2 Corporate Ambition

Before we can start working on the corporate strategy of a company, we must be clear about its corporate ambition. As Lucius Annaeus Seneca put it: "If one does not know to which port one is sailing, no wind will be favorable." Why do we exist as a company? In which direction do we want to go? How do we define success? These key questions establish the motivation, goals, and boundary conditions of corporate strategy development.

For practical purposes, corporate ambition can be broken down into two elements: the corporate objective function that delineates how the company defines and measures success and the specific corporate priorities as expressed in the mission and vision of the company. We will cover both elements in turn.

2.1 Corporate Objective Function: How Do We Measure Success?

What should be the objective function of the management of a company? How should it measure success and determine what is better versus worse? There are many potential answers to this question: The top-level target of a company could be to create superior products or jobs, to grow revenues or to improve profitability, to survive as an institution, or to create value for shareholders or for the broader society. These different potential objectives may be in conflict. Increasing profits by cutting cost may come at the expense of jobs. Improving the environmental footprint of the company may increase cost and thus reduce profits and the dividends to shareholders. Investments into the long-term survival of the company may reduce short-term profits and depress the stock price. How can these trade-offs be resolved?

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The Shareholder Value Concept

Proponents of the shareholder value concept have a simple answer. The original version of the concept claims that management should first and foremost consider the interests of investors (or shareholders) in its business decisions. It is based on principal-agent theory that assumes that there is an inherent conflict of interests between the shareholders of a firm (the principals) and the managers who act as their agents. The concept was developed as a reaction to the fear (and some illustrious cases) of CEOs and other managers enriching themselves at the expense of shareholders. It is important to note that the shareholder value concept does not require managers to maximize short-term profits. On the contrary, if a company tries to make a quick profit by selling substandard products, it damages its reputation and therefore destroys competitive advantage in the future. The same holds true if management neglects research and development or investments in motivated and well-trained employees. The concept assumes that all such decisions will be reflected in the share price of the company which is thus the best yardstick to measure the performance of management. It comes with the advantage that the achievement of corporate objectives can be easily and objectively measured from the outside, it can be benchmarked against other companies, and management incentives can be easily linked to the share price.

Shareholder value has been the dominating model of corporate governance since the 1980s, but more recently it has been discredited by a focus on short-term stock price maximization at the expense of long-term prosperity of the firm that is not inherent to the original concept. There are growing doubts about the viability of the shareholder value concept, and a paradigm shift seems to occur. It is increasingly recognized that the model has some serious flaws. For starters, shareholders in a public corporation do not legally "own" the company; they just own shares in the company (Lan and Heracleous 2010). This gives them various rights and privileges, including the right to sell their shares and to vote on important matters. But they are not accountable as owners for the company's activities; they cannot be held personally liable for the consequences of corporate activities. As Joseph Bower and Lynn Paine (2017, p. 54) conclude: "Giving shareholders the rights of ownership while exempting them from the responsibilities opens the door to opportunism, overreach, and misuse of corporate assets."

Furthermore, the theory's implicit assumption of shareholder uniformity is contrary to fact: shareholders may have very different objectives (e.g., depending on their investment horizon or attitude toward risk) and cannot be treated as a single "owner." The specific objectives of a company may also depend on its ownership model. For example, for many family-owned firms, corporate longevity, the long-term survival of the institution, is the most important objective, because the owners want to hand over the company to the next generation. Similarly, many state-owned firms focus on providing public goods at a reasonable price rather than only generating profits for the state.

But even for publicly listed firms, the pure focus on shareholder value is challenged. Jack Welch, the former CEO of General Electric and high priest of the shareholder value concept, was quoted in March 2009 as saying: "On the face of it, shareholder value is the dumbest idea in the world." Companies increasingly realize that paying attention to the longer term, to the perceptions of their company, and to the social consequences of their

activities is good business, even if it is not immediately positively reflected in the share price. Employees and customers urge companies to play a more active role in social and environmental issues such as climate change, poverty, and gender inequality and accept responsibility for solving some of the world's biggest problems (Box 2.1).

Box 2.1 SMS Conference 2016 "Strategies that Move the World"

Academics and practitioners in strategic management increasingly accept the role and responsibility of business in addressing the world's biggest challenges. For example, the 36th Annual Conference of the Strategic Management Society was dedicated to "Strategies that Move the World." The call for proposals stated:

