A MODEL OF THE COMPANY'S STRATEGY EVALUATION PROCESS

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Abstract: On the global market, the main scope of the company's strategy designing and implementation is to obtain and maintain the competitive advantage. Using the knowledge and logics the company's management determines the resources needed to reach out the strategic objectives. The competitive market environment is also analyzed to forecast the market tendency. The organization's external, and sometimes internal, environment changes are forcing the management to evaluate the existing strategy or the future options for alternatives, using scientific methods or models used by successful companies. In the context briefly presented above, this paper is aiming to underline the main milestones for the strategy evaluation in correlation with the competitive advantage, to analyze several methods used in the management practice to evaluate the company's strategy and finally to design a conceptual model of the strategy evaluation process.The research is based on the literature review and on own observation and judgment.

Keywords: strategy, competitive advantage, strategy evaluation method, performance, model of the strategy evaluation process

1. Introduction

The strategy is in its essence an optimisation of the company's resources used following a plan of actions in consensus with the company's mission having the aim to achieve the strategic objectives and the company's progress. The strategic management process is more than just a set of rules to follow. It is a philosophical approach to business. Upper management must think strategically first, then apply that thought to a process. The strategic management process is best implemented when everyone within the business understands the strategy. The five stages of the process are goal-setting, analysis, strategy formation, strategy implementation and strategy monitoring (Clayton, 2017).

Adapting to the environment's factors the organizations are changing their strategies or changing themselves to face the external pressures (Negulescu, 2016). In this respect, the control and strategy assessment are almost compulsory. The strategic control involves tracking a strategy as its being implemented. It's also concerned with detecting problems or changes in the strategy and making necessary adjustments (Adams, 2017).

Strategy evaluation is the assessment process that provides executives and managers' performance information about programs, projects, and activities designed to meet business goals and objectives (Cross, 2017).

Strategy evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations. Strategic evaluation is the final phase of strategic management (MSG Experts, 2017).

Strategy Evaluation includes three basic activities (David, 2011):

(1) Examining the underlying base of a firm's strategy.

(2) Comparing expected results to actual results.

(3) Taking corrective actions to ensure that performance conforms to plans.

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2. The milestones for the strategy evaluation

The main milestones of the organization's strategy are given by how the strategy adopted or to be adopted seeks to identify or is identified with the very components of the strategy itself. The milestones to be considered in the evaluation of a strategy are the very components of that strategy. The main components of the strategy are the organization mission, strategic objectives, strategic options, resources, competition, competitive advantage and time horizon.

Organization's mission

It assesses how the mission and its main values correspond to the strategy adopted in comparison with the competitors' strategy.

Strategic objectives

It assesses the extent to which the strategy relates to the organization's major objectives and how these objectives are consistent with industry trends of the organization.

Strategic options

It assesses the extent to which strategic options are communicated and understood by the members of the organization who are responsible for their implementation.

Resources

It analyzes whether the organization's resources support the achievement of strategic objectives and whether the organization's strategy generates an increase in strategic resources and capabilities.

Competitive advantage

It analyzes the extent to which the advantages of competition are effectively exploited and the organization's strategy can generate a response to the competitive advantage of competition.

The time horizon

It analyzes whether the resources and the competitive advantage allow the strategy to be applied over the estimated time horizon.

Depending on the outcome of the evaluation, the organization's strategy can be found in one of the following situations: the strategy is applicable, the strategy is partially applicable and the strategy is not applicable. The conclusions of the evaluation can be included in a matrix (fig. 1), which leads to the right decisions: to implement the strategy or to maintain the existing one, to amend the strategy and to apply the necessary improvements or to reconsider the strategy.

Strategy aplicability/ Strategy milestones	**Applicabile**	**Partial applicable**	**Not applicable**
Company's mission			
Strategic objectives			
Strategic options			
Company's resources			
Competitive advantage			
Time horizon			

Fig. 1 The matrix of the strategy major milestones

3. Methods used for the strategy evaluation

The techniques for evaluating the effectiveness of a company's strategy include evaluating internal and external forces that influence strategy execution, measuring company performance and determining appropriate corrective measures (Oster, 2017).

