CHAPTER – EIGHT

STRATEGY REVIEW, EVALUATION, AND CONTROL

Strategy Evaluation

- The best formulated and best implemented strategies become obsolete as a firm’s external and internal environments change.

- Therefore, it is essential for strategists to systematically review, evaluate, and control the execution of strategies.

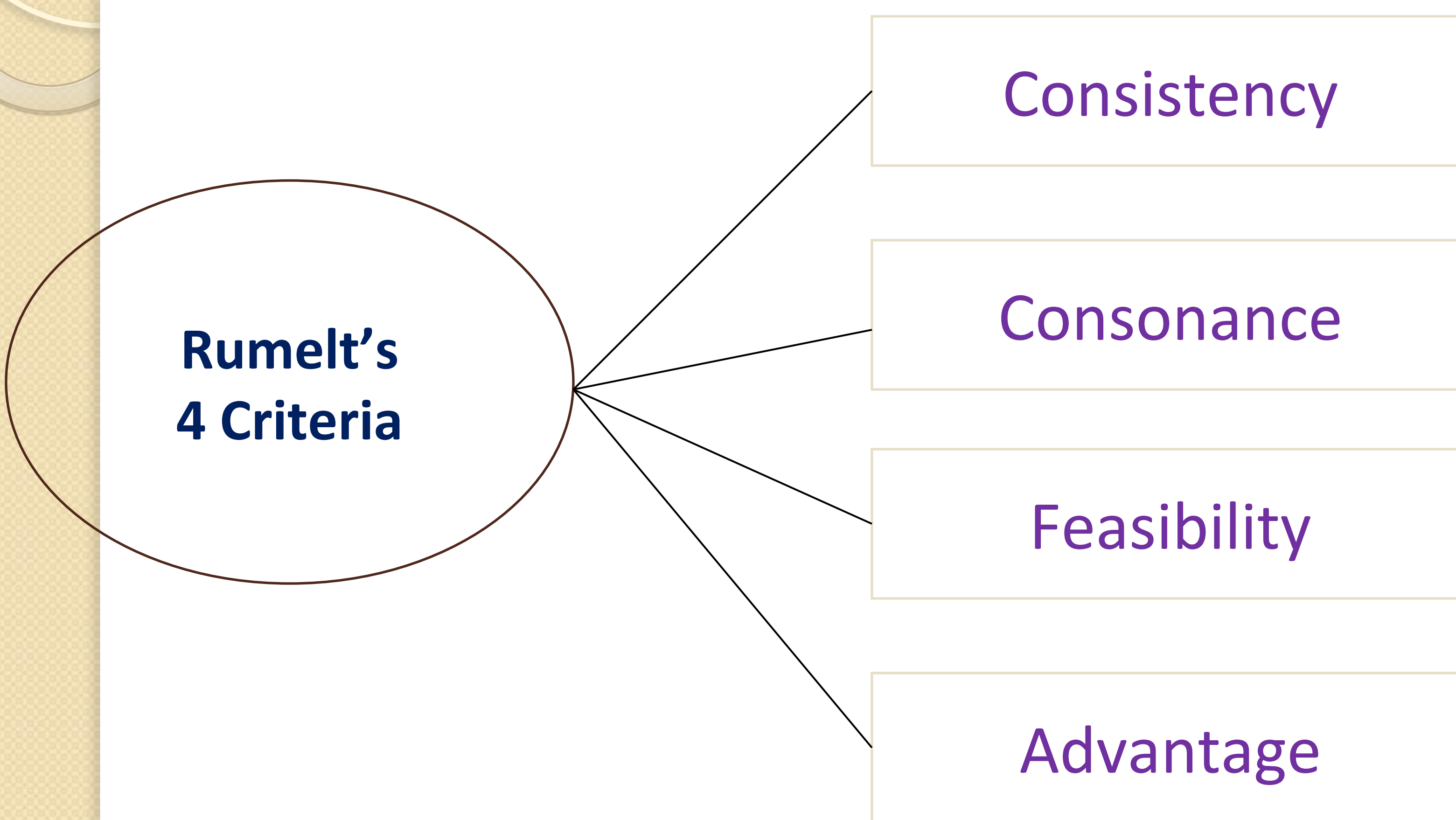
Strategy Evaluation

- **Strategy Evaluation includes three basic activities:**
  - **Examining the underlying bases of a firm's strategy.**
  - **Comparing expected results to actual results.**
  - **Taking corrective actions to ensure that performance conforms to plans.**