> Our world is increasingly struggling with a number of serious—and often interrelated—problems. The climate is changing, leading to rising sea levels, enduring droughts, expansion of deserts and extreme weather, affecting millions of people. Population is predicted to grow from seven billion in 2010 to eleven billion in 2100, implying a huge and ever-rising demand for energy, water supply, and many kinds of other resources including food, jobs, and infrastructure. A growing percentage of the population will live in cities, urging planners to develop new concepts for mobility, logistics, housing, health services, and cultural attractiveness. Inequalities in terms of demographics, income levels, education, and quality of life challenge our sense of distribution justice and raise the risk of wars, terrorism, and revolutionary movements.
>
> What is the role of business firms and strategic management scholars in finding solutions for these problems? What are the responsibilities of global corporations and what strategies can they develop to meet the needs of an increasingly complex world? How can firms improve their environmental footprint? How can they contribute to a fair distribution of wealth and to improving the living conditions at the 'bottom of the pyramid'? How can they collaborate with governments, social movements, nongovernmental organizations, and other stakeholder groups to achieve these goals? What are business models for creating, capturing, and sharing value within such networks with diverse sets of interests?
>
> We believe that strategy research should reflect on these questions in order to help managers and firms to cope with new challenges and contribute to making our world better. We call for proposals that reflect on how these challenges impact existing paradigms of strategic management, change our understanding of extant theoretical models, and help to identify strategies and business models for solving pressing real-world problems. Our call includes a strong interest in how we can go beyond shareholder value and measure the performance of business firms in terms of their contributions to making our world better. We hope that papers in these directions will once more ensure that our discipline is not only academically ambitious but also practically relevant.
>
> (Source: https://www.strategicmanagement.net/berlin/call-for-proposals/call-for-proposals [accessed 24 November 2018])

There are clear signs that even shareholders increasingly care about more than just short-term profits and share price gains. For example, in January 2018, Larry Fink, the CEO of BlackRock, the world's largest investment manager, wrote in a letter to the CEOs of the companies into which BlackRock invests: "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. [. . .] A company's ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process."

We conclude that the original shareholder value concept with its strong focus on the share price and its practical tendency to overemphasize short-term value creation does not reflect the priorities of most companies (and even investors) today and is not well suited as an overall corporate objective function.

Stakeholder Theory and Shared Value

There is growing recognition that over the long or even the medium term, the interests of companies and the interests of society are more aligned than many people once thought. For example, research by the McKinsey Global Institute found evidence to suggest that a focus on the long term actually pays off and that companies that operate with a true long-term mind-set have consistently outperformed their industry peers across almost every financial measure that matters (Barton et al. 2017). Another study showed that firms making investments on material environmental, social, and governance (ESG) issues that are strategically important for their business outperform their peers in the future in terms of risk-adjusted stock price performance, sales growth, and profitability. In contrast, firms making investments on immaterial ESG issues have very similar performance to their peers suggesting that such investments are not value relevant on average (Khan et al. 2016).

Management theory and practice offer alternatives to the shareholder value concept. For example, the well-established *stakeholder theory* claims that managers should make decisions that take account of the interests of all stakeholders in a firm. Stakeholders are all individuals or groups who can substantially affect, or be affected by, decisions of the firm. This includes not only the financial claimholders but also employees, customers, suppliers, communities, and government officials. While the shareholder value concept is grounded in economics, stakeholder theory has its roots in sociology and organizational behavior. Unfortunately, it provides no clear solution how to deal with conflicts of interest between different groups of stakeholders.

Michael Porter and Mark Kramer suggested the concept of *shared value* to overcome this dilemma (Porter and Kramer 2011). Shared value is defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. In this way, shared value creation focuses on identifying and expanding the connections between societal and economic progress. Porter and Kramer describe different ways how companies can create shared value opportunities (see Box 2.2). While critics acknowledge that there

are many instances where doing well and doing good go hand in hand, they point out that the concept ignores the tensions between social and economic goals and is naïve about the practical challenges of managing conflicting goals (Crane et al. 2014).

Box 2.2 The Concept of Shared Value

The starting point of the shared value concept is the observation that business increasingly is viewed as a major cause of social, environmental, and economic problems. In order to secure their license to operate, companies must take the lead in bringing business and society back together and overcome the trade-off between economic and societal progress. The purpose of the corporation must be redefined as creating shared value, which Porter and Kramer define as strategies and practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.

Shared value is different from corporate social responsibility (CSR) or corporate philanthropy. It is not about redistributing existing value, but about expanding the total pool of economic and social value. Businesses acting as businesses, not as charitable donors, are the most powerful force to address many of the world's most pressing problems. The most fertile opportunities for creating shared value will be closely related to a firm's business and success factors.

There are three basic ways how companies can create shared value. First, by *reconceiving products and markets*, they can identify new business opportunities from serving disadvantaged communities or developing countries. An example is Vodafone's successful mobile banking services offering in Kenya. Second, by *redefining productivity in the value chain*, companies can substantially reduce internal cost and create competitive advantage, while reducing natural resource consumption and developing local economies. An example is Nespresso's procurement program that strongly focuses on local growers' development, providing advice on farming practices, guaranteeing bank loans, and helping secure inputs such as plant stock and fertilizers. In this way, the company could increase the yield per hectare and the quality of the coffee at the point of purchase, which allowed it to pay a premium for better beans directly to the growers while reducing the environmental impact of farms. Third, by *enabling local cluster development*, companies can create a virtuous circle of better education and infrastructure, higher productivity, attracting more firms and investors, increasing demand, and so on. An example is Yara, the mineral fertilizers company, which partnered with local governments to establish a US$ 60m logistical infrastructure investment program to create agricultural growth corridors in Mozambique and Tanzania.

