Jomer & Co

Strategy Audit

Does your strategy:
- Cover the key areas and the critical issues for your company's future success?
- Clarify and verify your business model?
- Provide guidance for daily operations and activities?
- Correspond with the extended management cadre's opinions and priorities?

Nearly all the major initiatives undertaken by senior 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 an organization. When everything is clearly strategic, often nothing strategic is clear. When everything is designated as high priority, there are, in reality, no priorities at all. Evidence that a strategy is failing is more commonly seen in gradual or erratic erosion of profitability than in dramatic collapse.

Our previous research conclusions[1] suggest that only 42% of managing directors, board members and other top executives are satisfied with the output from their strategy promise. Put differently, there is a strategy-to-execution gap close to 60% among the researched top executives in terms of how they perceive their strategy promise and the actual strategy output. The causes of this strategy-to-execution gap are often not visible to top management. Leaders then sometimes pull the wrong levers in their attempts to turn around performance, pressing for better implementation and execution when they actually need a better strategy, or opting to change direction when they really should focus the organization on implementation and execution.

The business thinker Nassim Nicholas Taleb argues[2] that we as humans do not spontaneously learn that we do not learn. This, he argues, has to do with the structure of our mind. We do not learn rules, just facts and only facts. We do not seem to be good at understanding meta-rules, such as the rule that we have a tendency not to learn rules. The human mind suffers from three deficiencies when it comes into contact with history. The first one is the illusion of understanding, or how everyone thinks he knows what is going on in the world that is more complicated than he realizes. The second one is the retrospective distortion, or how we can assess matters only after the fact, as if they were in a rear-view mirror. The third deficiency is the overvaluation of factual information and the urge to categorize.

Feedback helps organizations to learn from the past. Feed-forward helps organizations learn to see into the future. Both perspectives are essential when conducting an informed Strategy Audit. The way to support a leadership team by conducting an audit of the strategy is not really to challenge the strategy per se, i.e. the output, but to challenge and audit the process of creating and formulating the strategy. Even if an

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[1] Jomer & Co Research: Strategy Creation and Implementation, 2013.

[2] The Black Swan: Penguin, 2007.

external party may have facts and opinions that contradict parts of the strategy, they seldom know the business better than the company itself. However, an external party equipped with relevant experiences and a proven method can often successfully review and challenge if the strategy has been created and formulated based on necessary and relevant data, information, analysis and conclusions. An external party may also provide the leadership team with a qualified second opinion regarding the planned way to implement and execute the strategy.

The purpose of a Strategy Audit is to arm the leadership team and senior executives with a qualified assessment of the degree of advantage and focus provided by their current or planned strategy. A Strategy Audit produces an often-lacked platform for an honest discussion on whether changes in the strategy are necessary, and if so, exactly what changes should be made.

A Strategy Audit is a review of an organization's strategy and business plan in order to identify weaknesses and shortcomings to enable a successful development of the company. The Strategy Audit secures that necessary information for the development of the company is included in the strategy and business plan, and that the leadership team supports it.

The Strategy Audit helps clarify three crucial areas:

- It secures that the present strategy and business plan are complete and include relevant information for the development of the company.
- It reveals if the leadership team shares a commitment and believes in the company's vision, and shares the same priorities for the strategy.
- It secures the logic of the strategy and business plan, that e.g. the strategy is tightly linked to the vision and overall objectives, the defined priorities will develop the company toward the vision, clearly defined activities are planned to reach the objectives in time, and prioritized actions are backed with a sufficient amount of resources.

A Strategy Audit involves assessing the actual direction of the business and comparing it to the direction required to succeed in a changing environment. A company's actual direction is the sum of what it does and what it does not do, how well the organization 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 external environmental assessment and the internal organizational assessment make up the major elements of an informed Strategy Audit.