Strategy Evaluation

- Importance of Strategy evaluation:
  - Timely evaluations can alert management to potential or actual problems before a situation becomes critical.
  - Strategy Evaluation is important because organizations face dynamic environments in which key external and internal factors can change quickly and dramatically.
  - Strategy Evaluation is essential to ensure that the stated objectives of an organization are being achieved.

Strategy Evaluation –Criteria



Consistency

- **A strategy should not present inconsistent goals and policies.**
- **Indicators of inconsistent strategies**
  - **If managerial problems** continue despite changes in personnel and **are issue based**, then strategies may be inconsistent.
  - If **success for one department means failure for another department**, then strategies may be inconsistent.
  - If **policy problems/issues** continue to be brought to the top for resolution, then strategies may be inconsistent.

Consonance

- Strategists need to examine **sets of trends** as well as individual trends in evaluating strategies.
  - Strategy must represent **an adaptive response** to the external environment and critical changes occurring within it.
  - Most trends are the result of interactions among other trends.
  - Difficult in matching key internal and external factors in formulation of strategy.

Feasibility

- **Strategy must neither overtax available resources nor create unsolvable sub-problems.**
  - Can the strategy be attempted within the physical, human and financial resources of the enterprise?
  - Limitation on strategic choice imposed by individual and organizational capabilities must be considered.
  - Important to examine whether in the past the organization has demonstrated the capabilities, abilities, competencies, skills, and talents to carry out strategy.

Advantage

- A strategy should generate a competitive advantage for a firm.

Why Strategy Evaluation is More Difficult Today

1. A dramatic increase in the environment's complexity
2. The increasing difficulty of predicting the future with accuracy
3. The increasing number of variables
4. The rapid rate of obsolescence of even the best plans

Why Strategy Evaluation is More Difficult Today

5. The increase in the number of both domestic and world events affecting organizations
6. The decreasing time span for which planning can be done with any degree of certainty

Strategy Evaluation should:

- Strategy evaluation should initiate managerial questioning of expectations and assumptions, should trigger a review of objectives and values, and should stimulate creativity in generating alternatives and formulating criteria of evaluation

Reviewing Bases of Strategy

- How have competitors reacted to our strategies?
- How have competitors' strategies changed?
- Have major competitors' strengths and weaknesses changed?
- Why are competitors making certain strategic changes?

Reviewing Bases of Strategy

- Why are some competitors' strategies more successful than others?
- How satisfied are our competitors with their present market positions and profitability?
- How far can our major competitors be pushed before retaliating?
- How could we more effectively cooperate with our competitors?

Key Questions to Address in Evaluating Strategies

1. Are our internal strengths still strengths?
2. Have we added other internal strengths? If so, what are they?
3. Are our internal weaknesses still weaknesses?
4. Do we now have other internal weaknesses? If so, what are they?

