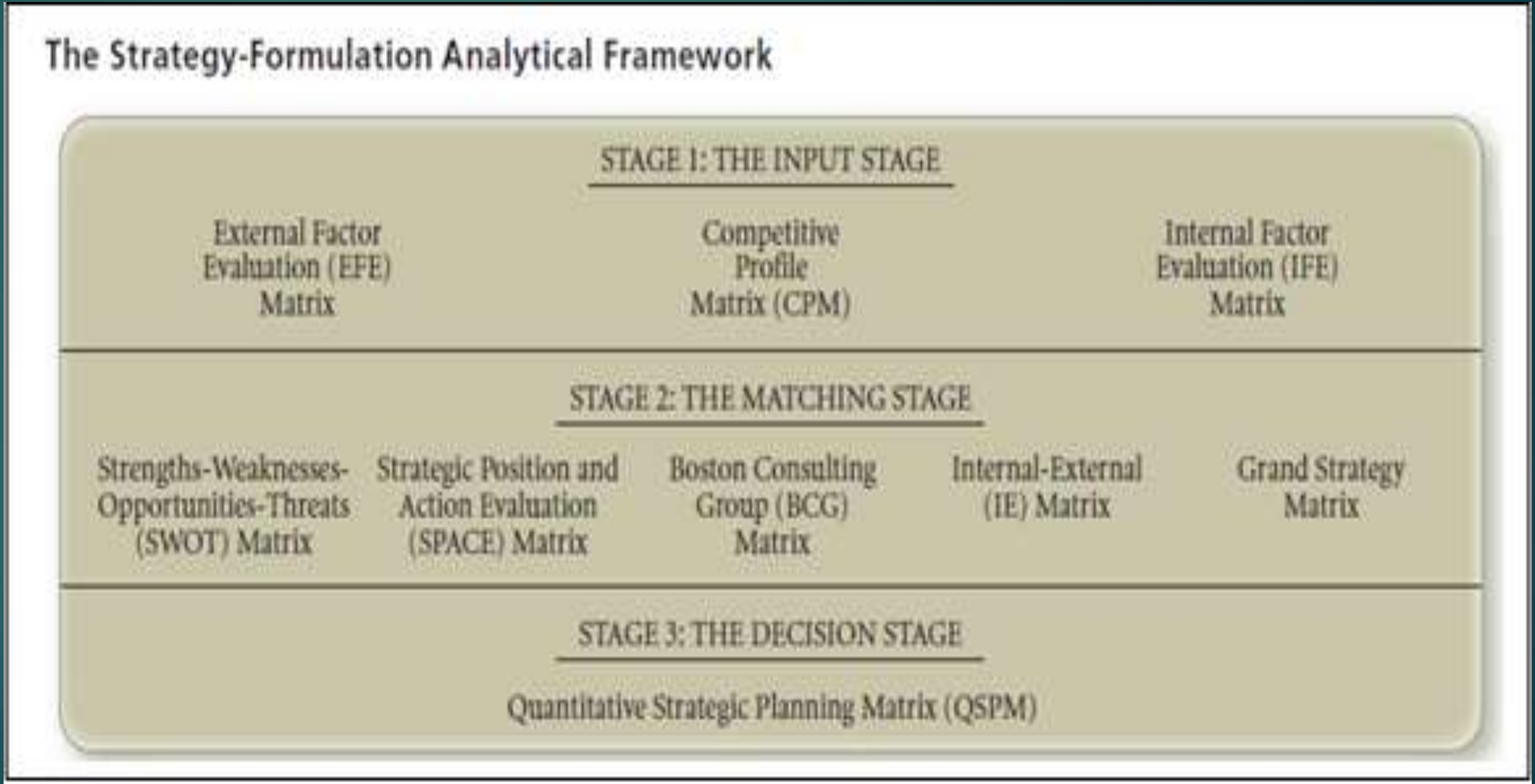
Strategic Management - II

Unit - IV

Strategy Evaluation

Arup Kumar Baksi
Associate Professor
Dept. of Management & Business Administration
Aliah University, Kolkata, West Bengal
Email: baksi.arup@gmail.com

