

STRATEGY EVALUATION: TOWARDS AN UPDATED PARADIGM

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Introduction

Evaluation pervades strategy. "Strategy can neither be formulated nor adjusted to changing circumstances without a process of strategy evaluation" (Rumelt, 1998: 91). It is to be found at the beginning, middle and end of the strategic management process. Without evaluation, it would not be an exaggeration to say that strategy, in the sense of a planned pattern to activity that defines the direction and scope of the enterprise, does not exist.

Notwithstanding its ubiquity and importance, evaluation is an area of strategy which is under-appreciated, under-researched and in relation to which guidelines for practice are not well developed. The seminal academic work in the area (Tiles, 1963; Rumelt, 1980; Andrews, 1991) remains current, although it dates back decades. Partly as a result, the concept of strategy evaluation is not properly understood, the process is not wholly explicit and practice varies widely. In certain respects at least, the evaluation of strategy would appear to require an updated paradigm.

This paper addresses the topic of strategy evaluation with a view to deriving hypotheses in the context of developing a new paradigm for strategy evaluation. The approach adopted is as follows. Firstly, a review of the relevant literature and theory on strategy evaluation is presented. Secondly, the paper evaluates the literature. Thirdly, findings from desk research and exploratory interviews conducted with senior managers from a number of mid-sized, quoted Irish construction and building materials companies are outlined. Finally, conclusions are drawn in the form of hypotheses.

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It is believed that the paper contributes to the debate on strategy in several ways. In terms of approach, the paper involves a fundamental reappraisal of strategy evaluation and augments the relatively scarce empirical data in the area. More importantly, the paper concludes that an updated paradigm for strategy evaluation may be warranted, embracing a multi-part definition and a contingent approach. An attempt is made to outline the elements of this paradigm.

Although of generic application, the paper is set in an Irish context. Empirical data are from a number of quoted Irish companies in the construction industry, a major sector of activity in the Irish economy. Given the proven successes of the Irish economy and of construction companies in particular in recent years, it is believed that this is a rich source of empirical data, not alone for the purposes of this paper, but for business research generally.

Review of Theory and Literature

The concept of strategy evaluation is not new, with the seminal work in the area dating back almost four decades (Tiles, 1963). In the intervening period, although major contributions have periodically been made, they have been comparatively rare. By far the greatest volume of material written in relation to strategy evaluation over the years has been derivative and interpretive.

The major contribution in the field remains Rumelt's 20-year-old paper (Rumelt, 1980), which has been revised and updated by the author on a number of occasions. In this work, Rumelt outlines the still generally accepted definition of, and approach to, strategy evaluation: "Strategy evaluation is the appraisal of plans and the results of plans that centrally concern or affect the basic mission of the enterprise" (Rumelt, 1998: 100). According to Rumelt, the evaluation of strategy should provide answers to three basic questions (Rumelt, 1998: 91):

- Are the objectives of the business appropriate?
- Are the major policies and plan appropriate?
- Do the results obtained to date confirm or refute critical assumptions on which the strategy rests?

The main enduring contribution of Tiles' and Rumelt's work is in relation to the process of strategy evaluation and, specifically, the tests or criteria to be applied to a business strategy. Rumelt identifies four such criteria as follows (Rumelt, 1998, p. 92):

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 sub-problems.

Since Rumelt's article, a further major contribution to the debate on strategy evaluation has been provided by Andrews (1991). In this work, the author provides an extended list of criteria for evaluation to judge and discriminate between actual or proposed strategies as follows:

1. Is the strategy identifiable and has it been made clear either in words or in practice?
2. Is the strategy in some way unique?
3. Does the strategy exploit fully domestic and international environmental opportunity?
4. Is the strategy consistent with corporate competence and resources, both present and projected?
5. Are the major provisions of the strategy and the programme of major policies of which it is comprised internally consistent?
6. Is the chosen level of risk feasible in economic and personal terms?
7. Is the strategy appropriate to the personal values and aspirations of the key managers?
8. Is the strategy appropriate to the desired level of contribution to society?
9. Does the strategy constitute a clear stimulus to organisational effort and commitment?
10. Are there early indications of the responsiveness of markets and market segments to the strategy?

A similar, but longer list of 20 questions for use in evaluating strategies had been proposed 10 years earlier by Steiner and Miner (1977).

FIGURE 1: CONTENT ANALYSIS OF STRATEGY EVALUATION IN LEADING STRATEGIC MANAGEMENT TEXTBOOKS

Author	Text	Definition of Strategy Evaluation	Approach to Strategy Evaluation	Content (Quantity)
Johnson, G. & Scholes, K.	<i>Exploring Corporate Strategy</i> (5th ed.) Prentice Hall, 1998	"how strategic options can be evaluated and the processes by which organisations might select strategies for the future" (p. 353)	Three Evaluation Criteria (pp. 353–355): 1. <i>Suitability</i> : Assesses whether strategy addresses the organisation's circumstances 2. <i>Acceptability</i> : Expected performance outcomes if strategy implemented, and the extent to which they would be in line with shareholder expectations 3. <i>Feasibility</i> : Whether the strategy could be made to work in practice	1 Chapter (1 from 11)
Lynch, R.	<i>Corporate Strategy</i> Pitman Publishing, 1997	Evaluation of strategy options for their contribution to the organisation and to deliver the strategy that is most likely to be successful. (p. 519)	Six Evaluation Criteria (pp. 519–523): 1. <i>Consistency</i> with mission & objectives 2. <i>Suitability</i> to environment & advantage 3. <i>Validity</i> in terms of future assumptions 4. <i>Feasibility</i> : internal, external, commitment 5. <i>Business risk</i> acceptable to organisation 6. <i>Attractiveness</i> to stakeholders	2 Chapters (2 from 22)
Thompson, A.A. & Strickland, A.J.	<i>Strategic Management</i> (11th ed.) Irwin/McGraw-Hill, 1999	"evaluating how well a company's present strategy is working" (p. 104)	Evaluate Strategy as follows (pp. 104, 105): 1. <i>Qualitatively</i> : completeness, internal consistency, rationale, suitability to situation 2. <i>Quantitatively</i> : strategic & financial results, relative industry performance	1 Chapter (1 from 11)