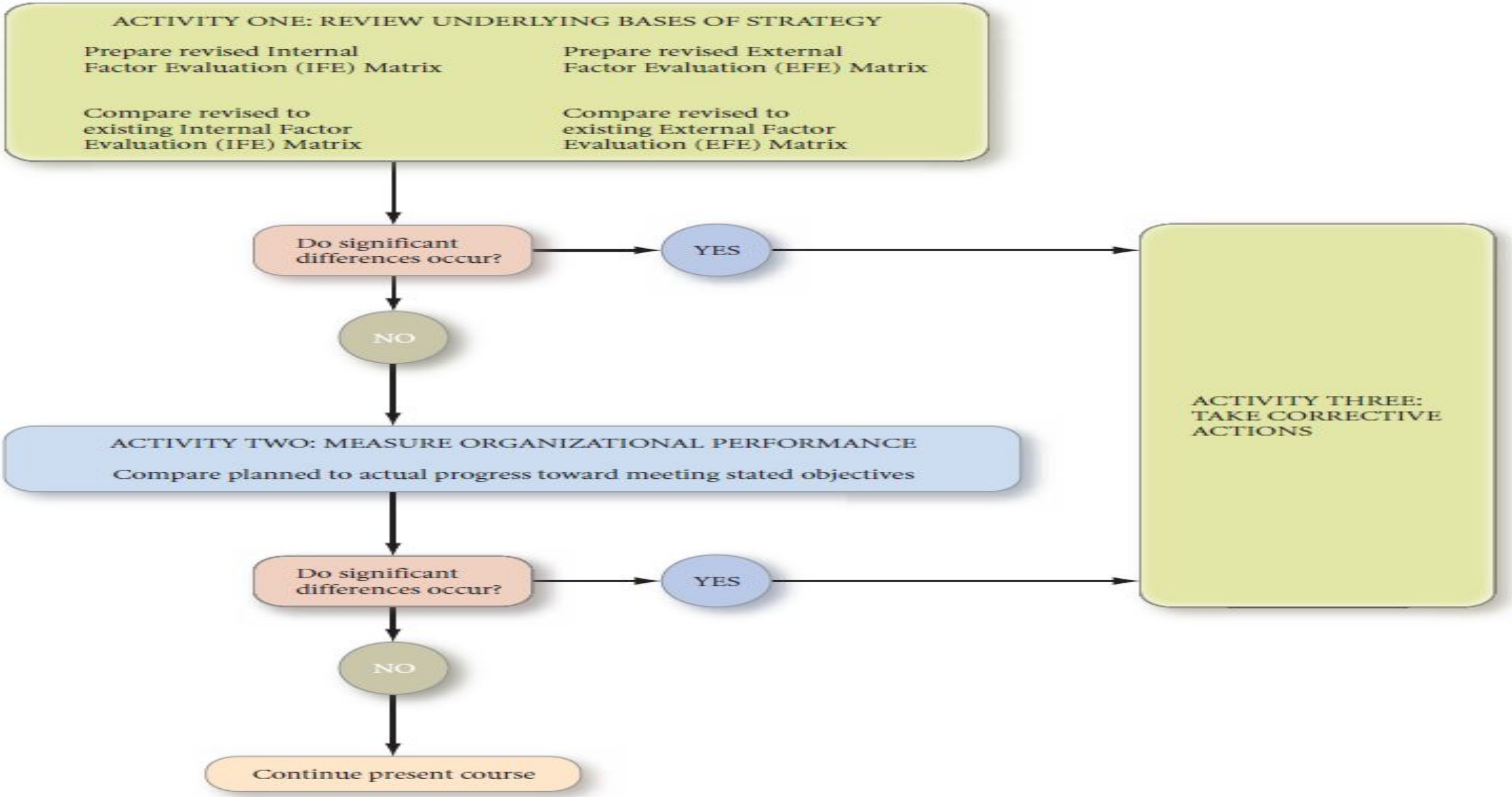
Cont…

5. Are our external opportunities still opportunities?
6. Are there now other external opportunities? If so, what are they?
7. Are our external threats still threats?
8. Are there now other external threats? If so, what are they?
9. Are we vulnerable to a hostile takeover?

