

Lesson 5: Strategic Implementation

Strategy Implementation

- Strategy Implementation is The process of putting strategies and policies into action through the development of:
- **Programs** - statements of activities or steps needed to accomplish a single-use plan.
- **Budgets** - statements of a corporation's programs in dollar terms.
- **Procedures** - systems of sequential steps or techniques that describe in detail how to perform particular tasks or jobs.

The Nature of Strategy Implementation

The greatest strategy is doomed if it's implemented badly.

Successful strategy formulation does not guarantee successful strategy implementation.

- Less than 10% of strategies formulated are successfully implemented!
- Implementation may fail due to:
 - Paying too much for a new acquisition
 - Not recognizing benefit of computers in managing information
 - “We would be in some form of denial if we didn’t see that execution is the true measure of success.” C. Michael Armstrong

Strategic Implementation

“AT&T, Campbell Soup, Gillette, Eastman Kodak, Xerox. All these companies should be succeeding but aren’t. Why? Because they don’t know how to execute.”

Larry Bossidy, Chairman
and former CEO of
Honeywell.

Strategic Implementation

“When you manage these processes in depth, you get robust results. You get answers to critical questions:

Are our products positioned optimally in the marketplace?

Can we identify how we are going to turn the plan into specific results for growth and productivity?

Are we staffed with the right kinds of people to execute the plan?

How do we make sure the operating plan has sufficient specific programs to deliver the outcome?”

Strategic Implementation

- Most know what it is: few know *how* to get things done.
- Three keys to keep in mind:
 - Execution is a discipline, and integral to strategy.
 - Execution is the major job of the business leader.
 - Execution must be a core element of an organization's culture.

Implementation is Different

- Operation-driven rather than market-driven.
- Action-oriented, make-things-happen tasks.
- Strategy requires few; execution requires *everyone*.

Implementation is Tougher

- Why is it tougher?
 - More time consuming challenge
 - Wide array of managerial challenges
 - Many options to proceed
 - Demanding people-management skills
 - Perseverance to get initiatives moving
 - Number of unexpected issues
 - Resistance to change, misunderstandings.
 - Difficulties of integrating efforts across groups.

Formulation vs. Implementation

- Formulation focuses on effectiveness
- Implementation focuses on efficiency
- Formulation is primarily an intellectual process
- Implementation is primarily an operational process
- Formulation requires good intuitive & analytical skills
- Implementation requires special motivational & leadership skills
- Formulation requires coordination among a few individuals
- Implementation requires coordination among many individuals

Strategic Implementation

- Among other things, implementation has to do with;
 - Rigorously discussing 'hows' and 'whats', questioning, tenaciously following through.
 - Ensuring accountability
 - Making assumptions about the business environment
 - Assessing the organization's capabilities
 - Linking strategy to operations and the people who are going to implement
 - Linking rewards to outcomes
 - Changing assumptions as the environment changes
 - Upgrading the company's capabilities to meet the challenges of an ambitious strategy.

Strategic Implementation

“The heart of execution lies in the three core processes: the people processes, the strategy processes and the operations processes.”

Larry Bossidy, *Execution. The Discipline of Getting Things Done.*

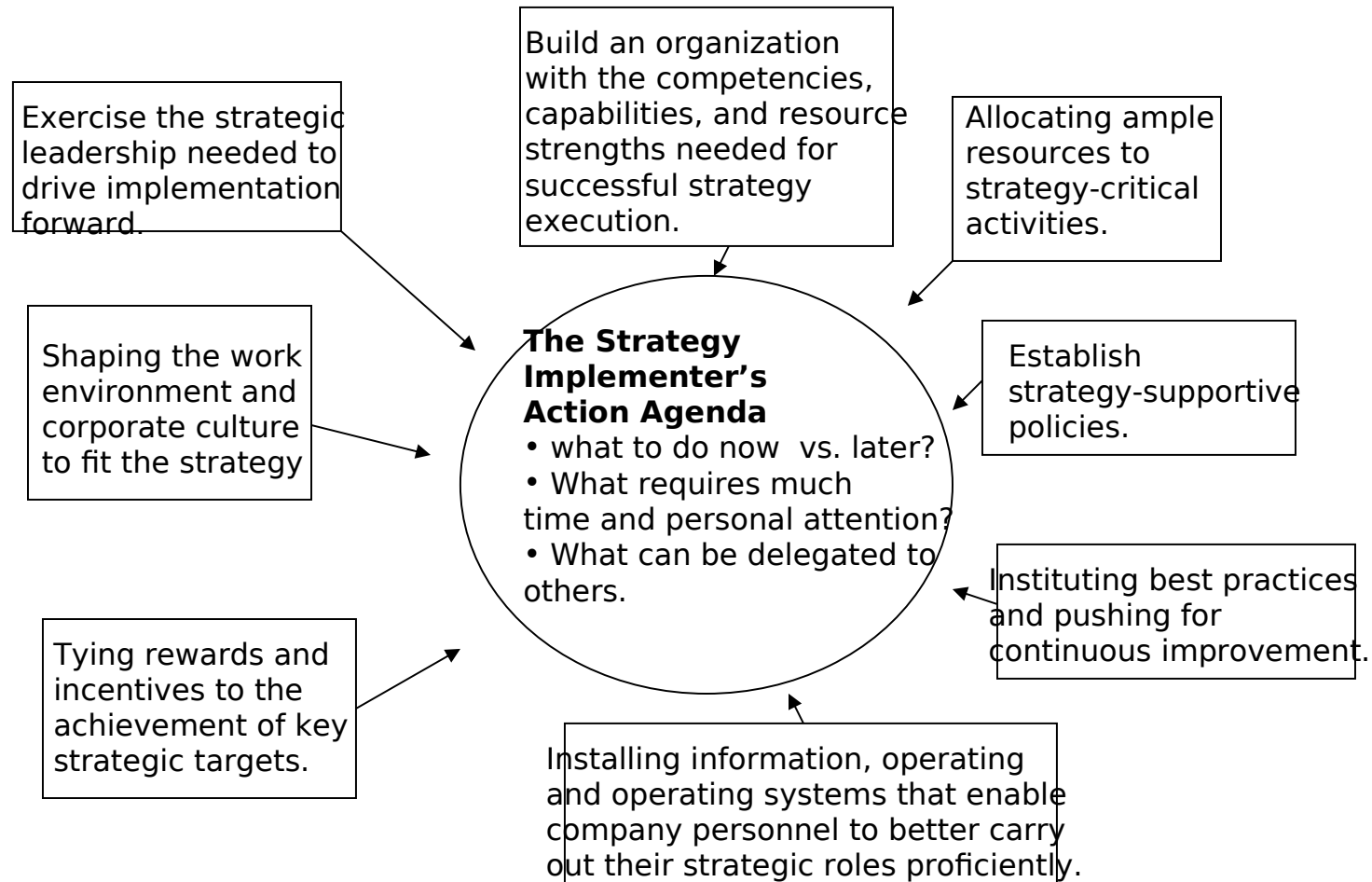
A Framework for Executing Strategy.

