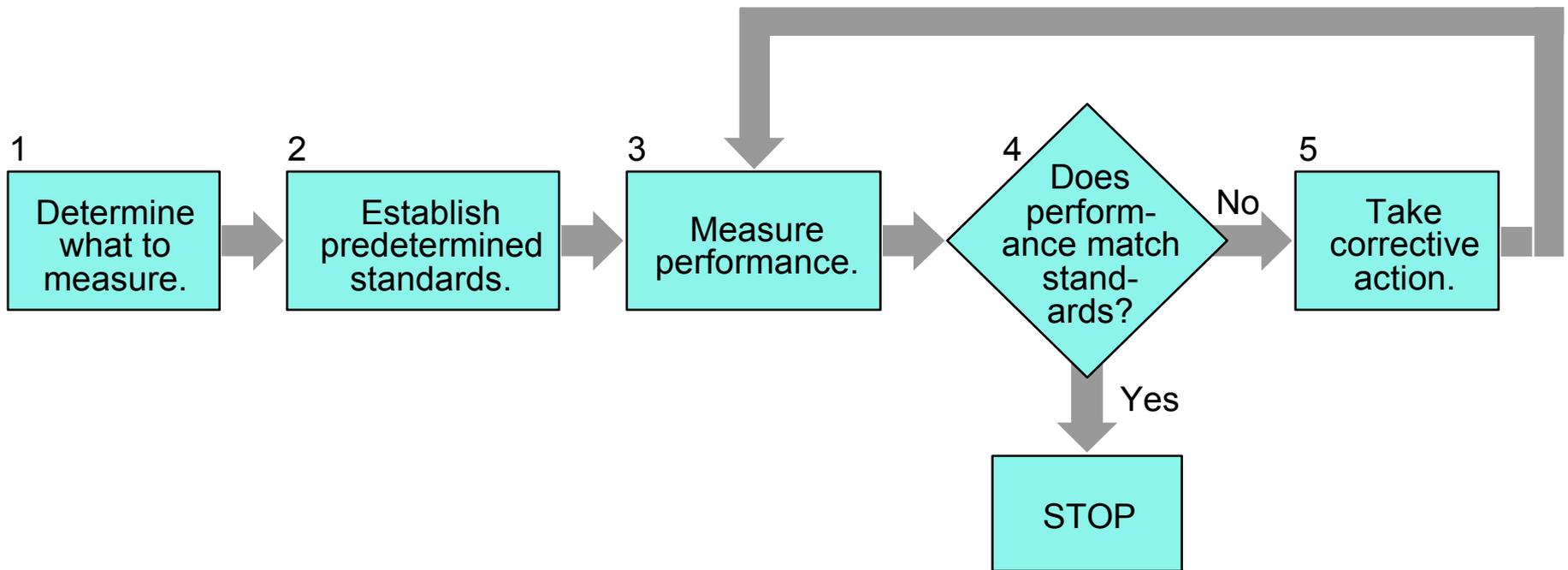
