CHAPTER 2

CHARTING A COMPANY'S DIRECTION: VISION AND MISSION, OBJECTIVES, AND STRATEGY

CHAPTER SUMMARY

Chapter 2 presents an overview of the managerial ins and outs of crafting and executing company strategies. Special attention is given to management's direction-setting responsibilities – charting a strategic course, setting performance targets, and choosing a strategy capable of producing the desired outcomes. The chapter also examines which kinds of strategic decisions are made at what levels of management and the roles and responsibilities of the company's board of directors in the strategy-making, strategy-executing process.

LECTURE OUTLINE

I. Introduction

1. Crafting and executing a strategy are the heart and soul of managing a business enterprise.

II. What Does the Process of Crafting and Executing Strategy Entail?

1. Crafting and executing a company's strategy is a five-phase managerial process:

   a. Developing a strategic vision of the company's long term direction, a mission that describes the company's purpose, and a set of values to guide the pursuit of the vision and mission.

   b. Setting objectives and using them as yardsticks for measuring the company's performance and progress.

   c. Crafting a strategy to achieve the objectives and move the company along the strategic course that management has charted.

   d. Executing the chosen strategy efficiently and effectively.

   e. Monitoring developments, evaluating performance, and initiating corrective adjustments in the company's vision and mission, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities.

2. **Figure 2.1, The Strategy-Making, Strategy-Executing Process,** displays this process.

III. Developing a Strategic Vision: Phase 1 of the Strategy-Making, Strategy-Executing Process

1. Very early in the strategy-making process, a company's senior managers must wrestle with the issue of what directional path the company should take and what changes in the company's product-market-customer-technology focus would improve its current market position and future prospects.

2. A number of factors need to be considered in deciding what words to use when creating the vision which will tell the company 'where we are going.' Table 2.1, Wording a Vision Statement – the Dos and Don'ts, explores some of these critical word choices.

3. Top management's views and conclusions about the company's direction and the product-consumer-market-technology focus constitute a strategic vision.

4. A strategic vision delineates management's aspirations for the business, providing a panoramic view of "where are we going" and a convincing rationale for why this makes good business sense for the company.

5. A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organizational identity.

6. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

CORE CONCEPT

A **strategic vision** describes management's aspirations for the future and delineates the company's strategic course and long-term direction.

7. Well-conceived visions are distinctive and specific to a particular organization; they avoid generic, feel-good statements.

8. For a strategic vision to function as a valuable managerial tool, it must provide understanding of what management wants its business to look like and provide managers with a reference point in making strategic decisions and preparing the company for the future

9. **Illustration Capsule 2.1, Examples of Strategic Visions – How Well Do They Measure Up?** provides examples of strategic visions of several prominent companies and nonprofit organizations.

Illustration Capsule 2.1

Examples of Strategic Visions—How Well Do They Measure Up?

Discussion Question: 1. What appears to be missing from the Coca-Cola vision statement presented in Capsule 2.1?

Answer: (1) Brevity – the statement is very long which makes it difficult to meet the 5-10 minute insider/outsider explanation criteria. (2) Future – the statement does not include a forward looking component which makes it very static.

Discussion Question: 1. What is effective in the Walmart vision statement presented in Capsule 2.1?

Answer: The statement is short, making it focused and memorable. The vision described is feasible and makes good business sense.

A. **Communicating the Strategic Vision**

1. Developing a well-conceived vision is necessary but not sufficient. Effectively communicating the strategic vision down the line to lower-level managers and employees is as important as the strategic soundness of the journey and destination for which top management has opted.

2. Winning the support of organization members for the vision nearly always means putting "where we are going and why" in writing, distributing the statement organization wide, and having executives personally explain the vision and its rationales to as many people as feasible

3. The more that a vision evokes positive support and excitement, the greater its impact in terms of arousing a committed organizational effort and getting people to move in a committed direction.

4. **Expressing the Essence of the Vision in a Slogan:** The task of effectively conveying the vision to company personnel is made easier when management's vision of where to head is captured in a catchy slogan.

5. Creating a short slogan to illuminate an organization's direction and purpose and then using it repeatedly as a reminder of the "where we are headed and why" helps keep organization members on the chosen path.

6. **Breaking Down Resistance to a New Strategic Vision:** It is particularly important for executives to provide a compelling rationale for a dramatically new strategic vision and company direction. When company personnel do not understand or accept the need for redirecting organizational efforts, they are prone to resist change.

