

# Successful Strategy Implementation

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## A job for the Internal Auditor?

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## Executive Summary

After the exciting and creative process of formulating the new strategy for the organization, management often feels frightened and lost when it comes to the implementation of their brand new strategy. They wonder how they can get from great plans for a successful future to actions that will actually create these successes for the organization. To help them make the new strategy successful, management incorporates all available experts to implement the new strategy. However in many cases, one of the experts readily available to management in each organization is forgotten. This expert has deep knowledge of the industry, the company, its processes, its culture, internal control, the risks the company is facing and much more. Moreover, he possesses the necessary skills to add value during a strategy implementation, i.e. he is a good communicator, objective, curious, innovative, and critical in attitude. This expert is the internal auditor and based on his knowledge, expertise and skills, one could question why management does not involve him in their struggle to implement the new strategy. This would leave a manager to think; Could the internal auditor be of help to make the strategy implementation a success? And if yes, what kind of activities could he be involved in? What would this mean for his independent position in the organization and his objectivity in future obligations? All these contemplations led to the main question of this thesis, i.e.; *How and under which circumstances can the internal auditor help the organization to make her strategy implementation a success?*

After exploring the process of strategy implementation and the roles and qualities of the internal auditor the conclusion was drawn that there is a job for the internal auditor in making the strategy implementation a success. In both assurance and consulting roles, the internal auditor can add value and assist management in the implementation of the new strategy. To summarize the roles the internal auditor can assume, the framework in figure 1 has been created. This framework shows the core internal audit roles in a strategy implementation, the legitimate internal audit roles which can be assumed with the necessary safeguards, and the roles an internal auditor cannot assume.

As an assurance provider, the internal auditor can provide management with the confidence that the implementation process is executed effectively and efficiently, risks are managed, the right design decisions are made, and the new strategy is actually supported throughout the organization. These roles are all closely related to the activities management is used to request from internal auditors. Although more unusual in many organizations, the legitimate internal audit roles in the middle part of the framework also offer many advantages to management. The internal auditor can act as a sounding board, coach, and advisor to management and thereby, share his expertise, and use his skills and independent position to help management make the implementation successful. Based on his knowledge and experience, the internal auditor is able to challenge, coach, and advise management, and enable them to make the best decisions for the design of the new business model and execution of the implementation. Moreover, the internal auditor can, through his independent position in the organization, be a linking pin between management and the rest of the organization and, in doing so, increase commitment to the new strategy across the different levels of the organization.

Taking on roles as sounding board, coach, or advisor to management is however not without potential risks of impairment of the independency and objectivity of the internal auditor. This may be the reason why the internal auditor is often not involved as such in the process of strategy implementation. One could however wonder, what would add more value for the organization as a whole; using the expertise of the internal auditor to successfully implement the strategy, and enable the organization to achieve its objectives, although the internal auditor may lose a touch of his independence and objectivity; or not involving the auditor to spare his independent position and

jeopardizing the success of the strategy implementation, and with that, the achievement of organizational objectives because not all expertise of the organization was used. To be able to have the best of both options, precautions can be taken to manage the potential impairment of independence and objectivity of the internal auditor. Clear arrangements between management and internal audit, an approved internal audit charter, and reporting lines to both management and the Audit Committee, will help the internal audit function to maintain its independent position. When getting involved in the strategy implementation the role and responsibilities of the internal auditor and potential risks of the involvement should be clear to both management and the internal auditor. Moreover, the internal auditor himself should have the right personal traits to behave professionally, honestly, and ethically, and be able to judge whether or not his objectivity may be impaired. Training, supervision, and mentoring play an important role in developing these necessary traits. Finally, it should be clear to management and the internal auditor, that the internal auditor can never take management responsibility or make decisions on behalf of management in the process of strategy implementation. When these precautions are understood and taken, the internal auditor can, without doubt, provide consulting services as part of a strategy implementation and help management make the strategy implementation a success.

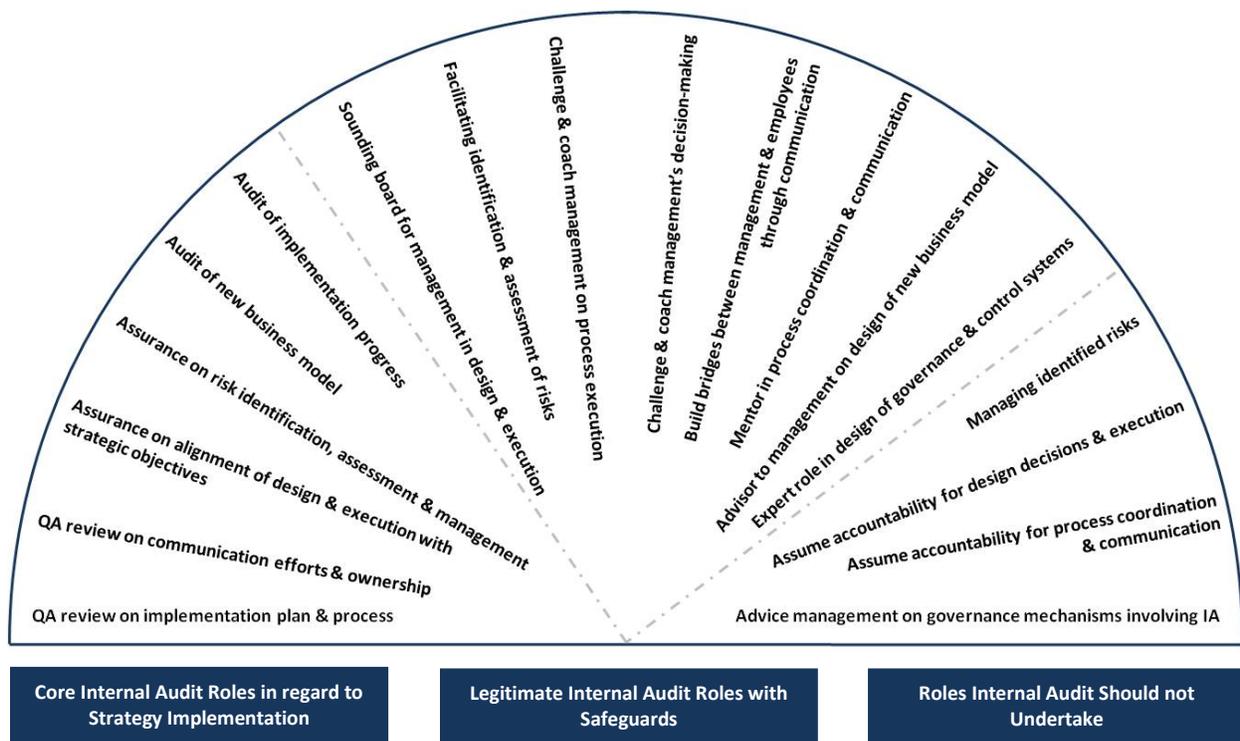


Figure 1: Roles for Internal Audit in Strategy Implementation

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# 1 Introduction

Chapter 1 will provide the basis for, and overview of the content and structure of this thesis. First, paragraph 1.1 will provide the general background to the content and reasons for choice of the subject. Based on the background, the problem statement and related research questions are explained in paragraph 1.2. The problem statement will provide the main question used as the basis for this thesis. The research questions are the underlying questions that need to be answered in order to find an answer to the problem statement. Finally, paragraph 1.3 will give an overview of the structure of this thesis.

## 1.1 Background

Hambrick and Cannella (1989) state “Without successful implementation, a strategy is but a fantasy”. In many companies the main focus in regard to strategy is put on the formulation of a new strategy. However, a good formulated strategy does not automatically mean that the company achieves the objectives as set in the strategy. To ensure achievement of organizational objectives, the formulated strategy needs to be implemented at all levels of the organization. Implementing a strategy means putting the strategy to action (Hill and Jones, 2009). Different researchers have in the past decades identified the need for more research in the area of strategy implementation (Higgins, 2005; Beer and Eisenstat, 2000; Al-Ghamdi, 1998; Hambrick et al, 1989). Even though most executives understand that careful implementation of strategy is crucial for success, many companies still fail to successfully execute the formulated strategy. Different articles on strategy implementation therefore focus on the activities and factors that should make strategy execution successful (Neilson, Martin and Powers, 2008; Higgins, 2005; Olson, Slater and Hult, 2005; Cravens, 1998; Giles, 1991; Hambrick et al, 1989; Reed and Buckley, 1988; Alexander, 1985) or to warn for the common reasons for failure of the implementation (Beer et al, 2000; Al-Ghamdi, 1998). In most cases, the parties involved in strategy implementation mentioned in these articles are executives, middle managers, other employees and (internal and external) consultants. None of the researchers has referred to the internal auditor. Is there no role for the internal auditor in making the strategy work for the organization? Or is the internal auditor forgotten in the process of strategy implementation because the internal audit is not seen as the right partner for strategy implementation?

As a result of a number of large scandals, e.g. Enron, Parmalat and Ahold, several new laws and regulations have been introduced, such as the Sarbanes Oxley Act (2002) and the Corporate Governance Code (2003). Moreover, these scandals have led to an increased demand from stockholders, other stakeholders and society for transparency and assurance on matters like internal control and risk management. Companies, especially if they are publicly traded, have to comply with these new laws and the demand from stakeholders (Driessen and Molenkamp, 2008). The internal auditor is playing an important role in providing assurance on the fair representation of figures in the financial statements of the company, the compliance with different laws and regulations, and the quality of the system of internal control. Because of this increased demand for assurance, the internal auditors in most companies are spending most of their time on assurance activities. However, based on his knowledge of, for example, internal control, risk management, laws and regulations, the company and its industry and the business processes, the internal auditor could probably add more value to the organization and with that her stakeholders (Sawyer, Dittenhofer and Scheiner, 2005). Strategy implementation would be a starting point for supporting the Board of Directors in reaching the organizational objectives. Yet, this raises questions on how the internal auditor can participate in the process of strategy implementation without losing his independent and objective character.

## 1.2 Problem Statement & Related Research Questions

Companies struggling with the implementation of their strategies, and internal auditors with deep knowledge of the company, its processes, internal control and much more, leads one to think there are synergies to reap. Could the internal auditor be of any help to make the strategy implementation a success? And if yes, what kind of activities could the internal auditor be involved in? What would this mean for his independent position in the organization and his objectivity in future obligations? All these questions have led to the following problem statement:

*How and under which circumstances can the internal auditor help the organization to make her strategy implementation a success?*

In order to find an answer to this problem statement, the following research questions have to be answered first:

- On internal audit in general:
  1. How has the internal audit profession developed over the past centuries?
  2. Taking into account these developments, what roles does an internal auditor currently play in organizations?
- On strategy implementation in general:
  3. What is strategy implementation and which activities are part of a strategy implementation?
  4. Why does strategy implementation fail in many organizations?
  5. What are factors for success in the process of strategy implementation?
- On the role of internal audit in strategy implementation:
  6. Based on the natural roles of the internal auditor and the known activities in a strategy implementation, which activities could or could not be performed by the internal auditor?
  7. Which safeguards does the internal auditor have to take into account when he is involved in the process of strategy implementation?

Although the internal auditor can probably also be of added value to the organization in the process of strategy formulation, the scope of this thesis will be limited to the process of strategy implementation, because this is the process most organization are struggling with.

## 1.3 Approach & structure

This thesis will be based on literature search of the standards for, guidelines of, and developments in the internal audit profession, and the approaches and structures for strategy implementation. Derived from the literature from both areas, a framework will be developed, describing the activities an internal auditor can be involved in as part of a strategy implementation. To be able to develop this framework, and with that, answer the problem statement, the research questions, as provided in paragraph 1.2, will be answered in the different chapters of this thesis.

