STRATEGY EVALUATION

10

We have already discussed a five-component framework that highlights the strategic management process. We have also completed discussions on the first four components. Now we turn to the last component of the framework. This unit addresses the strategy-critical performance evaluation and, whenever necessary, initiating corrective adjustments in an organization's vision, objectives, strategy, or implementation approaches in the light of actual experience and changing conditions in the organization's internal and external environments. The essence of strategy evaluation is keeping track of current performance and anticipating changes. Managers usually make evaluation to find new opportunities or avoid threats, keep performance in line with management's expectations, and/or solve specific problems.

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Lesson-1: Strategy Evaluation: Meaning, Nature and Characteristics

Learning Objectives:

After studying this lesson, you should be able to:

- Define strategy evaluation.

- Understand the nature of strategy evaluation.

- Discuss the importance of strategy evaluation and corrective adjustments.

- Identify the characteristics of an effective strategy evaluation system.

Introduction

Strategy evaluation aims at unfolding any constraints in the process of strategy implementation and/or identifying deviations. When strategy is formulated, it is not obviously possible to foresee all the problems and events that might arise in the future when strategy would be executed. Thus, it becomes imperative for mangers to evaluate strategy implementation process and then to revise strategy or fine-tune the strategy execution approaches. This lesson would help you understand the pros and cons of strategy evaluation.

Meaning and Nature of Strategy Evaluation

Once the prerequisites for implementation of strategy have been fulfilled, the next thing to be done by the organization is the evaluation of strategy. Evaluation of strategy is that phase of the strategic management process in which managers try to assure that the strategic choice is properly implemented and is meeting the objectives of the enterprise (organization).[2] In fact, in strategy evaluation, managers review or appraise the progress in the performance related to strategy implementation, try to find out any deviations of actual performance from the chosen strategy that has been put into action, and then take appropriate actions for making the strategy work. Strategy evaluation is one kind of follow-through on strategy.

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Strategy evaluation requires an effective computerized information system for providing managers with timely feedback in order to enable them to promptly act on the data. In practice, strategy evaluation during (and/or after) implementation requires a control system – both are integral parts of the monitoring system of the organization. Both the systems help the managers monitor the progress of a strategic plan. Strategy evaluation and control systems help managers to find out (i) whether the implementers of strategy are making decisions consistent with the organizational policies; (ii) adequate resources have been allocated and they are being used wisely; (iii) the events in the external environment are occurring as anticipated; (iv) the long-term and short-term goals are being met; and (v) the strategy-implementers are on the right track. The evaluation process alerts the implementers to any unexpected events in the above issues. Thus, they can take corrective

actions either to get back to the track or change the track or make changes in other relevant aspects of strategy.

The status of strategy-evaluation in the entire strategic management process is shown in Figure 10.1.

Need for Strategy Evaluation and Corrective Adjustments

Systematic review provides adequate information for finding out any deviations in the actual activities from the planned activities.

Strategy-managers need to continually evaluate and monitor the progress in the strategic actions undertaken for strategy implementation. Systematic review provides adequate information for finding out any deviations in the actual activities from the planned activities. Based on these information, managers can then undertake appropriate actions. Here we discuss the necessity of strategy evaluation under the following heads:
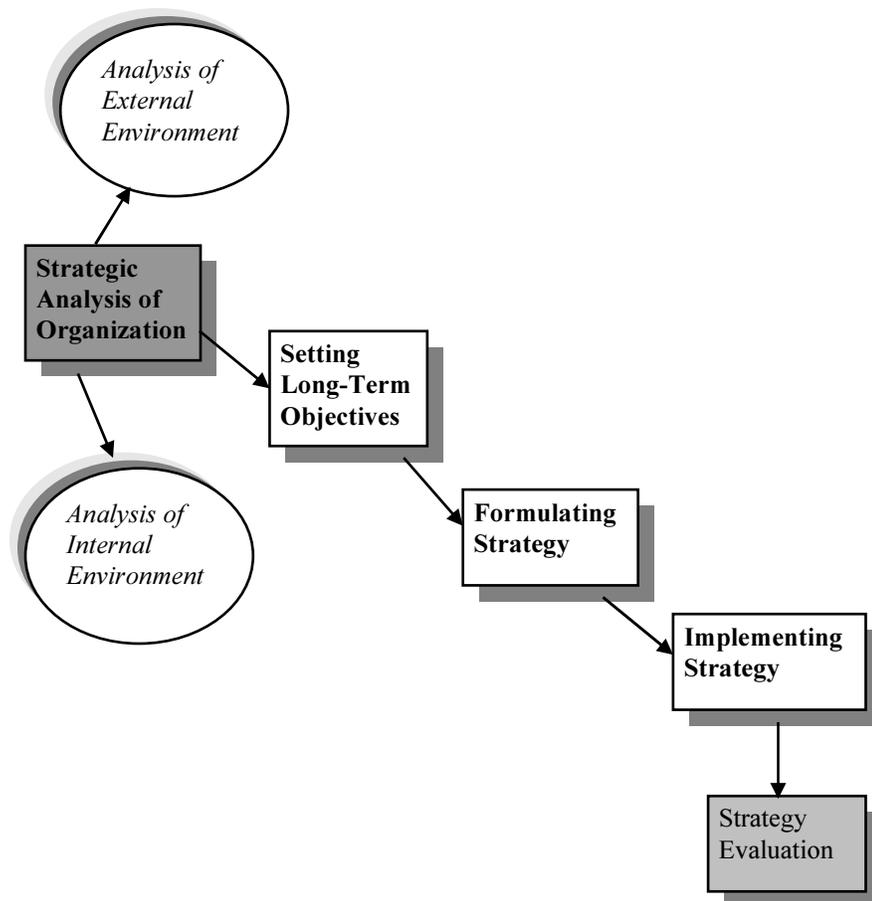
Figure 10.1: Structural position of strategy evaluation in the strategic management process

