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STRATEGIC MANAGEMENT

CHAPTER 11:

BUSINESS STRATEGY EVALUATION

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BUSINESS STRATEGY EVALUATION

- ❑ Strategy Evaluation Framework
- ❑ Characteristics of an effective Evaluation System
- ❑ Contingency Planning
- ❑ Current challenges in Business Strategy

What is Strategy Evaluation?

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- ❑ The strategy evaluation process involves analyzing your strategic plan and assessing how well you've done against achieving the goals in your strategy.
- ❑ A strategy evaluation is an internal analysis tool and should be used as part of a broader strategic analysis for the organization when making decisions about your strategy.



Typically, the strategy evaluation process involves answering questions such as:

- ✓ How much progress have we made towards our Vision?
- ✓ Are our Strategic Focus Areas still relevant?
- ✓ Which of our Objectives have we completed?
- ✓ Which Objectives are no longer needed?
- ✓ Do we have sufficient Projects to deliver incomplete Objectives?
- ✓ Are our KPIs still effective for measuring progress towards our Objectives?
- ✓ Where we fell short of our targets, why did this happen?

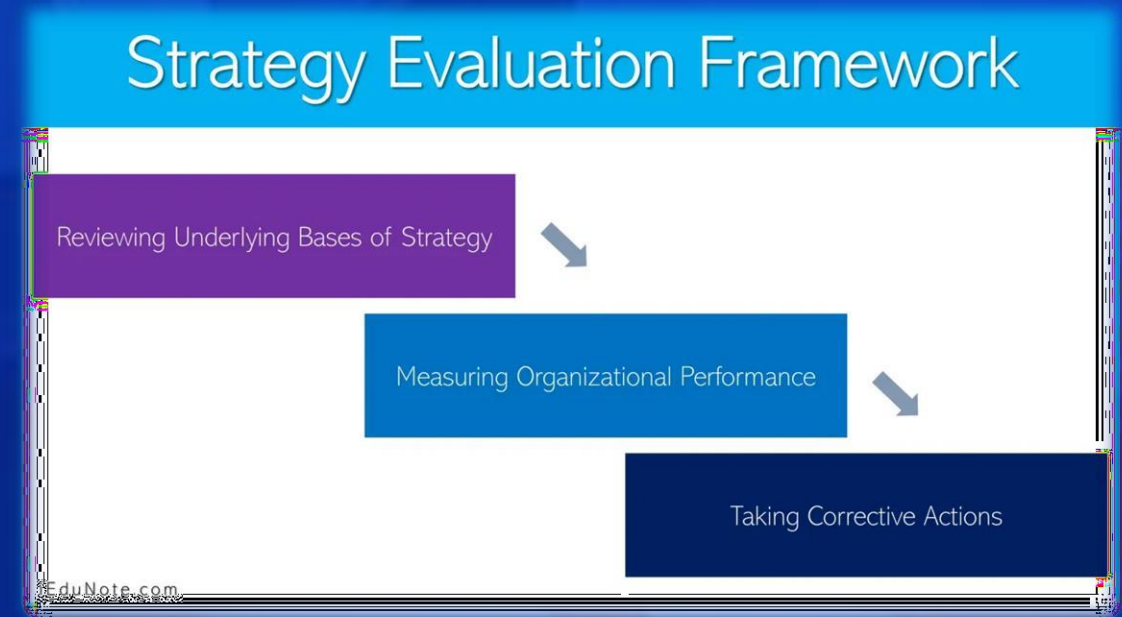
What is Strategy Evaluation?

- At the very least, you need to evaluate your strategy twice a year - or better yet, every quarter.
- Even if you feel as though your existing strategy is 'too far gone' and needs a fresh start, you'll want to perform a thorough strategy evaluation of what went wrong last time around.
- The mistake that people often make when it comes to strategy execution, is thinking of their strategy as a linear set of steps.
- In reality, strategy is a circular process of constant iteration and evolution. A good strategy should never really 'end' .
- Rather, it should morph into something more ambitious and sophisticated as goals are met.



What is strategy evaluation framework?

- ❑ **Strategic Evaluation** is defined as the process of determining the effectiveness of a given strategy in achieving the organizational objectives and taking corrective action wherever required.
- ❑ **Strategy evaluation** is the final step of strategy management process



Characteristics of an effective Evaluation System

A Good evaluation system must possess various qualities. It must meet several basic requirements to be effective.