Chapter 2 will provide a summary of the developments, which have changed the internal audit profession over the past decades. Moreover, it will describe the roles an internal auditor can play in an organization. In Chapter 3, the process of strategy implementation will be explained. This chapter will focus on the content of a strategy implementation, i.e. the process and activities needed for strategy implementation, and the factors for success and failure in this process. Based on these chapters, Chapter 4 will combine the information on internal audit and strategy implementation to create a framework for the activities an internal auditor could be involved in when implementing the organization's strategy. This framework will be based on the framework the Institute of Internal Auditors (IIA) created in the position paper on the role of the internal auditor in Enterprise Risk Management

(2004). However, instead of enterprise risk management, this framework will focus on the roles of the internal auditor in the process of strategy implementation. Moreover, it will elaborate on why the internal auditor would be qualified for performing these activities. Since there are safeguards the internal auditor should take into account, Chapter 5 will provide guidance on these safeguards. Finally, Chapter 6 will give a conclusion of the content of the previous chapters and with that, provide an answer to the problem statement, as provided in paragraph 1.2. Additionally, this chapter will offer an overview of opportunities for future research.

## 2 Internal Audit – Development & Roles

Chapter 2 will focus on the existence and purpose of internal audit as a function within an organization. First, paragraph 2.1 will give a brief description of the development of internal audit, including the current definition of internal audit and the forces that have caused changes in this definition and the content of the internal audit profession. Then, in paragraph 2.2, the roles of the internal auditor will be explained, i.e. the types of services an internal auditor can deliver to its principal. Finally, paragraph 2.3 will emphasize the factors of independence and objectivity that the internal audit function or an internal auditor should take into account when planning, delivering and evaluating their services.

### 2.1 The Development of Internal Audit

As far back as the period around Anno Domini, in the Near East and Zhao dynasty and the old Greek and Roman empires, the first signs of record-keeping and systems of checks and counterchecks have been identified (Ramamoorti, 2003). During the Middle Ages, the systems for financial control have expanded because of the demand from rulers for proof of the receipt of revenues due to them. The system for double-entry system of bookkeeping was developed, which allowed for control over business transactions. Even though auditing already became more important at this time, auditing really commenced during the industrial revolution, when organizations demanded audit verification to include inspection of records and comparison of bookkeeping entries with documentary evidence. During the 19<sup>th</sup> century, auditing was also introduced in the United States when British investors requested independent checks on their investments. (Sawyer et al, 2005). With the growth of business activities, and increase in scope and complexity, managers desired verification of the information they used for decision-making. This desire validated the creation of a separate internal assurance function, i.e. the internal audit function, which became the “eyes and ears” of management by presenting them with the review and interpretation of business activities (Ramamoorti, 2003). The actual importance of the internal audit function was confirmed in 1941, when the IIA was founded in the United States.

Until the last two decades of the 20<sup>th</sup> century, the main focus of internal auditing activities was on providing assurance on the reliability of financial statements. By the end of the 1980s internal audit began to broaden its scope towards assessing business processes to evaluate the effectiveness of internal controls, i.e. operational audit (Driessen et al, 2008). As a result of these assessments, the internal auditor started to provide the first consulting services through recommendations for the auditee (Anderson, 2003). During the 1990s, based on the needs of the organization, internal audit broadened its audit scope even further, and included for example compliance audits, management audits, fraud auditing, and operational efficiency. Nowadays, an internal auditor should be able to audit almost anything. In addition to auditing, and with that providing assurance, the internal auditor has, in the past decade, extended its consulting services. Hereby, internal audit aims to develop the organization’s control processes, risk management, and governance, and thereby, add value towards management and the overall organizational objectives, without taking management responsibility (Ramamoorti, 2003). With these developments, the internal auditor has now become pro-active, customer-focused, and able to provide objective assurance and consulting services throughout the organization. Based on the ability to add value, the independent and objective position in the organization, and the high level of relevant knowledge and experience, internal audit has become an important and valued function in most organizations (Driessen et al, 2008; Ramamoorti, 2003).

## 2.2 The Roles of Internal Audit

Since 1941, the IIA has been adapting the definition for internal auditing to better reflect the developments in the profession. Currently, the IIA (2010) presents the following definition of internal auditing:

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”*

This definition mentions two main types of activities for the internal auditor to carry out, namely the assurance activity and the consulting activity. The IIA (2010) gives the following definitions of these services:

- Assurance services: *“An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization.”*
- Consulting services: *“Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.”*

Based on these definitions Anderson (2003) identifies a number of clear distinctions between assurance and consulting services. First of all, assurance engagements involve at least three parties, i.e. the auditor, the auditee, and a third party being the customer. Although the audit is performed on request of the customer, the customer is usually not involved in the actual audit. The auditor is performing the audit on behalf of the customer and should therefore protect the interests of the customer throughout the audit. Within a consulting engagement, there are only two parties involved, namely the auditor, who is providing services, and the customer, who is in most cases taking part in the engagement. The customer determines the scope and expected added value of the engagement. Secondly, consulting engagements are not subject to standards, as are assurance engagements. It is up to the customer to decide how he wants the auditor to perform the engagement, to report on the outcomes, and follow-up on the results. Thirdly, consulting engagements, unlike assurance engagements, do not require an opinion, instead in most cases an auditor will formulate recommendations as a result of his consulting services. Finally, the internal auditor can decline a consulting request at any time and without need of an explanation.

Although Driessen et al. (2008) state that the primary role of the internal auditor should be the performance of audits in order to promote the quality of internal control in an organization (i.e. the assurance role), they also recognize that an internal auditor, based on his knowledge and expertise, could perform consulting roles if requested by management. The primary role of internal audit is to form an opinion. If requested, the auditor could provide recommendations based on the findings of the performed audit. Finally, internal audit could advise management upon request but, in that case, there should be strict agreement on the exact role and tasks of the internal auditor in the engagement. In addition, the internal auditor should only provide recommendations to management, and should under no circumstances make any decisions or take any responsibility for implementing the recommendations. Management should at all times remain responsible for decision-making and execution.

The IIA (2009) has published a position paper on the role of internal auditing in enterprise-wide risk management (ERM). In this paper they have classified the roles of internal audit in three different categories, namely:

- Core internal audit roles in regard to ERM
- Legitimate internal audit roles with safeguards
- Roles internal audit should not undertake

The core internal audit roles are based on the assurance services and describe the activities internal audit performs to give assurance on risk management. Based on the International Standards for the Professional Practice of Internal Auditing, each internal audit function should at least perform some of these activities. The legitimate internal audit roles with safeguards relate to the consulting services an internal auditor may provide to management. These roles do not only focus on facilitating, coaching and coordinating ERM related activities but also on, for example, developing the ERM framework or risk management strategy. Again, the IIA does state that the internal auditor should not assume any management responsibility. The classification of roles for internal audit as specified in this position paper will be the basis for the framework in Chapter 4.

### 2.3 Independence & Objectivity

The terms “independent” and “objective” are explicitly mentioned in the IIA definition for internal auditing. The International Standards for the Professional Practice of Internal Auditing, hereafter Standards, of the IIA (2010) provide the following definitions:

**Independence:** *“The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats of objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.”*

**Objectivity:** *“An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest believe in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to others.”*

Whereas independence refers mostly to the position of internal audit within an organization and its ability to perform its responsibilities without any obstacles, i.e. organizational independence (Standard 1110), objectivity refers to the behavior or even personal character of the internal auditor, i.e. individual objectivity (Standard 1120). Both, however, are relevant for internal audit when delivering assurance and consulting services. The position, reporting lines and activities of internal audit provide conflicts of interest for both the auditor and management. The auditor is hired by management to supply assurance and consulting services. Internal audit, as part of its role in the organization, reviews processes and performance of management. Management improves its processes and performance based on the recommendations of internal audit. Furthermore, management often relies on internal audit for advice on improvement of governance, risk management and control processes. Afterwards internal audit is however requested to audit the processes, which it earlier has provided recommendations and advice for. This could result in situations where internal auditors are assessing their own work, and with that, jeopardizing their objectivity (Mutchler, 2003). Especially, with the increased request for consulting services from internal audit, independence and objectivity have, in the recent years, become more important than before.

### 2.4 Summary

This chapter has provided insight in the development of the internal audit profession over the past centuries, and thereby, answered the first research question. Even though the roots of internal auditing start centuries ago, the main changes to the profession have happened in the past decades. Internal audit has evolved from checking financial statements to a true business partner, advising management on, and assessing governance, risk management and control processes. With these developments internal auditors have broadened their scope of work. Nowadays, the internal auditor is responsible for both assurance and consulting activities. Although assurance remains the core role of internal audit, there are many other legitimate roles the internal auditor is qualified to perform in an organization. With these roles, mostly related to consulting services, the internal auditor

does have to take into account the factors of independence and objectivity, since these are the foundation of the internal audit profession. When internal audit would lose its independent position and ability to remain objective while performing the internal audit activities, it would lose one of the main reasons for existence in organizations.

### 3 Strategy Implementation

To be able to comprehend the role internal audit could play in a strategy implementation, this chapter will aim to provide an understanding of the process for strategy implementation and the main challenges faced during such an implementation. First of all, paragraph 3.1 will provide a short description of the formulation of strategy. Even though the specific process for strategy formulation is not part of this thesis, it is important to know what has to be done before a strategy can in fact be implemented. After a strategy has been formulated, what does an organization have to do to put this strategy into action? To answer this question, paragraph 3.2 will, in more detail, explain the process of strategy implementation. Since many organizations are struggling with the implementation and some formulated strategies do not get implemented at all, paragraph 3.3 will summarize the reasons for failure in many organizations. Based on these reasons for failure, factors needed for a successful strategy implementation will be provided in paragraph 3.4.

#### 3.1 The Basics on Strategy Formulation

Before an organization can start with the implementation, the strategy first needs to be formulated. The formulation of a strategy starts with the statement of the corporate mission and major corporate goals based on the existing business model. The mission statement of a company consists of 4 different parts, namely the mission, vision, values, and major goals (Hill et al, 2009). The mission is an answer to the question why the company exists. A mission should be timeless and should describe the ultimate goal for the company to accomplish (Strikwerda, 2009). When formulating the mission, it should be taken into account who the customers of the organization are, what these customers need and how their needs can be satisfied (Hill et al, 2009). From the mission, the vision of the organization is derived, which describes how the organization is visualizing the market and the environment in the coming years and what it would like to achieve. It should not be an ambition or dream, but an actual goal that the organization is expecting to attain (Hill et al, 2009; Strikwerda, 2009). The values (including norms and standards) of the organization shape the organizational culture and, with that, the behavior expected from the employees. Values form a strong internal force for controlling how employees execute their tasks and reach their and the organization's goals. Goals are the measurable objectives, as set by management, that the organization is planning to realize based on the mission, vision and values (Hill et al, 2009).

The mission, vision and major organizational goals form the basis for further strategic choices on corporate, business, and functional level. To be able to make these strategic choices, the organization first needs to analyze the external environment to identify the opportunities and threats the organization is facing, which may affect the achievement of its mission. Moreover, the organization should identify its strengths and weaknesses through analyzing the internal operating environment. Based on this, so called, SWOT analysis, the organization is ready to make the necessary strategic choices, where it can use its strengths to correct its weaknesses, take the external opportunities, and counter the threats. The strategic choices are the foundation for the new business model of the organization, which should match the demands from the market to the resources and capabilities of the organization, and should lead to realization of the organizational goals. Furthermore, chosen strategies for different levels in the organization should be congruent and together build the new business model. At this point the strategy has been formulated and should be checked against the mission statement to ensure that the chosen strategy is in line with the overall mission statement of the organization (Hill et al, 2009).

### 3.2 The Process of Strategy Implementation

As mentioned by many researchers, a brilliantly formulated strategy does not have any value if it is not put into practice (Hill et al, 2009; Neilson et al, 2008; Olson et al, 2005; Grundy, 1998; Simons, 1995; Giles, 1991; Hambrick et al, 1989). To put the formulated strategy into practice a number of actions on different levels of the organization are needed. According to Hill et al. (2009) and shown in figure 2, the main components of the process for strategy implementation are the design of governance and ethics, the organizational structure, the organizational culture, and the organizational controls.



Figure 2: Model for Strategy Implementation, Hill et al. (2009)

Even though many different visions and models have been formulated on strategy implementation, this thesis will focus on the model as described by Hill et al (2009) in their book “Theory of Strategic Management with cases”. Additionally, the levers of control, as designed by Simons (1995), will be taken into account to enrich the model as developed by Hill et al (2009).

