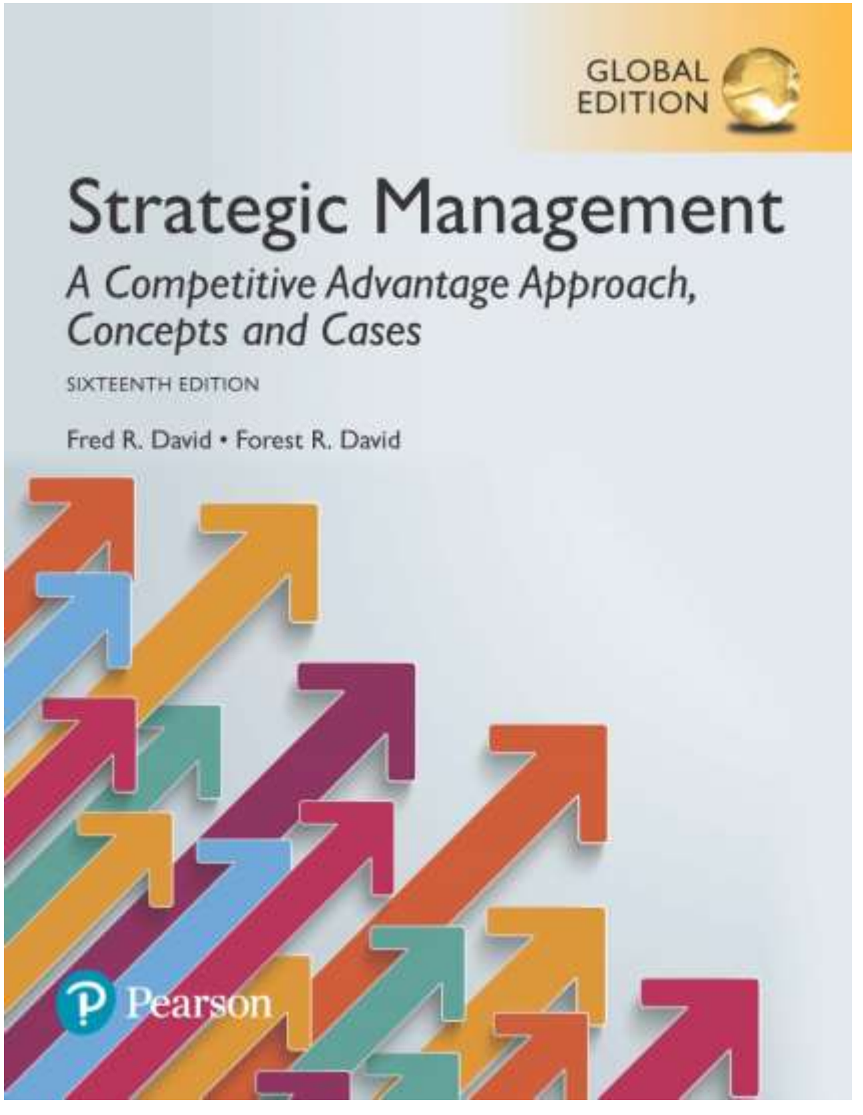


Strategy Monitoring

Chapter Eleven

Learning Objectives

1. Discuss the strategy-evaluation process, criteria, and methods used.
2. Discuss three activities that comprise strategy evaluation.
3. Describe and develop a Balanced Scorecard.
4. Identify and describe published sources of strategy-evaluation information.
5. Identify and describe six characteristics of an effective strategy-evaluation system.
6. Discuss the nature and role of contingency planning in strategy evaluation.
7. Explain the role of auditing in strategy evaluation.
8. Identify and discuss three twenty-first-century challenges in strategic management.
9. Identify and describe 17 guidelines for effective strategic management.