A Strategy-Evaluation Framework

FIGURE 9-2

A Strategy-Evaluation Framework



Measuring Organizational Performance

Strategists use common quantitative criteria to make **three critical comparisons**:

- Comparing the firm's performance over different time periods
- Comparing the firm's performance to competitors'
- Comparing the firm's performance to industry averages

Problems with Quantitative Criteria

- Most quantitative criteria are geared to annual objectives rather than long-term objectives
- Different accounting methods can provide different results on many quantitative criteria
- Intuitive judgments are almost always involved in deriving quantitative criteria

Additional Key Questions

- How good is the firm's balance of investments between high-risk and low-risk projects?
- How good is the firm's balance of investments between long-term and short-term projects?
- How good is the firm's balance of investments between slow-growing markets and fast-growing markets?

Additional Key Questions

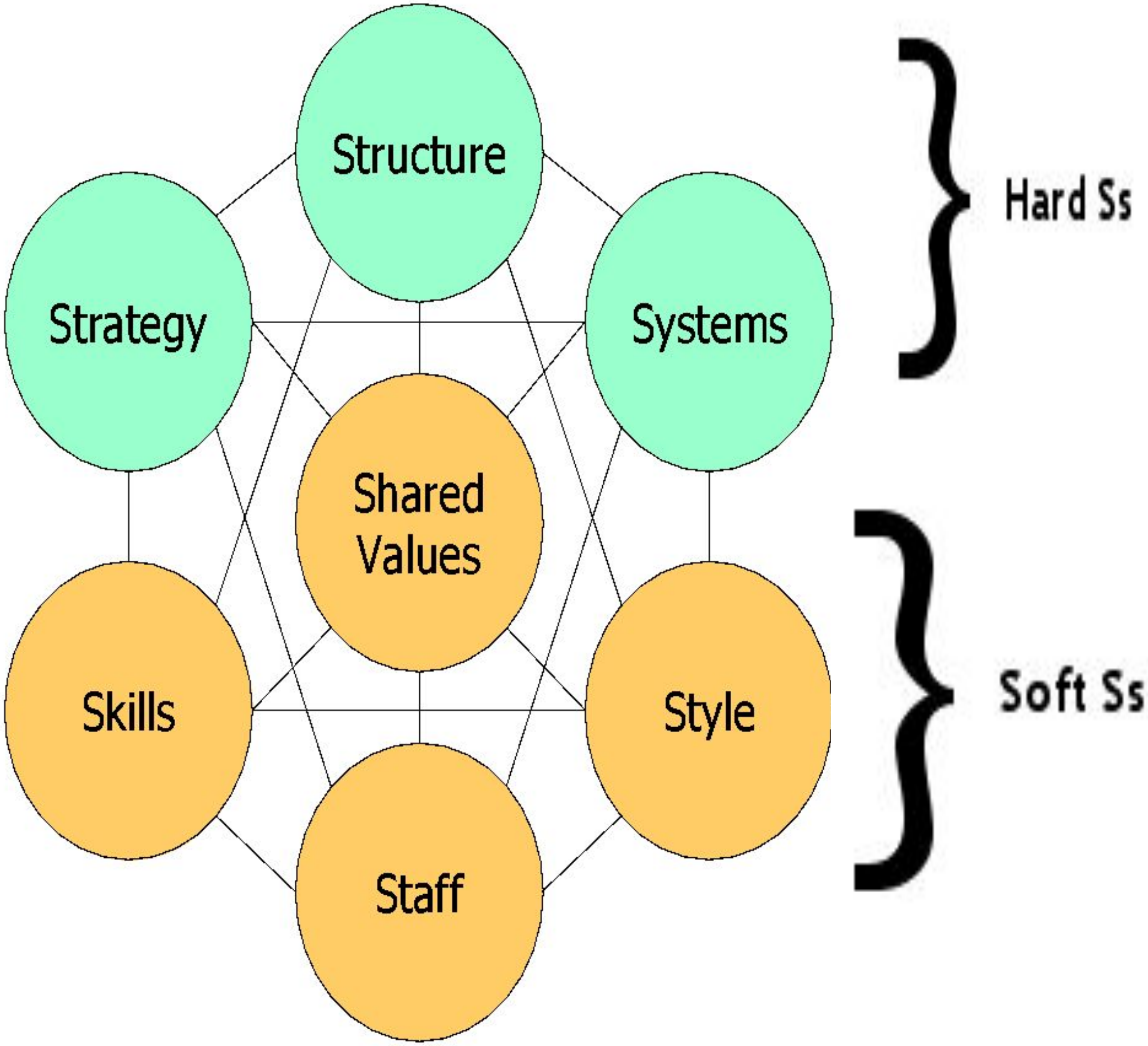
- How good is the firm's balance of investments among different divisions?
- To what extent are the firm's alternative strategies socially responsible?
- What are the relationships among the firm's key internal and external strategic factors?
- How are major competitors likely to respond to particular strategies?

