

APPENDIX 11.C

Strategic Audit of a Corporation

I. CURRENT SITUATION

A. Current Performance

How did the corporation perform the past year overall in terms of return on investment, market share, and profitability?

B. Strategic Posture

What are the corporation's current mission, objectives, strategies, and policies?

1. Are they clearly stated or are they merely implied from performance?
2. *Mission*: What business(es) is the corporation in? Why?
3. *Objectives*: What are the corporate, business, and functional objectives? Are they consistent with each other, with the mission, and with the internal and external environments?
4. *Strategies*: What strategy or mix of strategies is the corporation following? Are they consistent with each other, with the mission and objectives, and with the internal and external environments?
5. *Policies*: What are the corporation's policies? Are they consistent with each other, with the mission, objectives, and strategies, and with the internal and external environments?
6. Do the current mission, objectives, strategies, and policies reflect the corporation's international operations, whether global or multidomestic?

II. CORPORATE GOVERNANCE

A. Board of Directors

1. Who is on the board? Are they internal or external members?
2. Do they own significant shares of stock?
3. Is the stock privately held or publicly traded? Are there different classes of stock with different voting rights?
4. What do the board members contribute to the corporation in terms of knowledge, skills, background, and connections? If the corporation has international operations, do board members have international experience? Are board members concerned with environmental sustainability?

Source: T. L. Wheelen and J. D. Hunger, *Strategic Audit of a Corporation*, Copyright ©1982 and 2005 by Wheelen and Hunger Associates. Thomas L. Wheelen, "A Strategic Audit," paper presented to Society for Advancement of Management (SAM). Presented by J. D. Hunger and T. L. Wheelen in "The Strategic Audit: An Integrative Approach to Teaching Business Policy," to Academy of Management, August, 1983. Published in "Using the Strategic Audit," by T. L. Wheelen and J. D. Hunger in *SAM Advanced Management Journal* (Winter 1987), pp. 4-12. Reprinted by permission of the copyright holders. Revised 1988, 1994, 1997, 2000, 2002, 2004, 2005, 2009 and 2010.

5. How long have board members served on the board?
6. What is their level of involvement in strategic management? Do they merely rubber-stamp top management's proposals or do they actively participate and suggest future directions? Do they evaluate management's proposals in terms of environmental sustainability?

B. Top Management

1. What person or group constitutes top management?
2. What are top management's chief characteristics in terms of knowledge, skills, background, and style? If the corporation has international operations, does top management have international experience? Are executives from acquired companies considered part of the top management team?
3. Has top management been responsible for the corporation's performance over the past few years? How many managers have been in their current position for less than three years? Were they internal promotions or external hires?
4. Has it established a systematic approach to strategic management?
5. What is its level of involvement in strategic management?
6. How well does top management interact with lower level managers and with the board of directors?
7. Are strategic decisions made ethically in a socially responsible manner?
8. Are strategic decisions made in an environmentally sustainable manner?
9. Do top executives own significant amounts of stock in the corporation?
10. Is top management sufficiently skilled to cope with likely future challenges?

III. EXTERNAL ENVIRONMENT: OPPORTUNITIES AND THREATS (SWOT)

A. Natural Physical Environment: Sustainability Issues

1. What forces from the natural physical environment are currently affecting the corporation and the industries in which it competes? Which present current or future threats? Opportunities?
 - a. Climate, including global temperature, sea level, and freshwater availability
 - b. Weather-related events, such as severe storms, floods, and droughts
 - c. Solar phenomena, such as sunspots and solar wind
2. Do these forces have different effects in other regions of the world?

B. Societal Environment

1. What general environmental forces are currently affecting both the corporation and the industries in which it competes? Which present current or future threats? Opportunities?
 - a. Economic
 - b. Technological
 - c. Political-legal
 - d. Sociocultural
2. Are these forces different in other regions of the world?

178 Part V • Introduction to Case Analysis

C. Task Environment

1. What forces drive industry competition? Are these forces the same globally or do they vary from country to country? Rate each force as high, medium, or low.
 - a. Threat of new entrants
 - b. Bargaining power of buyers
 - c. Threat of substitute products or services
 - d. Bargaining power of suppliers
 - e. Rivalry among competing firms
 - f. Relative power of unions, governments, special-interest groups, and so on
2. What key factors in the immediate environment (i.e., customers, competitors, suppliers, creditors, labor unions, governments, trade associations, interest groups, local communities, and shareholders) are currently affecting the corporation? What are the current or future threats? Opportunities?

