Strategic audit as an enterprise management tool – concept and methods

Abstract: This study presents strategic audit as an enterprise management tool and explores the concept and its application methods. In addition, it presents selected published study findings concerning strategic audit services in small and medium-sized companies.

Keywords: audit, strategy, strategic audit, Albany method, Webb method, IMI method, ABC method

Introduction

Risk is part and parcel of contemporary business operations. Corporate survival hinges on the ability to anticipate changes in one’s environment and adapt one’s operational strategy accordingly. Therefore, it is crucial to have an efficient strategic management system and to adopt corresponding policies to examine the effectiveness of implemented strategies. Strategic audit serves as a tool for the evaluation of such strategies and strategic management systems as a whole.

In this article, the author will try to answer the question: what is a strategic audit and what methods are used in it? Also, selected practical aspects associated with strategic audit application in enterprises will be presented.

The concept and essence of strategic audit

Strategic audit can be explained by reference to the constituent elements of the name – the terms audit and strategy/strategic. Literature and legal documents offer many definitions for specific types of audit. Usually, they distinguish between internal and external audits. In order to capture the essence of audit, it is important to refer to internal audit, which can be defined as:

- an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to

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1 Faculty of Economics, Maria Curie Skłodowska University, Pl. M. Curie-Skłodowskiej 5, 20-031 Lublin, e-mail: agnieszka.piasecka@umcs.lublin.pl
3 The fundamental difference between internal and external audits lies in the auditor. In the case of internal audits, it is an employee of the audited organisation or a third party (outsourcing). External audit, on the other hand, can only be performed by a third-party organisation. C.f. W. Dryl, Audyt marketingowy [Marketing audit], CeDeWu.pl Wydawnictwa Fachowe, Warsaw 2010, p. 88.
evaluate and improve the effectiveness of risk management, control, and governance processes (The Institute of Internal Auditors)\textsuperscript{4},

- an independent and objective activity with the aim to support the minister in charge of a department or head of a unit in the fulfillment of goals and tasks through systematic evaluation of management control, and to provide advisory services. The evaluation concerns the relevance, performance and efficacy of management control (Ustawa z dnia 27 sierpnia 2009 r. o finansach publicznych)\textsuperscript{5},

- a management tool, which – using an independent, objective and systematic process based on the available analytical methods and techniques – identifies, assesses, and eliminates problems across all areas of the organisation, thus contributing to its improvement (E. Bielińska-Dusza)\textsuperscript{6},

- a service provided by an independent team of professionals, an individual, or an institution, who/which undertake a systemic assessment to provide the management with information about the efficiency of all areas of the organisation, and to suggest possible improvements (A. Skoczylas-Tworek)\textsuperscript{7}.

In addition to internal and external audits, there are many other types of audit, which represent various approaches to this service. Depending on differentiating criteria, other major types of audit include\textsuperscript{8}:

- strategic audit, operational audit (criterion – management level),
- organisation audit, system audit, product audit, project audit (criterion – reference plane),
- personal audit, IT audit, financial audit, marketing audit (criterion – audited department),
- quality management audit, environmental management audit, risk management audit, financial report audit (criterion – audited aspect),
- compliance audit, effectiveness audit, investigative audit (criterion – purpose).

Nevertheless, regardless of this multitude of definitions and approaches to audit, it is important to note that it\textsuperscript{9}:

- is independent and unbiased,
- has a specific purpose,

\textsuperscript{4}The Institute of Internal Auditors, Definition of Internal Auditing, https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx (15.03.2017)
\textsuperscript{5}Ustawa z dnia 27 sierpnia 2009 r. o finansach publicznych, art. 272 [Public Finance Act of 27 August 2009, Article 272].
\textsuperscript{6}E. Bielińska-Dusza, Zakres pojęciowy audytu wewnętrznego [Conceptual range of internal audit], [In:] M. Lisiński (Ed.), Audyt wewnętrzny w doskonaleniu instytucji [Internal audit in institutional improvement], Polskie Wydawnictwo Ekonomiczne, Warsaw 2011, p. 42.
\textsuperscript{7}A. Skoczylas-Tworek, Audyt we współczesnej gospodarce rynkowej [Audit in contemporary market economy], Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2014, p. 25.
is conducted using standardised criteria,
documents its course, results and conclusions based on facts,
is designed to streamline corporate operations.

