Rohini college of Engineering and Technology Palkulam

Unit -IV Strategy Implementation and Evaluation

Strategic Evaluation

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management.

The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments etc, through control of performance. Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

The process of Strategy Evaluation consists of following steps-

1. **Fixing benchmark of performance -** While fixing the benchmark, strategists encounter questions such as - what benchmarks to set, how to set

them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.

Analyzing Variance - While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

3. **Taking Corrective Action -** Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation

trend and consequent means going to the beginning point of strategic management process.

Characteristics/Features of Strategic Decisions and Tactics

Strategic decisions are the decisions that are concerned with whole environment in which the firm operates, the entire resources and the people who form the company and the interface between the two.

a. Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.

b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.

c. Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.

d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.

Strategic decisions are complex in nature.

f. Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.

g. Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

The differences between Strategic, Administrative and Operational decisions can be summarized as follows-

Strategic Decisions	**Administrative Decisions**	**Operational Decisions**
Strategic decisions are long-term decisions.	Administrative decisions are taken daily.	Operational decisions are not frequently taken.
These are considered where The future planning is concerned.	These are short-term based Decisions.	These are medium-period based decisions.
Strategic decisions are taken Accordance with organizational mission and vision.	inThese are taken according to strategic and operational Decisions.	These are taken in accordance with strategic and administrative decision.
These are related to overall Counter planning of all Organization.	These are related to working of employees in an Organization.	These are related to production.
These deal with organizational Growth.	These are in welfare of employees working in an organization.	These are related to production and factory growth.

Boston Consulting Group (BCG) Matrix is a four celled matrix (a 2 * 2 matrix)

developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in it‘s portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU‘s (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

Relative Market Share = SBU Sales this year leading competitors sales this year.

Market Growth Rate = Industry sales this year - Industry Sales last year.

The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. if all the SBU‘s are in same industry, the average growth rate of the industry is used. While, if all the SBU‘s are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.

Figure: BCG Matrix

1. Stars- Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU‘s located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

2. **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These

SBU‘s are the corporation‘s key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.

4. **Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor‘s/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc.

   Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.

2. Market is not clearly defined in this model.

3. High market share does not always leads to high profits. There are high costs also involved with high market share.

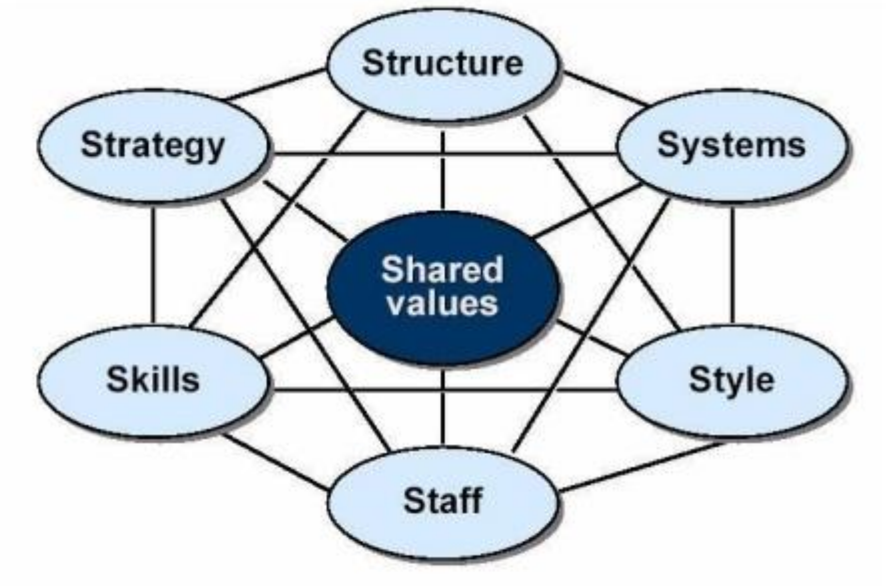
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.