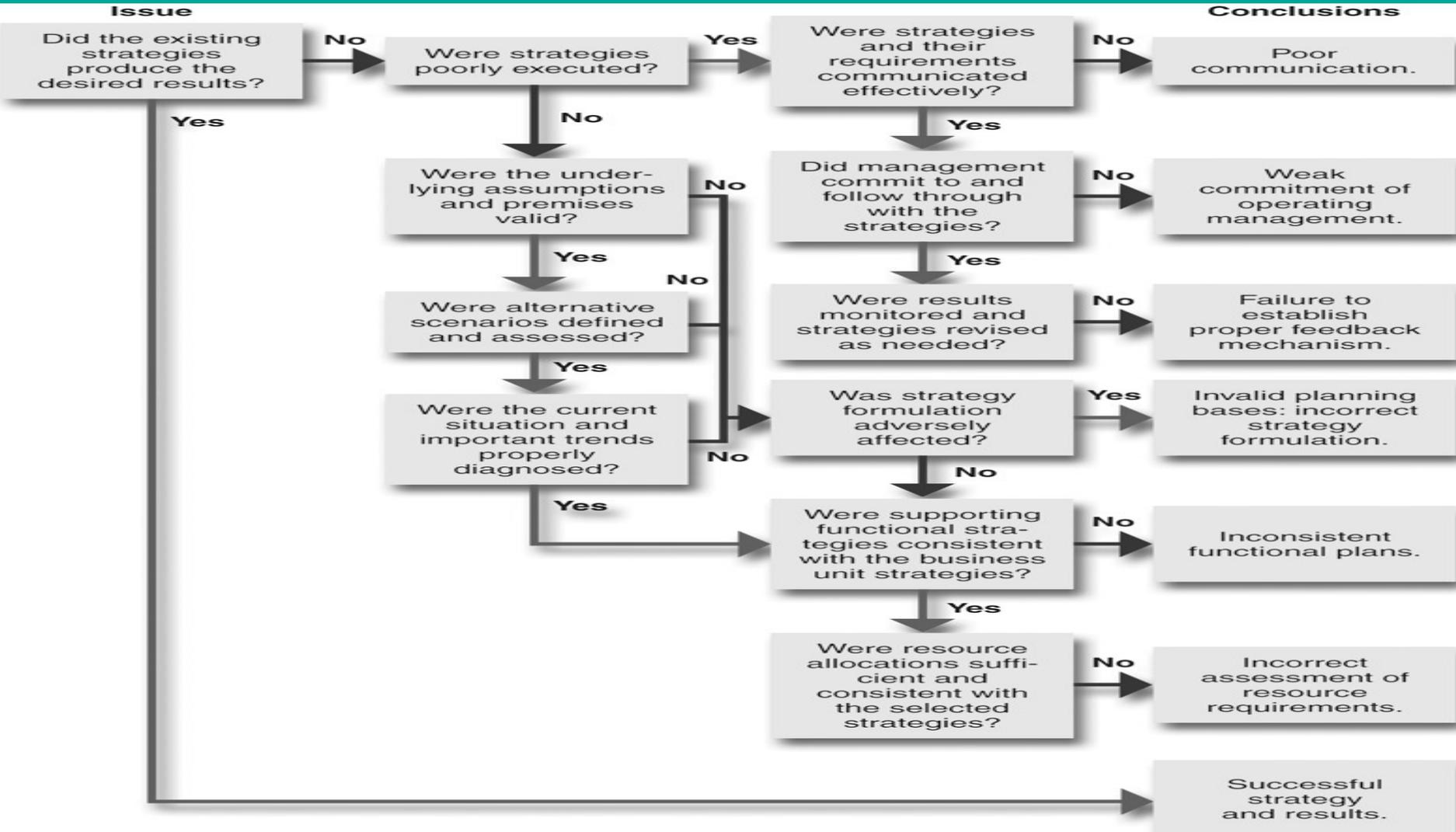