Author	Text	Definition of Strategy Evaluation	Approach to Strategy Evaluation	Content (Quantity)
Thompson, J.L.	<i>Strategic Management: Awareness and Change</i> (3rd ed.) International Thomson Business Press, 1997	<p>A. Assessing the merits and viability of existing strategies and alternatives for future change. (p. 562)</p> <p>B. Evaluating the strategic success of an organisation, focusing on outcomes. (p. 177)</p>	<p>A. Criteria for Effective Strategies (pp. 564–8):</p> <ol style="list-style-type: none"> 1. <i>Appropriateness</i>: needs of environment & organisation's resources, values, mission 2. <i>Feasibility</i> in resource and change terms 3. <i>Desirability</i>: close planning gap and achieve expected returns <p>B. Evaluation against (p. 177):</p> <ol style="list-style-type: none"> 1. <i>Financial</i> measures/ratios 2. <i>Strategic</i> Factors: achieving objectives, implementing strategies, adapting to change, meeting stakeholder expectations 3. <i>Dealing with Competitor</i> strategies 	<p>A. 1 Chapter (1 from 23)</p> <p>B. 1 Chapter (1 from 23)</p>
Wheelen, T.L. & Hunger, J.D.	<i>Strategic Management and Business Policy</i> (5th ed.) Addison-Wesley, 1995	<p>A. Evaluating strategic alternatives and selecting one for implementation. (p.206)</p> <p>B. Evaluation of strategy to control and correct for inappropriate strategic management processes or use of the processes. (p. 284)</p>	<p>A. Criteria for Evaluation (pp. 207, 208)</p> <ol style="list-style-type: none"> 1. Ability of proposed strategy to deal with specific strategic factors developed in SWOT 2. Ability of proposed strategy to satisfy agreed objectives with least use of resources and fewest number of negative side effects <p>B. Measure & Control Performance (pp. 286–9)</p> <ol style="list-style-type: none"> 1. Measuring corporate performance 2. Measuring divisional/functional performance <ol style="list-style-type: none"> a) Behaviour controls b) Output controls 	<p>A. 8 Pages (8 from 397)</p> <p>B. 1 Chapter (1 from 14)</p>

By far the bulk of material published on strategy evaluation is in the leading popular strategic management textbooks. For the most part, such texts devote significant coverage to the topic. By its nature, such material tends to be interpretive and derivative, codifying existing knowledge and theory, rather than adding to it. Notwithstanding this, textbook material is of value in that it provides an overview of the existing state of knowledge and an understanding of a subject area, while sometimes generating theoretical insights in its own right.

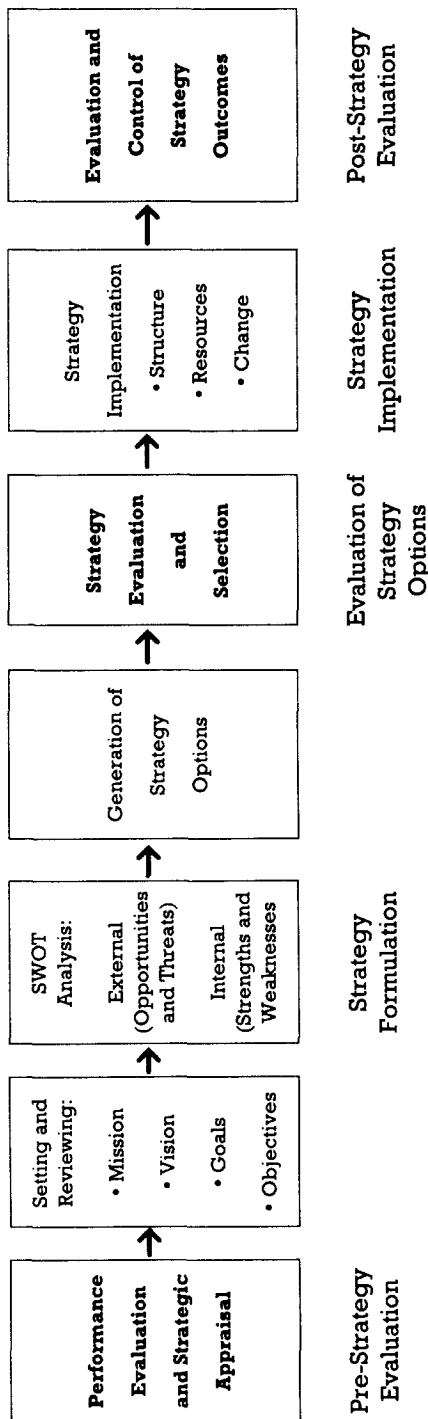
Figure 1 outlines a content analysis of strategy evaluation in a number of the leading popular strategic management textbooks in three areas: the definition of strategy evaluation, the approach to strategy evaluation and an indication of the proportion of the text devoted to the topic. In respect of the latter, the leading texts all dedicate at least a chapter to strategy evaluation. In terms of definition, with one exception, the leading textbook authors interpret strategy evaluation as, broadly speaking, the evaluation of strategic options with a view to selection of a strategy or strategies for implementation. A second, less common, definition is the assessment of how well an organisation's actual strategy is working.

