a general purpose to cut back in company size and costs. The second phase, *consolidation* implements a plan to reduce unnecessary expenses. The last phase, *rebirth*, happens if the company is successful with its efforts and starts growing profitably again.

2. **Captive Company Strategy**. It involves giving up independence in exchange for security. In this way, the corporation may be able to reduce the scope of some of its functional activities to reduce costs significantly. For instance, after years of cost-cutting moves, acquisitions, and selling off assets, Yahoo! finally gave in to the captive strategy by hiring investment bankers to sell the company.

3. **Sell-out/Divestment Strategy**. A *sell-out* involves selling the entire company to another firm at a good deal, given that the shareholders and the employees can keep their jobs. For instance, American Airlines was sold to U.S. Airways for $11 billion or P550 billion deal in 2015 (Harlan, 2015). A *divestment,* on the other hand, involves selling a division of a company with low growth potential. P&G used this strategy when it sold more than half of its brands and consolidated others to focus on just 65 brands (Bamford et al., 2018).

4. **Bankruptcy/Liquidation Strategy**. *Bankruptcy* involves giving up management of the firm to the courts in return for some settlement of the corporation's obligations. Top management hopes that once the court decides the claims on the company, the company will be stronger and better able to compete in a more attractive industry. In contrast, *liquidation* involves the termination of the whole firm. When the industry is unattractive and the company is too weak to be sold, management may choose to convert as many saleable assets as possible to cash, which is then distributed to the shareholders after all obligations are paid.

Portfolio Analysis

In portfolio analysis, top management views its product lines and business units as a series of investments from which it expects a profitable return. The product lines/business units form a portfolio of investments that top management must constantly juggle to ensure the best return on the corporation's invested money. One of the most popular portfolio analysis technique is the *BCG Growth-Share Matrix* as illustrated in *Figure 1.*

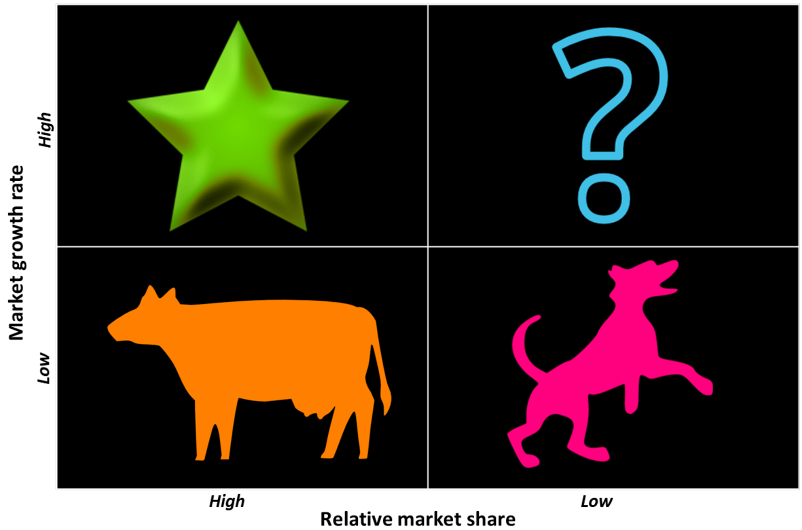

Figure 1. BCG Growth-Share Matrix
Source: https://www.smartdraw.com

The BCG Growth-Share Matrix is related to the product life cycle. As a product moves through its perceived lifecycle, it is generally categorized into one of four (4) types for the purpose of funding decisions:

- **Question marks.** These are new products with the potential for success but need a lot of cash investments for development. These suggest that if a product is perceived to gain enough market share to become a market leader, money must be taken from more mature products and spent on the question mark. For example, after years of fruitlessly experimenting with an electric car, General Motors finally decided in 2006 to take a chance on developing the Chevrolet Volt (Bamford et al., 2018).

- **Stars.** These are products within a company's product line, which can be considered as a market leader since they generate enough cash to maintain their high share of the market and usually contribute to the company's profits. For instance, the Fitbit bracelet has been a star performer for the company with the product still commanding more than 30% of the market share in 2016 (Bamford et al., 2018).