Evaluation and Control Process



Measuring Performance

- **Appropriate measures: ROI, steering controls**
- **Types of control**
- **Activity based costing**
- **Enterprise risk management**
- **Primary measures of corporate performance**



Types of Control

- **Behavior controls** : how something is to be done (policies, rules, SOP)
- **Output controls**: what is to be accomplished (objectives, performance targets, milestones)
- **Input controls**: focus on resources (knowledge, skills, abilities, values, motives of employees)

Activity- Based Costing (ABC)

- **Is an accounting method for allocating indirect and fixed costs to individual product lines based on the value-added activities going into that product**
- **Useful in doing a value chain analysis of a firm's activities to make outsourcing decisions**

Enterprise risk management

- **A corporate wide, integrated process for managing the uncertainties that could negatively or positively influence the achievement of a corporation's objectives**

Process of Rating Risks

1. Identify the risks, using scenario analysis or brainstorming or by performing risk self-assessments
2. Rank the risks, using some scale of impact and likelihood
3. Measure the risks, using some agreed upon standards

Balanced Scorecard

1. Financial
2. Customer
3. Internal Business Perspective
4. Innovation and learning

Primary Measures of Corporate Performance

- **Traditional Financial Measures**
- **Stakeholders measures**
- **Shareholder value**
- **Balanced Scorecard approach : using key performance measures**
- **Evaluating top management and the board of directors**

Primary measures of Divisional and Functional Performance

- **Responsibility Centers**
- **Using benchmarking to evaluate performance**

Responsibility Centers

- **Standard cost centers: (used in manufacturing facilities)**
- **Revenue centers: in terms of sales or units**
- **Expense centers : (resources without product costs: administrative, service and research) departments**
- **Profit centers**
- **Investment centers : ROI**

Definition of Benchmarking

- **The continual process of measuring products, services, and practices against toughest competitors or those companies recognized as industry leaders**

Steps in the Benchmarking Process

1. Identify area / process to be examined
2. Find behavioral and output measures of the area or process and obtain measurements
3. Select a set of competitors and best-in-class companies against which to benchmark
4. Calculate differences between company's performance measurements and those of the best-in-class and determine why the differences exist
5. Develop tactical programs for closing performance gaps
6. Implement the programs, measure the results, and compare results with those of the best-in-class companies

International Measurement Issues

- **International Transfer Pricing (used to minimize taxes)**
- **Repatriation of profits**
- **Piracy : counterfeit copies**

- 
- **Focus on the best competitors in benchmarking and the worst ones when you go for market share- not the reverse**

Problems in Measuring Performance

- **Short-term orientation**
- **Goal displacement**
 - Behavior substitution**
 - Suboptimization**

Critical Success Factors

- **Those things that must go well to ensure success: 20% of the factors that determine 80% of the performance**

Strategic Incentive Management

Approaches to Tie Rewards with Strategic Performance

- **Weighted-factor method**
- **Long-term evaluation method**
- **Strategic-funds method**

Weighted Factor Approach to Strategic Incentive Management

Strategic Business Unit Category	Factor	Weight
High Growth	Return on assets	10%
	Cash flow	0%
	Strategic-funds programs (developmental expenses)	45%
	Market-share increase	<u>45%</u>
		<u>100%</u>
Medium Growth	Return on assets	25%
	Cash flow	25%
	Strategic-funds programs (developmental expenses)	25%
	Market-share increase	<u>25%</u>
		<u>100%</u>
Low Growth	Return on assets	50%
	Cash flow	50%
	Strategic-funds programs (developmental expenses)	0%
	Market-share increase	<u>0%</u>
		<u>100%</u>

Source: Reprinted by permission of the publisher from "The Performance Measurement and Reward System: Critical to Strategic Management," by Paul J. Stonich, from *Organizational Dynamics* (Winter 1984), p. 51. Copyright © 1984 by American Management Association, New York. All rights reserved.

Table 10.5**Strategic Audit of
a Corporation**
1. Current Situation

A. Current Performance See Section 10.2 on pages 234–238.

How did the corporation perform the past year overall in terms of return on investment, market share, and profitability?

B. Strategic Posture See Section 1.3 on pages 10–14.

What are the corporation's current mission, objectives, strategies, and policies?

1. Are they clearly stated or are they merely implied from performance?
2. Mission: What business(es) is the corporation in? Why?
3. Objectives: What are the corporate, business, and functional objectives? Are they consistent with each other, with the mission, and with the internal and external environments?

Table 10.5 Strategic Audit of a Corporation (continued)

4. Strategies: What strategy or mix of strategies is the corporation following? Are they consistent with each other, with the mission and objectives, and with the internal and external environments?

5. Policies: What are they? Are they consistent with each other, with the mission, objectives, and strategies, and with the internal and external environments?

