

Strategic Management for Competitive Advantage
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Lecture - 38
Strategic and Operational Control

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The slide features a blue and white color scheme with geometric shapes. At the top, there are two logos: the Indian Institute of Technology Kharagpur logo and the NPTEL logo. Below the logos, the text reads "NPTEL ONLINE CERTIFICATION COURSES". The main title is "Strategic Management for Competitive Advantage" by Prof. Sanjib Chowdhury, Vinod Gupta School of Management, IIT KHARAGPUR. The module is "Module 12: Evaluation and Control Strategy" and the lecture is "Lecture 38 : Strategic and Operational Control".

CONCEPTS COVERED

- Importance and Need for strategic control
- Four types of strategic control
- Operational control
- Performance Standard
- Structure for evaluation and control
- Use of controls to guide and monitor strategy implementation
- Balanced scorecard approach to integrate strategic and operational control

Welcome to the strategic course management for competitive advantage. Today we will be covering a new module. This is regarding evaluation and control strategy. So, for that, in this class, we will be covering the following concepts, the importance and need for strategic control. There are four types of strategic control we will talk about it. We will be talking about operational control, the performance standard and structure for evaluation and control, and what structure it should have. Then we will also talk about the use of control to guide and

monitor strategy implementation and the balanced scorecard approach to integrating strategic and operational control. These last two we will be talking about these in the next session. For today's this session, we will be talking about these five elements, which are marked in bold.

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The slide is titled "Importance and Need for Strategic Control (e.g. Netflix, Dell computer)". It lists "Types of Strategic Control" with two main categories: "Premise control" and "Strategic surveillance".

- Importance and Need for Strategic Control (e.g. Netflix, Dell computer)
- Types of Strategic Control
 - *Premise control*
 - Environmental factors: e.g. technology, regulation, inflation, interest rate, social changes; Taj Trapezium, Netflix sticking to original plan
 - Industry factors: competitors, suppliers, product substitutes, barriers to entry (e.g. Netflix leasing cloud services from Amazon)
 - **Focus** on limited premises whose changes are likely and have major impact
 - *Strategic surveillance*
 - Unfocused, loose environmental scanning
 - Trade magazine, conferences, trade talks;
 - e.g. watching women washing clothes, consumer preference in buying diapers, Paras pharma – cracked heel etc.

The slide features a blue and white color scheme with various icons (gears, atom, microscope) and a small inset video of a man speaking in the bottom right corner. Logos for IIT Kharagpur and NPTEL are visible at the bottom.

Now, to start with, we will discuss the importance and need for strategic control. Why do you need this strategic control? I will give you two examples; one is the example of Netflix, that Netflix in the last decade, these are examples of the previous decades that Netflix was introducing, and they were dealing with blockbusters, those movies, then the retailing, that DVD, DVD through email, or the rental, those businesses and their businesses were booming. Their share prices went, (say) as high as nearly 298 dollars per share. And they have added 30 million subscribers.

So, this booming with these businesses what they did, the owner he was his read hashtags and his team. They thought they could envisage that that trend is coming in web-based streaming. So, they tried to capitalise on those opportunities and align their business through web-based streaming. So, what they did was they split their company Netflix in two; one is for those renting DVDs, those things with a company name called Quick Start.

And the other things are the streaming businesses. They kept it with the original Netflix, and they increased the price height and the subscription rate. Increased the market did not take it very kindly, and there was confusion about the splitting people had to go there. So, what happened? The people were not happy they dropped their subscriptions, so those subscribers'

levels came down very heavily, and the share value of Netflix came down from nearly 300 to 298 to 252 dollars per share.

So, this is one scenario. Similarly, in the last decade, if you see the Dell computer, Dell computer, sales surged, and it became the world's leading computer at that time with its competitor HP that is Hewlett Packard. They faced difficulties after acquiring Compaq; Compaq computers after turbulence did not go well. And it was followed by the reorganisation of HP.

So, there was confusion that did not go well, so HP's sales plummeted it went southwards, then this Dell had a huge market, and their world leader shot up. And at the same time, IBM exited the PC market, they sold their Lenovo computers to Chinese and Chinese Lenovo, and they bought them. And Dell was introducing PC printers those related staff to their product lines. And in the meantime, what happened after two years, the CEO of HP Hewlett Packard changed new CEO focused on certain businesses.

