3 Assessment of strategies

3.1 Basic reflections on the assessment of strategies

As we have seen, the purpose of strategic planning is to construct or maintain success potentials. Accordingly, the development of strategies means the definition of possible success potential and the evaluation of these in terms of their contribution to success. Following the ROM-model introduced in section 1.3 above, we distinguish three types of success potentials:

- existing or targeted competitive positions in specific markets
- existing or targeted competitive advantages in the market offer
- existing or targeted competitive advantages in resources

Evaluation of strategies thus focuses mainly on success potentials: either already existing success potentials or those which need to be built up within the planning period. We must now consider what methods are available for the systematic assessment of the value of success potentials.

As the construction and maintenance of success potentials is linked to investments, the first approach to assessing strategic options is by financial evaluation. We can, for instance, try to calculate the net present value resulting from the investments required for a strategic option. This will indicate the increase in the value of the company produced by a strategic option. Where companies are listed on the stock market, this net present value should, in the long-term, lead to a corresponding increase in the share price. Evaluation of strategies by determining their net present value is fundamentally correct from the point of view of management science. It is recommended by many writers as the theoretically best method of assessment (see for example Grant, 2010, p. 35ff.). Recently the assessment of strategic alternatives as “real options” has been advocated to complement discounted cash-flow analysis (see for example Luehrmann, 1998, p. 51ff.).

The assessment of strategies and their associated success potentials through financial evaluation seems an obvious choice. However it fails in many cases because of the impossibility of making realistic forecasts.
of the long-term financial outcomes of specific strategic options. While it is usually possible to make good estimates of the investment amounts required to secure or build particular success potentials, to predict their effect on revenues in years to follow is often not possible. It seems especially problematic when the success potentials under discussion involve the construction of new competitive positions in developing markets, or innovative products and services, or ‘soft’ factors. But even the prediction of the effects of investments to protect existing success potentials is often fraught with considerable uncertainty, given the problems posed by long-term forecasting.

If the theoretically desirable assessment of strategies and success potentials proves impossible to achieve, because of the impossibility of obtaining reliable data, then another method must be chosen. This consists of evaluating success potentials with the help of substitute assessment criteria. These must fulfil two requirements:

- On the one hand it must be possible to obtain the data required for the assessment of success potentials using the substitute criteria.
- On the other hand there should be a high probability that assessment of the success potentials using substitute criteria will in practice select the strategic option whose positive effect on long-term success is greatest. So there needs to be a well founded link between substitute criteria and company success.

In section 3.2 we present a model for the assessment of strategic options which is based on the use of substitute assessment criteria.

### 3.2 Model for the assessment of strategies

Figure 3.1 provides an overview of the proposed assessment model.

As the illustration shows, the assessment of success potentials is a four stage procedure. In Stage One the target market positions are assessed. Stage Two assesses the market offers. Stage Three assesses the resources and the final stage is an overall assessment.