- ✓ First, strategy-evaluation activities must be economical; too much information can be just as bad as too little information; and too many controls can do more harm than good.
- ✓ Strategy-evaluation activities also should be meaningful; they should specifically relate to a firm's objectives.
- ✓ They should provide managers with useful information about tasks over which they have control and influence.
- ✓ Strategy-evaluation activities should provide timely information; on occasion and in some areas, managers may need information daily.
- ✓ For example, when a firm has diversified by acquiring another firm, evaluative information may be needed frequently.
- ✓ However, in an R&D department, daily or even weekly evaluative information could be dysfunctional.

Strategy
Evaluation
System

Characteristics of an effective Evaluation System

- ✓ Strategy evaluation should be designed to provide a true picture of what is happening.
- ✓ For example, in a severe economic downturn, productivity and profitability ratios may drop alarmingly, although employees and managers are actually working harder.
- ✓ Strategy evaluations should portray this type of situation fairly.
- ✓ Information derived from the strategy-evaluation process should facilitate action and should be directed to those individuals in the organization who need to take action based on it.
- ✓ The strategy-evaluation process should not dominate decisions; it should foster mutual understanding, trust, and common sense!
- ✓ No department should fail to cooperate with another in evaluating strategies.
- ✓ Strategy evaluations should be simple, not too cumbersome, and not too restrictive. Complex strategy evaluationsystems often confuse people and accomplish little.
- ✓ The test of an effective evaluation system is its usefulness, not its complexity.

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.
- ✓ 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.
- ✓ A basic premise of good strategic management is that firms plan ways to deal with unfavorable and favorable events before they occur.
- ✓ Too many organizations prepare contingency plans just for unfavorable events; this is a mistake, because both minimizing threats and capitalizing on opportunities can improve a firm's competitive position.
- ✓ Regardless of how carefully strategies are formulated, implemented, and evaluated, unforeseen events such as strikes, boycotts, natural disasters, arrival of foreign competitors, and government actions can make a strategy obsolete.
- ✓ To minimize the impact of potential threats, organizations should develop contingency plans as part of the strategy-evaluation process.

Some contingency plans commonly established by firms include the following:

1. If a major competitor withdraws from particular markets as intelligence reports indicate, that actions should our firm take?
2. If our sales objectives are not reached, what actions should our firm take to avoid profit losses?
3. If demand for our new product exceeds plans, what actions should our firm take to meet the higher demand?
4. If certain disasters occur—such as loss of computer capabilities; a hostile takeover attempt; loss of patent protection; or destruction of manufacturing facilities because of earthquakes, tornados, or hurricanes—what actions should our firm take?
5. If a new technological advancement



Steps in Strategy Evaluation:

- ❑ The strategy evaluation process falls between our 'Track' and 'Plan' segments.
- ❑ Evaluation drives iterations and adjustments which are then refined in the 'Plan' segment.
- ❑ The following are simple set of steps that we can follow to ensure that our own process of strategy evaluation is easy, effective, and helps to keep our plan on track.

Strategy Evaluation: Step 1

Evaluation starts at the start.

- It may sound counter-intuitive but ideally, you'll be kicking off your strategy evaluation process back in the planning stage.
- Strategy evaluation is essentially the process of figuring out:
 - What did we do well?
 - How can we improve upon what we did well?
 - What did we learn about ourselves and the environment along the way?

Steps in Strategy Evaluation:

- One of the best ways to answer these questions is by setting effective KPIs in your planning stage. We'll look at an example:
- Let's say that your vision is "to become the number one provider of strategy software in the world. "
- Then let's say that you have a focus area which is "Becoming the primary source of strategic knowledge on the internet".
- To be able to effectively evaluate progress, you're going to need a KPI of some kind.
- So you might set a KPI of "Achieve a top 5 Google search ranking for 80% of the most common strategy search terms."
- Right away when you kick-off your strategic planning process, you'll be able to assess:
- Did we meet our KPI?
- Why did we fall short?
- Was this even the right KPI?
- That last point is critical - but more on that a little later.



Strategy Evaluation: Step 2

Implement consistent processes and tools.

