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.

The strategy evaluation process involves analyzing your strategic plan and assessing how well you've done against achieving the goals in your strategy. A strategy evaluation is an internal analysis tool and should be used as part of a broader strategic analysis for the organization when making decisions about your strategy.

The significance of strategy evaluation lies in its capacity to coordinate the task performed by managers, groups, departments etc, through control of performance. Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

The process of Strategy Evaluation consists of following steps-

Fixing benchmark of performance - While fixing the benchmark, strategists encounter questions such as - what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.
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. But various factors such as managers' contribution are difficult to measure. Similarly, divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done. The measurement must be done at the right time else evaluation will not meet its purpose. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.

Analyzing Variance - While measuring the actual performance and comparing it with standard performance, there may be variances which must be analyzed. 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.

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 with 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.

Criteria of Strategy Evaluation - Richard Rumelt developed four criteria for evaluating strategies:

Consistency

Are the external strategies consistent with (supported by) the various internal aspects of the organization? You must examine all the various functional and internal management strategies employed by the organization and compare them with the external business strategy.

Consonance

Are the strategies in agreement with the various external trends (and sets of trends) in the environment? To answer this question, you need to look at all the major trends that impact the selected strategy - both positively and negatively.

Feasibility

Is the strategy reasonable in terms of the organization's resources?
· Money and capital
· Management, professional, and technical resources
· Time span

**Advantage**

Does the strategy create and/or maintain a competitive advantage?

· Resources
· Skills
· Position

**CONSISTENCY**

A strategy should not present inconsistent goals and policies. Organizational conflict and interdepartmental bickering are often symptoms of a managerial disorder, but these problems may also be a sign of strategic inconsistency. There are three guidelines to help determine if organizational problems are due to inconsistencies in strategy:

If managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, then strategies may be inconsistent.

If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent.

If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

**CONSONANCE**

Consonance refers to the need for strategists to examine sets of trends as well as individual trends in evaluating strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends. For example, the day care explosion came about as a combined result of many trends that included a rise in the average level of education, increased inflation, and an increase in women in the workforce. Although single economic or demographic trends might appear steady for many years, there are waves of change going on at the interaction level.

**FEASIBILITY**
A strategy must neither overtax available resources nor create unsolvable subproblems. The final broad test of strategy is its feasibility; that is, can the strategy be attempted within the physical, human, and financial resources of the enterprise? The financial resources of a business are the easiest to quantify and are normally the first limitation against which strategy is evaluated. It is sometimes forgotten, however, that innovative approaches to financing are often possible. Devices such as captive subsidiaries, sale-leaseback arrangements, and tying plant mortgages to long-term contracts have all been used effectively to help win key positions in suddenly expanding industries. A less quantifiable, but actually more rigid, limitation on strategic choice is that imposed by individual and organizational capabilities. In evaluating a strategy, it is important to examine whether an organization has demonstrated in the past that it possesses the abilities, competencies, skills, and talents needed to carry out a given strategy.

**ADVANTAGE**

A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas: 1) resources, 2) skills, or 3) position. The idea that the positioning of one's resources can enhance their combined effectiveness is familiar to military theorists, chess players, and diplomats. Position can also play a crucial role in an organization's strategy. Once gained, a good position is defensible—meaning that it is so costly to capture that rivals are deterred from full-scale attacks. Positional advantage tends to be self-sustaining as long as the key internal and environmental factors that underlie it remain stable. This is why entrenched firms can be almost impossible to unseat, even if their raw skill levels are only average. Although not all positional advantages are associated with size, it is true that larger organizations tend to operate in markets and use procedures that turn their size into advantage, while smaller firms seek product/market positions that exploit other types of advantage. The principal characteristic of good position is that it permits the firm to obtain advantage from policies that would not similarly benefit rivals without the same position. Therefore, in evaluating strategy, organizations should examine the nature of positional advantages associated with a given strategy.

**Environmental Analysis**

**Definition:** Environmental Analysis is described as the process which examines all the components, internal or external, that has an influence on the performance of the organization. The internal components indicate the strengths and weakness of the business entity whereas the external components represent the opportunities and threats outside the organization.

To perform environmental analysis, a constant stream of relevant information is required to find out the best course of action. Strategic Planners use the information gathered from the environmental analysis for forecasting trends for future in advance. The information can also be used to assess operating environment and set up organizational goals.
It ascertains whether the goals defined by the organization are achievable or not, with the present strategies. If it is not possible to reach those goals with the existing strategies, then new strategies are devised or old ones are modified accordingly.

**Advantages of Environmental Analysis**

The internal insights provided by the environmental analysis are used to assess employee’s performance, customer satisfaction, maintenance cost, etc. to take corrective action wherever required. Further, the external metrics help in responding to the environment in a positive manner and also aligning the strategies according to the objectives of the organization.

Environmental analysis helps in the detection of threats at an early stage, that assist the organization in developing strategies for its survival. Add to that, it identifies opportunities, such as prospective customers, new product, segment and technology, to occupy a maximum share of the market than its competitors.

**Steps Involved in Environmental Analysis**

**Identifying**: First of all, the factors which influence the business entity are to be identified, to improve its position in the market. The identification is performed at various levels, i.e. company level, market level, national level and global level.

**Scanning**: Scanning implies the process of critically examining the factors that highly influence the business, as all the factors identified in the previous step effects the entity with the same intensity. Once the important factors are identified, strategies can be made for its improvement.

**Analysing**: In this step, a careful analysis of all the environmental factors is made to determine their effect on different business levels and on the business as a whole. Different tools available for the analysis include benchmarking, Delphi technique and scenario building.

**Forecasting**: After identification, examination and analysis, lastly the impact of the variables is to be forecasted.

Environmental analysis is an ongoing process and follows a holistic approach, that continuously scans the forces effecting the business environment and covers 360 degrees of the horizon, rather than a specific segment.

**The Role of Resource Analysis in Strategy Formulation** -
Intangible assets are often overlooked, but they are many times the only source of sustainable competitive advantage (i.e. brand, technology, information, culture, etc).

Taking the lead from military campaigns in which the goal is to pitch "strength against weakness", business strategy should be defined by resource analysis rather than the inverse. Firms that base their strategy on the development of specific capabilities have shown better adaptability than those that base their strategy on their customers or on how to serve them. One can take Merrill Lynch, American Express and Sears as having examples of failed strategies (being too broad and having an emphasis on customer needs), and Honda and 3M Corporation as having examples of successful strategies (with a focus on the capability of making engines and adhesives respectively).

Basically, any element that is traditionally considered to support competitive advantage can be seen as stemming from the correct acquisition and use of resources. For example, barriers to entry can be created by owning a strong brand, patents, or retaliatory capacity. A monopoly is nothing more than ownership of market share. Cost advantages come from process technology, size of plants, and access to low-cost inputs. Finally, Differentiation advantage comes from a brand, product technology, or marketing, distribution, and service capabilities.