#### Simons’ Levers of Control

The Levers of Control (figure 3) is a framework developed by Robert Simons (1995), which describes four levers, i.e. systems that control the fundamental parts of an implementation of a business strategy. The business strategy is at the center of the framework. Surrounding the business strategy are the fundamental parts an organization needs to have in control to allow for successful implementation of the business strategy, namely core values, risks to be avoided, critical performance variables and strategic uncertainties. These fundamental parts, on their turn, are controlled by the four levers of systems, i.e. beliefs systems, boundary systems, diagnostic control systems and interactive control systems. The four levers create opposing forces that should balance the tensions of freedom to innovate, and assurance that all members of the organization are effectively and efficiently pursuing the strategic goals (Simons, 1995).

Each of the paragraphs below will give insight in the main characteristics of a component of the process for strategy implementation as defined by Hill and Jones (2009). Within these components reference will be made to the framework with the levers of control of Simons (1995).

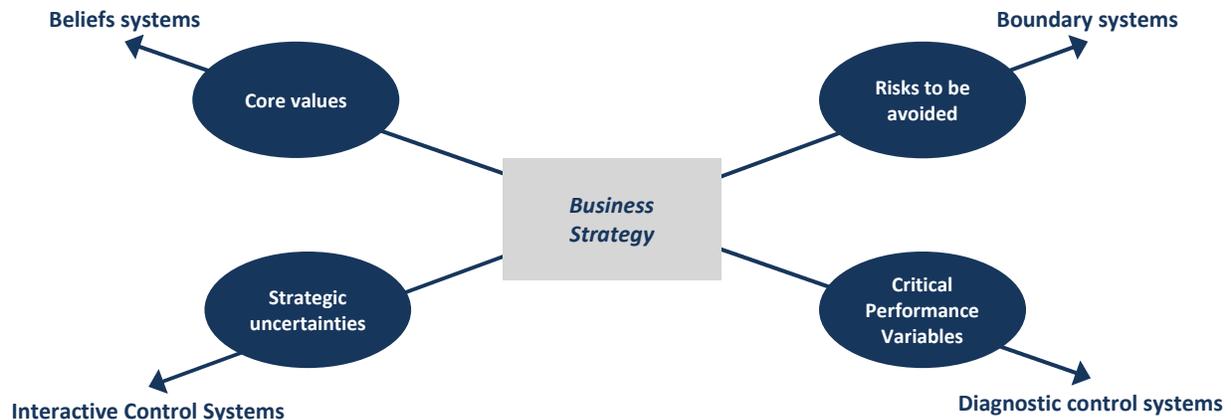


Figure 3: Simons framework “The Levers of Control” (1995)

### 3.2.1 Governance & Ethics

Each organization is facing a large group of internal and external stakeholders that need to be satisfied. In formulating the strategy of the organization, management needs to take into account the wishes and needs of all of these stakeholders, otherwise they might withdraw their support to the organization. However, since they might be opposing to one another, management cannot always satisfy all needs from all stakeholders. Therefore, management has to identify who are the most important stakeholders, after which they have to prioritize their needs to determine which strategy should be pursued (Hill et al, 2009).

Even though the needs of stakeholders have become part of the strategy, managers do not always act in line with the best interests of the stakeholders and with that the organization. Moreover, employees in the organization do not always act in line with the strategy as laid out by management. The agency theory describes this problem which can arise when one person delegates the authority for decision-making to another. Problems can arise when the principal (i.e. the person delegating authority) and the agent (i.e. the person to whom authority is delegated) have different goals. In that case, the agent may perform his work or make decisions that are not in line with the goals of the principal. One of the reasons for the agency problem to exist, is information asymmetry, i.e. the agent has more information available than does the principal. Hence, it is difficult for the principal to judge whether or not the agent is doing the right things and making the right decisions. To minimize the agency problem principals put in place governance mechanisms (Hill et al, 2009).

#### Governance Mechanisms

The IIA (2009) defines governance as “the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives”. This focuses mainly on the governance mechanisms needed to align incentives between management, i.e. the board, and the organization’s employees. There are however also governance mechanisms, which can reduce the agency problem between stockholders and management, and help to ensure that management is acting in the best interest of its stockholders. The Board of Directors is the most important example of such a corporate governance mechanism. The Board of Directors monitors the alignment of strategic decisions with the stockholders interests. They direct and control management on behalf of the stockholders. Other examples of corporate governance mechanisms are stock-based compensation for management, the publication of audited financial statements, and the takeover constraint. To reduce the agency problems between the Board of Directors, the different levels of management and employees, other governance mechanisms should be in place. Strategic control systems are one of the governance mechanisms that are used by many organizations. By setting formal targets and measurement of

achievement of these targets, managers at all levels are able to evaluate whether the organization is executing the formulated strategy as expected in order to achieve the determined goals and maximize its long-run profitability. Moreover, employee incentive plans can be used to stimulate employees to achieve the goals (Hill et al, 2009).

### *Ethics*

In performing their work to achieve the organization's goals and maximize the wealth of stockholders, employees at all levels of the organization, are subject to legal and ethical constraints. Hill et al (2009) define ethics as the "accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or the actions of an organization". When an employee or manager places his own interests above the rights of one or more of the stakeholder groups, he is behaving unethically. This could harm not only the stakeholders, but also the whole organization and all of its employees. To ensure employees are acting ethically when performing their work and making decisions, management can take several measures. Strong governance, as described above is one of those measures. Hiring and promoting people who are behaving ethically, and firing or at least sanctioning people who are not, are also strong measures to promote ethical behavior. Moreover, organizational culture is an important driver of ethical behavior in an organization, and will be explained in paragraph 3.2.3. Finally, organizations can educate their employees on ethics and how to deal with ethical dilemmas (Hill et al, 2009).

### **3.2.2 Organizational Structure**

The correct organizational structure is crucial to enable the organization to implement its strategy. To facilitate the achievement of the strategic and organizational objectives, organizational structure coordinates and integrates the tasks executed by all employees in the organization, i.e. employees at all levels, and across all divisions and functions (Hill et al, 2009). Organizational structure determines the departments and functions in an organization, it defines the hierarchy, span of control and reporting relationships, and includes the systems for communication, coordination and integration across these divisions and functions, both vertically and horizontally (Daft, 2001).

First of all, tasks and people need to be grouped in functions. After this, functions can be grouped into divisions to allow the organization to achieve organizational goals effectively and efficiently. Across these divisions and functions authority and responsibilities need to be allocated. A clear hierarchy needs to be defined from the Board of Directors through middle management all the way down to the operational employees. The hierarchy should clarify the span of control that each of the employees has, i.e. the people and tasks they are responsible for and have authority over. As the organization has been divided into separate functions and divisions, which all together should strive to achieve the same organizational objectives, communication and coordination across these functions and divisions is needed. Through integrating mechanisms, such as direct contact, liaison roles and cross-functional or divisional teams, information about activities, ideas and problems are efficiently spread across the organization (Hill et al, 2009).

### **3.2.3 Organizational Culture**

A fundamental part of managing strategy implementation is the organizational culture. Hill et al (2009) define organizational culture as the "specific collection of values, norms, beliefs and attitudes that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization". Although not as tangible as strategic control systems and organizational structure, culture is one of the strongest elements of control in an organization. A strong organizational culture enhances integration and coordination within the organization. Culture gives members of the organization the ability to develop a collective identity, and guides them in their daily business relationships, execution of tasks, communication and decision-making. If propagated correctly, organizational values will become part of the individual's values through which the

individual will follow them unconsciously. To create a strong organizational culture, it is important that leadership promotes what the organization believes is correct behavior. Within the values of the organization, strong emphasis should be given to ethical behavior. A code of ethics can help management to communicate the ethical behavior they expect from everybody in the organization (Hill et al, 2009; Daft, 2001).

A beliefs system as defined by Simons (1995) is “the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose and direction for the organization”. A beliefs system controls the core values of the organization, which are linked to the business strategy. Such a system is created through symbolic use of information, e.g. inspirational leadership. It attempts to create awareness and understanding of the organization’s core values and should help employees to respond to problems they face during the process of strategy implementation.

### 3.2.4 Organizational control

The final components of the process for strategy implementation are the organizational control systems. These systems, on the one hand, provide incentives and motivation to management and other employees to pursue the right activities towards achievement of organizational goals. On the other hand, control systems facilitate monitoring and evaluation of performance and progress on strategic goals. This enables managers to take action to, if necessary, adapt and strengthen the organization’s business model. To allow managers to respond to unexpected events, the control system has to be flexible. Moreover, it should provide accurate and timely information on organizational performance to ensure correct decision-making by managers. When designing an effective control system, an organization first determines the targets against which performance will be measured. Control systems should be designed at all levels in the organization, and targets have to be fit to the activities that the employees are responsible for. Moreover, it should be determined, which behavior is rewarded, and how these rewards relate to performance. These behaviors are measured with the control systems. Next, the organization should create means for measuring and monitoring performance. Then, performance can be compared with the established standards to evaluate whether action should be taken to better pursue attainment of strategic goals (Hill et al, 2009).

Strategic control can be accomplished through personal control, output control and behavior control. Personal control relates to the influence managers can have on employees through personal contact. Output control is the system of motivating employees by setting targets and evaluating the employees through comparing their actual performance to the targets. Finally, behavioral control is based on setting rules and procedures to which employees have to comply and with that influence the way employees behave (Hill et al, 2009). Merchant and Van der Stede (2007) define three other types of control, namely result controls, which are similar to output control, action controls, which are comparable to behavior control, and personnel or cultural controls. Personnel or cultural controls are related to personal controls but they entail more than influencing behavior through personal contact. They also involve control through cultural aspects such as values and norms, and are therefore created through organizational culture as described in paragraph 3.2.3 (Merchant et al, 2007).

The levers of control framework also defines control systems that should support management when implementing the strategy. As can be expected from the term “boundary systems”, these systems, based on defined business risks, set the boundaries in which members of the organization can operate. Where beliefs systems try to inspire employees to search for opportunities, boundary systems dictate employees what they should not do when searching for these opportunities. Hereby, boundary systems create a focused domain which employees can exploit in search for opportunities. Compared to the control systems as described above, boundary systems link closely to

behavior and action controls. In line with output control systems and result controls, the lever of control, called diagnostic control systems, is a feedback system where measured performance is evaluated against predetermined critical performance variables, and deviations from these performance variables are corrected. Finally, the fourth level of control, i.e. the interactive control systems, is not truly part of any of the controls as mentioned above. Interactive control systems are the information systems that management uses to identify strategic uncertainties and, with that, search for and respond to opportunities and threats to the organization's strategy. Through these systems, an organization can control its strategy implementation (Simons, 1995).

### 3.3 Why Implementation Often Fails

As stated earlier, many organizations fail to implement their formulated strategy. In the previous paragraphs, the general components of the process of strategy implementation have been explained. However, when only these components are considered, many organizations will not succeed in executing their strategy as expected. Different researchers have identified reasons for failure of strategy implementation (Beer et al, 2000; Corboy and O'Corrbui, 1999; Al-Ghamdi, 1998; Giles, 1991; Alexander, 1985).

#### *Ineffective Leadership*

First of all, ineffective leadership is a factor mentioned by almost all researchers as a reason hindering the implementation of strategy. Alexander (1985) found that ineffective coordination of implementation activities was one of the causes of failure. This finding is confirmed by Al-Ghamdi (1998), who performed a similar research in the United Kingdom. Beer et al (2000) mention the quality of direction, which describes multiple ways in which senior management can be ineffective. Senior management sometimes bypasses middle management, and directly obtains information from and gives orders to the lower level employees, causing ineffective communication lines in the implementation team. Additionally, this causes a situation in which conflicts are avoided and value-adding discussions on decision-making are lost. Finally, Beer et al (2000) state that leadership in many teams does not make the necessary trade-offs they face during the implementation. Instead, they create vague strategic objectives which do not provide effective direction for implementation.

