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Academic Scripts

Introduction:

This session deals with establishing strategic controls.There are four types of strategic control.

- Premise control
- (a) Environmental factors
- (b) Industry factors
- Strategic surveillance
- Special alert control
- Implementation control
- (a) Monitoring strategy thrust
- (b) Milestone reviews

The chapter will explore the idea of operational control system. Operational control systems are derived from the requirements of the management control system. Control standards are broadly divided into two categories.1.Qualitative standard 2.Quantitative standard

- **Strategic control:**

"Strategic control focuses on the dual questions of whether:

(1) The strategy is being implemented as planned; and

(2) The results produced by the strategy are those intended. "

This definition refers to the traditional review and feedback stages, which constitutes the last step in the strategic management process. Normative models of the strategic management process have depicted it as

including there primary stages: strategy formulation, strategy implementation, and strategy evaluation (control).

Strategy evaluations concerned primarily with traditional controls processes which involves the review and feedback of performance to determine if plans, strategies, and objectives are being achieved, with the resulting information being used to solve problems or take corrective actions.

Recent conceptual contributors to the strategic control literature have argued for anticipatory feed forward controls, that recognize a rapidly changing and uncertain external environment.

Schreyogg and Steinmann (1987) have made a preliminary effort, in developing new system to operate on a continuous basis, checking and critically evaluating assumptions, strategies and results.

They refer to strategic control as “the critical evaluation of plans, activities, and results, thereby providing information for the future action“.

Schreyogg and Steinmann based on the shortcomings of feedback-control. Two central characteristics if this feedback control is highly questionable for control purposes in strategic management:

(a) Feedback control is post-action control and

(b) Standards are taken for granted.

Schreyogg and Steinmann proposed an alternative to the classical feedback model of control: a 3-step model of strategic control which includes premise control, implementation control, and strategic surveillance. Pearce and Robinson extended this model and added a component “special alert control” to deal specifically with low probability, high impact threatening events.

Strategic Control

Strategic control involves tracking a strategy as it's being implemented. It's also concerned with detecting problems or changes in the strategy and making necessary adjustments. As a manager, you tend to ask yourself questions, such as whether the company is moving in the right direction, or whether your assumptions about major trends and changes in the company's environment are correct. Such questions necessitate the establishment of strategic controls

There are four types of strategic control.

1Premise control

- (a) Environmental factors
- (b) Industry factors

2. Strategic surveillance

3. Special alert controls

4. Implementation control

- (a) Monitoring strategy thrust
- (b) Milestone reviews

1. Premise Control in Strategic Control

Every strategy is based on certain planning premises or predictions. Premise control is designed to check methodically and constantly whether the premises on which a strategy is grounded on are still valid. If you discover that an important premise is no longer valid, the strategy may have to be changed. This is because the strategy can be adjusted to reflect the reality.

Planning premises/assumptions are established early on in the strategic planning process and act as a basis for formulating strategies.

"Premise control has been designed to check systematically and continuously whether or not the premises set during the planning and implementation processes are still valid.

It involves the checking of environmental conditions. Premises are primarily concerned with two types of factors:

(a) Environmental factors (for example, inflation, technology, interest rates, regulation, and demographic/social changes).

(b) Industry factors (for example, competitors, suppliers, substitutes, and barriers to entry).

All premises may not require the same amount of control.

2. Strategic Surveillance in Strategic Control

Strategic surveillance is designed to observe a wide range of events within and outside your organization that are likely to affect the track of the organization's strategy. It's based on the idea that can uncover important yet unanticipated information by monitoring multiple information sources. Such sources include trade magazines, journals such as The Wall Street Journal, trade conferences, conversations and observations.

Compared to premise control and implementation control, strategic surveillance is designed to be a relatively unfocused, open, and broad search activity.

"Strategic surveillance is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy."

The basic idea behind strategic surveillance is that some form of general monitoring of multiple information sources should be encouraged, with the specific intent being the opportunity to uncover important yet unanticipated information.

Strategic surveillance appears to be similar in some way to "environmental scanning." Environmental, scanning usually is seen as part of the chronological planning cycle devoted to generating information for the new plan.

By way of contrast, strategic surveillance is designed to safeguard the established strategy on a continuous basis.

3. Special Alert Control in Strategic Control

A special alert control is the rigorous and rapid reassessment of an organization's strategy because of the occurrence of an immediate, unforeseen event. An example of such event is the acquisition of your competitor by an outsider. Such an event will trigger an immediate and intense reassessment of the firm's strategy.

“A special alert control is the need to thoroughly, and often rapidly, reconsiders the firm’s basis strategy based on a sudden, unexpected event.”

The analysts of recent corporate history are full of such potentially high impact surprises (i.e., natural disasters, chemical spills, plane crashes, product defects, hostile takeovers etc.).