(Source: Porter and Kramer 2011)

Boston Consulting Group (BCG) advanced the shared value idea and introduced the concept of *Total Societal Impact (TSI)* to complement the traditional concept of total shareholder return (TSR). TSI is not a simple metric; it is a collection of measures and assessments that capture the economic, social, and environmental impact of a company's business activities. Adding the TSI lens to corporate strategy development should lead companies to leverage their core business to contribute to society in a way that also enhances TSR. In a quantitative analysis of more than 300 companies, BCG found clear links between nonfinancial and financial performance and could show that the performance on certain industry-specific environmental, social, and governance topics had a statistically significant impact on company valuations and margins (Beal et al. 2017) (Box 2.3).

Box 2.3 BCG Concept of Total Societal Impact

Every company has positive and negative economic, social, and environmental effects on the world. BCG defines the aggregate of all these effects as a firm's total societal impact (TSI). TSI is a collection of measures and assessments, not a single metric. It includes the impact of a company's products and services, its operations, and its corporate social responsibility initiatives. It also includes the result of explicit decisions the company makes to adjust its core business to create positive societal benefits.

BCG research found that companies with strong performance in material ESG topics enjoyed a premium valuation multiple. Most of the ESG topics that were linked to premium valuation multiples were related to minimizing risks and other negative impacts, such as health and safety and environmental issues. Top performers for combined performance in these downside topics were found to achieve valuation premiums, compared to median performers, of 11% for consumer packaged goods, 12% for biopharmaceuticals, 19% for oil and gas, and 3% for retail and business banking.

It is important to note that the most material ESG topics differ by industry. For example, the topics with the highest impact on valuation multiples of consumer packaged goods companies were conserving water, ensuring a responsible environmental footprint, and implementing a food safety management program. In contrast, the most relevant topics for oil and gas companies were avoiding and combating corruption, maintaining process-oriented health and safety programs, and reducing impact on biodiversity, water, and ecology.

The BCG study concludes that companies should choose a small and distinctive set of TSI areas that are relevant to their industry and in which they can have a

(continued)

Box 2.3 (continued)
meaningful, positive impact. For each TSI area, companies need to select a limited number of high-priority initiatives that are integrated with and driven by business units. Each initiative should be based on a solid, detailed business and societal case and designed to be scaled.

(Source: Beal et al. 2017)

Our conclusion is that, in spite of all this progress, we are still left with the challenge that companies face conflicting goals. Stakeholder theory implies that managers need to serve many masters. The shared value and TSI concepts demonstrate that creating value for society and financial performance do not need to be antipodes, but can reinforce each other. But what about the instances when these interests are in conflict? How should managers decide when the objectives of stakeholders point into different directions? What should be their overarching yardstick?

Long-Term Enterprise Value Creation

We argue that, for practical purposes, the maximization of *long-term enterprise value* is a good candidate for such a yardstick and a good corporate objective function because it includes most other potential corporate goals and helps resolve trade-offs between contradicting objectives. It also applies to all ownership models. It may not be perfect, but it is probably the single best metric that we can use.

How is long-term enterprise value different from shareholder value? First, enterprise value is the total value of all tangible and intangible assets of the company and thus more than just the value of equity. This implies that mere shifts in value between debt holders and equity holders are not considered value creating, as long as they do not increase the total value of the enterprise. Second, long-term value refers to the fundamental value of the company, as opposed to its short-term market valuation. In the long run, fundamental value and market valuation will converge. But in the short run, they can deviate for extended periods of time, because financial markets, although forward-looking, may not understand the full implications of a company's strategy until they begin to show up in cash flows over time.

We want to encourage managers to take long-term, fundamental enterprise value as a yardstick for strategic decisions, not short-term market value of equity or return to shareholders. Note that long-term enterprise value is defined independently of the ownership model of the company. It is not required that the company is publicly listed, and thus the concept can also be applied to family firms and state-owned companies. Of course, management must also take care of the short-term valuation and capital market performance of the company in order to earn the right and opportunity to work on long-term value creation. It must communicate its plans to investors and explain the strategy's positive

effect on value in order to win their trust and support. We will address these aspects of financial strategy in Chap. 10. However, short-term valuation should only be a boundary condition for corporate strategy development, not its ultimate yardstick.

The focus on long-term enterprise value does not imply that financial claimholders are more important than other stakeholders to the firm. In order to maximize the fundamental value of the company, corporate management must not only satisfy but enlist the support of all stakeholders, including customers, employees, suppliers, and local communities. All these stakeholders are critical for the success of the company, and not one of them can be ignored or mistreated.

Maximizing long-term enterprise value is the objective function that will guide managers in making the best trade-offs among these different stakeholders. Enterprise value is based on profits, which are the difference between the value that stakeholders assign to the output and the value that stakeholders assign to the input. Corporate activities will thus increase social welfare by at least the amount of the company's profits. A firm that wants to maximize its profits will try to deploy society's limited resources in the most efficient way. It will spend an additional dollar of resources to satisfy the desires of each stakeholder as long as that stakeholder values the result at more than a dollar. Similarly, maximizing long-term enterprise value will also guide managers in making the optimal trade-offs between profits today and profits in the future. An investment that increases long-term enterprise value will also benefit society because it requires that the future output will be valued high enough to offset the cost of having people give up their labor, capital, and material inputs in the present.