A Comprehensive Strategic-Management Model

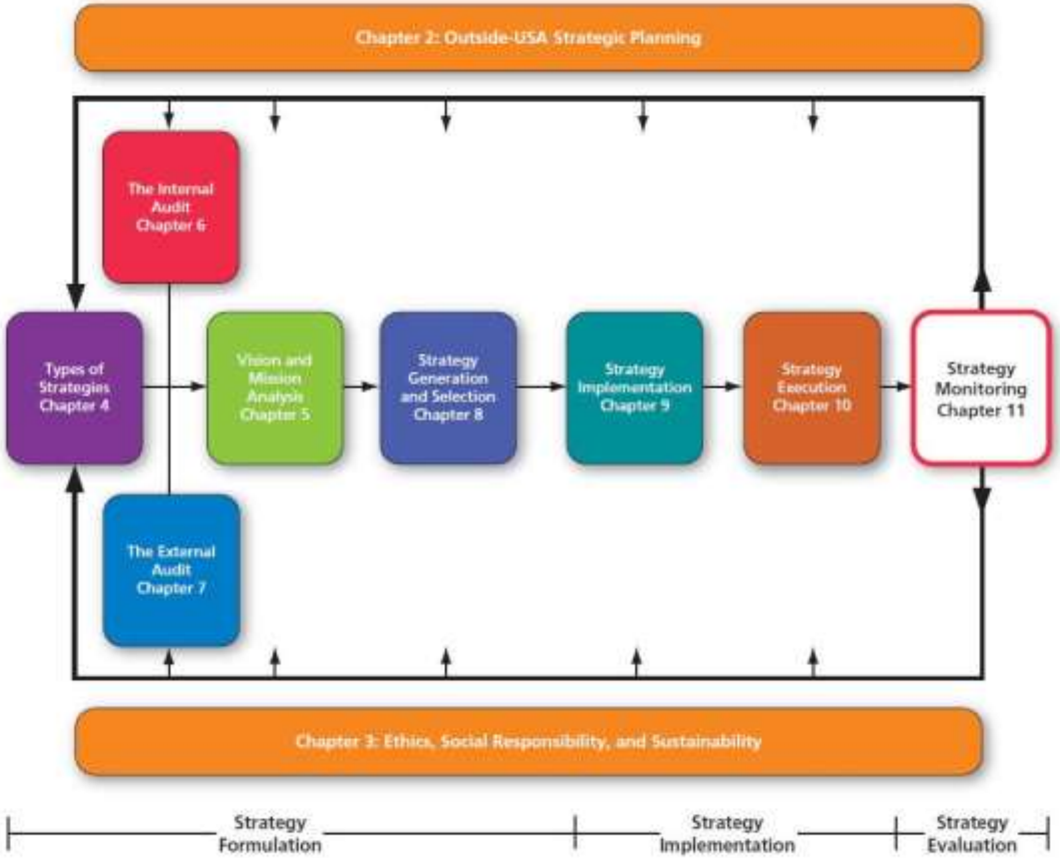


FIGURE 11-1

A Comprehensive Strategic-Management Model

Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40, © Fred R. David.

Strategy Evaluation

Three basic activities:

1. Examine the underlying bases of a firm's strategy.

2. Compare expected results with actual results.

3. Take corrective actions to ensure that performance conforms to plans.

Strategy Evaluation Criteria

Consonance	Consistency
Advantage	Feasibility

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

The Process of Evaluating Strategies

- 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.

The Process of Evaluating Strategies

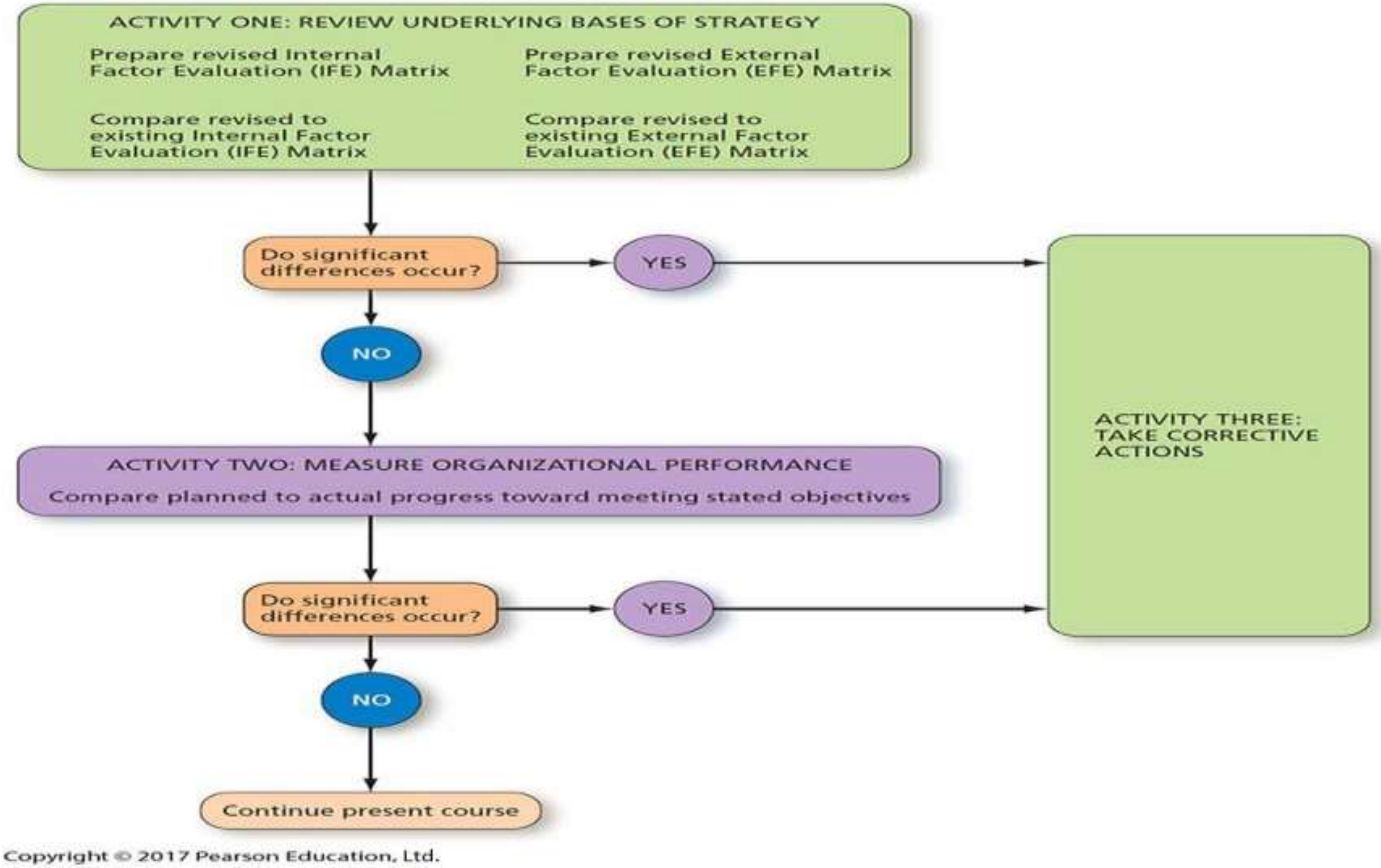
- Evaluating strategies on a continuous rather than on a periodic basis allows benchmarks of progress to be established and more effectively monitored.

