

# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

## FORMULATE BUSINESS UNIT STRATEGY

### Control practices

The following control objectives provide a basis for strengthening your control environment for the process of formulating business unit strategy. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

### Effectiveness and efficiency of operations

- A. The business unit strategies designed and implemented support company objectives.
- B. Operations effectively support the implementation of the company's business unit strategies.
- C. The company's business unit strategies remain consistent with corporate objectives over time.

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Effectiveness and efficiency of operations

## **A. The business unit strategies designed and implemented support company objectives.**

### **Business risks**

- The business will fail if business unit strategies are not in line with company objectives.
- The company will allocate resources inappropriately if strategies are flawed.
- Management will not understand the critical success factors necessary to achieve company objectives.

### **Control practices**

1. Develop a business unit strategy that incorporates management's current and future vision for the company.
2. Evaluate periodically the direction and priorities set by senior management to ensure they are still valid.
3. Establish communication lines up, down, and across the organization to allow prompt identification and resolution of problems that impede achievement of strategic goals.
4. Hold regular management meetings to ensure the company's strategy is relevant, focuses the organization on its goals, and is being implemented effectively.
5. Hold periodic meetings including the board of directors and senior management to discuss strategic issues.
6. Communicate the environmental factors that may affect the implementation of the company's strategy to all relevant functions, departments, and personnel. Such factors include information regarding competitors, new products and technologies, customer needs, and legal requirements.

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## **B. Operations effectively support the implementation of the company's business unit strategies.**

### **Business risks**

- The company will not implement its strategy.
- The company will implement its strategy improperly.
- The company will not maximize overall performance.

### **Control practices**

1. Monitor the execution of the company's strategy through benchmarking.
2. Implement appropriate performance measures for each critical business process. Ensure that these performance measures allow management to align operation, information, management, and support processes with the company's strategy.
3. Translate business strategy into goals that are specific enough to drive the strategy.
4. Identify and define critical processes. Critical processes are those that are essential to the achievement of the business strategy and goals.
5. Map critical business processes to visually represent their activities.
6. Identify key activities of each critical business process. (A key activity is a step that is critical to the process and its output.)
7. Design output and process performance measures for each key activity. Use these measures to monitor the performance of the critical processes in relation to the strategy.

## **C. The company's business unit strategies remain consistent with corporate objectives over time.**

### **Business risks**

- The business units will waste time and money on activities that do not advance company goals.
- The company will find less cross-functional cooperation being exerted to help achieve its goals.
- The business units will report and receive less relevant operating information to assist future planning.

### **Control practices**

1. Reassess and adapt the company's goals continually based on changes in the business strategy or external environment.
2. Maintain an effective process to obtain reliable, relevant, and timely information about the external business environment.
3. Use appropriate performance measures to monitor progress toward strategic goals.
4. Employ a management control structure to facilitate cross-functional support and communication within the organization.
5. Establish strategic checkpoints to monitor progress toward fulfilling strategic goals.