Obtaining data for corrective actions: Organizations are constantly facing dynamic environments. The key internal and external factors change quickly and dramatically. These changes affect strategy implementation. Regular evaluation of strategy while being implemented provides relevant data for taking corrective actions.

Keeping track of progress of activities: Strategy evaluation helps managers keep track of progress in the implementation of strategy. If progress seems to be slow or something wrong has occurred or new developments have taken place in the external situations of the organization, it becomes mandatory to undertake corrective actions and adjustments.

Detection of flaws: Nobody could guarantee that a particular strategy will work or that it is the most sound strategy. Therefore, strategy should be evaluated for critical flaws. The strategy-managers, through review of results and future possibilities, determine whether the strategy is working. If any flaw is detected in the implementation of strategy, they take steps to make it work.

Making managers proactive: Installation of an evaluation system puts the managers in a systematic trap, which compels them not to neglect the importance of assessing the impact of changes in the organizational environments. It reminds them not to be complacent about the present achievement. It makes them feel that success today is no guarantee for success tomorrow.

Developing a sense of commitment: When all managers and employees are involved in the process of evaluating strategy on a continuing basis, they become committed to keeping the company moving steadily toward achieving objectives.

Adjustments or modifications may be needed in the vision or mission, or objectives or strategies or in the approaches to execution of the strategies. If corrective actions or adjustments are not initiated properly and on time, it may invite catastrophic consequences for the organization.

Characteristics/Requirements of an Effective Strategy Evaluation System

A strategy-evaluation system in order to be effective and successful must meet certain requirements. These requirements are the basic characteristics of an effective evaluation system. We discuss below the major requirements of an ideal strategy-evaluation system:

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Economical: The activities related to evaluation of strategy must be economical. If they are not cost-effective, wastage would creep up. A balance needs to be maintained in obtaining information –not too much or not too little. Very often, too much data and too many controls do more harm than good.

Meaningful: The strategy-evaluation activities must be meaningful in the sense that they have to be related specifically to the objectives against which strategy has been adopted.

Providing useful information: The information collected through evaluation must be useful. Redundant information is useless to managers in decision-making.

Providing timely information: The strategy-evaluation system should be established in such a way that it can provide information to relevant

managers on time. Untimely delivery of information may mean 'no information' as because they cannot be used whenever they were needed.

Providing a true picture of events: The strategy-evaluation activities should be able to provide true picture of what is happening in the organization regarding the implementation of strategy.

Being directed towards right persons: The strategy-evaluation system should be directed to the right persons who really matter in taking actions based on data. Thus, it should try to facilitate rather than simply providing information for information's sake.

Being elaborate and detailed: In large organizations, strategy-evaluation system should be elaborate and detailed. This is needed because existence of many departments/divisions require effective coordination

Review Questions

1. Define strategy evaluation.

2. Explain the nature of strategy evaluation.

3. Discuss the importance of strategy evaluation and corrective adjustments.

4. What are the characteristics of an effective strategy evaluation system? Discuss them briefly.

Application Discussion Questions

1. Talk to a senior manager of an organization known to you about the strategy evaluation system in his/her company. Do you think this organization has all the characteristics of an effective evaluation system?