And quickly again, HP eclipsed the sales of Dell and became the HP became the world leader. And at the same time, Lenovo was very popular and extended its market to Asia Pacific. And at the same time, Dell was facing a continuous decrease in its market share, and also its inventories were built up; it was inefficient in its system, and also the dealer network was also shrinking. There were problems with the dealer network.

So, HP became the world leader again, and at that same time, Mac, and Apple's Mac also brought out their products, and people accepted it as a very good option and a desirable product. So, Dell was sliding at they went into such a state that Dell is the original CEO founder, he again that Mr Michael Dell again returned as a CEO and took stock of it. They wanted to privatise to have private equity keep it in Dell, but the shareholder did not very accept the offer price.

So, these are the (say) two cases, two scenarios, where both are the excellent companies, both are the good companies, and they had solid strategies, the strategies were also very robust, but what went wrong, then what they could have done or they could have done better. So, if you look at it, it is why this has changed is their value, their operations deteriorated because of changes in what, changes in technology, changes in competitors, changes in the other market conditions.

They could not adjust it that efficiently, so they did not have good strategic control. So, this is the importance of the need for strategic control here. So, next, we will go about the different types of strategic control; there are four types of strategic control, and we will discuss the first one is called premise control; what is premise control? It is that every strategy is based on some premises that are assumptions and predictions it is based on that.

Now, if those premises are changed, those assumptions or the validity of its prediction or the environment change. You also must alter your strategy or adjust your strategy. So, there is a need for that. So, for example, there may be this premise that control is of two types, one is the environmental factors, and another is the industry factors; what are environmental factors? Environmental factors have little company has little control over because it is going on in the market. So, like technology change, like regulation change, government changes the regulation, inflation, interest rate, social or demographic changes may need yours in your change in strategy or adjustment in strategy.

So, these are the environmental changes, and you have little power to control those changes, take the case of I will give you two cases take the case of the Taj Trapezium; you must be aware of it that in the areas this Taj Trapezium contains around 10,400 square kilometres in these 10,400 square kilometres there are around 40 heritage or the world heritage and national monuments are there like Taj Mahal, Agra Fort, Fatehpur Sikri, these are some of the names.

So, these are there, and these monuments were getting damaged by the pollution created by the industry because those Agra area there are lot pin industries are there, like there were foundries there are 100 and (say) 50, 68 foundries were there, which were worked on the coal and those smokes the were hurting those monuments so, there was public awareness in 1970's it grew.

So, the legislation was introduced like the court has given its verdict to contain all those pollutions. Still, in those times the implementation very of those emission rules was very lacked, then after in 1996, only based on public litigations, Supreme Court gave a verdict to close all those industries which are polluting or if you do not close down, alternatively you have to those foundries have to ship from the coal as a feedstock to gas.

So, gas is much more than natural gas, which is much cleaner and gain that is gas Authority of India Limited was asked to provide the gas and 150, 68 industries are only around. I think

53 industries went for those gas. And others either closed down or moved out from that outside that trapezium. Similarly, there were brick cleans, and brick cleans also had to be closed down because they were not complying with the Supreme Court the verdict, those regulations then there are besides that Agra had, there are tanneries, there are marble lays, and there are also those glass factories. So those who are also polluting, so, these were affected, many of them are closed down, many were relocated, those things.

So, these also question the people that millions of people were affected by closing down the factories so why what that for monuments so many people's livelihoods were at stake? These are some of the conflicts. Similarly, Netflix sticking you I have told you Netflix then what happened the next Netflix founders (say) hash things, and others, they stick to their original plan that they will they could see that web-based streaming is the future to (say) they could to be ahead of the curve.

They stick to their plan. They will go for the web-based streaming of Netflix movies that will be a simple is that is a seamless integration; those stick to the plan and although they brought down the price a price hike they brought down, they made some adjustments but it required courage to stick to the plan so anyway, and these were in future it paid. So, these are the premise control that the environmental factors that matter, you have to look at it.