To be sure, there are circumstances when maximizing long-term enterprise value will not maximize social welfare. This occurs particularly in situations in which companies do not bear the full cost or benefit of their actions, so called "externalities." Examples are cases of environmental pollution in which firms are not held fully responsible for the damage they cause. However, these problems could be solved by governments in their rule-setting function who are able to abolish externalities by defining and assigning decision rights and accountabilities. They do not require a change in a company's objective function. Of course, this does not imply that a company should do everything that is not explicitly illegal in order to maximize long-term enterprise value. On the contrary, companies should define ethical standards and environmental and social targets. But such standards and targets have the character of boundary conditions for the overarching objective of maximizing long-term enterprise value.

Operationalizing Long-Term Enterprise Value Creation

In practice, it is not easy to operationalize the maximization of long-term enterprise value for strategic decision-making. We cannot always perform a comprehensive company valuation to decide between strategic alternatives. In contrast to shareholder value that can be easily quantified as the share price and dividends of the company, long-term enterprise value is better understood as a holistic objective, rather than a precise metric. Even if we cannot fully quantify the effect, the expected impact on long-term enterprise

value can serve as an important guiding principle to ponder strategic decisions. It forces management to consider short- and long-term effects as well as the impact on all relevant stakeholders and to balance potential trade-offs.

How can we apply this principle to corporate strategy development? A company that embarks on a corporate strategy journey should also be guided by creating long-term enterprise value. Only few companies follow a strictly explorative approach to corporate strategy development; most prefer to start with a definition of what success looks like and to agree on quantitative targets. In practice, however, it may not be sufficient to define a quantitative target for long-term enterprise value. For example, the goal of doubling enterprise value over the next 10 years may just be too abstract to be useful guidance for the development of a new corporate strategy. The target function for corporate strategy development should be more concrete and comprise multiple value drivers in order to also indicate *how* value should be created. However, the individual targets must be linked to the overarching objective of long-term enterprise value creation, also to be able to resolve trade-offs between competing targets, if they occur. Such a simplified objective function with quantified targets helps to focus corporate strategy development and to evaluate alternative strategic options. Of course, the initially defined targets may have to be adjusted at the end of the strategy development process if the analysis shows that the targets were not realistic.

The derivation of a target function for corporate strategy development involves two steps: the selection of metrics and the definition of targets. The selection of metrics may start with a structured long list of potential metrics that can all have an important impact on long-term enterprise value (see Fig. 2.1 for an example). There is no objective way of choosing the best metrics for a given company. They depend on the industry, the situation of the company, and the preferences of management. Benchmarks with other companies and interviews with key stakeholders can facilitate the selection process. But in the end, corporate-level decision-makers must define their priorities and choose a small set of metrics that they want to use to evaluate the developed corporate strategy. Moreover, it is important to distinguish between targets (that should be optimized) and guardrails (that pose limits on future development). For example, minimum dividend payments, maximum debt levels, and environmental, social, and governance (ESG) targets are typical boundary conditions for strategy development, but they are no primary targets.

The chosen metrics should cover the most important long-term drivers of enterprise value. Take the example of an industrial goods company that recently went through this exercise. The management decided to combine a return metric, an absolute profit metric, and a revenue growth trajectory to define the overall value-creation target for corporate strategy development. The return metric (in this case, the return on capital employed, ROCE) was used as a simple measure of relative value creation, defining the expected return on future investments. The minimum return hurdle is the company-specific cost of capital (such as the weighted average cost of capital, WACC). In addition, an absolute profit metric (in this case, the earnings before interest, taxes, depreciation, and amortization, EBITDA) was used to ensure that superior returns are not simply achieved by shrinking the business to a profitable

Shareholder value
- Total shareholder return
- Market value of equity
- Dividend payout
- Leverage/rating

Size
- Market position/share
- Revenues/profits
- Enterprise value
- Index membership

Profitability
- EBIT margin
- Return on capital
- Economic profit
- Cash return

Protection of the institution
- Longevity/survival
- Reputation/brand
- Resilience/risk balance
- Headquarters in home country

Growth
- Revenue growth
- Market share gain
- Growth from innovation
- Profit growth

Stakeholder value
- Customer satisfaction
- Employee satisfaction
- Environmental footprint
- Sustainability performance

Fig. 2.1 Structured long list of potential corporate success metrics

core. It expresses the absolute ambition to create enterprise value by growing revenues and/or improving profit margins. Finally, the company's revenue growth trajectory was included in the target function to reflect the future value-creation potential beyond the strategy horizon and thus ensure that the developed corporate strategy was not a dead end.