- Not to sound too much like a broken record, but effective strategy evaluation requires planning that goes beyond the setting of good KPIs.
- You'll also need to plan out your 'strategy rhythm' - things like:
 - How often will I measure progress against my goals?
 - What standardized set of reports will be used throughout my business?
 - What level of detail shall we capture in our written commentary of progress against the plan?
- This is of course where a platform like Cascade can really shine through in terms of value.
- Even if you're going old-school with your strategy evaluations, you'll want to determine these types of things up front.
- Then, implement a regime of meetings and reports throughout the organization to match. We like to call this process your 'strategy rhythm' .
- As it should form the backbone of your organization's activities, and be maintained regularly and consistently throughout the year.

Strategy Evaluation: Step 3

Empower teams to evaluate their own strategies

- ❑ Empowerment plays a critical role in strategy execution regardless.
- ❑ However it's especially important as part of the strategy evaluation process.
- ❑ Rather than have the leadership team alone participate in your strategy evaluation, invite a team from each functional area.



- ❑ Each team should prepare their own evaluation of how they think their area performed against the strategy.

There are a number of benefits of doing so:

- ✓ You'll have the opportunity to assess your team's understanding of the strategy.
- ✓ Does it match your own?
- ✓ Your team will realize how seriously you take the process of strategy and value it more as part of their day-to-day roles.
- ✓ You'll gain additional insights that you wouldn't have thought of yourself.

Strategy Evaluation: Step 3

- ✓ You'll want to provide them with a basic framework to perform the analysis, and have them answer the key questions we posed above:
- ✓ Did we meet our goals?
- ✓ What was it that helped us to succeed?
- ✓ What challenges made us fall short?
- ✓ Were our goals well set, and have they brought us closer to achieving our overall vision?
- ✓ Ideally you'll have your team present using the tools you gave them as part of step 2.
- ✓ This includes any strategic dashboards or standardized reports that you set up in the planning stage.



Strategy Evaluation: Step 4

Take corrective action

- Steps 4 and 5 (below) are somewhat intertwined and should be performed largely in conjunction with each other.
- If you find that you're not meeting one of your goals, you'll want to do two things:
 - ✓ Start by figuring out if the goal is still the right one (see below).
 - ✓ If it is, take corrective action to address any shortcomings.
- There are many reasons why you might be struggling to hit your goals, ranging from relatively simple issues such as:
 - A lack of resourcing (human or financial)
 - Conflicting priorities
 - Ineffective tracking of targets
 - Misalignment or understanding of the goal
- Or your challenges may be more complex and relate to:
 - Increased competition
 - A significant capital shortfall
 - Regulatory pressures
 - A lack of internal innovation
 - Whatever the case, the sooner you can identify these issues, the sooner you can start to take corrective action.

Strategy Evaluation: Step 5

Iterate your plan

- ❑ There are two scenarios where you'll want to iterate your plan as part of your strategy evaluation - one being significantly more positive than the other:

Scenario 1: You've achieved your goals

- ❑ In an ideal world, you'll be iterating because you met some or all of your strategic goals.
- ❑ Remember, your plan is a living, breathing entity and may evolve in irregular and unexpected ways.

- ❑ Specifically, you'll find yourself hitting some goals far earlier than you expected and you'll need to replace those goals with new ones, without waiting for all elements of the plan to be completed.

It's actually not that hard to do this, as long as you have a robust strategy evaluation routine:

- ✓ You've achieved all your goals. Great - have you therefore achieved your focus area? No?
- ✓ Then you need more goals within that focus area.

Scenario 2: You've failed to meet some of your goals

- This is where we continue directly from the start of step 4 above.
- Just because you failed to meet a goal, don't actually assume that the right thing to do is to take corrective action.
- One of the most common outcomes of effective strategy evaluations is the redefinition of KPIs.
- Let's say that you did in fact meet your KPI around Google search rankings, and yet despite that, found no significant uptick in the number of people starting free trials of your software.
- In that case, it's likely that the KPI you set was incorrect.
- But you wouldn't have known that without either the KPI in the first place or the process of strategic evaluation.
- You need to find a balance between not being afraid to redefine your goals, versus constantly changing them without ever really achieving anything.
- Failure to find this balance is one of the main reasons why so many strategies fail.

