Getting Control of Your Organization

A new managerial core competency to identify risks, reduce costs, and increase bottom-line profits

Business control is more than just financial controls and passed audits. Assessing and improving business controls is the quickest way to eliminate waste, lower costs, raise effectiveness, and improve short-term and long-term profits.

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A BizControl Solutions White Paper

Overview

In the long-term bull economy, rising revenues and booming markets have hidden many operational problems. Organizations have been willing to place controls on the back burner because rising sales masked painful inefficiencies. The economy of the new millennium coupled with the collaborative relational enterprise movement has complicated control requirements. The failure of existing "assumed" control processes has shown that the traditional reactive controls approach doesn't work.

- Top management is now personally responsible for the control of their organizations.
- Nearly every organization has business control problems because this has been a traditionally overlooked topic.
- Business control is not just a "finance" topic. It is a core competency requirement for every manager and supervisor.
- Internal or external auditors are *not* best positioned to provide business controls assistance. Organizations require independent specialists with established processes and resources.
- There are "out-of-control incubators" and "trigger events" that virtually guarantee control issues exist.
- There are twenty-five business controls best practices that can help organizations get back in control.
- Business control must be a permanent organizational core competency.

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“This can't happen to me!”

Today’s organization is out of control. This isn’t just the deliberate deception of the big-name catastrophes. This includes lost sales and excess costs caused by lack of business control in honest and hard-working organizations. Whether intentional or unintentional, control problems affect organizations throughout their operations. For example:

- Ford wrote off $1 billion in unnecessary palladium inventory because R&D wasn’t talking to the purchasing department about materials requirements, and purchasing buyers were unfamiliar with commodities hedging techniques.
- Well Fargo was fined $3 billion for 15 years of illegal practices affecting millions of customers.
- VW spent over $30 billion to address the aftermath of its DieselGate emissions testing scandal.
- The U.S. government issued 300,000+ departmental procurement credit cards and quickly loses millions of dollars from purchasing misuse. Six years later, there is similar misuse at the Pentagon.
- W Hotel lost $175,000 honoring 413 on-line reservations for 749 nights posted at $25 instead of $259.
- Boeing paid more than $2.5 billion to settle criminal conspiracy charges over the 737 Max.
- Inexperienced IT negotiators from the State of California signed a $95 million database licensing deal that auditors estimate is a $41 million over-expenditure.
- Over 100 firms were caught manipulating stock option awards dates to top executives.

The list could go on and on. The disturbing thought is that, before these events, every one of these organizations’ Board of Directors, CEO, and senior management team felt that their control processes were adequate. Good times can breed both over-confidence and complacency. Successful organizations learn from the mistakes of others.

Figure 1.

While headlines sell newspapers, they also can be a leading indicator to spur change.

Recommendations: The current state of business controls in most organizations insures that, “This could happen to me.” The only way to determine how process-efficient and cost-effective controls are is through a formal assessment of: organization knowledge and practice concerning controls, controls in place, and control exposure.

It’s Not Just Financial Controls

When most professionals hear the word “control,” they think of financial controls. The traditional position is that controls are the responsibility of the CFO and/or controller.

While there was certainly monetary impact in the examples above, the situations are far more than simple financial issues. Truly controlling the assets and processes of an organization requires more than controlling financial management and reporting. As seen in Figure 1, financial controls are a subset of the overall topic of *business controls.*

Merely relying on Finance to proactively anticipate or reactively correct all business control weaknesses creates a false sense of security. In the examples above, only one or two are solely in the Finance area.

The majority are additional issues of system design and maintenance, improper training, poor communication, incorrect features, not responding to previous problems, no ethics, so on.

This is why control must be looked at from a "total business" basis. Control cannot be just Finance's responsibility, or the organization is certain to be out-of-control.

Recommendations: Clearly define the concept of "total business control" and communicate it to all managers and supervisors. Emphasize that control is not just a Finance department responsibility. Apply control concepts to all activities that affect the organization's revenue, expenses, and processes that impact liabilities and fixed assets.

It's Not Just an Issue for Auditing

An interesting question is, "Did the organizations in the examples above pass their audits?" Yes! Evidently they felt secure due to their internal checks and balances, and based upon successful internal and external audits.

In reality, neither internal nor external auditors are best positioned to help an organization regain and maintain business control. Internal audit is a reactive process focused on finances.

It is internal to the organization and encumbered by politics and existing relationships. It is performed periodically at a point in time, and does not provide the range of resources required for remediation such as training and so on.