7 **Understanding The Payoffs of a Clear Vision Statement:** A well-conceived, forcefully communicated strategic vision pays off in several respects: (1) it crystallizes senior executives' own views about the firm's long-term direction, (2) it reduces the risk of rudder-less decision making, (3) it is a tool for winning the support of organizational members for internal changes that will help make the vision a reality, (4) it provides a beacon for lower-level managers in forming departmental missions, setting departmental objectives, and crafting functional and departmental strategies that are in sync with the company's overall strategy, and (5) it helps an organization prepare for the future. When management is able to demonstrate significant progress in achieving these five benefits, the first step in organizational direction setting has been successfully completed

B. **How a Strategic Vision differs from a Mission Statement:** Whereas the chief concern of a strategic vision is with the company's future strategic course, a company's mission statement usually deals with a company's current business and purpose.

While most mission statements will not meet all of these criteria, a company's mission statement ideally should:

1. Identify the company's product or services.
2. Specify the buyer needs it seeks to satisfy.
3. Identify the customer groups or markets it is endeavoring to serve.
4. Specify its approach to pleasing customers.
5. Give the company its own identity.

CORE CONCEPT

A well-conceived mission statement conveys a company's purpose in language specific enough to give the company its own identity.

C. **Linking the Vision/Mission with Company Values**

1. By **values or core values**, we mean the beliefs, traits, and ways of doing things that management has determined should guide the pursuit of its vision and mission.

CORE CONCEPT

A company's values are the beliefs, traits, and behavioral norms that company personnel are expected to display in conducting the company's business and pursuing its strategic vision and mission.

2. Company values statements tend to contain between four and eight values, which ideally, are tightly connected to and reinforce the company's vision, strategy, and operating practices.
3. Company managers connect values to the strategic vision in one of two ways:
   a. In companies with long-standing and deeply entrenched values, mangers go to great lengths to explain how the vision is compatible with the company's value set, occasionally reinterpreting the meaning of existing values to indicate their relevance in pursuing the strategic vision.
   b. In new companies or companies with weak or incomplete sets of values, top management considers what values, beliefs, and operating principles will help drive the vision forward.
   c. The extent to which company values translate into actually living the values varies widely. At one extreme values become the company's genetic makeup—its DNA. At the other extreme values are simply window dressing (Ex., Enron)

Illustration Capsule 2.2 Zappo's Mission and Core Values

Discussion Question: Zappo states that its mission statement is influenced by a set of ten core values. What are these values and how do they influence the mission statement?

Answer: Zappo's mission is based upon their internal philosophy of "WOW" which is externally expressed as: to provide the best customer service possible. Each value statement focuses on a different facet of the enterprise and discusses how that facet helps provide the "WOW" through service, change, fun, creativity, growth, learning, positive attitude, passion, frugality, and humility.

IV. Setting Objectives: Phase 2 of the Strategy-Making, Strategy-Executing Process

1. The managerial purpose of setting **objectives** is to convert the strategic vision into specific performance targets – results and outcomes the company's management wants to achieve and then use these objectives as yardsticks for tracking the company's progress and performance.

CORE CONCEPT

Objectives are an organization's performance targets—the specific results management wants to achieve.

2. Well-stated objectives are specific, quantifiable or measurable and contain a deadline for achievement.
3. The experiences of countless companies and managers teach that precisely spelling out how much of what kind of performance by when and then pressing forward with actions and incentives calculated to help achieve the targeted outcomes will boost a company's actual performance.

A. What Kinds of Objectives to Set: The Need for a Balanced Scorecard

CORE CONCEPT

Financial objectives relate to the financial performance targets management has established for the organization to achieve.

Strategic objectives relate to target outcomes that indicate a company is strengthening its market standing, competitive vitality, and future business prospects.

The **Balanced Scorecard** is a tool that is widely used to help a company achieve its financial objectives by linking them to specific strategic objectives derived from the company's business mode.

1. Two very distinctive types of performance yardsticks are required:
   a. Those relating to financial performance
   b. Those relating to strategic performance
2. Achieving acceptable financial results is a must. Without adequate profitability and financial strength, a company's pursuit of its strategic vision, as well as its long-term health and ultimate survival, is jeopardized.
3. Of equal or greater importance is a company's strategic performance—outcomes that indicate whether a company's market position and competitiveness are deteriorating, holding steady, or improving.