6. Do the current mission, objectives, strategies, and policies reflect the corporation's international operations — whether global or multidomestic?

II. Corporate Governance

A. Board of Directors See Section 2.1 on pages 26–35.

1. Who are they? Are they internal or external?

2. Do they own significant shares of stock?

Table 10.5 Strategic Audit of a Corporation (continued)

- 3. Is the stock privately held or publicly traded? Are there different classes of stock with different voting rights?**
- 4. What do they contribute to the corporation in terms of knowledge, skills, background, and connections? If the corporation has international operations, do board members have international experience?**
- 5. How long have they served on the board?**
- 6. What is their level of involvement in strategic management? Do they merely rubber-stamp top management's proposals or do they actively participate and suggest future directions?**

B. Top Management **See Sections 2.2 to 2.4 on pages 35–48.**

- 1. What person or group constitutes top management?**

Table 10.5 Strategic Audit of a Corporation (continued)

- 2. What are top management's chief characteristics in terms of knowledge, skills, background, and style? If the corporation has international operations, does top management have international experience? Are executives from acquired companies considered part of the top management team?**
- 3. Has top management been responsible for the corporation's performance over the past few years? How many managers have been in their current position for less than 3 years? Were they internal promotions or external hires?**
- 4. Has it established a systematic approach to strategic management?**
- 5. What is its level of involvement in the strategic management process?**
- 6. How well does top management interact with lower level managers and with the board of directors?**

Table 10.5 Strategic Audit of a Corporation

7. Are strategic decisions made ethically in a responsible manner?

8. Is top management sufficiently skilled to cope with likely future challenges?

(continued)

III. External Environment: Opportunities and Threats (SWOT)

A. Societal Environment

See Section 3.1 on pages 53–60.

1. What general environmental forces are currently affecting both the corporation and the industries in which it competes? Which present current or future threats? Opportunities? See Table 3.1 on page 55.

a) Economic

b) Technological

c) Political-legal

d) Sociocultural

2. Are these forces different in other regions of the world?

Table 10.5 Strategic Audit of a Corporation (continued)

B. Task Environment **See Section 3.2 on pages 60–72.**

1. What forces drive industry competition? Are these forces the same globally or do they vary from country to country?

a) Threat of new entrants

b) Bargaining power of buyers

c) Threat of substitute products or services

d) Bargaining power of suppliers

e) Rivalry among competing firms

f) Relative power of unions, governments, special interest groups, etc.

2. What key factors in the immediate environment (that is, customers, competitors, suppliers, creditors, labor unions, governments, trade associations, interest groups, local communities, and shareholders) are currently affecting the corporation? Which are current or future threats? Opportunities?

Table 10.5 Strategic Audit of a Corporation

C. Summary of External Factors. See EFAS Table on pages 75–76.

Which of these forces and factors are the most important to the corporation and to the industries in which it competes at the present time? Which will be important in the future?

IV. Internal Environment: Strengths and Weaknesses (SWOT)

A. Corporate Structure
87–89 and 192–197.

See Sections 4.3 and 8.4 on pages

1. How is the corporation structured at present?

a) Is the decision-making authority centralized around one group or decentralized to many units?

b) Is it organized on the basis of functions, projects, geography, or some combination of these?

2. Is the structure clearly understood by everyone in the corporation?

Table 10.5 Strategic Audit of a Corporation

3. Is the present structure ~~(consistent with)~~ corporate objectives, strategies, policies, and programs as well as with the firm's international operations?

4. In what ways does it compare with similar corporations?

B. Corporate Culture

See Section 4.3 on pages 89–90.

1. Is there a well-defined or emerging culture composed of shared beliefs, expectations, and values?

2. Is the culture consistent with the current objectives, strategies, policies, and programs?

3. What is the culture's position on important issues facing the corporation (that is, on productivity, quality of performance, adaptability to changing conditions, and internationalization)?

