

# BUSINESS SENSE

Next Level Tools for Entrepreneurs & Small Business Owners

## FINANCIAL LITERACY SERIES

### Purpose of Business Controls

#### Why is this important?

Business controls are the intelligent processes, procedures, and safeguards that protect your company from uninformed or inappropriate decisions or actions by any team member. As you grow your business, you want your management team as well as your employees to have both the knowledge and the authority to complete tasks without running everything past you. Business controls enable employees to exercise their judgment and use their discretion if you have empowered them with the ground rules, feedback, and systems they need to do their best work. As a specialized subset of your business, business controls and SOPs facilitate and support your employees' performance, ensure product quality and consistency while eliminating inefficiencies and waste, and reinforce a culture of continuous improvement and growth across your organization.



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#### Business Controls

Internal Controls are a function of financial operations. So what are Business Controls? Business controls are any process, practice, policy, tool or system used to allow management to guard against inconsistencies, lack of accountability and waste. Many business controls are considered part of best practices. What you will notice over time is that your Business Controls have a strong effect on your business culture. If you take business controls seriously, and hold yourself and your employees accountable, you will find that your employees will also take them seriously.

#### *Here are some examples of Business Controls:*

##### **1. Standard Operating Procedures (SOPs)**

This is more of a tool than a process control, but it is at the top of the list because it is a method or process



control and the essence of consistency and efficiency. When you develop processes in your business, document the process and make sure that it is done the same way every time. If there are exceptions to this SOP, then document them so only the same exceptions are acceptable.

##### **2. Strategic Planning**

Strategic Planning is essentially the process of establishing goals for the business and specific plans to achieve those goals. A Strategic Plan is a roadmap, with an explicit commitment to direct resources to achieve the stated goals. Goals should be specific, measurable, achievable, relevant and time-bound, or SMART. Learn more about SMART goals in our Business Operations Guide.

##### **3. Financial Controls**

Financial Controls are broader than the Internal Controls. Financial Controls includes the process of developing a budget and holding regular variation reviews to determine whether the company is on track to achieve its stated intention. A budget offers insight into the operations of the business and allows time to adjust plans and/or tactics to achieve annual goals. Budgets often include key targets for revenue, expense and bottom-line profitability. Included in Financial Controls are Managing Costs and Expenditures, Standardized Billing, Business Case Analysis or Return on Investment for Capital Expenditures. Wherever there is an activity that happens repeatedly, develop an SOP to guide employees on the way you want these activities done, and then routinely monitor their progress and results.

##### **4. Performance Management**

This is an established agreement, often

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on an annual basis with your employees respective to their specific objectives and relative to their job description and job classification. Evaluating employee performance against those objectives to achieve overall business goals is critical to the satisfaction and success of your employees as well as the success and the culture of your organization.

### 5. Supervision

This involves day-to-day oversight of employee performance to optimize their productivity, efficiency, and work quality. As the team develops proficiency and efficiencies, less time can be spent on day-to-day oversight, enabling the management team and the employees to work on continuous improvement in systems and performance.

### 6. Human Resources

Hiring the right people is one of the best ways to safeguard your business and to keep it strong. Develop a business culture profile to help identify the best candidates for a job. After working with an employee to improve their performance, don't hesitate to let that employee go if performance continues to be poor.

### 7. Sales Process Control

The easiest way to sell something is often by discounting the price. There needs to

be a clearly established process whereby a salesperson can make that call, with the involvement, at minimum, of the sales manager and ideally the finance person. By controlling net pricing, you avoid giving up margin to make a sale.

### 8. Customer Service Process

How are you doing in the eyes of your customer? Develop SOP's for assisting customer service representatives to manage customer interactions and continually address customer service representative trainings to include role playing to tackle new challenges as they arise.

### 9. Warehouse and Shipping

Develop SOP's to define how raw materials and inventory is received to the warehouse and how products are shipped out to customers. In small businesses, senior managers may walk into the warehouse and grab a couple items to give a customer. How much are you giving away? An SOP could be developed that has the warehouse produce a no-cost invoice to be a "bill" to a specific department, for example sales or marketing. In this way the habit of "grabbing and giving" can be monitored and its true cost assessed, and inventory management is ensured.

### 10. Travel and Entertainment

How much do you allow managers and/or employees to spend on food when they are traveling for business? Do you have rules regarding air-travel (for example Economy for most domestic flights, but Business for flights exceeding four hours and international travel)? Developing an SOP on this topic promotes clear understanding and accountability throughout the business.

### 11. Cost Accounting

This is an essential process used by management to capture a company's total cost of production by assessing both variable and fixed costs. Variable costs are those that increase and decrease with the volume of sales. Fixed costs are those costs that are constant regardless of sales volume. Once analyzed, the company's total cost of production provides the basis for a budget and subsequent performance can be measured against it.

If you develop process controls and codify them with SOP's you will have demonstrated to employees what the expectations are and how to properly perform business operations. This will save you time, money, and frustration.

Business Sense is a no-fluff source of information that gets right to the heart of what small business owners need: essential tools and informational resources to help their businesses grow. Written by our team of business coaches, this series shares their decades of experience in areas such as financials, operations, sales and marketing, human resources, leadership, and governance. Business Sense is designed to provide entrepreneurs and small business owners in various sectors, including agriculture, forestry, waste management, renewable energy, and environmental technology, with recommendations and practical advice to help their businesses not only survive but thrive.

Our business management coaching and Business Sense Resource Guide are designed to accelerate the growth of the enterprises we work with and expand the leadership capacity of the entrepreneurs who own and manage these businesses.

## Let Us Help You and Your Business

The Vermont Sustainable Jobs Fund provides tailored business management coaching, entrepreneurial support, and training to position Vermont-based entrepreneurs and small business owners in our designated market sectors for growth and long-term success. We partner with state government, private sector businesses and nonprofit organizations to build a thriving economic, social and ecological future for Vermont. Learn more at [VSJF.org](https://www.vsjf.org)



**Vermont Sustainable Jobs Fund**

*Accelerating Sustainable Economic Development*

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