Internal forces: theevaluation should consider the value of the company's resources such as financial assets, proprietary information, and the people who are available to guide the company to meet its goals. This evaluation will help the management to understand how these assets can be developed to expand the company's capabilities. All of these internal forces combined are what set the company apart from its competitors.

External forces: The primary external forces the company must face are the customers. The customers purchasing the products and services the company produces will determine the company's success. It is also needed that the strengths and weaknesses of the company's competitors to be evaluated, having in view the competitors' differentiating capabilities that may pull the customers away.

Measuring company performance: refers to the evaluating if the results that have been realized through company operations (sales, manufacturing facilities, production targets, a greater share of the market) have been successful.

Determining appropriate corrective measures: To determine what corrective measures should be taken to ensure the company operations are correctly aligned with the strategic plan. Many times making corrections to strategic operations will force changes that will cause objections, yet change is an essential element of the controlling process.

The literature is offering several methods to evaluate the company's strategy, such as Strategic segment analyze and Strategic choices evaluation matrix (Lavalette & Niculescu, 1999), Johnson & Scholes model (1988), Rumelt's tests (1988), Profit Impact of Market Strategy (P.I.M.S.) model (Buzzell & Gale, 1987), Benchmarking (Grant, 2000; launched by Xerox, around 1980) and the balance scorecard (Kaplan & Norton, 1992).

The main relevant issues of these methods are presented in table 1.

Johnson & Scholes Model

The model has the scope to evaluate the company's strategy based on three tests, named in table 1. The strategy adequacy has the role of a filter for the strategic options proposed and for the strategy itself. If the strategy is accepted from the feasibility and acceptability points of view but is not adequate, the strategy can't be implemented.

Rumelt's tests

The method starts from the reality that the strategies contain arrangements among groups of power that gives inconsistency. The condition is that the strategy has to be coherent in a certain environment that the company is run. It is necessary to choose between two options: to offer specialized products at a higher cost or standardized products at a lower cost.

Strategic segment analyse method

The method is willing to evaluate the company's position on the market by computing a basic strategic segment dynamics coefficient. When the coefficient decreases it is expected to count the clients instability and the increase of the risk to lose the clients and vice-versus when the coefficient increases the market segment is stronger.

Strategic choices evaluation matrix

This method is used to verify the key points of the strategy and doesn't imply an overall company's strategy evaluation that is leading to the decision-making. The problem is that the company's management should fit correctly the company's position.

Table 1 Methods to evaluate the organization's strategy

Method	**Dimensions or Variables**	**Target**	**Content**	**Procedure**
Johnson & Scholes model (1988)	3 tests: adequacy, feasibility and acceptability	the best strategy selection	-resources utilization facing environment changes (adequacy); -strategic options (feasibility); -stakeholders satisfaction of expectations (acceptability)	3 tests: (1) adequacy: 2 steps: -logics for each strategic option setting (life cycle, value chain, positioning & activities portfolio analyze; -relative merits of strategic options setting &evaluation: 3 methods (scores, decision tree & scenarios) (2) feasibility: quantifying the progress (financing, breakeven point, investment) (3) acceptability: stakeholders objectives (profit, risk, reaction- using the games theory to find out their reactions)
Rumelt's tests (1988)	4 tests: consistency, consonance, advantage &feasibility	strategy evaluation	tests the strategy for critical flaws	4 tests: (1) Consistency: The strategy must not present mutually inconsistent goals and policies. (2) Consonance: The strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. (3) Advantage: The strategy. must provide for the creation and/or maintenance of a competitive advantage in the selected area of activity. • (4) Feasibility: The strategy must neither overtax available resources nor create unsolvable more problems.
Strategic segment analyse (Lavalette & Niculescu, 1999)	3 variables: time, turnover and volume	-estimating the chances of success on the competitive market; -optimizing the market share for the smallest strategic segment	-reduces the strategy to its strategic components; -identifies a representative component for the general strategy and quantify it using variables	4 steps: (1) evaluation of strategic framework; (2) strategy's components analyze; (3) strategy's segments identification; (4) computing the basic strategic segment dynamics coefficient & using the games theory to find out the competitors behaviour
Strategic choices evaluation matrix (Lavalette & Niculescu, 1999)	4 competitive positions: market lieder, competitor, developer, passive follower	shows the company's position on the market	strategic pertinent choices matrix	16 different strategic positions on the market that results by comparing the company's position with the competitor's position (each fourth competitive positions in pairs)

