
PART I

**The Broad Management
Aspects of Controllershship**

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CHAPTER 1

Accounting in the Corporation

Before a controller can delve into the specifics of the controller job description, it is first necessary to determine how the accounting function fits into the rest of the organization. This used to be a simple issue; the accounting staff processed transactions to support business operations—period. This required a large clerical staff managed by a small cadre of people trained in the underlying techniques for processing those transactions. In this environment, the stereotypical image of an introverted controller pounding away at a calculator was largely accurate.

The role has undergone a vast change in the past few decades, as technological improvements, the level of competition, and a shifting view of management theory have resulted in a startlingly different accounting function. This section describes how the accounting function now incorporates many additional tasks, and can even include the internal auditing and computer services functions in smaller organizations. It then goes on to describe how this functional area fits into and serves the needs of the rest of the company, and how the controller fits into the accounting function. Finally, there is a discussion of how ethics drives the behavior of accounting employees, and how this shapes the way the accounting staff and controller see their roles within the organization.

In short, this chapter covers the high-level issues of how the accounting function and its controller fit into the modern company, not only to process its transactions, which was its traditional role, but also to provide additional services.

Tasks of the Accounting Function

The accounting function has had sole responsibility for processing the bulk of a company's transactions for many years. Chief among these transactions have been the processing of customer billings and supplier invoices. Though these two areas comprise the bulk of the transactions, there has also been a long history of delegating asset tracking to the accounting function. This involves all transactions related to the movement of cash, inventory, and fixed assets. Finally, the accounting staff has been responsible for tracking debt, which can involve a continuous tracking of debt levels by debt instrument, as well as the payments made to reduce them. These have been the transaction-based activities of the accounting staff.

A multitude of changes in the business environment has altered the role of the accounting function. One change has been the appearance of the computer services function. In a larger company, this function is managed within its own department and does not fall under the responsibility of the controller. However, it is common for the computer services group to fall under the management umbrella of the controller in a smaller company. Likewise, the internal auditing function frequently falls under the controller's area. This function has expanded in importance over the past few decades as companies realize the benefits of having an internal watchdog over key controls. Though it should report directly to the Board of Directors, it is common for a small internal auditing staff to report instead to the controller. It is becoming more common for the computer services and internal auditing functions to be integrated into the role of the accounting staff, especially in smaller companies.

Besides adding new functional areas, the accounting staff has other new responsibilities that have arisen due to the increased level of competition. With worldwide barriers to competition crumbling, every company feels the pinch of lower competitive prices and now asks the accounting staff to provide analysis work in addition to the traditional transaction processing. These tasks include margin analysis on existing or projected product lines, geographic sales regions, or individual products. In addition, the accounting staff may even be asked to serve on new product design teams, so that they can determine the projected cost of new products, especially in relation to target costs. Further, the accounting staff must continuously review and report on nonproduct costs, which can range from advertising to utilities. This level of cost review and reporting calls for a different kind of accounting staff than the traditional kind that did nothing but process large volumes of transaction-related paperwork. It now requires highly trained cost accountants and financial analysts to conduct the work.

The world of business has become more international. Many companies are doing an increasing volume of business with companies based in other countries. This greatly increases the complexity of accounting, for a company must now determine gains and losses on sales to other countries. There may even be bartering transactions with organizations that do not have ready access to currency. In addition, if there is no separate finance function, the accounting staff may be called on to handle letters of credit and hedging transactions that are designed to reduce the level of risk that goes with foreign dealings. All of these issues call for a level of skill that was not required in the days of simple transaction processing.

In the face of more intensive competition, many companies are also merging or acquiring subsidiaries. This adds a great deal of complexity to the accounting staff's work, for it must now coordinate a multitude of additional tasks in other locations. This includes setting up standard procedures for the processing of receipts, shipments, and cash. Also, closing the financial books at the end of each reporting period becomes much more complex, as the accounting staff must now coordinate the assembly and consolidation of information from multiple subsidiaries. Even if a company decides to consolidate all of its accounting facilities into one central processing location to avoid all this trouble, it still requires the management expertise to bring together the disparate accounting systems into a smoothly operating facility. This is not an easy task. The environment of mergers and acquisitions greatly increases the skill needed by the accounting staff.

The tasks of the accounting function are itemized below. The tasks that belong elsewhere—but are commonly given to the accounting staff in a small company—are noted under a separate heading.

- *Traditional accounting tasks*
 - Accounts payable transaction processing
 - Accounts receivable transaction processing
 - Asset transaction processing
 - Debt transaction processing
- *New accounting tasks*
 - Coordination and consolidation of accounting at subsidiaries
 - Currency translations
 - Margin analysis
 - Nonproduct cost analysis
 - Operation of accounting software
- *New tasks assigned to the accounting function of smaller companies*
 - Hedging and letter-of-credit transactions
 - Internal auditing programs

Given today's highly volatile and ever-changing business environment, the only safe statement to make about the new activities presented in this section is that they will become only more complex, requiring even greater skill by the accounting staff to be accomplished in a manner that is both efficient and effective.

