THE CONFLICTING ROLES OF Controllership AND Compliance

BY ANGELLA SUTTHIWAN, CPA, AND
B. DOUGLAS CLINTON, CMA, CPA

Controllers are becoming accustomed to feeling overwhelmed by their jobs. Contradictory job specialties, increasing organizational and competitive complexity, excessive regulation, and often the existence of dual reporting responsibilities (i.e., two bosses) have contributed to the conflicting demands of controllership and compliance accounting. Yet controllers in the United States are responsible for both sets of duties. Since they are unable to let the compliance duties go undone, they are often forced to let the controllership duties slide.

Increasing complexity that requires different perspectives (financial vs. managerial) also has caused controllers to feel overwhelmed, and they're often conflicted and/or confused regarding the proper course of action to take (i.e., when they should focus on compliance vs. enterprise optimization). This often results from drawing on the wrong skill set to make decisions. For example, if a controller uses external accounting (Generally Accepted Accounting Principles, or GAAP), he or she may avoid replacing old equipment even when this isn't the best decision strategically because the book value produces a loss. Yet accountants in the U.S. are so accustomed to mixing the tasks and principles of controllership and compliance that they often don't even know they are doing it.

Can they be expected to perform both roles adequately? We suspect that many accountants throughout the U.S. struggle with this situation. In other countries with developed economies, the roles of controllership and compliance accounting are separate and distinct so that there's a relatively equal emphasis on each function. In the U.K., for example, individuals devote themselves to either one. Also, some companies in other countries seem to view these roles so distinctly that many have separate departments for those handling controllership issues and those handling compliance.

The difference between the two specialties is stark. Controllership is fundamentally a function of management accounting and is primarily concerned with enterprise optimization, and compliance accounting is primarily concerned with external reporting. Financial reporting appears to conflict the most with controllership. Regarding tax accounting, although external reporting is required, tax implications become merely one more consideration in the mix of enterprise optimization.

Unfortunately, the typical U.S. controller must assume all of these roles.

We believe there's a better way. We suggest that organizations should carefully consider taking steps to distinguish the often conflicting roles of the management accountant (controller) and the compliance accountant. Using Angella's experiences as a base, we'll discuss the controller's role, explain why change is needed, and suggest an approach that could benefit many organizations. Let's begin by looking at a typical controller's current situation.

WHY A CONTROLLER AND COMPLIANCE ACCOUNTANT?

As the plant controller for a division of a large *Fortune* 100 company, Angella handles all financial aspects—without support staff—for a site that has sales revenue of $30 million and more than 200 employees. Her main duties are performing the month-end closing process, financial reporting, budgeting, sales forecasting, packaging necessary data for Securities & Exchange Commission (SEC) reporting and tax reporting, job costing, inventory valuation, and performance reporting. In addition to

