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**STRATEGIC CONTROL – PERFORMANCE MANAGEMENT TOOL FOR
INCREASING COMPANY COMPETITIVENESS**

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1. Introduction

In contemporary globalization trends some companies consider that use and implement strategy will help them to increase their performance and achieve success on highly competitive markets. Companies can create suitable strategies and the most of them believe that behaviour focused on strategy can markedly affect company success. Difficulties appear by implementation of strategy in daily life [1]. Especially on the middle management level and on other employees who are every day in contact with customers. Companies operating in fast changing business climate must pay attention to non-financial performance indicators, which can be determined by Balanced Scorecard (BSC) and value based approach derived from Critical Success factors (CFS) approach.

An interesting question is how to effectively put these two approaches together. How company can pick up emerging strategies while implementing the current strategy? Is really BSC able to bring the right performance indicators for both tasks at the same time? CFS method can be useful with tension between strategy formulation and implementation. This method can be especially useful for companies operating on dynamic markets with fast changing customer expectations.

Non-financial performance indicators can provide insight into the functioning of an organization. This interest is often based as a result of Total Quality Management (TQM), increasing attention of managers to the importance of focusing on customers. To find the

right indicators is not often very easy[4]. Market oriented critical success factors represents key to performance management system that provides information about changing customer needs and wants. Kaplan and Norton introduced BSC as the way for design the performance management system that also takes into account non-financial indicators. The scorecard contains variety of performance measures including financial performance, customer relations, internal business processes, and learning and growth. Advocates of the BSC suggests that each unit in the company should develop and use its own scorecard, choosing measures, that capture business strategy. CSF can be seen as another means of choosing non-financial indicators. CSF method can be used especially for strategy formulation, therefore it derive critical success factors from the market. Next by strategy implementation (with BSC conjunction) this information about critical success factors will be broken into critical business processes, critical control variables and indicators. It seems important to understand better how to use each of mentioned methods, understand relationships and how to use it better for company success [9].

2. Category of controls

For discussion about relations between BSC and CSF is useful to distinguish forms of control. These forms are labeled as diagnostic, interactive and strategic control. **Diagnostic control** system is formal information system that managers use to monitor the organizational outcomes and correct deviation from pre-set standards of performance. Important characteristics of diagnostic control system are:

- They facilitate measurement process outputs,
- They provide predetermined standards for compare with actual results,
- They can be used for correct deviation from standards.

Corporate performance can be assessed by measuring actual performance and comparison it with desirable standards. The company can therefore adjust its activities according targets settings during the planning stage. Usually is also set of levels of possible fluctuation and between those levels is not necessary direct intervention.

The **interactive control** method focuses on adapting the strategy to the changing environment, providing framework for more incremental and emergent approach to strategy formulation. Some of the main characteristics of interactive control systems are:

- This systems start with set of management control information, which is considered important in given strategic uncertainties framework.
- Information generated by the system is important for highest level of management.
- Such a system demand regular attention from operating managers at all levels.

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- Data generated by the system are interpreted in strategy meetings in debate of underlying data, assumption and action plans.

The structure of an interactive control systems depends on those factors as technological dependence and customer orientation. When company relies on specific technology, it should deal continuously with technology development. When company is less dependent on technology, it can devote more attention to finding ways to satisfy customer needs. When strategic uncertainties become substantial, the large part of the management control system should be also used interactively. The choice of parts in the management control system that are to be used interactively must be precise, because cost connected with the top and senior managers is high.

Like the interactive control approach, **strategic control** aims at reviewing strategy and its adjustment. Strategic control is about a formal system that focuses on changes in the bases of strategic planning. This is related to the assumption that underline strategic decision making and can for example signal changes by adjusting the content of the strategy. In contrast, interactive control is based on a system that is developed for implementation of the strategy.

If however management only pays attention to making planning and results in accordance with strategy, it may find no reason to change the strategy. This can be a problem, because the plan itself may be inaccurate and the need to adjust strategy may remain unnoticed.