The second term, strategic, needs to be referred to issues associated with the concept of strategy. Similar to audit, this term, too, has many interpretations in management theory and practice. In particular, there are the following approaches to defining strategy:

- a strategy is the choice of areas in which the company is to be involved, as well as methods of using its resources to help it gain a competitive edge, while taking into consideration future circumstances (J. Bogdanienko)\(^{10}\),
- a strategy covers four major areas – scope, resource deployment, distinctive competence and synergy (R.W. Griffin)\(^{11}\),
- a strategy is a programme or plan of action, prepared for all levels of a strategic management system framework\(^ {12}\); a strategic management system usually covers the analysis of the organisation and its environment, and the choice and implementation of a strategy.

Regardless of its definition, it is important to note that strategy\(^ {13}\):

- defines a corporate footprint,
- is correlated with competition,
- refers and responds to developments in a corporate environment,
- focuses on corporate resources,
- reflects the system of values encouraged by the management,
- concerns long-term expectations.

Literature offers many different typologies of strategy. The most general division is based on structural criteria and distinguishes between corporate, business and functional strategies\(^ {14}\). It is important to note that a strategy consists of a mission statement, field, competitive advantage, strategic goals.

Given that strategic audit is a sub-type of internal audit, and by reference to strategy and strategic management, it should be concluded that strategic audit is about forming and implementing strategies, and that it takes place at the level of corporate management.

**Literature and online resources afford comprehensive definitions of strategic audit**

K. Oblój argues that strategic audit is a comprehensive, systematic, critical and unbiased review and evaluation of major strategic objectives, and also the

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\(^{13}\) P. Markiewicz, *Ujęcia, definicje i zakres audytu strategicznego* [Approaches to and definitions and scope of strategic audit], [In:] M. Lisiński (Ed.), *Audyt wewnętrzny w doskonaleniu instytucji* [Internal audit in institutional improvement], Polskie Wydawnictwo Ekonomiczne, Warsaw 2011, pp. 254-255.

\(^{14}\) Ibidem, p. 255.
progress in strategy implementation in order to identify any difficulties, development opportunities, and correlations designed to improve corporate effectiveness. K. Opolski et al. emphasise that strategic audit is a system that comprises a set of measures designed to evaluate progress in strategy implementation. R. Barnat notes that strategic audit examines and assesses areas related to corporate strategic management. P. Markiewicz argues that strategic audit is about verifying long-term operations associated with control. Defined this way, audit can refer to the process itself, and to strategic management methods and organisational aspects connected with the distribution of tasks and responsibilities related to the development and implementation of strategies in individual business units.

The Strategic Management Institute, in turn, advocates that strategic audit is a review of a company’s business plan and strategies to identify weaknesses and shortcomings and enable a successful development of the company.

A. Labus, on the other hand, notes that strategic audit is a comprehensive review of a corporate strategic management system to reduce strategic risk.

There is no doubt that company management should opt for a strategic audit when:

- performance indicators show that their strategy is not effective or has negative side effects,
- objectives set out in their strategic plan have not been accomplished,
- there has been a change in the external environment.

A comprehensive assessment of the implemented strategy facilitates its modification and adjustment to the conditions the company operates in.

To sum up this thread, it is important to identify the following characteristics of strategic audit:

- comprehensively analyses business strategies and strategic management system,
- reduces strategic risk,
- identifies the strongest and the weakest strategic areas within the company,
- identifies new directions of activities leading to the development of the organization.

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15 K. Opolski, K. Waśniewski, M. Wereda, Audyt strategiczny jako szansa na poprawę pozycji rynkowej firmy [Strategic audit as an opportunity to position the company better on the market], CeDeWu.pl Wydawnictwa Fachowe, Warsaw 2008, p. 32.
16 Ibidem, p. 32.
18 P. Markiewicz, Ujęcia, definicje i zakres audytu strategicznego [Approaches to, and definitions and scope of, strategic audit]. [In:] M. Lisiński (Ed.), Audyt wewnętrzny w doskonaleniu instytucji [Internal audit in institutional improvement], Polskie Wydawnictwo Ekonomiczne, Warsaw 2011, pp. 253-254, 258.
20 A. Labus, Czy warto przeprowadzić audyt strategiczny w firmie? [Is it worth having a strategic audit in your company?]. [In:] Podręcznik świadczenia nowej usługi doradczej o charakterze proinnowacyjnym. Audyt strategiczny przedsiębiorstwa [New pro-innovation consulting service handbook. Corporate strategic audit], Katowice 2013, p. 27.
Strategic audit methods

Due to the fact that strategic audit evaluates not only strategies but strategic management systems in general, it is important to choose appropriate methods for conducting it. Possible options include strategic analyses of the micro- and macro-environments and strategic potential of the organisation, such as scenario methods, Porter’s five forces model, portfolio methods, key success factor analysis, strategic balance sheet, and SWOT analysis. However, these methods will only examine selected strategic areas of business operations. Therefore, according to K. Opolski, K. Waśniewski and M. Wereda, these should be treated as supporting methods. In their opinion, proper strategic audit methods include: the Albany method, the Webb method, the IMI method, and the ABC method.