#### *Ownership*

The second reason for failure of strategy implementation is ownership of the strategy and related implementation activities. Giles (1991) names ownership as the most important reason for failure. If the strategy is not owned by the employees involved in the implementation, it may lead to counter implementation, which causes the organization to move in the wrong direction. Moreover, when key people in the formulation of the strategy are not participating in the implementation, ownership is lost in many cases, causing the increase of time needed for the implementation, or overall failure of implementation (Corboy et al, 1999; Al-Ghamdi, 1998; Alexander 1985). The other way around, when the affected employees and managers are not at all involved in the formulation of the strategy it is also more difficult for them to feel ownership of the strategy (Alexander, 1985).

#### *Lack of Resources*

Lack of resources, i.e. time and people, is another reason for failure of strategy implementation. For one, implementing strategy, in most cases, took more time than expected or planned beforehand (Al-Ghamdi, 1998; Alexander, 1985). In the research of Alexander (1985) some executives even stated that top management underestimates the time needed to complete a strategy implementation. Time is pressured even more if priorities are not set correctly. It should therefore be clear to all employees involved in the implementation, which activities have most priority for execution. This includes implementation activities but also regular work and other projects. If priorities are not defined properly, it could either cause loss of attention for the strategy implementation or loss of

attention for the regular work and other projects. Both could lead to problems in the organization (Beer et al, 2000; Corboy et al, 1999; Al-Ghamdi, 1998; Alexander, 1985). The lack of the right skills and abilities of the people involved in the strategy implementation have also been found to cause problems (Beer et al, 2000; Al-Ghamdi, 1998; Alexander, 1985). Furthermore, employees do not always receive the correct training and instruction to be able to perform their work, which may have changed due to the newly implemented strategy (Beer et al, 2000; Al-Ghamdi, 1998).

#### *Risk Identification*

Fourthly, important risks, due to internal and external factors, that could affect the implementation of strategy are not identified properly before the start of and during the implementation. Consequently, major problems can occur during the implementation, which causes delays or even inability to implement the strategy (Corboy et al, 1999; Al-Ghamdi, 1998; Alexander, 1985). Executives have stated that top management is likely to underestimate the likelihood of risks and may even be blind to the risks they face (Alexander, 1985).

#### *Tasks & Responsibilities*

Not having clarity on the objectives of the strategy, the tasks and activities in the implementation, and the responsibilities that employees should take, could also have an adverse impact on the implementation of strategy. When the strategy is not completely understood by the employees involved in the implementation, it will be difficult for them to effectively work towards the determined goals. Moreover, if employees do not know which responsibilities they have, conflicts may arise, or activities may be forgotten all together (Beer et al, 2000; Corboy, 1999; Al-Ghamdi, 1998; Alexander, 1985).

#### *Ineffective Communication*

Poor or ineffective communication, i.e. top-down, bottom-up and across functions and divisions, could negatively affect the strategy implementation. When information is not flowing effectively from bottom to top, top management may not be aware of problems jeopardizing the implementation of the strategy, and therefore, not able to respond to these problems (Beer et al, 2000; Al-Ghamdi, 1998; Alexander, 1985). The information flow does not only include people communicating with each other but also information systems through which management is monitoring the implementation efforts. These, are in some cases, also not providing adequate information towards top management (Al-Ghamdi, 1998).

#### *Poor Strategy Formulation*

Finally, but definitely not least important, the formulation process does not always yield the expected result. What is labeled as strategy is actually not always a strategy but instead tactics or just objectives. A strategy should be of a long term nature, innovative, inspirational and stretching, and it should have a direct impact on the customer and competitor (Corboy et al, 1999; Giles, 1991). Moreover, it should be realistic to implement the strategy. Although this may seem to be logical, strategies are often formulated without considering the implementation that is needed to actually put the strategy to action (Giles, 1991).

### **3.4 Drivers for a Successful Strategy Implementation**

#### *Strategy Formulation, Involvement & Ownership*

Successful strategy implementation starts with a good strategy. If the formulated strategy is not implementable or worth implementing, the implementation is deemed to fail from the start. To ensure that an implementable strategy is formulated, key employees from different levels of the organization should be involved in the formulation process. This way, valuable knowledge from all organizational levels is used to create the strategy that

best fits the ultimate goals of top management, and can realistically be implemented considering the available resources of the organization, and the market conditions. Moreover, involving key personnel already in the process of strategy formulation will create ownership of strategic decisions, which is crucial for the success of the strategy implementation. Key implementation personnel should also be involved in the detailed implementation planning to increase their commitment (Giles, 1991; Hambrick et al, 1989; Alexander, 1985). The determination of strategic decisions and implementation planning should also include a thorough analysis of the obstacles and risks the organization may face when implementing the strategy. These risks can be both internal and external. Although it is not realistic to expect that all potential risks will be identified, it will give the organization the opportunity to create contingency plans for the identified risks, which could negatively impact the implementation of the strategy or the organization at large (Hambrick et al, 1989; Alexander, 1985).

### *Communication*

Once the strategy has been formulated, communication is one of the most important vehicles for successful implementation. First of all, management should inform all employees about the content, meaning of, and reasons for the new strategy. However, they should not only inform the employees, they should also leave room for questions from and discussion with the affected employees. Communication also involves the explanation of new tasks and responsibilities to the affected employees. Throughout the implementation process, communication should flow bottom-up to allow management to monitor the implementation process and determine whether changes to the approach are needed (Neilson et al, 2008; Beer et al, 2000; Hambrick et al, 1989; Alexander, 1985).

### *Resources*

Sufficient resources are another crucial factor in strategy implementation. First, because of the large scope of most strategic decisions, sufficient funding is needed for the implementation process. People are the second important resource. Personnel with the right skills for the new strategic decisions should be involved in the implementation. Furthermore, these employees should have enough time available for the implementation. They should either be freed from other tasks or they should understand the priorities given to their different tasks. Enough time should, in general, be allocated to the implementation process (Higgins, 2005; Beer et al, 2000; Hambrick et al, 1989; Alexander, 1985).

### *Implementation Plan*

Finally, creating an implementation plan could help to manage the strategy implementation. Such an implementation plan should identify and explain, for example:

- the scope and goals of the implementation
- the main implementation activities and how they are supposed to be executed
- the key personnel involved and the responsibilities and authority they have
- the planned timelines for the total implementation and the individual activities
- the risks that could adversely impact the implementation
- the contingency plans, which minimize the impact in case the risks occur
- the planned communication effort
- how the progress of the implementation is reported and monitored

The plan should however be balanced, i.e. include detailed information but not too detailed. Having too little detail would not provide enough guidance to the involved employees and could lead to an ineffective and inefficient implementation. On the other hand, too much detail would make the plan rigid and would leave management and the employees unable to correctly respond to changes in the environment (Neilson et al, 2008; Alexander, 1985).

### 3.5 Summary

This chapter explained the process of strategy implementation, the reasons why many organizations fail to implement the strategy, and the drivers for a successful strategy implementation. Thereby, the research questions three till five have been answered. To fully understand the strategy implementation process, the chapter started with a description of the process of strategy formulation, i.e. the creation of the organization's mission, vision and strategic decisions. When the strategic decisions have been made, the organization can start with the actual implementation. In this process, governance and ethics form the foundation through which management can inform, direct, manage, and monitor the activities of the organization towards the realization of its goals. Based on the governance systems, management determines the organizational structure, culture, and control systems needed for the strategy to be put to action.

Although most companies do take into account this general process for strategy implementation, they forget other important factors, which could cause the implementation to fail. The main factors for failure encountered by many organizations are ineffective leadership, lack of ownership, lack of necessary resources, insufficient risk identification, unclear objectives, tasks and responsibilities, ineffective and insufficient communication, and finally, a poorly formulated strategy, which is not implementable or not worth implementing. To increase chances of a successful strategy implementation, management should bear in mind the drivers for success, namely, involvement of key personnel in strategy formulation and implementation planning, commitment to the strategic decision at all levels of the organization, two-way communication on the strategic decisions and implementation process, the availability of sufficient and adequate resources, and last but definitely not least, the creation of a balanced implementation plan.

A schematic summary of the process of strategy implementation and the factors for a successful implementation is provided in Appendix I.

## 4 Internal Audit & Strategy Implementation

Combining the theory from the previous chapters, Chapter 4 will answer the sixth research question, i.e. “Based on the natural roles of the internal auditor and the known activities in a strategy implementation, which activities could or could not be performed by the internal auditor?”. First, paragraph 4.1 will sketch an overview of the different phases in the process of strategy implementation. These phases and the activities that are part of each phase are based on the theory presented in Chapter 3. Paragraph 4.2 will elaborate on why the internal auditor should be involved in strategy implementation. The following paragraphs will describe, per phase of the strategy implementation, what activities could be done by the internal auditor, and in what way the internal auditor could contribute to a successful implementation of the strategy. The potential contributions of the internal auditor are based both on assurance and consulting services as described in Chapter 2. In paragraph 4.7, the findings from previous paragraphs will be combined and summarized into a framework, which shows the roles an internal auditor can or cannot assume in the process of strategy implementation. As stated in Chapter 2, this framework will be based on the classification of the roles of internal audit, as used by the IIA in their position paper on the role of internal auditing in ERM (2009).

### 4.1 The Phases of Strategy Implementation

The previous chapter has explained the theory on the process of strategy implementation, including the factors that could make the implementation more successful. Even though in many organizations the focus is put on execution of the implementation, the process of strategy implementation can be split in three phases, namely the preparation, the execution, and the assessment. The whole process starts with the input from the strategy formulation process. Having made clear strategic choices that fit with the mission, vision, values, and goals of the organization, the organization is ready to start preparing for the actual implementation of its strategy. The preparation of a strategy implementation forms a crucial part of the implementation process. Without proper preparation the implementation is deemed to fail. Preparing for strategy implementation mainly involves the creation of the implementation plan, as mentioned in paragraph 3.4. The main parts of the implementation plan include the planning of the execution, the mobilization of the implementation team, and the risk assessment and creation of the contingency plans. After creation of the implementation plan, the execution phase begins, which entails the design and realization of the new business model. Once the strategy is implemented, the new business model should be assessed to determine whether it is in line with the mission, vision, values, and goals of the organization and the derived strategic choices. Some activities are essential throughout the implementation process, and even already during the formulation of the strategy. Communication and ownership should be part of the complete process to enable employees to understand the new strategy and changes they are confronted with. Furthermore, through communication and ownership employees may become more committed to the strategic choices and therefore support the implementation process. Finally, process coordination is needed throughout the implementation process to ensure everybody is doing what is needed for a successful implementation. The different phases of the process of strategy implementation and the activities per phase are shown in figure 4.



Figure 4: Phases and activities for strategy implementation

## 4.2 Reasons for Involvement of the Internal Auditor in Strategy Implementation

In many organizations internal audit is not the first function that comes to mind when management is planning for a strategy implementation. However, overlooking the value internal audit could add to the process of strategy implementation, could be a mistake. Most internal auditors are highly educated and have a background in business and economics. Their knowledge on the overall organization, the different business processes, the organizational culture, the risks the organization is facing, and most importantly, their expertise on internal control and the control environment makes them excellent candidates for participation in all phases of strategy implementation (IIA, 2008). Moreover, the independent position of internal audit in the organization allows them to add value during the strategy implementation by objectively assessing situations and decisions, and advising management.

In addition to their knowledge and position, internal auditors are known to be innovative and always on the lookout for trends in their profession and the industry, and ways to grow and enhance their skills. This could help the organization in the design of the new business model, since internal audit may be aware of innovations and alternatives that could improve the performance of the organization or positively influence the choices that are made in the design of the new business model. Furthermore, internal auditors are, due to the nature of their work, excellent communicators, i.e. listening, speaking and writing. As communication is one of the main factors facilitating a successful strategy implementation, the internal auditor could be of great value to management (IIA, 2008).

## 4.3 Internal Audit & Preparation of Strategy Implementation

As mentioned in paragraph 4.1, the preparation of the strategy implementation is a crucial part of the overall implementation process. With the preparations being the fundament of a successful implementation, this would be the right moment to get the internal auditor involved. Both as an assurance provider and an advisor, the internal auditor could add value to this phase of the implementation process.

