

## How to audit your business strategy

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### Why conduct a business strategy audit?

Nearly all the major initiatives undertaken by corporate executives today are called “strategic”. With everything having high strategic importance, it is becoming increasingly difficult to distinguish between the many priorities and imperatives that are initiated in organisations. When everything is clearly strategic, often nothing strategic is clear. When everything is designated as a high priority, there are, in reality, no priorities at all.

However, when the overall strategic direction is clearly understood by everyone in your organisation, the following benefits occur:

- organisational capabilities will be aligned to support the achievement of your strategy
- resources will be allocated to different business processes in priority order - according to the importance of that process and its contribution to competitive advantage
- your company or organisation can excel in the market place or in its business/commercial sector.

The purpose of a strategy audit is to arm managers with the tools, information, and commitment to evaluate the degree of advantage and focus provided by their current strategies. An audit produces the data needed to determine whether a change in strategy is necessary and exactly what changes should be made.

### Defining a Strategy Audit

A strategy audit involves assessing the actual direction of a business and comparing that course to the direction required to succeed in a changing environment. A company's actual direction is the sum of what it does and does not do, how well the organisation is internally aligned to support the strategy, and how viable the strategy is when compared to external market, competitor and financial realities. These two categories, the internal assessment and the external or environmental assessment, make up the major elements of a strategy audit.

The outline that follows is derived from *The Business Strategy Audit* (see References). It's intended to give you a clear idea of how to set about conducting a self-assessment audit in your own organisation, without the need for any additional training or external consultancy support. But note that this outline does not include the range of

Questionnaires and Checklists and the detailed guidance to be found in the full, 124-page Audit.

## Part 1 ~ The External Environmental Assessment

A conventional corporate mission is to provide distinct products and services to customers at a value superior to that offered by competitors. Without a strategy, valuable resources will be diluted, the work of employees will be unfocused, and distinctiveness will not be achieved. The external environment assessment provides any business with a critical external link between its competitors, customers, and the products/services it offers.

The fundamental reason for examining an organisation's environment in the process of clarifying strategy can be summarised thus:

- Ensure that the company is meeting the needs evident in the environment
- Prevent others from meeting those needs in a better way
- Create or identify ways to meet future or emerging needs.

The success or failure of a company often depends on its ability to monitor changes in the environment and meet the needs of its customers and prospective customers.

An organisation's business environment is never static. What is viewed as uniqueness or distinctiveness today will be viewed as commonplace tomorrow as new competitors enter the industry or change the environment by modifying the rules by which companies compete. Consequently, an effective strategy will do more than help a company to stay in the game. It will help it to establish new rules for the game that favour that company. Successful companies do more than simply understand their environments. They also influence and shape the circumstances around them. Companies that fail to influence their environments automatically concede the opportunity to do so to their competitors.

### Steps in conducting an environmental assessment

#### Step 1: Understand the external environment at a macro level

The first step in the environmental assessment is to develop a basic understanding of the trends and issues that will significantly change, influence, and affect the industry. The overall industry understanding comes from looking at the elements that influence the environment. These elements include:

- Capital markets
- Industry capacity
- Technological factors
- Pressure from substitutes
- Threat of new entrants
- Economic factors
- Political factors
- Regulatory factors
- Geographic factors
- Social factors.

A useful framework to understand these issues comes from answering the following questions. They should be posed directly when used in an interview, and indirectly when analysing data:

- What is the long-term viability of the industry as a whole, and how do capital markets react to new developments?
- What trends could change the rules of the game?
- Who are the industry leaders? What are they doing? Why?
- What are the key success factors in the industry?
- What developments could allow a company to change the rules of the game?
- Five years from now, how will winners in the industry look and act?
- What is the reward (and/or cost) of being a winner/loser within the industry?
- Where has the industry come from?

## Step 2: Understand the industry/sector components in detail

Industry/sector components are normally broken down as follows: competitors, customers and stakeholders. Questions that should normally be asked of each key competitor include:

### BUSINESS REVIEW

#### Strategy Issues:

- What is the strategy of each competitor? Where do they appear to be heading?
- What is their business emphasis?
- Do they compete on quality, cost, speed or service?
- Are they niche or global players?

#### Capabilities:

- What do they do better than anyone else?
- Where are they weaker than others?
- Where are they the same as others?

#### Business Objectives:

- Who are their primary customers?
- What types of business do they not do or say no to?
- Who are their major partners? Why are they partnering? What do they gain from it?
- What are they doing that is new or interesting?

### FINANCIAL REVIEW

#### Financial Strength - Internal:

- How much cash does each competitor generate annually?
- What are the drivers behind their financial success (from a cash perspective)?
- How do they allocate resources (funds)?
- How fast are they growing and in what areas?

#### Strength as Perceived by Capital Markets:

- Are competitors resource constrained or do they have strong financial backing?
- Is this perception consistent with the internal analysis? Why or why not?
- How has the company performed in the financial markets? Why?
- What constraints/opportunities do they have with respect to financial markets? Why?

## ORGANISATION REVIEW

### Top Management:

- Has management kept the company at the forefront of the industry? Why or why not?
- Are the key players seen to be moving the company forward?
- Organisation:
- Is the company centralised or decentralised?
- Does the corporate parent act as a holding company or as an active manager?
- Is the organisation perceived as being lean and able to get things done?