Role of the Accounting Function

Having noted the expanded number of tasks now undertaken by the modern accounting function, it is important also to note how the role of the accounting staff has changed in relation to the rest of the company.

When the number of accounting tasks was more closely defined around transaction processing, it was common for the accounting staff to be housed in an out-of-the-way corner of a business, where it would work without being impeded by other functions. Now, with a much greater number of tasks, the accounting staff finds itself involved in most major decisions. For example, the cost accountant is expected to serve on product design teams and to let other team members know if new designs will have costs that will meet targeted cost goals. An accounting analyst may be asked by the sales manager to evaluate the profitability of a lease deal being extended to a customer. The controller is frequently asked to sit in on executive committee meetings to give opinions on the cash flow issues for acquisitions or purchases. The accounts receivable clerk may work closely with the sales staff to collect overdue invoices from customers. For these reasons and others, the accounting function now finds itself performing a variety of tasks that make it an integral part of the organization.

A particularly important area in which the role of the accountant has changed is related to processes. When another area of the company changes its operations, which is increasingly common, the accounting staff must devise alterations to the existing systems for processing transactions that will accommodate those changes.

For example, if the manufacturing function switches to just-in-time production or computer-integrated manufacturing, this has a profound impact on the way in which the accounting staff pays its bills, invoices customers, monitors job costs, and creates internal reports. Also, if the materials management staff decides to use material requirements planning or integrated distribution management, these new systems will issue information that is of great use to the accounting staff; it should connect its systems to those of the materials management staff to access that information. To alter its processes, the accounting staff must first be aware of these changes, requiring the accounting staff to engage in more interaction with other parts of the company to find out what is going on.

The most historically important role that the accounting staff must change is that of being a brake on other activities. Because most accountants are trained in implementing controls to ensure that assets are not lost, the accounting staff tends to shoot down changes proposed by other departments—the changes will interfere with the controls. The accounting personnel must realize that changes put forward by other functions are not intended to disrupt controls, but to improve the company's position in the marketplace or to increase its efficiency. This means that some controls must be modified, replaced, or eliminated. It is very helpful for the accounting personnel to have an open mind about altering systems, even when the new systems interfere with the accounting staff's system of controls.

In today's increasingly competitive environment, it is very important for companies to develop strong relationships with their key suppliers and customers. These business partners will demand extra services, some of which must be fulfilled by the accounting staff. These changes may include the provision of special billing formats to customers or paying suppliers by electronic transfer. If these steps are needed to retain key business partners, then the accounting staff must be willing to do its share of the work. Too frequently, the accounting staff resists these sorts of changes, on the grounds that all transactions must be performed in exactly the same manner. The accounting department must realize that altering its way of doing business is sometimes necessary to support ongoing business relationships.

Altering the focus of the accounting staff from an introverted group that processes paper to one that works with other parts of a company and is willing to alter its systems to accommodate the needs of other departments is required in today's business environment. This is in great contrast to the accounting department of the past, which had a minimal role in other company activities, and which was its conservative anchor.

Role of the Controller

The controller has traditionally been the one who manages a few key transaction cycles, monitors assets, and delivers financial statements. Though the details of the position are covered in Chapter 2, suffice it to say here that the position has expanded to a great extent. As noted earlier in this chapter, the accounting function as a whole is now required to take on additional tasks, to work with other departments more closely, to continuously offer advice to senior management, and to alter systems to match the changing needs of other areas of the company. All of these changes have had a massive impact on the role of the controller within the organization.

The key factor is that, due to the vastly increased interaction with other departments, the controller must be highly skilled in interdepartmental dealings. This involves constant interactions with fellow department heads, attendance at a swarm of meetings, and the issuance of opinions on a variety of topics regarding the running of functions with which the controller previously had no connection. Because of this changed role, the controller must now have top-notch interpersonal and management skills—the former to deal with other departments and the latter to oversee the changes needed by the other departments.

In addition, the controller must govern a group of employees that is much more educated than was previously the case. This requires constant attention to the professional progress of each person in the department, which requires goal setting, mutual discussion of training requirements, and continuous feedback regarding employee performance. This clearly calls for management skills of an order far higher than formerly required of a controller who presided over a clerical function.

