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Coaching Your Controller

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TELL A FRIEND!

As the owner of your business, do you have a person managing your accounting function who has limited or no experience managing an accounting and finance function?

Whether formally or informally appointed, all small and medium sized businesses (SMEs) have someone who is responsible for the management of the accounting functions of the company. Due to the cost of accounting expertise, it is very rare to have an accountant with a designation and strategic skills in that role that is commonly known as the controller, accountant, office manager and accounting manager. (For convenience I will refer to the person as the Controller.)

As a result, there often is a Controller with good basic accounting skills but limited experience and formal training, reporting to a President who does not know what guidance or direction to give her.

The situation is often compounded by the Controller being overloaded with work (who isn't?) and frustrated. This type of scenario is a prescription for a Controller who is considered an overhead and not a "contributor," who is frustrated and demoralized by their job. With no one to guide them they often stagnate and continue to do more of the same.

In this two part series we will help you, the business owner, understand how you can improve the overall effectiveness of your Controller. In Part 1 we we will lay out six simple steps to enhancing the contribution of your Controller. Next month, in Part 2, we will help you coach your Controller to find the time to implement these improvements.

Six Steps to Enhance the Effectiveness of your Controller

Here are some steps that the President of a business can take to upgrade the value of the Controller, which may seem like extra work but often can help to make the function more efficient (more about this in Part 2, next month) and enhance the satisfaction they get by becoming a valued member of management:

1. Set a standard for the preparation of your monthly financial statements in number of days after the month end. Ensure that your financial staff are committed to publishing them on time every month e.g. 10^{th} of the month. This will assist them to keep this as a priority, so that you get the information on a timely basis.
2. Arrange a meeting with all your senior management, including the Controller, every month, to be held shortly after the financial statements are available. The Controller

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should review the results and highlight unusual or unexpected results. Management should discuss each such item to determine what steps to take. Consider both good news and bad news. Good news is an opportunity to determine what can be done to repeat the events that gave rise to it and bad news is an opportunity to mitigate the risk of the circumstances recurring.

3. Having this meeting on a regular and timely basis facilitates management using the financial statements as a springboard to highlight opportunities for action that will enhance the business operations and its profitability. Ensure that management asks the Controller to explain what has caused major variances from budget and/or preceding comparative periods.

4. Management and the Controller must prepare a budget annually. Ensure that it includes an earnings statement budget, balance sheet and cash flow forecast. Bankers and other outsiders who read budgets are always much more impressed when a budget includes a forecast of the balance sheet at the end of each month and a cash flow statement. You would also need them for internal purposes so that you are not caught in a sudden crisis, by not anticipating the cash flow consequences of your operating expectations.

5. If a banker looks at the ratios in a set of financial statements to determine the health of a business, shouldn't you, the owner, look at the same information? The Controller should prepare a monthly statement of ratios and key performance indicators on a comparative basis. He should be able to explain, in simple words, why a ratio has changed, so management can consider the trend in each of them and what to do to manage the situation, for better or worse. Some ratios that apply to most businesses are:

   Current ratio
   Quick ratio
   Gross margin percentage, by sales category
   Expenses, in major categories, as a percentage of sales
   Debt to equity ratio
   Days receivables outstanding
   Days inventory on hand

   For example, the days receivables outstanding and days inventory on hand are often very good warnings about cash flow problems and often are the first sign that more analysis and focus is required to ascertain exactly where the problem lies, so that management can develop a plan to solve the problem.

6. In order to stay on top of the business on a timely basis, your Controller should prepare a snapshot of month-to-date information for the Key Performance Indicators (KPI) that are available for your business. This should not take more than an hour, at most, to prepare, once the format is set. I find that the most appropriate frequency is to prepare this every Monday for the week just completed, plus on the first day after a month-end so that you have a clear indication of the status of the key areas of the business. Each business will select different indicators to include in the snapshot. Some ideas to get you started:

   Sales
   Cost of Sales
   Gross margin %
   Bank balance/Line of credit usage
   Outstanding cheques
   Accounts receivable – aging breakdown
   Days sales outstanding
   Accounts payable – aging breakdown
   Inventory – by major category
   Orders received - # and $ value
   Operating statistics
   Labour statistics

Of course, there are many more depending on the nature of your business and the nature of your tracking systems.

In Part 2 of this article we will address where the Controller can find the time to implement these improvements.

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Author Information

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