4. **Illustration Capsule 2.3, Examples of Company Objectives**, shows selected objectives of several prominent companies.

Illustration Capsule 2.3

Examples of Company Objectives

Discussion Question: 1. What is the prominent purpose of an organization's stated objectives?

Answer: Objectives identify an organization's performance targets. They serve to function as measures for tracking the organization's performance and progress toward achievement of desired goals. Some specific examples include:

Nordstrom – Increase same store sales by 2-4% (Financial)

Microsoft – Grow revenue in the PC Division slightly faster than the overall PC Market (Strate-gic)

McDonald's – Reinvest $2.4B in the business with 50% directed towards opening new restau-rants around the world. (Financial and Strategic)

5. **The Case for a Balanced Scorecard: Improved Strategic Performance Fosters Better Financial Performance:** A company's financial performance measures are really lagging indicators that reflect the results of past decisions and organizational activities. The best and most reliable leading indicators of a company's future financial performance and business prospects are strategic outcomes that indicate whether the company's competitiveness and market position are stronger or weaker. The degree to which a company's managers set, pursue, and achieve stretch strategic objectives tends to be a reliable leading indicator of its ability to generate higher profits from business operations.

6. **Setting Stretch Objectives:** Objectives should be set that 'stretch' the organization to perform at its full potential. Realistic stretch objectives can increase motivation and overall performance and avoid 'ho-hum results'.

7. **Short-Term and Long-Term Objectives are Needed:** As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets. Targets of three to five years prompt considerations of what to do now to put the company in position to perform better down the road. Short-range objectives can be identical to longer-range objectives if an organization is already performing at the targeted long-term level. The most important situation in which short-range objectives differ from long-range objectives occurs when managers are trying to elevate organizational performance and cannot reach the long-range target in just one year.

8. **The Need for Objectives at All Organizational Levels:** Objective setting should not stop with top management's establishing of companywide performance targets. Company performance cannot reach full potential unless each area of the organization does its part and contributes directly to the desired companywide outcomes and results. This means setting performance targets for each organization unit that support, rather than conflict with or negate, the achievement of companywide strategic and financial objectives. The ideal situation is a team effort in which each organizational unit strives to produce results in its area of responsibility that contributes to the achievement of the company's performance targets and strategic vision.

9. **Objective Setting Needs to be Top-Down Rather Than Bottom-Up:** A top-down process of setting objectives ensures that the financial and strategic performance targets established for business units, divisions, functional departments, and operating units are directly connected to the achievement of companywide objectives. This integration of objectives has two powerful advantages: (1) it helps produce cohesion among the objectives and strategies of different parts of the organization and (2) it helps unify internal efforts to move the company along the chosen strategic path. Bottom-up objective setting, with little or no guidance from above, nearly always signals an absence of strategic leadership on the part of senior executives.

V. Crafting a Strategy: Phase 3 of the Strategy-Making, Strategy-Executing Process

A. Who Participates in Crafting a Company’s Strategy?

1. A company’s senior executives obviously have important strategy-making roles.
2. An enterprise’s chief executive officer (CEO), as captain of the ship, carries the mantles of chief direction setter, objective setter, chief strategy maker, and chief strategy implementer for the total enterprise. Ultimate responsibility for leading the strategy-making, strategy-executing process rests with the CEO.
3. In most companies, the heads of business divisions and major product lines, the chief financial officer, and vice presidents for production, marketing, human resources, and other functional departments have influential strategy-making roles.
4. It is a mistake to view strategy making as exclusively a top management function, the province of owner-entrepreneurs, CEOs, and other senior executives. The more wide-ranging a company’s operations are, the more that strategy making is a collaborative team effort involving managers and sometimes key employees down through the whole organizational hierarchy.

CORE CONCEPT

In most companies, crafting and executing strategy is a collaborative team effort in which every manager has a role for the area he or she heads. It is flawed thinking to view crafting and executing strategy as something only high-level managers do.