- Successful strategies combine patience with a willingness to promptly take corrective actions when necessary.

Strategy-Evaluation Assessment Matrix

Have Major Changes Occurred in the Firm's Internal Strategic Position?	Have Major Changes Occurred in the Firm's External Strategic Position?	Has the Firm Progressed Satisfactorily Toward Achieving Its Stated Objectives?	Result
No	No	No	Take corrective actions
Yes	Yes	Yes	Take corrective actions
Yes	Yes	No	Take corrective actions
Yes	No	Yes	Take corrective actions
Yes	No	No	Take corrective actions
No	Yes	Yes	Take corrective actions
No	Yes	No	Take corrective actions
No	No	Yes	Continue present strategic course

A Strategy-Evaluation Framework



Reviewing Bases of Strategy

1. How have competitors reacted to our strategies?
2. How have competitors' strategies changed?
3. Have major competitors' strengths and weaknesses changed?
4. Why are competitors making certain strategic changes?

Reviewing Bases of Strategy

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

Measuring Organizational Performance

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

1. Comparing the firm’s performance over different time periods
2. Comparing the firm’s performance to competitors’
3. Comparing the firm’s performance to industry averages

Key Questions to Address in Evaluating Strategies

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

Key Questions to Address in Evaluating Strategies

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

Corrective Actions

TABLE 11-4 Corrective Actions Possibly Needed to Correct Unfavorable Variances

1. Alter the firm's structure.
2. Replace one or more key individuals.
3. Divest a division.
4. Alter the firm's vision or mission.
5. Revise objectives.
6. Alter strategies.
7. Devise new policies.
8. Install new performance incentives.
9. Raise capital with stock or debt.
10. Add or terminate salespersons, employees, or managers.
11. Allocate resources differently.
12. Outsource (or rein in) business functions.

The Balanced Scorecard

1. Is the firm continually improving and creating value along measures such as innovation, technological leadership, product quality, operational process efficiencies, and so on?
2. Is the firm sustaining and even improving on its core competencies and competitive advantages?
3. How satisfied are the firm's customers?

The Balanced Scorecard

- The Balanced Scorecard approach to strategy evaluation aims to balance long-term with short-term concerns, to balance financial with nonfinancial concerns, and to balance internal with external concerns.

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

Contingency Planning

- **Contingency Plans** can be defined as alternative plans that can be put into effect if certain key events do not occur as expected.

Contingency Planning

- If a major competitor withdraws from particular markets as intelligence reports indicate, what actions should our firm take?

- If our sales objectives are not reached, what actions should our firm take to avoid profit losses?

Contingency Planning

- If demand for our new product exceeds plans, what actions should our firm take to meet the higher demand?
- If certain disasters occur, what actions should our firm take?
- If a new technological advancement makes our new product obsolete sooner than expected, what actions should our firm take?

Effective Contingency Planning

1. Identify both good and bad events that could jeopardize strategies.
2. Determine when the good and bad events are likely to occur.
3. Determine the expected pros and cons of each contingency event.
4. Develop contingency plans for key contingency events.
5. Determine early warning trigger points for key contingency events.

Auditing

- **Auditing**
  - “a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the results to interested users”

Twenty-First-Century Challenges in Strategic Management

- Deciding whether the process should be more an art or a science

- Deciding whether strategies should be visible or hidden from stakeholders

- Deciding whether the process should be more top-down or bottom-up in their firm

Guidelines for Effective Strategic Management

1. Keep the process simple and easily understandable.
2. Eliminate vague planning jargon.
3. Keep the process nonroutine; vary assignments, team membership, meeting formats, settings, and even the planning calendar.
4. Welcome bad news and encourage devil’s advocate thinking
5. Do not allow technicians to monopolize the planning process.
6. To the extent possible, involve managers from all areas of the firm.