D. Summary of External Factors (Include in an EFAS Table)

Which of these forces and factors are the most important to the corporation and to the industries in which it competes at the present time? Which will be important in the future?

IV. INTERNAL ENVIRONMENT: STRENGTHS AND WEAKNESSES (SWOT)

A. Corporate Structure

1. How is the corporation structured at present?
 - a. Is the decision-making authority centralized around one group or decentralized to many units?
 - b. Is it organized on the basis of functions, projects, geography, or some combination of these?
2. Is the structure clearly understood by everyone in the corporation?
3. Is the present structure consistent with current corporate objectives, strategies, policies, and programs, as well as with the firm's international operations?
4. In what ways does this structure compare with those of similar corporations?

B. Corporate Culture

1. Is there a well-defined or emerging culture composed of shared beliefs, expectations, and values?
2. Is the culture consistent with the current objectives, strategies, policies, and programs?
3. What is the culture's position on important issues facing the corporation (i.e., on productivity, quality of performance, adaptability to changing conditions, environmental sustainability, and internationalization)?
4. Is the culture compatible with the employees' diversity of backgrounds?
5. Does the company take into consideration the values of each nation's culture in which the firm operates?

C. Corporate Resources

1. Marketing

- a. What are the corporation's current marketing objectives, strategies, policies, and programs?
 - i. Are they clearly stated, or merely implied from performance and/or budgets?
 - ii. Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- b. How well is the corporation performing in terms of analysis of market position and marketing mix (i.e., product, price, place, and promotion) in both domestic and international markets? How dependent is the corporation on a few customers? How big is its market? Where is it gaining or losing market share? What percentage of sales comes from developed versus developing regions of the world? Where are current products in the product life cycle?
 - i. What trends emerge from this analysis?
 - ii. What impact have these trends had on past performance and how might these trends affect future performance?
 - iii. Does this analysis support the corporation's past and pending strategic decisions?
 - iv. Does marketing provide the company with a competitive advantage?
- c. How well does this corporation's marketing performance compare with that of similar corporations?
- d. Are marketing managers using accepted marketing concepts and techniques to evaluate and improve product performance? (Consider product life cycle, market segmentation, market research, and product portfolios.)
- e. Does marketing adjust to the conditions within each country in which it operates?
- f. Does marketing consider environmental sustainability when making decisions?
- g. What is the role of the marketing manager in strategic management?

2. Finance

- a. What are the corporation's current financial objectives, strategies, policies, and programs?
 - i. Are they clearly stated or merely implied from performance and/or budgets?
 - ii. Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- b. How well is the corporation performing in terms of financial analysis? (Consider ratios, common-size statements, and capitalization structure.) How balanced in terms of cash flow is the company's portfolio of products and businesses? What are investor expectations in terms of share price?
 - i. What trends emerge from this analysis?
 - ii. Are there any significant differences when statements are calculated in constant versus reported dollars?

180 Part V • Introduction to Case Analysis

- iii. What impact have these trends had on past performance and how might these trends affect future performance?
 - iv. Does this analysis support the corporation's past and pending strategic decisions?
 - v. Does finance provide the company with a competitive advantage?
 - c. How well does this corporation's financial performance compare with that of similar corporations?
 - d. Are financial managers using accepted financial concepts and techniques to evaluate and improve current corporate and divisional performance? (Consider financial leverage, capital budgeting, ratio analysis, and managing foreign currencies.)
 - e. Does finance adjust to the conditions in each country in which the company operates?
 - f. Does finance cope with global financial issues?
 - g. What is the role of the financial manager in strategic management?
- 3. Research and Development (R&D)**
- a. What are the corporation's current R&D objectives, strategies, policies, and programs?
 - i. Are they clearly stated, or merely implied from performance or budgets?
 - ii. Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
 - iii. What is the role of technology in corporate performance?
 - iv. Is the mix of basic, applied, and engineering research appropriate, given the corporate mission and strategies?
 - v. Does R&D provide the company with a competitive advantage?
 - b. What return is the corporation receiving from its investment in R&D?
 - c. Is the corporation competent in technology transfer? Does it use concurrent engineering and cross-functional work teams in product and process design?
 - d. What role does technological discontinuity play in the company's products?
 - e. How well does the corporation's investment in R&D compare with the investments of similar corporations? How much R&D is being outsourced? Is the corporation using value-chain alliances appropriately for innovation and competitive advantage?
 - f. Does R&D adjust to the conditions in each country in which the company operates?
 - g. Does R&D consider environmental sustainability in product development and packaging?
 - h. What is the role of the R&D manager in strategic management?
- 4. Operations and Logistics**
- a. What are the corporation's current manufacturing/service objectives, strategies, policies, and programs?
 - i. Are they clearly stated, or merely implied from performance or budgets?
 - ii. Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?

