Undergraduate Diploma in Business Administration

[Module 5 – Strategic Management]

Lecture Title: Assessing Organisational Performance

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Learning Objectives

1. What are organizational vision, mission, values, and goals, and why are they important to organizations?
2. How should executives analyze the performance of their organization?
3. What is competitive advantage and how is it calculated?
4. How to recognize a competitive advantage in real-world scenarios?

- The foundation of strategic management is for an organization to answer three questions:

1. Where are we?
2. Where are we going?
3. How are we going to get there?

Organizations answer the first question *by assessing their organization.*

- ***Where are we?***
- **Often this is by looking at financial data, reviewing historical trends, and comparing the financial performance to other benchmarks such as industry averages or competitors' performance.**
- **But financial indicators are not the only assessment measures to determine where a company is in relation to the marketplace.**

- Other organizational performance indicators are also reviewed, such as quality measures, productivity measures, human resource indicators such as staff satisfaction and retention rates, and customer satisfaction and retention.

- A multitude of different measures from different perspectives allow a firm to determine how it is doing.

Organizational leadership provides the answer to the second question; *where are we going?*

- In collaboration with other stakeholders, leadership sets the vision for the firm.
- The vision is what the organization aspires to be, that big goal it wants to accomplish.
- The vision is developed within the organization's mission: its purpose for being.
- The vision must also be aligned with the organization's core values: the principles that are important as it carries out its mission and vision.

- The third question, *how are we going to get there, speaks to the heart of strategic management.*

- An organization develops strategies to work toward achieving its vision.
- These are developed after much assessment is performed to determine the best road map to advance the organization in the marketplace.

Vision

"Vision animates, inspires, transforms purpose into action."

– Warren Bennis

- As the quote from Warren Bennis suggests, a vision is one key tool available to executives to inspire the people in an organization.
- An organization's vision describes what the organization hopes to become in the future and helps guide its strategies.
- Well-constructed visions clearly articulate an organization's aspirations.

The Importance of Vision

- Knowledge, skills, and abilities separate effective strategic leaders like Howard Schultz from poor strategic leaders.
- One of them is the ability to inspire employees to work hard to improve their organization's performance.
- Effective strategic leaders are able to convince employees to embrace lofty ambitions and move the organization forward.
- In contrast, poor strategic leaders struggle to channel their collective energy in a positive direction.

- Avon's vision is "*to be the company that best understands and satisfies the product, service, and self-fulfilment needs of women - globally.*"

- This brief yet powerful statement emphasizes several aims that are important to Avon, including excellence in customer service, empowering women, and the intent to be a worldwide player.

- **Like all good visions, Avon sets a high standard for employees to work collectively toward.**

- **Perhaps no vision captures high standards better than that of aluminium maker Alcoa.**

- **This firm's very ambitious vision is *"to be the best company in the world - in the eyes of our customers, shareholders, communities and people."***

- **By making clear their aspirations, Alcoa's executives hope to inspire employees to act in ways that help the firm become the best in the world.**

- The results of a survey of 1,500 executives illustrates that creating an inspiring vision creates a tremendous challenge for executives.

- When asked to identify the most important characteristics of effective strategic leaders, 98% of the executives listed “a strong sense of vision” first.

- Meanwhile, 90% of the executives also expressed serious doubts about their own ability to create a vision.

- Not surprisingly, many organizations do not have formal visions.
- Many organizations that do have vision statements find that employees do not embrace and pursue the visions.
- Having a well-formulated vision employees embrace can therefore give an organization an edge over its rivals.

- That aspirational goal of what the company wants to become is the driver for the strategies that are developed.

- Accomplishing the strategies and goals drives the organization toward achieving its vision.

- Thus, there should be alignment between the vision of the company, its mission, values, structure, culture, and the strategies its leaders' select

- An organization's vision describes what the organization hopes to become in the future.

- Visions highlight the values and aspirations that lay at the heart of the organization.

- Although vision statements have the potential to inspire employees, customers, and other stakeholders, vision statements are relatively rare and good visions are even rarer.

Company Vision - examples

- **Chevron** *To be the global energy company most admired for its people, partnership, and performance.*
- **Google** *To provide access to the world's information in one click.*
- **Kraft Heinz Foods** *To be the best food company, growing a better world.*
- **Proctor and Gamble** *Be, and be recognized as, the best consumer products and services company in the world*

Mission Statements

- In working to turn around Starbucks, Howard Schultz sought to renew Starbucks's commitment to its mission statement: *"to inspire and nurture the human spirit - one person, one cup, and one neighborhood at a time."*

- A mission such as Starbucks's states the reasons for an organization's existence, its purpose. Well-written mission statements effectively capture an organization's identity and provide answers to the fundamental question "*Who are we?"*.