4. Is the culture compatible with the employees' diversity of backgrounds?

5. Does the company take into consideration the values of each nation's culture in which the firm operates?

Table 10.5 Strategic Audit of a Corporation (continued)

C. Corporate Resources

1. Marketing See Section 4.3 on pages 90–91.

- a) What are the corporation's current marketing objectives, strategies, policies, and programs?
 - i) Are they clearly stated, or merely implied from performance and/or budgets?
 - ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- b) How well is the corporation performing in terms of analysis of market position and marketing mix (that is, product, price, place, and promotion) in both domestic and international markets? What percentage of sales comes from foreign operations?
 - i) What trends emerge from this analysis?

Table 10.5 Strategic Audit of a Corporation

(continued)

- ii) What impact have these trends had on past performance and how will they probably affect future performance?
- iii) Does this analysis support the corporation's past and pending strategic decisions?**
- iv) Does marketing provide the company with a competitive advantage?**
- c) How well does this corporation's marketing performance compare with that of similar corporations?**
- d) Are marketing managers using accepted marketing concepts and techniques to evaluate and improve product performance? (Consider product life cycle, market segmentation, market research, and product portfolios.)**
- e) Does marketing adjust to the conditions in each country in which it operates?**
- f) What is the role of the marketing manager in the strategic management process?

Table 10.5 Strategic Audit of a Corporation (continued)

- 2. Finance** See Sections 4.3 and 14.3 on pages 91–93 and 320–326.
- a) What are the corporation's current financial objectives, strategies, policies, and programs?
 - i) Are they clearly stated or merely implied?
 - ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
 - b) How well is the corporation performing in terms of financial analysis?
 - i) What trends emerge from this analysis?
 - ii) Are there any significant differences when statements are calculated in constant versus reported dollars?
 - iii) What impact have these trends had on past performance and how will they probably affect future performance?

Table 10.5 Strategic Audit of a Corporation

(continued)

- iv) Does this analysis support the corporation's past and pending strategic decisions?
- v) Does finance provide the company with a competitive advantage?
- c) How well does this corporation's financial performance compare with that of similar corporations?
- d) Are financial managers using accepted financial concepts and techniques to evaluate and improve current corporate and divisional performance? (Consider financial leverage, capital budgeting, ratio analysis, and managing foreign currencies.)
- e) Does finance adjust to the conditions in each country in which the company operates?
- f) What is the role of the financial manager in the strategic management process?

Table 10.5 Strategic Audit of a Corporation

3. Research and Development (R&D). See Section 4.3 on pages 93–96.

(continued)

- a) What are the corporation's current R&D objectives, strategies, policies, and programs?
- i) Are they clearly stated, or merely implied from performance and/or budgets?
- ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- iii) What is the role of technology in corporate performance?
- iv) Is the mix of basic, applied, and engineering research appropriate given the corporate mission and strategies?
- v) Does R&D provide the company with an advantage?

Table 10.5 Strategic Audit of a Corporation (continued)

- b) What return is the corporation receiving from its investment in R&D?**
- c) Is the corporation competent in technology transfer? Does it use concurrent engineering and cross-functional work teams in product and process design?**
- d) What role does technological discontinuity play in the company's products?**
- e) How well does the corporation's investment in R&D compare with the investments of similar corporations?**
- f) Does R&D adjust to the conditions in each country in which the company operates?**
- g) What is the role of the R&D manager in the strategic management process?**

Table 10.5 Strategic Audit of a Corporation

(continued)

4. Operations and Logistics See Section 4.3 on pages 96–98.

- a) What are the corporation's current manufacturing/service objectives, strategies, policies, and programs?
 - i) Are they clearly stated, or merely implied from performance and/or budgets?
 - ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and environments?
- b) What is the type and extent of operations capabilities of the corporation? How much is done domestically versus internationally? Is the amount of outsourcing appropriate to be competitive? Is purchasing being handled appropriately?
 - i) If product-oriented, consider plant facilities, type of manufacturing system, age and type of equipment, degree and role of automation and/or robots, plant capacities and utilization, productivity ratings, availability and type of transportation.