Profit Impact of Market Strategy (P.I.M.S.) model (Buzzell & Gale, 1987)	3 sets of factors: -competitive position (market share) + products' quality; -production structure (investment) + productivity; - relative attractiveness of the increase rate of the market + clients characteristics	Data base for the performance associated with the strategy evaluation	6 principles related to the relationship performance-strategy: -products quality-profit; -market share-profit; -investments intensity-profit; -many dogs and question signs generate cash-flow; many cows don't (BCG matrix); -vertical integration is fair strategy for certain business only; -strategic factors influence the shares value	empirical assumptions: attractiveness -competitive position: -industry-market; -competitive position -capital structure (Brownlie & Bart, 1985)
Benchmarking (Grant, 2000; launched by Xerox, around 1980)	-key factors -standard competitors	Data base for strategic capabilities and performance evaluation in order to optimize the activity	key factors performance and success analyze	5 steps: (1) key factors identification: market position, costs, image and sales position, technical and technological competences, financial performance (2) standard companies identification (3) data gathering and processing (4) performance level desired and the deviation (5) objectives and the plan of actions defining
The Balanced Scorecard (Kaplan & Norton, 1992)	-key financial ratios -non-financial items	It uses both quantitative and qualitative measures to evaluate strategies	Measures how well is the firm continually improving and creating value along measures such as innovation, technological leadership, product quality, operational process efficiencies; how well is the firm sustaining or improving upon its core competencies and competitive advantages and how satisfied are the firm's customers.	Examines six key issues in evaluating the strategy: (1) customers, (2) managers/employees, (3) operations/processes, (4) community/social responsibility, (5) business ethics/natural environment, and (6) financial.

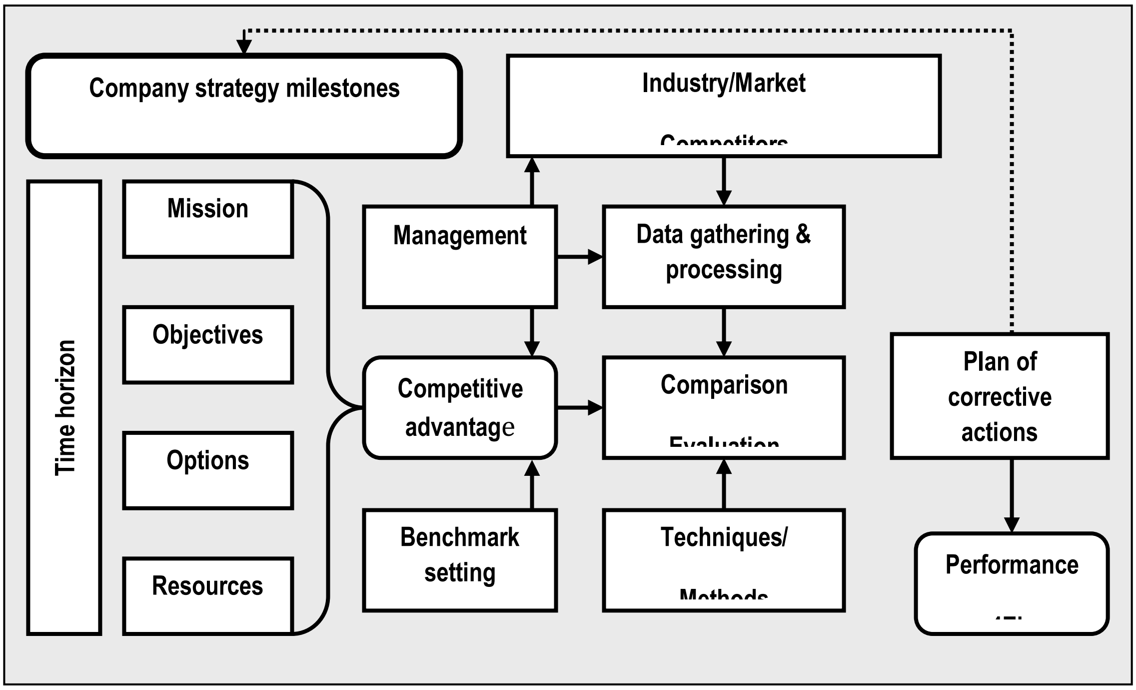
Benchmarking
This method is an instrument of strategic capabilities evaluation and development by using the permanent and detailed comparison of these capabilities with those of the competitors that operate on the same market or industry. The main problem is to set the performance's metrics that are able to be compared to companies.
The balanced scorecard
It is a tool of the strategic management system, focused on the strategic agenda of the organization concerned, and based on the selection of a small number of data items to monitor and a mix of financial and non-financial data items.
The companies are choosing the method or a combination of methods that fit their strategic goals and the environment's challenges. Nevertheless, the strategy evaluation must meet the following basic requirements to be effective (Columbia Southern University, 2017):