- Entails converting the organization's strategic plan into action and results.
 - Job for the whole management team.
 - Affects every part of the firm.
 - Each manager must answer, 'what has to be done in my area to implement our part of the strategic plan, and what must I do to get these things accomplished?'
 - All managers become strategic implementers in their areas and all employees are participants.

A Framework for Strategy Implementation.

- Implementation should be addressed initially when the pros and cons of strategic alternatives are analyzed.
- *Some strategies cannot be executed by some companies!*
- Form follows function – can vary even by department.

The 'Big 8' Components of Implementation.



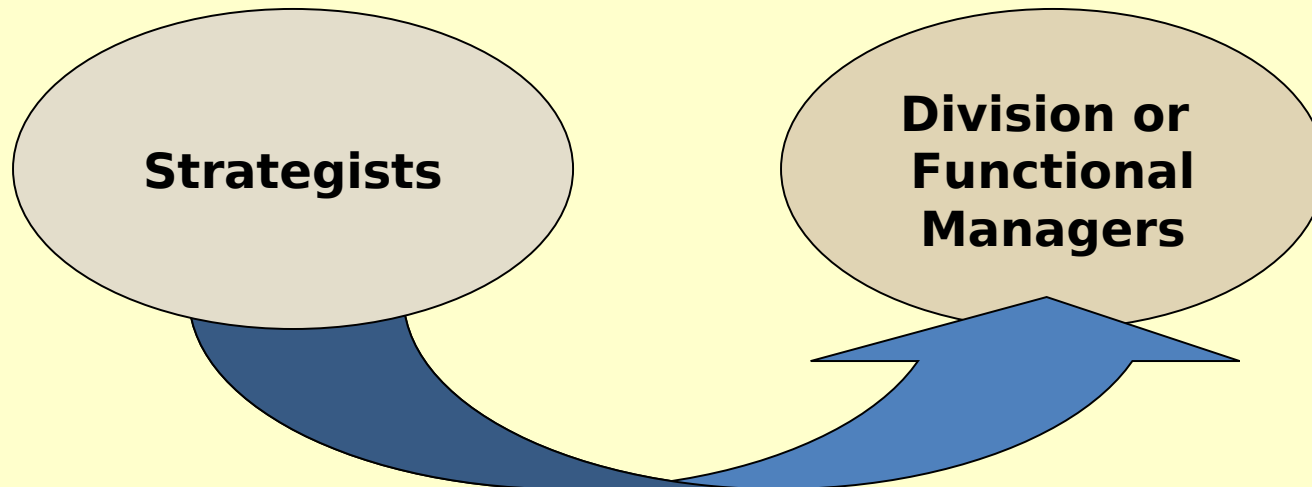
Implementation Activities

- Altering sales territories
- Adding new departments
- Closing facilities
- Hiring new employees
- Cost-control procedures
- Modifying advertising strategies
- Building new facilities