7-S MODEL / FRAMEWORK

- **The international consulting firm of <u>McKinsey & Company</u> has developed the McKinsey 7-S Framework for evaluating strategy**
- **The underlying premise of this model is that the value of any given strategy depends not only on its content but equally on <u>whether it can be successfully executed</u>**
- **By McKinsey partners Tom Peters & Robert Waterman – concluded that:**
  - **"<u>Structure</u> alone could not solve the problem of how to <u>coordinate resource allocation</u>, <u>incentives</u>, & <u>actions</u> across large organizations."**
  - **Thus, the 7-S Framework is based on the concept that any strategy, in order to be successfully implemented, must <u>fit with the culture</u> of the organization.**

7-S MODEL CONT'D …

- **According to the model:**
  - **A strategy is usually successful when the other S's in the framework fit, or support, the strategy**
  - **If a chosen strategy has run into problems during implementation, it is often because there is a lack of fit b/n the strategy & one or more of the other S's**
- **The 7-S model posits that organizations are successful when they achieve an integrated harmony among**
  - **Three hard S's of *strategy*, *structure*, & *systems*, &**
  - **Four soft S's of *skills*, *staff*, *style*, & *super-ordinate goals* (now referred to as *shared values*)**


Structure
Strategy
Systems
Shared Values
Skills
Style
Staff
Hard Ss
Soft Ss

7-S MODEL CONT'D …

- **Strategy**
  - The positioning & actions taken by an enterprise, in response to or anticipation of changes in the external environment, intended to achieve competitive advantage

- **Structure**
  - The way in which tasks & people are specialized & divided, & authority is distributed; how activities & reporting relationships are grouped; the mechanisms by which activities in the organization are coordinated

7-S MODEL CONT'D …

- **Systems**
  - The formal & informal procedures used to manage the organization, including management control systems, performance measurement & reward systems, planning, budgeting & resource allocation systems, & management information systems

- **Staff**
  - The people, their backgrounds & competencies; how the organization recruits, selects, trains, socializes, manages the careers, & promotes employees

7-S MODEL CONT'D …

- **Skills**
  - The distinctive competencies of the organization; what it does best along dimensions such as people, management practices, processes, systems, technology, & customer relationships
- **Style/culture**
  - What they focus attention on, what questions they ask of employees, how they make decisions; also the organizational culture
- **Shared values**
  - The leadership style of managers - how they spend their time, the core or fundamental set of values that are widely shared in the organization & serve as guiding principles of what is important

