

Course presentation/ description: "The Role and Techniques of a Controller/CFO."

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Background

The topic of this course is the important but also changing role of the company's *CFO/Controller*. A professional role, which, from their staff position, is primarily responsible for the design and use of the organization's *management control system (MCS)*.

In a central textbook, the CFO/Controller role is defined as:

"We shall refer to the person responsible for designing and operating the management control system as the controller. Actually, in many organizations, the title of this person is the chief financial officer (CFO)."

Anthony & Govindarajan, 2007, *Management Control Systems*, p. 110.

This role is performed close to the company's CEO, other executives ("C-level"), employees, and stakeholders. In all these working relations different performance questions (for example, decisions, attention, goals, motivation and coordination) is handled by using data/information from *different digital tools*, such as Enterprise Systems (ERP, ES), Robot Process Automation (RPA) and Business Analytics (BI).

Now, this role is *under transformation*. One important reason for this is **the digitalization of business**. With more and different *types of data* ("Big Data"), there is a need for efficient handling of vast amounts of *transaction data* and increased demand *for data analysis*.

Therefore, during the course, **we focus on "Accounting Information Systems (AIS)"** as a starting point and, in general, the CFOs most important digital tool. We mainly focus on some parts/modules of the comprehensive system ("IT-architecture") related to the AIS: the ERPs system (Enterprise Resource Planning System), a "backbone" system where all the transactions ("all data") are handled, and Business analytics/intelligence, where models and data for analysis are formulated, with a purpose of descriptions, predictions, and prescriptions of managerial action. Today, many of these information systems are "moving up" into "The cloud": they are bought and used as a service from some external provider (e.g. Amazon,

Microsoft). There is also a change for many digital tools from tangible to intangible resources. From hardware to software, algorithms.

When the tools (technology) change, there is also a need to develop designers' and users' mindsets and skills. Therefore, organizational changes lead to changes at the individual and professional role levels. **New expectations, responsibilities and accountabilities must be designed into the governance /management control system.** With that follows a need for new competencies/skills, tools, and techniques for the CFO. Of that, there is an evolving interest in concepts such as "Data Science", "Digital Competence," "Data Literacy" and "Data as a Second Language." At the same time, some old activities (work, tasks, assignments) need to, and can, be abolished. Traditional manual intensive work such as bookkeeping is underway to be automated and rationalized, for example, by using RPAs (Robotic Process Automation).

Another essential aspect of the course is the **increased importance of "The Governance System" (the G in ESG).** As is says in a popular Management Control textbook:

"Corporate governance and management control systems (MCSs) are inextricably linked. A corporate governance focus is slightly broader than an MCSs focus. An MCSs focus takes the perspective of top management and asks what can be done to ensure the proper behaviors of employees in the organization. The corporate governance focus is on controlling the behaviors of top management (the so- called C-suite executives) and also, although less directly, those of all the firm's other employees. **The links between corporate governance and MCSs are obvious. Changes in corporate governance mechanisms and practices will usually have direct and immediate effects on MCS practices and their effectiveness**".

Merchant & Van der Stede (2017, s. 273). Management Control Systems.

One crucial factor, especially notable during the last decade, is the insight that different countries have different corporate governance systems. The primary purpose of a corporate governance system is – and has mainly been - to secure the owners' interests. Under our

course, we will see different types of owners, for example, public/private; families/institutions; large, majority; control owners/ small, minority owners; national/international owners.

With insight into the existence of different owners, we are also aware that they can have other goals, especially about time frames (long or short?) and different views on the specific company's *capital allocation*: its financial goals, investments, dividends etc. Many of these questions are traditionally related to "Shareholder Orientation", a concept and idea many companies give special attention to.

Over the last decades, the governance and control debate has been oriented towards a possible goal conflict between owners and managers. The "Shareholder Revolution", the perceived need for stronger attention towards the interests of the shareholders, was initiated as a critique of the existing managerialism ("The CEO has too much power over the company's strategy and actions") in many US companies. Managers often stress company growth before profitability ("Cash").

