Learning Objectives

Upon completion of this unit, students should be able to:

1. Define the common characteristics making up organizational culture.
2. Describe a practical framework for evaluating strategies.
3. Explain why strategy evaluation is complex, sensitive, and yet essential for organizational success.
4. Discuss the importance of contingency planning in strategy evaluation.
5. Discuss the role of auditing in strategy evaluation.
6. Explain how computers can aid in evaluating strategies.
7. Discuss the Balanced Scorecard.
8. Discuss three 21st century challenges in strategic management.

Written Lecture

Unit VII examines organizational culture: the effects culture has on members within the organization; how members learn the culture; and how it can be changed.

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.

The Nature of Strategy Evaluation

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. 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. Strategy evaluation includes three basic activities:

1. Examining the underlying bases of a firm's strategy
2. Comparing expected results with actual results
3. Taking corrective actions to ensure that performance conforms to plans

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. 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:

1. Consistency
2. Consonance
3. Feasibility
4. Advantage

These trends make strategy evaluation difficult:

1. Dramatic increase in environmental complexity
2. Difficult in predicting future
3. Increasing number of variables
4. Rapid rate of obsolescence
5. Increase in the number of world events affecting the organization
6. Decreasing time spans for planning

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.

**A Strategy-evaluation Framework**

By developing a revised EFE Matrix and IFE Matrix, the underlying bases of an organization's strategy can be approached and reviewed. 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. A revised EFE Matrix should indicate how effectively a firm's strategies have been in response to key opportunities and threats.

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.

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:

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.

Key financial ratios for measuring organizational performance:

1. Return on investment
2. Return on equity
3. Profit margin
4. Market share
5. Debt to equity
6. Earnings per share
7. Sales growth
8. Asset growth

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. 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.

**Characteristics of an Effective Evaluation System**

Strategy evaluation must meet the following 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.

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.

**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. Effective contingency planning involves the following 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 are financially feasible.
5. 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.
6. 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.
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, government auditors, and internal auditors. 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.

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

Learning Activities (Non-Graded)


These are non-graded Learning Activities, so you do not need to submit them.