Chapter 9
Strategy Review, Evaluation, and Control

Strategic Management: Concepts & Cases
13th Edition
Fred David
Strategy Evaluation

“Organizations are most vulnerable when they are at the peak of their success.”
– R. T. Lenz
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- Strategies become obsolete
- Internal environments are dynamic
- External environments are dynamic
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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
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Three Basic Activities

1. Examine the underlying bases of a firm’s strategy
2. Compare expected to actual results
3. Take corrective actions to ensure that performance conforms to plans
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Strategy Evaluation

- Complex & sensitive undertaking
- Overemphasis can be expensive & counterproductive
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Appraisal of Strategic Performance

- Increase in assets?
- Increase in profitability?
- Increase in sales?
- Increase in productivity?
- Increases in profit margins, ROI, and EPS ratios?
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Rumelt’s 4 Criteria

- Consistency
- Consonance
- Feasibility
- Advantage
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Consistency

- Strategy should not present inconsistent goals and policies
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Rumelt’s 4 Criteria

- Consistency
- Consonance
- Feasibility
- Advantage
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Consonance

- Need for strategists to examine sets of trends, as well as individual trends
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Rumelt’s 4 Criteria

- Consistency
- Consonance
- Feasibility
- Advantage
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Feasibility

- Neither overtax resources nor create unsolvable subproblems
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Rumelt’s 4 Criteria

- Consistency
- Consonance
- Feasibility
- Advantage
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Advantage

- Creation or maintenance of competitive advantage
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Difficulties in Strategy Evaluation

1. Increase in environment’s complexity
2. Difficulty predicting future with accuracy
3. Increasing number of variables
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Difficulties in Strategy Evaluation

4. Rate of obsolescence of plans
5. Domestic and global events
6. Decreasing time span for planning certainty
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**Strategy Evaluation Should –**

- Initiate managerial questioning of expectations and assumptions
- Trigger a review of objectives & values
- Stimulate creativity in generating alternatives and formulating criteria for evaluation
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Review of Underlying Bases of Strategy –

- Develop revised IFE Matrix
- Develop revised EFE Matrix
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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
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Review Effectiveness of Strategy –

5. Reasons for competitors’ successful strategies
6. Competitors’ satisfaction with present market positions & profitability
7. Potential for competitor retaliation
8. Potential for cooperation with competitors
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Monitor Strengths & Weaknesses; Opportunities & Threats

- Are strengths still strengths?
- Have we added additional strengths?
- Are weaknesses still weaknesses?
- Have we developed other weaknesses?
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Monitor Strengths & Weaknesses; Opportunities & Threats

- Are opportunities still opportunities?
- Other opportunities develop?
- Are threats still threats?
- Other threats emerged?
- Are we vulnerable to hostile takeover?
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A 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

- Do significant differences occur?
  - YES
  - NO

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

- Do significant differences occur?
  - YES
  - NO

- Continue present course

ACTIVITY THREE: TAKE CORRECTIVE ACTIONS

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Measuring Organizational Performance

- Compare expected to actual results
- Investigate deviations from plan
- Evaluate individual performance
- Examine progress toward stated objectives
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Quantitative Criteria for Strategy Evaluation

- Financial Ratios
  - Compare performance over different periods
  - Compare performance to competitors’
  - Compare performance to industry averages
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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
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Qualitative Evaluation of Strategy

- Human Resource Factors
- Marketing
- Finance/Accounting
- R&D
- Management Information Systems
| 1. | Alter the firm’s structure       |
| 2. | Replace one or more key individuals |
| 3. | Divest a division                |
| 4. | Alter the firm’s vision and/or mission |
| 5. | Revise objectives                |
| 6. | Alter strategies                 |
| 7. | Devise new policies              |
| 8. | Install new performance incentives |
| 9. | Raise capital with stock or debt |
| 10.| Add or terminate salespersons, employees, or managers |
| 11.| Allocate resources differently   |
| 12.| Outsource (or rein in) business functions |
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Balanced Scorecard

- Evaluate strategies from 4 perspectives:
  1. Financial performance
  2. Customer knowledge
  3. Internal business processes
  4. Learning & growth
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Strategy Review, Evaluation, and Control

Characteristics of an Effective Evaluation System

- Economical
- Meaningful
- Generates useful information
- Timely information
- Provides accurate picture of events
Contingency Planning

Alternative plans that can be put into effect if certain key events do not occur as expected
A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the results to interested users.
21st Century Challenges in Strategic Management

- Should the process be more an “art” or a “science”?
- Should strategies be visible or hidden from stakeholders?
- Should process be more top-down or bottom-up?