### Implementation Plan

The implementation plan is the main deliverable of the preparation phase. A quality assurance (QA) review of the plan and the related preparations would be a job for the internal auditor (Huibers, 2008). The internal auditor could

review the content, feasibility, and completeness of the implementation plan, as well as the consistency of the plan with the strategy and the organizational objectives (Veldhuis, 2009). The internal auditor could, as an objective reviewer, provide assurance to management on, for example, the planned activities, timelines, involved personnel, and milestones for the implementation. Moving more towards consulting services, the internal auditor could act as a sounding board for management by asking critical questions and challenging decisions and plans made by management. In some cases, the internal auditor may be able to provide suggestions to management for further improvement of the implementation plan. Hereby, management should be able to sharpen the implementation plan and be better prepared for the execution of the implementation.

#### *Risk Management*

Another important part of the preparations is the identification and assessment of risks that could adversely impact the implementation of the new strategy, and the creation of contingency plans to minimize the impact in case the risks do occur. Risk identification, assessment, and mitigation relate closely to ERM even though, here it only focuses on management of risks during the implementation process. The IIA (2009) has investigated the role of internal audit in ERM, which shows both assurance and consulting activities in relation to ERM could be performed by internal audit. Based on this study, it can be determined that internal audit could perform assurance and consulting activities in the risk identification and assessment process in preparation for the strategy implementation. More specifically, internal audit could give assurance on the process of identification and assessment of risks, and on the contingency plans created for these risks. If internal audit wants to take it one step further, they can also assist management in the process of risk management through facilitating the identification and assessment of risks, coaching management in creating the contingency plans and coordinating the risk management activities (IIA, 2009; Staciokas and Rupsys, 2005).

### **4.4 Internal Audit & Execution of Strategy Implementation**

The execution of strategy implementation involves the design of the organization's governance and ethics, the organizational structure, culture, and control systems. All together, this can be summarized as the new business model of the organization. In the process of strategy implementation, this is the moment where important decisions are made, the road towards the future is paved, and where the success or failure of the implementation will become clear. Therefore, management is looking for assurance on the implementation process, the decisions that are made during this process, and the realization of these decisions. The internal auditor is an important player in providing assurance to management (Mintjens, 2004). Internal audit can perform QA reviews on the deliverables and process of the implementation, through which they provide assurance on the alignment with the implementation plan and the organizational objectives (Veldhuis, 2009; Huibers, 2008). Moreover, as internal control is at the heart of effective organizational governance, internal audit should, with their expertise on internal control, evaluate the effectiveness and efficiency of the controls, and determine whether these controls adequately mitigate the identified risks that threaten the new business model (IIA, 2008).

Although the role as assurance provider is acknowledged by management as being important, the internal auditor could also add value to management and the organization through consulting services. The internal auditor can then fulfill a positive and proactive role in this phase of the implementation (Mintjens, 2004).

#### **4.4.1 Governance & Ethics**

As mentioned in paragraph 3.2.1 information asymmetry exists between management and employees, and can lead to wrong decision-making. The internal auditor can improve the quality, reliability, and availability of information to management for decision-making (Flemming Ruud, 2003). Moreover, governance mechanisms are

put in place by management to minimize the information asymmetry between management and the employees. One of these governance mechanisms are the strategic control systems, and especially during the design of these systems, the internal auditor can function as a sounding board and coach for management. Internal audit could coach management in target setting and the determination of how these targets should be measured. In the process of coaching management, internal audit should ensure not to assume responsibility for decisions made by management in order to remain independent and objective. Instead internal audit can challenge the decisions management is making (Veldhuis, 2009). It should also be noted that internal audit cannot be involved in the design of all governance mechanisms. For example, the assessment of financial statements is also used as a governance mechanism to reduce information asymmetry between stockholders and management (Hill et al, 2009). In this case, internal audit is in fact the governance mechanism since they are assessing the financial statements. Therefore, clear distinction is needed between the governance mechanisms that internal audit is executing as part of their daily business, and the governance mechanisms that internal audit can assess or support the design during the strategy implementation.

In relation to ethics and the determination of what management assumes to be ethical behavior, internal audit cannot play a large role. Nevertheless, the internal auditor can audit the procedures, which are used when ethical dilemmas arise in the organization, to determine whether employees and management are responding adequately and in line with the code of ethics. This is in line with Standard 2110.A1, which states that “the internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities” (IIA, 2010). In addition, internal audit could audit the content and execution of the human resource policies that are used to determine what type of people are hired. This way they can determine whether these policies are designed and executed in line with the new strategy and business model (Strikwerda, 2010).

#### **4.4.2 Organizational Structure**

A new strategy may demand a new organizational structure in which divisions and functions need to be redesigned. Starting at the Board of Directors the hierarchy of the organization has to be determined with the correct span of control for each level in the hierarchy, and the appropriate reporting relationships throughout the hierarchy. Because internal audit is able to oversee the complete structure of the organization, they can assess whether the chosen structure for the new strategy allows the organization to achieve the strategic and organizational objectives. Furthermore, internal audit can assess whether the new hierarchy, including the horizontal and vertical reporting lines, forces all divisions and functions to strive together for realization of the overall organizational objectives, and that it does not show conflicting goals at any of the individual and lower levels of the hierarchy. Based on these assessments the internal auditor can inform and challenge management if the chosen hierarchy does not seem to be effective or efficient. The internal auditor may even be able to provide management with advice on how to structure the new organization, and increase the effectiveness and efficiency of the integration, and communication across divisions and functions.

#### **4.4.3 Organizational Culture**

Although organizational culture is a fundamental part of a strategy implementation, it is hard for internal audit to play a role in the establishment of organizational culture. Due to the abstract nature of culture, and the fact that it is based on values, norms, and beliefs, the internal auditor cannot provide assurance or advice to management on how to create the best organizational culture. On the other hand, the internal auditor can assess behavior of management and other personnel in the organization compared to, for example, the code of conduct and code of ethics of the organization. Moreover, internal audit can assess the process through which management is

communicating the expected behavior to the employees to determine whether management is delivering the right message. That is, internal audit could verify whether the message is in line with the codes and the strategy, and whether employees are interpreting this message correctly. If not, the internal auditor could coach management on how to improve propagation of organizational values, norms, and beliefs.

#### 4.4.4 Organizational Control

The traditional assurance function of internal audit will demand internal audit to assess the control systems. Involving the internal auditor in the design of control systems may therefore jeopardize his independence and objectivity. However, with the internal auditor as the expert on internal control in the organization, it would be a missed opportunity not to use his knowledge in the design of the organizational control systems. The internal auditor could add value by sharing his expertise on internal control. Additionally, the internal auditor could provide advice on control systems that best fit with the new strategy, organizational structure, organizational culture and the risks the organization is facing. He can challenge management in the design process, and enable them to design effective control systems from the start. Again, internal audit should only advise, challenge, and coach management in the design of these control systems, and should not make any decisions or pressure management towards making certain decisions.

#### 4.5 Internal Audit & Communication, Ownership & Process Coordination

Other important factors that promote successful strategy implementation are communication and ownership, and overall process coordination. As can be seen in figure 4, these factors are important already in phase of strategy formulation, and remain important all throughout the preparation and execution of the strategy implementation. Also for these factors, internal audit can add value to management and the organization by providing assurance and consulting services.

##### *QA Reviews & Audit*

The assurance services are mostly related to quality assurance that internal audit can give on the communication efforts and the coordination of the implementation process. The QA reviews are closely linked to the type of reviews auditors do for projects, i.e. project audits. Huibers (2008) has researched the role of internal audit in projects, and concluded that QA reviews are one of the core tasks of the internal auditor. These reviews focus on the quality of the content of deliverables, and the adherence to the defined strategy and objectives. Moreover, in relation to process coordination, a quality assurance review should focus on the adherence to procedures as set out in the implementation plan, and the execution of the process according to planning (Strikwerda, 2010; Veldhuis, 2009; Huibers, 2008). For the factors communication and ownership, the internal auditor can perform a QA review on how, what, when, and to whom management is communicating on the strategy implementation, and determine whether these efforts are in line with the communication plan laid out by management. However, more importantly, the internal auditor should review how the information is received and perceived by the employees to determine whether the communication efforts are effective. As communication is one of the most important ways to create ownership of the strategy with all employees, the audit of the communication efforts is of great value to the organization. In addition, the level of ownership felt by the different levels of employees in the organization should be audited to determine whether the strategy will become effective (Strikwerda, 2010). As mentioned in paragraph 3.4, ownership, at all levels of the organization, is one of the most crucial factors to enable successful strategy implementation.

### *Consulting Services*

Internal audit can provide consulting services to enable management to communicate, and coordinate the process of strategy implementation more effectively and efficiently. Giles (1991) points out that the role of a mentor is important when implementing a new strategy. The mentor is used as a means for transferring ownership for the new strategy down through the organization. The mentor acts primarily as councilor and mediator towards the implementation teams, and challenges their findings and ideas. A mentor may, however, never force any decisions or direct the team towards a certain solution. Mentors carry down information from level to level, and communicate feedback upwards again to improve not only the available information for decision making but, more importantly, the ownership felt at all levels of the organization. Because of the objective coaching and probing nature of the role of a mentor, this could be a good role for internal audit to perform.

Besides the mentor role, internal audit could assist management in the communication efforts to create ownership for the new strategy. Internal audit can assist in the communication of the new objectives and strategy and, with that, ease the fears of both management and employees for all changes happening in the organization. Through communication, and because of the expertise of the control environment, internal audit could help employees throughout the organization to better understand the new strategy, and overcome possible hurdles they face during the implementation. Internal audit then acts as a bridge builder between top management and the lower level employees, and between the various divisions and functions of the organization (Dounis, 2008).

Related to process coordination, another important task of the internal auditor is to assess the existence of emergent strategies, i.e. changing market conditions that affect the chosen strategy. Due to changes in the market conditions, management may need to adapt the assumptions they made for their strategic choices, and the design of the new business model. Internal audit should not only identify these changes in conditions, and check the response of management to the changed conditions, they should also inform management about the changes, and facilitate the discussion for the appropriate response (Strikwerda, 2010; Veldhuis, 2009). This task should be performed throughout the formulation and implementation process to ensure that management remains able to achieve the objectives they have set for the organization, even though emergent strategies arise.

Finally, the internal auditor can do certain smaller tasks that would help management in the coordination of the implementation process. For example, internal audit could prepare a checklist of all activities that have to be done during an implementation. This would allow them to check the status and quality of the activities during and after the strategy implementation as part of the quality assurance review. Moreover, internal audit can prepare a lessons-learned document at each stage of the implementation process. To prepare this document they can use the fact-based information gathered during the quality assurance reviews, as well as subjective information they receive from the different employees involved in, and affected by the implementation. All together a lessons-learned document will enable management to be better prepared for future strategy implementations (Dounis, 2008).

## **4.6 Internal Audit & Assessment of the Implemented Strategy**

Once the new business model is in place, and thus the formulated strategy is implemented, the last part of the implementation process should involve an assessment of the implemented strategy. This assessment involves many of the steps that are also part of the quality assurance reviews of internal audit, and are closely linked to the post-implementation reviews that are done after the execution of projects (Huibers, 2008). Due to the natural role as assurance provider, the internal auditor should, first of all, determine whether the formulated strategy has correctly been translated to a new business model, keeping in mind the emergent strategies that the organization

faced during the implementation. Moreover, it should be checked whether the designed business model has been implemented correctly, and that all employees have understood the new business model and related objectives (Strikwerda, 2010; Veldhuis, 2009). Finally, the internal auditor can, like during project audits, also audit the execution of the implementation process, i.e. determine whether the implementation was done in line with the time and budget planned for it (Strikwerda, 2010; Huibers, 2008). After having performed a post-implementation review on the implemented strategy, the internal auditor should report his findings to management, and provide them with recommendations for improvement. This will allow management to adapt the business model where necessary and enable them to achieve the strategic and organizational objectives.