In the second step, specific targets are defined for the selected metrics that should be achieved at the end of the corporate strategy horizon. They depend on the starting point of the company, trends in its environment, and the ambition of senior management. Historic value-creation analyses, projections of the current financial performance, peer benchmarks, and interviews with relevant stakeholders can all contribute to deriving ambitious but realistic targets. In the example above, the industrial goods company defined a ROCE target of 15%, an absolute EBITDA target of US$ 2 billion, and a revenue growth trajectory of 5% that should be achieved by the year 2025. Such a quantification of the ambition is important to make sure that all decision-makers share the same understanding of the degree of tension that is required for corporate strategy development. Will we be able to achieve the targets with our existing portfolio of businesses? How far do we need to stretch our comfort zone? Do we need to consider a more substantial transformation of the company as part of the corporate strategy exercise? In addition, the industrial goods company in the example defined a number of boundary conditions for corporate strategy development. For example, the executive board restricted dynamic leverage to a level of net debt of not more than 2.5 times EBITDA and defined a list of six corporate-level sustainability targets that should be achieved by 2025.

To conclude, we want to emphasize again that maximization of long-term enterprise value should not be confused with the purpose, vision, or strategy of an organization. Like breathing is essential to life, but not the purpose of living, profits are vital for the existence of the corporation, but they are not the reason for its existence. Long-term enterprise value can only serve as the yardstick for running a business, and it is the best yardstick that we can offer. To quote Michael Jensen (2010, p. 38):

> Value seeking tells an organization and its participants how their success in achieving a vision or in implementing a strategy will be assessed. But value maximizing or value seeking says nothing about how to create a superior vision or strategy. Nor does it tell employees or managers how to find or establish initiatives or ventures that create value. It only tells them how we will measure success in their activity. Defining what it means to score a goal in football or soccer, for example, tells the players nothing about how to win the game; it just tells them how the score will be kept. That is the role of value maximization in organizational life.

And this is why a company that embarks on a corporate strategy journey not only needs a clear target function but also a mission and vision that provide substance to the corporate ambition.

2.2 Corporate Mission and Vision

There is much confusion in the corporate world about the definition of the terms "vision" and "mission." Sometimes they are even used interchangeably to express the same thing. Many managers consider vision and mission as soft and fluffy, if not dispensable, concepts. They think that, of course, a company needs a vision and mission, but they serve primarily for internal and external communication and marketing, and have no important impact on the business. We want to show that, if employed correctly, the mission and vision of a company can be powerful instruments of corporate strategy.

First, we need to be clear about the definitions. In this book, we define the *mission* of the company as its purpose. It answers the questions: Who are we? Why do we exist? The mission therefore provides the motivation and scope of corporate strategy. In contrast, the *vision* of the company describes a future target state. It answers the questions: Where do we want to go? Where do we aspire to be in 5 or 10 years? The vision therefore provides the general direction and serves as a guiding star for corporate strategy development. The definitions imply that a company must first be clear about its mission before it can start working on its vision.

Importance of a Clear Corporate Mission

The mission is a natural starting point for corporate strategy development because it asks for the why. A clear mission statement is valuable in several different ways. First, it brings alignment about the scope and priorities of the company. In this way, it enables thousands of employees to make millions of small and independent decisions and still pull in the same direction. Second, the mission serves as a compass for managers. In difficult situations and

critical decisions, in particular if trade-offs between diverging goals are involved, they can revert to the mission to remind themselves of what is really important to the company. And finally, a strong mission brings energy and motivation to all stakeholders. It explains to employees why they should get up every morning and go to work. It explains to customers why they should buy the products and services of the company. It explains to investors why they should fund the company. There is some evidence that a strong corporate purpose is associated with superior financial performance. For example, a study by Claudine Gartenberg, Andrea Prat, and George Serafeim (2016), which included 500,000 people across 429 firms, found a positive impact on both operating financial performance and capital market-based measures of performance when middle managers felt a clear and strong sense of purpose.

Box 2.4 How Purpose Revitalized a Fashion Retailer

A leading national clothing chain was starting to feel the squeeze from brick-and-mortar as well as online rivals. To drive growth, the company needed to do more to showcase what made it distinctive.

As a first step, the company probed why customers chose to shop at its stores—not just the rational reasons but also the experiential and emotional ones. Surveys and focus groups uncovered insights from several thousand customers from key markets where competitors had encroached substantially. Deeper engagement with employees helped unearth their motivations and needs, such as the desire to work for an organization that played a special role in the milestones of customers' lives. For inspiration, leaders revisited the company's founding purpose: enabling men and women to "dress to their dreams."

The company also brought in two experts—a psychologist and a theater director—to shed light on the role of empathy and the importance of appreciating major life milestones when dealing with retail customers. To ensure authenticity in the purpose statement, leaders studied the story of the company's founder, a single mother who when returning to the workplace wanted her appearance to reflect her aspirations—without ruining the family finances. Leaders also examined the core strengths they could tap into more deeply. For example, sales associates had a reputation for being caring shopping "advocates," adept at guiding insecure or overwhelmed shoppers toward successful purchases.

