

8.9: Measuring and Evaluating Strategic Performance

Learning Objectives

1. How and why do managers evaluate the effectiveness of strategic plans?

The last step in the strategy cycle in Exhibit 8.3 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. You have been living in this sort of framework all of your life. For many life goals, standards exist to measure achievements. For 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 to be successful. This chapter 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 such as defect rates. Any activity a firm can perform can have a performance measure developed to evaluate the success of that activity. Table 8.2 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. 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 to evaluate whether or not they are also offering a superior park experience to their customers.

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
Product differentiation	Increase customer satisfaction	Improve customer service with hiring and training program for customer service associates.	Customer complaints per 10,000 products sold
Product differentiation	Quality improvement	Reduce defective products by improving manufacturing process accuracy.	Defect rate per 10,000 units produced

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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 with a standard, he 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.

The strategy process is always circular. 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.



? Concept Check

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

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