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Strategic Plan Audits: Structure and Expected Outcomes

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Abstract

A strategic audit is an objective review and evaluation of a strategic plan (or set of plans) that have been put into motion by senior leaders and key stakeholders designed to meet an organization's future objective. [CMOE, 2023] How such an audit is executed will have a direct impact on the ultimate value of the exercise. In this paper, we examine and discuss the structure of a strategic audit, the context in which the audit is conducted, frequency of audits and the application of simple tools to focus and audit. Future empirical research on the topic of strategic audits would shed light on the usefulness of such audits although the ability of obtain pertinent information and data to undertake such analysis in the for-profit sector would be challenging.

Keywords: Organizational strategy, audit, strategic directions

1. Introduction

A strategic plan becomes the basis for making decisions about capital spending, human resource managements and organizational structure. In short, it states where an organization want to be in the future. Strategic planning and execution are at the core of the success and ability to thrive for many organizations. Dozens of books and at least a thousand articles have been authored on the topic. The vast majority of these writings conclude with comments and critiques on the execution of strategy. Very few spend time on how to audit strategic planning and be prepared to change course in the event expected outcomes to not materialize. (Balkaran, 2016).

To ensure that the plan is being implemented with the targets still in the cross hairs of the mission and the goals are relevant to the ever- changing business landscape, it is crucial that there be an on-going process of *strategic auditing.* In the absence of a strategic audit, resources may be directed to inappropriate targets or even worse, at targets that have become less relevant as time passes. In addition, a strategic audit provides a structured and predictable overview of governance, risk and control in the company.

1.1 What is a Strategic Audit

A strategic audit takes stock of where an organization stands relative to the strategic directions established and approved in the latest Strategic Plan. It is also an opportunity to examine the need, if necessary, to reallocate resources to ensure the completion of high priority goals. This may be in response to changing economic conditions, the appearance of a new, unexpected competitive challenges or changes in technology. Such a review should not be secondary to other organizational goals.

Time must be set aside to conduct the following tasks:

- Ensure the strategic plan has been well-researched and shared among all personnel in the organization as well as key external stakeholders
- Review and confirm that components of the organization's business plans support the strategic goals.
- Confirm which specific goals have been accomplished and, in those instances where goals have not been met, clarify the reasons why a goal has not been met.
- Convene a team of individuals in the organization who have been associated with the task of achieving the goal and explore what could be done to expedite the completion of the goal or decide to contract a qualified external strategic auditor.

- Establish a Gantt Chart using project management information system (PMIS) applications, to map the resources required over a time period to achieve the goal.

2. The Context, Structure and Frequency of Strategic Audits

2.1 Context and Structure

Increasingly, company boards of directions undertake strategic audits. As Donaldson pointed out almost three decades ago: “Boards can fulfill strategic oversight duties better if they implement a formal review process.” (Donaldson, 1995) A strategic audit must be carefully planned and executed to win acceptance within the organization and investors. From the board of directors, senior management to the most recently hired staff, there must be consensus that the audit is in the best interest of the future of the company. It must be transparent, fair and thorough. From the beginning, the audit should part of the formula for a successful outcome of the strategic plan. Foremost, the audit should be undertaken in a spirit of mutual respect where the process involves a constructive dialogue focusing on the core objective of the strategic plan.

It should be patently clear from the beginning the strategic audit is either an internal exercise or one that relies on an independent external review. The composition of the team undertaking a strategic audit should reflect the organization’s structure, the competitive environment in which the organization functions and operative level of the audit. If the organization is auditing a single goal within a small department of the company, it is likely unnecessary to include a board member on the team. If, however, the audit involves a multi-million capital investment, a board member should be included on the team. Contracting an external business to undertake a strategic audit is not

2.2 Frequency of Strategic Audit

Changing technology pertinent to the organization, the degree of competitiveness in the industry (if applicable), sensitivity to general economic factors, the scope, in years, of the plan and the extent to which a specific goal is critical to the success of the organization will have a bearing on the frequency of strategic audits. For example, every quarter Google assigns 4-6 Objectives and Key Results (OKRs) to help provide the company with clear focus and to ensure that employees understand how their work impacts their work area and the company overall. TD Bank directors meet four times each year to oversee the Bank's alignment with its purpose and its strategy, performance and reporting on corporate responsibility for environmental and social matters. Exposure to uncertainty is perhaps most of all the key reason to decide on the frequency of strategic audits. Every decision associated with a specific strategic goal is subject to both internal and external risk. Quantifying these risks using, for example, a Risk Prioritization Matrix, (RPM) is an invaluable aid when selecting the time frame for strategic audits.

There is no textbook setting out a timetable for strategic audits. There are organizations that will undertake such audits annually while others set aside time on a monthly basis to review and evaluate the strategic plan

How often is an organization accountable to shareholders, politicians or the public? For many for profit companies, the success or failure to achieve goals is scrutinized at the annual shareholders’ meeting. For not-for-profit organizations, formal reviews may be ordered by a board of directors or government agency/department. At a minimum, there will be an annual report for stakeholders.

There are several approaches to designing a strategic audit largely driven by the complexity of the strategic plan and the frequency of the audit as determined above. For example, an organization that is changing direction as part of the strategic plan by upgrading large capital structures that will take 3-4 years to complete does not require a strategic audit quarterly although there may be short term business goals that require frequent review.

Below are two hypothetical examples highlighting the decision on the structure of an audit. One is for a regional public health organization, a not-for-profit corporation, and the other for the alliance in 2010 between Tim Horton’s and Cold Stone Creamery in the United States.

In the case of the public health unit, strategic directions include the following.

1. Evidence-based programs and services reflecting community needs
2. Professional and innovative practices associated with mandated services
3. Support and retain a high-quality workforce
4. Build an organization that can respond to future needs.