To revitalize the company, local "purpose ambassadors" were established to help activate purpose among the frontline employees. Store policies were condensed from a rule book to a single page of guiding principles. The company put in place peer-to-peer recognition and feedback programs to celebrate employee acts that represented meaningful experiences for colleagues or customers. For example, if a store created a winning promotion tied to purpose—such as helping customers "nail the job

(continued)

Box 2.4 (continued)
interview" with a well-chosen outfit—sales associates would receive a bonus. The results were telling. Within 1 year, employee engagement scores, customer satisfaction, sales, and market shares rose significantly in the pilot stores that first applied the new purpose-based strategy.

(Source: adapted from Carlisi et al. 2017)

Unfortunately, many mission statements do not live up to these high expectations. They are too generic, uninspiring, or not specific to the respective company. For example, would you have guessed that "seeing humanity as our client" is the mission of a chemicals company or that "we believe in making a difference" is the mission of an airline? Do you think that "be the global leader in customer value" is a realistic mission for a building machinery producer?

An effective mission statement must fulfill four criteria:

- It must be *foundational* by being rooted in the history, identity, and values of the company and capturing what is timeless and true when it is at its best.
- It must be *aspirational* by painting a picture of what the company can achieve and the positive impact it can make when it brings its purpose to life.
- It must be *differentiating* by explaining what makes the company unique and how it is different from its competitors.
- It must be *concise* by summarizing the purpose in a brief and unambiguous way and being easy to memorize for all stakeholders.

Most mission statements have a tagline that is simple, exciting, and easy to memorize and a more detailed explanation of the key elements of the mission. Some mission statements only focus on the purpose (*why*), while others also explain *how* the company wants to achieve its purpose and *what* the focus of its activities is. An example of the latter is the mission statement of *The New York Times*: "To enhance society by creating, collecting and distributing high-quality news and information." In only one brief sentence, it summarizes the purpose of the company ("to enhance society") and how it wants to achieve it ("by creating, collecting and distributing") within the scope of its business ("high-quality news and information").

A strong mission can guide corporate-level strategy. Take the example of the German chemical-pharmaceutical company Bayer AG. When it developed its new corporate mission "Science for a better life" in 2003, it was just recovering from one of the deepest crises in its corporate history. Werner Wenning, who was CEO at that time, reminded Bayer of its roots as a science and innovation-driven company with a strong focus on improving people's life. The new mission statement perfectly embraced this foundational purpose

and gave employees a strong inspiration and direction. What is more, the mission was the origin of a fundamental transformation of the Bayer portfolio, starting with the spin-off of the mature chemicals business as the new company Lanxess (later complemented by the spin-off of the traditional polymers activities under the name of Covestro), followed by major acquisitions in consumer health (from Roche), pharmaceuticals (Schering), and green bioscience (Monsanto).

Development of a Corporate Mission

How do you develop a corporate mission? Importantly, a mission is not something you can create; it is not a great idea that you come up with. It is better thought of as something that is already there, deeply embedded in the organization, and needs to be discovered and carved out. There are different ways of getting there. We have seen great mission statements being developed by the CEO or family owner of a company alone who summarizes his or her deep beliefs about the purpose of the firm in a powerful statement that serves as guidance for the organization and its stakeholders. We have also seen senior leadership teams of companies developing the mission statement in a series of workshops. And we have experienced mission development as a bottom-up exercise involving large parts of the organization in a process of several months.

According to our experience a good process of mission development has several characteristics. First, it is both *top-down and bottom-up*. It must involve the most senior leaders of the company who endorse the process and fully commit to the purpose. But it should also engage the broader workforce to get input from all different perspectives. Second, a good process digs *deep into the roots* of the organization to understand where it comes from and what drives its members. Third, the process should be designed to *create buy-in* for the developed mission statement. For example, key opinion leaders of the company should be engaged early in the process and be part of mission development, and the communication of the mission statement should be carefully planned and executed with sufficient time and resources. And finally, the above implies that uncovering a corporate mission is a *journey* and cannot be accomplished in a 1-day board workshop or delegated to a team of corporate strategists or consultants.

An important element of mission development is to uncover the roots of the company. This requires going back into its history and understanding the sources of its identity, values, and culture. For example, executives can examine the historical evolution of the corporate portfolio and review major strategic decisions and milestones, including the company's history of innovation and acquisitions. They can also use external sources such as analyst reports, commentary in the press, brand surveys, image studies by third parties, and customer surveys to understand how the company is perceived by the outside world. And they can complement the external perspective by internal data from the development of employee skill profiles over time, employee satisfaction surveys, and patent maps. All these analyses will add to an overall picture of the company's unique identity that contributes to uncovering its specific corporate mission (also see Box 2.4).

Corporate values are another important source for uncovering the company's mission. Deeply rooted values reflect the firm's past experience and its successes and failures. Most companies of a certain size have formal value statements, but their relevance varies a lot between companies. Value statements are not helpful if they are too generic and do not relate to the challenges and trade-offs in daily business decisions. But if they are relevant, actionable, and also reflected in the feedback system and the assessment of employees, they can be an important source of motivation and competitive advantage (see Box 2.5).

