

# REDUCING STRATEGIC UNCERTAINTY

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***Nolan, Norton & Co.***

## The independent strategy audit experiences a revival

The strategy audit has been popular in the '70s and '80s of the last century. Especially banks asked for in depth assessment of the strategy of their (potential) client in order to determine the long term attractiveness of investing in that firm. After a period of relative silence, we see a revival of the strategy audit.

What are the reasons behind this new wave of requests for an independent strategy audit? Of course the recent financial and economic crisis play an important role. Financial capital has become much more scarce and both investors and supervisors have become aware of the uncertainties in realising a firm's strategy and the returns that were promised.

However, the crisis is – in our view – more a catalyst rather than the fundamental cause of the need for an independent and professional strategy assessment. The crisis just has revealed the increased complexity and fundamental uncertainty that is associated with modern strategies.

Several stakeholders – including bankers – have become aware of the fact that they lack the information and expertise to fully assess the validity of a proposed strategy. And they have been reminded that the interests of different stakeholders are not aligned or even balanced automatically. Furthermore, the perspectives to assess a firm's strategy have been broadened over the past few years, based on the increasing attention for sustainability, social responsibility and stakeholder value. What are the typical questions behind a strategy audit? Most of them stem from the general questions different stakeholders ask themselves (see figure 1).

More specific questions, based on current complexities and uncertainties, are:

- 1 Is the proposed strategy viable and well founded on facts?
- 2 Is the strategy sustainable, both from a competitive and a social perspective?
- 3 Does the business model fully exploit the modern opportunities in technology, cooperation and customer interaction?
- 4 What are the major risks that may disturb the outcomes?
- 5 Is the company able to execute the strategy properly and meet its financial liabilities?

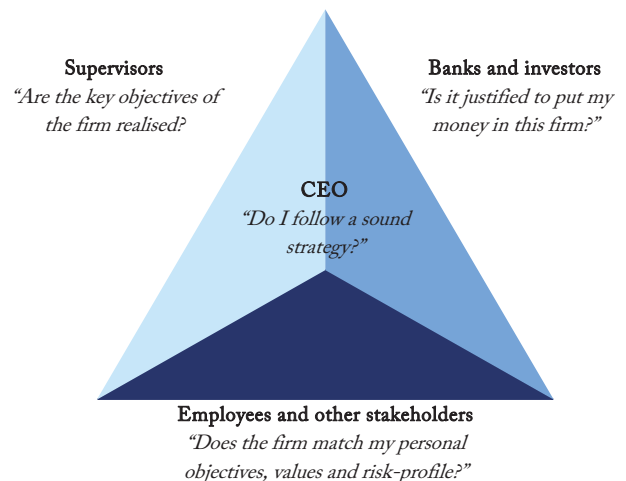


Figure 1: Main questions per stakeholder

## Key aspects in a strategy audit

What are the key aspects that a strategy audit should cover? A strategy audit must provide insight in the probability that the proposed strategy will deliver the expected outcomes. Therefore the audit both needs to cover the appropriateness and consistency of the strategy itself as well as the validity of the fundamental assumptions on which it is based.

Nolan, Norton & Co. generally includes the following aspects in its strategy audits, specified and complemented according to the specific needs of the client and the situation of the firm (see figure 2).

## The Nolan, Norton & Co. method of conducting a strategy audit

One of the major challenges in performing a strategy audit is to combine the in-depth investigation that is needed to provide the required level of certainty with the efficiency and speed that is typically asked for. Over the years, NNC has developed an effective method to conduct a strategy audit, meeting the requirements of our clients. One of the key characteristics is that we start with a high level assessment

that reveals the critical areas. In the next steps, most of the efforts are focused on these areas that determine the validity of the specific strategy. Other elements that characterise our approach are:

- 1 Involvement of top-management
- 2 Broad perspective; quantitative/qualitative, strategy/execution, shareholder/stakeholder
- 3 Use of industry-experts, associated with NNC

A typical strategy review project follows the following approach (see figure 3).

### Strategy

We start with a comprehensive review of the strategic plan, as provided by top-management. We test the plan on our general requirements for a sound strategic plan. In this phase we also have a discussion with top-management, in which they explain the strategy, show the foundations and relevant facts and answer our questions. This phase results in an overview of critical areas, based on the importance for the strategy and/or the weakness of the foundations.