In terms of the approach to, and the process of, strategy evaluation, Rumelt's legacy is clear. All the leading popular textbooks advocate a criterion-based approach. For the most part, while the number may differ, the criteria proposed correspond closely to, and tend to be variants of, Rumelt's evaluative criteria of consistency, consonance, advantage and feasibility. The basis for the universal selection of a criterion-based approach, in addition to the number and type of criteria proposed, is uncertain. In the absence of indications to the contrary, it would appear to derive from the insights and preferences of the authors themselves, though obviously informed by theoretical considerations, empirical observation and practical experience. (The provenance of Rumelt's approach would appear to be similar).

Moroney (2000) proposes a development of the broad approach laid down by Rumelt in two areas. Firstly, rather than a catch-all definition, Moroney postulates that evaluation takes several forms at different stages of the strategic management process (Figure 2).

1. *Performance Evaluation and Strategic Appraisal (PESA)*: the first step in developing a new strategy or in the fundamental reappraisal of existing strategy. PESA principally involves "gap" analysis (Billsberry, 1998).
2. *Strategy Evaluation and Selection (SES)*: the prospective appraisal of strategy options and the selection of a preferred strategy.

FIGURE 2: PROCESS OF STRATEGIC MANAGEMENT (HIGHLIGHTING STRATEGY EVALUATION)



Source: Moroney, M. (forthcoming), "Strategy Evaluation: Criteria & Tools" in Morley, M. and Heraty, N. (eds.), *Analysing Strategic Management: An Irish Text*, Dublin, Gill & Macmillan.

3. *Evaluation and Control of Strategy Outcomes (ECOSO)*: post-hoc strategic control following strategy implementation to ensure strategic goals are met.

The second development to the Rumelt framework put forward by Moroney concerns the evaluative criteria themselves. Moroney argues that, being somewhat abstract, evaluative criteria may become meaningless, subject to differing interpretations and may not provide sufficiently concrete guidelines for choice. Moroney proposes an extension to the criterion-based approach with the addition of a small number of evaluative conditions per criterion. Such conditions would have to be satisfied in order for a strategic option to meet the relevant criterion. (Figure 3).

The final area of the literature on strategy evaluation concerns the tools and techniques of evaluation. For the most part, these are suggested by, and derive from, the evaluative criteria (Figure 4). In addition, few (if any) tools are unique to strategy evaluation and are also to be found in other management processes, such as strategy formulation and performance measurement. Furthermore, by and large, the tools and techniques of evaluation have been extant for a considerable period of time. In broad terms, as an analysis of Figure 4 reveals, evaluative tools fall into three broad categories:

- *Strategic*: SWOT, achievement of objectives, closing the planning gap — involving many of the techniques used to generate the strategic options being evaluated in the first place.
- *Financial*: Outcomes (in terms of return and risk) resources, side effects — based largely on established performance measurement techniques.
- *Organisational*: Acceptability, involvement, internal fit and consistency, motivational.

In terms of approach, the tools can be either "hard" (analytical technique) or "soft" (qualitative assessment) (Figure 3).

FIGURE 3: FRAMEWORK FOR STRATEGY EVALUATION

Criteria	Conditions	Tools	
		<i>Analytical Technique</i>	<i>Qualitative Assessment</i>
SUITABILITY	<i>Consonance</i>		PEST Assessment Appraisal of Trends
	<i>Capacity</i>	Value Chain Mapping	Assessment of Internal Correspondence
	<i>Combination</i>	Prospective Portfolio Analysis	Assessment of Corporate Cohesion
	<i>Coherence</i>		Assessment of Internal Consistency
SUPERIORITY	<i>Competitive Advantage</i>	Five Forces Analysis	Assessment of Positioning
	<i>Core Competences</i>	Resource-based Analysis Value Chain Mapping	Assessment of Core Competence
	<i>Coalescence</i>		Assessment of Synergy
FEASIBILITY	<i>Capability</i>	Financial Feasibility Techniques	Resource Deployment Assessment
	<i>Connection</i>		Assessment of Value System
ACCEPTABILITY	<i>Congruence</i>		Assessment of Goal Congruence
	<i>Contribution</i>	Evaluation of Profitability Cost-Benefit Analysis Shareholder Value Analysis	
	<i>Control of Risk</i>	Financial Ratio Analysis Sensitivity Analysis Simulation Modelling	
	<i>Consummation</i>	Shareholder Mapping	
DESIRABILITY	<i>Consistency</i>		Assessment of Cultural Fit
	<i>Commitment</i>		Assessment of Organisational Motivation
	<i>Communality</i>	Stakeholder Mapping	

Source: Moroney, M. (2000), "Strategy Evaluation: Criteria & Tools" in Morley, M. and Heraty, N. (eds.), *Analysing Strategic Management: An Irish Text*, Dublin, Gill & Macmillan.