The Albany method
This method is named after a company whose representatives came to the conclusion that the main purpose of strategic audit is to evaluate an organisation’s strategy. They argue that in order to verify whether the implemented strategy is correct and effective, audit needs to follow eight specific steps (dimensions), including Situation Assessment, Strategic Managers, Environmental Scanning, Strategy Evaluation, Administrative Considerations, Action Planning, Implementation, and Performance Evaluation and Control. For each of these dimensions, there are detailed questions, as presented in Table 1.

The Webb method
This method is named after M.W. Webb, its author. The method analyses business operations in three stages, which cover the following elements:

1. Presenting basic information about the company (company analysis), such as its name, location, number of employees, factories, ownership structure, recent financial performance, primary products or services offered by the company, geographical and demographic market for primary products, and additional information about the market.
2. Determining the competitive position to identify factors that affect the organisation in the long term – identifying major competitors, comparative advantages, sector attractiveness, competition structure, and main competences.
3. Analysing strategically such factors as strategic communication, competitive strategy, competitive attitude, competitive intelligence, marketing skills, financial standing and financial strategy, resource allocation and procurement, functional skills, innovative capacity, political environment, and changes.

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22 For more information about these methods, please see P. Daniluk, Zarządzanie strategiczne. Analiza strategiczna organizacji [Strategic management. Strategic analysis of organisations], Akademia Obrony Narodowej, Warsaw 2008, pp. 27-110.
23 K. Opolski, K. Waśniewski, M. Wereda, Audyt strategiczny jako szansa na poprawę pozycji rynkowej firmy [Strategic audit as an opportunity to position the company better on the market], CeDeWu.pl Wydawnictwa Fachowe, Warsaw 2008, p. 77.
24 Ibidem, pp. 77-80.
25 Ibidem, pp. 81-82.
The most important stage in this method is strategic analysis, which helps identify measures for improving the company’s strategic potential.

Table 1. Albany method overview – dimensions and detailed questions

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Detailed questions</th>
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<tbody>
<tr>
<td><strong>Situation Assessment</strong></td>
<td>What is our purpose? What is our “strategic intent”?</td>
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<td></td>
<td>What is our fiscal condition and why?</td>
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<td>What is our sustainable competitive advantage?</td>
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<td>What core competencies do we possess?</td>
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<td>What are our strengths? Do we use these fully?</td>
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<td></td>
<td>What are our weaknesses? How can we solve or mitigate these?</td>
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<td></td>
<td>What are our opportunities? How can we exploit these?</td>
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<td></td>
<td>What are the threats to us? What can we do about them?</td>
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<td><strong>Strategic Managers</strong></td>
<td>What is our collective strategic vision?</td>
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<td></td>
<td>Do the executives possess the right leadership skills and abilities?</td>
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<td>Are the top managers entrepreneurial and creative?</td>
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<td>Are they willing to take risks?</td>
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<td>Do they possess the necessary organisational talents?</td>
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<td>What are their values?</td>
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<td><strong>Environmental Scanning</strong></td>
<td>What industry forces work for and against us?</td>
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<td>Who do we serve and who has a stake in our actions?</td>
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<td></td>
<td>What are their needs and requirements?</td>
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<td></td>
<td>What major products and services do we provide these stakeholders?</td>
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<td></td>
<td>Based on the above, do you think stakeholder support will remain about the same?</td>
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<td></td>
<td>Based on the above, what is the scenario for the future?</td>
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<tr>
<td><strong>Strategy Evaluation</strong></td>
<td>What is our generic business strategy?</td>
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<td></td>
<td>How about our international strategy?</td>
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<td>What are the industry key success factors?</td>
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<td></td>
<td>What really makes the difference between success and failure in our business?</td>
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<td></td>
<td>Is the strategy consistent with desired risk, available resources, and timing?</td>
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<tr>
<td><strong>Administrative Considerations</strong></td>
<td>What is the role of headquarters?</td>
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<td>How are we creating a “learning organisation”?</td>
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<td>What kind of structure characterises our organisation?</td>
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<td>What are the guiding concepts or fundamental ideas around which we have built our organisation?</td>
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<td></td>
<td>What are the basic management characteristics in this organisation?</td>
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<td>Can we change and transform the organisation?</td>
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<tr>
<td><strong>Action Planning</strong></td>
<td>Which activities will enhance our organisation’s performance?</td>
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<td></td>
<td>What are the expected fiscal results?</td>
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<tr>
<td><strong>Implementation</strong></td>
<td>What resources will this action plan require from finance, human resources, marketing, operations, and other functional areas and departments?</td>
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<td></td>
<td>What changes will have to occur for us to be successful in 2 to 5 years?</td>
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<td>What training is necessary?</td>
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<td></td>
<td>Are there other organisations or individuals we might collaborate with?</td>
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<tr>
<td><strong>Performance Evaluation and Control</strong></td>
<td>When and how will we evaluate performance?</td>
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<tr>
<td></td>
<td>What are the desired quantitative and qualitative measurements of success?</td>
</tr>
</tbody>
</table>

