Strategy

The journey to get there, and the linkage to Internal Audit

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Agenda for Today’s Session

• Introductions
• What is strategic planning
• How do you create a strategy or a strategic plan
• Why having a strategy is important
• Linkage to internal audit function
What is strategic planning?

Planning involves deciding what needs to be achieved, how it will be done, when and by whom it needs to be done, and how progress will be gauged.

Through planning (at the strategic or business operation level) it:

- establishes the intent of the organization,
- gathers the information needed to evaluate the organization’s **strengths, weaknesses and opportunities**;
- develops **long term strategies** that capitalize on the noted strengths and mitigates against its risks;
- and develops **short term operating plans** that identify the resources and activities that will be employed to meet the strategic aims.
Strategic planning is about generating insights in terms of:

• Areas of opportunity for building **sustained competitive advantage** or to demonstrate further progress in **advancing public policy and meeting societal needs**.

• Areas that represent **competitive threats, or risks** that can undermine the ability to achieve desired results.

• The **capabilities** of the organization.

• **Initiatives and actions** that can be taken to demonstrate solid progress in meeting priorities and expectations, and associated resource requirements.

• The **means for tracking and reporting on achievements**, as well as to highlight issues in need of **management action** and response.
Often there is confusion as to the differences between strategic and business planning...

<table>
<thead>
<tr>
<th>Strategic Plan</th>
<th>Business Plan</th>
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<tbody>
<tr>
<td>The strategic plan defines what the organization wants to be, the goals it has for achieving what it wants to be, and how it will act in becoming what it wants to be.</td>
<td>The business plan further defines how each component part of the organization will act in achieving the vision.</td>
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What is a strategy?

A strategy defines a set of actions that improves organizational competitiveness by serving customers and stakeholders better than other alternatives.

At its core, a strategic plan is a clear articulation of a) where the organization is going and b) how you are going to get there.

What you don't choose is as important as what you do choose.

All elements must be linked for maximum effectiveness and efficiency.
Developing strategic plans should follow a systematic and research-driven process.

WE NEED A CLEAR STRATEGY. DOES ANYONE HAVE A SUGGESTION?

LET'S FIGURE OUT WHAT MAKES US THE MOST PROFIT, AND THEN DO MORE OF IT.

IT NEEDS TO BE LESS CLEAR THAN THAT. WOULD USING FACTS HELP?
A strategic plan at a minimum should…

• **Articulate specific goals** that the organization wishes to achieve

• **Describe specific action steps** that will help you achieve the goals

• **Be reviewed on a regular basis** to ensure the strategic plan is still relevant
So, how do you create a strategy?

Consider:
Where do we want to be in the future?
Why?

Consider:
Where are we now?

Consider:
How will we make it happen?
Establish a vision, mission, goals and values

Conduct an external assessment

Develop strategies, actions and accountability

Select performance measures

Conduct an internal assessment
Determine your vision, mission, goals and values

A **vision statement** is a description of the preferred future state, or ultimate outcomes, to be realized by the organization in carrying out its activities and providing its products and services. It should be written in a manner that is concise and motivational.

A **mission statement** describes why the organization exists in terms of what it does, for what purposes, and who its clients are.

**Goals** are the medium to longer-term outcomes, or changes, that the organization needs to work towards as it aspires to fulfill its vision and mission.

**Values** are expressions of the beliefs and principles that should define what the organization and the people that comprise it stand for, and serve to guide the behaviors of management and employees.
## Conduct an External Assessment

To help ground the vision and goal statements, it is important to consider the broader context within which the business or public sector agency functions.

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<th>Industry</th>
<th>Socio-Economic</th>
<th>Competition</th>
<th>Customers</th>
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| • Size and growth in key industry segments and operations  
• Changes in product (market) segments  
• Leading practices  
• Trends in distribution | • Economic trends and changes in factors affecting supply and demand  
• Changes in demographic, political, legal, and social and labour factors | • Continued presence, and emergence of new competitors  
• Changes in competing product and service offerings  
• Evolution in strategic alliances and relationships | • Changes in the customer base and market segmentation  
• Emerging customer needs and expectations (i.e. level and quality of service) |
Conduct an Internal Assessment

It is also critical to be aware of the state of internal practices, operations and procedures.

During this phase you consider leadership, culture, structure, operations and resourcing of the organization in terms of the following:

- **Strategic and operational strengths** that might be leveraged into opportunities for action.
- **Strategic and operational challenges or weaknesses** to be addressed.
- **Specific risks** that arise from noted areas of challenge.
The strategy making process should ultimately be about:

• Capturing the insights from the internal and external assessments
• Synthesizing them into a clearly articulated set of objectives, strategies and actions

All with an objective of enhancing the success (or likelihood of success) of the organization.
Define the objective, strategies, and actions...

