

Strategic Management - The Competitive Edge
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Lecture 34
Model for Evaluation

We looked at M&A. Welcome to this session. We look at evaluation and control process.

This evaluation and control process can be viewed as a five step model. These steps: First to determine what to measure, what is it that you want to measure that is the performance measurement and can be meaning that the processes and reserves must be capable of being measured in an objective and consistent manner.

So, you should be able to measure the performance of an individual. How many units are coming out of the production shop; suppose a person is engaged in the production of a particular product, how many units is he making at the end of the day.

So, when these are tangible enough sometimes it causes less problems. Sometimes you are evaluating intangibles let us say R&D. Then how do you determine the performance of these R&D personnel? This is where you get into the realm of applied R&D with respect to industries; what is applied R&D- You did a lot of research work in a particular field; when an industry is looking at this R&D, it is looking at it from the prism of translating this R&D into a product which can be put out into the marketplace.

So, in this COVID period, a lot of R&D happened with respect to ventilators. So, many came out with their own models- because this ventilators were proving to be expensive when they were imported. IISc researchers also chipped in with their own models. The prototypes of this ventilators developed during this COVID period, also eased importing of this ventilator. This was produced at a very nominal rate in the Indian market.

Now, the question that comes is suppose you are engaged totally in R&D, how do I measure the performance of these R&D people? So, with respect to the industry, they are looking at applied R&D.

Second to establish performance standards, these specify the measures and acceptable results that is the provided tolerance range. So, they tell you okay, this is an acceptable range you go ahead. This can be accepted. So, many of these pharma companies which are operating in the country, they are looking at these applied R&D only to come out with products.

Third- actual performance- it was very apparent in the COVID period that the Indian companies came out with their own vaccines. So, whether it was a covaxin by the Hyderabad company or the Pune company, these were manufactured in India, easily available compared to the US vaccines at that point of time, affordable

Fourth-Comparison of actual with standard. During COVID the production of these vaccines was remarkable by Indian companies. To cater to a population of nearly 130 crores is not a small job and the Indian company stood to this task. They came out with vaccines.

The last point is taking corrective action. This becomes necessary when the actual results are outside the tolerance range; before acting the manager has to ensure whether the deviation is due to chance fluctuation and whether the process is correct and appropriate.

This is the five step model adopted for evaluation and control.

Now, there are some problems in measurement of performance which you come across. So, if you see you want a high return on investment in short term, then performance measurement becomes a real issue; how do you really measure the performance in a short term. The reasonable long term would be to look at 1 to 3 years that is also the goal of strategic management, kindly note that.

So, when you are looking at performance, though, IT companies are looking at quarterly performance. So, they get results by first quarter, second quarter, third quarter like that; but still a good measure of performance gives some leeway to the employers, what is the performance in this particular year, has it improved over the previous year, with respect to the portfolios as well. So, this can be one of the problem areas in a short term orientation.

The other is goal displacement-refers to the confusion of means with the end, occurs when activities intended to help managers achieve corporate objectives become ends in themselves or are adapted to meet the ends rather than those for which they are intended.

So, what is it trying to tell you? When the objectives are not clear you get into this goal displacement problems. You wanted to come out with a smart telephone instrument. A smart telephone instrument does not mean you compromise with the attributes; in fact, if possible, further attributes are added to make the product more acceptable in the marketplace.

So, this is what happened with respect to telephones in the 80s when they came out with electronic telephones instead of the mechanical telephones.

This goal displacement can be of two types. One is the behavior substitution and sub optimization. What is behavior substitution? Refers to a phenomenon where activities that do not lead to goal accomplishment are substituted for activities that lead to goal accomplishment.

In other words, the wrong activities and people who focused on these activities are being rewarded. Many times happening in the Indian scenario you are rewarding the wrong person saying that they did a great job. Example: look at these fuel prices there was a demand some two decades back by sugar companies especially operating in the old Mysore belt in Karnataka. They said they are not able to crush the cane that is sugar cane throughout the year.

This was leading to labor problems that is they are not able to engage the labor throughout the year; so, they were having problems of disbursement of wages throughout the year without production; how can it be dispersed? This was one of the questions. And at a more macro level they were looking at the survival of the sugar industry itself. What is going to happen if sugar cane is not available in the required quantity for crushing, what should we do?

So, I went into this problem; did considerable research on this with the help of the Federation of Karnataka Chambers of Commerce and Industry. What was coming out of this sugar industry as a byproduct was molasses. What was suggested to the sugar industry was why not make use of this molasses to produce ethanol.

So, the same production line will be operable and this labor force can be used throughout the year. And you are making use of the waste product of the sugar industry to come out with this- using molasses to come out with ethanol.

