**CHAPTER SEVEN: Strategy Evaluation and Control**

**7.1 The nature of strategy evaluation**

The best formulated and best 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.

*Strategy evaluation* is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. **All strategies are subject to future modification because external and internal factors are constantly changing**. Three fundamental strategy-evaluation activities are (1) reviewing external and internal factors that are the bases for current strategies, (2) measuring performance, and (3) taking corrective actions. Strategy evaluation is needed because success today is no guarantee of success tomorrow! Success always creates new and different problems; complacent/successful organizations experience demise.

Strategy formulation, implementation, and evaluation activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional.

**7.2 The Process of Evaluating Strategies**

Strategy evaluation is necessary for all sizes and kinds of organizations. 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. Regardless of the size of the organization, a certain amount of *management by wandering around* at all levels is essential to effective strategy evaluation. Strategy-evaluation activities should be performed on a **continuing basis**, rather than at the end of specified periods of time or just after problems occur. Waiting until the end of the year, for example, could result in a firm closing the barn door after the horses have already escaped.

Evaluating strategies on a continuous rather than on a periodic basis allows benchmarks of progress to be established and more effectively monitored. Some strategies take years to implement; consequently, associated results may not become apparent for years.

Successful strategies combine patience with a willingness to promptly take corrective actions when necessary. There always comes a time when corrective actions are needed in an organization!

Managers and employees of the firm should be continually 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. If assumptions and expectations deviate significantly from forecasts, then the firm should renew strategy-formulation activities, perhaps sooner than planned. In strategy evaluation, like strategy formulation and strategy implementation, people make the difference.

Through involvement in the process of evaluating strategies, managers and employees become committed to keeping the firm moving steadily toward achieving objectives.

**7.3 A strategy evaluation framework**

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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. Notice that corrective actions are almost always needed except when (1) external and internal factors have not significantly changed and (2) The firm is progressing satisfactorily toward achieving stated objectives.

Review underlying Bases

Differences?

Yes

No

II. Measure Firm performance

Differences?

Yes

No

Continue present course

III.

Take corrective Action

Evaluation Framework

*Fig. 8.2**Strategy-Evaluation Framework*

**8.4 Measuring Organizational Performance**

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. Criteria for evaluating strategies should be measurable and easily verifiable. Criteria that predict results may be more important than those that reveal what already has happened. For example, rather than simply being informed that sales last quarter were 20 percent under what was expected, strategists need to know that sales next quarter may be 20 percent below standard unless some action is taken to counter the trend. Really effective control requires accurate forecasting.

Failure to make satisfactory progress toward accomplishing long-term or annual objectives signals a need for corrective actions. Many factors, such as **unreasonable policies, unexpected turns in the economy, unreliable suppliers or distributors, or ineffective strategies**, can result in unsatisfactory progress toward meeting objectives. Problems can result from ineffectiveness (not doing the right things) or inefficiency (doing the right things poorly).

Determining which objectives are most important in the evaluation of strategies can be difficult. Strategy evaluation is based on both quantitative and qualitative criteria. Selecting the exact set of criteria for evaluating strategies depends on a particular organization's size, industry, strategies, and management philosophy. An organization pursuing a retrenchment strategy, for example, could have an entirely different set of evaluative criteria from an organization pursuing a market-development strategy.

Quantitative criteria commonly used to evaluate strategies are financial ratios, which strategists use to make three critical comparisons: (1) comparing the firm's performance over different time periods, (2) comparing the firm's performance to competitors', and (3) comparing the firm's performance to industry averages. Some key financial ratios that are particularly useful as criteria for strategy evaluation are as follows:

|  |  |  |
| --- | --- | --- |
| * Return on investment | * Debt to equity | * Profit margin |
| * Return on equity | * Earnings per share | * Sales growth…etc |

But there are some potential problems associated with using quantitative criteria for evaluating strategies. **First**, most quantitative criteria are geared to annual objectives rather than long-term objectives. Also, different accounting methods can provide different results on many quantitative criteria. **Second**, intuitive judgments are almost always involved in deriving quantitative criteria. For these and other reasons, qualitative criteria are also important in evaluating strategies. Human factors such as high absenteeism and turnover rates, poor production quality and quantity rates, or low employee satisfaction can be underlying causes of declining performance.

Seymour Tilles identified six qualitative questions that are useful in evaluating strategies:

1. Is the strategy internally consistent?
2. Is the strategy consistent with the environment?
3. Is the strategy appropriate in view of available resources?
4. Does the strategy involve an acceptable degree of risk?
5. Does the strategy have an appropriate time framework?
6. Is the strategy workable?

**7.3 Published sources of strategy evaluation information (reading assignment)**

7.4 Characteristics of An effective evaluation system

Strategy evaluation must meet several basic requirements to be effective.

* First, strategy evaluation activities must be **economical**; too much information can be just as bad as too little information; and too many controls can do more harm than good.
* Strategy-evaluation activities also should be **meaningful**; they should specifically relate to a firm’s objectives.
* They should provide managers with **useful information** about tasks over which they have control and influence.
* Strategy-evaluation activities should provide **timely information**; on occasion and in some areas, managers may daily need information.

Strategy evaluation should be designed to provide a true picture of what is happening. For example, in a severe economic downturn, productivity and profitability ratios may drop alarmingly, although employees and managers are actually working harder.

Strategy evaluations should fairly portray this type of situation. Information derived from the strategy-evaluation process should facilitate action and should be directed to those individuals in the organization who need to take action based on it. Managers commonly ignore evaluative reports that are provided only for informational purposes; not all managers need to receive all reports. Controls need to be action-oriented rather than information-oriented.