	Diagnostic control	Interactive control	Strategic control
Purpose	Provide motivation and direction to achieve goals	Stimulate dialogue and organizational learning	Provide motivation and direction to keep on achieving goals
Goal	No surprises	Creative search	Anticipating / changing
Time frame	Past and present	Present and future	Present and future
Targets	Fixed	Constantly re-estimate	Set by business environment
Adjustment to	Inputs and processes	Double loop learning	Continuous adjustment, single and double loop learning

Tab. 1 Comparison mentioned control categories (prepared by [11])

Adjustment in the strategic plan should always be triggered by a system that is designed to gather information about opportunities and threats arising from the business environment. The corporate information and control system that is constructed to enable the implementation of strategy (diagnostic control system) is essentially unsuitable for

immediately establishing desirable relationship with market. For strategic control must company be able to collect data, check validity of planning assumption and identify new opportunities and threats, interpret data and respond to the information. Also seems important involvement of line managers in the process, which will ensure that decision are made in light of an updated set of company capabilities, strength and weaknesses, and the information is interpreted from multiple perspectives.

The choice of implementation of the strategic control system should depend on the strategy of the company and uncertainties it faces. For instance, if the company follows customer-oriented strategy, then strategic control system should be designed to serve changing customer needs in dynamic environment.

3. Critical Success Factors

When we want discuss about CSF it is important context of this discussion, e.g. if CSF will be used for strategy implementation or strategy formulation. Critical success factors are the limited numbers of areas in which result, if they are satisfactory, will ensure competitive performance for company. They are the few key areas where things must go right for successful business. Critical success factors are meant to determine which information is important for management control system. Various strategies needs different kind of information and therefore management control system should start with CSF identification. In general strategy determine the CSF and CSF subsequently form the basis for design and functioning management control systems. In another words the most important role of management control systems is to support implementation of strategies.

When critical success factors are used for strategy formulation, they support the strategy planning process. The critical success factors follow from the vision and mission of the organization and from strategic evaluation of the market. In this way where critical success factors are used for strategy formulation, then market and mission are obvious starting points. In this way critical success factors can be regarded as “winning criteria”, for instance quality or lead time. Based on this approach CSF can be specified as those factors, on which company can distinguish itself from competitors and thus built stable and positive relation with the market. The general acceptance of the market oriented approach to CSF is substantiate by experience in some of our companies and theory as well. Such elements as quality, time, cost reduction, innovativeness, customer service, product performance or cycle time help to create long term profitability for company. This market-oriented approach to critical success factors is especially interesting for companies surrounded by strategic uncertainties that relate to customer preferences.

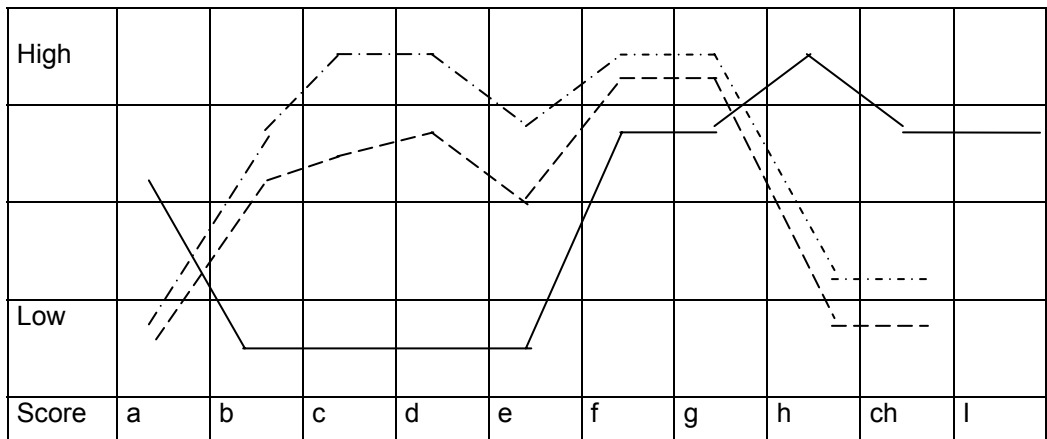


Fig. 1 Picture of strategy – value curve of three companies through factors a-i

Creation of value curve we show in the picture above start with set of critical success factors in our business we are in, on horizontal line of the picture. In other words our competitors believe that these factors bring value to their customers (Fig. 1.). On vertical line is point of score level of each of the factors. Higher score means that company put more in that factor to the customer. We do not to forget tight connection between factors and customer segments. The sense of this curve and of our new developed success factors is to understand that company need **to find those new critical success factors** in this business, which will be very important for specific segments for which the company is able to bring desiderative value and in this way achieve significant part of the market and increase own competition placement [7].

