Strategic Audit

LEAD Key Models
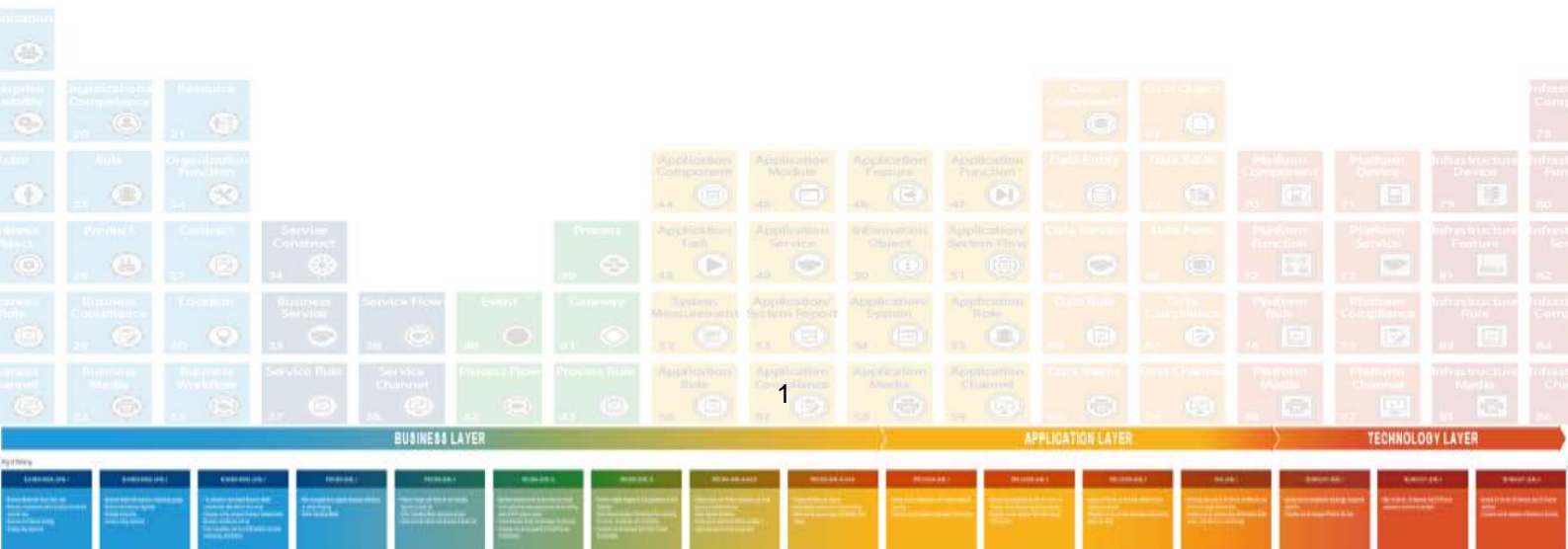
TABLE OF CONTENTS

Strategic Audit

A part of the ((O)LEADing Practice Key Models

THE WAY OF THINKING - WHY (Reason) & WHITHER (Goal)

Within the context of the way of thinking and in terms of business strategy, it is important to emphasize the role of the "business environment" in shaping strategic thinking and decision-making.

The external environment in which a business operates can create opportunities, which a business can exploit, as well as threats, which could damage a business. However, to be in a position to exploit opportunities or respond to threats, a business needs to have the right resources and capabilities in place.

An important part of business strategy is concerned with ensuring that these resources and competencies are understood and evaluated - a process that is often known as a "Strategic Audit".

THE WAY OF WORKING - WHAT (Context) & WHENCE (Source)

The process of conducting a strategic audit can be summarized into the following stages:

1. **Resource Audit**
   The resource audit identifies the resources available to a business. Some of these can be owned

(e.g. plant and machinery, trademarks, retail outlets) whereas other resources can be obtained through partnerships, joint ventures or simply supplier arrangements with other businesses.