5. Major organizational units in a company—business divisions, product groups, functional departments, plants, geographic offices, distribution centers—normally have a leading or supporting role in the company’s strategic game plan.
6. With decentralized decision-making becoming common at companies of all stripes, it is now typical for key pieces of a company’s strategy to originate in a company’s middle and lower ranks.
7. Involving teams of people to dissect complex situations and come up with strategic solutions is becoming increasingly necessary in many businesses. Not only are many strategic issues too far-reaching or too involved for a single manger to handle, but they often cut across functional areas and departments, thus requiring the contributions of many different disciplinary experts and the collaboration of managers from different parts of the organization.
8. A valuable strength of collaborative strategy making is that the group of people charged with crafting the strategy can easily include the very people who will also be charged with implementing and executing it.
9. In some companies, top management makes a regular practice of encouraging individuals and teams to develop and champion proposals for new product lines and new business ventures. The idea is to unleash the talents and energies of promising “corporate intrapreneurs.”

B. A Company's Strategy Making Hierarchy

1. It follows that a company's overall strategy is really a collection of strategic initiatives and actions devised by managers and key employees up and down the whole organizational hierarchy.

2. The larger and more diverse the operation of an enterprise, the more points of strategic initiative it has and the more managers and employees at more levels of management that have a relevant strategy-making role.

3. Figure 2.2, A Company's Strategy-Making Hierarchy, shows who is generally responsible for devising what pieces of a company's overall strategy.

4. In diversified, multi-business companies where the strategies of several different businesses have to be managed, the strategy-making task involves four distinct types or levels of strategy, each of which involves different facets of the company's overall strategy:

   a. Corporate strategy—consists of the kinds of initiatives the company uses to establish business positions in different industries, the approaches corporate executives pursue to boost the combined performance of the set of businesses the company has diversified into, and the means of capturing cross-business synergies and turning them into competitive advantage. Senior corporate executives normally have lead responsibility for devising corporate strategy and for choosing among whatever recommended actions bubble up from the organization below.

   b. Business strategy—concerns the actions and the approaches crafted to produce successful performance in one specific line of business. The key focus here is crafting responses to changing market circumstances and initiating actions to strengthen market position, build competitive advantage, and develop strong competitive capabilities. Orchestrating the development of business-level strategy is the responsibility of the manager in charge of the business.

   c. Functional-area strategies—concerns the actions, approaches, and practices to be employed in managing particular functions or business processes or key activities within a business. Functional-area strategies add specifics to the hows of business-level strategy. The primary role of a functional-area strategy is to support the company's overall business strategy and competitive approach. Lead responsibility for functional-area strategies within a business is normally delegated to the heads of the respective functions, with the general manager of the business having final approval and perhaps even exerting a strong influence over the content of particular pieces of functional-area strategies.

   d. Operating strategies—concerns the relatively narrow strategic initiatives and approaches for managing key operating units (plants, distribution centers, geographic units) and for specific operating activities with strategic significance (advertising campaigns, the management of specific brands, supply chain-related activities, and Website sales and operations). Operating strategies add further detail and completeness to functional-area strategies and to the overall business strategy. Lead responsibility for operating strategies is usually delegated to frontline managers, subject to review and approval by higher-ranking managers.

5. In single-business enterprises, the corporate and business levels of strategy making merge into one level—business strategy. Thus, a single-business enterprise has only three levels of strategy: (1) business strategy for the company as a whole, (2) functional-area strategies for each main area within the business, and (3) operating strategies undertaken by lower echelon managers to flesh out strategically significant aspects for the company's business and functional-area strategies.

6. Proprietorships, partnerships, and owner-managed enterprises may have only one or two strategy-making levels since in small-scale enterprises the whole strategy-making, strategy-executing function can be handled by just a few people.

C. Uniting the Strategy-Making Effort

1. Ideally, the pieces and layers of a company's strategy should fit together like a jigsaw puzzle. Anything less than a unified collection of strategies weakens company performance.

2. Achieving unity in strategy making is partly a function of communicating the company's basic strategy theme effectively across the whole organization and establishing clear strategic principles and guidelines for lower-level strategy making.

D. A Strategic Vision + Objectives + Strategy = A Strategic Plan

1. Developing a strategic vision, setting objectives, and crafting a strategy are basic direction-setting tasks. Together, they constitute a strategic plan for coping with industry and competitive conditions, the expected actions of the industry's key players, and the challenges and issues that stand as obstacles to the company's success.

CORE CONCEPT

A **strategic plan** lays out the company's future direction, performance targets, and strategy.

2. In companies committed to regular strategy reviews and the development of explicit strategic plans, the **strategic plan** may take the form of a written document that is circulated to managers and perhaps, to selected employees.

3. Short-term performance targets are the part of the strategic plan most often spelled out explicitly and communicated to managers and employees.