- Strategy's evaluation activities must be economical; too much information can be just as bad as too little information.
- Strategy's evaluation activities should also be meaningful; they should specifically relate to a firm's objectives.
- Strategy's evaluation activities should provide timely information; on occasion and in some areas, managers may need information daily.
- Strategy's evaluation should be designed to provide a true picture of what is happening.

4. Model of the strategy evaluation process
The process of strategy evaluation consists of the following steps (MSG Experts, 2017):

1. *Fixing benchmark of performance***.** The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. The quantitative criteria include the determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the qualitative factors, subjectively assessed, are the skills and competencies, risk taking potential, flexibility, etc.
2. *Measurement of performance***.** The standard performance is a benchmark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier.
3. *Analyzing Variance***.** The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.
4. *Taking Corrective Action.* Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

An overview of the process of the strategy evaluation, starting from the strategy's milestones and including the main steps of strategy assessment presented above is proposed (fig. 2).



The strategy milestones are defining the gained competitive advantage in a time horizon. The competitors acting in an industry or market are facing the company's competitive advantage. The company's management is gathering data regarding its competitors' strategies and evaluate the company's competitive advantage, as well as the strategy's milestones by comparing them with those belonging to the competitors, using different techniques (games theory, simulation, sensibility analyse forecasting, etc.) and methods/models of evaluation (such as presented in table 1). Because the competitive environment is complex and in continuing change, the company's strategy needs to be adapted to all challenges to demonstrate performance.

The company's strategy performance could be better expressed by *the fourth "E"* (efficiency, effectiveness, economy, and equity).

Efficiency is showing how the strategic objectives are reached out and measure the best outcomes for a given level of the strategic resources and capabilities or the less utilization of these resources and capabilities for the forecasted results.

Effectiveness represents the level of strategic objectives realization, comparing the results with strategic scopes, strategic options, and forecasts to know how the competitive advantage has been exploited.

Economy means that the resources and capabilities have been used in that way to create value for money and they are not wasted.

Equity underline how the capital invested sustains the strategy in the creation and multiplying the competitive advantage in such a way to satisfy the requirements and expectation of the investors.

The process could be repeated if the decision of identifying the proper corrective actions fails (Negulescu, 2014).

Conclusions

The organization's strategy is a strategic plan that defines the company's vision, values, goals, and objectives that are going to be achieved to satisfy its stakeholders' expectations. In a competitive environment, the strategy needs to create, maintain and increase the company's competitive advantage. In this respect, the organization's management has to continually monitor and assess the company's strategy performance in terms of strengths, weaknesses, opportunities and the threats, as well. The strategy's milestones could be considered to be: the organization mission, strategic objectives, strategic options, resources, competition, competitive advantage and time horizon that give the company the chance for progress and challenges to its management.

The most used methods used in practice by the managers are the Strategical segment analyzes, the Strategic choices evaluation matrix, Johnson & Scholes model, Rumelt's tests, the Profit Impact of Market Strategy (P.I.M.S.) model, Benchmarking and the Balance scorecard. These methods apply quantitative and/or qualitative techniques to evaluate the way the organization's strategy meets the stakeholders' expectations, by comparing the company's performance with the planned or competitors' performance and the progress toward the stated strategic objectives.

The process of strategy evaluation is a useful tool for the managers to investigate the organization's strategy performance or results in terms of efficiency, effectiveness, economy and equity and to formulate corrective actions, if necessary. A good strategy does not need constant reformulation (Rumelt, 1988). Nevertheless, a performing strategy is demonstrating a good management.

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