5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.

6. This four-celled approach is considered as to be too simplistic.

The 7-S framework of McKinsey is a Value Based Management (VBM)

Model that describes how one can holistically and effectively organize a company. Together these factors determine the way in which a corporation operates.



Shared Value

The interconnecting center of McKinsey's model is: Shared Values. What does the organization stands for and what it believes in. Central beliefs and attitudes.

Strategy

Plans for the allocation of firms scarce resources, over time, to reach identified goals.

Environment, competition, customers.

Structure

The way the organization's units relate to each other: centralized, functional divisions

holding, etc.

System

The procedures, processes and routines that characterize how important work is to beinformation systems

Staff

Numbers and types of personnel within the organization.

Styl

Cultural style of the organization and how key managers behave in achieving the

organization‘s goals.

G E M a t r i x

The business portfolio is the collection of businesses and products that make up the company. The best business portfolio is one that fits the company's strengths and helps exploit the most attractive opportunities.

The company must:

(1) Analyse its current business portfolio and decide which businesses should receive more or less investment, and

Develop growth strategies for adding new products and businesses to the portfolio, whilst at the same time deciding when products and businesses should no longer be retained.

The two best-known portfolio planning methods are the Boston Consulting Group Portfolio Matrix and the McKinsey / General Electric Matrix (discussed in this revision note). In both methods, the first step is to identify the various Strategic Business Units ("SBU's") in a company portfolio. An SBU is a unit of the company that has a separate mission and objectives and that can be planned independently from the other businesses. An SBU can be a company division, a product line or even individual brands - it all depends on how the company is organised.