Table 10.5 Strategic Audit of a Corporation (continued)

- ii) If service-oriented, consider service facilities (hospital, theater, or school buildings), type of operations systems (continuous service over time to same clientele or intermittent service over time to varied clientele), age and type of supporting equipment, degree and role of automation and/or use of mass communication devices (diagnostic machinery, video-tape machines), facility capacities and utilization rates, efficiency ratings of professional/ service personnel, availability service personnel, availability and type of transportation to bring service staff and clientele together.
- c) Are manufacturing or service facilities vulnerable to natural disasters, local or national strikes, reduction or limitation of resources from suppliers, substantial cost increases of materials, or nationalization by governments?

Table 10.5 Strategic Audit of a Corporation (continued)

- d) Is there an appropriate mix of people and machines, in manufacturing firms, or of support staff to professionals, in service firms?
- e) How well does the corporation perform relative to the competition? Is it balancing inventory costs (warehousing) with logistical costs (just-in-time)? Consider costs per unit of labor, material, and overhead; downtime; inventory control management and/or scheduling of service staff; production ratings; facility utilization percentages; and number of clients successfully treated by category (if service firm) or percentage of orders shipped on time (if product firm).
- i) What trends emerge from this analysis?
- ii) What impact have these trends had on past performance and how will they probably affect future performance?
- iii) Does this analysis support the corporation's past and pending strategic decisions?

Table 10.5 Strategic Audit of a Corporation (continued)

iv) Does operations provide the company with a competitive advantage?

f) Are operations managers using appropriate concepts and techniques to evaluate and improve current performance?

Consider cost systems, quality control and reliability systems, inventory control management, personnel scheduling, TQM, learning curves, safety programs, and engineering programs that can improve efficiency of manufacturing or of service.

g) Does operations adjust to the conditions in each country in which it has facilities?

h) What is the role of the operations manager in the strategic management process?

5. Human Resources Management (HRM) See Section 4.3 on pages 98–100.

a) What are the corporation's current HRM objectives, strategies, policies, and programs?

Table 10.5 Strategic Audit of a Corporation (continued)

- i) Are they clearly stated, or merely implied from performance and/or budgets?
- ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- b) How well is the corporation's HRM performing in terms of improving the fit between the individual employee and the job? Consider turnover, grievances, strikes, layoffs, employee training, and quality of work life.
- i) What trends emerge from this analysis?
- ii) What impact have these trends had on past performance and how will they probably affect future performance?
- iii) Does this analysis support the corporation's past and pending strategic decisions?
- iv) Does HRM provide the company with a competitive advantage?

Table 10.5 Strategic Audit of a Corporation

(continued)

- c) How does this corporation's HRM performance compare with that of similar corporations?
- d) Are HRM managers using appropriate concepts and techniques to evaluate and improve corporate performance? Consider the job analysis program, performance appraisal system, up-to-date job descriptions, training and development programs, attitude surveys, job design programs, quality of relationship with unions, and use of autonomous work teams.
- e) How well is the company managing the diversity of its workforce?
- f) Does HRM adjust to the conditions in each country in which the company operates? Does the company have a code of conduct for HRM in developing nations? Are employees receiving international assignments to prepare them for managerial positions?
- g) What is the role of the HRM manager in the strategic management process?

Table 10.5 Strategic Audit of a Corporation (continued)

6. Information Systems (IS) See Section 4.3 on page 100.

- a) What are the corporation's current IS objectives, strategies, policies, and programs?
 - i) Are they clearly stated, or merely implied from performance and/or budgets?
 - ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- b) How well is the corporation's IS performing in terms of providing a useful database, automating routine clerical operations, assisting managers in making routine decisions, and providing information necessary for strategic decisions?
 - i) What trends emerge from this analysis?
 - ii) What impact have these trends had on past performance and how will they probably affect future performance?