While Pearce and Robinson suggest that special alert control be performed only during strategy implementation, Preble recommends that because special alert controls are really a subset of strategic surveillance that they be conducted throughout the entire strategic management process.

The characteristics of each control component, including the component’s purpose, mechanism used to implement it, the procedure to be followed, degree of focusing, information sources, and organizational/personnel to be utilized.

4. Implementation Control in Strategic Control

Implementing a strategy takes place as a series of steps, activities, investments and acts that occur over a long period. As a manager, you’ll mobilize resources, carry out special projects and employ or reassign staff.

Implementation control is the type of strategic control that must be carried out as events unfold.

There are two types of implementation controls:

1. Strategic thrusts or projects,

2. Milestone reviews.

Strategic thrusts provide information that helps to determine whether the overall strategy is shaping up as planned. With milestone reviews, you monitor the progress of the strategy at various intervals or milestones.

Strategic implementation control provides an additional source of feed forward information.

“Implementation control is designed to assess whether the overall strategy should be changed in light of unfolding events and results associated with incremental steps and actions that implement the overall strategy.”

Unlike operations control, strategic implementation control continuously questions the basic direction of the strategy.

The two basis types of implementation control are:

- **Monitoring strategic thrusts (new or key strategic programs).**

Two approaches are useful in enacting implementation controls focused on monitoring strategic thrusts:

(1) One way is to agree early in the planning process on which thrusts are critical factors in the success of the strategy or of that thrust;

(2) The second approach is to use stop/go assessments linked to a series of meaningful thresholds (time, costs, research and development, success, etc.) associated with particular thrusts

• **Milestone Reviews:**

Milestones are significant points in the development of a program, such as points where large commitments of resources must be made. A milestone review usually involves a full-scale reassessment of the strategy and the advisability of continuing or refocusing the direction of the company. In order to control the current strategy, must be provided in strategic plans.

2. Operational control system:

Operating Control

Operational control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. It focuses on events in a recent period. Operational control systems are derived from the requirements of the management control system.

Corrective action is taken where performance does not meet standards. This action may involve training, motivation, leadership, discipline, or termination.

Differences between Strategic and Operational Control

The differences between strategic and operational control are highlighted by reference to a general definition of management control: "**Management control is the set of measurement, analysis, and action decisions required for the timely management of the continuing operation of a process**".

Operational control systems help operating managers to implement strategy at their level. These systems help to guide, monitor, and evaluate progress in meeting of the annual objectives of the company. Corporate resource planning, budgets, and policies and procedures are three important topics in operational control. The most common types of budgets that translate company objectives are revenue budgets, capital budgets, and expenditure budgets. Many organizations have shifted their focus away from traditional budgets to 'rolling budgets' or 'rolling forecasts'.

Time Control Measurement Techniques of Operation

Control of Operations - Network Models - (PERT, CPM, Balanced scorecard, Benchmarking)

Program Evaluation and Review Technique (PERT) and the **Critical Path Method** (CPM) are two popular quantitative analysis techniques that help managers to plan, schedule, monitor, and control large and complex projects.

After the Special Projects Office of the U.S. Navy introduced it on the Polaris missile project in 1958, **PERT** was widely credited with helping to reduce by two years the time for the completion of the missile's engineering and development programs.

Around the same time, *Du Pont*, with the help of Remington-Rand, created a similar network planning approach called the **Critical Path Method** (CPM). The result of their efforts was a network model termed the critical path method.

There are six steps common to both PERT and CPM. The procedure is as follows:

• Define the project and all of its significant activities or tasks.

• Develop the relationships among the activities. Decide which activities must precede and follow others.

• Draw the network connecting all of the activities.

• Assign time and/or cost estimates to each activity.

• Compute the longest time path through the network; this is called the critical path.

• Use the network to help plan, schedule, monitor, and control the project.

Finding the critical path is a major part of controlling a project.

Although **PERT** and **CPM** are similar in their basic approach, they do differ in the way of activity times are estimated. **PERT** is a probabilistic technique: it allows us to find the probability the entire project will be completed by any given data. **CPM** is called a deterministic approach. It uses two time estimates, the normal time (the time we estimates it will take under normal conditions to complete the activity) and the crash time (the shortest time it would take to finish an activity if additional funds and resources were allocated to the task) for each activity. Because of their similarity, only **PERT** will be discussed in detail.

PERT networks are developed around two key concepts: activities and events. An activity represents a task or subproject that uses time or resources. It is represented by an arrow. An event is an indication of the beginning and /or ending of activities in the network. It is denoted by a circle, which contains a number that helps identify its location.

In constructing a **PERT** network, manager must first develop a list of the major activities that are involved in the project and then determine which activities must precede others. The next step is constructing a network diagram, a graphic depiction of the interrelationship among activities.