- **Objectives** are statements of shorter-term and more immediate results that state in concise and clear terms what the organization expects to achieve through its initiatives and activities, and in support of the higher-level goals.

- **Strategies** are statements of new investments, maintained or new programs, and/or products or services to be established and delivered.

- **Actions** are more specific and concrete descriptions of the tasks to be undertaken in support of the strategies, and typically have organizational **accountabilities** assigned to them in terms of positions that are responsible for overseeing their implementation.
Select performance measures

**Performance measures** are either qualitative (textual) descriptions, or quantitative (numerical) metrics (e.g., percentages, ratios, number, etc.), that can be used to report on the use of resources, level of activity, units of product or service provided, and impacts realized (i.e., changes in a condition or state).

They can be directly applied to gauge the level of progress in implementing strategies and actions, and the realization of objectives and, over the long-term, stated goals.
So how to ‘achieve’ the vision you create??

They can often seem overwhelming and perhaps even impossible to achieve. Think….

“How do you eat an elephant? – One bite at a time”

and

“A journey of a thousand miles begins with the first step”

In the end, the strategy (and goals and objectives there of) create the bite size pieces, the road map and manageable stepping stones to make the vision a reality, and will ultimately navigate the course we have set for yourselves.
Why do strategic planning?

- Keeps organizations competitive in a dynamic and often unpredictable environment
- Promotes a clearly defined direction
- Promotes buy-in, ownership and commitment from leadership
- Sets priorities for resource allocation
- Leads to positive action and change
- Can accelerate growth
- Promotes innovation and creativity
- Promotes communication and teambuilding
Challenges to strategic planning

- No time
- No resources
- No commitment from the leadership team
- Currently going through change or transition
- It costs too much!
Or, most commonly:

"It sits on a shelf and collects dust"
Remember – it’s an iterative process

As time goes on and goals are achieved, or conditions and situations change, it’s important to reevaluate and establish new goals and objectives.

Failure to periodically set new or more challenging goals can lead to stagnation and boredom among employees.
Linkage to the Internal Audit Function

• **A transparent and reasonable** corporate governance structure has a positive impact on a company.

• The internal audit function has the potential to be one of the most influential and value-adding services available to a company’s senior management and board of directors.
  – Furthermore, with the growing focus on corporate governance issues, organizations are increasingly exploring the potential benefits to be gained from establishing an effective and efficient internal audit function.

• The establishment of an internal audit function can become an integral part of overall strategy, and assist in achieving corporate objectives.
Purpose and role of internal audit

- The internal audit function should provide independent, thorough, timely, and objective results of quantitative and qualitative testing to senior management, and, in essence, help evaluate organizational risk management.

- Internal auditing assists public and private organizations to meet overall corporate objectives by establishing a systematic and disciplined approach to:
  - assessing, evaluating, and improving the quality and effectiveness of risk management processes, systems of internal control, and corporate governance processes.

- Therefore, the role of the internal auditor, is to provide an overall assurance to management that all key risks within an organization are managed effectively, so that the organization can achieve its strategic objectives.
Ask yourself -

• Is the organization thinking about how to achieve its strategy, or have they set themselves on autopilot in the hopes of getting there?

DIRECTION IS MUCH MORE IMPORTANT THAN SPEED. MANY ARE GOING NOWHERE FAST.
How can internal audit be strategically focused?

• When designing and implementing an effective internal audit function, the corporation’s strategic objectives can be considered as part of the internal audit planning, or proactive risk management process.

In other words…

• The internal audit’s primary stakeholders should determine how the function will deliver the desired value, and what the specified outcomes expected of the function are.

• *This includes considering how the IA function can support the achievement of stated corporate objectives*
Internal audit as a strategic advisor

- Align itself with the organization’s key business objectives
- Offer broader risk coverage and be proactive about current and emerging risks
- Create competitive advantage by contributing to sustainable business improvements
- Improve audit efficiency and effectiveness, and streamline processes to drive cost savings
- Enable cost efficiencies across all business units
- Identify and employ the right internal and external skills
If organizations are open to the content of their strategy being audited (or 'reviewed'), it can be valuable to do so on a quarterly or half-yearly basis,

*Why?*

To keep reassessing the company’s priorities, and to ensure the risk controls required to uphold and support the strategy keep adjusting accordingly.