- b. What are the type and extent of operations capabilities of the corporation? How much is done domestically versus internationally? Is the amount of outsourcing appropriate to be competitive? Is purchasing being handled appropriately? Are suppliers and distributors operating in an environmentally sustainable manner? Which products have the highest and lowest profit margins?
 - i. If the corporation is product-oriented, consider plant facilities, type of manufacturing system (e.g., continuous mass production, intermittent job shop, or flexible manufacturing), age and type of equipment, degree and role of automation and/or robots, plant capacities and utilization, productivity ratings, and availability and type of transportation.
 - ii. If the corporation is service-oriented, consider service facilities (e.g., hospital, theater, or school buildings), type of operations systems (e.g., continuous service over time to same clientele or intermittent service over time to varied clientele), age and type of supporting equipment, degree and role of automation, use of mass communication devices (e.g., diagnostic machinery and video machines), facility capacities and utilization rates, efficiency ratings of professional and service personnel, and availability and type of transportation to bring service staff and clientele together.
- c. Are manufacturing or service facilities vulnerable to natural disasters, local or national strikes, reduction or limitation of resources from suppliers, substantial cost increases of materials, or nationalization by governments?
- d. Is there an appropriate mix of people and machines, in manufacturing firms, or of support staff to professionals (in service firms)?
- e. How well does the corporation perform relative to the competition? Is it balancing inventory costs (warehousing) with logistical costs (just-in-time)? Consider costs per unit of labor, material, and overhead; downtime; inventory control management and scheduling of service staff; production ratings; facility utilization percentages; and number of clients successfully treated by category (if service firm) or percentage of orders shipped on time (if product firm).
 - i. What trends emerge from this analysis?
 - ii. What impact have these trends had on past performance and how might these trends affect future performance?
 - iii. Does this analysis support the corporation's past and pending strategic decisions?
 - iv. Does operations provide the company with a competitive advantage?
- f. Are operations managers using appropriate concepts and techniques to evaluate and improve current performance? Consider cost systems, quality control and reliability systems, inventory control management, personnel scheduling, TQM, learning curves, safety programs, and engineering programs that can improve the efficiency of manufacturing or service.
- g. Do operations adjust to the conditions in each country in which it has facilities?
- h. Do operations consider environmental sustainability when making decisions?
- i. What is the role of the operations manager in strategic management?

182 Part V • Introduction to Case Analysis

5. Human Resources Management (HRM)

- a. What are the corporation's current HRM objectives, strategies, policies, and programs?
 - i. Are they clearly stated, or merely implied from performance and/or budgets?
 - ii. Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- b. How well is the corporation's HRM performing in terms of improving the fit between the individual employee and the job? Consider turnover, grievances, strikes, layoffs, employee training, and quality of work life.
 - i. What trends emerge from this analysis?
 - ii. What impact have these trends had on past performance and how might these trends affect future performance?
 - iii. Does this analysis support the corporation's past and pending strategic decisions?
 - iv. Does HRM provide the company with a competitive advantage?
- c. How does this corporation's HRM performance compare with that of similar corporations?
- d. Are HRM managers using appropriate concepts and techniques to evaluate and improve corporate performance? Consider the job analysis program, performance appraisal system, up-to-date job descriptions, training and development programs, attitude surveys, job design programs, quality of relationship with unions, and use of autonomous work teams.
- e. How well is the corporation managing the diversity of its workforce? What is the company's record on human rights? Does the corporation monitor the human rights record of key suppliers and distributors?
- f. Does HRM adjust to the conditions in each country in which the company operates? Does the company have a code of conduct for itself and for key suppliers in developing nations? Are employees receiving international assignments to prepare them for managerial positions? Are they being utilized appropriately?
- g. What is the role of outsourcing and temporary employees in HRM planning?
- h. What is the role of the HRM manager in strategic management?