Figure 1: Controllership and Compliance Roles and Duties

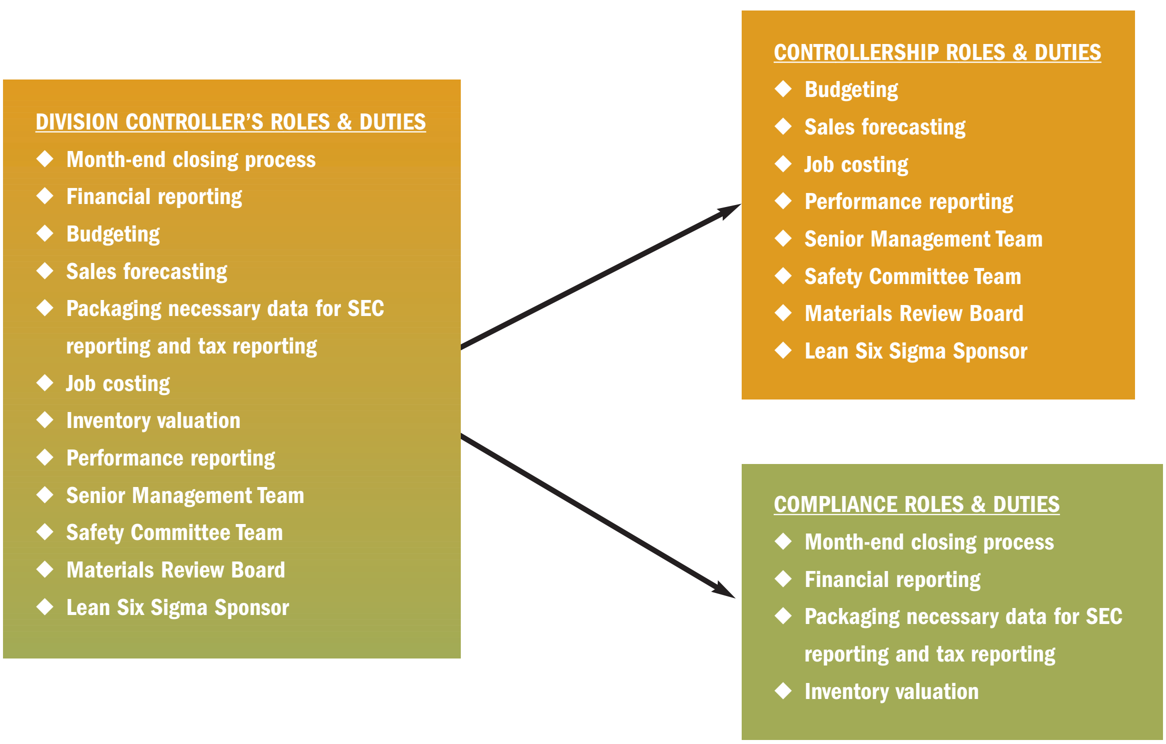


ILLUSTRATION: WESLEY BEDROSIAN/WWW.WESLEYBEDROSIAN.COM

Figure 2: Current Reporting Structure

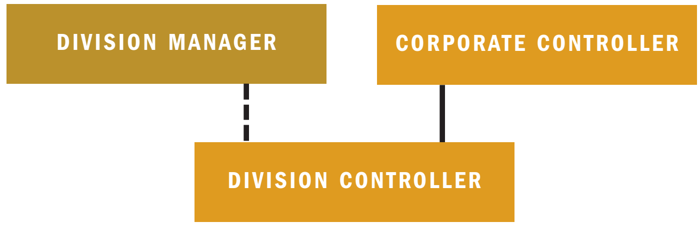
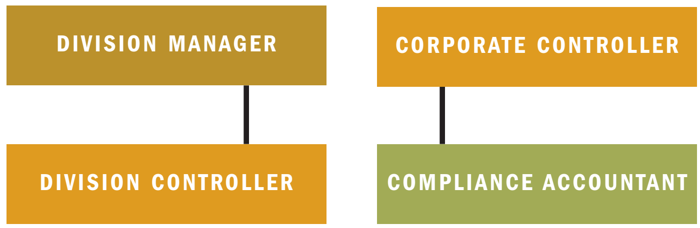


Figure 3: Proposed Reporting Structure



these duties, she is also a member of the Senior Management Team, the Safety Committee Team, and the Materials Review Board, and she's a Lean Six Sigma sponsor. This diversity of duties doesn't allow Angella to be the business partner she wants to be, which means she doesn't have time to address many enterprise-optimization issues. These could range from ensuring employee satisfaction (involving supervisory behavioral soft skills) to more quantitative tasks such as determining cost of quality tradeoffs or the current optimal product mix. If we categorize her roles and duties into controllership and compliance, they're clearly split (see Figure 1 for a list of responsibilities).

Angella says it seems logical that the roles of compliance and enterprise optimization should be separate. In fact, upon graduating from college, she assumed this would be the standard mode of operation for industry. A compliance accountant is concerned with the accuracy of the financial statements, complying with Sarbanes-Oxley Act regulations, and fulfilling the seemingly unending external reporting requirements. As survey evidence suggests, most management accountants believe their role is to be a strategic partner to decision makers (see the article, "Roles and Practices in Management Accounting Today," which appeared in the July 2003 issue of *Strategic Finance*). Management accounting is primarily concerned with providing information for management's purposes, including advisory support for a host of decisions reflecting financial and nonfinancial issues involved with process and project management, budgeting, risk analysis, forecasting, enterprise resource planning (ERP) evaluation, mergers and acquisitions, new market and product development, and strategic planning. Unlike compliance accounting information, this information is often proprietary and requires a different set of skills. Given the unique responsibilities of these roles, we believe they should be separate.

Separate roles also seem logical given the view that the increasing complexity of external financial and tax reporting requires virtually all compliance accountants in large companies to specialize in one of these two external reporting categories. If that specialization is necessary, then the need for specialization between the external and internal roles must be even greater. We also argue that not just any accounting background is adequate for supporting management decision making—especially backgrounds steeped in external reporting! Companies need accountants with expertise in how to run a business. This is one of the reasons the Institute of Management Accountants (IMA®) created the Certified Management Accountant (CMA®) designation.