The External Environmental Assessment

A conventional corporate mission is to provide distinct products and services to customers with a value superior to what is offered by the competitors. Without a strategy, valuable resources will be diluted, the work of employees will be unfocused, and distinctiveness will not be achieved. The external environmental assessment provides any business with a critical external link between its competitors, customers, and the products and services it offers. The fundamental reason for examining an organization's environment in the process of clarifying the strategy can be summarized as:

- Ensure that the company meets the needs evident in the environment.
- Identify if others are meeting those needs in a better way.
- Address 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 organization's business environment is never static. What is viewed as unique or distinct 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 just secure that the company stays in business. It will also establish new ways to improve and expand the business.

Successful companies do more than simply understand their environment. They influence and shape the circumstances around them. Companies that fail to influence their environment, automatically concede the opportunity to do so to their competitors.

The Internal Organizational Assessment

Once the company's environment has been examined and analyzed, senior executives should consider the qualities and characteristics of the organization itself that influence what can be accomplished in terms of strategy. The internal organizational assessment will provide insights into the effectiveness of the company's current or planned strategy, and provide guidelines for increasing strategic effectiveness.

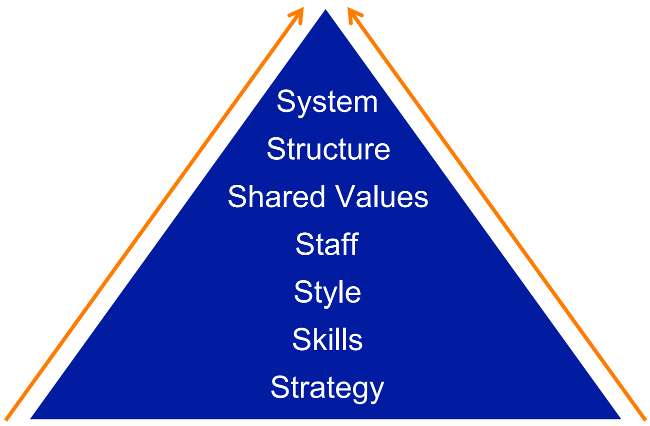

Figure 1. Evolution of an organizational system

The key dimensions for the internal organizational assessment are based on the 7S framework. See fig. 1. If something within the organization is not working, chances are that there are inconsistencies between some of the elements identified by this classic model. Once these are revealed, actions should be taken to align the internal elements to make sure they all are contributing to the shared goals and values.

Strategy is a course of actions in allocating resources to achieve identified goals over time. Clarification of the strategy helps the leadership team and senior executives to determine what business they are in, the direction of the business, and the criteria for making strategic decisions. 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 others, and organize their efforts to gain competitive advantage in the marketplace.

Skills are the actual capabilities and competencies of the employees working for the company. Capabilities are bundles of separate skills required to deliver the products or services that give a business competitive advantage. Without knowing what capabilities should be focused on and improved, a competitive advantage will be difficult to achieve.

Style is the adopted leadership. Management style is the way in which senior executives and managers behave in achieving the goals. It includes the dominant values, beliefs and norms, which develop over time and become relatively enduring features of the organizational life.

Staff is the personnel within the organization and their general capabilities such as engineers, sales people, etc. Leading organizations must put more emphasis on hiring the best staff and provide them with rigorous training and monitoring support, and give incentive for them to achieve professional excellence.

Shared Values refers to the significant meanings or guiding concepts that the employees share, i.e. culture, thus influencing behavior and direction over time. These values and common goals keep the employees working toward a common destination as a coherent team. The style of management and the beliefs and assumptions commonly held by people in the organization must be determined in order to ensure alignment and execution of the strategy.

Structure is the way the line organization is structured and who reports to whom. This means that current organizational boundaries and structures should not be allowed to determine the competitive strategy. Instead, the external environment and customer needs should determine and drive the strategic choices.