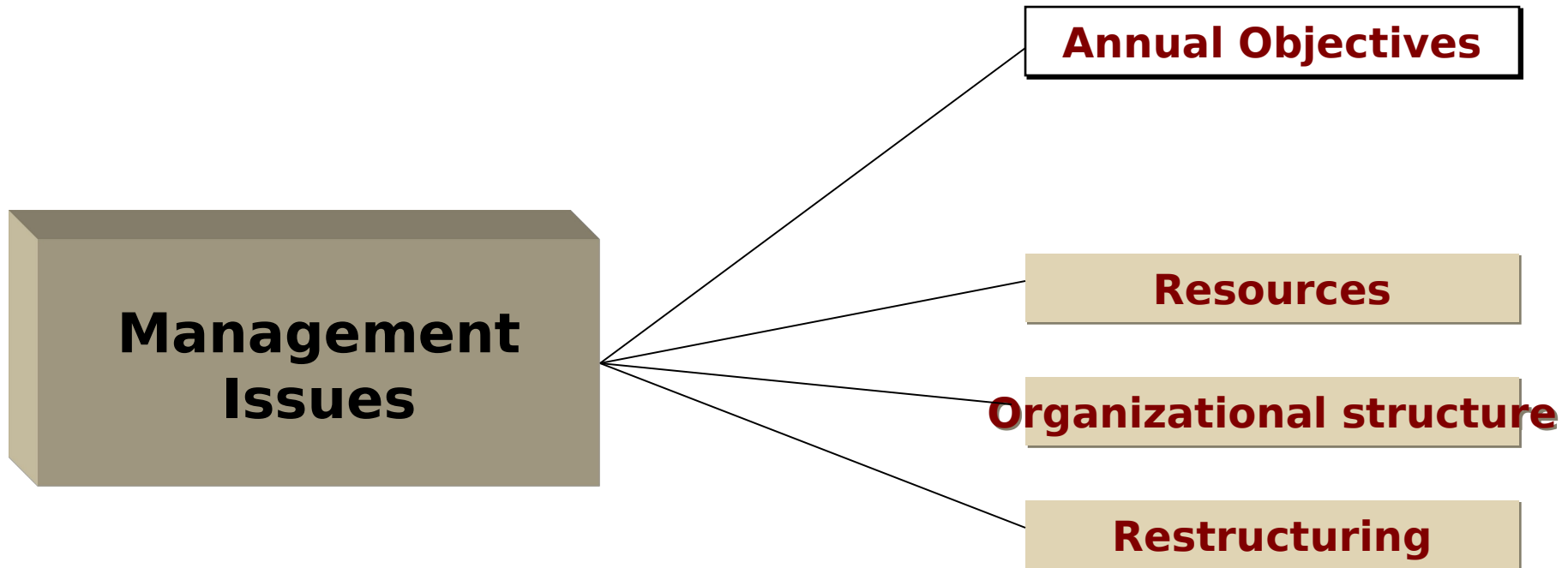
Nature of Strategy Implementation

Management Perspectives

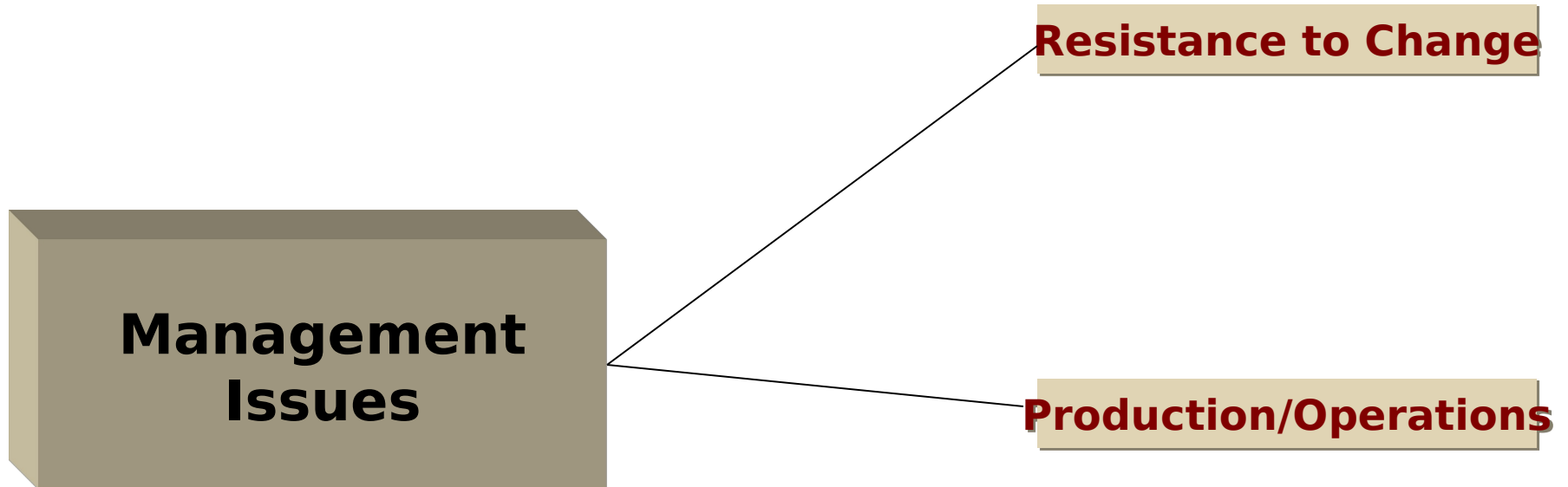
- **Shift in responsibility**



Management Issues



Management Issues (cont'd)



Management Issues

Purpose of Annual Objectives --

- Basis for resource allocation
- Mechanism for management (e.g. IT management) evaluation
- Metric for gauging progress on long-term objectives
- Establish priorities (organizational, division, & departmental)

Management Issues

Requirements of Annual Objectives

- Measurable
- Consistent
- Reasonable
- Challenging
- Clear
- Understood
- Timely

Management Issues

Annual Objectives Should State

- Quantity
- Quality
- Cost
- Time
- Be Verifiable

Management Issues

- **Resource Allocation**

- Central management activity that allows for the execution of strategy
- enables resources to be allocated according to priorities established by annual objectives. However it may cause conflict. *Is this good or bad?*

1. Financial resources

2. Physical resources

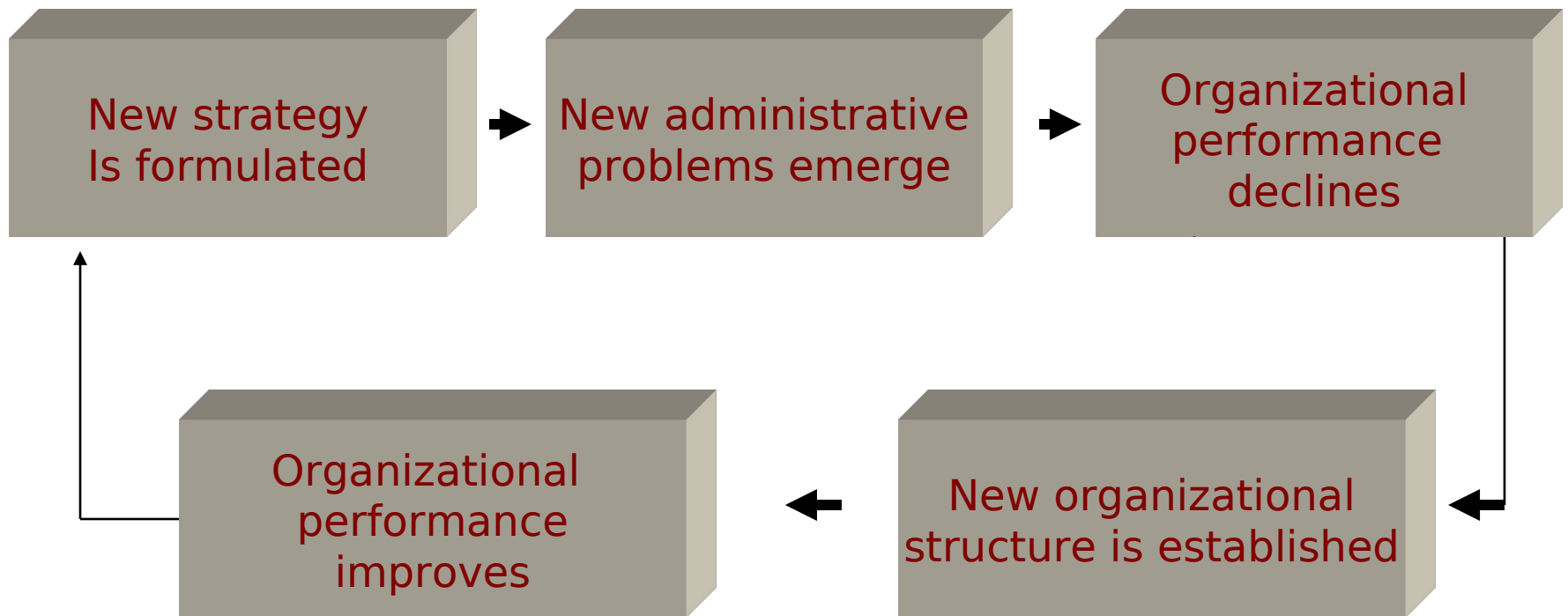
3. Human resources

4. Technological resources

Management Issues

- **Matching Structure w/ Strategy**
- Changes in *strategy* = Changes in *structure*
- Structure dictates how objectives & policies will be established and how resources will be allocated; e.g. is structure based on location or based on the product...