Also, the wider range of functions managed by the controller now requires a wider range of knowledge. Besides the traditional training in accounting, a controller now needs at least a passing knowledge of computer systems, internal auditing, and control systems. In addition, traditional accounting functions have now become more complex; a controller must know about the increasing complexities of tax laws, Securities and Exchange Commission (SEC) filings, and generally accepted accounting principles. It would take a perpetual student to have an in-depth knowledge of all these areas, so it is more common for the controller to manage a cluster of highly trained subordinates who are more knowledgeable in specific areas, and who can advise the controller as problems arise.

In short, the role of the controller has expanded beyond that of a pure accountant to someone with broad management and interpersonal skills who can interact with other departments, as well as manage the activities of an increasingly well-educated group of subordinates, while also working with them to further their professional careers. This is a much more difficult role for the modern controller, requiring someone with at least as much management experience as accounting knowledge.

Impact of Ethics on the Accounting Role

With the globalization of business, competition has become more intense. It is possible that the ethical foundations to which a company adheres have deteriorated in the face of this pressure. There have been innumerable examples in the press of falsified earnings reports, bribery, kickbacks, and employee thefts. There are vastly more instances of ethical failings that many would perceive to be more minimal, such as employee use of company property for personal use, “smoothing” of financial results to keep them in line with investor expectations, or excessively robust sales or earnings forecasts. The controller and the accounting staff in general play a very large role in a company’s ethical orientation, for they control or have some influence over the primary issues that are most subject to ethical problems—reported earnings, cash usage, and control over assets. This section discusses how the accounting function can modify a company’s ethical behavior—for good or bad.

The accounting function can have a serious negative impact on a company’s ethical standards through nothing more than indifference or lack of caring. For

example, if the controller continually acquiesces to management demands to slightly modify the financial statements, this may eventually lead to larger and larger alterations. Once the controller has set a standard for allowing changes to reported earnings, how can the controller define where to draw the line? Another example is when the accounting staff does not enforce control over assets; if it conducts a fixed-asset audit and finds that a television set has been appropriated by an employee for several months, it can indirectly encourage continuing behavior of this kind simply by taking no action. Other employees will see that there is no penalty for removing assets and will then do the same thing. Yet another example is when the accounting staff does not closely review employee expense reports for inappropriate expenditures. Once again, if employees see that the expense report rules are not being enforced, they will gradually include more expenses in their reports that should not be included. The accounting staff has a significant negative influence over a company's ethical standards simply by not enforcing the rules.

The previous argument can be turned around for an active accounting department. If the controller and the rest of the accounting staff rigidly enforce company policies and procedures and acquire a reputation for no deviations from these standards, the rest of the corporation will be dragged into line. It is especially important that the controller adhere closely to the highest standards, for the rest of the accounting staff will follow the controller's lead. Conversely, if the controller does not maintain a high ethical standard, the rest of the accounting staff will have no ethical leader, and will quickly lapse into apathy. Accordingly, the controller is a company's chief ethics officer, for the position has such a strong influence over ethics. It is a rare week that passes without some kind of ethical quandary finding its way to the controller for resolution.

The controller can have an additional impact on the pervasive attention to ethics within the corporation by requiring its consideration as part of the capital budgeting process. The typical capital budgeting form usually includes only numerical considerations, such as the internal rate of return calculation or net present value. At most, it may have a check-off box indicating the need for an asset to comply with safety or government regulations. However, it is possible to add a requirement, in essay form, to discuss any possible ethical violations that may result from acquisition of the asset. This form change will likely require the addition of several examples, such as the impact of the asset acquisition on the local economy, or the need for pollution controls even if local laws do not require them. It may also be useful to consider the ethical impact of not acquiring the asset (i.e., the impact on a local economy if the asset is not installed). This additional information will probably not have an overriding impact on management's decision to accept or reject an asset purchase, but it will form a part of the multitude of other factors that are considered, and may play some role in the final decision.

It is not sufficient merely to say that the accounting staff must uphold high ethical standards, if the standards are not defined. To avoid this problem, the controller should create and enforce a code of ethics. Some illustrative topics to include in a code of ethics are:

- Bidding, negotiating, and performing under government contracts
- Compliance with antitrust laws
- Compliance with securities laws and regulations

- Conflicts of interest
- Cost consciousness
- Employee discrimination on any grounds
- Gifts and payments of money
- Hazardous waste disposal
- International boycotts
- Leave for military or other federal service
- Meals and entertainment
- Political contributions
- Preservation of assets
- Restrictive trade practices
- Standards of conduct
- Use of company assets
- Workplace and product safety

An especially effective way to drive home to the accounting staff the importance of ethics is to create a set of training exercises, modeled after real-world ethics violations (either from the press or internally). The classes should put employees in the position of making ethics decisions based on the same information available to the people in the case studies. Though ideally the controller personally should run these classes in order to drive home their importance, it is sufficient to have the controller visibly support the classes and attend them. Several organizations offer ethics consulting services, including the Institute for Global Ethics (www.globalethics.org), the Ethics Resource Center (www.ethics.org), and the Markkula Center for Applied Ethics (www.scu.edu/ethics).