Strategy Evaluation: Step 6

Celebrate successes

- ✓ The most fun part of the strategy evaluation process for last - celebrating success.
- ✓ The strategy evaluation process is the time to implement those celebrations.
- ✓ Given that your strategy will never 'finish' – it's important to celebrate the successes along the way.
- ✓ The first time you achieve a KPI or even a focus areas - *enjoy it!*
- ✓ Don't do so privately, but rather share that success with the entire organization.
- ✓ Whether it's a simple email of thanks or a full-blown party, the fact that you're so notably celebrating the success of a strategic goal is not only great for morale, but it also sends a strong message that the execution of the plan **really really matters**.



Current challenges in Business Strategy

- ❑ Growing businesses face a range of challenges.
- ❑ As a business grows, different problems and opportunities demand different solutions - what worked a year ago might now be not the best approach.
- ❑ All too often, avoidable mistakes turn what could have been a great business into an also-ran.
- ❑ Recognising and overcoming the common pitfalls associated with growth is essential if your business is to continue to grow and thrive.
- ❑ Crucially, you need to ensure that the steps you take today don't themselves create additional problems for the future.
- ❑ Effective leadership will help you make the most of the opportunities, creating sustainable growth for the future.



The following are the highlights of the current challenges that most commonly affect growing businesses and outlines what you can do about them.

1. Keeping up with the market

- ✓ Market research isn't something you do as a one-off when you launch your business.
- ✓ Business conditions change continually, so your market research should be continuous as well.
- ✓ Otherwise you run the risk of making business decisions based on out-of-date information, which can lead to business failure.
- ✓ The more you succeed, the more competitors notice - and react to - what you are doing.
- ✓ A market-leading offer one day may be no better than average a few months later.
- ✓ Apparently loyal customers can be quick to find alternative suppliers who provide a better deal.
- ✓ As products (and services) age, sales growth and profit margins get squeezed.
- ✓ Understanding where your products are in their lifecycles can help you work out how to maximise overall profitability.
- ✓ At the same time, you need to invest in innovation to build a stream of new, profitable products to market.

2. Planning ahead

- ✓ The plan that made sense for you a year ago isn't necessarily right for you now. Market conditions continually change, so you need to revisit and update your business plan regularly.
- ✓ As your business grows, your strategy needs to evolve to suit your changed circumstances.
- ✓ For example, your focus is likely to change from winning new customers to building profitable relationships and maximising growth with existing customers.
- ✓ Existing business relationships often have greater potential for profit and can also provide reliable cash flow.
- ✓ Newer relationships may increase turnover, but the profit margins may be lower, which may not be sustainable.
- ✓ At the same time, every business needs to be alert to new opportunities.
- ✓ There are obvious risks to relying solely on existing customers.
- ✓ Diversifying your customer base spreads those risks.



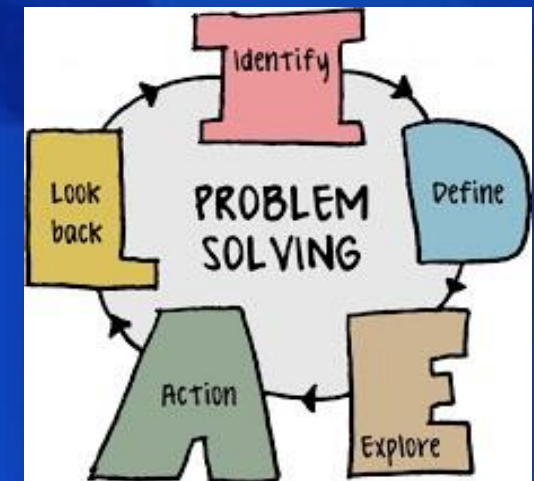
3. Cash flow and financial management

- ✓ Good cash flow control is important for any business. For a growing business, it's crucial - cash constraints can be the biggest factor limiting growth and overtrading can be fatal.
- ✓ Making the best use of your finances should be a key element in business planning and assessing new opportunities.
- ✓ With limited resources, you may need to pass up promising opportunities if pursuing them would mean starving your core business of essential funding.
- ✓ Every element of working capital should be carefully controlled to maximise your free cash flow.
- ✓ Effective credit management and tight control of overdue debts are essential.
- ✓ You may also want to consider raising financing against trade debts.
- ✓ Good stock control and effective supplier management tend to become increasingly important as businesses grow.
- ✓ Holdings of obsolete stock may become a problem that needs periodic clearing up.
- ✓ You may want to work with suppliers to reduce delivery cycles, or switch to suppliers and systems that can handle just-in-time delivery.