By use CSF method for **strategic control**, critical success factors are derived from the market and are not automatically manageable and controllable. They must be associated with critical business processes and these processes with critical control variables. Once company defines its critical business processes, it must establish the critical control variables and the benchmark values that apply to these critical variables. Critical control variables are therefore derived from critical success factors. If nothing happens to be wrong with critical control variables, the company returns to previous level and can test critical business processes and can return to critical success factors which was derived from the market. Next is generated signal for strategic planning, that some changes have occurred and that the bases for the strategy must be adjusted (strategy control). In this way company returns to the mission and market.

4. Balanced Scorecard

Balanced Scorecard seems to be very useful tool especially for implementing company strategy in every day live. Of course there are other reasons why it is useful to use Balance Scorecard. One of them is the need to look forward and to create learning organisation. Balance Scorecard is useful approach to describe company strategy in transparent terms and offers useful language for communicating vision and strategy throughout company. As a communication tool for discussion about strategy and possibilities how to achieve a company vision, it is very effective for all levels of the company [13]. Another key reason for using this approach is the orientation of management towards significance of intangible assets of the company. Kaplan and Norton argued for achieving balance between financial and non-financial data in management reporting and they introduced four perspectives: the financial perspective, the customer perspective, the internal perspective and learning and growth perspective [3] (see Fig. 2).



Fig. 2 Basic relation of causality in Balanced Scorecard [5,6]

Since the four perspectives are linked in a cause-effect relationship, they cannot be examined separately. Each variable that is selected for the scorecard has to fit sequence of cause-effect relations, moreover the variables reinforce one another – synergy effects. The number of variables should be limited. The number of perspectives depends on the sector of business where company operates and on the chosen strategy.

The Balanced Scorecard also contains elements of an **interactive** control system in that it reinforces the learning organization theory by providing the possibility to test cause-and effect relationship hypothesis, by forcing managers to look transversally at their organization. Balanced scorecard contains elements of a **diagnostic** control system,

because its inclusion of lag indicators which measure the progress towards the achievement of objectives (see Fig.3).

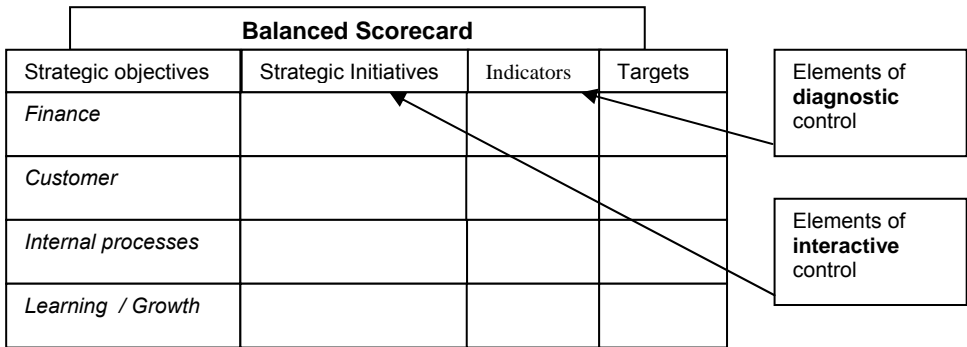


Fig. 3 Interactive and Diagnostic Elements of Control in BSC Perspectives
(prepared by [10])

It seems interesting that Balanced Scorecard is strategic control system which offers managers the possibility to try to combine interactive and diagnostic control systems as such add value to the management. It allows the measurement of the performance of the current strategy, whilst enabling time and energy to be spend on the formation of new tomorrow strategy. However many of good systems have fallen by the wayside due to their conflict with current systems. It is therefore important to spend a time to find potential conflicts between the Balanced Scorecard and other existing systems.