4. **Strategic Intent: Relentless Pursuit of an Ambitious Strategic Objective:** A company's strategic intent can entail becoming the dominant company in the industry, unseating the existing industry leader, delivering the best customer service of any company in the industry or the world, or turning a new technology into products capable of changing the way people work and live.

CORE CONCEPT

A company exhibits **strategic intent** when it relentlessly pursues an ambitious strategic objective, committing to do whatever it takes to achieve the goals.

VI. Implementing and Executing the Strategy: Phase 4 of the Strategy-Making, Strategy-Executing Process

1. Managing strategy implementation and execution is an operations-oriented, make-things-happen activity aimed at shaping the performance of core business activities in a strategy-supportive manner. It is easily the most time demanding and consuming part of the strategy-management process.

2. Management's action agenda for implementing and executing the chosen strategy emerges from assessing what the company, given its particular operating practices and organizational circumstances, will have to do differently or better to execute the strategy proficiently and achieve the targeted performance.

3. In most situations, managing the strategy-execution process includes the following principal aspects:
    a. Staffing the organization with the needed skills and expertise
    b. Building and strengthening strategy-supporting resources and competitive capabilities.
    c. Organizing the work effort along the lines of best practices.
    d. Allocating ample resources to the activities critical to strategic success.
    e. Ensuring that policies and operating procedures facilitate rather than impede effective execution.
    f. Installing information and operating systems that enable company personnel to better carry out their roles effectively and efficiently.
    g. Motivating people and tying rewards and incentives directly to the achievement of performance objectives.
    h. Creating a company culture and work climate conducive to successful strategy implementation and execution.
    i. Exerting the internal leadership needed to drive implementation forward and drive continuous improvement of the strategy execution process
4. Good strategy execution requires diligent pursuit of operating excellence. It is a job for a company’s whole management team. And success hinges on the skills and cooperation of operating managers who can push needed changes in their organization units and consistently deliver good results.

**VII. Evaluating Performance and Initiating Corrective Adjustments: Phase 5 of the Strategy-Making, Strategy-
Executing Process**

1. The fifth phase of the strategy-management process—evaluating performance and initiating corrective adjustments —is the trigger point for deciding whether to continue or change the company vision, objectives, strategy, and/or strategy-execution methods.
2. Successful strategy execution entails vigilantly searching for ways to continuously improve and then making corrective adjustments whenever and wherever it is useful to do so. A company’s vision, objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process, not an every-now-and-then task.

VIII. Corporate Governance: The Role of the Board of Directors in the Strategy-Making, Strategy-Executing Process

1. Although senior managers have lead responsibility for crafting and executing a company’s strategy, it is the duty of the board of directors to exercise strong oversight and see that the five tasks of strategic management are done in a manner that benefits shareholders, in the case of investor-owned enterprises, or stakeholders, in the case of not-for-profit organizations.

Illustration Capsule 2.4

Corporate Governance Failures at Fannie Mae and Freddie Mac

Discussion Question: 1. In what way did the Board of Directors at Fannie Mae and Freddie Mac contribute to the financial failure faced by both organizations?

Answer: The government appointed boards failed to understand the risks associated with the sub-prime mortgage loan strategies their respective organizations were pursuing. The audit and compensation committees at both organizations were ineffective and allowed management to effectively substantiate their own performance bonuses with internally developed financial reports. In the case of Freddie Mac, management went so far as to manipulate financial data to improve bonus pay. The boards of both companies also failed to heed internal and external warnings of the impending financial crisis which lead to losses for both firms totaling more than $100 billion in 2008.

2. In watching over management's strategy-making, strategy-executing actions and making sure that executive actions are not only proper but also aligned with the interests of stakeholders, a company's board of directors have three obligations to fill:

    a. Critically appraise the company's direction, strategy, and business approaches.

    b. Evaluate the caliber of senior executives' strategic leadership skills.

    c. Institute a compensation plan for top executives that rewards them for actions and results that serve stakeholders interests and most especially those of shareholders

    d. Oversee the company's financial accounting and financial reporting practices.

3. The number of prominent companies that have fallen on hard times because of the actions of scurrilous or out-of-control CEOs, the growing propensity of disgruntled stockholders to file lawsuits alleging director negligence, and the escalating costs of liability insurance for directors all underscore the responsibility that a board of directors has for overseeing a company's strategy-making, strategy-executing process and ensuring that management actions are proper and responsible.