4. Problem solving

- ✓ New businesses often run in perpetual crisis mode.
- ✓ Every day brings new challenges that urgently need resolving and management spends most of their time troubleshooting.
- ✓ As your business grows, this approach simply doesn't work.
- ✓ While a short-term crisis is always urgent, it may not matter nearly as much as other things you could be doing.
- ✓ Spending your time soothing an irritated customer might help protect that one relationship - but focusing instead on recruiting the right salesperson could lay the foundations of substantial new sales for years to come.
- ✓ As your business grows, you also need to be alert to new problems and priorities.
- ✓ For example, your business might be increasingly at risk unless you take steps to ensure your intellectual property is properly protected.
- ✓ If you are focusing on individual marketing campaigns, you might need to devote more resources to developing your brand.



5. The right systems

- ✓ All businesses produce and rely on large volumes of information - financial records, interactions with customers and other business contacts, employee details, regulatory requirements and so on.
- ✓ It's too much to keep track of - let alone use effectively - without the right systems.
- ✓ Responsibilities and tasks can be delegated as your business grows, but without solid management information systems you cannot manage effectively.
- ✓ The larger your business grows, the harder it is to ensure that information is shared and different functions work together effectively.
- ✓ Putting the right infrastructure in place is an essential part of helping your business to grow.
- ✓ Documentation, policies and procedures also become increasingly important.
- ✓ The informality that might work with one or two employees and a handful of customers simply isn't practical in a growing business.
- ✓ You need proper contracts, clear terms and conditions, effective employment procedures and so on.



6. Skills and attitudes

- ✓ Entrepreneurs are the driving force behind creating and growing new businesses.
- ✓ All too often, they are also the people holding them back.
- ✓ The abilities that can help you launch a business are not the same as those you need to help it grow.
- ✓ It's vital not to fool yourself into valuing your own abilities too highly.
- ✓ The chances are that you'll need training to learn the skills and attitudes required by someone who is leading growth.
- ✓ To grow your business, you need to learn to delegate properly, trusting your management team and giving up day-to-day control of every detail.
- ✓ It's all too easy to stifle creativity and motivation with excessive interference.
- ✓ As the business becomes more complex, you also need to develop your time management skills and learn to focus on what's really important.
- ✓ As your business grows, you may need to bring in outsiders to help.
- ✓ You'll want to delegate responsibility for particular areas to different specialists, or appoint a non-executive director or two to strengthen your board.
- ✓ As you start tackling a new opportunity, someone who has experience of that activity can be vital.

7. Welcoming change

- ✓ Complacency can be a major threat to a growing business.
- ✓ Assuming that you will continue to be successful simply because you have been in the past is very unwise.
- ✓ Regularly revisiting and updating your business plan can help remind you of the changing market conditions and the need to respond to them.
- ✓ You need to be fully committed to your strategy, even if it takes you out of your comfort zone.
- ✓ This may involve hard decisions - for example making employees redundant or switching business away from suppliers you have become friends with.

An up-to-date plan helps you identify what action you need to take to change your business and the way it operates, for example:

- Changing to suppliers who can grow with you and meet your new priorities. As your business grows, consistent quality and reliability may be more important than simply getting the cheapest offer.
- Renegotiating contracts to take account of increased volume.
- Training and developing employees. Your own role will also evolve as the business grows.
- Making sure that you keep up to date with new technologies.

Conclusion

- ✓ Strategy-evaluation framework that can facilitate accomplishment of annual and long-term objectives.
- ✓ Effective strategy evaluation allows an organization to capitalize on internal strengths as they develop, to exploit external opportunities as they emerge, to recognize and defend against threats, and to mitigate internal weaknesses before they become detrimental.
- ✓ Strategists in successful organizations take the time to formulate, implement, and then evaluate strategies deliberately and systematically.
- ✓ Good strategists move their organization forward with purpose and direction, continually evaluating and improving the firm's external and internal strategic position.
- ✓ Strategy evaluation allows an organization to shape its own future rather than allowing it to be constantly shaped by remote forces that have little or no vested interest in the well-being of the enterprise.
- ✓ Although not a guarantee for success, strategic management allows organizations to make effective long term decisions, to execute those decisions efficiently, and to take corrective actions as needed to ensure success.

END OF CHAPTER 11

Thank You