When company operates in an uncertain environment and strategy is evaluated on regular basis, it should consider a more formal strategic control system. Balanced Scorecard can be used as a diagnostic control system and after some refinement can be used for interactive control system. However CSFs for strategy implementation can indicate that something is wrong, but cannot signal whether the chosen strategy implementation is inaccurate, or whether changes have occurred in the market [12]. The CSF method of strategic control immediately signals whether and when changes in the market occurred.



Fig. 4 Relation between CSFs and BSC (BSC as a management system [5])

On the base of this discussion, these two systems can supplement each other well. On the one hand, an advantage of the strategic control method of CSFs is that measurement system is directly connected to the market. On the other hand, the Balanced Scorecard is meant not only to clarify and communicate strategy, but also to manage strategy. On the figure 4 we show Balanced Scorecard as a management system with CSFs conjunction.

This model is based on Kaplan and Norton work. The mission and market determine strategy, while strategy in turn, forms the basis for the CSFs and, consequently for the Balanced Scorecard. With this model BSC come back to the measurement system.

5. Conclusion

The Balanced Scorecard has emerged in recent years as strategic control tool. The propaganda surrounding the Balanced Scorecard provides evidence that it is the key for driving performance in organization. In this article we discuss the possibility of connectivity between Critical factors and Balanced Scorecard in the context of strategic control and performance management [8]. Today competitive environment is highly dynamic and many companies face rapidly changing customer needs. In order to be successful, companies must continuously adjust their competitive strategies. Prevailing business practice values the use of non-financial as well as financial indicators. The choice of appropriate indicators is important for functioning the organization. CSFs and BSC are both methods, which use selection of appropriate financial and non-financial indicators, but we must take it in appropriate way. Finally, organization culture has potential to have large impact (positive or negative) on the implementation of Balanced Scorecard or Critical Success factors.

In this article we show shortly the basis of each method and possibilities for putting it to work together for business success in highly dynamic environment on the base of information we got from literature and from our consultation praxis.

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Resumé

STRATEGICKÉ RIADENIE - NÁSTROJ VÝKONNOSTNÉHO MANAGEMENTU PRE ZVYŠOVANIE KONKURENCIESCHOPNOSTI PODNIKU

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Článok sa zaoberá manažérskymi procesmi, ktoré sa spájajú s problematikou manažérskeho riadenia a s problematikou výkonnostného manažmentu. Stručne poukazuje na ich charakteristiky a zaoberá sa metódou kritických faktorov úspešnosti a metódou Balanced Scorecard a porovnáva ich v súvislosti s ich využitím pre manažment výkonnosti podniku na dynamických trhoch.

Summary

STRATEGIC CONTROL – PERFORMANCE MANAGEMENT TOOL FOR INCREASING COMPANY COMPETITIVENESS

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This paper briefly characterizes construction of management control and then focuses on Critical Success Factor and Balanced Scorecard method. Article compares mentioned methods and possibility to use it both for strategic performance management of the company. This paper discusses the possibility of co-action of mentioned two approaches as effective tool for increasing company competitiveness on high dynamic markets .

Zusammenfassung

STRATEGIEKONTROLLE – MITTEL DES LEISTUNGSMANAGEMENT ZUR ERHÖHUNG DER GESELLSCHAFTSWETTBEWERBFÄHIGKEIT

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Der Beitrag beschäftigt sich mit den Managementprozessen. Den Rahmen bilden dafür das Konzept der Managementführung und des Leistungsmanagements (Performance Management). Darauf aufbauend setzen sich die Autoren mit Überlegungen zum Konzept der Methoden „Kritische Erfolgsfaktoren“ und „Balanced Scorecard“ auseinander. Im Anschluss daran werden die Methoden im Zusammenhang mit der Anwendung für das Leistungsmanagement verglichen.