System is the daily activities and procedures that managers and staff engage in to get the job done. 94% of the variations in performance can be traced to an organization's system[3]. Therefore, it is important to develop and view the organization as one system. Taking a systems view is to look outside in to understand how demand, value and flow will result in a better fulfillment of needs from the customers' and other stakeholders' point of views. For the implementation of any strategy to be successful, all the key elements of the business system must reinforce each other in support of the strategy. No single part of the organization can do this job on its own.

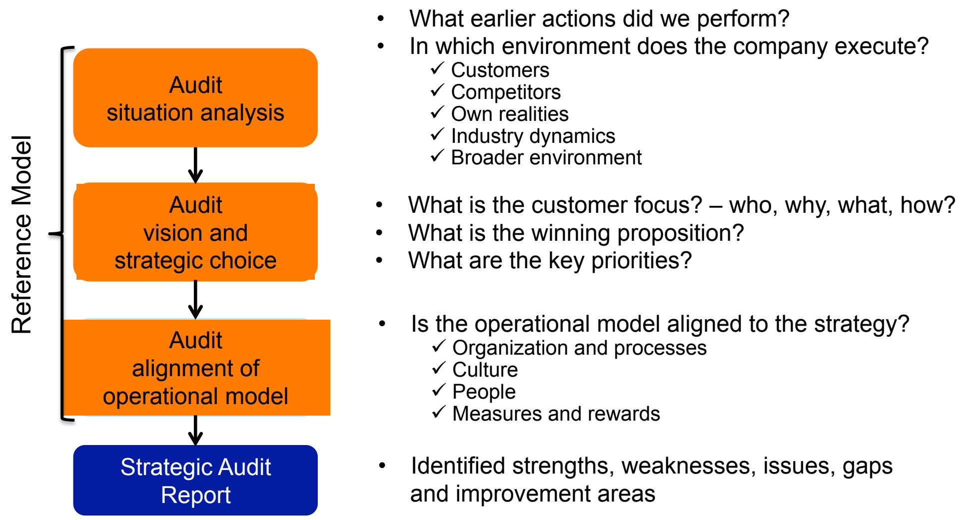

Figure 2. The Strategy Audit reference model

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[3] W.E. Deming, Scholtes, 1998.

A Strategy Audit helps to find the answers to a set of questions:

- Will your strategy beat the market?
- Does your strategy tap a true source of advantage?
- Is your strategy detailed and clear enough to compete?
- Does your strategy put you ahead of trends?
- Is your strategy founded on privileged insights?
- Does your strategy embrace uncertainty?
- Does your strategy balance long-term commitment and flexibility?
- Is your strategy contaminated by bias?
- Are there strong beliefs to execute?
- Have you translated your strategy into a plan of action?

A Strategy Audit process consists of four steps

The Strategy Audit is based on a reference model and identifies a company's need to adjust the existing business plan as well as its business. See fig. 2. The main activities are:

1. *Review of existing material.* The existing business plan and other available documents are reviewed to clarify which parts of the company's future development are thoroughly documented. Shortcomings and weaknesses in the existing material are identified.
2. *Review of the current process for strategy creation and implementation.* The existing ways of working for creating and implementing the strategy are reviewed in terms of how insights are generated from the environment and from past experiences, how strategic choices are determined, how offerings and organization are aligned behind the strategy and how the strategy is executed. See fig. 3.
3. *Interviews with the leadership team, other key senior executives and influential key employees.* Through individual interviews, differences in opinions and priorities of the future development of the company are identified. The written business plan is compared with the individual opinions. New ideas and concepts not documented in the business plan are noted for possible additions to the business plan. The individual interviews are made in confidence and the results are presented anonymously.
4. *Analysis of logic and consistency.* Next, the written documentation, reviewed ways of working and the existing opinions are analyzed to identify shortcomings, e.g. prioritized actions that do not lead to the determined vision (direction), too few activities to reach the goals in time (speed), or little match between future customers' needs and the company's offers (business logic).
5. *Leadership Seminar.* Finally, the conclusions from the Strategy Audit are presented and suggestions on adjustments are discussed with the leadership team. The objective of the seminar is to reach a shared commitment to make agreed enhancements for the company's future development.