FIGURE 4: TOOLS AND TECHNIQUES OF STRATEGY EVALUATION IN LEADING STRATEGIC MANAGEMENT TEXTBOOKS

Author	Text	Approach to Strategy Evaluation	Tools and Techniques of Strategy Evaluation
Johnson, G. & Scholes, K.	<i>Exploring Corporate Strategy</i> (5 th ed.) Prentice Hall, 1998	<p>Three Evaluation Criteria (pp. 353-355):</p> <ol style="list-style-type: none"> Suitability: Assesses whether strategy addresses the organisation's circumstances Acceptability: Expected performance outcomes if strategy implemented, and the extent to which they would be in line with shareholder expectations Feasibility: Whether the strategy could be made to work in practice 	<p>Tools & Techniques by Criterion (Ch. 8):</p> <ol style="list-style-type: none"> Suitability: Life cycle, Positioning, Portfolio, Value chain analyses; Profiling; Screening Acceptability: <ol style="list-style-type: none"> Stakeholder reactions Return: Profitability, Cost-benefit and Shareholder value analyses Risk: Financial ratio projections, Sensitivity analysis, Simulation modelling Feasibility: Funds flow, Break-even and Resource deployment analyses
Lynch, R.	<i>Corporate Strategy</i> Pitman Publishing, 1997	<p>Six Evaluation Criteria (pp. 519-523):</p> <ol style="list-style-type: none"> Consistency with mission & objectives Suitability to environment & advantage Validity in terms of future assumptions Feasibility: internal, external, commitment Business risk acceptable to organisation Attractiveness to stakeholders 	<p>Tools & Techniques by Criterion (Ch. 15 & 16):</p> <ol style="list-style-type: none"> Consistency: Assess re mission & objectives Suitability: SWOT analysis Validity: Life cycle analyses in generic industry environments, Business profiling Feasibility: <ol style="list-style-type: none"> Internal: Feasibility checklist External: Five forces, PEST analyses Commitment: Motivational analysis Business risk: Financial risk & Sensitivity analyses, Simulation modelling, Scenarios Attractiveness: Assessment for all groups

Author	Text	Approach to Strategy Evaluation	Tools and Techniques of Strategy Evaluation
Thompson, A.A. & Strickland, A.J.	<p><i>Strategic Management</i> (11th ed.) Irwin/McGraw-Hill, 1999</p>	<p>Evaluate Strategy as follows (pp. 104, 105):</p> <ol style="list-style-type: none"> 1. <i>Qualitatively</i>: completeness, internal consistency, rationale, suitability to situation 2. <i>Quantitatively</i>: strategic & financial results, relative industry performance 	<p>Evaluative Tools & Techniques (Ch. 4):</p> <ol style="list-style-type: none"> 1. <i>Qualitative</i>: SWOT, Company situation and Company competitive position analyses 2. <i>Quantitative</i>: Strategic cost, Value Chain and Benchmarking analyses
Thompson, J.L.	<p><i>Strategic Management: Awareness and Change</i> (3rd ed.) International Thomson Business Press, 1997</p>	<p>A. Criteria for Effective Strategies (pp. 564-8):</p> <ol style="list-style-type: none"> 1. <i>Appropriateness</i>: needs of environment & organisation's resources, values, mission 2. <i>Feasibility</i> in resource and change terms 3. <i>Desirability</i>: close planning gap and achieve expected returns <p>B. Evaluation against (p. 177):</p> <ol style="list-style-type: none"> 1. <i>Financial</i> measures/ratios 2. <i>Strategic</i> Factors: achieving objectives, implementing strategies, adapting to change, meeting stakeholder expectations 3. <i>Dealing with Competitor</i> strategies 	<p>A. Tools & Techniques by Criterion (Ch. 18):</p> <ol style="list-style-type: none"> 1. <i>Appropriateness</i>: SWOT, Competitive, Cultural, Congruence & Simplicity analyses 2. <i>Feasibility</i>: Change, Resource, Key success factor, Advantage and Timing analyses 3. <i>Desirability</i>: Gap, Expected returns, Synergy and Risk analyses <p>B. Evaluative Tools & Techniques (Ch. 6):</p> <ol style="list-style-type: none"> 1. <i>Financial</i>: Ratio analysis 2. <i>Strategic</i>: Balanced scorecard analysis, Performance measurement 3. <i>Competitor</i>: "Admired company" analysis

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Wheelen, T.L. & Hunger, J.D.	<i>Strategic Management and Business Policy</i> (5th ed.) Addison-Wesley, 1995	<p>A. <i>Criteria for Evaluation</i> (pp. 207, 208)</p> <ol style="list-style-type: none"> 1. Ability of proposed strategy to deal with specific <i>strategic</i> factors developed in SWOT 2. Ability of proposed strategy to satisfy agreed objectives with least use of <i>resources</i> and fewest number of <i>negative side effects</i> <p>B. <i>Measure & Control Performance</i> (pp. 286-9)</p> <ol style="list-style-type: none"> 1. Measuring corporate performance 2. Measuring <i>divisional/functional</i> performance <ol style="list-style-type: none"> a) <i>Behaviour</i> controls b) <i>Output</i> controls 	<p>A. <i>Tools & Techniques by Criterion</i> (pp207/8):</p> <ol style="list-style-type: none"> 1. <i>Strategic</i>: SWOT analysis 2. <i>Resources/Side Effects</i>: Tentative implementation plan <p>B. <i>Evaluative Tools & Techniques</i> (pp. 286-9):</p> <ol style="list-style-type: none"> 1. <i>Corporate a) Output</i>: Profit, Stakeholder, Value-added, Shareholder value measures; (Top) Management evaluation and audits 2. <i>Divisional a) Output</i>: Benchmarking

However, there have been a number of developments in the literature in recent times in relation to the tools and techniques of evaluation. Two, in particular, are worthy of mention. Firstly, the resource-based view of the firm attributes competitive advantage to the ownership of valuable resources (physical, tangible and organisational) that enable an enterprise to perform activities better or more cheaply than competitors. Building on this, it has been proposed (Collis and Montgomery, 1995) that strategies should be built on resources that meet five market tests of inimitability, durability, appropriability, substitutability and competitive superiority. The second major evaluative tool to emerge is based on the shareholder value analysis (SVA) approach (Rappaport, 1983; Woolridge, 1988). From a strategy evaluation perspective, SVA calculates the economic value of different strategies by estimating the future cash flows associated with each and discounting them at the cost of capital in order to obtain the net present value for each strategy. SVA essentially involves applying discounted cash flow techniques, which are more usually associated with capital budgeting for individual projects, to individual businesses and strategies.