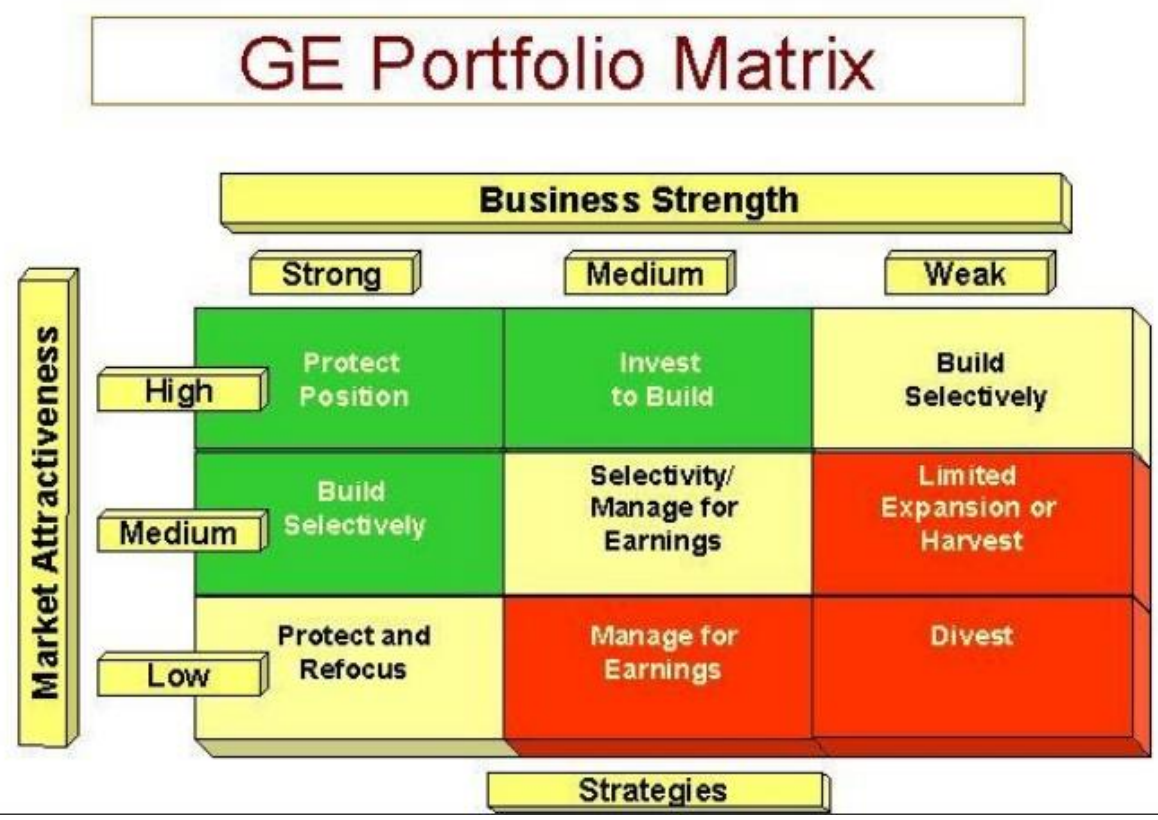
The McKinsey / General Electric Matrix

The McKinsey/GE Matrix overcomes a number of the disadvantages of the BCG Box. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

The diagram below illustrates some of the possible elements that determine market attractiveness and competitive strength by applying the McKinsey/GE Matrix to the UK retailing market:

Factors that Affect Market Attractiveness

1. Whilst any assessment of market attractiveness is necessarily subjective, there are several factors which can help determine attractiveness. These are listed below:



- ✓ Market Size
- ✓ Market growth
- ✓ Market profitability

- Pricing trends
- Competitive intensity / rivalry
- Overall risk of returns in the industry
- Opportunity to differentiate
- products and services
- Segmentation
- Distribution structure (e.g. retail, direct, wholesale

Factors that Affect Competitive Strength

Factors to consider include:

- Strength of assets and competencies
- Relative brand strength
- Market share
- Customer loyalty
- Relative cost position (cost structure compared with competitors)
- Distribution strength
- Record of technological or other innovation
- Access to financial and other investment resources

Strategic leadership refers to a manger's potential to express a strategic vision for the organization, or a part of the organization, and to motivate and persuade others to acquire that vision. Strategic leadership can also be defined as utilizing strategy in the management of employees. It is the potential to influence organizational members and to execute organizational change. Strategic leaders create organizational structure, allocate resources and express strategic vision. Strategic leaders work in an ambiguous environment on very difficult issues that influence and are influenced by occasions and organizations external to their own.

The main objective of strategic leadership is strategic productivity. Another aim of strategic leadership is to develop an environment in which employees forecast the organization‘s needs in context of their own job. Strategic leaders encourage the employees in an organization to follow their own ideas. Strategic leaders make greater use of reward and incentive system for encouraging productive and quality employees to show much better performance for their organization. Functional strategic leadership is about inventive

Strategic leadership requires the potential to foresee and comprehend the work environment. It requires objectivity and potential to look at the broader picture.

A few main **traits / characteristics / features / qualities** of effective strategic leaders that do lead to superior performance are as follows:

Loyalty- Powerful and effective leaders demonstrate their loyalty to their vision by their words and actions.

Keeping them updated- Efficient and effective leaders keep themselves updated about what is happening within their organization. They have various formal and informal sources of information in the organization.

Judicious use of power- Strategic leaders makes a very wise use of their power. They must play the power game skillfully and try to develop consent for their ideas rather than forcing their ideas upon others. They must push their ideas gradually.

Have wider perspective/outlook- Strategic leaders just don‘t have skills in their narrow specialty but they have a little knowledge about a lot of things.

Motivation- Strategic leaders must have a zeal for work that goes beyond money and power and also they should have an inclination to achieve goals with energy and determination.

Compassion- Strategic leaders must understand the views and feelings of their subordinates, and make decisions after considering them.

Self-control-

Strategic leaders must have the potential to control distracting/disturbing moods and desires, i.e., they must think before acting.