- While a vision looks to the future, a mission captures the key elements of the organization's past and present.

- Organizations need support from their key stakeholders, such as employees, owners, suppliers, and customer if they intend to be successful

- A mission statement should explain to stakeholders why they should support the organization by making clear what important role or purpose the organization plays in society.

- Google's mission, for example, is "*to organize the world's information and make it universally accessible and useful.*"

- Google pursued this mission in its early days by developing a very popular internet search engine.

- The firm continues to serve its mission through various strategic actions, including offering its internet browser, Google Chrome, to the online community, providing free e-mail via its Gmail service, and making books available online for browsing.

- The organization's mission is an umbrella under which all strategic management functions occur.

- If strategies and goals do not align with the firm's mission, purpose, and vision, they need to be dropped, modified, or the mission needs to be revised

- ***<u>While a vision describes what an organization desires to become in the future, an organization's mission is grounded in the past and present.</u>***

- **A mission outlines the reasons for the organization's existence and explains what role it plays in society.**

- **A well-written mission statement captures the organization's identity and helps to answer the fundamental question of "Who are we?".**

- **As a practical matter, a mission statement explains to key stakeholders why they should support the organization. The following examples illustrate the connections between organizations and the needs of their key stakeholders.**

Company Mission Statements

- **Harley Davidson** *We fulfill dreams through the experiences of motorcycling, by providing to motorcyclists and to the general public an expanding line of motorcycles and branded products and services in selected market segments.*
- **Starbucks** *To inspire and nurture the human spirit – one person, one cup, and one neighborhood at a time.*
- **Netflix** *We promise our customers stellar service, our suppliers a valuable partner, our investors the prospects of sustained profitable growth, and our employees the allure of huge impact.*
- **Nike** *To bring inspiration and innovation to every athlete in the world.*
- **Walmart** *To save people money so they can live better.*

Pursuing Vision and Mission through SMART Goals

- An organization's vision and mission offer a broad, overall sense of the organization's direction.
- To work toward achieving these overall aspirations, organizations also need to create goals - narrower targets that should provide clear and tangible guidance to employees as they perform their work on a daily basis.
- The most effective goals are those that are specific, measurable, attainable, realistic, and time-bound.
- An easy way to remember these dimensions is to combine the first letter of each into one word: SMART.
- Employees are put in a good position to succeed to the extent that an organization's goals are SMART.

- **While missions and visions provide an overall sense of the organization's direction, goals are narrower aims that should provide clear and tangible guidance to employees.**

- **The most effective goals are those that are SMART (specific, measurable, attainable , realistic, and time-bound).**

- **SMART goals help provide clarity, transparency, and accountability. As detailed below, one SMART goal is Coca-Cola's aim to *"improve our water efficiency by 20%, compared with a baseline year."***

Creating SMART Goals

- **S Specific**: Coca-Cola is seeking to improve its water efficiency by a specific amount - 20%. In contrast, goals such as “do your best” are vague, making it difficult to decide if a goal is actually reached.
- **M Measurable**: Water efficiency can be calculated, so Coca-Cola is able to track its progress relative to its 20% target. If progress is slow, more resources can be devoted to achieving the goal.
- **A Attainable**: A series of research studies have established that performance is strongest when goals are challenging but attainable. Reaching a 20% improvement will require aggressive work by Coke, but the goal can be reached.
- **R Realistic**: If Coca-Cola’s water efficiency goal was 95% improvement, Coca-Cola’s employees will probably react with surprise. Reaching a goal must be feasible in order for employees to embrace it. Unrealistic goals make most people give up and basing goals on impossible clichés, such as “give 110%” creates confusion.
- **T Time-bound**: Coca-Cola is seeking to achieve its 20% improvement.

Corporate Values

- In addition to constructing vision and mission statements, firms also develop corporate value statements.
- These are explicit principles that the company endorses and lives by, and expects their employees to embrace.
- Values related to integrity, diversity, and customer service are often seen on company websites.
- An information technology company might include innovation as one of its values.
- Manufacturers may also have sustainability or ecology related values.

- Why are values statements important for a firm?

- They demonstrate to their employees and other stakeholders the important principles that the organization lives by.

- Employees who do not uphold corporate values may see their employment short-lived at the company.

- Values also show customers and potential customers what the firm stands for.

- Some customers may choose a company based on how its values resonate with theirs.

- What do values statements have to do with strategic management?

- An organization should seriously consider their values statement when developing its strategies and goals.

- If a potential strategy conflicts with one of its values, they need to drop or modify that strategy to ensure the company conforms to their corporate values as they move their organization forward.