Structure should be designed to facilitate the strategic pursuit of a firm



Management Issues

Restructuring

-- Reducing the size of the firm

–

of employees, divisions
and/or units,

of hierarchical levels; e.g.

***The Internet is ushering in a
new wave of business
transformations...***

Reengineering

- In reengineering, a firm uses information technology to break down functional barriers and create a work system based on business processes... Reconfiguring or redesigning work, jobs, & processes to improve cost, quality... (alteration of Scott Morton's value chain) ***Think of an example.***

Management Issues

- **Resistance to Change** -- Single greatest threat to successful strategy implementation
- Raises anxiety; fear concerning:
economic loss, Inconvenience or Uncertainty
 - Force Change Strategy
 - Educative Change Strategy
 - Rational or Self-Interest Change Strategy

Management Issues

- **Production/Operations Concerns**
- Production processes typically constitute more than 70% of firm's total assets
- Decisions concern e.g. :
 - Plant size
 - Quality control
 - Technological innovation

The Nature of Strategy

Implementation

Strategy Implementation can have a low success rate

Failing to segment markets appropriately
Paying too much for a new acquisition
Falling behind competition in R&D
Not recognizing benefit of computers in managing information

Successful Strategy Implementation

- Market goods & services well
- Raise needed working capital
- Produce technologically sound goods
- Sound information systems

Marketing Issues

- Marketing variables affect success/failure of strategy implementation

1. Market segmentation

2. Product positioning

Market Segmentation: Subdividing of a market into distinct subsets of customers according to needs and buying habits

- Market segmentation variables:
 - Product
 - Place
 - Promotion
 - Price

Marketing Mix – Component Factors

<u>Product</u>	<u>Place</u>	<u>Promotion</u>	<u>Price</u>
Quality	Distribution channels	Advertising	Level
Features	Distribution coverage	Personal selling	Discounts & allowances
Style	Outlet location	Sales promotion	Payment terms
Brand name	Sales territories	Publicity	
Packaging	Inventory levels/locations		
Product line	Transportation carriers		
Warranty			
Service level			

Marketing Issues

Product Positioning

Schematic representations that reflect how products/services compare to competitors' on dimensions most important to success in the industry; I.e. according to customer wants and customer needs

Product Positioning Steps

Product Positioning Steps



1. Select Key Criteria

2. Diagram Map

3. Plot competitors' products

4. Look for niches

5. Develop Marketing Plan

Marketing Issues

- Product Positioning as Strategy Implementation Tool
- Look for vacant niche
- Avoid sub optimization
- Do's serve 2 segments w/ same strategy
- Don'ts position in the middle of the map

Finance/Accounting Issues

- Essential for implementation
- Acquiring needed capital
- Developing projected financial statements
- Preparing financial budgets
- Evaluating worth of a business

Research & Development Issues

New products and improvement of existing products that allow for effective strategy implementation

- Use an R&D strategy that ties external opportunities to internal strengths and is linked with objectives
- 3 Major R&D approaches to implementing strategies
 1. 1st firm to market new technological products
 2. Innovative imitator of successful products
 3. Low-cost producer of similar but less expensive products

Management Information Systems (MIS) Issues

Information is the basis for understanding the firm. One of the most important factors differentiating successful from unsuccessful firms

- MIS used to :
- Information collection, retrieval, & storage
- Keeping managers informed
- Coordination of activities among divisions
- Allow firm to reduce costs

MIS Issues

Functions of MIS

- Information collection, retrieval, & storage
- Keeping managers informed
- Coordination of activities among divisions
- Allow firm to reduce costs

Strategic Implementation

- One make-or-break determinant is how well top management leads the process.
- Middle and lower management need to push actions to the front lines and see the strategy is well executed.
- The real implementation skill is being good at determining *what it will take to execute the strategy proficiently*.

Strategic Implementation

- Senior management communicate, communicate and then communicate some more:
 - Communicate the case for change
 - Build consensus for how to proceed
 - Install strong allies in key positions
 - Urging and empowering to get process moving
 - Establish measures and deadlines
 - Reward those who achieve milestones
 - Reallocate resources
 - Personally preside over the strategic change process

Strategic Implementation

- Most important leadership trait is a strong, confident sense of 'what to do' to achieve the desired results.
- Knowing what to do comes from understanding the circumstances of both the organization and the industry as a whole.
- This is not about 'micromanaging' but about assigning tasks, making sure that people understand priorities, asking incisive questions, staffing and then following up with measurement.

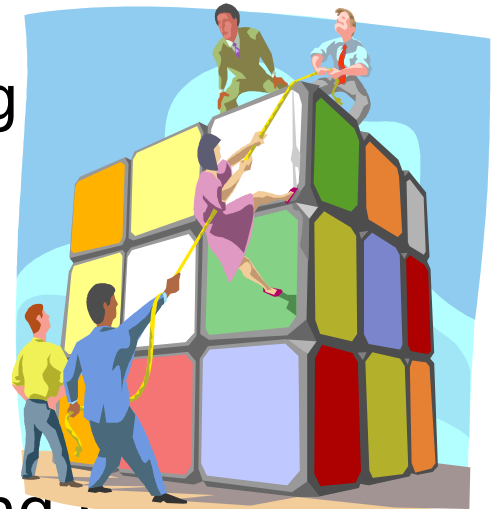
Organizational Structure

- Organizational design
 - Selecting the structure and control systems that are most strategic effective for pursuing sustainable competitive advantage.
- The role of structure and control
 - To coordinate strategy implementation.
 - To motivate and provide incentives for superior performance.



The Role of Organizational Structure

- Building blocks of organizational structure
 - Differentiation in the allocation of people and resources to create value.
 - Vertical differentiation in the distribution of decision-making authority.
 - Horizontal differentiation in dividing up people and tasks into functions and divisions.
 - Integration
 - The means used in coordinating people and functions to accomplish organizational tasks.