6. Information Technology (IT)

- a. What are the corporation's current IT objectives, strategies, policies, and programs?
 - i. Are they clearly stated, or merely implied from performance and/or budgets?
 - ii. Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- b. How well is the corporation's IT performing in terms of providing a useful database, automating routine clerical operations, assisting managers in making routine decisions, and providing information necessary for strategic decisions?

- i. What trends emerge from this analysis?
- ii. What impact have these trends had on past performance and how might these trends affect future performance?
- iii. Does this analysis support the corporation's past and pending strategic decisions?
- iv. Does IT provide the company with a competitive advantage?
- c. How does this corporation's IT performance and stage of development compare with that of similar corporations? Is it appropriately using the Internet, intranet, and extranets?
- d. Are IT managers using appropriate concepts and techniques to evaluate and improve corporate performance? Do they know how to build and manage a complex database, establish Web sites with firewalls, conduct system analyses, and implement interactive decision-support systems?
- e. Does the company have a global IT and Internet presence? Does it have difficulty with getting data across national boundaries?
- f. What is the role of the IT manager in strategic management?

D. Summary of Internal Factors (Include in an IFAS Table)

Which of these factors are core competencies? Which, if any, are distinctive competencies? Which of these factors are the most important to the corporation and to the industries in which it competes at the present time? Which might be important in the future? Which activities or functions are candidates for outsourcing?

V. ANALYSIS OF STRATEGIC FACTORS (SWOT)

A. Situational Analysis (Include in SFAS Matrix)

What are the most important internal and external factors (*Strengths, Weaknesses, Opportunities, Threats*) that strongly affect the corporation's present and future performance?

B. Review of Mission and Objectives

1. Are the current mission and objectives appropriate in light of the key strategic factors and problems?
2. Should the mission and objectives be changed? If so, how?
3. If changed, what will be the effects on the firm?

VI. STRATEGIC ALTERNATIVES AND RECOMMENDED STRATEGY

A. Strategic Alternatives

1. Can the current or revised objectives be met by the simple, more careful implementation of those strategies presently in use (e.g., fine-tuning the strategies)?
2. What are the major feasible alternative strategies available to this corporation? What are the pros and cons of each? Can corporate scenarios be

184 Part V • Introduction to Case Analysis

developed and agreed upon? (Alternatives must fit the natural physical, societal and industry environments, and the corporation for next three to five years.)

- a. Consider *stability*, *growth*, and *retrenchment* as corporate strategies.
- b. Consider *competitive strategies*, such as lower cost or differentiation, and *cooperative strategies*, such as joint ventures or licensing, as possible business strategies.
- c. Consider any functional strategic alternatives that might be needed for reinforcement of an important corporate or business strategic alternative.

B. Recommended Strategy

1. Specify which of the strategic alternatives you are recommending for the corporate, business, and functional levels of the corporation. Do you recommend different business or functional strategies for different units of the corporation?
2. Justify your recommendation in terms of its ability to resolve both long- and short-term problems and effectively deal with the strategic factors.
3. What policies should be developed or revised to guide effective implementation?
4. What is the impact of the recommended strategy on the company's core and distinctive competencies?

VII. IMPLEMENTATION

- A. What kinds of programs (e.g., restructuring the corporation or instituting TQM) should be developed to implement the recommended strategy?
 1. Who should develop these programs?
 2. Who should be in charge of these programs?
- B. Are the programs financially feasible? Can pro forma budgets be developed and agreed upon? Are priorities and timetables appropriate to individual programs?
- C. Will new standard operating procedures need to be developed?

VIII. EVALUATION AND CONTROL

- A. Is the current information system capable of providing sufficient feedback on implementation activities and performance? Can it measure strategic factors?
 1. Can performance results be pinpointed by area, unit, project, or function?
 2. Is the information timely?
 3. Is the corporation using benchmarking to evaluate its functions and activities?
- B. Are adequate control measures in place to ensure conformance with the recommended strategic plan?
 1. Are appropriate standards and measures being used?
 2. Are reward systems capable of recognizing and rewarding good performance?