Values Statements from Various Companies

- **Walmart** *Guided by good: service to the customer, respect for the individual, strive for excellence, act with integrity*

- **Harley Davidson Motorcycles** *Integrity, be accountable, encourage creativity, inspire teamwork, individuality, and diversity*

- **Facebook** *Be bold, Focus on impact, Move fast, Be open, Build social value*

- Starbucks

Creating a culture of warmth and belonging, where everyone is welcome.

Delivering our very best in all we do, holding ourselves accountable for results.

Acting with courage, challenging the status quo, and finding new ways to grow our company and each other.

Being present, connecting with transparency, dignity, and respect

- Section Video
- An intro to Mission, Vision, and Values [03:08]

- The video for this lesson explains the relationship of mission, vision, values, and strategies/goals.

- You can view this video here:

https://www.youtube.com/watch?v=Ue6hxaN0YoQ

Key Take Away

- Strategic leaders need to ensure that their organizations have four types of aims.

- A vision states what the organization aspires to become in the future.
- A mission reflects the organization's past and present by stating why the organization exists and what role it plays in society.
- Goals are the more specific aims that organizations pursue to reach their visions and missions. The best goals are SMART: specific, measurable, attainable, realistic, and time-bound.
- Corporate values are key principles that a company endorses and lives by.

Group Exercise

Take a look at the website of 3 companies.

What is the organization's vision, mission, and values?

Were they easy or hard to find?

Assessing Organizational Performance

- Organizational performance refers to how well an organization is doing to reach its vision, mission, and goals.
- Assessing organizational performance is a vital aspect of strategic management.
- Executives must know how well their organizations are performing to figure out what strategic changes, if any, to make.
- Performance is a very complex concept, however, and a lot of attention needs to be paid to how it is assessed.

- Two important considerations are (1) performance measures and (2) performance benchmarks.
- A performance measure is a metric by which an organization’s progress can be gauged.
- Most executives examine measures such as profits, stock price, and sales in an attempt to better understand how well their organizations are competing in the market.
- But these measures provide just a glimpse of organizational performance.
- Performance benchmarks are also needed to assess whether an organization is doing well.

- A performance benchmark is used to make sense of an organization's standing compared to its own or a competitor's financial measures and/or performance indicators.

- Suppose, for example, that a firm has a profit margin of 20% in 2019.

- This sounds great on the surface, but suppose that the firm's profit margin in 2018 was 35% and that the average profit margin across all firms in the industry for 2019 was 40%.

- Viewed relative to these two benchmarks, the firm's 2019 performance is cause for concern.

- Using a variety of performance measures and benchmarks is valuable because different measures and benchmarks provide different information about an organization's functioning

- The parable of the blind men and the elephant - popularized in Western cultures through a poem by John Godfrey Saxe in the nineteenth century - is useful for understanding the complexity associated with measuring organizational performance.

- https://www.youtube.com/watch?v=rmf_kGaNRMs

- *As the story goes, six blind men set out to "see" what an elephant was like. The first man touched the elephant's side and believed the beast to be like a great wall.*
- *The second felt the tusks and thought elephants must be like spears.*
- *Feeling the trunk, the third man thought it was a type of snake.*
- *Feeling a limb, the fourth man thought it was like a tree trunk.*
- *The fifth, examining an ear, thought it was like a fan.*
- *The sixth, touching the tail, thought it was like a rope.*

- If the men failed to communicate their different impressions they would have all been partially right but wrong about what ultimately mattered.

- The point is, an organization must consider organizational performance from various and multiple perspectives to achieve an accurate assessment.

- This story parallels the challenge involved in understanding the multidimensional nature of organization performance because different measures and referents may tell a different story about the organization's performance.

- For example, Fortune 500 lists the largest US firms in terms of sales.

- These firms are generally not the strongest performers in terms of growth in stock price, however, in part because they are so big that making major improvements is difficult.

- During the late 1990s, a number of internet-centered businesses enjoyed exceptional growth in sales and stock price but reported losses rather than profits.

- Many investors in these firms who simply fixated on a single performance measure - sales growth- absorbed heavy losses when the stock market's attention turned to profits and the stock prices of these firms plummeted.

The Balanced Scorecard

- To organize performance measures, Professor Robert Kaplan and Professor David Norton of Harvard University developed a tool called the balanced scorecard.
- Using the scorecard helps managers resist the temptation to fixate on financial measures and instead monitor a diverse set of important measures.
- Indeed, the idea behind the framework is to provide a "balance" between financial measures and other measures that are important for understanding organizational activities that lead to sustained, long-term performance

- The balanced scorecard recommends that managers gain an overview of the organization's performance by tracking a small number of key measures that collectively reflect four perspectives:

(1) financial,

(2) customer,

(3) internal business process, and

(4) staff learning and growth

(Kaplan & Norton, 1992).

