OBJECTIVES:

Evaluation is the systematic determination of merit, worth, and significance of something or someone. Evaluation often is used to characterize and appraise subjects of interest in a wide range of human enterprises, including the Arts, business, computer science, criminal justice, education, engineering, foundations and non-profit organizations, government, health care, and other human services.

In the field of evaluation, there is some degree of disagreement in the distinctions often made between the terms 'evaluation' and 'assessment.' Some practitioners would consider these terms to be interchangeable,

while others contend that; evaluation is broader than assessment and involves making judgments about the merit or worth of something (an evaluand) or someone (an evaluee). When such a distinction is made, 'assessment' is said to primarily involve characterizations – objective descriptions,

while 'evaluation' is said to involve characterizations and appraisals -determinations of merit and/or worth. Merit involves judgments about generalized value.

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 execute the strategies by following means: review, evaluate, and control

This Chapter presents a framework that can guide managers’ efforts to evaluate strategic-management activities:

i. to make sure they are working, and

ii. to make timely changes.

Computer information systems being used to evaluate strategies are discussed. Guidelines are presented for formulating, implementing, and evaluating strategies.

1. NATURE OF STRATEGY EVALUATION:

- Strategy evaluation is vital to the organization’s well-being
- Alert management to potential or actual problems in a timely fashion
- Erroneous strategic decisions can have severe negative impact on organizations.

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.

The strategy-evaluation is a stage of the strategic-management process.
Consistency:
Strategy should not present inconsistent goals and policies;

- It may be expensive and counterproductive (if too much emphasis on evaluating strategies)
- Too little or no evaluation can create even worse problems.
- There will be less control if more managers attempt to evaluate others.

Strategy evaluation is essential to ensure that stated objectives are being achieved.

In many organizations, evaluation is an appraisal of performance -
- Have assets increased?
- Increase in profitability?
- Increase in sales?
- Increase in productivity?
- Profit margins, ROI and EPS ratios increased

Rumelt's criteria for Evaluating Strategies:
It is impossible to demonstrate conclusively that a particular strategy is optimal, but it can be evaluated for critical flaws. Here are four criteria to use in evaluating a strategy:

a. **Consistency:**
   A strategy should not present inconsistent goals and policies. Are the external strategies consistent with (supported by) the various internal aspects of the organization?

Organizational conflict and interdepartmental bickering are often symptoms of managerial disorder, and may be a sign of inconsistency. You must examine all the various functional and internal management strategies employed by the organization and compare them with the external business strategy.

Three guidelines help determine if organizational problems are due to inconsistency:

i. If managerial problems continue despite changes in personnel, and if tend to be issue-based rather than people-based,
ii. If success for one organizational department means failure for another department
iii. If policy problems and issues continue to be brought to the top for resolution.

b. **Consonance:**
   Consonance refers to the need for strategists to examine set of trends, as well as individual trends in evaluating strategies.
   - Adaptive response to external environment
   - Trends are results of interactions among other trends

Are the strategies in agreement with the various external trends (and sets of trends) in the environment? To answer this question, you need to look at all the major trends that impact the selected strategy - both positively and negatively.

Feasibility:
Strategy is reasonable in terms of org's resources
Advantages:
Strategy creates/maintain a competitive advantage (CA)?

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Is the strategy reasonable in terms of the organization's resources?
- Physical resource
- Human resource
- Financial resource


d. Advantage:
Does the strategy create and/or maintain a competitive advantage?
- Resource
- Skill or
- Position

Strategic evaluation is becoming increasingly difficult with the passage of time. 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. decreasing time spans for planning

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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, trigger a review of objectives and values, and stimulate creativity in generating alternatives and formulating criteria of evaluation.

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.

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2. A STRATEGY-EVALUATION FRAMEWORK

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.

Note: Corrective actions are almost always needed except when
1. External and internal factors have not significantly changed
2. The firm is progressing satisfactorily toward achieving stated objectives.

A. Reviewing Bases of Strategy

By developing a revised EFE Matrix and IFE Matrix, the underlying bases of an organization’s strategy can be approached and reviewed.

Δ in the org’s internal strengths & weaknesses

how strategies respond to key external opportunities & threats
A revised IFE Matrix should focus on changes in the organization's management, marketing, finance/ accounting, production/operations, R&D, 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

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.