Differentiation, Integration, Bureaucratic Costs

- Bureaucratic costs and strategy implementation:

- Bureaucratic costs increase with organizational complexity.
- More differentiation = more management layers
- More integration = more coordination
- Better strategy implementation leads to better bottom-line performance and profitability.

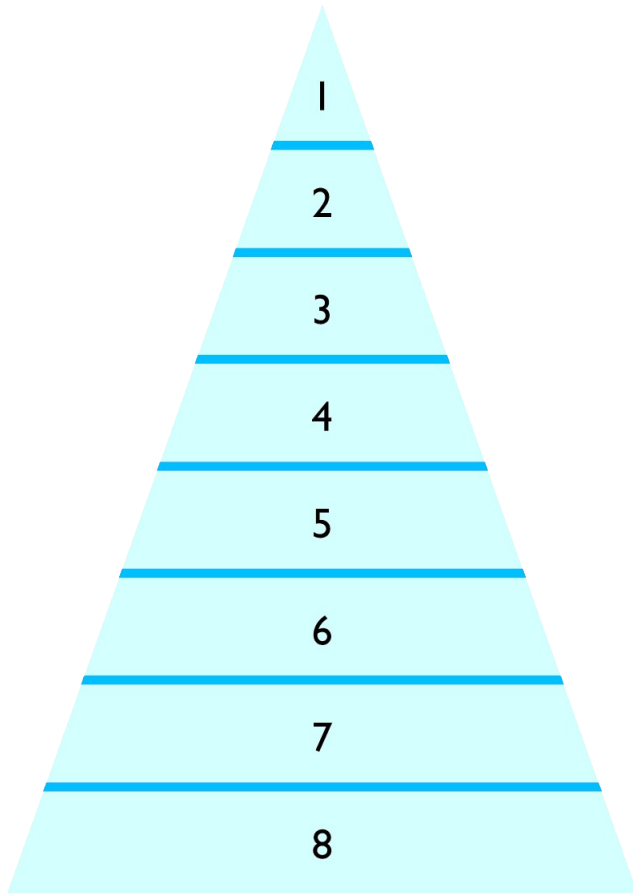


Vertical Differentiation

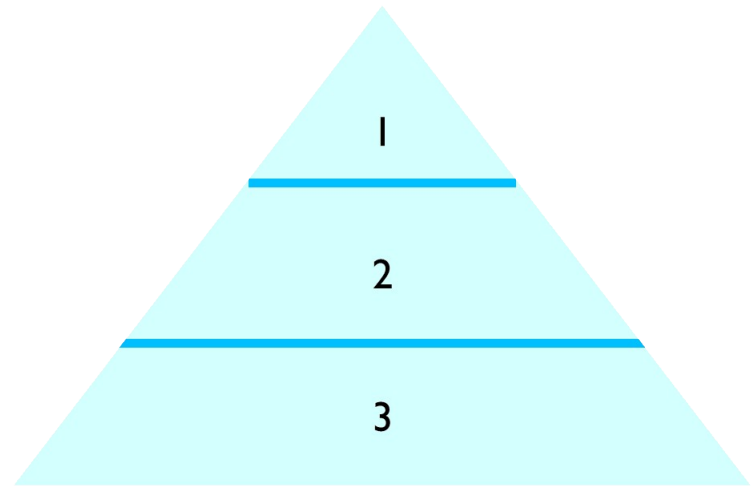
- Span of control (division of authority)
 - The number of subordinates that a single manager directly manages.
- Organizational hierarchy choices
 - Flat structures
 - Few organizational levels
 - Wide spans of control
 - Tall structures
 - Many organizational levels
 - Narrow spans of control



Tall and Flat Structures



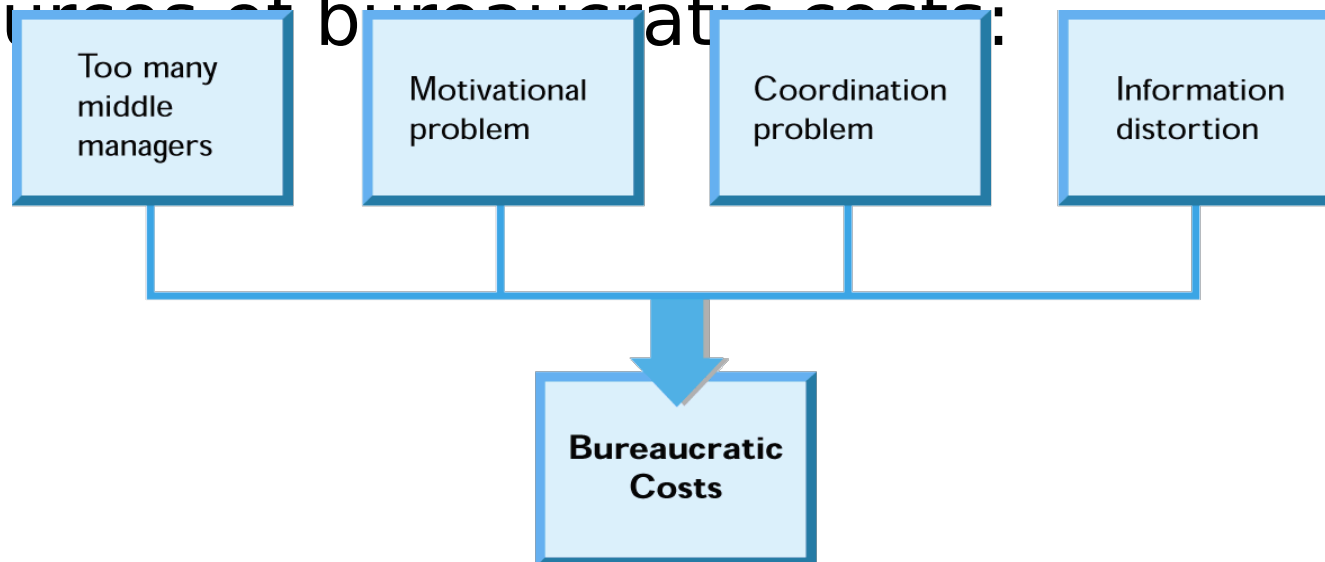
Tall Structure
(8 levels)



Flat Structure
(3 levels)

Problems with Tall Structures

- Principle of minimum chain of command
 - Maintaining a hierarchy with the least number of levels of authority needed to achieve a strategy.
- Sources of bureaucratic costs:



Centralization (Structural) Choice?

