Strategy and management control

MODULE 5 | PART B.1 | STUDENT COMPANION

Strategy: a pattern in a stream of decisions - some intended strategies are never realised; others emerge (Mintzberg and Waters). Variation in strategy must be matched by variation in processes, systems and structure - including performance measures.

Strategy shapes the measures

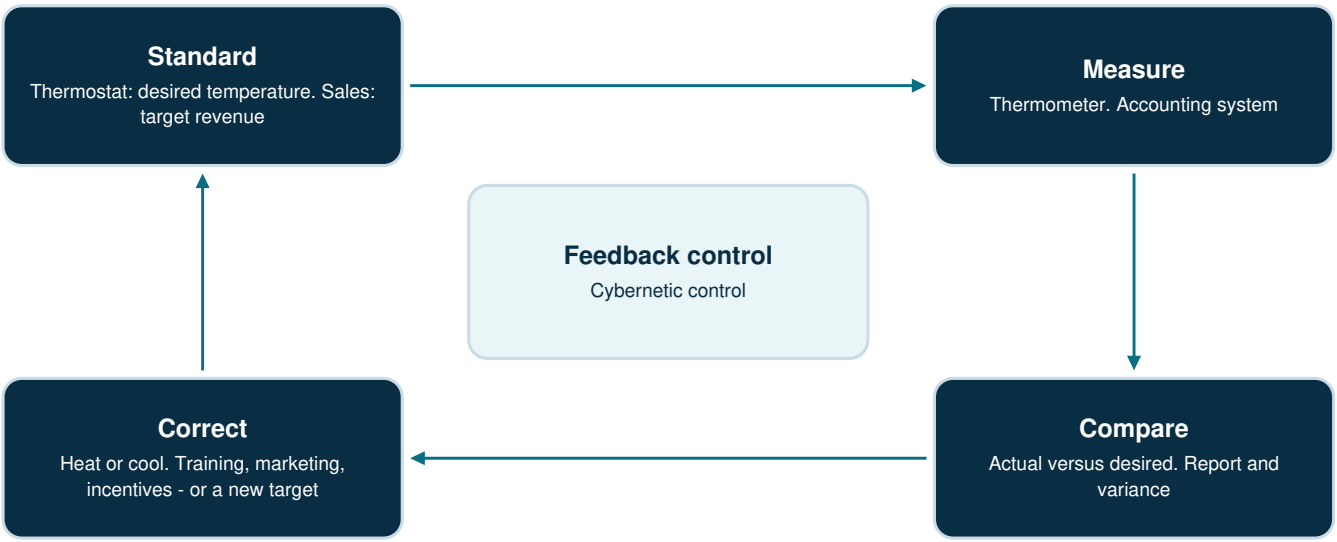
Strategic situation	Measures that matter most
Fierce rivalry	Market share
Powerful customers	Customer profitability
Cost leadership	Cost per unit, purchasing and production efficiency
Differentiation or focus	Innovation, product features, advertising effectiveness, brand reputation
Budget gym vs boutique studio	Cost per member, equipment uptime vs class satisfaction, price premium

Contingency theory: measures follow the strategy

Measures along the value chain

Value chain activity	Meal-kit company (imagined) measure
Inbound logistics	Supplier on-time deliveries
Operations	Kits packed per hour; packing errors
Outbound logistics	Deliveries on time
Marketing and sales	Cost to acquire a customer
Service	Complaints resolved within a day
Procurement	Ingredient price variances
Technology	App uptime
Human resources	Staff turnover
Firm infrastructure	Total cost per order

Feedback (cybernetic) control



Control concepts

Concept	Remember
Management control	Set targets, measure, correct; integrated controls over inputs, process and outputs; tension with flexible decisions
Internal control	Reasonable assurance on reliable financial reporting, effective and efficient operations, compliance
Performance management system - eight core elements	Vision and mission; key success factors; structure; strategies and plans; key performance measures; target setting; performance evaluation; reward systems
Four further factors	How the system changes; how it is used; strength and coherence; information flows, systems and networks
Broader controls	External, non-financial and predictive information; informal personal and social controls

When ROI misleads

Division's current ROI	18%
Organisation's cost of capital	10%
New project's return	14%
Division manager's view: lowers average ROI	**Reject**
Organisation's view: 14% beats 10% cost of capital	**Accept**

ROI can make managers turn down value-creating projects

Other ROI questions: total capital or net assets? current assets included? cost or book value? high return on small capital versus lower return on large capital? Traditional controls also invite gaming, short-termism and hidden cause and effect.

Practice questions

MODULE 5 | PART B.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Strategy and measures

A discount airline and a business-class-only airline fly the same route. Suggest three performance measures each, and explain how their strategies explain the difference.

Question 2 - Feedback control

A hospital kitchen has a target of serving 98% of meals within ten minutes of the scheduled time. Describe the four elements of feedback control for this target, and one informal control that could also influence staff.

Question 3 - ROI

Division X earns an ROI of 22%. The group's cost of capital is 12%. Its manager rejects a project returning 16%. Explain why, whether this is good for the group, and how residual income could help.

Worked answers

MODULE 5 | PART B.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Strategy and measures

Discount airline (cost leadership): cost per available seat kilometre, aircraft turnaround time, load factor. Business-class airline (differentiation): customer satisfaction and Net Promoter Score, on-time performance for time-sensitive travellers, yield (revenue per passenger). Each tracks what its strategy needs - cost efficiency versus premium value.

Question 2 - Feedback control

Standard: 98% of meals within ten minutes. Measure: timestamps when trays leave the kitchen. Compare: daily report of the percentage on time, by ward and meal. Correct: adjust rosters, prep routines or trolley routes - or revisit the target. Informal control: a team culture of pride in patient care, or the head chef's daily briefing.

Question 3 - ROI

Accepting the 16% project would pull the division's average below 22%, so the manager rejects it. That hurts the group, because 16% exceeds the 12% cost of capital - value is lost. Residual income (profit - 12% x investment) would rise if the project is accepted, aligning the manager with the group.