Social skills- Strategic leaders must be friendly and social.

Self-awareness- Strategic leaders must have the potential to understand their own moods and emotions, as well as their impact on others.

Readiness to delegate and authorize- Effective leaders are proficient at delegation. They are well aware of the fact that delegation will avoid overloading of responsibilities on the leaders. They also recognize the fact that authorizing the subordinates to make decisions will motivate them a lot.

Articulacy- Strong leaders are articulate enough to communicate the vision(vision of where the organization should head) to the organizational members in terms that boost those members.

Constancy/ Reliability- Strategic leaders constantly convey their vision until it becomes a component of organizational culture.

To conclude, Strategic leaders can create vision, express vision, passionately possess vision and persistently drive it to accomplishment

Gap analysis:

It generally refers to the activity of studying the differences between standards and the delivery of those standards. For example, it would be useful for a firm to document differences between customer expectation and actual customer experiences in the delivery of medical care. The differences could be used to explain satisfaction and to document areas in need of improvement.

However, in the process of identifying the gap, a before-and-after analysis must occur. This can take several forms. For example, in lean management we perform a Value Stream Map of the current process. Then we create a Value Stream Map of the desired state. The differences between the two define the "gap". Once the gap is defined, a game plan can be developed that will move the organization from its current state toward its desired future state.

The issue of service quality can be used as an example to illustrate gaps. For this example, there are several gaps that are important to measure. From a service quality perspective, these include: (1) service quality gap; (2) management understanding gap; (3) service design gap; (4) service delivery gap; and (5) communication gap.

Service Quality Gap.

Indicates the difference between the service expected by customers and the service they actually receive. For example, customers may expect to wait only 20 minutes to see their doctor but, in fact, have to wait more than thirty minutes.

Management Understanding Gap.

Represents the difference between the quality level expected by customers and the perception of those expectations by management. For example, in a fast food environment, the customers may place a greater emphasis on order accuracy than promptness of service, but management may perceive promptness to be more important.

Service Design Gap.

This is the gap between management's perception of customer expectations and the

development of this perception into delivery standards. For example, management might perceive that customers expect someone to answer their telephone calls in a timely fashion. To customers, "timely fashion" may mean within thirty seconds. However, if management designs delivery such that telephone calls are answered within sixty seconds, a service design gap is created.

Service Delivery Gap.

Represents the gap between the established delivery standards and actual service delivered. Given the above example, management may establish a standard such that telephone calls should be answered within thirty seconds. However, if it takes more than thirty seconds for calls to be answered, regardless of the cause, there is a delivery gap.

Communication Gap.

This is the gap between what is communicated to consumers and what is actually delivered. Advertising, for instance, may indicate to consumers that they can have their cars's oil changed within twenty minutes when, in reality, it takes more than thirty minutes.

IMPLEMENTING GAP ANALYSIS

Gap analysis involves internal and external analysis. Externally, the firm must communicate with customers. Internally, it must determine service delivery and service design. Continuing with the service quality example, the steps involved in the implementation of gap analysis are:

- ✓ Identification of customer expectations
- ✓ Identification of customer experiences

- ✓ Identification of management perceptions
- ✓ Evaluation of service standards
- ✓ Evaluation of customer communications

The identification of customer expectations and experiences might begin with focus-group interviews. Groups of customers, typically numbering seven to twelve per group, are invited to discuss their satisfaction with services or products. During this process, expectations and experiences are recorded. This process is usually successful in identifying those service and product attributes that are most important to customer satisfaction.

After focus-group interviews are completed, expectations and experiences are measured with more formal, quantitative methods. Expectations could be measured with a one to ten scale where one represents "Not At All Important" and ten represents "Extremely Important." Experience or perceptions about each of these attributes would be measured in a similar manner.

