Strategy Review, Evaluation, and Control

Week 09

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Strategy Review, Evaluation, and Control

“Organizations are most vulnerable when they are at the peak of their success.”
– R. T. Lenz

– Strategies become obsolete
– Internal environments are dynamic
– External environments are dynamic

Strategy Evaluation

✓ Vital to the organization’s well-being
✓ Alert management to potential/actual problems in a timely fashion
✓ Erroneous strategic decisions can have severe negative impact on organizations
Strategy Review, Evaluation, and Control

Three Basic Activities
1. Examine the underlying bases of a firm’s strategy.
2. Compare expected to actual results.
3. Identify corrective actions to ensure that performance conforms to plans.

Strategy Evaluation
1. Complex & sensitive undertaking
2. Overemphasis can be costly & counterproductive

Appraisal of Strategic Performance
- Have assets increased?
- Increase in profitability?
- Increase in sales?
- Increase in productivity?
- Profit margins, ROI, and EPS ratios increased?
Strategy Review, Evaluation, and Control

Rumelt’s 4 Criteria

- **Consistency**: Strategy should not present inconsistent goals & policies
- **Consonance**: Need for strategies to examine sets of trends
- **Feasibility**: Neither overtax resources or create unsolvable subproblems
- **Advantage**: Creation or maintenance of competitive advantage
Difficulties in Strategy Evaluation

1. Increase in environment’s complexity
2. Difficulty predicting future with accuracy
3. Increasing number of variables
4. Rate of obsolescence of plans
5. Domestic and global events
6. Decreasing time span for planning certainty

Strategy Evaluation Should

✓ Initiate managerial questioning
✓ Trigger review of objectives & values
✓ Stimulate creativity in generating alternatives
Review of Underlying Bases of Strategy

- Develop revised EFE Matrix
- Develop revised IFE Matrix

Review Effectiveness of Strategy

1. Competitors’ reaction to strategy
2. Competitors’ change in strategy
3. Competitors’ changes in strengths & weaknesses
4. Reasons for competitors’ strategic change
5. Reasons for competitors’ successful strategies
6. Competitors’ present market positions & profitability
7. Potential for competitor retaliation
8. Potential for cooperation with competitors
Monitor Strengths & Weaknesses; Opportunities & Threats

- Are strengths still strengths?
- Have we added additional strengths?
- Are weaknesses still weaknesses?
- Have we developed other weaknesses?
- Are opportunities still opportunities?
- Other opportunities develop?
- Are threats still threats?
- Other threats emerged?
- Are we vulnerable to hostile takeover?
**Strategy-Evaluation Framework**

**ACTIVITY ONE: REVIEW UNDERLYING BASES OF STRATEGY**
- Prepare revised Internal Factor Evaluation (IFE) Matrix
- Prepare revised External Factor Evaluation (EFE) Matrix
- Compare revised to existing Internal Factor Evaluation (IFE) Matrix
- Compare revised to existing External Factor Evaluation (EFE) Matrix

**ACTIVITY TWO: MEASURE ORGANIZATIONAL PERFORMANCE**
- Compare planned to actual progress toward meeting stated objectives

**ACTIVITY THREE: TAKE CORRECTIVE ACTIONS**

- Do significant differences occur?
  - **YES**
  - Continue present course
  - **NO**

- **NO**
## Strategy-Evaluation Assessment Matrix

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Measuring Organizational Performance

- Compare expected to actual results
- Investigate deviations from plan
- Evaluate individual performance
- Progress toward stated objectives

Quantitative Criteria for Strategy Evaluation

- **Financial Ratios**
  - Compare performance over different periods
  - Compare performance to competitors’
  - Compare performance to industry averages

- **Key Financial Ratios**
  - Return on investment (ROI)
  - Return on equity (ROE)
  - Profit margin
  - Market share
  - Debt to equity
  - Earnings per share (EPS)
  - Sales growth
  - Asset growth
Qualitative Evaluation of Strategy

- Internal consistency of strategy
- Consistency with environment
- Appropriateness in view of resources
- Acceptable degree of risk
- Appropriate time frame
- Workability of the strategy

Characteristics of Strategy Evaluation

- Economical
- Meaningful
- Generates useful information
- Timely information
- Provides accurate picture of events
Balanced Scorecard

Evaluate strategies from 4 perspectives:
1. Financial performance
2. Customer knowledge
3. Internal business processes
4. Learning & growth
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<th>Area of Objectives</th>
<th>Measure or Target</th>
<th>Time Expectation</th>
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Contingency Planning

Alternative plans that can be put into effect if certain key events do not occur as expected

Auditing

✓ Financial audits determine correspondence between assertions based on strategic plan & established criteria
✓ Environmental audits ensure sound and safe practices

21st Century Challenges in Strategic Management

✓ “art” or “science”
✓ Should strategies be visible or hidden from stakeholders?
✓ Should process be more top-down or bottom-up?
THANK YOU