2. Value Chain Analysis

Value Chain Analysis describes the activities that take place in a business and relates them to an analysis of the competitive strength of the business. Influential work by Michael Porter suggested that the activities of a business could be grouped under two headings:

– *Primary Activities* - those that are directly concerned with creating and delivering a product (e.g. component assembly); and

– *Support Activities*, which whilst they are not directly involved in production, may increase effectiveness or efficiency (e.g. human resource management). It is rare for a business to undertake all primary and support activities.

Value Chain Analysis is one way of identifying which activities are best undertaken by a business and which are best provided by others ("outsourced").

3. Core Competence Analysis

Core competencies are those capabilities that are critical to a business achieving competitive advantage. The starting point for analysing core competencies is recognising that competition between businesses is as much a race for competence mastery as it is for market position and market power.

Senior management cannot focus on all activities of a business and the competencies required to undertake them. So the goal is for management to focus attention on competencies that really affect competitive advantage.

4. Performance Analysis

The resource audit, value chain analysis and core competence analysis help to define the strategic capabilities of a business. After completing such analysis, questions that can be asked that evaluate the overall performance of the business. These questions include:

– How have the resources deployed in the business changed over time; this is "historical analysis"

– How do the resources and capabilities of the business compare with others in the industry - "industry norm analysis"

– How do the resources and capabilities of the business compare with "best-in-class" - wherever that is to be found- "benchmarking"

– How has the financial performance of the business changed over time and how does it compare with key competitors and the industry as a whole? - "ratio analysis"

5. Portfolio Analysis

Portfolio Analysis analyses the overall balance of the strategic business units of a business. Most large businesses have operations in more than one market segment, and often in different geographical markets. Larger, diversified groups often have several divisions (each containing many business units) operating in quite distinct industries.

An important objective of a strategic audit is to ensure that the business portfolio is strong and that business units requiring investment and management attention are highlighted. This is important - a

business should always consider which markets are most attractive and which business units have the potential to achieve advantage in the most attractive markets.

Traditionally, two analytical models have been widely used to undertake portfolio analysis:
- The Boston Consulting Group Portfolio Matrix (the "Boston Box"); and
- The McKinsey/General Electric Growth Share Matrix.

6. **SWOT Analysis**
   SWOT is an abbreviation for Strengths, Weaknesses, Opportunities and Threats. SWOT analysis is an important tool for auditing the overall strategic position of a business and its environment.

Details around Strategic Audit needed for the Way of Modelling:

Business Level		Business Area		Relevant Meta Object	
X	Strategic Level	X	Strategy	X	Strategy
X	Tactical Level		Organization		
	Operational Level		Finance		
			Governance		
			Marketing & Sales		
			Operations & Production		
			Supply Chain & Procurement		
			Business Innovation		
			Business Transformation & Change Management		
			Technology		
			Human Resource Management		
			Leadership		

X = Primary   (x)=Secondary   A=Advanced enhancements to the model

How fits Enterprise Architecture:

While Strategic Audit can fit nearly all the enterprise layers e.g. Business, Information Systems, Technology, the discipline is a business layer concept with the sub-layer: application. It relates to the most to the competency layer with the focus on the organization i.e. enterprise, organizational units, areas, groups and functions. The Strategic Audit could also be used for a specific enterprise capability, location or resource.

COMBINATIONS to other models (artefacts)

The Strategic Audit artefact can be used in the combination of the following other concepts, models/artefacts:

- o Vision, Mission & Goal Matrix
- o Requirement Matrix
- o Strategy Model
- o Integrated Planning Model
- o Value Model
- o Balanced Scorecard
- o Competency Canvas
- o Business Model
- o Revenue Matrix
- o Cost Matrix
- o Risk Matrix
- o Service Matrix

INDUSTRY FOCUS

The Strategic Audit artefact can be used **across all industries.**

Relevant Roles

The Strategic Audit artefact is relevant for all roles that are involved with strategy; among others these are the following roles:

Executive Roles
- o CEO – Chief Executive Officer
- o CSO – Chief Strategy Officer

Subject Matter Expert Roles
- o Strategy eXpert
- o Business Architect
- o Business Analyst

REFERENCE MATERIAL

http://www.tutor2u.net/business/strategy/Strategic_audit.htm

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