Chapter – 7: **Strategy Evaluation and Control**

**Introduction:**

**Nucor Corporation**, one of the most successful steel firm operating in the United States, keeps its evaluation and control process simply and easy to manage. According to **Kenneth Everson**, Chairman of the Board:

**Our Focus**: bottom line performance and long-term survival

**Our Wants**: people to be thinking about organizational success

**Our Management**: takes care not to distract the company with a lot of talk about other issues. We don’t clutter the picture with lofty vision statements as ask employees to pursue vague, intermediate objectives like “excellence” or burden them with complex business strategies.

**Our Competitive Strategy**: to build manufacturing facilities economically and to operate them efficiently.

**Basically we ask** to our employees to produce more products for less money. Then we reward them for doing that well.

*Source: Essential’s of Strategic Management – J. David Hunger*

**Evaluation and Control in Strategic Management:**

Evaluation & control information consists of performance data and activity reports (gather in step – 3), operational managers must know about any undesired performance caused by the inappropriate use of SMP in order to correct the employee activity. Top management need not be involved. It, however, the processes themselves cause the undesired performance, both top managers and operational managers must know about it so that they can develop new implementation programme or procedures.

Evaluation and Control information must be relevant to what is being monitored. Evaluation and Control are not easy activities; one of the obstacles to effective control is the difficulty in developing appropriate measures of important activities and outputs.

This process provides the feedback necessary for management to evaluate the results and take corrective action, as needed. The process could be as follows:
1. **Determine what to measure:**

Top managers and operational managers must specify implementation process and results to be monitored and evaluated. The processes and results must be measurable in a reasonably objective and consistent manner. The focus should be on the most significant elements in a process – the ones that account for the highest proportion of exposure or the greatest no. of problems.

2. **Establish standards of Performance:**

Standards used to measure performance are detailed expressions of strategic objectives. They are measures of acceptable performance results. Each standard can be usually includes a tolerance range, which defines any acceptable deviations. Standards can be set not only for final output, but also for intermediate stages of production output.

3. Measure actual performance. Measurements must be made at predetermined times.

4. Compare actual performance with the standard – if the actual performance results are within the desired tolerance range, the measurement process stops here.

5. Take corrective action: If the actual results fall outside the desired tolerance range, action must be taken to correct the deviation. The action must not only correct the deviation but also prevent its recurrence. The following issues must be resolved:
   - Is the deviation only a chance fluctuation?
   - Are the processes being carried out correctly?
   - Are the processes appropriate for achieving the desired standards?

**Objectives of Strategy Evaluation and Control**

- Organizations are most vulnerable when they are at the peak of their success
- Erroneous strategic decisions can inflict severe penalties and can be exceedingly difficult, if not impossible, to reverse.
- 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.

Through evaluation and Control process, corporate activities and Performance results are monitored so that actual performance can be compared with desired performance.
Measuring Performance

- Performance is the **end result** of activity. Which measures to select to assess performance depends on the organizational unit to be appraised and the objectives to be achieved.

- The objectives that were established in the strategy formulation part of the strategic management process (**dealing with profitability, market share and cost reduction, among others**) should certainly be used to measure corporate OR over all performance once the strategies have been implemented.

Primary measures of Corporate Performance

The days when simply financial measures such as ROI or EPS were used alone to assess overall corporate performance are coming to an end. Analysis now recommended a broad range of methods to evaluate the success or failure of a strategy. Some of the important methods are:

- **Stakeholder measures:**
- **Shareholder values**
- **Balance Score Card approach**
- **Strategic Audit**

Balance Score Card:

Rather than evaluate corporation using a few financial measures, **Kaplan and Norton** argue for a “balanced score card”, including non-financial as well as financial measures.

BSC evaluate strategies from 4 perspectives:
1. **Financial performance:** how do we appear to shareholders?
2. **Customer knowledge:** how do customers view us?
3. **Internal business perspective:** What must we excel at?
4. **Innovation & Learning:** Can we continue to improve and create Value?

The Scorecard is used to evaluate strategies. When one is aware of the method of evaluation, it is useful to set objectives based on the evaluation method used. In other words, if strategies are to be evaluated on this method, then objectives for what the strategies should achieve can also be set using the same criteria.

Strategic Audit:

Strategy audit is one of the methods for evaluating the performance of the chosen strategy. It provides a checklist of questions, by area or issue, which enables a systematic analysis of various organizational functions or activities. Audit is an extremely useful diagnostic tool to pinpoint the problems areas and highlights organizational strengths and weaknesses for corporate planning. However, the main objective of strategic audit is to develop benchmarks. The process involves the following steps:

- **Identification of functions or process, usually an activity which can give a business unit competitive advantage, that has to be audited.**
Determination of measures of performance of the function or process.

Now the questions come why Strategic Audit is important for corporate planning? Strategic Audit helps to:

- Evaluate current performance result
- Review corporate governance
- Scan and assess the external environment
- Scan and assess the internal environment
- Analyze Strategic Factor using SWOT.
- Generate and evaluate strategic alternatives
- Implement strategies
- Evaluate and control

CONTROLLING:

Controls can be established to focus either on actual performance results (OUT PUT), on the activities that generate the performance (BEHAVIOR) or resources that are used in performance (INPUT).

The Primary Types of Organizational Control

- There are three primary types of organizational control: **strategic control, management control, and operational control**.
- **Strategic control**, the process of evaluating strategy, is practiced both after the strategy is formulated and after it is implemented.
- **Management control** focuses on the accomplishment of the objectives of the various sub strategies comprising the master strategy and the accomplishment of the objectives of the intermediate plans (for example, "are quality control objectives being met?").
- **Operational control** is concerned individual and group performance as compared with the individual and group role prescriptions required by organizational plans (for example, "are individual sales quotes being met?").

Each of these types of control is not a separate and distinct entity and, in fact, may be indistinguishable from others. Moreover, similar measurement techniques may be used for each type of control.

Guidelines for Proper Control:

Measuring performance is a crucial part of Evaluation and Control. The lack of quantifiable objectives or performance standards and the inability of the information system to provide timely, valid information are two obvious control problems.

In designing a control system, top management should remember that **controls should follow strategy**. Unless controls ensure the use of the proper strategy to achieve objectives, dysfunctional side effects may completely undermine the implementation of the objectives. The following guidelines are very important to develop the control system in any organization:
1. Controls should involve only the minimum amount of information needed to give a reliable picture of events. Too many controls create confusion. Focus on the strategic factors by following the 80/20 rule: Monitor those 20% of the factors that determine 80% of the results.
2. Controls should monitor only meaningful activities and result.
3. Controls should be timely.
4. Controls should be long term and short term
5. Controls should pinpoint exceptions.
6. Controls should be used to reward meeting or exceeding standards rather than to punish failure to meet standards

**Fundamental difference between Strategy Formulation and Implementation**

<table>
<thead>
<tr>
<th>Strategy Formulation</th>
<th>Strategy Implementation</th>
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<tr>
<td>is largely an intellectual process</td>
<td>is more operational in character</td>
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<tr>
<td>Strategy formulation requires good conceptual, integrative and analytical skills</td>
<td>Strategy Implementation requires special skills in motivating and managing others</td>
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<tr>
<td>Strategy formulation occurs primarily at the corporate level of an organization</td>
<td>Strategy implementation connects all hierarchy levels.</td>
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<td>Strategy formulation requires coordination among a few individuals</td>
<td>Strategy implementation requires coordination among many</td>
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<tr>
<td>Strategy formulation is a plan</td>
<td>Strategy implementation is an Action against plan</td>
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