#### 4.7 Framework for Internal Audit & Strategy Implementation

As shown in the previous paragraphs, internal audit can play an important role in the implementation of a new strategy in an organization. To summarize the different activities an internal auditor can perform as part of the implementation process, a framework has been created which is shown in figure 5. This framework, which is based on the framework the IIA created for the role of internal audit in ERM, shows three different categories of roles the internal auditor can play in strategy implementation, i.e.:

- Core internal audit roles in regard to strategy implementation
- Legitimate internal audit roles with safeguards
- Roles internal audit should not undertake

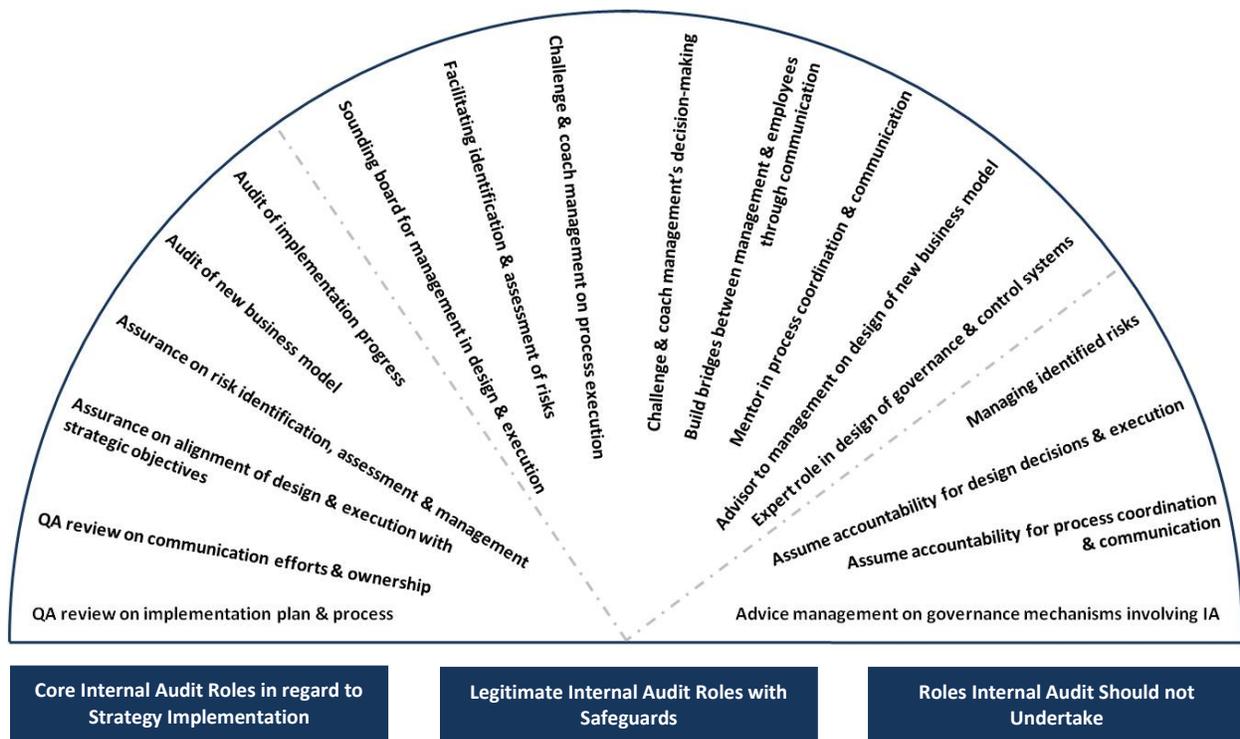


Figure 5: Roles for Internal Audit in Strategy Implementation

Moving from left to right in this framework, the roles will make the internal auditor become more actively involved in the design and execution of the strategy implementation. For internal audit this means that moving towards the right side of the framework, the roles will provide an increased threat to the independence and objectivity of the internal audit. For the core internal audit roles, i.e. the left part of the framework, and the roles internal audit

should not undertake, i.e. the right part of the framework, it is clear why the internal auditor can or cannot assume these roles. For the middle part of the framework, i.e. the legitimate internal audit roles with safeguards, the independence and objectivity of internal audit can be jeopardized if the necessary precautions are not taken. These precautions will therefore be explained in Chapter 5.

#### 4.8 Summary

By combining the literature from the previous chapters, Chapter 4 has answered the question as to which activities the internal auditor could or could not perform in the process of strategy implementation. The process of strategy implementation has been divided into the phases of preparation, execution, and assessment. For each of these phases, and the specific activities that are part of each phase, the assurance and consulting services the internal auditor can provide to management and the organization as a whole have been defined. These activities have been summarized in a framework, which shows roles of the internal auditor classified as the core audit roles, the legitimate audit roles with safeguards, and the roles an internal auditor cannot assume. Even though in many organizations internal audit is mostly, if not only, involved in strategy implementation to provide assurance on the results of the implementation, the framework and the underlying content of this chapter show that the internal auditor could add much more value to management and the organization as a whole. During the strategy implementation the internal auditor should, based on his knowledge, expertise and skills, be involved more actively as a sounding board, coach, challenger, and advisor to management. With these activities the internal auditor will become a business partner for management, who adds value already during the implementation of the new strategy, and therefore, increases the chances of a successful implementation.

To be able to be more actively involved in the strategy implementation process, internal auditors need to know what they should do to prevent from jeopardizing their independence and objectivity. These necessary safeguards will be explained in the next chapter.

## 5 Safeguards for Consulting Services in Strategy Implementation

The last research question of this thesis refers to the safeguards internal audit should take into account when involved in the process of strategy implementation. The framework with roles for internal audit in strategy implementation, as visualized in figure 5 in Chapter 4, shows eight roles for internal audit that are legitimate but should be executed with the necessary safeguards. These eight roles are based on consulting services the internal auditor can provide to management and the organization. The main reason for the need of safeguards for these roles is the risk that the internal auditor will lose its independent position and objectivity when he is providing consulting services to management in addition to being an assurance provider. Although consulting services are now, in addition to assurance services, part of the IIA standards, the role as assurance provider remains the natural role of the internal auditor. Any activity that puts at stake the ability of the internal auditor to perform his work independently and objectively will demand precautions. Precautions can be taken on a personal level, on the level of the internal audit function, but also during the execution of the consulting services. The following paragraphs will give insight in the safeguards that the internal auditor should take when assuming a consulting role in a strategy implementation to ensure that the independence and objectivity of the internal auditor and the internal audit department will not be jeopardized.

### 5.1 Independence & Objectivity

Independence and objectivity give internal audit its unique trait and reason for existence within the organization. These characteristics are therefore also explicitly mentioned in the IIA Standards. Standard 1100 states that “the internal audit activity must be independent, and internal auditors must be objective in performing their work” (IIA, 2010). The underlying standards are explaining in more detail, what internal audit can do to be, and remain independent and objective. For example, the chief audit executive (CAE) must communicate and interact directly with the board according to Standard 1111. Moreover, Standard 1120 states that “internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest” (IIA, 2010). If the independence or objectivity of the internal auditor could be jeopardized in any way, the details of the impairment must be disclosed to the appropriate parties. This would include situations in which the independence or objectivity is impaired in fact as well as in appearance (Standard 1130). Especially management should understand the consequences of the impairment of independence or objectivity, to be able to assess whether the value added by internal audit is worth the loss in independence and objectivity (Mintjens, 2004). This will provide management with the opportunity to decide whether or not they would like internal audit to provide consulting services as part of the strategy implementation (Standard 1130.C2).

Independence and objectivity are also heavily dependent on the personal characteristics and professionalism of the individual auditors (Mintjens, 2004; Mutchler, 2003). This will, however, be explained in more detail in paragraph 5.4.

### 5.2 Safeguards for the Internal Audit Function

The first level at which safeguards can be taken when performing consulting services during a strategy implementation, is at the level of the internal audit function. The CAE is playing an important role in the realization of these safeguards.

#### *Internal Audit Charter*

First of all, when determining the role of the internal audit function within the organization, the CAE should make arrangements with management regarding the type of services internal audit is providing, the reporting on these

services, and the responsibilities of both internal audit and management for these services. These arrangements should explicitly be mentioned in the internal audit charter, after which the internal audit charter has to be approved by the Audit Committee (IIA, 2009). This is also in line with Standard 1000.C1, which states that the nature of consulting services must be defined in the internal audit charter. The policies and procedures as described in the internal audit charter should be understood and lived by the internal auditors. They should at all times adhere to these policies and procedures as well as to the policies and procedures that are set out in the organization in general, such as the code of ethics and code of conduct (Mutchler, 2003).

### *Reporting Lines*

Second, the reporting lines of internal audit and specifically the CAE should allow for increased independence of the internal audit function. The CAE should have direct communication with the Board and, as mentioned in Standard 1110, confirm to the Board the organizational independence of the internal audit activity. Regular communication with the Board will help the CAE to assure the independence of the internal audit function. Moreover, communication between the CAE and the Board will provide them with the opportunity to share important information about the organization, and contributes to effective organizational governance (Basioudis, 2010; Paape, 2006; Mintjens, 2004; Mutchler, 2003; Prawitt, 2003). Another important reporting line for internal audit is the reporting line to the Audit Committee. By reporting directly to the Audit Committee, internal audit can improve its independence in relation to the Board, since the Audit Committee would mediate this relationship (Fraser and Henry, 2007; Paape, 2006)

### *Audit Planning*

The planning of activities performed by internal audit is another important safeguard. When the CAE is planning the activities internal audit will perform in the coming period, i.e. the activities for the strategy implementation as well as the regular audit activities, he should take into account certain factors to assure the internal audit function and the individual internal auditors remain independent and objective. First, the availability and skills of the internal auditors should be taken into account when planning the different audit activities (Standard 2030). Assigning the internal auditors with the right skills to the right activities in the strategy implementation will support the success of the implementation as well as the effectiveness and efficiency of the execution of the activity (Prawitt, 2003). Second, as an internal auditor is, according to Standard 1130.A1, not allowed to provide assurance on any subject he has been responsible for or has provided advice on in the previous year, the previous tasks of each internal auditor should be taken into account when creating the audit planning. The CAE should however not only consider previous activities but also the expected activities for the next year. Involvement of an internal auditor in consulting services during the strategy implementation would refrain him from performing assurance services on the same subject during the next year. In case the CAE cannot provide sufficient resources to give objective assurance on parts of the strategy implementation or the operations in the period after the implementation, the assurance should be provided by other suitably qualified parties (Basioudis, 2010; IIA, 2009; Huibers, 2008; IIA, 2008; Anderson, 2003). Through job rotation, the CAE can allocate the available resources as efficiently as possible, and ensure that the chances of impairment of independence and objectivity are minimized (Mintjens, 2004; Mutchler, 2003). As mentioned in Standard 2020, the audit planning should be communicated to the Board for review and approval.

### *Culture*

A final powerful safeguard is the organizational culture within the internal audit function. Through culture and the related beliefs, values, and norms, internal audit leaders can motivate the internal auditors to create value for the organization while taking into account the boundaries of independence and objectivity. Just like management of an

organization, internal audit leaders should set the example for their employees by showing ethical behavior and integrity, and promoting the core values (Prawitt, 2003).

### 5.3 Safeguards in Role Execution

#### *Engagement Plan*

Standard 2200 states that “internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations” (IIA, 2010). This applies for all assurance and consulting engagements the internal auditor takes on. Especially for consulting engagements, the internal auditor must have a deep understanding of the objectives, scope, and responsibilities (Standard 2201.C1). This however also applies for management, who should understand the activities and responsibilities internal audit is, and is not taking. The engagement plan should also include a clear strategy and timeline to move the responsibility for the provided services back to management (IIA, 2009). The objectives of the engagement should be determined, and agreed upon by internal audit and management (Standard 2210). However, as stated in Standard 2220, the scope of the engagement should be determined solely by internal audit, and should be sufficient to satisfy the determined objectives (Basioudis, 2010; Lemon and Tatum, 2003).

#### *Disclosure of Impairment*

With each request for consulting services during a strategy implementation, the internal auditor should assess the risk of impairment of his independence and objectivity. If he foresees any risks, these risks should be disclosed and communicated directly to management by the CAE. Management should then decide whether they still want the internal auditor to provide the requested consulting services. All risks of impairment of independence and objectivity, that are identified for an engagement, have to be assessed by the internal auditor to determine how the risks can be mitigated. The risk identification, assessment, and mitigation have to be documented and disclosed. In the execution of any consulting related roles during a strategy implementation, the internal auditor should constantly be aware of any threats to his independence or objectivity. If any new threats arise, they should also immediately be communicated to management (Mutchler, 2003).