Source: Own work based on K. Opolski, K. Waśniewski, M. Wereda, Audyt strategiczny jako szansa na poprawę pozycji rynkowej firmy [Strategic audit as an opportunity to position the company better on the market], CeDeWu.pl Wydawnictwa Fachowe, Warsaw 2008, pp. 78-80.
The IMI method

The name comes from IMI Consulting, a company in which strategic audit is based on the assessment of its strategic functions. This method approaches strategic audit not as the assessment of the organisation’s strategy only, but also, or primarily, of its every major function. Therefore, strategic audit comprises at least over a dozen types of audits, performed in the appropriate order. These include:

- business strategy audit, involving assessment of the marketing environment, strategy and measures designed to identify problem areas and those in need of improvement,
- productivity audit,
- logistics audit based on the benchmarking of the practices used by the company against corresponding global standards,
- service management audit, designed to provide information about the resources used for service provision, and to measure service management quality,
- customer satisfaction audit, which identifies key aspects of customer satisfaction monitoring,
- cost of quality audit, designed to identify any income lost as a result of poor quality,
- environmental audit, resulting in the adoption of specific environmental standards,
- leadership audit, identifying required leadership competences,
- culture audit, identifying elements of the company’s organisational culture,
- corporate identity audit to understand the core values of the organisation and determine its development directions,
- information security audit,
- strategic alliance audit, which suggests tools for the assessment of current alliance effectiveness,
- technological audit, designed to identify priority technologies from the company’s strategy point of view.

The ABC method

This name comes from the American Broadcasting Company (ABC), the company which was the first to be audited using this method. Analysis based on this tool consists of the following three complex stages:

2. External audit.
3. Internal audit.

As part of the internal audit, the recommended methodology is Competitive Analysis, which identifies partners who support or hamper the effective implementation of an organisation’s strategy. Another suggested tool is the External Factor Evaluation Matrix (EFE), which identifies significant threats and opportunities for the organisation within the industry as a whole, presented in the form of a matrix developed on the basis of weighs attached to each factor, and their evaluations. Internal audit, on the other hand, should be performed using such tools as:

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The Internal Factor Evaluation Matrix (IFE), to identify major forces within the organisation that affect its operation,
The Competitive Profile Matrix (CPM), which identifies the company’s main competitors,
The Strategic Position Action Evaluation Matrix (SPACE), which evaluates the company’s operations and its strategic position,
The Internal-External Matrix (IE), which compares the organisation’s internal environment and the way it interacts with the external environment,
The Grand Strategy Matrix, which represents strategies employed by the company.

The final stage in this analysis is the Quantitative Strategic Planning Matrix (QSPM), which serves as the basis for deciding on changing the strategy or not.

The presented strategic audit methods have their advantages and disadvantages, as shown in Table 2. An important issue associated with strategic audit is the way it is conducted, i.e., whether it is by the organisation’s employee (team) or external experts. Both options have their advantages and disadvantages. Company employees have important information about the organisation but they might be subjective in their analysis and assessment. On the other hand, someone from outside the company, despite their objective approach to the evaluation, might not know the company inside out, which could also cause some bias in their findings.

<table>
<thead>
<tr>
<th>Method</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>2. Very useful recommendations offered in the final report.</td>
<td>2. Progress in strategy implementation cannot be benchmarked – distorted information from several people from different departments within the organisation.</td>
</tr>
<tr>
<td>The ABC method</td>
<td>Matrices.</td>
<td>1. Progress in strategy implementation cannot be benchmarked.</td>
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<td></td>
<td></td>
<td>2. Time-consuming.</td>
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<tr>
<td></td>
<td></td>
<td>2. Hard to implement.</td>
</tr>
</tbody>
</table>

Source: own work based on K. Opolski, K. Waśniewski, M. Wereda, *Audyt strategiczny jako szansa na poprawę pozycji rynkowej firmy* [Strategic audit as an opportunity to position the company better on the market], CeDeWu.pl Wydawnictwa Fachowe, Warsaw 2008, pp. 77-87.