- **Cash cows.** These typically bring in far more money than is needed to maintain their market share. In this maturing or even declining stage of their life cycle, these products are "milked" for cash that will be invested in new question marks. For example, Apple's iPhone represented more than 60% of Apple's revenues, even as sales started falling in 2016. This flagship product of the company provides vast resources that have been poured into the Apple Watch, among others (Bamford et al., 2018).

- **Dogs.** These have a low market share and do not have the potential to bring in much cash for the company. For example, IBM sold its PC business to China's Lenovo Group to focus on its growing services business (Bamford et al., 2018).

Corporate Parenting

According to Bamford et al. (2018), corporate parenting generates corporate strategy by focusing on the core competencies of the parent corporation and the value created from the relationship between the parent and its businesses. In the form of corporate headquarters, the parent has a great deal of power in this relationship. If there is a good fit between the parent's skills and resources and the needs and opportunities of the business units, the corporation is likely to create value. The following are the steps involved in developing a corporate parenting strategy:

1. **Examine each business unit in terms of its strategic factors**. Corporate headquarters must establish centers of excellence across the corporation. A *center of excellence* is an organizational unit that embodies a set of capabilities that has been explicitly recognized by the firm as an important source of value creation, with the intention that these capabilities be leveraged or disseminated to other parts of the firm.
2. **Examine each business for performance improvement.** Corporate headquarters must consider parenting opportunities for the organization. For example, two (2) business units might be able to gain an increase in leverage by combining their sales forces. In another instance, a parent company may help in improving the performance of a business unit with poor manufacturing and logistics skills.
3. **Analyze how well the parent corporation fits with the business unit.** Corporate headquarters must be aware of its own strengths and weaknesses in terms of resources, skills, and capabilities. The corporate parent must assess whether it has the characteristics that fit the parenting opportunities in each business unit. It must also assess whether there is a misfit between the parent's characteristics and the critical success factors of each business unit.

References

Bamford, C., Hoffman, A., Hunger, D., & Wheelen, T. (2018). *Strategic management and business policy:* Globalization*, innovation and sustainability* (15th ed.). United Kingdom: Pearson Education Limited.
Community Tool Box. (n.d.). *An overview of strategic planning or vmosa*. Retrieved on May 6, 2019, from https://ctb.ku.edu/en/table-of-contents/structure/strategic-planning/vmosa/main
Francia, A. (2019). *Jollibee sets p17-billion capital spending for 2019*. Retrieved on May 6, 2019, from https://www.bworldonline.com/jollibee-sets-p17-billion-capital-spending-for-2019
Harlan, C. (2015). Landing a mega-merger: The last days of us airways. *The Washington Post*. Retrieved on May 6, 2019, from https://www.washingtonpost.com/business/the-last-days-of-us-airways/2015/09/25/f5530686-60a6-11e5-8e9e dce8a2a2a679_story.html? noredirect= on&utm_term=.e4fb01d95efe
Hofstrand, D. (n.d.). *Vision and mission statements*. Retrieved on May 6, 2019, from https://www.extension.iastate.edu/agdm/wholefarm/html/c5-09.html
San Miguel Corporation. (n.d.). *Our vision and mission*. Retrieved on May 6, 2019, from https://www.sanmiguel.com.ph/page/our-vision-and-mission
Sarokin, D. (2018). *An example of a company conglomerate*. Retrieved on May 6, 2019, from https://smallbusiness.chron.com/example-company-conglomerate-14699.html
Satyendra. (2014). *Diversification strategy*. Retrieved on May 6, 2019, from http://ispatguru.com/diversification-strategy/.
Stoner, J. (n.d.). *Characteristics of an effective vision: Create a driving vision*. Retrieved on May 6, 2019, from https://seapointcenter.com/driving-vision
Wright, T. (n.d.). *Organizations that have used concentric diversification*. Retrieved on May 6, 2019, from https://yourbusiness.azcentral.com/organizations-used-concentric-diversification-26624.html