So, another is the industry factors, what are the industry factors, the premises that you are for you also look at what you also look at your competitors, your suppliers, your product substitutes, any substitutes are coming in the market or not like that from IC engine, (say) electrical vehicle, it is the substitutes are coming in the market. Similarly, barriers to entry. All these are the industry factors that premises you are these premises; you have to look at them.

So, any changes in this may affect your strategy. So, you have to be there, for example, that I will take that Netflix. Netflix did what it did; it knew that web-based streaming was the scene for the future. So, they stuck to that web-based streaming and for that, they needed cloud, cloud services. So, who are the cloud services? They went to Amazon, and Amazon was giving the leasing cloud service, they went to Amazon to lease that to test their premise there to test their premise control; then, although Amazon was their rival in other that DVD rental movie rental, Amazon also that, doing that, so they were the rival.

So, knowing that also they went for that testing their premises. At the same time, they also hired those cloud services from Microsoft and other cloud service providers. So, they tested it, and then after that, they built a relationship with Amazon for their continuous leasing and seamless integrations of Netflix movies through the cloud services; they avail Amazon's IT engineers, services and they develop Amazon develop their products.

So, this is today that Netflix is the largest cloud service, and leaseholder. So, this is called the industry factors that premises you got to look at it. Now what you do in premise control, you focus on limited premises, not all the premises, because otherwise, you will get lost. So, your focus should be limited to the major promises that are likely to change. And that has a major impact. If it changes, it will have a major impact. So, you focus your energy, your things, on those limited things of the premise control. The next one is strategic surveillance. Whether when the premise control, you focus on a few things, but strategic surveillance is if you are unfocused like it is a huge area.

So, you look at it, see scan it, that is also called loose environmental scanning loosely you do it you just do not put your focus on these things. So, like, like (say), you can go through what will be your sources, you can go through the trade magazine, trade conference, then trade talks. Their many others and many other sources are there. So, you scan it through, like former CEO of P and G Procter and Gamble, he said this strategic surveillance is just like customer anthropology, like he used to watch women washing clothes on the river banks in China, also the laundry habits of Mexican Mexican people. Also, the consumer preference in buying diapers in the European market, the retailers prefer German or French products.

Similarly, in India, if you see that Paras pharmaceuticals, that brought out that noticed cracked heels, people had cracked heels in winter, there was no medication, people do not ignore it, and they do not think that can be cured; there is more medication, they found a market in it. So, what did they develop (say) crack with a product which has 14 days of medications? So, it drew the attention of many other pharmaceutical companies. So, it is a given that is strategic surveillance gives you some clues for getting into the market. So, these are the strategic surveillance.

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Types of Strategic Control (Contd.)

- *Special alert control*
 - Sudden unexpected event (e.g. 2011 earth quake and Tsunami, IBM's loss in IT service business, shifting of Tata's Nano plant from Singur)
- *Implementation control*
 - Monitoring strategic thrusts
 - Milestone reviews (e.g. Boeing scrapping SST strategy following full-scale evaluation of strategy)

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Then there are other things like special alert control; what is this special alert control? This is a sudden unexpected event that is happening, like a crisis, something coming up, or some disaster taking place. These are for that organisations might have a crisis team rise. For example, the 2011 earthquake and the tsunami that struck Japan it was a disastrous effect on many world-famous companies, even Toyota that one of its main suppliers, was downfall by the fires.

So, Toyota also closed global supply was closed for many days. So, these are the then IBM losses in IT service businesses; they saw it is happening; what do they do then special alert control? They do every quarter downsizing their human resources to keep that balance. Similarly, if you see the Tata Nano project, that plant was in West Bengal, Singur. There was much political turmoil over the site, then what happened was that Tata had to ship the plant; they had to incur many losses and ship the plant from Singur to Gujarat.

So, these are the special alert control which happens suddenly, and one needs to be prepared. And there is another control called implementation control; this is when you are implementing your strategy for that time; what do you have to monitor the strategy that thrust? Strategic thrust is the strategic initiatives that are the major programs you must continuously monitor it.