### People:

- How many people are employed? Is the company over- or under-staffed?
- Are people managed to achieve mainly business objectives, human objectives or some of both? How does this affect the company?
- What skills are emphasised during recruitment?

### Culture:

- Is the culture results-oriented?
- Bureaucratic?
- Flexible?

Similar lists of questions should be developed for customers and stakeholders (or see the full Audit for ready-made questionnaires).

### **Step 3:** Integrate the components into an environmental picture

Once the findings of the stakeholder analysis, customer analysis and competitor analysis (above) have been collected, audit team members should step back and integrate the data. Integrating the different components will help the team to understand the overall environment in which the business operates.

This integration should take place at two levels: assessing where the industry is heading and the likely impact of that direction on the company, and combining the organisational assessment with the environmental assessment.

*The Business Strategy Audit* offers a detailed framework for analysing this data. In brief, it should highlight significant changes in the environment, and the impact of those changes on the company's competitive position within the industry. It should address the fundamental question of how the company can influence its environment in the future, and what the business will need to look like if it is to thrive in the future.

In addition, the analysis should highlight the requirements and capabilities that are needed within the company to meet external demands. These requirements and needs should then be matched up with the current capabilities outlined in the organisation assessment. This will enable the team to determine the overall alignment of the company's strategy to its environment.

## Part 2 ~ The Organisational Assessment

Once the company's environment has been examined and analyzed, managers should consider the qualities and characteristics of the organisation itself that influence what can be accomplished in terms of strategy. This section is about organisational assessment. The steps shown here will provide insights into the effectiveness of the company's current strategy, and provide guidelines for increasing strategic effectiveness.

- **Strategy Clarification.** Strategy clarification helps the leadership team determine what business they are in, the direction of the business, and framework or criteria for making strategic decisions in the future. If people at any level of a business are unclear about any of these three areas, it is difficult for them to focus their attention, cooperate with other teams, and organise their efforts to gain competitive advantage in the marketplace.
- **Viability and Robustness.** Measuring viability and robustness helps a leadership team test strategies and ideas against future world scenarios to determine whether the strategies can be achieved and sustained. By looking at both market and financial viability and robustness in different scenarios, a management team can see what will create advantage in the future and what key measures need to be implemented to monitor changes in business conditions.
- **Business Processes.** The term business process refers to the overall work flow within a company and includes elements such as product design, manufacturing, and delivery. A good process analysis will help a leadership team to see what must be done given the company's strategy, and how those processes can be improved.
- **Capabilities.** Capabilities are bundles of separate skills required to deliver the products or services that give a business competitive advantage. There are two parts of a capability assessment. First, the capabilities needed to execute the strategy must be determined. Second, the current level of ability in terms of those capabilities must be assessed. Without knowing what capabilities should be focused on and improved, competitive advantage will be difficult to achieve.
- **Organisation Design and Resourcing.** This part of the analysis looks at alignment issues between the environment, the strategy, the skills required to achieve that strategy, and the organisation structure. During this step, a management team can design an organisation that aligns systems in a way that will allow them to execute a strategy. Unless the systems within a business are aligned to improve effectiveness or efficiency, strategy statements are merely plaques on the wall that are seldom realised.
- **Culture.** Culture refers to the set of shared values that influence behaviour and direction over time. The style of management and the beliefs and assumptions commonly held by people in the organisation must be determined in order to ensure alignment and execution of the strategy.

Having completed each of these assessments, they must be integrated by the audit team. In this process, audit team members should attempt to answer one fundamental question: *Is our strategy in alignment with the external environment?*

To answer this broad question, the following issues should be addressed:

- Do our capabilities match our customer requirements?
- Do we offer something required by our customers that is better than the offerings of our competitors?
- How are customer demands changing?
- How are competitors changing?
- How are our internal capabilities evolving to keep pace with those changes?

Depending on the answers to these questions, the team can implement the changes dictated by the audit. In making these changes, three issues should be considered:

*Structure follows strategy* - This means that current organisational boundaries and structures should not be allowed to determine the selection of a competitive strategy. Rather, the environmental and organisational assessments that you have just conducted should determine and drive strategy selection.

*Plans for change must be widely owned* - Those people ultimately responsible for implementing strategy (typically front-line employees) should be consulted for their ideas about what changes should be made and how they should be made. Otherwise, very little change is likely to happen.

*Implementation should start with what is core to gaining advantage* - In other words, start with core business processes, 'pick the low hanging fruit' first, make those changes that will make the most visible difference.

In addition, it may be useful to know that the following are the most common mistakes made by teams conducting business strategy audits:

- Expecting all data to be equally useful
- Do nothing with the audit findings
- Failing to link other support systems (rewards, administration, etc.) to strategy
- Not thinking strategically about what processes and capabilities to keep in-house and what to outsource
- Failing to prioritise those core processes that must be world-class
- Failing to match internal capabilities with customer requirements
- Failing to communicate audit findings and strategy changes to people throughout the organisation in a clear and simple language

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#### References:

Della-Piana V, Low M and Lyman K, *The Business Strategy Audit*, 124pp., ISBN: 1902433688

Axminster: Cambridge Strategy Publications, 2005

Audit webpage: [http://www.cambridgestrategy.com/content/business\\_strategy\\_audit.php](http://www.cambridgestrategy.com/content/business_strategy_audit.php)

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