Strategy review, evaluation, and control

Business

OVERVIEW The best formulated and implemented strategies become obsolete as a firm's external and internal environments change. It is essential, therefore, that strategists systematically review, evaluate, and control the execution of strategies. Chapter 9 presents a framework that can guide managers' efforts to evaluate strategic-management activities, to make sure they are working, and to make timely changes. Computer information systems being used to evaluate strategies are discussed. Guidelines are presented for formulating, implementing, and evaluating strategies.

I. THE NATURE OF STRATEGY EVALUATION A. Importance of Strategy Evaluation 1. The strategic-management process results in decisions that can have significant, long-lasting consequences. Erroneous strategic decisions can inflict severe penalties and can be exceedingly difficult, if not impossible, to reverse. 2.

Most strategists agree, therefore, that strategy evaluation is vital to an organization's well-being; timely evaluations can alert management to problems or potential problems before a situation becomes critical. 3. Strategy evaluation includes three basic activities: a. Examining the underlying bases of a firm's strategy. b. Comparing expected results with actual results.

c. Taking corrective actions to ensure that performance conforms to plans. 5. 4. Strategy evaluation can be a complex and sensitive undertaking. Too much emphasis on evaluating strategies may be expensive and counterproductive.

Yet, too little or no evaluation can create even worse problems. Strategy evaluation is essential to ensure that stated objectives are being achieved. 6. . It is impossible to demonstrate conclusively that a particular strategy is optimal, but it can be evaluated for critical flaws. As described in Table 9-1, here are four criteria to use in evaluating a strategy: a.

consistency b. consonance c. feasibility d. advantage 7. 6. These trends make strategy evaluation difficult: a.

dramatic increase in environmental complexity b. difficult in predicting future c. increasing number of variables d. rapid rate of obsolescence e. increase in the number of world events affecting organization f. ecreasing time spans for planning B.

The Process of Evaluating Strategies 1. Strategy evaluation is necessary for all sizes and kinds of organizations. a. Strategy evaluation should initiate managerial questioning of expectations and assumptions, trigger a review of objectives and values, and stimulate creativity in generating alternatives and formulating criteria of evaluation. 2. Evaluating strategies on a continuous rather than a periodic basis allows benchmarks of progress to be established and more effectively monitored.

. Managers and employees of the firm should continually be aware of progress being made toward achieving the firm's objectives. As critical success factors change, organizational members should be involved in determining appropriate corrective actions. II. A STRATEGY-EVALUATION FRAMEWORK Table 9-3 summarizes the strategy-evaluation activities in terms of key questions that should be addressed, alternative answers to those questions, and appropriate actions for an organization to take.

A. Reviewing Bases of Strategy 1. As shown in Figure 9-2, by developing a revised EFE Matrix and IFE Matrix, the underlying bases of an organization's strategy can be approached and reviewed. a. A revised IFE Matrix should focus on changes in the organization's management, marketing, finance/accounting, production/operations, R, and MIS strengths and weaknesses. b.

A revised EFE Matrix should indicate how effectively a firm's strategies have been in response to key opportunities and threats. B. Measuring Organizational Performance 1. Another important strategy-evaluation activity is measuring organizational performance. This activity includes comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives.

Both long-term and annual objectives are commonly used in this process. 2. Failure to make satisfactory progress toward accomplishing long-term or annual objectives signals a need for corrective action. 3. Quantitative criteria commonly used to evaluate strategies are financial ratios, which strategists use to make three critical comparisons: a. omparing the firm's performance over different time periods, b.

comparing the firm's performance to competitors, and c. comparing the firm's performance to industry averages. 4. Key financial ratios for measuring organizational performance: a. return on investment b.

return on equity c. profit margin d. market share e. debt to equity f. earnings per share g. sales growth h.

asset growth C. Taking Corrective Action 1. The final strategy-evaluation activity, taking corrective action, requires making changes to reposition a firm competitively for the future. . Examples of changes that may be needed are altering an organization's structure, replacing one or more key individuals, selling a division, or revising a business mission.

3. Taking corrective action raises employees' and managers' anxieties. Research suggests that participation in strategy-evaluation activities is one of the best ways to overcome individuals' resistance to change. III. PUBLISHED SOURCES OF STRATEGY-EVALUATION INFORMATION A. Examples of Helpful Publications 1.

A number of publications are helpful in evaluating a firm's strategies. For example, Fortune annually identifies and evaluates the Fortune 1, 000 (the largest manufacturers) and the Fortune 50 (the largest retailers, transportation companies, utilities, banks, insurance companies, and diversified financial corporations in the United States). 2. Another excellent evaluation of corporations in America, " The Annual Report on American Industry," is published annually in the January issue of Forbes. Business Week, Industry Week, and Dun's Business Month also periodically publish detailed evaluations of American businesses and industries.

IV. CHARACTERISTICS OF AN EFFECTIVE EVALUATION SYSTEMA. Strategy evaluation must meet several basic requirements to be effective. 1.

Strategy-evaluation activities must be economical; too much information can be just as bad as too little information. 2.