During the last few years - we have seen "a comeback" for an idea about the need for a broader governance approach, a stakeholder approach. From this perspective, a company has more stakeholders than just the owners. It can be employees, society in general and so on. With this perspective, we may also see different priorities around goals and actions. From these insights, many companies have implemented new ESG goals/metrics. By that, they give more *attention*, transparency, and *accountability* to new aspects/dimensions of business. All with consequences for the work of the CFO.

In lecture 1, besides a course presentation, we will discuss three different models we use/follow under the course. Models which will help us to reduce a complex reality into actionable knowledge. Models with practice relevance.

One model (example)

- For the "Corporate Governance System"
- For the "Management Control System" (Kaplan & Norton)
- For the "Data Processing System"/Accounting Information systems (Romney et al; Bhimani & Willcocks).

How do we do it?

During the course, we follow a traditional inquiry process, where the identification of a specific "control problem" ("a question") builds a base for finding/developing a solution ("an answer"; a decision). This process is an analytically oriented knowledge-creating process. Much of this process use accounting as a professional language ("Accounting is the language of business"). **Using concepts and logic from this critical language, we can give attention, interpret and make sense of specific management control situations.** However, this language is now under pressure – there is a need for development - due to the increased importance of intangible resources and increased attention towards ESG (Environmental, Social, Governance) aspects. Therefore, related to the Management control system, there is a need to develop new structures, systems, goals and metrics to support desirable actions. Here, in the course, we primarily focus on "The G" – governance of companies and IT systems.

Even if this inquiry process, analytically, seems to be straightforward and simple, it is more complicated in reality. Many questions are embedded in a social setting of traditions, culture, personal relations and internal power struggles. For example, due to the complexity and existing power relations, it can be challenging to identify "real" problems and raise critical but sometimes unpopular questions. Who has the power – legitimacy - to raise questions? Who knows, and responsibility to answer questions? This formal responsibility is structured thru a governance/management control system. Fundamental here is a system of [responsibility](#)/accountability and metrics for goals and transparency.

There is also an – often even more important - informal control system. An informal power position can be based on different competence ("Human Capital") and contacts ("Social Capital").

Analytically, we can see that **structure** ("systems," e.g., management control systems, information systems) and **actors** (professional roles; "people", e.g. CEO; CFO) are interconnected. Initially, systems are designed by humans. The freedom to frame and design something new is open and broad in an early phase. But, even here, we must consider the history and the social situation. Knowledge and "old" IT architecture ("legacy") can, for example, create both hindrances and possibilities ("affordances") for access and use of information. Later on, in the Life-cycle, of the MCS, human users often see the system as

given: the management control system is "institutionalized" and taken for granted. This institutionalizing can lead to difficulties for necessary changes.

In the interplay between person/s and system/s, we create different management control situations: **different meetings**. In our course, we have a particular focus on two of them:

- **external interim, quarterly reporting meeting** (and the Capital Market Days), a situation where significant actors, CEO, and CFO meet people from the capital market to present the company's actual performance and situation and answer questions from the audience.
- **internal follow-up meetings** (e.g., performance meetings; feedback meetings), where the CFO/controller meets management and employees to discuss performance and actions.

In these meetings, the CFO will raise and answer questions ("Q&A"). These questions will mainly be related to a company's most **critical financial models**: *Income Statement (P&L), Balance Sheet, and Cash Flow Statement*. During the course, we discussed some critical, generic questions related to these models, especially the balance sheet and income statement. Often analyzed and visualized with central concepts such as goals, processes and metrics (e.g. KPIs). Most of them are based on (produced, processed/"manipulated" and stored) information from the company's "Accounting Information System." See the title of the Romney et al. course book.

Our 12 "topic-oriented" lectures will be designed in that way. I ("The Lecture") introduce the topic (about 45 minutes), and then we have an open Q&A session about the subject and our readings. -

Course literature

- Romney et al. "Accounting Information Systems".
- Brickley & Smith "Advanced Introduction to Corporate Finance".
- Articles in Studium (with a distinction between overview and close readings).

Examination

The course will be examined by:

- Active participation, two seminars (40%, G/U).
- One "written paper", according to specific instruction (1-2 students). (40%, VG/ G/ U).
- One individual ("small") exam – "concept test" (20%, VG/G/ U).

All activities will be taken into consideration in the summarised grade.