#### *Responsibility*

Another important safeguard during the execution of consulting roles is that the internal auditor should never assume management responsibility, nor should he make decisions on behalf of management. Internal audit can provide advice, challenge, and support in the decision making process of management, but should never take the lead (IIA, 2009; Huibers, 2008; Mutchler, 2003). Especially in the case of strategy implementation these are important safeguards, because the decisions made in this process are determining the new business model, i.e. the fundament of the organization.

#### *Control Self Assessment*

Since governance and control systems are important parts of a strategy implementation, and the new business model, the internal auditor does get involved in providing consulting services for these topics. After having been involved in a certain process or subject as an advisor to management, the internal auditor should not provide assurance on this process or subject, as the internal auditor would not appear to be objective. However, assessing the effectiveness of control systems is one of the most important assessments done in an organization. In this case, management and even line employees could, through a control self-assessment (CSA), assess the effectiveness of internal control themselves, and with that, provide reasonable assurance that business objectives will be met. Internal audit would then participate in this process as a facilitator, and only audit these items which show high risk based on the CSA results (Driessen et al, 2008; Mintjens, 2004; Lemon et al, 2003).

## 5.4 Safeguards for the Internal Auditor

As already stated in paragraph 5.1, independence and objectivity can not only be ensured through policies and procedures on the internal audit function level, but should more importantly be ensured on personal level of the individual internal auditors.

### *Personal Traits*

Objectivity of the internal auditor is a state of mind, and relies heavily on professionalism. The internal auditor should at all times be aware of his personal ability to remain objective, and judge whether he is facing any threats that could impair his objectivity (Mintjens, 2004; Mutchler, 2003). Professionalism and objectivity are together with good moral values, ethical standards, and integrity, important personal traits that an internal auditor should possess. Especially when providing consulting services, these traits are important to ensure that the personal objectivity is not impaired.

### *Training, Supervision & Mentoring*

As mentioned in paragraph 5.2 organizational culture and example behavior by internal audit leaders are crucial elements to enhance the personal skills of the internal auditors. Training of internal auditors would be appropriate to further develop their personal skills. Training should however not only focus on these 'soft' skills, but also on the practical elements of performing consulting services, and dealing with threats that could cause impairment of independence and objectivity. Throughout their entire career, internal auditors should continue with professional development (Standard 1230). Through mentoring and supervision the internal audit leaders can also monitor, and enhance the personal skills of the internal auditors (Prawitt, 2003). The Competency Framework for Internal Auditing of the IIA provides an overview of the skills each internal auditor should possess in order to effectively and efficiently perform his job (Driessen et al, 2008; Prawitt, 2003). In addition, internal auditors should know, and understand the Professional Standards of the IIA, and the related code of ethics. This way, they will not only know what kind of behavior is expected from them, but they will also be able to respond more adequately in case they are pressured in the execution of their work (Paape, 2006).

### *Performance Measures*

Finally, an important safeguard, which can be taken to protect the independence and objectivity of the internal auditor, are performance measures. Like with other employees in an organization, performance measures influence behavior, and can therefore motivate people to behave as they are expected to. By using the correct performance measures, internal auditors will be motivated to add value to the organization through the services they deliver while maintaining their independence and objectivity (Prawitt, 2003).

## 5.5 Summary

In Chapter 4, eight different consulting services were defined, which an internal auditor could assume during a strategy implementation. These roles however, demanded safeguards to ensure that the independence and objectivity of the internal auditor were maintained. This chapter has provided an overview of these safeguards, and with that, answered the final research question. Safeguards have to be taken on three different levels, i.e. on the level of the internal audit function, during role execution, and finally, on the personal level of the internal auditor.

On the level of the internal audit function the position in the organization, as well as the reporting lines of internal audit are important safeguards. The CAE plays an important role in the creation of sound audit planning, which takes into account the preservation of independence and objectivity. Moreover, definition of services, and policies and procedures in the internal audit charter are crucial for clarification of the roles and responsibilities of the

internal audit function to management. Finally, the organizational culture of the internal audit function is an important safeguard to motivate correct behavior of internal auditors. During role execution, the internal auditors should document all details of and agreements made for each engagement. They should also assess the risks of impairment of independence and objectivity involved with each engagement, and disclose any risks to management. Furthermore, when delivering consulting services to management, the internal auditor should never assume any management responsibility or make decisions on behalf of management. On the final level, i.e. the personal level of the individual internal auditor, professionalism, moral values, ethical standards, and integrity provide the necessary safeguards for maintaining personal objectivity. The internal auditor should be trained and coached to develop and maintain the correct personal, practical, and professional skills. The final safeguard is the use of performance measures to motivate internal auditors to show correct behavior, and add value for the organization while ensuring that their objectivity is not jeopardized.

A schematic summary of the safeguards internal audit should take, when assuming consulting roles in the process of strategy implementation is provided in Appendix II.

## 6 Conclusion

Chapters 2 till 5 have answered the different research questions as provided in Chapter 1. With that, the main problem statement of this thesis, i.e. *“How and under which circumstances can the internal auditor help the organization to make her strategy implementation a success?”* can also be answered. This chapter will therefore combine all different conclusions from the previous chapters to answer the main problem statement in paragraph 6.1. In addition, the opportunities for future research on the role of internal audit in strategy implementations will be provided in paragraph 6.2.

### 6.1 Strategy Implementation, a Job for the Internal Auditor

Many organizations are struggling with the implementation of their new strategy. Much time is spent on the formulation of a new strategy, and even though this was done thoroughly, many organizations still fail to successfully implement the strategy. As stated by Hambrick et al. (1989) “without successful implementation, a strategy is but a fantasy”. In addition to spending time on the formulation of a strategy, organizations should spend enough time on the implementation. Learning from literature, most organizations include different parties during the implementation process. Although many experts are included in these parties, one of the organizations’ experts is forgotten in most cases, i.e. the internal auditor. With his detailed knowledge of the organization, its processes, the organizational culture, and the risks the organization is facing, the internal auditor is one of the most knowledgeable employees of the organization. More importantly, the expertise of the internal auditor on internal control and the control environment, and his independent and objective position in the organization, makes him an excellent candidate to help management successfully implement the new strategy. So yes, there is a job for the internal auditor in strategy implementation.

#### 6.1.1 How to Involve Internal Audit in Strategy Implementation

Nowadays the role of the internal auditor in an organization shows not only that he acts as an assurance provider, but also that he delivers consulting services based on his expertise and experience. In both roles the internal auditor could be of help to management during a strategy implementation. By examining the process of strategy implementation, and the factors that positively influence the success of the implementation, the role of the internal auditor in the process became clearer in Chapter 4. Thereby, the answer to the question, as to how the internal auditor could help the organization make her strategy implementation a success, was found. Figure 6 shows the framework, which summarizes the most important roles an internal auditor can assume to help management to successfully implement the new strategy. This framework does not only focus on the assurance and consulting roles the internal auditor can assume, but it also shows the roles an internal auditor cannot assume as part of a strategy implementation.

The core internal audit roles at the left side of the framework envision the assurance related roles for the internal auditor in the process of strategy implementation. Considering that the implementation is key to the success of the newly defined strategy, management will be interested in getting assurance on the implementation. Internal audit will then be the natural function for management to turn to. Internal audit can, during the course of the strategy implementation, provide assurance on, for example, content, process planning, and process execution. Through a QA review of the implementation plan, assurance can be provided on the quality of the plan, i.e. the preparations for the execution in, for example, objectives, scoping, expected deliverables, timelines, and milestones. Moreover, QA reviews on the implementation process give management the necessary assurance that the implementation is executed as expected, and agreed upon in the implementation plan. Internal audit can also perform QA reviews on

the communication effort, and sense of ownership of the new strategy. These reviews give management confidence that the strategy is received well, and accepted at all levels of the organization. Secondly, audits on process, progress, and content provide assurance to management that the organization is on the right track with the strategy implementation, that the right decisions are made in relation to the strategy, and the risks managed correctly.

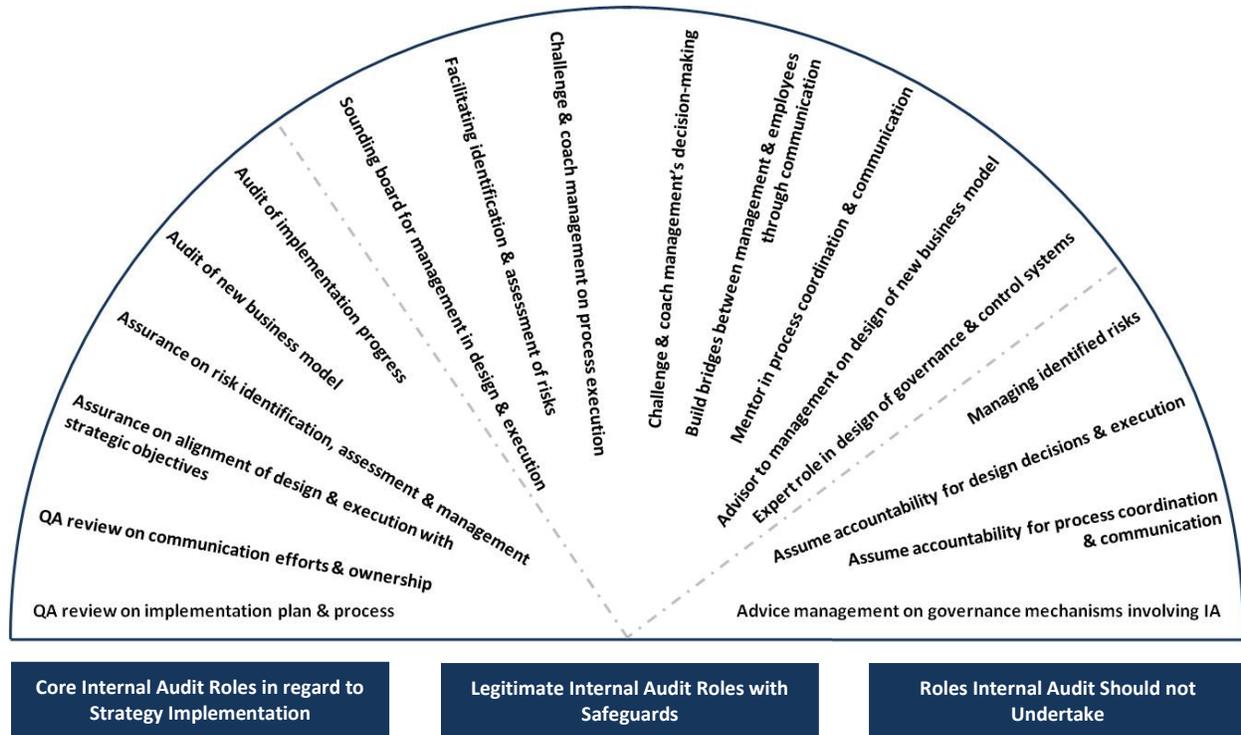


Figure 6: Roles for Internal Audit in Strategy Implementation

There are also roles the internal auditor should not assume as part of a strategy implementation, since these roles would structurally damage the independence and objectivity of the internal auditor, and thereby, harm an important reason for existence of the internal audit function. The most important roles the internal auditor cannot assume in the process of strategy implementation are shown on the right side of the framework. As also mentioned in the framework for the role of internal audit in ERM as developed by the IIA (2009), internal auditors should not manage the identified risks that could affect the strategy implementation. Moreover, the internal auditor should not assume accountability for the process coordination and communication during the strategy implementation. The internal auditor should also not assume accountability for decision-making in the design and execution of the strategy implementation. Finally, although providing advice to management is allowed, the internal auditor should refrain from providing advice on governance mechanisms that involve internal audit.