- Because the concept of organizational performance is multidimensional, wise managers realize that understanding organizational performance *is like flying a plane.*

- Pilots must be on track in terms of altitude, air speed, and oil pressure and make sure they have enough gas to finish their flight plan. For tracking organizational performance, assessing how the organization is doing financially is just a starting point.

- The "balanced scorecard" encourages managers to also monitor how well the organization is serving customers, managing internal activities, and setting the stage for future improvements.

- This provides a fast but comprehensive view of the organization.

Beyond Profits: Measuring Performance Using the Balanced Scorecard

- *Financial measures*
- Such as return on assets and stock such as price - relate to effectiveness and profits

- *Customer measures*
- Such as number of new or repeat customers and percentage of repeat customers - relate to customer attraction and satisfaction.

- *Internal business process measures*
- Such as speed at serving a customer and time it takes to create a new product and get it to market—relate to organizational efficiency

- *Learning and growth measures*
- Such as the average number of new skills learned by each employee every year - relate to the future and emphasize that employee learning is often more important than formal training.

Measuring Performance Using the Triple Bottom Line

- While the balanced scorecard provides a popular framework to help executives understand an organization’s performance, other frameworks highlight areas such as social responsibility.

- One such framework, the triple bottom line, emphasizes the three P's:
- people (making sure that the actions of the organization are socially responsible),
- planet (making sure organizations act in a way that promotes environmental sustainability), and
- traditional organization profit

- In the case of Starbucks, the firm has made clear the importance it attaches to the planet by creating an environmental mission statement in addition to its overall mission.

- In terms of the "people" dimension of the triple bottom line, Starbucks strives to purchase coffee beans harvested by farmers who work under humane conditions and are paid reasonable wages.

- The firm works to be profitable as well.

Key Takeaway

- Organizational performance is a multidimensional concept, and wise managers rely on multiple measures of performance when gauging the success or failure of their organizations.

- **The balanced scorecard** provides a tool to help executives gain a general understanding of their organization's current level of achievement across a set of four important dimensions.

- **The triple bottom line** provides another tool to help executives focus on performance targets beyond profits alone. This approach stresses the importance of social (people) and environmental (planet) outcomes, as well as profit.

Competitive Advantage

- ***Competitive Advantage - Increased Efficiency of the organisation***

- **At a conceptual level, strategic management scholars are often less concerned with specific accounting and stock market performance indicators and more concerned with the idea of competitive advantage.**

- **Before offering a formal definition of competitive advantage, it is useful to recall the more familiar concept of economic value creation.**

- **Economic value creation (EVC) is the difference between what a customer is willing to pay (WTP) for a product and the cost incurred to produce the product.**

- **EVC = WTP – Cost**

- Economic value creation may vary across firms.

- Firms that sell the same product may each incur a different cost of production.

- Further, consumers may be willing to pay one price when purchasing the good from one firm, but willing to pay another price when purchasing the good from the firm’s competitor.

- This all implies that the economic value created will differ from firm to firm.

- With this in mind, we can now say that a firm has a competitive advantage over a competitor if it has a larger economic value creation than that competitor.

- For example, if we have two firms, A and B, A has a competitive advantage over B if the economic value created by A exceeds the economic value created by B.

- The magnitude of A’s competitive advantage is given by the difference between the economic value created by each firm.

- Section Video What is Competitive Advantage? [07:58]

- The video for this lesson further explains competitive advantage.

- You can view this video here:

https://youtu.be/PeCCT7CKpYA

How to recognize a competitive advantage in real-world scenarios?

- Access to natural resources not available to competitors.
- Highly skilled labour.
- Strong brand awareness.
- Access to new or proprietary technology.
- Price leadership.

- One of the most popular competitive advantage example of companies is Walmart, which sells branded items at low costs.

- They rely on a cost leadership strategy to minimize spending and offer 'everyday low prices' by leveraging economies of scale.

Conclusion

- This session explained several challenges that executives face in attempting to lead their organizations strategically.
- Executives must ensure that their organizations have visions, missions, values, and goals in place that help move these organizations forward.
- Measures and indicators for assessing performance must be thoughtfully chosen.
- A Balanced Scorecard is a tool that firms can use to measure their progress.
- When executives succeed at leading strategically, an organization has an excellent chance of gaining a competitive advantage and achieve success.

Group Exercise

1. We have discussed Howard Schultz and Starbucks on several occasions. How well has Schultz done in dealing with setting a vision, mission, and goals, assessing organizational performance, and entrepreneurial orientation?

2. Write a vision and mission for an organization or firm that you are currently associated with. How could you use the balanced scorecard to assess how well that organization is fulfilling the mission you wrote?

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