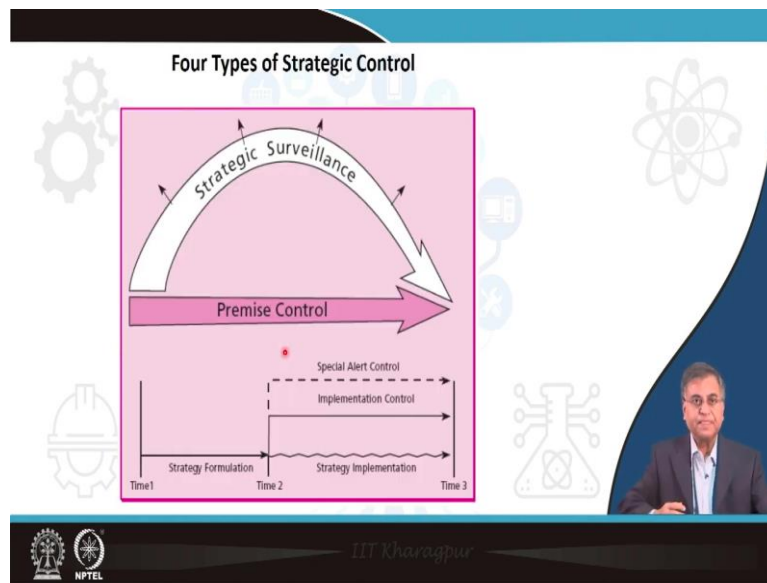
Whether it is going on the right path or not, if not, then you make the adjustments; I will show all these in this implementation control after some time with real-life examples, I will show it to this. Then there are maybe the milestones reviews where you set some milestones

for your big projects and check how it is going on, whether you reassess the project, and whether you should continue or drop it.

It is a big thing like for example, Boeing in their scrapped their supersonic transport because they were building an aircraft strategy; that strategy was going on, they have been invested 100 million dollars, it was then found after investing that and it was a stage, then they did a full-scale review SD assessment of their strategy, they found that if they develop this supersonic transport aircraft, then what happened the passengers will not be that high and also the fuel cost we are going high it will not be a good proposition that profitable venture.

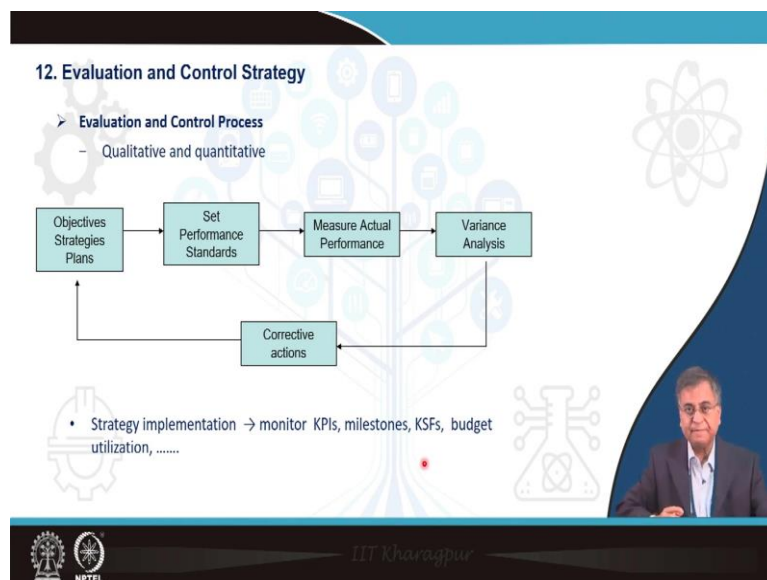
The full-scale reassessment of strategy told them so, and it will require going further for its development and successful implementation; it will require several billion dollars. So, whether they should go for those billion dollars and, after that, what should be the return, return is not encouraging. So, after investing hundreds of millions of dollars, they dropped the project; this is when you do a full-scale reevaluation of your strategy; these are milestones review these implementation control. I will talk or show you the real life after some time.

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So, these are the four types of strategic control. One is the as I told it is the premise control, this is the strategic surveillance (say) this is a time, here it is time it is (say) strategy formulation and strategy implementation. So, premise control and strategic surveillance it applies to both times so, it is applicable for the entire time. In contrast, implementation control and special alert control apply only to the strategy implementation time I think this is clear these four types of control.

