Strategic evaluation and control
Strategy Review

The firm’s internal and external environments are dynamic. Therefore, the best conceived and implemented strategies become obsolete!
Strategy Review

Strategy Evaluation—the 3 Basics

- Examining the underlying basis of the firm’s strategy
- Comparing actual to expected results
- Taking corrective action to address performance gaps
Effective Strategy Evaluation

- Adequate and timely feedback
  - The cornerstone of effective evaluation
Strategy Review

Strategy Evaluation

- Must have *both*
  - Short- & long-term focus
Strategy Review

Four Criteria (Richard Rumelt):

- Consistency
- Consonance = fit or harmony
- Feasibility
- Advantage
## Consistency

A strategy should not present inconsistent goals and policies

- If managerial problems continue despite changes in personnel and are issue based, then strategies may be inconsistent.
- If success for one department means failure for another department, then strategies may be inconsistent.
- If policy problems/issues continue to be brought to the top for resolution, then strategies may be inconsistent.
Consonance

<table>
<thead>
<tr>
<th>Strategists need to examine <strong>sets of trends</strong> as well as individual trends in evaluating strategies.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strategy must represent an adaptive response to the external environment and critical changes occurring within it.</td>
</tr>
<tr>
<td>• Most trends are the result of interactions among other trends.</td>
</tr>
<tr>
<td>• Difficult in matching key internal and external factors in formulation of strategy.</td>
</tr>
</tbody>
</table>
# Feasibility

*Strategy must neither overtax available resources nor create unsolvable subproblems.*

- Can the strategy be attempted within the physical, human and financial resources of the enterprise?

- Limitation on strategic choice imposed by individual and organizational capabilities must be considered.

- Important to examine whether in the past the organization has demonstrated the capabilities, abilities, competencies, skills, and talents to carry out strategy.
Strategy Review

Contemporary Strategy Evaluation Difficulties

- Increase in environment’s complexity
- Difficulty in predicting the future with accuracy
- Increasing number of variables
Strategy Review

Contemporary Strategy Evaluation

- Rate of obsolescence of even the best plans
- Increase in domestic and world events
- Decreasing time span for which planning can be done with any certainty
Strategy Review

Process of Evaluating Strategies:

- Should initiate managerial questioning of expectations and assumptions
- Should trigger a review of objectives and values
- Should stimulate creativity in generating alternatives and criteria of evaluation
I. Review Underlying Bases

II. Measure Firm Performance

Differences?

Yes

NO

III. Take Corrective Actions

Continue present course
I. Review Bases of Strategy

Develop a Revised Evaluation Framework Matrix:

- How have competitors reacted to our strategies?

- How have competitors’ strategies changed?

- Have major competitors’ strengths and weaknesses changed?
I. Review Bases of Strategy

- Why are competitors making certain strategic changes?
- Why are some competitors’ strategies more successful than others?
- How satisfied are our competitors with their present market positions and profitability?
I. Review Bases of Strategy

- How far can our major competitors be pushed before retaliating?

- How could we more effectively cooperate with our competitors?
I. Review Bases of Strategy

Key Questions in Evaluating Strategy:

- Are our internal strengths still strengths?
- Have we added other internal strengths?
- Are our internal weaknesses still weaknesses?
I. Review Bases of Strategy

- *Do we now have other internal weaknesses?*

- *Are our external opportunities still opportunities?*

- *Are there now external opportunities?*
I. Review Bases of Strategy

- Are our external threats still threats?
- Are there now other external threats?
- Are we vulnerable to a hostile takeover?
II. Measure Performance

- Compare the firm’s performance over different time periods.
- Compare the firm’s performance to competitors.
- Compare the firm’s performance to industry averages.
II. Measure Performance

Quantitative Analysis:

- Return on investment
- Return on equity
- Profit margin
- Market share
- Debt to equity
- Earnings per share
- Sales growth
- Asset growth
II. Measure Performance

Qualitative Analysis:

- Is the strategy internally consistent?
- Is the strategy consistent with the environment?
- Is the strategy appropriate in view of available resources?
- Does the strategy involve an acceptable degree of risk?
II. Measure Performance

Qualitative Analysis:

- Does the strategy have an appropriate time framework?
- Is the strategy workable?
III. Take Corrective Action

Making changes to reposition a firm competitively for the future
<table>
<thead>
<tr>
<th>Have major changes occurred in the firm’s internal strategic position?</th>
<th>Have major changes occurred in the firm’s external strategic position?</th>
<th>Has the firm progressed satisfactorily toward achieving its stated objectives?</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Corrective actions</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Corrective actions</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Corrective actions</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Corrective actions</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Corrective actions</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Corrective actions</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Corrective actions</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Corrective actions</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
<td>Continuous course</td>
<td></td>
</tr>
</tbody>
</table>
Strategy Review

Characteristics of an effective system

- Evaluation activities must be economical.
- Evaluation activities must be meaningful.
Characteristics of an effective system

- Evaluation activities must provide timely information.
- Evaluation system should be designed to provide a true picture of what is happening.
Characteristics of an effective system

- Information derived from evaluation process should facilitate action.
- Evaluation process should not dominate decisions.
Strategy Review

Contingency Planning

- Identify both beneficial and unfavorable events that could possibly derail the strategy or strategies.

- Specify trigger points. Calculate about when contingent events are likely to occur.
Contingency Planning

- Assess the impact of each contingent event. Estimate the potential benefit or harm of each contingent event.

- Develop contingency plans. Insure that they are compatible with current strategy and are economically feasible.
Contingency Planning

- Assess the counterimpact of each contingency plan. This quantifies the potential value of each plan.
- Determine early warning signals for key contingent events.
- Develop advance action plans to take advantage of available lead time.
Strategy Review

Auditing

- Financial audits to determine correspondence between assertions based on strategic plans and established criteria
- Environmental audits to insure sound and safe practices
Key Terms & Concepts

- Advantage
- Auditing
- Consistency
- Consonance
- Contingency plans
- Corporate agility
- Feasibility
- Future shock
- MBWA

- Measuring organizational performance
- Planning process audit
- Reviewing the underlying bases of an organization’s strategy
- Revised EFE matrix
Key Terms & Concepts

- Revised IFE matrix
- Taking corrective actions