Quick Recap: **Unit – I – Choice of Strategy**



Quick Recap: **Unit – II**

Implementation of Strategy: Structural Considerations & Resource allocations

- Organisational Structure
- Structure – Strategy Fit
- Service Profit Chain
- Customer Value Proposition
- Resource allocation
    - Resource allocation with critical mass
    - Resource allocation under turbulence

Quick Recap: **Unit – III**

Implementation of Strategy: Functional and Behavioural Considerations

- **Functional:** Marketing, Finance, HR, Systems, Production & Operation, Quality Control
- **Behavioural:** Managing changes, culture, conflicts and power structures

Unit – IV
Strategy Evaluation

Why evaluation is necessary ?

1. Strategies tend to become obsolete
2. External environment is dynamic and changing
3. Internal environment is influence by the external environment
4. Errors in strategic decision
5. Signals to managers about problems/ issues

Three activities

1. To assess the foundation of company's strategies
2. Compare the actual versus desired results
3. Take corrective measures, if required

What to assess?

1. Increase in assets ?
2. Increase in productivity ?
3. Increase in profitability ?
4. Increase in sales ?
5. Increase in profit margins ?
6. Increase in ROI ?
7. Increase in EPS ?

Rumelt’s 4 criteria for Strategy Evaluation

1. Consistency
2. Consonance
3. Feasibility
4. Advantage

1. **Consistency: Objectives, Policies, Strategies and Plans & Programmes should be consistent**

2. **Consonance: Strategies should examine sets of trends, even, individual trends**

3. **Feasibility: develop strategies and subsequent plans and programmes by matching available resources**

4. **Advantage: Identify core competency and create & maintain competitive advantage**

Difficulties in Strategy Evaluation

1. Increase in complexity in external environment
2. Difficulty in predicting future industry dynamics
3. Increasing number of variables
4. Rate of obsolescence of plans
5. Decreasing time span to plan accurately

Strategy Evaluation should:

1. Regular assessment of scenarios

2. Stimulate creativity and alternative approaches to tackle problems and develop evaluation criteria for it

3. Review competitors' strategy, changes in strategy, changes in weaknesses and strengths and reason for those changes

The VRIO Framework

Company's with heterogeneous resource support tend to develop sustained competitive advantage.

J. B. Barney (1991) developed the VRIO framework to describe these companies

V: Valuable
R: Rare
I: Imitable
O: Organisation

The VRIO Framework

Is a resource or capability ...					
valuable?	rare?	costly to imitate?	exploited by organisation?	Competitive implications	Economic performance
No	—	—	No	Competitive disadvantage	Below normal
Yes	No	—	—	Competitive parity	Normal
Yes	Yes	No	—	Temporary competitive advantage	Above normal
Yes	Yes	Yes	Yes	Sustained competitive advantage	Above normal

Measuring Organisational Performance

1. Compare actual to expected results
2. Difficulty in predicting future industry dynamics
3. Increasing number of variables
4. Rate of obsolescence of plans
5. Decreasing time span to plan accurately

Quantitative Criteria for Strategy Evaluation:

Use of Financial Ratios:

a) to compare performance over different periods

b) to compare performance with competitors

c) to compare performance with industry averages

Major Financial Ratios used:

a) ROI
b) ROE
c) EPS
d) Debt to equity
e) Profit margin
f) Market share
g) Sales growth
h) Asset growth

Qualitative Evaluation of Strategy:

a) Human Resource factors

b) Marketing

c) R & D

d) Management Information System

Balanced Score Card (BSC) approach:

BSC is a strategy evaluation tool that allows companies to evaluate strategies from four perspectives:

a) Financial Performance
b) Customer Knowledge
c) Internal Business Processes
d) Learning & Growth

Balanced Score Card (BSC) approach:

Area of objectives	Measure or Target	Time Expectation	Primary Responsibility
Financial performance			
Customer knowledge			
Internal Business Processes			
Learning & growth			

Do post questions in CANVAS discussion forum or email to: baksi.arup@gmail.com