Box 2.5 Zappos Ten Core Values

Management at Zappos, the online shoe and clothing retailer that was founded in 1999 and acquired by Amazon in 2009, is convinced that companies with a strong culture and a higher purpose perform better in the long run. The company has established a unique culture based on ten core values that are more than just words, but rather a way of life. These ten core values are:

- Deliver WOW through service.
- Embrace and drive change.
- Create fun and a little weirdness.
- Be adventurous, creative, and open-minded.
- Pursue growth and learning.
- Build open and honest relationships with communication.
- Build a positive team and family spirit.
- Do more with less.
- Be passionate and determined.
- Be humble.

All corporate systems and processes reflect and reinforce these values. For example, Zappos takes cultural fit very seriously in hiring decisions. Interviewers use a set of pre-defined behavioral questions that test a candidate's congruence with each of the ten Zappos core values. A training team trains new employees in each core value, so that every employee hears the same message and learns the behavior that is expected to live the values every day at work. New hires spend their first weeks in the firm's call center learning how to respond to customer needs. This also prepares them for busy seasons, when Zappos does not hire temporary employees but expects each employee to put in their 10 hours a week in the call center. After completing their time in the call center, new hires are offered US$ 3000 to leave the

(continued)

Box 2.5 (continued)
company: If they have not become a Zappos insider by then, committed to the values and the culture, the company really prefers them to leave. While it may not be attractive for everyone, the people who fit the corporate culture thrive working for Zappos.

(Source: https://www.zappos.com/about/purpose [accessed 25 November 2018])

Much like the mission itself, strong values will guide a company in difficult situations and pivotal decisions. A prominent example is the pharmaceutical company Johnson & Johnson and its response to the 1982 Tylenol crisis, when seven people in the Chicago area died because bottles of the analgesic Tylenol were poisoned with cyanide. The company immediately removed all Tylenol capsules from the entire US market at an estimated cost of US$100 million and launched a communication effort involving 2500 persons to alert the public and deal with the problem. While Wall Street was furious due to the enormous cost of this campaign, it was perfectly consistent with the deeply entrenched Credo of Johnson & Johnson that states: "We believe that our first responsibility is to the doctors, nurses, hospitals, mothers, and all others who use our products."

Because the mission of a company is so deeply rooted in its history, identity, and values, it does not change frequently. Most companies only adjust their mission in case of major portfolio transformations, corporate crises, or disruptions in their core markets. But since it represents such an important anchor, it is valuable to review the corporate mission at the beginning of a corporate strategy exercise to verify if it still holds and sets the right frame for corporate strategy development (Box 2.6).

Box 2.6 Unilever Sustainable Living Plan
Under the leadership of Paul Polman, who took over as CEO in January 2009, Unilever put sustainability at the center of its corporate strategy. Polman observes: "We cannot close our eyes to the challenges that the world faces. Business must make an explicit and positive contribution to addressing them. I'm convinced we can create a more equitable and sustainable world for all of us by doing so. But this means that business has to change."

Launched in 2010, the Unilever Sustainable Living Plan (USLP) sets out to decouple the company's growth from its environmental footprint while increasing its positive social impact. The plan has three big goals to achieve, underpinned by nine commitments and detailed targets spanning the company's social, environmental, and economic performance across the value chain. It contains stretching targets,

(continued)

Box 2.6 (continued)
including on how people use Unilever's products and how the company sources raw materials. The three big goals have been defined as:

- By 2020 we will help more than a billion people take action to improve their health and well-being.
- By 2030 our goal is to halve the environmental footprint of the making and use of our products as we grow our business.
- By 2020 we will enhance the livelihoods of millions of people as we grow our business.

Unilever reports its performance against the USLP goals, commitments, and targets on an annual basis. The leadership team is convinced that sustainable and equitable growth is the only way to create long-term value for the firm's shareholders. That is why the company has placed the Unilever Sustainable Living Plan at the heart of its business model, as also reflected in the company's mission statement: "To make sustainable living commonplace."

(Source: https://www.unilever.com/sustainable-living/our-sustainable-living-report-hub [accessed 25 November 2018])

Inspiring and Codifying Vision

The mission thus serves as a necessary input and foundation for the development of corporate strategy. But what about the vision? There are two schools of thought: One claims that a clear vision is needed as a guiding star at the beginning of the corporate strategy journey, while the other asserts that the vision is rather the outcome and summary of corporate strategy development.

We think that both are right. At the beginning of the corporate strategy journey, the company may benefit from an *inspiring vision*. A visionary CEO or executive team defines the ambition and priorities by painting a high-level picture of the aspired future of the company that should be verified and detailed during the corporate strategy exercise. The scope and level of detail of this initial vision depend on the transparency and predictability of the future, on the availability of good ideas for developing the company, and on the confidence of management. Leaders that do not have such confidence may deliberately refrain from defining an initial vision and prefer to start corporate strategy development without a clear guidance. The inspiring vision is thus more an expression of the leaders' convictions than the result of careful analysis. It defines a high-level target to inspire the organization and to set the bar for corporate strategy development. Jim Collins and Jerry Porras (1994) refer to such bold commitments as BHAGs, big hairy audacious goals. The inspiring vision is best described by the picture of the North Star that guides the company.