Note: Both long-term and annual objectives are commonly used in this process.

Failure to make satisfactory progress toward accomplishing long-term or annual objectives signals a need for corrective action.

Quantitative criteria commonly used to evaluate strategies are financial ratios, which strategists use to make three critical comparisons:

a. comparing 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.

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

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:

- altering an organization’s structure,
- replacing one or more key individuals,
- selling a division, or
- revising a business mission.

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.
3. **PUBLISHED SOURCES OF STRATEGY-EVALUATION INFORMATION:**

Large no. of publications of renowned specialized firms are helpful in evaluating a firm's strategies.

Published annual reports of firms are another excellent source of information.

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).


4. **CHARACTERISTICS OF AN EFFECTIVE EVALUATION SYSTEM:**

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.

**Note:** TEMT for quick review

**Note:** 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.

4. **CONTINGENCY PLANNING**

**Essence of Contingency Planning:**

A basic premise of good strategic management is that firms plan ways to deal with unfavorable and favorable events before they occur.

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.

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.
Effective Contingency Planning Involves These Steps:

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
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<tbody>
<tr>
<td>a.</td>
<td>Identify both beneficial (favorable) and unfavorable events that could possibly derail the strategy or strategies.</td>
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<tr>
<td>b.</td>
<td>Specify trigger points. Estimate when contingent events are likely to occur.</td>
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<td>c.</td>
<td>Assess the impact of each contingent event. Estimate the potential benefit or harm of each contingent event.</td>
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<tr>
<td>d.</td>
<td>Develop contingency plans. Be sure that the contingency plans are compatible with current strategy and financially feasible.</td>
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<tr>
<td>e.</td>
<td>Assess the counter impact of each contingency plan. That is, estimate how much each contingency plan will capitalize on or cancel out its associated contingent event.</td>
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<tr>
<td>f.</td>
<td>Determine early warning signals for key contingent events. Monitor the early warning signals.</td>
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<tr>
<td>g.</td>
<td>Develop advanced action plans to take advantage of the available lead time.</td>
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5. **AUDITING**

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."

People who perform audits can be divided into three groups:

- **Independent auditors**: who provide their services to organizations for a fee; they examine the financial statements of an organization to determine whether they have been prepared according to IFRS (in Pak and international) or GAAP (US) and whether they fairly represent the activities of the firm. Independent auditors use a set of standards called International Standards on Auditing (ISAs) in Pakistan or GAAS (in US).

- **Government auditors**: the department of Auditor General of Pakistan (In US, 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. These auditors can audit any public or private organization, and

- **Internal auditors**: a group of auditors are employees within an organization who are responsible for;

1. safeguarding company assets,
2. assessing the efficiency of company operations, and
It’s no longer a technical function now; it’s now become a strategic management concern.

- Training Workshop
- Statement of Environmental Policy

**The Environmental Audit**
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.

**Note:** Some firms are also introducing environmental criteria and objectives in their performance appraisal instruments and systems.

1. 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.
2. A Statement of Environmental Policy should be published periodically.

Both approaches are not mutually exclusive.

**The Art or Science issue:**
One perspective (most strategists argue this) contends that firms need to systematically
- assess their external and internal environments,
- conduct research,
- carefully evaluate the pros and cons of various alternatives,
- perform analyses and then decide upon a particular course of action.

In contrast, Mintzberg’s notion of “crafting” strategies embodies the artistic model, which suggest that strategic decision making be based primarily on;
- Holistic thinking,
- Intuition,
- Creativity and
- Imagination

**Note:**
Certainly, in smaller firms there can be more informality in the process compared to larger firms.

**The Visible or Hidden Issue:-**

For business, secrecy may not be best. Keeping strategies secret from employees and stakeholders at large could severely inhibit employee and stakeholder communication, understanding, and commitment and also forgo valuable input that these persons could have regarding formulation and/or implementation of that strategy.

**Disclaimer:** Notes are prepared mainly from the Strategic Management book of Mr. Fred R. David & other allied materials.

**End of Chapter:** Practice Questions will be available soon. Your valuable comments/feedback will be highly appreciated for the improvements of products. Have a nice day.....!!! Best of Luck