Evaluation of Theory and Literature

The most obvious point to emerge from a review of the literature on strategy evaluation is the relative paucity of recent contributions in the area, in particular those which are empirically grounded. While this may point to the robustness and durability of existing theory, it also poses the question as to whether the theory still adequately represents empirical reality. At the very least, an empirically based re-testing of the validity of the theoretical paradigm would appear to be warranted. Aside from this, the literature raises other issues in relation to the fundamental nature of strategy evaluation, the process of evaluation itself, evaluative criteria and tools and techniques.

Concerning the nature of strategy evaluation, the literature review highlights a lack of consensus on the fundamental issue of definition. This concerns not so much a failure of agreement as differing interpretations on the scope and forms of evaluation. The core issue is whether the definition of strategy evaluation should be either:

- *Catch-all* (Rumelt): "the appraisal of plans *and* the results of plans";
- *Focused* (Johnson & Scholes and others): the evaluation of strategy options;

- *Multi-part (Moroney)*: PESA, SES and ECSO or some other such categorisation of essentially different evaluative processes.

The danger of a catch-all definition is that, if fundamentally different forms of strategy evaluation do exist, it tends to result in commonality of process: an inappropriate "one size fits all" approach. On the other hand, a focused definition may be too narrow in terms of representing the scope of strategy evaluation within an enterprise. The validity of the multi-part definition rests on the empirical verification as to whether fundamentally different forms of strategy evaluation in fact exist and on a comprehensive specification of these forms.

There are a number of issues that emerge from the literature in relation to process. As a first comment, the process would appear to be specified largely at a higher, or indeed abstract, level. This may reflect on-the-ground reality in relation to the evaluative process: "in most firms, comprehensive strategy evaluation is infrequent and . . . neither a regular event nor part of a formal system" (Rumelt, 1998, p. 99). Nonetheless, the predominantly higher-level specification of process limits the practical value of the theory, particularly in terms of providing guidance to managers. A further observation from the literature is that the process of strategy evaluation seems to stand alone from the overall process of strategic management, of which it is a part. Finally, by and large, an absolutist or universalist approach is adopted in relation to strategy evaluation. It is a moot point as to whether the evaluative process should rather be situational or contingent in orientation, especially regarding factors such as the strategic position of the firm, the nature of competition and the dynamics of the firm's environment. This latter comment may reflect the longevity of theoretical frameworks on strategy evaluation, which were formulated at a time when strategic perspectives generally were more deterministic than is common today.

Observations on evaluative criteria reflect foregoing comments, particularly in relation to process. The provenance of criteria is uncertain, which, in the absence of ready empirical verification, raises questions in relation to their validity and gives rise to the different perspectives among authors on the number and type of criteria to be used in strategy evaluation. As a general comment, criteria as outlined could be characterised as abstract, absolutist and arbitrary, while their relative importance gets little or no mention. As a result, they are subject to differing interpretations and, potentially, could become meaningless platitudes open to political manipulation.

Similar comments are relevant in relation to evaluative tools and techniques. Here again, provenance is uncertain, while the selection of tools appears somewhat arbitrary, as witnessed by the variation in the use of tools across different authors. Also notable is the near absence of bespoke techniques for strategy evaluation, or at a minimum a modified approach to the use of generally available tools, given the particular requirements of (at least certain forms of) strategy evaluation. Since key corporate decisions are typically made with incomplete data, the framework for evaluation should be user-friendly and simple (Grundy, 1995). In this regard, the considerable and untempered reliance on the tools of performance measurement appears inappropriate.

Methodology

The methodology adopted reflects the exploratory nature of the paper and is built on the review and critique of the literature. The research comprised two parts: desk-based research and semi-structured exploratory interviews with three mid-sized companies, which are quoted on the Irish stock exchange, engaged in construction and building materials (a notoriously cyclical industry). In relation to the desk-based research, the author had previously been, for several years, a senior equity researcher in two leading Irish stockbrokers. During this period, the author published numerous investment reports on the companies concerned. As a result, a substantial amount of material on each company and the industry (both factual and analytical) was available to the author. This material was utilised and re-evaluated in the light of the subject matter of the paper.

The semi-structured exploratory interviews took place with senior executive managers at Board level, who were known to the author stretching back many years. One plc was engaged in primary processing, one in distribution/retail, while the third had a mix of manufacturing, distribution and retail activities. Although all three companies were based in Ireland, one had expanded overseas in recent years to such an extent that the majority of its activities now arose outside the country. All have benefited substantially in recent years from the boom in Irish construction activity.

The companies were selected with a view to developing meaningful and valid hypotheses in the area of strategy evaluation, potentially leading to a new paradigm. Public limited companies were chosen because, by virtue of their status and size, they were judged more likely to have a developed (if not necessarily articulated) proc-

ess of strategy evaluation. Access to senior executive management was critical due to their central involvement in, and ownership of, the strategic management process. Variety in terms of the range and scope of activities was also a factor in the choice of companies, since it was believed that this would lead to richer insights. At the same time, a one-industry approach was preferred, allowing comparisons and contrasts in relation to the evaluative process to be made among companies sharing a similar competitive and industry environment.

The interviews focused on two broad areas of strategy evaluation: content and process. Content was concerned with establishing an empirically sound understanding of strategy evaluation with a view to developing a robust definition of the concept. As part of this, the interviews explored if the managers perceived whether different forms of strategy evaluation existed and what these forms were. Process issues addressed included the nature of the strategy evaluation process, its relationship to the firm, its strategy and situation, evaluative criteria and the use of tools and techniques.