The strategy-evaluation process should not dominate decisions; it should foster mutual understanding, trust, and common sense. No department should fail to cooperate with another in evaluating strategies. Strategy evaluations should be simple, not too cumbersome, and not too restrictive. Complex strategy-evaluation systems often confuse people and accomplish little. The test of an effective evaluation system **is its usefulness, not its complexity.**

Large organizations require a **more elaborate** and **detailed strategy-evaluation system** because it is more difficult to coordinate efforts among different divisions and functional areas. Managers in small companies often communicate daily with each other and their employees and do not need extensive evaluative reporting systems.

Familiarity with local environments usually makes gathering and evaluating information much easier for small organizations than for large businesses. But the key to an effective strategy-evaluation system may be the ability to convince participants that failure to accomplish certain objectives within a prescribed time is not necessarily a reflection of their performance.

There is no 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.

# 7.5 The contingency model

*Contingency plans* can be defined as **alternative** **plans** that can be put into effect if certain key events do not occur as expected. Only **high**-**priority** areas require the insurance of contingency plans. Strategists cannot and should not try to cover all bases by planning for all possible contingencies. But in any case, contingency plans should be as simple as possible.

Regardless of how carefully strategies are formulated, implemented, and evaluated, unforeseen events, such as strikes, boycotts, natural disasters, arrival of foreign competitors, and government actions, can make a strategy obsolete. To minimize the impact of potential threats, organizations should develop contingency plans as part of their strategy-evaluation process.

Some contingency plans commonly established by firms include the following:

1. If a major competitor withdraws from particular markets as intelligence reports indicate, what actions should our firm take?
2. If our sales objectives are not reached, what actions should our firm take to avoid profit losses?
3. If demand for our new product exceeds plans, what actions should our firm take to meet the higher demand?
4. If certain disasters occur—such as loss of computer capabilities; a hostile takeover attempt; loss of patent protection; or destruction of manufacturing facilities because of earthquakes, tornadoes or hurricanes—what actions should our firm take?
5. If a new technological advancement makes our new product obsolete sooner than expected, what actions should our firm take?

When strategy-evaluation activities reveal the need for a major change quickly, an appropriate contingency plan can be executed in a timely way. Contingency plans can promote a strategist’s ability to respond quickly to key changes in the internal and external bases of an organization’s current strategy. For example, if underlying assumptions about the economy turn out to be wrong and contingency plans are ready, and then managers can make appropriate changes promptly.

# 7.7. Strategic Control: Control Process

The final strategy-evaluation activity, *taking corrective actions,* 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. Other changes could include establishing or revising objectives, devising new policies, issuing stock to raise capital, adding additional salespersons, allocating resources differently, or developing new performance incentives. Taking corrective actions does not necessarily mean that existing strategies will be abandoned or even that new strategies must be formulated.

Management control refers to the process by which an organization influences its subunits and members to behave in ways that lead to the attainment of organizational objectives. *Robert J. Mockler define management control as “*Management control is a systematic effort to set performance standards with planning objectives, to design information feedback systems, to compare actual performance with these predetermined standards, to determine whether there are any deviations and to measure their significance, and to take any action required to assure that all corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives.”

## Types of Control

Management can implement controls before an activity commences/start, while the activity is going on, or after the activity has been completed. The three respective types of control based on timing are feed forward, concurrent, and feedback.

## i) Feed forward Control

Feed forward control focuses on the regulation of inputs (human, material, and financial resources that flow into the organization) to ensure that they meet the standards necessary for the transformation process.

Feed forward controls are desirable because they allow management to **prevent** problems rather than having to **cure** them later. Unfortunately, these controls require timely and accurate information that is often difficult to develop. Feed forward control also is sometimes called **preliminary control**, **preventive control**, or **steering control**.

However, some authors use term "*steering control*" as separate types of control. These types of controls are designed to detect deviation from some standard or goal to allow correction to be made before a particular sequence of actions is completed.

## ii) Concurrent Control

Concurrent control takes place **while** an activity is in progress. It involves the regulation of ongoing activities that are part of transformation process to ensure that they conform to organizational standards. Concurrent control is designed to ensure that employee work activities produce the correct results.

Concurrent control sometimes is called **screening** or **yes-no control**, because it often involves checkpoints at which determinations are made about whether to continue progress, take corrective action, or stop work altogether on products or services.

## iii) Feedback Control

This type of control focuses on the outputs of the organization **after transformation is complete**. Sometimes called **post action** or **output control**, fulfills a number of important functions. For one thing, it often is used when feed forward and concurrent controls are not feasible or are too costly.

The major drawback of this type of control is that, the time the manager has the information and if there is significant problem the damage is already done. But for many activities, feedback control fulfills a number of important functions.

# iv) Multiple Controls

Feed forward, concurrent, and feedback control methods are not mutually exclusive. Rather, they usually are combined into a multiple control systems. Managers design control systems to define standards of performance and acquire information feedback at strategic control points.

**Problems of Control Systems**

There are a large number of problems associated with control systems for strategy evaluation. An efficient system may collect a lot of irrelevant data whereas a sophisticated system might ignore crucial information. Some of the typical problems in control:

* There may not be a consensus on the criteria for measuring the effectiveness and efficiency of the strategy.
* The reporting data may be invalid
* The performance norms may be based on output on which the relevant business may not have a control
* Often performance standards may be set with inherent contradictions. For example, an increase in market share may be expected in conjunction with an absolute decrease in marketing expenditure.
* Employees may consider the system to be unfair and therefore may not accept it.
* Overemphasis on measuring short-term performance may make managers forget about the strategy which inherently has long connotations.
* It is very difficult to set “good”, “average”, and “poor” levels of performance in situations where the outputs are not very tangible. That is, Difficulty predicting future with accuracy.