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We will go next to that; as I told you, the evaluation and control process, there may be these control evaluation processes may be qualitative and quantitative. Quantitative is generally the post facto means; after you implement the strategy, only you can get the data of the

implementation actual what happened, and then only you can use their analysts that data and you can tell whether your strategies are going in the right direction or not. So, quantitative is also a real-time analysis you can do, but qualitative it can be done before the pre-implementation of strategy and also post-implementation of strategy. Both things you can do both through questionnaires on many other techniques; I will talk about it also.

Now, how do you control like this is the feedback loop all of you are aware of first of it your objective strategies and plans, then on these, you set your performance standards. So, the main important thing is that you must set your performance standard, I will talk about it, and then you measure the actual performance. So, what is your current actual performance? Then the difference between these is the variance. So, you carry out the variance analysis. With that variance analysis, you can come to know what are the corrective actions to be taken, those corrective actions are taken, and you readjust your strategic plan or your strategic objectives and strategic targets, so you readjusted.

So, this is the feedback loop. Now, the next strategy implementation, as I told this, what do you monitor after this? You monitor the key performance index; you monitor that measures your performance, and then you monitor the milestones. If you have set any milestone, you monitored the key success factors. You monitored the budget utilisation because those strategies you do it through strategic projects or programs, huge you invest those capital projects, those capital projects, how much the budget has been utilised and what is the work progress you generally monitor, all those things in real life.

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12. Evaluation and Control Strategy

- > Performance Standards
 - Historical standards
 - Industry standards
 - Present standards

In the bottom right corner, there is a video inset showing a man in a suit speaking. The slide footer includes the IIT Kharagpur logo and the NPTEL logo.

12. Evaluation and Control Strategy

➤ Evaluation and Control Process

- Qualitative and quantitative

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graph LR
    A[Objectives Strategies Plans] --> B[Set Performance Standards]
    B --> C[Measure Actual Performance]
    C --> D[Variance Analysis]
    D --> E[Corrective actions]
    E --> A
  
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- Strategy implementation → monitor KPIs, milestones, KSFs, budget utilization,

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So, as I told you, here, you have seen first thing what you do; the first-word job is you must set performance standards. How do you set the performance standard? What are the different approaches available for setting performance standards? We will talk about this. There is one standard is called in your organisation. You can do the historical standards; what is the historical standard? You have seen your past performance based on your past performance, and you set the current performance standard, which should be you are the measurement that standard for your production for any of the other (say) KPIs; you do it, but here you have to be very careful that you have to look at the applicability or the replicability of the situation like if your organisation is in a growth stage.

What happens in the growth stage if you skip the past standard as your current performance level? That will be misleading because growth stage, you are supposed to grow. Similarly, and the decline stage, if you keep the past standards, it will also be misleading, so you must see the environment and the applicability. Then next is the industry standards here; what do you see in which industry you are in, and in that industry, what are the average standards you adopt? You can also take your competitors' and your other company's standards. Still, here the difference may be that different company works under different internal environment; the different company has different capabilities or resource capabilities and different resources; you must be careful to consider all those things.

The third one is called the present standard; what is this present standard? Present standard means that the current what you take the current situation in the organisation considers the incurrent environmental conditions; you take into account the resource available to you and the capability of the organisation. Based on these, you do analysis and solid analysis and set

your standards, and these standards should be tight enough and consistent; to lose means you are deteriorating deliberately doing something. So, this standard should be judged based on the environmental situation, internal situation, internal resources, and capabilities; these are the performance standards you set.

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12. Evaluation and Control Strategy

- Structure for Evaluation & Control
 - Create responsibility centers — *Profit center, Revenue center, Cost center*
 - Functions, responsibility, and power of responsibility center heads
 - Matching structure with responsibility requirements
 - Functional structure
 - Divisional structure
 - Product division structure
 - PM Team: monitoring, follow-up action

The slide features a background with various icons including gears, a tree, a lightbulb, and a person. A video inset in the bottom right corner shows a man in a suit speaking. The slide footer includes the IIT Kharagpur and NPTEL logos.

Then, what do we do structure for evaluation and evaluation and control? What is the structure? That you generally adopt so, for you should have the generally in profit-oriented organisations you can recreate some responsibility centres, in responsibility centres such as that it may be a profit centre, responsibility centres may be a profit centre, it may be revenue centre, it may be costs or expense centre. So, it may be anything. So, create responsibility centres and give the authority to the head of these centres. Now I will talk about these functions' responsibilities and the power of the responsibility centre head. So, function set, profit centres. You give the profit centre heads what function he should enjoy the full freedom and authority related to his sales and production.