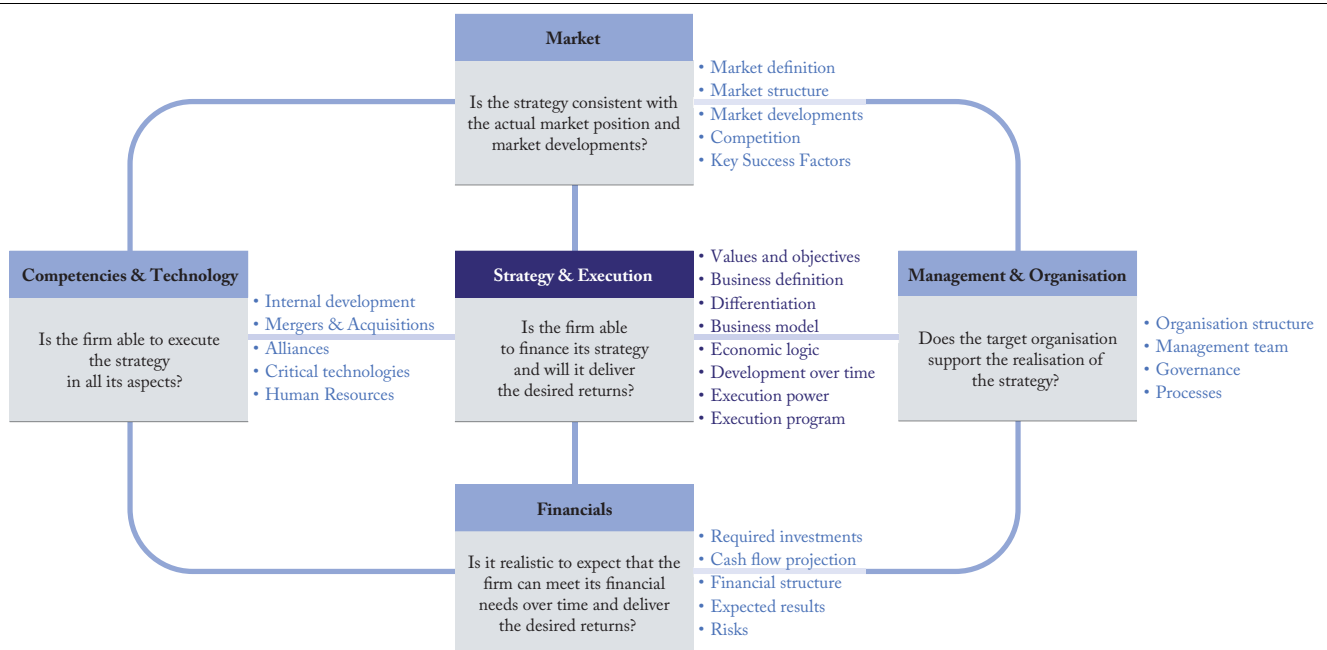


Figure 2: NNC Strategy Audit Framework

*Foundation*

In the next phase we perform in-depth research into the major building blocks of the strategy. Here we use information from desk research and apply the insights of industry and/or matter experts. If relevant, this phase may involve interviews with other stakeholders, like employee representatives, middle management and government.

*Improvements*

Finally, the conclusions are developed with respect to the overall validity of the strategy, the weak aspects, and the way in which the strategy and its execution could be improved. In most cases we prefer to discuss these conclusions with top-management to give them the opportunity to validate the conclusions and to fully understand the recommendations.

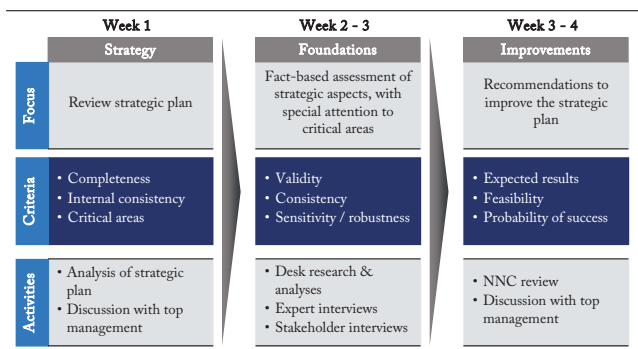


Figure 3: NNC Strategy Audit Approach

The way in which NNC conducts a strategy audit provides a number of valuable attributes:

- 1 Objective and independent;
- 2 Useful for external communication, based on professional standards;
- 3 Validated with facts and well informed expert opinions;
- 4 Pragmatic, with a focus on improvement.

The actual focus of the strategy audit and its application depends on the specific situation and the decision that a stakeholder faces.

Most common is the situation in which a bank and a CEO agree to have an external review of the strategic plan to reduce uncertainty and to increase credibility in the case of participation or an extended loan. The strategy audit first helps the CEO to improve his strategy, and second provides the bank with a clear insight in the probability that the firm realises its results, and the major risks that may disturb the outcomes. Together the audit enhances the chances to realise the financial deal.

The focus of a strategy audit is different when a fundamentally new strategy is presented and several stakeholders want to know whether the proposed strategy is the optimal alternative that balances the interests of the different stakeholders in an acceptable way.

The strategy audit can also be used to overcome an impasse on the validity, consistency or feasibility of a new strategy.

In all cases, the strategy audit typically provides better insight, reduces the level of uncertainty, enhances the actual strategy, and contributes with a shared platform for transparent discussion and decision making.

**W** hat do you obtain with a strategy audit?

Why and when should you ask for a strategy audit? What can you expect from a strategy audit? Let’s answer these questions with a brief description of the concrete outputs of a strategy audit. The content of the final report is:

- 1 Conclusion – assessment of the strategic plan and recommendations for improvement;
- 2 Structured description of the strategy;
- 3 Assessment of the assumptions on which the strategy is based, with respect to market, competencies & technology, management & organisation, and financials;
- 4 Overall assessment of the strategy and the execution power, including the most relevant uncertainties and risks.

Nolan, Norton & Co. (NNC) consults and guides the senior management of international companies in the development and implementation of their corporate and business strategies. NNC's experience and thought leadership in strategy design, organisation design, governance, information technology and execution are the key factors that distinguish us from other strategy firms in the Benelux consulting market.

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