Strategy-evaluation activities should also be meaningful; they should specifically relate to a firm's objectives. 3. Strategy-evaluation activities should provide timely information; on occasion and in some areas, managers may need information daily. 4. Strategy evaluation should be designed to provide a true picture of what is happening. B.

There is more than one ideal strategy-evaluation system. The unique characteristics of an organization, including its size, management style, purpose, problems, and strengths can determine a strategy-evaluation and control system's final design. V. CONTINGENCY PLANNING A. Essence of Contingency Planning 1. A basic premise of good strategic management is that firms plan ways to deal with unfavorable and favorable events before they occur.

2. Contingency plans can be defined as alternative plans that can be put into effect if certain key events do not occur as expected. B. Effective Contingency Planning Involves These Steps: 1. Identify both beneficial and unfavorable events that could possibly derail the strategy or strategies.

2. Specify trigger points. Estimate when contingent events are likely to occur. 3. Assess the impact of each contingent event.

Estimate the potential benefit or harm of each contingent event. 4. Develop contingency plans. Be sure that the contingency plans are compatible with current strategy and financially feasible. 5.

Assess the counterimpact of each contingency plan. That is, estimate how much each contingency plan will capitalize on or cancel out its associated contingent event. . Determine early warning signals for key contingent events. Monitor the early warning signals. 7.

Develop advanced action plans to take advantage of the available lead time. VI. AUDITING A. Auditing is defined by the American Accounting Association (AAA) as “ a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria, and communicating the results to interested users. ” 1. People who perform audits can be divided into three groups: independent auditors, government auditors, and internal auditors.

2. Two government agencies, the General Accounting Office (GAO) and the Internal Revenue Service (IRS), employ government auditors responsible for making sure that organizations comply with federal laws, statutes, and policies. B. The Environmental Audit 1. For an increasing number of firms, overseeing environmental affairs is no longer a technical function performed by specialists; rather, it has become an important strategic-management concern. It should be as rigorous as a financial audit.

2. It should include training workshops in which staff help design and implement the policy. It should be budgeted and have funds allocated to ensure its viability. 3. A Statement of Environmental Policy should be published periodically.

VII. USING COMPUTERS TO EVALUATE STRATEGIES When properly designed, installed, and operated, a computer network can efficiently acquire information promptly and accurately. Networks can allow diverse strategy-evaluation reports to be generated for, and responded by different levels and types of managers. ISSUES FOR REVIEW AND DISCUSSION 1. Why has strategy evaluation become so important in business today? Answer: Strategy evaluation is critically important today because internal and external factors often change quickly and dramatically.

Key factors need to be monitored during strategy-evaluation activities. For example, technology is shortening the product life cycle in nearly all industries. The low value of the dollar is opening up many foreign markets to American exports and is fostering foreign acquisition of U. S. assets and companies. 4.

2. As owner of a local, independent supermarket explain how you would evaluate the firm’s strategy. Answer: For small businesses such as a local supermarket, strategy evaluation is less formal than in large organizations. However, both qualitative and quantitative criteria should be used to evaluate the small supermarket’s strategies, because large supermarket stores that offer one-stop shopping for virtually everything are proliferating across the country. 5.

3. Under what conditions are corrective actions not required in the strategy-evaluation process? Answer: The only time corrective actions would not be required in strategy evaluation is when major changes have not occurred in the firm’s internal or external strategic position and the firm is progressing

satisfactorily towards achieving its stated objectives. 6. 4. Identify the types of organizations that may need to evaluate strategy more frequently than others. Justify your choices.

Answer: Organizations that compete in more turbulent industries may need to evaluate strategies more often than others. Several examples of turbulent industries are the computer industry, the communications industry, and the aerospace industry. . 5. As executive director of the state forestry commission, in what way and how frequently would you evaluate the organization’s strategies? Answer: Strategy evaluation should be an ongoing, continuous process rather than conducted at the end of a specified period of time, such as at the end of each year or at the end of every three years. The need exists to continually re-evaluate the forestry commission’s strategies as legislative actions evolve and as constituency groups align for or against important issues facing the state.

8. 6. Identify some key financial ratios that would be important in evaluating a bank’s strategy. Answer: In a bank, two key financial items are demand deposits (checking accounts) and time deposits (savings accounts). Other important items are commercial loans and consumer loans.

The ratio of these items to total bank assets and total bank profits could be particularly important in evaluating the strategies of a bank. 9. 7. As owner of a chain of hardware stores, describe how you would approach contingency planning. Answer: Effective contingency planning involves these steps: ? Identify both beneficial and unfavorable events that could possibly derail the strategy or strategies.

? Specify trigger points. Estimate when contingent events are likely to occur. ? Assess the impact of each contingent event. Estimate the potential benefit or harm of each contingent event. ? Develop contingency plans. Be sure that contingency plans are compatible with current strategy and financially feasible.

? Assess the counterimpact of each contingency plan. That is, estimate how much each contingency plan will capitalize on or cancel out its associated contingent event. ? Determine early warning signals for key contingent events. Monitor the early warning signals. Develop advanced action plans to take advantage of the available lead time.