Findings

In general terms, the exploratory research provided considerable insights into the nature of strategy evaluation, its context, content, forms, processes and approach. The findings are as follows.

Strategy Evaluation and Strategic Management

The nature of the strategy process varied considerably between companies. In one case, strategy formulation was a distinct activity, separate from subsequent implementation, episodic and externally facilitated ("deliberate strategy", Mintzberg, 1998). In another, strategic and ongoing management processes were so intertwined as to be virtually indistinguishable ("emergent strategy", Mintzberg, 1998).

Evaluation was an integral part of the strategy process. In all companies, the strategies in place were the result of strategic options that had been subject to critical evaluation before selection and implementation.

Nature of Strategy Evaluation

Regardless of whether the strategy process was deliberate or emergent, the nature of strategy evaluation was generic across companies. There were commonalities in relation to forms of evaluation, processes

and the widespread use of similarly derived criteria. Moreover, in all cases, the approach to evaluation was rigorous in pursuit of shareholder value.

Notwithstanding the foregoing, the formality of strategy evaluation varied in accordance with the nature of the governing strategy process. In the company in which strategy was deliberate, sophisticated appraisal and review routines prevailed. In the more emergent company, strategy was characterised as a continuous, ongoing process of action and reaction as events unfold, in which it was difficult to decipher explicit and distinct evaluative activity. (However, there was evidence to suggest that this informal approach was changing as the company increased in size.)

Reflecting the relatively small size and limited scope of the companies, strategy evaluation (in common with other strategic processes) was carried out by senior management.

Forms of Strategy Evaluation

It was apparent that all companies engaged in several distinct forms of strategy evaluation. Once again, formality varied, from clear and unprompted articulation of evaluative forms to the situation where one company clearly adopted differing approaches but did not actively distinguish separate, standalone forms of strategy evaluation.

In broad terms, the forms of strategy evaluation encountered were:

1. Evaluation of strategy options with a view to selection of a strategy or strategies.
2. Review of existing strategy to determine if it is working. Comprised of:
 - a) Assessment of actual performance against strategic expectations.
 - b) Evaluation of the validity of strategy in place.

Processes of Strategy Evaluation by Form

In process terms, the evaluation of strategy options was a prospective activity and was a precursor to the selection and implementation of a strategy or strategies. It entailed considerable estimation and projection and a wide range of factors were involved in the process, qualitative and quantitative, internal and external. In general, it was undertaken on a case by case basis, in certain situations "as things happen", although within the framework of the overall goals, strategy

and circumstances of the company. For the most part, this form of strategy evaluation found concrete expression in the companies interviewed in relation to acquisition opportunities, which required in-depth consideration along the lines above prior to Board approval (or otherwise).

By contrast, the evaluation of *in situ* strategy took place post-implementation of strategy and was retrospective in orientation. As a general comment, it was a more structured and concentrated activity, with performance outcomes providing focus. In addition, the process of evaluation tended to embrace the range of strategies in place, rather than concentrate on any one strategy in particular. This latter point in part reflects the fact that, once a strategy had been adopted, management information and reporting systems did not explicitly track performance flowing from that strategy. (However, because of the size and scope of the companies and familiarity with operations, management had, at the least, an informed view on the outcomes of strategic initiatives.)

Across all three companies, the review of existing strategy could be further broken down into two distinct evaluative processes, each based (at least in part) on performance outcomes. The first of these is assessing actual performance against strategic expectations. This was viewed as part of the ongoing strategic management and control of a cyclical business in which poor performance was generally readily apparent and for which corrective measures could be put in place, as appropriate.

The evaluation of the validity of strategy in place was a separate and distinct activity of retrospective evaluation. This was evident in certain cases by the use of different processes and could be strongly imputed from the actions of companies. In two companies, specific strategy review mechanisms existed. One revisited the assumptions underlining, and the circumstances surrounding, strategy. In the other case, strategy review took the form of an annual, multi-year planning exercise, which provided guidance in strategy implementation and prioritisation. More compelling, perhaps, was the past experience of one company in relation to a particular strategic initiative, which would not be atypical. Convinced of the strategic rationale of a major investment programme involving a new area of business, this company persisted with its strategy in the face of an adverse environment and serious under-performance (which it attributed to management factors). This faith was subsequently rewarded with a substantial upturn in fortunes and the undoubted success of the initiative.

The degree of formalisation of the strategy evaluation process varied considerably by type of evaluation. This ranged from the evaluation of strategy options, which contained many qualitative and intuitive (though no less rigorous) elements, to the highly developed and even routine evaluation of actual performance against strategic expectations.

Processes of Strategy Evaluation: Interactions and Relationships

In general, companies expressed satisfaction with their strategies. With a highly favourable environment for construction over the last five years, and with rapid and substantial growth in earnings and share prices, this was not surprising. Reinforcing the impression of the impact of the environmental context on the process of retrospective evaluation was the past experience of one company during less favourable times. This company had decided to abandon a major initiative, not on the basis of its strategic shortcomings, but because of a difficult environment and the potential negative impact on the overall company and its performance. (Presumably, the demands of being a plc, in terms of reporting requirements and shareholder and analyst expectations, were also relevant.)

Although one company devoted relatively little explicit attention to strategy review and evaluation, this was because it had effectively adopted a "TQM" approach in which substantial time and effort was expended in ensuring that the strategy originally selected was the correct one.