4. Every corporation should have a strong, independent board of directors that has the courage to curb management actions they believe are inappropriate or unduly risky.

5. Boards of directors have a very important oversight role in the strategy-making, strategy-executing process.

ASSURANCE OF LEARNING EXERCISES

1. Using the information in Table 2.1, critique the adequacy and merit of the following vision statements, listing effective elements and shortcomings. Rank the vision statements from best to worst once you complete your evaluation.

Company Name	Effective Elements	Shortcomings
Wells Fargo	• Graphic • Feasible • Easy to communicate	• Vague • Not distinctive
Hilton Hotels Corporation	• Directional • Focused • Feasible • Desirable	• Not forward-looking • Not distinctive
The Dental Products Division of 3M Corporation	• Directional • Desirable • Easy to communicate	• Vague or incomplete • Not distinctive
H. J. Heinz Corporation	• Graphic • Flexible • Easy to Communicate	• Vague • Not forward-looking
Chevron	• Directional • Focused • Flexible • Desirable	• Too reliant on superlatives

A suggested ranking of the vision statements from best to worst is: Chevron, Hilton Hotels Corporation, H. J. Heinz Corporation, Wells Fargo, and The Dental Products Division of 3M Corporation.

2. Go to the company Web sites for Home Depot (http://corporate.homedepot.com/); Avon (www.avoncompany.com); and Yum Brands, a restaurant company that includes KFC, Pizza Hut, and Taco Bell (www.yum.com), to find some examples of strategic and financial objectives. Make a list of four objectives for each company and indicate which of these are strategic and which are financial. Below are examples that students might find:

Home Depot

1. 10-K Statement, Exit Home Décor market segment (Strategic).
2. 10-K Statement, Focus on Do It Yourself, Do It For Me, and Professional Customer market segments (Strategic).
3. 2nd Quarter fiscal 2010 Press Release, Grow sales by 2.6% for the year (Financial).
4. 2nd Quarter fiscal 2010 Press Release, Raise EPS to $1.90 for the year (Financial).

Avon

1. 10-K Statement, improving brand competitiveness by focusing research and development resources on product innovation and by increasing our advertising (Strategic).
2. 10-K Statement, elevating organizational effectiveness by redesigning our structure to eliminate layers of management in order to take full advantage of our global scale and size (Strategic).
3. 4th Quarter fiscal 2009 and Year Press Release, 5% revenue growth during 2010 (Financial)
4. 4th Quarter fiscal 2009 and Year Press Release, operating margin reaching 15% by 2013 (Financial).

Yum Brands

1. FY 2010 Detailed Guidance Report - Build leading brands across China in every significant category (Strategic).
2. FY 2010 Detailed Guidance Report - dramatically improve U.S. brand positions (Strategic).
3. FY 2010 Detailed Guidance Report - generate global same-store-sales growth of about 2% (Financial).
4. FY 2010 Detailed Guidance Report - deliver EPS growth of at least 10% for FY2010 (Financial)

3. Go to www.dell.com/leadership and read the sections dedicated to its board of directors and corporate governance. Using evidence from these sections, discuss whether there is effective governance at Dell in regard to (1) accurate financial reports and controls, (2) a critical appraisal of strategic action plans, (3) evaluation of the strategic leadership skills of the CEO, and (4) executive compensation.

   Students should recognize there is evidence the board of directors for Dell has the responsibility to exercise oversight and direction over management. First, there are 12 directors, and 10 of these directors are independent. The definition of independence is: "A director will be considered to be "independent" only if the Board affirmatively determines that the director does not have any direct or indirect material relationship with Dell that may impair, or appear to impair, the director's ability to make independent judgments." The Board has established a set of Corporate Governance Principles that are designed to reflect a set of core values that provide the foundation for the Board's approach to governance. These Principles clearly outline the roles of the Board and management. A review of these roles indicates the Board has significant responsibilities in the following areas: management planning and oversight, strategic and operational planning, major corporate actions, financial reporting, governance, compliance and risk management, and general advice to management. The Principles distinctly outline the following: Board composition and structure which includes standards for a Board member to be declared independent; guidelines for the conduct of Board meetings; and activities related to other Board operations and practices which includes open access to management. The information in the Principles indicates the four obligations outlined in this chapter for a company's Board of Directors are most likely fulfilled.