The value-add from a Strategy Audit is three folded:

- Are you a high performing organization?
- Does your strategy process cycle work?
- Do you have a productive discussion on the subject of strategy?

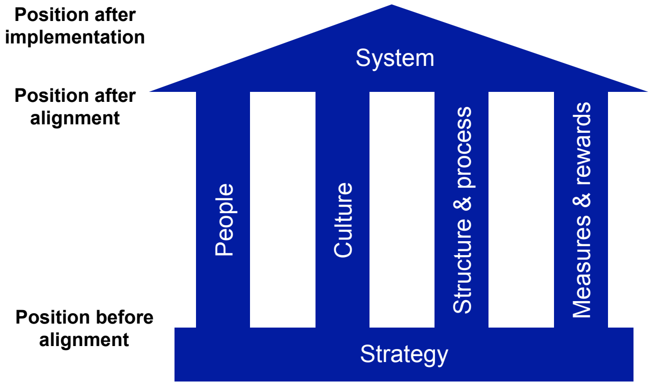

Figure 3. Alignment of the operating model

A high performing organization often carries attributes such as strong financial results, satisfied customers and employees, high levels of individual initiative, productivity and innovation, aligned performance measurement and reward systems, as well as strong leadership. A key revisit and a solid enabler for a high performing organization is also a crisp and clear strategy. The result of a Strategy Audit helps becoming a high performing organization.

Without a clear sense of where the organization is headed and why, lower levels in the organization cannot put in place executable plans. If a clear link between mission, vision, goals, strategy, implementation and execution cannot be drawn, then the strategy is neither sufficiently concrete, nor ready for execution. The result of a Strategy Audit helps improve the quality of the strategy cycle.

Board involvement in formulating and implementing corporate strategy has always been a sensitive issue. According to previous research results, in spite of heavily engagement by the board in the strategy creation, many managing directors and board members do not believe that the board members have sufficient understanding of the progress of the strategy implementation and execution. Although it is standard procedure for the managing director to brief the board on the evolving strategy and structure, it has always been understood that the "ownership" of the current strategy remains firmly in the hands of the managing director.

The managing director, the leadership team, and the board have unique and distinct perspectives on the strategy. The managing director and the leadership team are charged with turning the strategic vision into operational reality. Of necessity, they must focus on one strategic path at a time and pursue it relentlessly to maximize its potential for corporate profitability. The board members' mandate is distinctly different. Their responsibility is to, from what is best for the company, represent the perspectives of the owners and question the strategic path itself. The board's evaluation of the validity of the existing strategy must not be based simply on the performance of the company relative to itself, its industry, or its past performance, but rather on comparisons between returns derived from the current strategy and those possible from other strategies. The managing director and the leadership team may think they are dealing with disloyal board members at times, but from a board perspective, they are the "loyal opposition".

Although the two perspectives converge when board members and senior executives are developing strategy, the leadership team's role in executing the strategy precludes it from also objectively evaluating the strategic path once it is in place. Therefore, the Strategy Audit provides an excellent platform for discussion with the managing director and the board regarding necessary actions or changes in the existing strategy and business plan.

Jomer & Co

We help clients close the strategy-to-execution gap by creating and implementing winning strategies.

Jomer & Co is a boutique advisory firm, focusing on strategy creation and implementation. Our focus on employing professionals with extensive experience provides us with the executive resources of a larger organization while still being flexible and responsive in the relation to our clients' challenges.

We are devoted to knowledge and situational insight and are aligned to the shift in demand for management consulting services by its way of leveraging knowledge, experience and giving advice. Our experienced Consulting Associates work closely with clients throughout the stages of strategy creation and implementation.

For contact and more information, please email info@jomer.se.