The next identified use of this ethanol was to mix it with petrol whether it can be mixed with petrol and you can operate the cars using this product; this was done in the year 2000 only. So, in fact, an Ambassador car was driven from the Mandya to Bangalore to demonstrate that, engine is not getting greatly affected. So, it went through so many other tests- for the engine, etc.

Now, when the fuel crisis has become so acute in 2020, that is two decades later, what are the steps which are taken by the government? The oil companies have put out that the petrol or the fuel which is coming out from the petrol banks is mixed with 10 percent ethanol. So, it is huge foreign exchange saving to the government. And it is also helping the sugar industries.

So, this notification by the oil companies in 2021 or end of 2021 made mixing of ethanol mandatory, with petrol. So, what you get as petrol or fuel in the petrol bunks today is mixed with 10 percent ethanol. Now, they are looking at the option of increasing this 10 percent to 20

percent

So, at that point of time, they were trying to say that this has the potential to save nearly Rs 50,000 crores in foreign exchange that is this mixing of ethanol with petrol.

So, this is a potential saving that they were expecting for the country. And that resulted in the government taking this step. Many times you wonder, why could it not have been taken much earlier, but this is what happens. So, many times you do research; the translation of this research to results may take years.

So, this is fortunately as part of this research for ethanol, is sugar industry problem, which surfaced at that point of time and then suggested that why not look at ethanol to be produced by sugar mills. So, one of the sugar mills which benefitted was also the Mandya Sugar Mill at that point of time.

So, these are some things which can happen when you are looking at so many goals with respect to organization. Sometimes organizations might be suffering due to so many problems. So, you are not able to get optimization of results. This optimization of results may lead to sub optimization. This sub optimization is where optimization occurs in one unit or a functional area and to the detriment of the organization as a whole. So, these are problems which organizations suffer.

So, this is mentioned in page number 162 designing jobs with the job characteristics model in the book. So, the point that comes out is when you redesign work for better performance, the idea is to have these five principles one: combined tasks to increase task variety and enable workers to identify with what they are doing. Second: from natural work units to make your worker more responsible and accountable for the performance of the job.

Then establish client relationships. So, the worker will know what performance is required and why, load the job by giving workers increased authority and responsibility over their activities. And the last one being open feedback channels by providing workers with information on how they are performing. So, all this leads to job enrichment also. These performance measurement problems can come in organizations.

And many times can lead to so many different things- you should make use of strategy audit to develop benchmarks. Use all this to come out with the EFAS matrix, then the IFAS matrix, then the SFAS matrix, then the strategic choice, and the strategic implementation. Then the evaluation and control.

One last part of the exercise which organizations should do is to do the strategy audit that helps them to develop benchmarks. This process involves the following steps, identification of area or process to be examined, usually an activity which can give competitive advantage to your business unit. We are always looking at in strategy to derive competitive advantage. You should get competitive advantage.

Then determination of measures of performance of the area or process. Then the competitors against whom the company has to benchmark, not take any weak competitor. These have to be generally the best among the industry. Then difference in performance measurement of the company and the best in the class. Kindly not with respect to a product, a product might be priced very high that does not mean it is best in quality. The product might be moderately priced, but still might be very good in quality.

This is what you have to do, whether it is with an industry or any other sector even in an education sector, there are big schools which are coming in now to bridge the performance gap. So, implementation of programmes and comparing the results of new measures with those of best in class. So, these are the important aspects with respect to strategic audit.

The focus should be on critical success factors that is 20 percent that determine 80 percent of the results. That is the Pareto Principle.

Control should be directed towards monitoring meaningful activities and results and should be timely. So, controls can be both long term and short term. So, you step in whenever it is required. Controls should help in pinpointing exceptions. There should be emphasis and rewards on meeting or exceeding standards of performance, whether you are a PSU or a private sector unit. So, in private sector you are always rewarded for performance.

So, used to feel very happy that the company has recognized job performance. This in 70s; was unheard of in the public sector units; that should not happen because you are always relating to the marketplace; you should be able to reward performance, achievers; move towards a merit system; where the deserving will always get recognition. Why is US always on top with respect to these types of indicators? Because there deserving get the reward whether Intel, or Cisco, or any other company you find that employees who are performing are rewarded regularly and they are deserving.

Most of the American companies are headed by Indians, whether it is Google or Microsoft, they were typically American companies, kindly note that. Now these deserving Indians have gotten into those positions. So, we also have to move to the scenario where the deserving get the rewards, get to the position that they are worthy of, not give alibis for not giving them what

they deserve.

We will stop here. We will continue in the next class. Thank you.