Once the code of ethics has been created, it must be communicated to all employees. It is especially helpful if the controller visibly refers to the ethical code whenever an ethical issue arises, so that the accounting staff knows that the controller is decisively adhering to the code.

A code of ethics becomes the starting point in the series of judgments a controller must follow when confronted with an ethical issue. The logical series of steps to work through are:

- *Consult the code of ethics.* Having a corporate code of ethics is a great boon to the controller, for he or she can use it as the basis for any ethics-related decision. A senior company officer would have difficulty forcing the controller to adopt a different course of action than what is prescribed by the code of ethics, since this would go against a directive of the Board of Directors. If the controller feels it is necessary to take a course of action contrary to what is stated in the code, then the reasons for doing so should be thoroughly documented. If there is no code, then proceed to the next step.
- *Discuss with immediate supervisor.* The controller's immediate supervisor is probably either the chief financial officer (CFO), chief operating officer (COO), or CEO. These are the most senior positions in the company, occupied by people whose behavior should be at an ethically high standard. Consulting with them for advice is a reasonable second step in the absence of a code of ethics. However, if the supervisor is the one causing the ethical problem, then skip this step and proceed to the next one.

- *Discuss with a trusted peer.* There is usually someone within the company in whom the controller places a great deal of trust. If so, consult with this person in regard to the proper course of action. Be more circumspect in doing so with a person outside the company, since this runs the risk of spreading information elsewhere, with possible deleterious consequences. If there is no one with whom to discuss the issue, then proceed to the next step.
- *Discuss with the Board's audit committee.* Many boards have an audit committee, which should be comprised entirely of independent directors. If so, the controller should take his or her concerns to this group. Keep in mind that this is a serious step, since the controller is now going around the corporate reporting structure, which may have unenviable consequences later on if the controller has chosen not to tell senior management of this action.
- *Consider leaving the company.* If all these avenues are untenable or result in inadequate advice, the controller should seriously consider leaving the company in the near future. Reaching this final step probably means that the ethical issue is caused by senior management, and also that there are no outside checks on their ethical behavior, such as an audit committee of the Board of Directors.

Though a well-meaning controller may render justifiable judgments on ethical issues, impacted employees may not feel that their concerns were dealt with fairly. If so, they may be less inclined to bring potential ethics violations to the attention of the controller in the future. To keep this from happening, the company should set up someone in the role of ethics officer, to whom employees can send ethics-related concerns. This person should be positioned outside of the chain of command, so there will be no incentive to ignore ethics complaints in the interests of improving the level of reported corporate performance. Ideally, this could be a person on the audit committee or Board of Directors, or even a completely independent third party. The ethics officer would have responsibility for investigating ethics problems and reporting findings directly to the Board of Directors.

In summary, the accounting staff has a large role in enforcing ethical standards throughout a company, since it has such strong influence over several key areas that require ethical judgments, such as the quality of reported earnings, control over assets, and the uses of cash. Accordingly, it is very much in the controller's interests to have a code of ethics that the accounting staff can adhere to in enforcing the appropriate ethical standards.

Evolving Role of Accounting

Though there are many variables that can impact the direction of the accounting function and the controller's role in the future, there are a few broad trends that are likely to continue, and from which one can predict the evolving role of accounting.

The accounting function is in the midst of a fundamental change from being a clerical group without significant training to a cadre of very experienced technicians and managers. Though there will always be a need for clerical help (indeed, this group will continue to comprise the majority of the department), there will be an increasing focus on bringing in more experienced personnel. This prediction is based on the technological trend that brings continued levels of automation to

the accounting function, thereby reducing the need for clerks. Also, the same trend toward more technology means that a greater proportion of the accounting employees must have better training in how to use the new hardware and software. These trends will force the accounting department of the future to stock up on highly trained personnel with good management skills.

The accounting department is likely to become a more common route to top management positions. The accounting area has always been a fertile one for training people in the nuts and bolts of transactions, and how they must function. This is useful for a lower-level manager, but now that the department also handles a multitude of additional tasks, such as cost analysis, target costing, and advanced finance functions, it becomes a much better training area for higher-level managers. The company of the future will not only see large numbers of well-trained people advancing out of accounting, but they will also see a large proportion of new recruits clamoring to get into it, so that they, too, can receive the necessary training and experience.

This section discussed some evolutionary changes to expect in the role of the accounting function and the controller. It is likely that there will be a decrease in the proportion of purely clerical positions in the accounting area, in favor of more senior personnel with extra technical and management skills. Also, because of the greater breadth of responsibility to be obtained in this area, it will become more common for senior management personnel to come out of this area.