Evaluative Criteria

The use of criteria dominated the evaluation process and, in particular, the prospective appraisal of strategy options. The list of criteria employed extended to double figures in all companies. (Figure 5). For the most part, criteria were not written down but were taken for granted and shared by cohesive senior management teams of long standing. (This was the case even in that company in which strategy was deliberate and evaluation emergent.)

As a criterion, feasibility received relatively little mention (in only one company). This probably reflects the strong position of the companies and the benign nature of the environment in which they operate currently.

FIGURE 5: LIST OF EVALUATIVE CRITERIA FROM EXPLORATORY INTERVIEWS

Company A	Company B	Company C
Validity	Long-term ROI	Exceed cost of capital
Suitability	Exploit profit drivers	Minimise risk
Price represents value	Post-acquisition value	Meet corporate objectives
Limited downside (low initial stake)	Manufacturing efficiencies	Group balance
Profit opportunities	Transport efficiencies	Future prospects
ROI and cash-flow	Add to resources	Core activity
Strategic fit	Geographic fit (no overlap)	Strong market position (in core product area)
Regional leadership	Product fit (no duplication)	Geographic spread
Characteristics of Product/geographic market (low volume/high margin)	Fit with group	Strong local management
Platform for growth	Expand product range	Timing
Little (price) competition	Offer nation-wide service	Feasibility/ implementable
Comfort with management		Provide flexibility

A number of industry themes were common among the evaluative criteria. In the light of the cyclical and low margin character of construction, a value orientation was evident: "if you overpay in building materials, you overpay for life". In addition, inherent industry cyclicity meant that the potential impact of strategic opportunities on the company as a whole generally loomed large in evaluation. Furthermore, given the generally mature state of the construction industry across cycles, the requirement for strategic initiatives to provide platforms for further growth was prevalent.

The provenance of many evaluative criteria could be related to company- or industry-specific factors. These included the nature and complexity of the business, key success factors, industry dynamics, competitive realities, the position of the company, its management culture and, not least, its corporate objectives and strategy. An early chastening experience on the part of one company had led to criteria that focused on downside risk and on structuring deals to reduce exposure to negative consequences. Another company, by virtue of an in-depth analysis of the profit drivers in its business, had developed

particular criteria in relation to value-added that new opportunities were expected to fulfil.

It was clear that criteria were fungible in relation to the nature of the particular strategic opportunity. Two companies said that they would relax an otherwise stringent price/value criterion if what they judged an especially prospective situation arose. One company stated that, for the right deal of benefit to the wider company, it would substantially alter the nature of its evaluation by broadening its criteria to include more qualitative elements, it would be prepared to pay more and it would spend more time in deliberation.

It was clear that companies ranked criteria by their relative importance. This was, in turn, determined by company- or industry-specific factors. The general prominence of value criteria reflected the cyclical and low margin nature of construction. In one company, it was also a function of a management culture of value-consciousness.

Evaluative Tools and Techniques

In general, the tools and techniques used in strategy evaluation derived from the criteria employed. Financial tools featured strongly, reflecting the prominence of value criteria mentioned above. (All companies performed detailed financial analyses and projections of strategic options.) External techniques of a strategic nature also featured, such as market share projections, assessments of market characteristics and competitive positioning and profiling. (In large part, this was driven by the motive to select prospective markets and avoid formidable competitors.) Finally, internal considerations were not ignored, involving approaches such as prospective portfolio analysis (incorporating putative strategic initiatives), the evaluation of strategy options against corporate objectives and the assessment of the cultural fit of acquired management teams.

As with criteria, the use and relative importance of evaluative tools and techniques was related to company- or industry-specific factors. Return on investment was the predominant financial technique employed, which is entirely appropriate in an industry in which capital requirements can be large, profits are subject to marked cyclicity and payback periods are generally long. A further illustration is the fact that efficiency analyses were used widely by the primary processing company, but did not feature as prominently in the other, more distribution-oriented companies.

The exploratory interviews confirmed the virtual absence of bespoke techniques for strategy evaluation (the one exception being the

value driver analysis conducted by one company on prospective opportunities). It was clear, however, that companies moderated their use of techniques depending on the form of strategic evaluation undertaken. In relation to the prospective evaluation of strategy options, although all companies carried out rigorous financial appraisal, the statement by one company that it would walk away if the deal "was not intuitively right" was echoed elsewhere. In a similar vein, another company stated that external factors carried equal or greater weight with financial data in the prospective evaluation of strategy options and the review of the validity of existing strategy. By contrast, the assessment of actual performance against strategic expectations was tighter and based on quantitative factors to a much greater extent.

Conclusions

Main Findings

Strategy evaluation is an integral part of the strategy process (which may be deliberate or emergent). However, the nature of strategy evaluation is generic in relation to content, forms, processes, responsibilities and approach. Nonetheless, strategy evaluation varies widely in formality in accordance with the nature of the governing strategy process.

There are several distinct forms of strategy evaluation as follows:

1. Evaluation of strategy options with a view to selection of a strategy or strategies.
2. Review of existing strategy to determine if it is working. This is comprised of:
 - a) Assessment of actual performance against strategic expectations.
 - b) Evaluation of the validity of strategy in place.

Evaluative processes differ by type of strategy evaluation, along the dimensions of the subject of evaluation, the temporal orientation, the evaluative approach adopted, the outcome of the process and the degree of formalisation.

There is evidence to suggest that the forms of strategy evaluation are related to, and interact with, each other. Moreover, strategy evaluation may not be immune from the context in which it occurs.