- Advantages of decentralization

- Reduced information overload on upper managers.
- Increased motivation and accountability throughout organization.
- Fewer managers; lower bureaucratic costs.

- Advantages of centralization

- Easier coordination of organizational activities.
- Decisions fitted to broad organizational objectives.
- Exercise of strong leadership in crisis.
- Faster decision making and response.

Horizontal Differentiation

- Focus is on division and grouping of tasks to meet business objectives.
- Simple structure:
 - Characteristic of small entrepreneurial companies.
 - Entrepreneur takes on most management roles.
 - No formal organization arrangements.
 - Horizontal differentiation is low.



- **Structure Follows Strategy:**
 - **Changes in corporate strategy lead to changes in organizational structure**
 - **New strategy is created**
 - **New administrative problems emerge**
 - **Economic performance declines**
 - **New appropriate structure is invented**
 - **Profit returns to its previous levels**

- **Staffing follows strategy:**
 - **Matching the manager to the strategy**
 - **Executive type**
 - **Executives with a particular mix of skills and experiences**

Matching Chief Executive “Types” with Strategy

Business Strength/Competitive Position

		Business Strength/Competitive Position		
		Strong	Average	Weak
Industry Attractiveness	High	Growth—Concentration Dynamic Industry Expert	Retrenchment — Save Company Turnaround Specialist	
	Medium	Stability Cautious Profit Planner		
	Low	Growth—Diversification Analytical Portfolio Manager	Retrenchment — Close Company Professional Liquidator	

Strategic Reward Systems

- Individual reward systems
 - Piecework plans
 - Commission systems
 - Bonus plans
 - Promotion
- Group and organizational reward systems
 - Group-based bonus systems
 - Profit sharing systems
 - Employee stock option systems
 - Organization bonus systems



Strategy: Evaluation and Implementation

- Evaluation
 - importance of weighing up alternative strategies
 - how feasible are they?
 - how do they relate to the firm's goals?
 - how will they affect the firm's competitive position?
- Implementation
 - need to assess the following
 - resourcing
 - business culture and structure
 - managing change

Second Stage: Strategy implementation

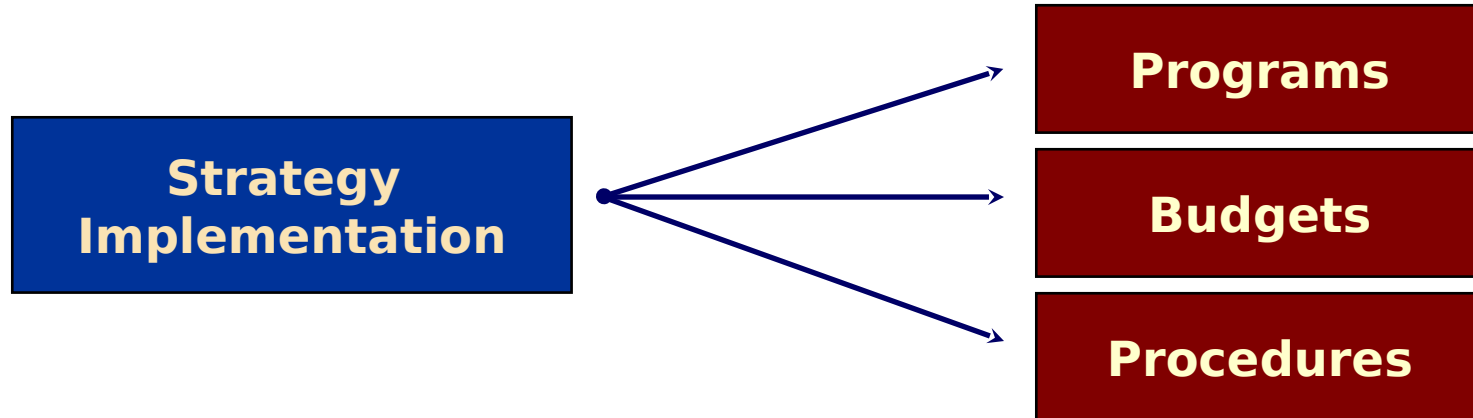
- **Strategy implementation** requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed;
- strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure. Redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance.
- Strategy implementation often is called **the action stage of strategic management**.
- Implementing strategy means mobilizing employees and managers to put formulated strategies into action.
- Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice.

Second Stage: Strategy

implementation...

- Successful strategy implementation hinges upon managers' ability to motivate employees, which is more an art than a science.
- Strategies formulated but not implemented serve no useful purpose.
- Interpersonal skills are especially critical for successful strategy implementation.
- Strategy-implementation activities affect all employees and managers in an organization.
- Every division and department must decide on answers to questions such as “What must we do to implement our part of the organization's strategy?” and “How best can we get the job done?”
- The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives.
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3. Strategy Implementation



4. Evaluation & Control - Continuous process

Strategy implementation: Organizing for action

- Strategy implementation is the sum total of the activities and choices required for the execution of strategic plan by which strategies and policies are put into action through the development of programs , budgets and procedures. Although implementation is usually considered after strategy has been formulated, implementation is a key part of strategic management. Thus strategy formulation and strategy implementation are the two sides of same coin.

Implementing strategy

- Depending on how the corporation is organized those who implements strategy will probably be a much more divorced group of people than those who formulate it. Most of the people in the organization who are crucial to successful strategy implementation probably had little to do with the development of corporate and even business strategy. Therefore they might be entirely ignorant of vast amount of data and work into formulation process. This is one reason why involving middle managers in the formulation as well as in the implementation of strategy tends to result in better organizational performance.

Developing programs, budgets and procedures

- The managers of divisions and functional areas worked with their fellow managers to develop programs, budgets and procedures for implementation of strategy. They also work to achieve synergy among the divisions and functional areas in order to establish and maintain a company's distinctive competence.

Programs

- A program is a statement of the activities or steps needed to accomplish a single use plan. The purpose of program is to make a strategy action oriented.

Budgets

- A budget is a statement of corporation's program in monetary terms. After programs are developed, the budget process begins. Planning a budget is the last real check a corporation has on the feasibility of its selected strategy. An ideal strategy might be found to be completely impractical only after specific implementation programs are costed in detail.