Table 10.5 Strategic Audit of a Corporation

(continued)

- ii) What impact have these trends had on past performance and how will they probably affect future performance?
- iii) Does this analysis support the corporation's past and pending strategic decisions?
- iv) Does IS provide the company with a competitive advantage?
- c) How does this corporation's IS performance and stage of development compare with that of similar corporations?
- d) Are IS managers using appropriate concepts and techniques to evaluate and improve corporate performance? Do they know how to build and manage a complex database, conduct system analyses, and implement interactive decision-support systems?
- e) Does the company have a global IS? Does it have difficulty with getting data across national boundaries?
- f) What is the role of the IS manager in the strategic management process?

Table 10.5 Strategic Audit of a Corporation (continued)

D. Summary of Internal Factors See IFAS Table on pages 101–102.

Which of these factors are the most important to the corporation and to the industries in which it competes at the present time? Which will be important in the future?

V. Analysis of Strategic Factors (SWOT)

See Sections 5.1 and 5.2 on pages 107–111.

A. Situational Analysis See SFAS Table on pages 108–110.

What are the most important internal and external factors (Strengths, Weaknesses, Opportunities, Threats) that strongly affect the corporation's present and future performance? List five to ten strategic factors.

B. Review of Mission and Objectives See Section 5.2 on page 111.

1. Are the current mission and objectives appropriate in light of the key strategic factors and problems?

Table 10.5 Strategic Audit of a Corporation (continued)

2. Should the mission and objectives be changed? If so, how?
3. If changed, what will the effects on the firm be?

VI. Strategic Alternatives and Recommended Strategy

A. Strategic Alternatives See Sections 5.3, 5.4, 6.2, and 7.1 on pages 111–129, 133–147 and 162–170.

1. Can the current or revised objectives be met by the simple, more careful implementing of those strategies presently in use (for example, fine-tuning the strategies)?

2. What are the major feasible alternative strategies available to this corporation? What are the pros and cons of each? Can corporate scenarios be developed and agreed upon?

a) Consider cost leadership and differentiation as business strategies.

Table 10.5 Strategic Audit of a Corporation (continued)

b) Consider stability, growth, and retrenchment as corporate strategies.

c) Consider any functional strategic alternatives that might be needed for reinforcement of an important corporate or business strategic alternative.

B. Recommended Strategy See Sections 7.3 and 7.4 on pages 171–177.

1. Specify which of the strategic alternatives you are recommending for the corporate, business, and functional levels of the corporation. Do you recommend different business or functional strategies for different units of the corporation?

2. Justify your recommendation in terms of its ability to resolve both long- and short-term problems and effectively deal with the strategic factors.

3. What policies should be developed or revised to guide effective implementation?

Table 10.5 Strategic Audit of a Corporation (continued)

VII. Implementation

See Chapters 8 and 9.

- A. What kinds of programs (for example, restructuring the corporation or instituting TQM) should be developed to implement the recommended strategy?**
- 1. Who should develop these programs?**
 - 2. Who should be in charge of these programs?**
- B. Are the programs financially feasible? Can pro forma budgets be developed and agreed upon? Are priorities and timetables appropriate to individual programs?**
- C. Will new standard operating procedures need to be developed?**

Table 10.5 Strategic Audit of a Corporation

VIII. Evaluation and Control

See Chapter 10.

- A. Is the current information system capable of providing sufficient feedback on implementation activities and performance? Can it measure critical success factors?
1. Can performance results be pinpointed by area, unit, project, or function?
 2. Is the information timely?
- B. Are adequate control measures in place to ensure conformance with the recommended strategic plan?
1. Are appropriate standards and measures being used?
 2. Are reward systems capable of recognizing and rewarding good performance?

Source: T.L. Wheelen and J.D. Hunger, "Strategic Audit of a Corporation," Copyright 1982 by Wheelen and Hunger Associates. Reprinted by permission. Revised 1988, 1994, and 1997.