The use of criteria dominates the process of strategy evaluation and, in particular, the prospective appraisal of strategy options. The implicit nature of criteria was widespread. Evaluative criteria employed would appear to be largely related to company- or industry-specific factors. This is evidenced by the predominance of industry themes, the provenance of criteria, their fungible character in relation to the nature of particular strategic opportunities, the relative importance of criteria and the presence or absence of criteria depending on the context of evaluation.

Tools and techniques used in strategy evaluation are derived from the criteria employed and would appear to be similarly related to company- or industry-specific factors. There is a virtual absence of bespoke techniques for strategy evaluation. However, the use of normal techniques is moderated depending on the form of strategy evaluation undertaken.

Contribution to Knowledge

It is believed that the contribution of this paper derives from several factors. The paper involves a fundamental re-appraisal of strategy evaluation. It looks beyond the major contributions in the area, rather than using them as a point of departure. In addition, the paper augments the empirical basis of research in strategy evaluation, in which there is a relative paucity of material. As a result, it is believed that the paper adds a new dimension to the subject of strategy evaluation, which hopefully will rekindle debate on a neglected area.

The major expression of the paper's contribution is the author's conclusion that the area of strategy evaluation warrants an updated paradigm. This is based on an evaluation of the literature and empirical work contained in the paper. In broad terms, this paradigm portrays strategy evaluation as a generic activity comprising several different forms and with many contingent dimensions. The following section provides an outline specification of this updated paradigm in the form of hypotheses.

Development of Hypotheses for Updated Paradigm

1. The nature of strategy evaluation is generic in relation to content, forms, processes, responsibilities and approach, regardless of whether the strategy process from which it is derived is deliberate or emergent.

2. Strategy Evaluation is a multi-part construct involving separate evaluative forms, characterised by different processes and approach. However, certain relationships exist between different evaluative forms and between the forms and the context of evaluation.
3. The forms of strategy evaluation are as follows:
 - A. *Strategy Evaluation and Selection (SES)*: the prospective appraisal of strategy options and the selection of a preferred strategy or strategies for implementation.
 - B. *Evaluation of Strategy Outcomes (ESO)*: the retrospective assessment of existing strategy or strategies post-implementation. Comprised of:
 - a) *Strategic Performance Evaluation and Control (SPEC)*: the management of organisational performance to ensure strategic goals are met (analogous to single-loop feedback).
 - b) *Evaluation of Existing Strategy (EES)*: the judgement of the validity and appropriateness of existing strategy or strategies (double-loop feedback).
4. The forms of strategy evaluation may be differentiated as follows:

	Subject of Evaluation	Temporal Orientation	Process of Evaluation	Evaluative Yardsticks	Outcome of Evaluation
<i>SES</i>	Strategy options	Prospective, pre-strategy implementation	Broad, judgmental, case-by-case	Evaluative criteria	Selection of preferred strategy(ies)
<i>ESO/SPEC</i>	Strategic performance & outcomes	Retrospective, post-strategy implementation	Structured, quantitative, focused	Existing strategy & goals	Improved performance, goals met
<i>ESO/EES</i>	Existing strategy(ies)	Retrospective, post-strategy implementation	Broad, judgmental, total strategy	Criteria, outcomes, situational	Existing strategy OK; or New strategy

5. The use of evaluative criteria dominates strategy evaluation, in particular strategy evaluation and selection (SES) and, to a lesser extent, the evaluation of existing strategy (ESO/EES).

6. Although evaluative criteria can be construed as conforming to a small number of generic, higher-level, abstract groupings, their primary nature is contingent (and, as a consequence, implicit). The use of appropriate situational criteria renders strategy evaluation more meaningful (and facilitates the ranking of criteria).
7. There are two major dimensions of contingency:
 - a) **Situational Factors:** corporate goals and objectives, nature of the business, key success factors, industry dynamics, competitive realities, the position of the company and its management culture.
 - b) **The Nature of the Strategic Opportunity.**
8. The tools and techniques of strategy evaluation have the following characteristics:
 - ◆ Evaluative techniques may be categorised as strategic, financial and organisational.
 - ◆ As with the criteria from which they are derived, evaluative techniques are primarily contingent in nature.
 - ◆ Although few (if any) bespoke techniques exist, the adoption and nature of use of evaluative techniques varies by form of strategy evaluation.

Recommendations for Further Research

At a general level, it is believed that the paper gives rise to a number of directions for future research. A more complete and precise specification of hypotheses would be warranted to develop a comprehensive updated paradigm for strategy evaluation. Ultimately, statistically valid empirical testing of hypotheses would help to embed an updated paradigm in grounded theory. Further work on the detailed specification of the processes of strategy evaluation would greatly increase the value for practical managers (an area that has received relatively little attention to date).

The hypotheses contained in the conclusions to this paper derive, in part, from fieldwork undertaken in a specific industry (construction and building materials), at a specific time (during a strong up-cycle) and in a specific context (mid-sized quoted Irish companies). It may be useful to undertake similar research in different circumstances to validate or extend the findings and conclusions.

The Irish Dimension

This paper provides an Irish context (in the form of empirical data) for investigation of a generic phenomenon in the field of strategy with a view to deriving an updated, generally accepted conceptual framework. Rather than limiting the value of the paper, it is believed that this approach may well enhance it. Rapid economic growth and the strong performance of the Irish stock market during the 1990s are testimony to the successful management and strategic posture of Irish enterprises. In particular, the construction sector has faced more challenges than most, enduring a volume downturn of one-third during the 1980s, followed by prolonged double-digit growth in this decade. The companies researched for this paper have proved themselves in this environment, as evidenced by their profit and market achievements and by the confidence of investors expressed in share price out-performance over the long term. In summary, it is believed that Irish companies provide a fruitful, and under-exploited, resource pool for the research of business and management phenomena generally.

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