So, what to make, what to buy related to the utilisation of its plant, complete freedom should be given. Still, some limitations may also be there, like he should have the limited cannot decide about the financing sources, the sources of financing, financing-related issues and the basic HR policies beyond his scope. So, you define that similarly, for a revenue centre head, what would be he will give him the authority to decide how he generates revenue and what products to produce, but you give him that it must be done within a certain cost. So, that cost may be binding to him; he cannot go over the budget for that cost.

Similarly, for a cost centre, what do you give? You give him the freedom to manage his businesses, but you give him the limitations that he cannot go beyond the certain cost amount set for him. So, he has to do that certain production level and certain activities that have to be confined with that. So, you give that way. Then matching structure with responsibility requirement, how do you do it? That you have to match your structure with the responsibility you are giving to the profit centre or the revenue centre, or the cost centre heads. (say), if you have a functional structure, what happens in a functional structure, functional managers can only manage to have their hold on their functions. So, to be a profit centre head, a functional manager cannot do that because this requires different functions they cannot control.

So, for a functional structure, the CEO, CEO has the power to control all function sources. A functional structure CEO will be the head of the profit centre. Whereas in a functional structure, these functional managers may be the head of revenue structure to (say) marketing functions marketing head may be made the in charge of the revenue, generation of revenue that he can do that. Similarly, divisional structure, the divisional structure is what is in one division, one product, and one service. Thus, all businesses are under one roof, and divisional managers control all businesses. So, the divisional manager can be the profit centre head because all other functions are under him.

So, if you see for a merger or a growth strategy, through merger or acquisitions, which structure works well, it is the divisional structure as profit head structures work very well. And then, the product division structure could be more encouraging for the growth strategies. So, these are some of the matching structures with responsibility requirements. Then performance management team in the organisation would what is their roles. Their roles are monitoring all the projects, all the strategies, how it is going on and taking follow-up actions and informing the top management. Further on this for showing you the real life, how this term implementations controls are being done. We will be showing you and discussing it in the next session. Today, we will summarise whatever we have done till now.

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CONCLUSION

- This module emphasizes that an effective system of evaluation and control is important for the success of corporate strategy of an enterprise.
- It illustrates four types of strategic control viz. premise control, strategic surveillance, special alert control, and implementation control. These four types of control are designed to track the performance of the strategy during implementation, so that it meets the need of the top management to know the underlying problems, and make necessary adjustments, whenever required.



CONCLUSION

- It is important to develop key performance indicators and monitor the performance of the strategy. The use of controls to guide and monitor strategy implementation has been explained in detail, that would help in taking appropriate decision for continuing or modifying or mid-course correction or discontinuing the strategy. Structure also plays an important role in evaluation and control of strategy, which has been explained.



REFERENCES

1. Exploring Strategy – Text and Cases, Gerry Johnson, Richard Whittington, Kevan Scholes, Duncan Angwin, and Patrick Regner, Pearson, 10th edition.
2. Strategic Management – Planning for Domestic and Global Competition, John Pearce, R.Robinson and Amita Mital, McGraw-Hill Education, 14th edition.
3. Strategic Management, Upendra Kachru, McGraw Hill Education.

So, in these sessions, we have seen that this module what we have discussed emphasises that an effective system of evaluation and control is important for the success of the corporate strategy of an enterprise. Then we have also illustrated four types of strategic control, namely, premise control, strategic surveillance, special alert control, and implementation control. These four types of control are designed to track the strategy's performance during implementation so that it meets the need of the top management to know the underlying problems and make necessary adjustments whenever required. We also discussed that it is important to develop key performance indicators and monitor the strategy's performance.

The use of controls to guide and monitor strategy implementation has been explained in detail, which would help in taking appropriate decisions for continuing or modifying mid-course corrections or discontinuing the strategy. The structure also plays an important role in the evaluation and control of strategy, which has been explained in detail. So, these are some of the references you can go through and enlarge your knowledge further on this topic. Thank you very much for attending.