Developing the diagram may also include providing initial time estimates for the duration of each activity. Providing activity time estimates is not always an easy task. For this reason, the developers of **PERT** employed a probability distribution based on three time estimates for each activity: **optimistic time** (a), **most likely time** (m), and **pessimistic time**

PERT is especially useful for planning and controlling large projects, particularly if there are uncertainties about activity durations and/ or trade-offs between resource usage and projects completion times.

'The Balanced Scorecard (BSC)' is a concept that combines financial and non-financial measures, short-term and long-term goals, the organization's market performance and internal improvements, past outputs, and ongoing requirements. The BSC framework considers the customer perspective (To achieve vision, how should we appear to customers?); internal business process perspective (To satisfy our customers and shareholders, what business processes must we excel at?); and the innovation/learning and growth perspective (To achieve our vision, how will sustain our ability to change and improve?); in addition to the financial perspective (To succeed financially, how should it appear to our shareholders?). In the implementation of the BSC, these perspectives are seen and evaluated in an interconnected manner and not as standalone perspectives. The BSC is useful as a tool for strategic performance control and strategic learning.

Operational control systems help operating managers to implement strategy at their level. These systems help to guide, monitor, and evaluate progress in meeting the annual objectives of the company. Corporate resource planning, budgets, and policies and procedures are three important topics in operational control. The most common types of budgets that translate company objectives are revenue budgets, capital budgets, and expenditure budgets. Many organizations have shifted their focus away from traditional budgets to 'rolling budgets' or 'rolling forecasts'.

Benchmarking

Benchmarking has transformed the way businesses are organized, managed and run. Benchmarking is the process of improving performance by continuously identifying, understanding (studying and analyzing), and

adapting outstanding practices and processes found inside and outside the organization, and implementing them in the organization. Benchmarking is beneficial in raising operational efficiency. Operational efficiency leads to gains in productivity that can result in increased profits. But benchmarking is not a strategic decision-making tool.

Operational control

Establishment of standards: Standards are the targets against which subsequent performance will be compared. They serve as the benchmarks because they specify acceptable levels of performance.

Control standards are broadly divided into two categories:

1 Quantitative standards: These are generally expressed in physical or monetary terms. Such standards are set up in respect of production, finance, sales, etc. where results can be measured in exact quantitative terms.

Quantitative standards may further be divided as follows:

Time standards: Time standards state the length of time it should take to make a certain good or perform certain service. An airline has a standard time span in which to make a certain trip.

Cost standards: Cost standards are based on the cost of producing the goods or services. For example, the material cost might be Rupees 10 per unit. Cost standards specify the cost limits within which results should be achieved.

Productivity standards: Standards of productivity are based on the output of goods or services during a set time period. For instance, a productivity standard might be to complete 10 units or serve 150 customers per hour.

Revenue standards: They arise from attaching monetary values to sales. They may include such standards as revenue per passenger – mile, average sales per customer or sales per capita in a given market area.

2. Qualitative standards: Standards of quality are based on the level of perfection desired in respect of certain intangible items such as goodwill, employee morale, industrial relations etc. Tests, surveys, and sampling techniques are used to prove human attitudes.

How to set the standards?

Setting standards for every operation is an unavoidable task of management:

- Before setting standards an executive must study the characteristics of the work.
- Executives must consider ordinarily flexible and generally acceptable levels of good performance in terms of work characteristics
- As nature of work differs with every operation (unit), the characteristics are different and so are the standards.

• Standards are set, thus, depending on the characteristics of the task.

Requirements of performance

• Set in precise quantitative terms.

• Flexible enough to modify whenever required.

• Clear and understandable to all.

• Workable and acceptable.

• Take care of all critical points that cover the entire organization

• Revise periodically and keep up to date.

The actual performance of employee is measured against the standard fixed for his job. This should be done in an objective manner. Where standards are expressed in numerical terms, measurement does not create problems.

For example, performance of a worker in terms of units produced in a week could be easily measured against the standard output for the week.

On the other hand, measuring the performance of a HR manager (where standards cannot be set in precise terms) is not easy. In that case indirect measures such as number of strikes organized during his tenure.

Generally, speaking measurements of performance is more difficult at the higher levels of management. Measurement can be done directly through personal observation or indirectly through regular reports (oral or written).

Summary:

In this chapter we discussed establishing strategic controls. Students learnt about four types of strategic control. 1Premise control 2 Strategic surveillance 3 Special alert controls 4Implementation control

Students got knowledge about time control measurement techniques of operation, Control of Operations - Network Models - (PERT, CPM, Balance score card, Benchmarking)

Moreover students got idea about operational control system. Students cleared with two important categories of control standards namely qualitative standards and quantitative standards. In quantitative standards we further discussed time standard, cost standard, revenue standard, productivity standard.