The middle part of the framework depicts the consulting roles that an internal auditor can legitimately assume when assisting management during a strategy implementation. The word legitimately is added here, because these roles could cause impairment of independence and objectivity of internal audit if the right precautions are not taken. Based on his knowledge and expertise the internal auditor can function as a sounding board, coach, and advisor for management. When management is working on the design of the new business model, as well as during the execution of the implementation, they can use a business partner who can assess their decisions, and ask the right questions at the right time. The internal auditor can challenge and coach management during the process of

decision-making to keep management aware of the track they are following for the implementation of the new strategy. Furthermore, internal audit can facilitate in the identification and assessment of the risks the organization is facing with the implementation of the new strategy. This includes risks faced during the implementation process, as well as risks faced because of the new strategy and business model. Other consulting roles of the internal auditor are focused more towards the human side of the strategy implementation process, i.e. towards communication and process coordination. Due to his independent and objective position in the organization, the internal auditor can act as a mentor for and bridge builder between management and the employees and, thereby, assist in creating ownership of the new strategy at all levels of the organization. Internal audit can not only function as a vehicle in communication but also judge whether communication is delivered and perceived correctly. By helping management in communicating the new strategy and business model to the employees, and by making sure the employees have understood and accepted the message, as well as have had the opportunity to respond, challenge, and ask questions, the internal auditor can increase the level of ownership of the strategy, and thereby, raise the chances for success of the implementation. Finally, internal audit can function as an advisor and expert. The knowledge and expertise of the internal auditor can help management with the design of the new business model, and the execution of the strategy implementation. Management can use the internal auditor as a discussion partner, and as a source of information and ideas for the design and execution. Moreover, for the design of the governance and control systems the internal auditor is probably the content expert of the organization. Although these consulting roles may cause risk of impairment of independence and objective of internal audit, not using the expertise of the internal auditor for the sole sake of independence and objectivity would be a waste for the organization, and the success of the strategy implementation.

### 6.1.2 Circumstances for Involvement of Internal Audit

The consulting roles, mentioned in the middle part of the framework in figure 6, are all legitimate if the internal auditor, and the internal audit function as a whole, take the necessary safeguards to ensure that internal audit remains independent and objective. These safeguards relate to the second part of the problem statement of this thesis, i.e. the circumstances under which the internal auditor can help the organization to make her strategy implementation a success. Because providing consulting services as part of a strategy implementation could jeopardize the independence and objectivity of the internal audit function, internal audit has to take precautions on three different levels, namely the internal audit function, the internal auditor as an individual, and as part of the execution of consulting services.

To start, the CAE should take all necessary precautions for the internal audit function to ensure independence and objectivity. All arrangements made with management on the services that will be delivered by Internal Audit have to be mentioned in the internal audit charter, and approved by the Audit Committee. Reporting lines to both the Board of Directors and the Audit Committee have to be arranged to allow for a more independent position of the internal audit function in the organization. Furthermore, the CAE should create a sound audit planning taking into account the different requested services, the availability, and skills of the internal auditors, and the previous and future activities of the internal auditors. Last but not least, the organizational culture within the internal audit function should promote the right values and behavior expected from the internal auditors. The CAE and other internal audit leaders should set the example by showing honest and ethical behavior, and promoting the core values.

The internal auditor as an individual can also take precautions to maintain his objectivity. Objectivity is a state of mind, and relies heavily on professionalism, good moral values, and integrity. The internal auditor should possess these personal traits, and have the ability to judge whether his objectivity may be impaired. Through training,

mentoring, and supervision the internal auditor should be able to gain, maintain, and improve the necessary personal skills as well as skills on the practical elements of performing consulting services, and dealing with threats of impairment of objectivity. Moreover, through performance measures the internal auditor will be motivated to add value for the organization and, in the meanwhile, remain objective.

The final level at which safeguards can be taken, is during role execution, i.e. the delivery of the requested services to management during a strategy implementation. For each engagement the objectives, scope, and responsibilities should be understood and agreed upon by internal audit and management. If there is any risk of impairment of independence and objectivity, in advance of or during the engagement, the internal auditor should disclose the risk to management, assess the risk, and take the necessary actions to mitigate the risk. Finally, and in line with the roles at the right side of the framework in figure 6, the internal auditor should never assume management responsibility, nor make decisions on behalf of management during the strategy implementation.

## 6.2 Opportunities for Future Research

This thesis has made the first steps to describe the potential roles in which an internal auditor can assist management in making the implementation of their new strategy a success. These roles have been summarized in a framework (figure 6). Moreover, the circumstances under which this could be done have been described to explain the safeguards internal audit should take to preserve its independence and objectivity. The conclusions of this thesis have however been made based on one model for strategy implementation, i.e. the model of Hill et al. (2009) and additional factors for success from different articles. Although the model of Hill et al. describes the main process for strategy implementation, there are other models available, which may mention extra activities that could be part of the implementation process. Among these extra activities, there may be other roles for the internal auditor to assume.

Moreover, the conclusions of this thesis have been based on search of literature on strategy implementation and internal audit. This leaves great opportunities for future research. First of all, it would be interesting to investigate whether CAEs and Board members in different organizations agree with the conclusions of this thesis. Organizations in which the internal auditor has already been involved during a strategy implementation are of special interest, since it would allow for comparison of experiences with each other, and with the conclusions of this thesis. These comparisons could lead to changes or, better said, improvement of the framework. The conclusions of this thesis are also based on a generic type of organization. It is however possible that different characteristics of an organization could lead to different roles for the internal auditor to assume during a strategy implementation. For example, the industry, country, or market organizations are participating in, could be of influence. Additionally, the size of the organization, and the impact and content of the strategic change, may also lead to different conclusions. Finally, the size, and general role and position of the internal audit function in the organization may change the way internal audit will participate in strategy implementations.

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## Appendix I

The following figure provides a summary of the process of strategy implementation and the factors for the success of the implementation.

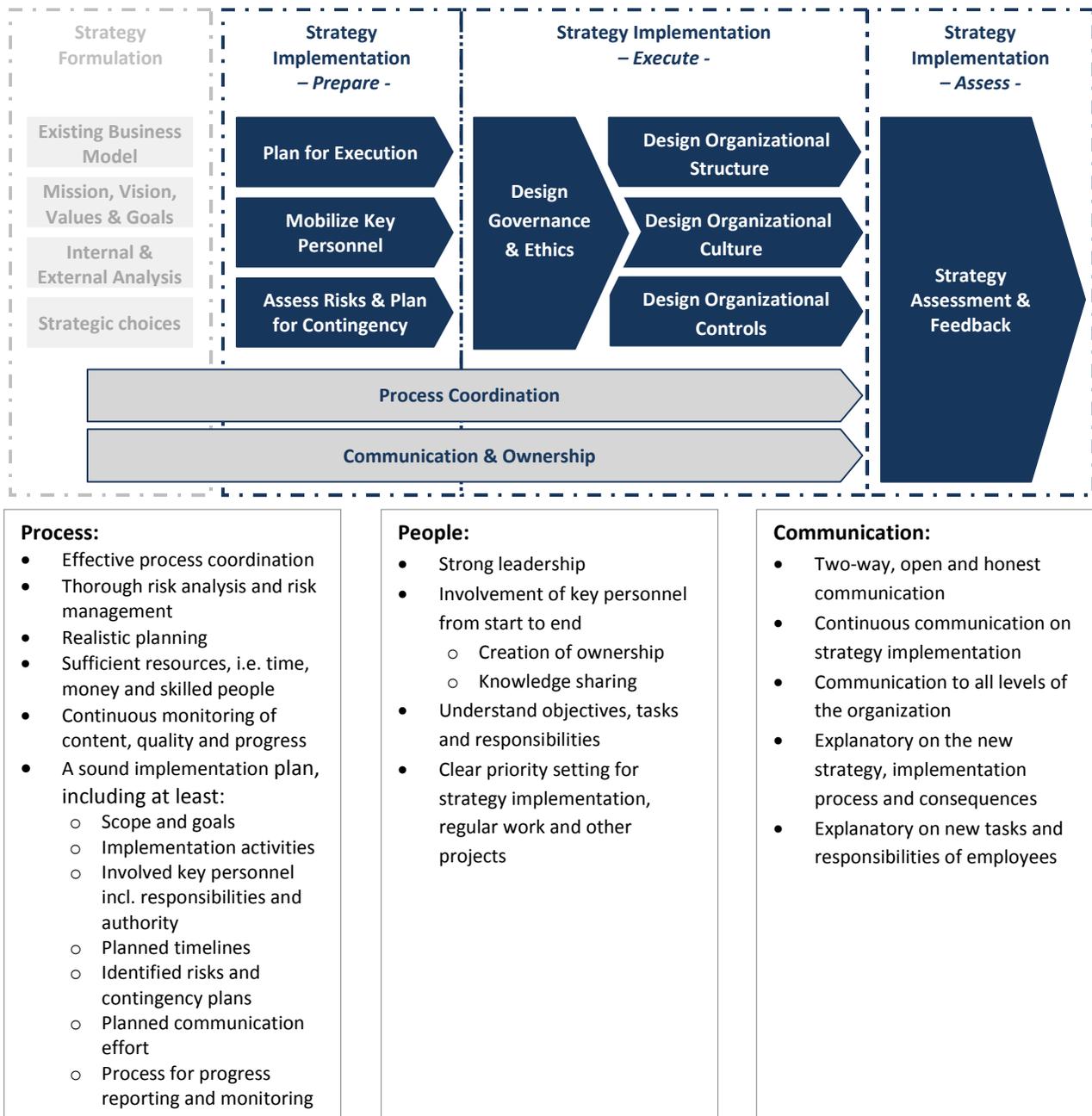


Figure 7: Summary of the Process of Strategy Implementation and the Factors for Success

## Appendix II

The following table provides a summary of the safeguards internal audit should take to be able to assume the consulting roles in a strategy implementation.

Category	Safeguard	Description	IIA Standard
<b>Internal Audit Function</b>	Internal audit charter	Definitions of the nature of consulting services provided by Internal Audit	1000, 1000.C1
		Policies and procedures	2040
		Approval of audit charter by management and the Audit Committee	1000.C1, 1010
	Reporting Lines	Direct and regular communication & interaction between CAE and the Board of Directors	1111
		Reporting line to Board of Directors	1110
		Reporting line to Audit Committee	n.a.
	Sound audit planning	Based on skills and availability of the internal auditors	2030
		Based on previously performed activities of the internal auditors	1130.A1
		Based on future activities that will be performed by the internal auditors	1130.A1
		Use job rotation	n.a.
		Approval from Board of Directors	2020
	Culture	Create right culture, beliefs, values and norms towards independence and objectivity	n.a.
		Show example behavior	n.a.
		Promote core values	n.a.
	<b>Role execution</b>	Engagement plan	Document objectives, scope, timing and resource allocation for each engagement
Understand objectives, scope and responsibilities			2201.C1
Include the strategy and timeline for handing responsibility back to management			n.a.
Set objectives together with management			2210.C1
Internal audit determines scope alone and it should be sufficient to cover all objectives			2220
Risk management		Identify, assess and mitigate risks that could impair independence and objectivity	n.a.
		Disclose risks to management	1130
		Document risk identification, assessment and mitigation	n.a.
Responsibility		Not assume management responsibility	n.a.
		Not take decisions on behalf of management	n.a.
Control self assessment		Not provide assurance on subjects for which advice has been given	1130.A1
		Assessment of control systems by management through control self assessments	n.a.
<b>Internal auditor</b>		Personal traits	Impartial, unbiased attitude and avoid any conflict of interest

Category	Safeguard	Description	IIA Standard
		Able to judge potential impairment of objectivity	1220
		Professionalism, good moral values, ethical standards, integrity	1220
	Training	Development of necessary personal traits	1230
		Training on practical elements of performing consulting services and dealing with threats to independence and objectivity	1210, 1220, 1230
		Professional development	1230
		Education on IIA Standards and Code of Ethics	n.a.
	Mentoring & supervision	Monitor and enhance personal skills of internal auditors	1300, 1311, 2340
	Performance measures	Influence behavior and motivate internal auditors to preserve independence and objectivity	n.a.

*Table 1: Summary of the Safeguards for Consulting Services during a Strategy Implementation*