These strategic directions may require months or more than one year to achieve. It would be prudent for the director responsible for a specific goal to meet with staff biannually to evaluate the progress of a goal. Such audits should not be a substitute for a thorough, annual strategic audit that would provide a sweeping analysis of how each strategic direction is, or is not, contributing to mission and vision of the organization. The following questions constitute a minimum framework for the analysis.

1. To what extent have the underlying strategic goals of the organization's strategic plan been implemented?
2. Which strategic goals have been met?
3. To the extent strategic goals have not been implemented, what has been learned?
4. If work on the goal is ongoing, what is the progress to date?
5. Will it likely be implemented within the prescribed time frame? If not, why not?
6. Identify unexpected challenged to the completion of the strategic plan.

The second example looks at the strategic audit of the alliance between Tim Horton's and Cold Stone Creamery where a limited line of Tim Horton's products would be sold in a number of Cold Stone Creamery ice cream parlors. In this case, because there is a business alliance, the strategic audit involves both organizations. The strategic goal for Cold Stone Creamery was "…to expand our customer base." (Dunkin Donuts, 2009) For Tim Hortons the goal was to "…improve the profitability of Tim Horton outlets in the United States." (Dunkin Donuts, 2009)

The audit must be focused on the goals of the alliance, NOT the goals of the individual partners of the alliance. The alliance was instituted in a limited number of stores and the retrofitting was done within months. A series of strategic audits at quarterly intervals is necessary to ensure the strategic goals are monitored. The decision to expand this strategic alliance across the US would hinge on the final audit. In the end, in spite of changes to the strategy, *in situ*, when expected outcomes were not achieved, Tim Hortons cancelled the agreement in light of the failure to achieve the goals.

3. Simple Tools

While reviewing the progress of a strategic plan, a simple graph may assist in gathering consensus on the need to intervene and consider a redeployment of resources to ensure a strategic direction can be achieved in a timely manner. Chart 1 depicts a hypothetical case where the expected strategy for new sales ($ million) as a result of the strategic plan is shown in green. The first half of the year (solid red line) looks promising but actual sales growth slows as the third quarter begins. By the end of the third quarter, actual sales are well below expectations. This is the time to react quickly and undertake a strategic audit, adjust resource allocation and hopefully be on the dotted blue track and reach the desired outcome. If it is left to the fifth quarter, the organization will find itself in a crisis mode.

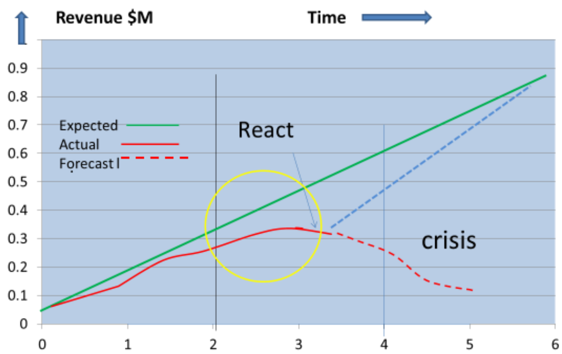

Figure 1. Response to Crisis

The second visual exercise involves attributing one of three colors to specific strategic outcomes expected by a particular date. Think of it as a coloring book exercise. In the example below, (Chart 2) an audit in January 2023 examines three specific goals. If a goal has been achieved by the stated date, in this case the end of 2022, color it green. If by the 3rd quarter of 2022, the goal to reduce defects has not been achieved and in fact shows no improvement, color the goal red. Finally, if by middle of 2022, the organization has reduced the number of products from 20 to 16, progress has been achieved but will the ultimate goal be reached, albeit late? Assigning the color yellow is a visual reminder to review the strategy on product output reduction and evaluate the reasons for the lack of success to achieve the stated goal.

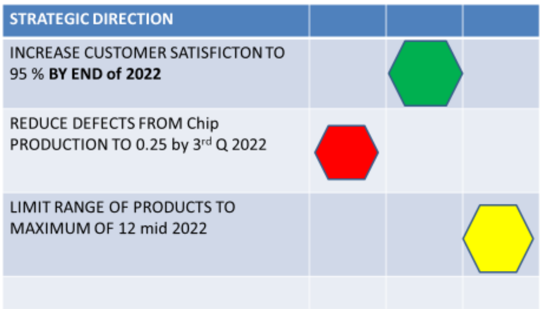

Figure 2. Strategic direction

4. Summary and Conclusion

A strategic audit does not guarantee the complete success of a strategic plan. It should not be an apology for failing to launch strategic directions. Rather, it is a systematic method to identify and measure the degree of success an organization has made to date in achieving its mission, vision and goals. It also provides an assessment of why certain goals have not reached their mileposts along the time line of the plan. A strategic audit may identify the need to change the focus of one or more goals in light of unexpected changes in the external environment. It is also an opportunity to realign human and financial resources to accelerate the progress of goals that are considered critical to the organization's success. It is time and money well spent.

The extent to which a strategic audit adds value to an organization's mission and long-term plan is a worthwhile topic for future research. Given strategic audits, particularly in the for-profit sector, are often conduction internally or under contract with a third party, the research agenda is not straightforward. It would involve the cooperation of an organization on an *ex ante* basis while protecting privileged and private information utilized in the audit. However, in at least one private bank in Canada, a committee is mandated to: "….oversee the Bank's alignment with its purpose and its strategy, performance and reporting on corporate responsibility for environmental and social matters." (TD Committees of the Board, 2021). In the not-for-profit sector, strategic audits are public exercises: In the case of the Government of Canada, by the Auditor General who examines the outcomes flowing from a Ministerial objective. Such reports are public reviewed by the House of Commons Standing Committee on Public Accounts (PACP) which are available to the public.

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