Strategic audit as a service – a practical approach

This part of the paper presents the findings of a study entitled “Audyt Strategiczny Przedsiębiorstwa – nową usługą doradczą dla przedsiębiorstw świadczoną

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27 Ibidem, pp. 84-87.
28 This part of the article is based on *Podręcznik świadczenia nowej usługi doradczej o charakterze proinnowacyjnym. Audyt strategiczny przedsiębiorstwa* [New pro-innovation consulting service handbook. Corporate strategic audit], Katowice 2013.
Strategic audit as an enterprise management tool – concept and methods

The study was conducted as part of Measure 5.2., Innovative Economy Operational Programme. It was a supra-regional project and was implemented by three institutions working in partnership, namely Górnośląska Agencja Przekształceń Przedsiębiorstw S.A. (Project Leader), Park Naukowo-Technologiczny Euro-Centrum Sp. z o.o., and Agencja Rozwoju Lokalnego Sp. z o.o. The purpose of the project was to introduce strategic audit as a new, pro-innovation service. The study on audit focused on assessing competitors and identifying possible opportunities and threats for the company in the context of its products, services, and business area. The project was implemented between 1.02.2011 and 31.07.2013.

The study covered small and medium-sized companies from all over Poland, and included a total of 110 audits involving a questionnaire survey and face-to-face interviews with managers. Audits were performed by external experts – practitioners of strategic management, and project consultants. The study focused on:

- assessing competitors,
- identifying possible opportunities and threats for the company in the context of its products, services, and business area,
- analysing and assessing the quality of information on the business environment collected and managed by the company in response to market conditions,
- obtaining information about the life cycle phase of company products, markets and technologies,
- conducting a strategic balance-sheet.

The examined companies usually cited the following reasons for using strategic audit:

- wanted to verify their actions,
- needed to create a strategy,
- lacked a strategy or wanted to adjust it to market conditions,
- wanted to improve their competences and competitiveness,
- needed HR advice.

Pro-innovation areas within the examined companies were identified on the basis of:

- analysis of their business environment,
- analysis of their portfolio operations (in relation to products and customers),
- analysis of their organisation (the process of creating value added),
- analysis of their planning,
- assessment of their organisational culture,
- evaluation of their HR management practices.

Study findings show that in the examined companies:
- there is no well-developed HR management strategy, which clearly shows that employers tend to neglect this issue,
- employees do not know the strategic objectives of the company and have little involvement in defining such goals,
- there is no mission statement,
- owners embody the vision, mission and strategy of the company,
- owners and managers are very open to suggestions and proposals concerning changes.

Principal follow-up recommendations offered by experts were as follows:
- specify/pinpoint mission, vision, objectives,
- expand the customer database, market segmentation,
- make advertising more effective, and work on company image and marketing communication,
- improve operational management,
- improve incentive and training schemes,
- analyse and expand product portfolio and add new services.

To sum up, it needs to be noted that, while many of the examined companies said that spectacular effects of follow-up measures would only be seen over time, some of them noticed certain effects immediately after they acted on those recommendations. These benefits usually included:
- revision of their HR policy,
- making their mission, vision, and objectives consistent,
- improving their competences and personnel training.

Conclusions

This overview of literature shows that strategic audit:
- is an independent, objective and consulting activity,
- analyses business strategies and strategic management system,
- should be implemented when the company's strategy is not effective,
- should be carried out using methods: the Albany method, the Webb method, the IMI method, the ABC method,
- is conducted by the organisation’s employee or external experts,
- identifies new directions of activities leading to the development of the organization.

Also, the study covered small and medium-sized companies from Poland shows that:
- the most common reason for the strategic audit is the need to verify their actions and to create a strategy,
- in the examined companies there is no well-developed HR management strategy and employees do not know the strategic objectives of the company,
- the effects of the strategic audit are related to implementing new HR policy, correcting some elements of strategy and improving competences and personnel training.
It should be noted that strategic audit is a useful management tool for managers. When used with an appropriate methodology, strategic audit makes it possible to evaluate strategic business areas and identify improvement opportunities.

References


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Podręcznik świadczenia nowej usługi doradczej o charakterze proinnowacyjnym. Audyt strategiczny przedsiębiorstwa, Katowice 2013.


Ustawa z dnia 27 sierpnia 2009 r. o finansach publicznych.