Strategic Management Process - The Building Stage

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If a business operates according to a sound strategic management process, by this point in the process the business has defined a market strategy that differentiates it from competitors and leverages its core strengths. It has also taken the necessary steps to internalize its market strategy with all stakeholders of the business, including customers, suppliers, employees, and owners. In addition, and this is the best part, the business should now start seeing improvements in its revenue and profitability. This is always an exciting time for a business. Morale is beginning to run high throughout the organization. A new strategic direction has been implemented, and it is leading to growth in revenue and profits. That makes everyone happy and creates a positive environment within which to proceed with the next stage of the strategic management process - The Building Stage.

One might ask, if revenue and profits are already growing at this point, why go further? Why do we even need The Building Stage? Well, even though the results from a properly executed strategic management process are beginning to show during The Building Stage, the business still needs to do the work necessary to optimize those results and to sustain them over the long-term. That work takes place in The Building Stage. The underlying theme for The Building Stage is performance measurement. Performance measurement is the tool that measures and rewards people and business units for operating in a manner consistent with the business's market strategy. Quite simply, the performance measurement process should reward behavior that leverages and solidifies the business's market strategy. There are two components of The Building Stage that deserve further discussion - Management Accounting Policies and the Performance Evaluation Process.

Management Accounting Policies

Management accounting policies can be an effective strategic management tool. Management reports, or internal profitability and performance reports, are created based on a set of defined management accounting policies. Therefore, the management accounting policies must be designed properly for management reports to be successful. In addition, management accounting policies communicate what is truly important for raises, bonuses, and promotions better than any other internal communication vehicle. Here are a few keys to designing a successful set of management accounting policies.

- Ensure collaboration right from the beginning. A broad working group, composed of representatives of all business units, cost centers, and support groups, should be formed to review and approve all policies. Disagreements should be presented to senior management for resolution. A strategist should chair the working group to ensure that all policies enhance and underscore the business's market direction. The decisions that this group make will spread through an organization extremely quickly.

- Be thorough. All units, groups, and individuals to the extent possible, should be covered by the management accounting policies. For units that are not revenue centers, measures of productivity and quality should be defined that are consistent with the business's strategic direction.

- Handle complex issues. There are many complex issues that must be handled correctly within the management accounting policies, and none of them should be ignored. Authorities within the organization must be defined, because measurements should reflect only those items that the unit, group, or individual has the full authority to change. In addition, items such as investments, risks, and use of capital, must be handled within the scope of the management accounting policies to ensure equitable and long-range measurements.

- Distribute the policies broadly within the organization. There are multiple internal audiences for management accounting policies. Senior management should be able to view and understand the principles and concepts underlying the policies. In addition, people working on the production of management reports need details of exactly how each item is to be handled in reports. Broad internal distribution of the policies allows everyone to understand how their performance will be measured.

Management accounting policies must be in sync with a business's strategic direction. They communicate to everyone in the business how they will be measured, and they establish a foundation for an effective Performance Evaluation Process.

Performance Evaluation Process

From a strategic process perspective, it is essential that performance evaluations mirror the measurements that have been created in management reports. This is true for performance ratings, as well as for raises, bonuses, and promotions, that go along with them. This ensures that the performance evaluation process underscores the business's strategic direction and market strategy.

Of course, there are always subjective criteria that should be factored into performance evaluations, but their impact on ratings and compensation should be kept to a minimum. Allowing subjective criteria to significantly affect ratings and compensation will just simply destroy the credibility of the entire process.

After a business has defined an effective strategic direction and market strategy, and it has internalized that strategy within the organization, it is time to create the environment within which to optimize the strategy and sustain it over the long-term. That takes place in The Building Stage of a strategic management process. The Building Stage is focused on creating performance measurements that are in sync with the business's strategy, and rewarding those in the organization that have succeeded in implementing and enhancing the strategy. This should establish a foundation for growth in revenue and profitability for many years to come.

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