Gaps can be simply calculated as the arithmetic difference between the two measurements for each of the attributes. Management perceptions are measured much in the same manner. Groups of managers are asked to discuss their perceptions of customer expectations and experiences. A team can then be assigned the duty of evaluating manager perceptions, service standards, and communications to pinpoint discrepancies. After gaps are identified, management must take appropriate steps to fill or narrow the gaps.

THE IMPORTANCE OF SERVICE QUALITY GAP ANALYSIS

The main reason gap analysis is important to firms is the fact that gaps between customer expectations and customer experiences lead to customer dissatisfaction.

Consequently, measuring gaps is the first step in enhancing customer satisfaction. Additionally, competitive advantages can be achieved by exceeding customer expectations. Gap analysis is the technique utilized to determine where firms exceed or fall below customer expectations.

Customer satisfaction leads to repeat purchases and repeat purchases lead to loyal customers. In turn, customer loyalty leads to enhanced brand equity and higher profits. Consequently, understanding customer perceptions is important to a firm's performance. As such, gap analysis is used as a tool to narrow the gap between perceptions and reality, thus enhancing customer satisfaction.

Distinctive Competence

Distinctive competence is a set of unique capabilities that certain firms possess allowing them to make inroads into desired markets and to gain advantage over the competition; generally, it is an activity that a firm performs better than its competition. To define a firm's distinctive competence, management must complete an assessment of both internal and external corporate environments. When management finds an internal strength that both meets market needs and gives the firm a comparative advantage in the marketplace, that strength is the firm's distinctive competence. Taking advantage of an existing distinctive competence is essential to business strategy development. Firms can possess distinctive competence in a wide variety of areas, including technology, marketing, and management.

Formulating Strategy

Strategy can be defined as the tool managers use to adjust their firms to ever-changing environmental conditions. Unless a firm produces only one type of merchandise or service, it must devise strategies at both the corporate and business levels.

Corporate strategy defines the underlying businesses and determines the best methods of coordinating them. At the business level, strategy outlines the ways that a business will compete in a given market. Strategic planning is often closely tied to the development and use of distinctive competencies, and having an area of distinctive competence can present a major strategic advantage to any firm.

To devise corporate strategy, firm managers must consider a host of influences in their surrounding environment that can affect the firm's ongoing operations as well as the internal strengths and weaknesses that characterize the firm. When assessing the external business environment, management must analyze the given situation, forecast potential changes to it, and either try to change the situation or adapt to it. The assessment must include an evaluation of current and projected market needs and an evaluation of any existing comparative advantage over competitors.

To determine the best strategy for their firm, managers must realistically assess their own firm's status. A firm's internal strengths and weaknesses make it better suited to pursue some strategic paths than others. When looking for a match between opportunities and capabilities, managers must try to build upon the strongest qualities of the firm and avoid activities that rely on more vulnerable areas or are adverse to the firm's existing corporate culture.

Further, it is important for managers to account for potential problems involved in carrying out a strategy before they embark upon it. Thus, managers should examine potential strategies, while keeping in mind their firm's history, its culture and experiences, and its basic proficiencies. Once this assessment is complete, management must decide which opportunities in the business environment to pursue and which ones to pass up. Even if a firm does not have a distinctive competence, as is the case for many, it must devise its overall strategy to build upon its strengths and best use its resources.

Obviously, many successful business strategies are built around a determined distinctive competence. To truly succeed, a firm will have a competitive advantage over its rivals, giving it some sort of strategic advantage. Logically, strengthening a competitive position is made a great deal easier for a firm with one or more distinctive competencies. Having a distinctive competence can allow a firm to follow a different path than rival firms, utilize a strategy difficult for them to imitate, and end up in a better position over the long term. If other firms in the marketplace do not have a similar or countervailing competence, they will have a very difficult time remaining competitive.