Procedures

- Procedures are system of sequential steps or techniques that describe in detail how a particular task or job is to be done.

Synergy achievement

- One of the goals to be achieved in strategy implementation is synergy between functions and business units, which is why corporations commonly reorganize after an acquisition. The acquisition or development of additional product lines is often justified on the basis of achieving some advantages of scale in one or more of company's functional areas.

Stages of corporate development

- Successful Corporation tend to follow a pattern of structural development called stages of development as they grow and expand. Beginning with the simple structure of the entrepreneurial firm, they usually get larger and organize along functional lines with marketing production and finance department. With continuing success the company adds new product lines in different industries and organizes itself into interconnected divisions. The differences among these three stages of corporate development in terms of typical problems, objectives strategies, reward systems and other characteristics as specified in detail in table

Organizational life cycle

- The organizational life cycle describes how the organization grow, develop and eventually decline. The stages of organization life cycles are
 - 1. Birth
 - 2. Growth
 - 3. Maturity
 - 4. Decline
 - 5. Death

The impact of these stages on corporate and structure are summarized in the table

Organizational life cycle

II IV	Stage I	Stage II	Stage I	Stage II	Stage I	Stage II	Stage I	Stage II
	Stage III	Stage IV		Stage IV		Stage IV		Stage IV
th ne	Stage V		Stage V		Stage V		Stage V	
	Dominate issue		Dominate issue		Dominate issue		Dominate issue	
s a ontal	Birth	Growth	Birth	Growth	Birth	Growth	Birth	Growth
	Maturity	Decline	Maturity	Decline	Maturity	Decline	Maturity	Decline
ional	Death		Death		Death		Death	
	Popular strategies		Popular strategies		Popular strategies		Popular strategies	
into ent tural	Concentration in a niche	Horizontal and vertical integration	Concentration in a niche	Horizontal and vertical integration	Concentration in a niche	Horizontal and vertical integration	Concentration in a niche	Horizontal and vertical integration
	Concentric and conglomerate diversification		Concentric and conglomerate diversification		Concentric and conglomerate diversification		Concentric and conglomerate diversification	
of	Profit strategy followed by retrenchment		Profit strategy followed by retrenchment		Profit strategy followed by retrenchment		Profit strategy followed by retrenchment	
	Liquidation or bankruptcy		Liquidation or bankruptcy		Liquidation or bankruptcy		Liquidation or bankruptcy	
	Likely structure		Likely structure		Likely structure		Likely structure	
	Entrepreneur dominated management emphasized	Functional management emphasized	Entrepreneur dominated management emphasized	Functional management emphasized	Entrepreneur dominated management emphasized	Functional management emphasized	Entrepreneur dominated management emphasized	Functional management emphasized
	Decentralization into profit or investment centers	Structural surgery	Decentralization into profit or investment centers	Structural surgery	Decentralization into profit or investment centers	Structural surgery	Decentralization into profit or investment centers	Structural surgery
	Dismemberment of struc		Dismemberment of struc		Dismemberment of struc		Dismemberment of struc	

Strategy implementation: staffing and leading

- **Strategy implementation: staffing and leading**
- **Staffing**
- Staffing focuses on the selection and utilization of employees. The implementation of new strategies and policies often calls for new human resource management priorities and a different utilization of personnel. This may mean hiring new people with new skills and/or training existing employees to learn new skills.
ng

Hiring and Training Requirements Change

- Once a new strategy is formulated, either different kinds of people may be needed or the current employees may need to be retrained to implement the new strategy. Training and development is one way to implement a company's corporate or business strategy. Training is also important when implementing a retrenchment strategy. As suggested earlier, successful downsizing means that the company has to invest in its remaining employees

Company Match the Manager

- The most appropriate type of general manager needed to effectively implement a new corporate or business strategy depends on the strategic direction that firm or business unit desires. A certain type may be paired with a specific corporate strategy for best result.

Selection and Management Development

- Selection and development are important not only to ensure that people with the right mix of skills and experiences are hired initially, but also to help them grow on the job and prepared for future promotion

Executive Succession

- It is the process of replacing a key top manager. Given that the typical large U.S. Corporation changes its chief executive every 8 years firms need to plan for his eventuality. Prosperous firms tend to look outside for CEO candidates only if they have no obvious internal candidates. Boards realize that the best way to move to a new strategy and to ensure its implementation is to hire a new CEO with no connections to the current strategy.

Abilities Be Identified and Potential Developed

- A company can identify and prepare its people for important positions in several ways. One approach is to establish a sound performance appraisal system, which not only evaluates a person's performance, but also identifies promotion potential.
- Many large organizations are using assessment centers, a method of evaluating a person's suitability for an advanced position. Because each is specially tailored to its corporation. These assessment centers are unique. They use special interviews, management games, in-basket exercises, leaderless group discussions, case analysis and oral presentations to assess the potential of employees for specific positions. Many assessment centers have proved to be highly predictive of subsequent job performance.
- Many large corporations use job rotation, moving people from one job to another, to ensure that employees are gaining the appropriate mix of experiences to prepare them for future responsibilities.

Retrenchment Create Problems

- Downsizing refers to the planned elimination of positions or jobs. Companies commonly use this program to implement retrenchment strategies. Because the financial community is likely to react favorably to announcement of downsizing from a company in difficulty, such a program may provide some short-term benefits such as raising the company's stock price. Following are some guidelines for successful downsizing.
- 1. Eliminate unnecessary work instead of making across-the-board cuts
- 2. contract out work that others can do cheaper
- 3. plan for long-run efficiencies
- 4. communicate the reasons for action
- 5. invest in the remaining employees
- 6. develop value-added jobs to balance out job elimination

Leading

-
- Implementation also involves leading: motivating people to use their abilities and skills most effectively and efficiently to achieve organizational objectives. Leading may take the form of management leadership communicated norms of behavior from the corporate culture or agreement among workers in autonomous work groups.

Company Manage Corporate Culture

- Because an organization's culture can exert a powerful influence on the behavior of all employees, it can strongly affect a company's ability to shift its strategic direction. An optimal culture is one that best supports the mission and strategy of the company of which it is a part. This means that, like structure and staffing, corporate culture should follow strategy. A key job of management is therefore to evaluate
 - 1. what a particular strategy change will mean to the corporate culture
 - 2. whether a change in culture will be needed
 - 3. Whether an attempt to change the culture will be worth the likely costs.
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- Communication Be Used To Manage Culture. Communication is crucial to effectively managing change. Companies in which major cultural changes have successfully taken place had the following characteristics in common:
 - 1. The CEO and other top managers had a strategic vision of what the company could become and communicated this vision to employees at all levels.
 - 2. The vision was translated into the key elements necessary to accomplish that vision.

