

Controllership case analysis – rendell company

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Introduction

Controllers play a crucial role in management of financial affairs of any company. They are involved in supervising the reporting of financial and accounting information on a company. Usually, controllers are accountants who oversee financial aspects of a company, including monitoring and implementation of internal controls. This is a senior position, and financial controllers usually report to Chief Financial officers. Controllers have the responsibility of preparing profit and budget targets for divisions.

In the case study, there are two distinct levels of controllership. The corporate controller is responsible for the overall financial activities of Rendell, while the divisional controller is responsible for financial activities within the divisional level. The divisional controller reports to the divisional manager who subsequently reports to the corporate controller. The overall controller on the other hand reports to the directors. This organizational structure has potential problems, which are making the controller, Mr. Hodgkin consider adopting the structure present in Martex Company.

The major problem is the fact that the divisional controller reports to the divisional manager, who in turn reports to the corporate controller. There are two potential problems which may occur due to this structure. The first problem is that the divisional manager obtains information from the divisional controller, and not directly from the ground. It therefore becomes difficult for the corporate controller to gain deeper insights on the situation on the ground from the divisional managers. The controller may get reports,

but he cannot rely on the divisional manager's opinions effectively, since he relies on information from a different person on the ground. In light of this, getting the honest opinion of the divisional controller may also prove to be difficult, since he or she would not want to either criticize or differ with the opinion of the divisional manager, since they report to him.

Another problem which may be caused by this structure is that the divisional manager may intentionally give a biased opinion. This is suspected to be already happening in Rendell, and it may be attributed to attempts at hiding certain costs, which may amount to corruption. Since the divisional manager does not have all the facts on the ground, it may be difficult to unearth such practices from him or her.

Martex's organizational philosophy and proposed course of action.

According to Robert and Vijay (2004), the organizational structure which is used in Martex is slightly different from the one used in Rendell. In Martex, the divisional controller reports directly to the overall controller. In this case the controller gets to know the unbiased financial affairs of the company, since they obtain this information from the person on the ground. It is therefore easier to ask for clarifications in order to establish deeper insights on the financial state of the company, and detect any fraud or mismanagement.

In choosing whether to implement this structure in Rendell or not, it is important to analyze the implications of implementing it. The positive implication of implementing this policy is that it is likely to improve accountability, efficiency and reduce wastage. This is due to the

reason that the controller will have direct access to the divisional controller who deals with financial information. This will drastically reduce the chances of misrepresenting the financial statements, as they will be held accountable for any violations of company policy.

According to Robert and Vijay (2004), implementing this policy will have an adverse effect on the relationship between the divisional controller and manager. The divisional manager will consider himself or herself to have yielded power to the divisional controller, and this is bound to create conflict between the two. The divisional manager may begin sidelining the divisional controller, especially in the decision making process. This will ultimately affect the performance of the firm negatively.

In my view, Rendell should implement the policy, since the positive aspects outweigh the negative ones. The divisional controllers would now report directly to the corporate controller, which would enable him or her to get unbiased reports on the financial position of the company. However, the structure used by Martex should not be adopted without analyzing its effects to Rendel's organizational culture. It is important to adopt the favorable parts of Martex's structure which are consistent with Rendell's organizational goals. This is due to the fact that in successful organizations, systems should fit into the organization and not vice versa.

The only negative effect is the negative relationship between the divisional and corporate controller. This is a problem which can be solved through the use of goal congruence. This is the alignment of the individual goals with the organizational goals. The divisional managers and controllers should be advised to set their differences aside and work toward the welfare of the

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organization. They should also be taught conflict resolution skills in order for the organizational goals to be achieved.

In light of the weakness in the current system, proper controls which will discourage mismanagement should also be introduced. Such controls include regular external audits and strict punishment against any acts by employees, which run against company policy. Controls are important because divisional controllers cannot be trusted with financial affairs of any company, since they may also be corrupt or ineffective. Controls are likely to have the effect of maintaining the current good relationship between divisional managers and controllers, and at the same time discourage the commission of acts which are against company policy.

Rendell divisional controllers and who they report to.

According to the decision which I have explained above, the divisional controllers would report to the corporate controllers. The divisional managers would also still report to the controller. The major reason for changing the organizational structure is to prevent a situation where mismanagement allows a divisional controller to prevent the corporate controller from knowing the true financial position of the company, since this would prevent Rendell from achieving its goals.

The benefits of implementing Martex's structure would outweigh the costs, in relation to the long term goals and objectives of the company.

Relationship between the divisional and corporate controllers.

The relationship between the divisional and corporate controllers would be made stronger, since the corporate controller has to make sure that the

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controls introduced and new structure is working efficiently. The corporate controller would take a keener interest in the activities of the divisional controller, but with caution, so that the divisional manager is not sidelined from the decision making process. In order to improve the relationship between the divisional and corporate controllers, it is important to provide the divisional controller with unlimited access to the corporate controller. The corporate controller should also make frequent visits to the divisional controller with an aim of establishing whether checks are being followed, and to ascertain whether the reports from the divisional controller are accurate.

Change in responsibility of the divisional or corporate controller.

I would not recommend major changes in the responsibility of the divisional controller. Minor changes would include the fact that he or she would be responsible for implementing reforms aimed at preventing financial mismanagement. The divisional controller would be responsible for ensuring regular audits are performed, in addition to other checks introduced in the company. In case the reforms fail to be implemented, he or she would be held responsible. The corporate controller on the other hand would be tasked with the responsibility of detecting irregular practices in reports submitted to him or her. He or she would also visit the divisional controller regularly to analyze the financial situation of the company at the ground level.

Conclusion and recommendation.

Organizations are sometimes faced with difficult decisions to make. When making such decisions, it is very important to have the long term objectives

of the organization in mind (Cohan, 2003). In this case, there is a weakness in the organizational structure, which should be remedied. Changing the structure is the better option, but it is likely to lead to conflict between the divisional manager and controller. It is therefore important to align the goals of the divisional manager and controller, with the organizational goals through goal congruence. It is also important to adopt the favorable parts of Martex's structure which are consistent with the organizational goals.

However, effective checks need to be introduced in order to curb mismanagement and corruption. The corporate controller also needs to cultivate a strong relationship with the divisional controller in order to assess if the checks are working. All these changes should be made very carefully in order to prevent undermining the authority of the divisional manager. Finally, any divisional manager who is against the close relationship between the divisional manager and controller should be sacked, since this will impede attainment of the organizational goals and objectives.

References.

Cohan, P. S. (2003), *Valueleadership*. San Francisco: Jossey-Bass.

Robert, A., Vijay, G. (2004). *Management control systems*. New York: McGraw Hil.