Defining and Building Distinctive Competence

To define a company's distinctive competence, managers often follow a particular process. First, they identify the strengths and weaknesses of their firm. Next, they determine the strategic importance of these strengths and weaknesses in the given marketplace. Then, they analyze specific market needs and look for comparative advantages that they have over the competition. Importantly, while managers generally follow this process, they often undertake more than one step simultaneously.

Distinctive competence can be built in a number of ways. Firms can hire more qualified professionals than those employed by competitors; they can find and exploit previously neglected market niches; and they can be especially innovative or can gain advantage over competitors through sheer strength of management. There are numerous areas in which a firm can have a distinctive competence. Some companies have distinctive competence because they manufacture a product with superior quality. Other firms excel in technological innovation, research and development, or new product introduction. Still other firms have advantages in low-cost production, customer support, or creative advertising. For example, McDonald's distinctive competence is its system of controls for operating its fast-food restaurant franchises, which gives the company an unusually high profit margin.

Predicting Future Distinctive Competence

Since business environments and marketplaces are always changing, the challenge for strategists is to maintain the firm's distinctive competence. As defined earlier, distinctive competencies are distinctive skills and capabilities firms can use to achieve an unusual market position or to gain an advantage over the competition. Thus, a firm's advantage comes largely from the fact that it has differentiated itself from its competition. It follows that if the environment changes such that numerous rivals have obtained competencies identical to those characterizing a particular firm, the firm is in a very poor position and would do well to reconsider its strategy.

Future strategic success requires that firms keep their distinct advantages over their rivals. Thus, firms must continuously assess their surrounding environments. They must be aware of potential shifts in industrial standings and must realistically evaluate

whether the distinctive competency continues to yield an advantage. They should also look to new markets and evaluate the potential use of their distinctive competencies in those markets.

As business conditions and markets change, many of the strengths and weaknesses that characterize a firm will also change. Through strategic planning and leadership, management will be able to determine how the basis for competition may be changing and whether the firm's distinctive competencies need to be realigned. Indeed, some vulnerabilities and strengths will be exaggerated, while others will be eliminated. Success in these changing conditions can only come from taking advantage of opportunities highlighted by close scrutiny of a firm's internal and external environment. The most successful firms will be those that are able to locate and use distinctive competencies found in these assessments.

The final stage in strategic management is strategy evaluation and control. All strategies are subject to future modification because internal and external factors are constantly changing. In the strategy evaluation and control process managers determine whether the chosen strategy is achieving the organization's objectives. The fundamental strategy evaluation and control activities are: reviewing internal and external factors that are the bases for current strategies, measuring performance, and taking corrective actions.

Strategic management is a broader term that includes not only the stages already identified but also the earlier steps of determining the mission and objectives of an organization within the context of its external environment. The basic steps of the strategic managementcan be examined through the use of strategic management model.

The strategic management model identifies concepts of strategy and the elements necessary for development of a strategy enabling the organization to satisfy its mission. Historically, a number of frameworks and models have been advanced which propose different normative approaches to strategy determination. However, a review of the major strategic management models indicates that they all include the following elements:

1. Performing an environmental analysis.

2. Establishing organizational direction.

3. Formulating organizational strategy.

4. Implementing organizational strategy.

5. Evaluating and controlling strategy

Strategic management is a continuous and dynamic process. Therefore, it should be understood that each element interacts with the other elements and that this interaction often happens simultaneously.

The major models differ primarily in the degree of explicitness, detail, and complexity. These differences derive from the differences in backgrounds and experiences of the authors. Some of these models are briefly presented below.

The phases of this model are as follows:

* **Strategic management's elements**: "...to determine mission, goals, and values of the firm and the key decision makers."

* **Analysis and diagnosis**: —...to search the environment and diagnose the impact

of the threats and opportunities."

* **Choice**: ...to consider various alternatives and assure that the appropriate strategy is chosen."

Implementation: "...to match plans, policies, resources, structure,

and administrative style with the strategy."

* **Evaluation**: "...to ensure strategy and implementation will meet objectives."