Lesson-2: Components of an Effective Evaluation System/Strategy-Evaluation Framework

Learning Objectives:

After studying this lesson, you should be able to:

- Identify the major components of an effective evaluation system.
- Discuss the features of each of the components of effective evaluation system.

Introduction

From Lesson-1 of this unit we understand that managers cannot escape their responsibility of evaluating strategy. If they do escape, they will naturally be doomed to fail. Keeping this in mind, we have highlighted the importance of strategy evaluation in the previous lesson. This lesson attempts to detail out the components of effective strategy evaluation system and the process of making corrective adjustments.

Components of Effective/Ideal Strategy Evaluation System

There are three major components of an ideal strategy-evaluation system:[3]

- Reviewing underlying bases of strategy
- Measuring organizational performance
- Taking corrective actions

1. **Reviewing underlying bases of strategy**

Internal strengths and weaknesses as well as external opportunities and threats form the bases for a strategy. The opportunities, threats, strengths and weaknesses are not likely to remain valid for long time. So, when implementation of a strategy takes a long time (some strategies may even take several years for full implementation), these bases of strategy should be reviewed. A review would reveal many issues like the following:

(a) How competitors have reacted to the firm's strategies;

(b) How competitors have changed their strategies in response of (our) company's strategies;

(c) Whether strengths and weaknesses have changed;

(d) Whether new opportunities by now have emerged or new threats have surfaced; and

(e) Above all, whether the already-identified opportunities, threats, strengths and weaknesses are still as they were at the time of SWOT analysis.

A review of the bases of strategy enables the managers to identify the real reasons for unsatisfactory results.

A review of the bases of strategy enables the managers to identify the real reasons for unsatisfactory results. It may so happen that ineffective strategy has been chosen or strategy has been implemented very poorly, or sudden changes in the external factors (such as changes in demand, changes in technology, new policies by government, actions by competitors, or sudden natural disaster like cyclone or flood) have prohibited the company from achieving the objectives. Review helps in discovering these changes.

2. **Measuring organizational performance:**

The second component or activity of the strategy-evaluation framework is the measurement of organizational performance. Managers need to compare the planned activities against the actual progress toward achieving stated objectives. That is, actual results are compared with the planned results. Then, deviations are detected, if there is any. Evaluation is also made of individual performance. Progress toward achieving original objectives is evaluated.

3. **Taking corrective actions**

Corrective actions are not necessary if there are no significant differences between the planned results and the actual results. In such a situation, managers will continue the present course of action. Mangers take corrective actions only when significant deviations exist. Actions need to be undertaken on the basis of the nature of deviations and the causes of such deviations, It may be necessary to make corrections in objectives, strategy itself, organization structure, human resources deployed for strategy implementation, policies, resource allocation, reward systems, etc.

Process of Making Corrective Adjustments

Whatever the area for making corrections or adjustments, the organizational leaders must first decide when to make adjustments, and then they must specify what adjustments need to be made. This is a leadership challenge. Although the process of making adjustments is situation-specific, the leaders may follow the following general guidelines for making corrective adjustments:

1. Gather information by yourself and also by subordinates who are competent and trustworthy.

2. Critically analyze the information and try to deepen your understanding of the situation.

3. Identify as many alternative options as possible for making adjustments and explore their details for clear understanding of the issues.

4. Evaluate the identified alternative options to find out the appropriate one most relevant to the situation.

5. Based on the information generated through the above steps, prepare a provisional set of action proposals (recommendations) for consideration.

6. Convene a meeting of the subordinates/team members and others who matter, and ask them to review the preliminary action proposals and give their suggestions.

7. Try to build a consensus among the mangers and employees.

8. Finalize the recommended actions for adjustments.

Since the process of making corrective adjustments varies according to situations, business leaders can adopt any process as the situation demands. However, the success in making adjustments depends mostly on the clear understanding of the situation and the leaders' use of good business judgment.

Review Questions

1. Make a list of the major components of an effective evaluation system.

2. Discuss the components of effective evaluation system.

Application Discussion Questions

1. Suppose that you are operating a business organization which does not have an effective evaluation system. Suggest an appropriate evaluation system for your organization.

NOTES (for Unit-10)

1. David W. Cravens, C.W. Lamb and Victoria L. Crittenden, *Strategic Marketing Management* (Boston: McGraw-Hill, 1999), p. 486.

2. Lawrence R. Jauch and William F. Glueck, *Business Policy and Strategic Management* (New York: McGraw-Hill, 1988), p.375.

3. Fred R. David, *Strategic Management* (New Jersey: Prentice-Hall, 1999), pp. 285-290.