Unfortunately, U.S. corporations don't seem to follow this logic. They often hire their controllers from public accounting, typically paying a premium for those with Certified Public Accountant (CPA) designations and experience and specialization in compliance reporting. This rationale isn't a sound approach for achieving enterprise optimization and seems at odds with logic as well as the approaches companies in other developed economies use.

In addition, dual reporting responsibilities result in complexity and conflict. Division controllers often report to more than one boss (for example, a division controller often reports to both the division manager and the corporate controller). At first this may seem like a good idea—the division controller provides controllership functions to the division manager while being watched over by the corporate controller. What results, however, are two bosses with different expectations and requirements. Loyalties are split, and the division controller becomes further confused, overworked, and marginalized.

BENEFITS OF SEPARATE ROLES

Parsing the controller's functions into those for compliance and those for decision support would provide several advantages. Major benefits include:

- A more manageable workload,
- Creation of a true business partner,
- Clear reporting authority, and
- Better decision-support information.

More Manageable Workload

By having separate roles, each individual could focus on his or her own area of accounting expertise. Currently, many projects and analyses either aren't completed on time or at all. For example, it's all too common for the weekly job costing analysis to be a week late. Separate roles would also improve the quality of work. By having a consistent central focus, the controller could develop increasing expertise in the tasks that need to be completed. This should be equally true for compliance accountants.

Creation of a True Business Partner

Separate roles would also increase the controller's ability to be a more reliable and powerful business partner rather than merely pay lip service to the description while trying to be the expected jack-of-all-trades. The controller would be able to help the organization achieve strategic objectives—working more closely with managers to develop the knowledge to more clearly serve their needs. In the current environment, the controller strives to be a business partner but is constantly barraged with financial reporting requirements.

Clear Reporting Authority

As in many large companies, Angella's division uses the typical U.S. dual reporting structure that creates numerous problems (see Figure 2). For example, the workload is increased because neither boss may know about the tasks or projects the controller is working on for the other boss. At the extreme, the controller may feel expected to do the load of two full-time jobs. The division manager and corporate controller are likely to have conflicting views because of their often different responsibilities and incentive structures. For example, the corporate controller's bonus is likely tied to the overall success of the organization, while the division manager's bonus is likely to be tied to the performance of the division. Thus, the division manager is interested in optimizing the division's performance, while the corporate controller is interested in a host of accounting issues specific to external financial, internal, and tax reporting. Often the external accounting issues span the levels of divisions addressing the entity as a whole, while optimization involves the specific division's markets, customers, and product offerings. Unfortunately, the division controller is caught in the middle and faces a constant struggle to meet the needs of both managers. The reporting structure could be reorganized to include both a separate controller and compliance accountant (see Figure 3).

Better Decision-Support Information

Without the distractions of compliance reporting, the controller could focus on reducing waste, increasing quality, streamlining processes, and managing risks. The controller would have more time for learning the business, forecasting, process and capacity management, and performance evaluation. With an appropriate focus and perhaps some newfound knowledge, the controller would be much more likely to provide a valuable perspective for decision support—truly becoming the strategic business partner that managers need.

The 2003 IMA/Ernst & Young survey we mentioned earlier illustrates the important role of management accounting. The findings strongly suggest that cost management information is a key input to strategic decisions. The study also says that the controller is often too busy with compliance reporting to focus on controllership. Under the current structure of the combined compliance/optimization roles typical of U.S. companies, information is inadequate, and the controller doesn't have enough time to plan, monitor, and control performance to support enterprise optimization.

ADDING VALUE AS A CONTROLLER

We believe there's a need for both a controller and a compliance accountant in Angella's division and in most U.S. companies. Controllership is mostly about adding value as a business partner to help accomplish strategic objectives. But this can be achieved only by taking advantage of accountants' individual expertise in specific areas, not by trying to make controllership and compliance a one-size-fits-all responsibility. ■

Angella Sutthiwan, CPA, is controller for Packaging Services at Catalent Pharma Solutions (formerly Cardinal Health, PTS) in Woodstock, Ill. You can reach Angella at (815) 206-1812 or arsutth@gmail.com.

B. Douglas Clinton, CPA, CMA, Ph.D., is the Alta Via Consulting Professor of Management Accountancy at Northern Illinois University. You can reach Doug at (815) 753-6804 or Clinton@niu.edu.