Balanced scorecard

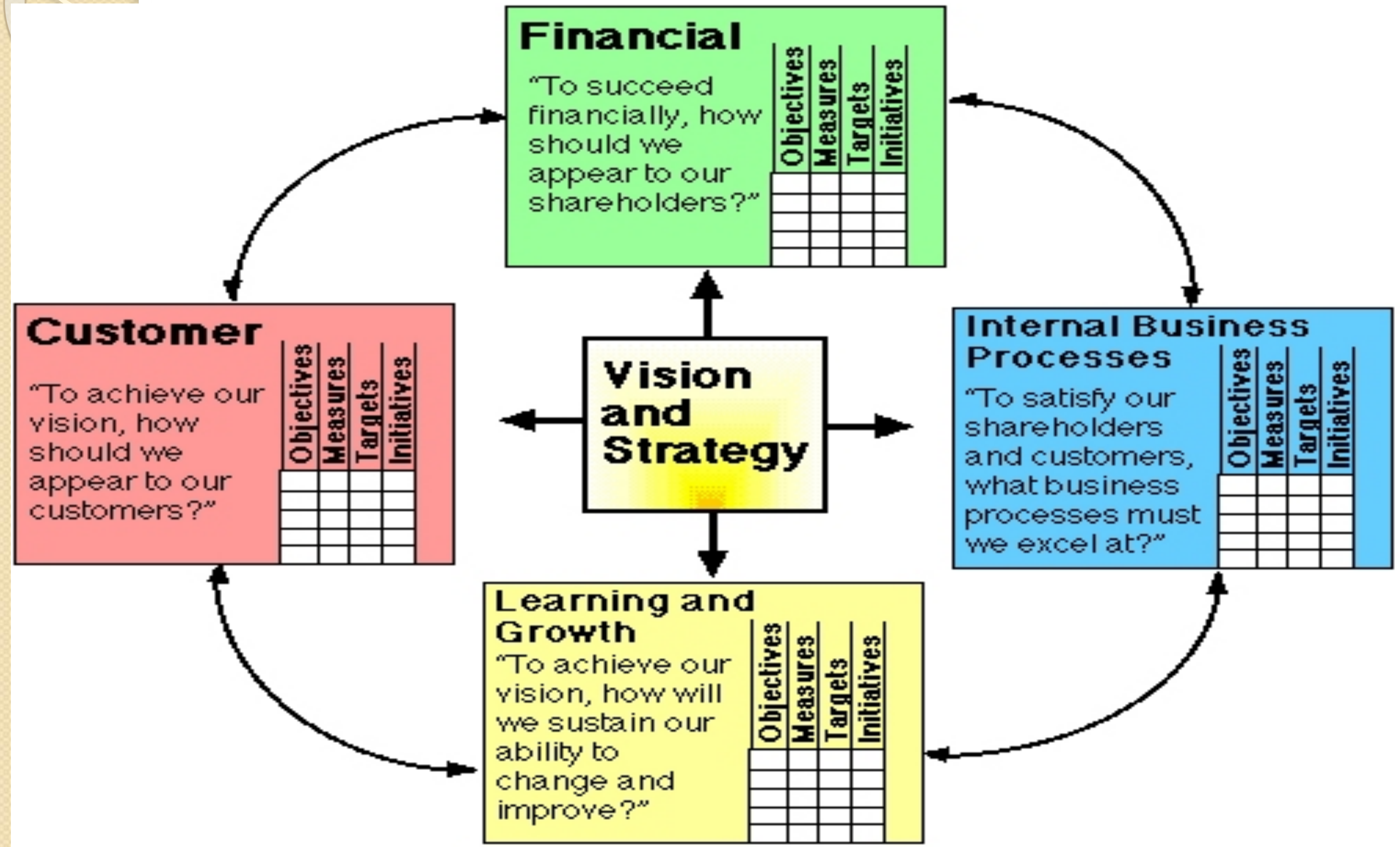
- The Balanced Scorecard is a strategy evaluation tool. It uses both quantitative and qualitative measures to evaluate strategies
- is a management system that enables organizations to clarify their vision and strategy and translate them into measurable action.
- provides an organization with feedback of both the internal business processes and external outcomes, which allows for continuous improvement of strategic performance and results

- **A Balanced Scorecard analysis requires firms to answer these questions:**
  - **How well is the firm continually improving and creating value along measures such as innovation, technological leadership, product quality, operational process efficiencies, etc.?**
  - **How well is the firm sustaining or improving upon its core competencies and competitive advantages?**
  - **How satisfied are the firm’s customers?**

