Chapter 9
Strategy Review, Evaluation, & Control

Strategic Management: Concepts & Cases
10th Edition
Fred David

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Chapter Outline

The Nature of Strategy Evaluation
A Strategy-Evaluation Framework
The Balanced Scorecard

Chapter Outline (cont’d)

Published Sources of Strategy Evaluation Information
Characteristics of an Effective Evaluation System
Contingency Planning

Chapter Outline (cont’d)

Auditing
21st Century Challenges in Strategic Management

Strategy Review

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

Strategy Review, Evaluation & Control

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

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Strategy Evaluation, Review, & Control

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 Evaluation, Review & Control

3 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, Review & Control

Strategy Evaluation

- Complex & sensitive undertaking
- Overemphasis can be costly & counterproductive

Strategy Evaluation, Review & Control

Appraisal of Strategic Performance

- Have assets increased
- Increase in profitability
- Increase in sales
- Increase in productivity
- Profit margins, ROI, & EPS ratios increased

Strategy Evaluation, Review & Control

Consistency

- Strategy should not present inconsistent goals & policies

Rummelt’s 4 Criteria

- Consistency
- Consonance
- Feasibility
- Advantage
Rummelt's 4 Criteria

- Consonance
- Consistency
- Feasibility
- Advantage

Need for strategies to examine sets of trends

Neither overtax resources or create unsolvable sub-problems

Creation or maintenance of competitive advantage
Strategy Evaluation, Review & Control

Difficulties in Strategy Evaluation

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

Strategy Evaluation, Review & Control

Difficulties in Strategy Evaluation

4. Rate of obsolescence of plans
5. Domestic and global events
6. Decreasing time span for planning certainty

Strategy Evaluation, Review & Control

Strategy Evaluation Should --

- Initiate managerial questioning
- Trigger review of objectives & values
- Stimulate creativity in generating alternatives

Strategy Evaluation, Review & Control

Review of underlying bases of strategy --

- Develop revised EFE Matrix
- Develop revised IFE Matrix

Strategy Evaluation, Review & Control

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

Strategy Evaluation, Review & Control

Review effectiveness of strategy --

5. Reasons for competitors’ successful strategies
6. Competitors’ present market positions & profitability
7. Potential for competitor retaliation
8. Potential for cooperation with competitors
**Strategy Evaluation, Review & Control**

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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**Strategy Evaluation, Review & Control**

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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**Evaluation Framework**

1. Review Underlying Bases
   - Differences?
   - Yes
   - NO

2. Measure Firm Performance
   - Differences?
   - Yes
   - NO

3. Take Corrective Actions

Continue present course

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**Strategy Evaluation, Review & Control**

Measuring Organizational Performance

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

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**Strategy Evaluation, Review & Control**

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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**Strategy Evaluation, Review & Control**

Key Financial Ratios

- Return on investment (ROI)
- Return on equity (ROE)
- Profit margin
- Market Share
Strategy Evaluation, Review & Control

Key Financial Ratios
- 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

Qualitative Evaluation of Strategy
- 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

<table>
<thead>
<tr>
<th>Area of Evaluation</th>
<th>Measure or Target</th>
<th>Time Horizon</th>
<th>Primary Responsibility</th>
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</thead>
<tbody>
<tr>
<td>Customers</td>
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<td>Operations/Finance</td>
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<td>External/Community</td>
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<td>Financial</td>
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### Strategy Evaluation, Review & Control

#### Contingency Planning

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

### Strategy Evaluation, Review & Control

#### Auditing

- Financial audits determine correspondence between assertions based on strategic plan & established criteria.
- Environmental audits insure sound and safe practices.

### 21st Century Challenges in Strategic Management

- Process is more an "art" than "science".
- Should strategies be visible or hidden from stakeholders.
- Should process be more top-down or bottom up.

### For Review (Chapter 9)

#### Key Terms & Concepts

- Advantage
- Auditing
- Balanced Score Card
- Consistency
- Consonance
- Contingency Plans
- Corporate Agility
- Feasibility
- Revised EFE Matrix
- Revised IFE Matrix
- Taking Corrective Action
- Future Shock
- Measuring Organizational Performance
- Reviewed Underlying Bases of Strategy
- Management by Wandering Around

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