The archetype of such an inspiring vision is US President John F. Kennedy's proclamation on May 25, 1961, "that this Nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to earth." Corporate-level vision statements can have different focus. Some center on customers, like Henry Ford's famous 1907 vision "to build a motor car for the great multitude . . . It will be so low in price that no man making a good salary will be unable to own one . . . The horse will have disappeared from our highways" or Coca Cola's 1970s vision "to sell Coca Cola within 50 meters of every single person on earth." Other companies define their vision with reference to dominating competitors, like Nike ("Crush Adidas") or Philip Morris ("Knock off R.J. Reynolds as the number one tobacco company in the world") in the 1960s. Still others use idols from other regions or industries to define their vision, like Stanford University in the 1940s ("Become the Harvard of the West") or Giro in the 1980s ("Become the Nike of the cycling industry"). And finally, some companies prefer more inward focused vision statements that address the target operating model, like Motorola with its vision to "attain six-sigma quality" or Sony in its early years aspiring to "become the company most known for changing the worldwide poor-quality image of Japanese products."

The second type of vision that we want to call a *codifying vision* is best described by the picture of a finishing photo. At the end of the corporate strategy process—after a careful analysis of the strengths and weaknesses of the company, trends and changes in its environment, the corporate portfolio, growth options within and beyond the existing business, and alternative portfolio development options—the target picture is much clearer and substantiated by concrete strategic initiatives. The codifying vision summarizes and codifies the corporate strategy and is thus typically more specific (and sometimes more quantitative) than the inspiring vision. In some cases, it almost looks like a checklist that enables the company and its stakeholders to verify if the vision is achieved (see Box 2.7).

Box 2.7 Tesla Master Plan, Part Deux

Elon Musk, co-founder and CEO of Tesla, the technology company and independent automaker, is very transparent on the firm's vision and long-term strategy. On July 20, 2016, he announced the new master plan:

> The first master plan that I wrote 10 years ago is now in the final stages of completion. It wasn't all that complicated and basically consisted of:
>
> 1. Create a low volume car, which would necessarily be expensive
> 2. Use that money to develop a medium volume car at a lower price
> 3. Use that money to create an affordable, high volume car
> 4. Provide solar power. No kidding, this has literally been on our website for 10 years.
>
> [. . .]

(continued)

Box 2.7 (continued)

Part of the reason I wrote the first master plan was to defend against the inevitable attacks Tesla would face accusing us of just caring about making cars for rich people, implying that we felt there was a shortage of sports car companies or some other bizarre rationale. Unfortunately, the blog didn't stop countless attack articles on exactly these grounds, so it pretty much completely failed that objective.

However, the main reason was to explain how our actions fit into a larger picture, so that they would seem less random. The point of all this was, and remains, accelerating the advent of sustainable energy, so that we can imagine far into the future and life is still good. That's what 'sustainable' means. It's not some silly, hippy thing—it matters for everyone.

By definition, we must at some point achieve a sustainable energy economy or we will run out of fossil fuels to burn and civilization will collapse. Given that we must get off fossil fuels anyway and that virtually all scientists agree that dramatically increasing atmospheric and oceanic carbon levels is insane, the faster we achieve sustainability, the better.

Here is what we plan to do to make that day come sooner: [. . .]

So, in short, Master Plan, Part Deux is:

1. Create stunning solar roofs with seamlessly integrated battery storage
2. Expand the electric vehicle product line to address all major segments
3. Develop a self-driving capability that is 10× safer than manual via massive fleet learning
4. Enable your car to make money for you when you aren't using it

(Source: www.tesla.com/blog/master-plan-part-deux [accessed 25 November 2018])

To summarize, an effective vision statement must fulfill the following criteria:

- It must be *desirable* and represent an attractive target for all relevant stakeholders.
- It must be *ambitious*, inspire the organization, and provide a sense of purpose.
- It must be *conceivable* by defining specific and well-grounded targets.
- It must be *actionable* and serve as a guideline for future strategic decisions.
- It must be *measurable*; reaching the vision can be verified by all relevant stakeholders.

There is no simple instruction for how to develop a corporate vision. In contrast to the mission that is deeply rooted in the history, identity, and values of the company and must be discovered and carved out, the inspiring vision originates in a creative act. This may happen in the head of a visionary leader, for example, the CEO or family owner of the company. But it can also be crafted in a joint effort of the executive team, inspired by the analysis of major trends in the company's market and environment, strategies of major competitors, or examples of admired companies from other industries. By contrast, the codifying vision is defined at the end of the corporate strategy development process. It

distills the essence of the corporate strategy and translates it into a tangible picture of the desired future. We will describe this in more detail in Chap. 6.

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