- The balanced scorecard is centered on four performance metrics or perspectives:
  - Customers
  - Internal processes
  - Financial
  - Learning and growth
- When implemented properly, each one of these perspectives contains four subparts consisting of
  - Objectives
  - Measures
  - Targets
  - Initiatives

- BSC
  - Objectives - what the strategy is to achieve in that perspective
  - Measures - how progress for that particular objective will be measured
  - Targets - refer to the target value that the company seeks to obtain for each measure
  - Initiatives - what will be done to facilitate the reaching of the target

- The term “scorecard” signifies quantified performance measures and “balanced” signifies the system is balanced between:
  - Short-term and long term objectives
  - Financial and non-financial measures
  - Lagging and leading indicators
  - Internal and external performance perspectives



Financial
"To succeed financially, how should we appear to our shareholders?"
Objectives
Measures
Targets
Initiatives
Customer
"To achieve our vision, how should we appear to our customers?"
Objectives
Measures
Targets
Initiatives
Vision and Strategy
Internal Business Processes
"To satisfy our shareholders and customers, what business processes must we excel at?"
Objectives
Measures
Targets
Initiatives
Learning and Growth
"To achieve our vision, how will we sustain our ability to change and improve?"
Objectives
Measures
Targets
Initiatives

- Customer Perspectives:
- Customer needs
  - Who is your customer?
    - What age, gender, group does our product appeal to?
  - What services or products do they expect from you?
    - Do we provide personal services, do your products serve as advertised?
  - How do you listen to and learn from your customers?
    - Do we provide feedback calls or emails?
  - How do you retain and acquire new customers?
    - Do we use new advertisement and how do we advertise?
  - How do you meet customers’ needs?
    - Do we provide help lines and how can we provide help to customers?
  - How do you measure customer satisfaction and dissatisfaction?
    - Do we use surveys to find out how customers feel about us?

- **Internal Processes**
  - Internal business process objectives address the question of **which processes are the most critical for satisfying customers and shareholders**
    - A firm must concentrate its efforts to excel in these areas
  - Metrics based on this prospective allow the managers to know how well their business is running and whether its products and services conform to customer requirements

- **Financial Performance**
  - The financial performance perspective of the balanced scorecard addresses the question of:
    - **how shareholders view the firm and**
    - **which financial goals are desired from the shareholder's perspective.**
  - These financial goals are dependent on the company's stage in the business life cycle.

- There are three main stages to this cycle which include:
  - Growth stage -goal of the company is growth
    - An example of a growth goal would be revenue growth.
  - Sustain stage - the goal of the firm is profitability
    - Measures in this stage may be ROI
  - Harvest stage - the goal of the firm is cash flow and reduction in capital requirements.

The table below outlines possible financial performance objectives and their metrics.

Objective	Specific Measure
Growth	Revenue Growth
Profitability	Return on equity
Cost Leadership	Unit Cost

- Learning and growth
  - How much a company must- learn, improve and innovate to meet objectives

- Learning and growth example
  - Objective: increase internal promotions
  - Measure: bigger % of in house promotions
  - Target: +10% in 2 years
  - Initiatives: Additional classes and training

- **Potential Benefits of BSC**
  - Translation of strategy into measurable parameters
  - Communication of strategy
  - Alignment of individual goals with strategic objectives
  - Feedback of implementation results
- **Potential Disadvantages BSC**
  - Lack of a well defined strategy
  - Use of only lagging measures
  - Use of generic metrics like customer satisfaction, customer retention, defect rates, yields, lead and process times, and employee satisfaction.

Characteristics of an Effective Evaluation System

- Strategy evaluation activities must be economical
  - too much information can be just as bad as too little information
  - too many controls can do more harm than good
- Activities should be meaningful
  - should specifically relate to a firm's objectives

Characteristics of an Effective Evaluation System

- Activities should provide timely information
- Activities should be designed to provide a true picture of what is happening
- Activities should not dominate decisions
  - should foster mutual understanding, trust, and common sense

Concluding remark:

If you can not measure it, you can not improve it.