Diverse Cultures Be managed In an Acquisition Growth Strategy

- When merging with or acquiring another company top management must consider a potential clash of cultures. The four general methods of managing two different cultures are integration, assimilation, separation and enculturation. Integration involves a relatively balanced give -and -take of culture and managerial practices between the mares and no strong imposition of culture change on either company. Assimilation involves the domination of one organization by another. Separation is characterized by a separation of the two companies' culture. Deculturation involves the disintegration of one company's culture resulting from unwanted and extreme pressure from the other to impose its culture and practices.

Action Planning

- Activities can be directed towards accomplishing strategic through action planning at a minimum an action plan states what actions are going to be taken by whom during what timeframe and with what expected results. Actions serve as a link between strategy formulation and evaluation and control. The action plan specifies what needs to be done differently from the way operations are currently carried out. The explicit assignment of responsibilities for implementing and monitoring the programs may improve motivation.

Management by Objectives (MBO)

- MBO is an organization-wide approach to help assure purposeful action toward desired objectives by linking organizational objectives with individual behavior.
- The MBO process involves:
 - 1. Establishing and communicating organizational objectives.
 - 2. Setting individual objectives that help implement organizational ones.
 - 3. Developing an action plan of activities needed to achieve the objectives.
 - 4. Periodically reviewing performance as it relate to the objectives and including the results in the annual performance appraisal.

Total Quality Management (TQM)

- TQM is an operational philosophy that stresses commitment to customer satisfaction and continuous improvement.
- It has four objectives:
 - 1. Better, less-variable quality of the product and service
 - 2. Quicker, less-variable response to customer needs
 - 3. Greater flexibility in adjusting to customers' shifting requirements
 - 4. Lower cost through quality improvement and elimination of non-value-adding work.
- The essential ingredients of TQM are:
 - 1. An intense focus on customer satisfaction
 - 2. Customers are internal as well as external
 - 3. Accurate measurement of every critical variable in a company's operations.
 - 4. Continuous improvement of products and services.
 - 5. New work relationships based on trust and teamwork

Evaluation and Control

- It is the process of by which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. This process can be viewed as a five step feedback model.
- 1. Determine what to measure.
- 2. Establish standards of performance.
- 3. Measure actual performance.
- 4. Compare actual performance with the standard.
- 5. Take corrective action.

Evaluation and Control in Strategic Management

- Evaluation and control information consists of performance data and activity reports. Top management need not involved. If however, the processes themselves cause the undesired performance, both top managers and operational managers must know about it so that they can develop new implementation programs or procedures.
- Evaluation and control information must be relevant to what is being monitored. One of the obstacles to effective control is the difficulty in developing appropriate measures of important activities and outputs.

Using of measures

- Returns on Investment (ROI) are appropriate for evaluating the corporation's or division's ability to achieve profitability objectives. This type of measure, however, is adequate for evaluating additional corporate objectives such as social responsibility or employee development. A firm therefore needs to develop measures that predict likely profitability. These are referred to as steering controls because they measure those variables that influence future profitability

Differing of behavior and output control

- Controls can be established to focus either on actual performance results or on the activities that generates the performance. Behavior controls specify how something is to be done through policies, rules, standard operating procedures and orders from a superior. Output controls specify what is to be accomplished by focusing on the result on the end result of the behavior through the use of objectives or performance targets or milestones. They are not interchangeable. Behavior controls are most appropriate when performance results are hard to measure and a clear cause-effect connection exists between activities and results. Output controls are most appropriate when specific output measures are agreed upon and no clear cause-effect connection exists between activities and results.

Value of activity-based costing

- Activity based costing (ABC) is a new accounting method for allocating indirect and fixed costs to individual products or product lines based on the value-added activities going into that product. This method is very useful in doing a value-chain analysis of a firm's activities for making outsourcing decisions. It allows accountants to charge costs more accurately because it allocates overhead far more precisely. It can be used in much type of industries.

Corporate performance

- The most commonly used measure of corporate performance is ROI. It is simply the result of dividing net income before taxes by total assets. Return on investment has several advantages. It is a single comprehensive figure that is influenced by everything that happens. It measures how well a decision manager uses the division's assets to generate profits. It is a common denominator that can be compared with other companies and business units. It provides an incentive to use existing assets efficiently and to buy new once only when it would increase profits

Stakeholder Measures

- Each stakeholder has its own set of criteria to determine how well the corporation is performing. Top management should establish one or more simple measures for each stakeholder category so that it can keep track of stakeholder concerns

Shareholder value

- It is defined as the present value of the anticipated future streams cash flows from the business plus the value of the company if liquidated. The value of corporation is thus the value of its cash flows discounted back to their present value, using the business cost of capital as the discount rate.
- Economic value added (EVA) is after tax operating profit minus the total annual cost of capital. It measures the pre-strategy value of the business.

Responsibility Centers

- Responsibility centers are used to isolate a unit so that it can be evaluated separately from the rest of the corporation. The center resources to produce a service or a product.
- Five major types of responsibility centers is used
 - 1. Standard cost centers.
 - 2. Revenue centers.
 - 3. Expense centers.
 - 4. Profit centers.
 - 5. Investment centers.

Guideline for Proper Control.

- Measuring performance is a crucial part of evaluation and control. Without objective and timely measurements, making operational, let alone strategic, decisions would be extremely difficult. Nevertheless, the use of timely, quantifiable standards does not guarantee good performance.

The following guidelines are recommended:

- 1. Controls should involve only the minimum amount of information needed to give a reliable picture of events.
- 2. Control should monitor only meaningful activities and results, regardless of measurement difficulty.
- 3. Controls should be timely.
- 4. Control should be long term and short-term.
- 5. Control should pinpoint exceptions.
- 6. Controls should be used to reward meeting or exceeding standards rather than to punish failure to meet standards.

Distinguishing Strategy from Tactics

- Strategy is the overall plan for deploying resources to establish a favorable position
- Tactic is a scheme for a specific maneuver