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Measuring and Evaluating Strategic Performance

by Sophia

WHAT'S COVERED

In this lesson, you will learn how managers evaluate the effectiveness of strategic plans. Specifically, this lesson will cover:

1. Measuring and Evaluating Performance

The last step in the strategy cycle is measuring and evaluating performance. The "M" in SMART goals is also about measurement. A company's actions need to be measured so that managers can understand if the firm's strategic plans are working. Any action in a plan should be designed so that the people performing the action and the manager who is supervising employees can understand whether or not the action is accomplishing what it was designed to.

HINT

You have been living in this sort of framework all of your life. For many life goals, standards exist to measure achievements.

EXAMPLE Students are given standardized tests to see if they are learning what they are expected to, and the results are used to assess the effectiveness of education at all levels.

In businesses, measurement is also a fact of life. Investors decide whether or not to invest in a particular company based on its performance, and publicly held companies are required to disclose their financial performance so investors can make informed decisions. So the overall performance of a business is often defined by its financial measures, but how do they make sure their financial performance will make investors happy? Strategy. Firms make strategic plans in order to be successful. This challenge has explained the steps of making those plans, but a final step closes the circle of the strategy cycle. Checking to see if that success is happening is as important as making the plans in the first place.

Performance measurement comes in many forms, from financial reports to quality measures like defect rates. Any activity a firm can perform can have a performance measure developed to evaluate the success of that activity. The following table lists a few common firm objectives and how actions to achieve them might be evaluated. Evaluation involves setting a performance standard, measuring the results of firm activities, and comparing the results to the standard. One specific form of evaluation is called **benchmarking**, a process in which the performance standard is based on another firm's superior performance.

↱ EXAMPLE In the hospitality industry, for example, Disney theme park operations are used as standards for other companies in the theme park industry. Universal theme parks, for example, likely compare their customer satisfaction to Disney's in order to evaluate whether or not they are also offering a superior park experience to their customers.

The table below describes three different actions to support a differentiation strategy and ways to measure results.

Strategic Plan	Tactical Plan	Operational Plan	Performance Measure
Product differentiation	Innovation	Hire three engineers to develop new products	Number of new products launched
	Increase customer satisfaction	Improve customer service with hiring and training program for customer service associates	Customer complaints per 10,000 products sold
	Quality improvement	Reduce defective products by improving manufacturing process accuracy	Defect rate per 10,000 units produced

Performance evaluation closes the strategy cycle because of what managers do with the feedback they get in the evaluation process. When a manager compares performance to a standard, he/she is deciding whether or not the performance is acceptable or needs to be improved. The strategy cycle is a process managers use to achieve an advantage in the marketplace, and the measurement and evaluation stage tells managers whether the advantage is being achieved. If firm performance meets or exceeds objectives, then the manager reports the success to middle and upper-level managers. The company CEO may develop more ambitious objectives based on that success, and the strategy cycle starts over. If performance fails to meet objectives, the operational manager must develop new actions to try to meet the objectives or report to higher-level managers that the objectives cannot be met. In this case, a new round of operational planning begins, or upper managers examine their strategic plan to see if they need to make adjustments.

BIG IDEA

The strategy process is a continuous cycle. Performance feedback becomes part of the strategic analysis of the firm's capabilities and resources, and firm leadership uses the information to help develop better strategies for firm success.

REFLECT

1. Why is performance evaluation critical in strategic planning?
2. How does the strategic planning process inform itself?

TERMS TO KNOW

Benchmarking

A performance evaluation technique where the standard for a firm's performance is based on another firm's superior performance.

Performance Measurement

The evaluation of firm activities to determine the success of the activities in helping the firm reach its strategic objectives.

SUMMARY

In this lesson, you learned about the last step in the continuous strategy cycle: **measuring and evaluating performance**. It is important to measure a company's actions so that managers can understand if the firm's strategic plans are working. You learned that performance measurement comes in many forms; any activity a firm can perform can have a performance measure developed to evaluate the success of that activity, such as benchmarking. Performance evaluation closes the strategy cycle with managers deciding whether or not the performance is acceptable or needs to be improved. This performance feedback is used to help develop better strategies for firm success.

Best of luck in your learning!

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