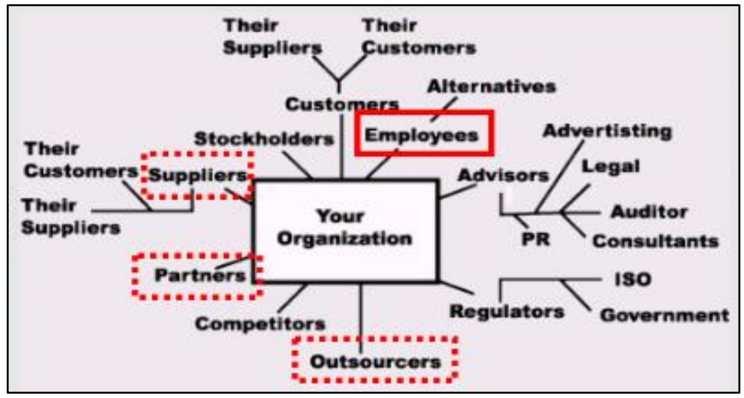

Figure 2.

External auditors share these concerns, plus generate additional reservations in providing business controls guidance. External auditors have a highly profitable existing audit relationship to consider, which creates a conflict of interest.

This results in an unavoidable "self-tattling" environment where they might have to identify control exposures for operations that had previously passed their own audit. External auditors can be very expensive, and may not have a controls practice specialty providing the required business controls support, consulting, and educational services.

Finally, audit functions focus on the internal organization rather than the complete "relational enterprise" of organization, partners, suppliers, vendors, customers, outsourcers, etc.

As Figure 2, shows, traditional financial audits address only a small portion of the relational enterprise.[1] As with the W Hotel example, members of the relational enterprise who go unaudited can have a significant impact on an organization's overall operational and financial performance.

Recommendations: Assessing and improving business controls is a specific consulting specialty. Organizations should leverage independent, experienced experts that can provide the full range of controls improvement services. The goal of the development partner should be to ultimately make the organization self-sufficient by implementing a continuous controls assessment and improvement function within the organization.

Best Practices to Stay In-Control

BizControl Solutions research has identified best practices of organizations that are effectively controlling their business. These include:

Control mentality. In-control organizations position business control as a core organizational value. They include it in their organizational value and culture statements, and support it in their operational decisions and subordinate coaching sessions. It is a regular topic during meetings and discussions.

Continuous assessment. In-control organizations continuously assess business controls to anticipate changing conditions. This is a proactive approach rather than a reactive response that assumes an "end of problem."

Dedicated function. In-control organizations have a permanent cross-functional business controls team, headed up by a full-time business controls professional. The team is made up of high-potential individuals from all disciplines who look at overall organizational controls and help each other with specific departmental control issues.

Candid about dysfunctions. In-control organizations learn from their mistakes rather than bury them. They reinforce the "Don't fix blame, fix the process" culture that is required for continuous controls improvement. This means formally sharing control problems, errors, and successes across the organization to all stakeholders who can affect controls.

Follow-through. In-control organizations make certain that everyone knows "we really mean it." This guarantees that business controls will not be seen as the latest fad, but are a permanent consideration for managing the organization effectively.

In-control organizations do not mandate controls. They get buy-in from the workforce because employees understand, "What's in it for me." Once this is realized, the workforce can and will challenge management with a flood of ideas to keep the business viable and competitive.

Recommendations: Commit top-down to instituting a best practices business controls process. Decide that it is a continuous function with dedicated resources. Provide leadership support for the concepts and process. Instead of punishing people for the out-of-control situations that are uncovered, encourage these discoveries and support the improvement efforts.

A New Core Competency

Business control starts with the Board of Directors. The Board expects senior management to maintain an internal control structure, and the CEO stipulates to the effectiveness of that structure in the annual report.

In a properly run organization, the Board will not let senior management abdicate its control responsibility for the latest management fad, i.e., empowerment, first-to-market, increasing sales at all costs, and so on.

CEOs then naturally expect all managers throughout an organization to responsibly control the assets and processes of the entire enterprise. Unfortunately, business control is not treated as a core competency in management and supervisory development programs.

Professionals in most organizations—if they learn anything at all about controls—must pick it up on-the-job and from outdated manuals. So there is a disconnect between the control needs and expectations of the organization and the knowledge and skills of management to design and execute effective business controls.

Senior management will not succeed unless their respective organizations consciously incorporate a control element within every business process. All managers must have a well-defined understanding of controls and also know what is expected in day-to-day operation.

Recommendations: Make the conscious decision that maintaining effective business controls is an organization-wide core competency. Adopt the business controls best practices listed above. Add “business controls” to managerial and supervisor competency models. Formally train managers and supervisors on business controls concepts and techniques. Reinforce it by adding the topic of business controls to performance measurement and review processes. Measure it through formal assessment, tracking and reporting. Maintain it through a dedicated organizational function.

Summary

Maintaining control is not a management fad. After the lurid headlines have passed, the need will remain because of the intolerance for the lack of control. Organizations looking to minimize expenses and improve performance now have an established and proven process to assess their control status, and to then eliminate mistakes and waste.

In the long-term, as “business control” becomes a permanent core competency, organizations will be able to prevent such waste before the fact.

About the Authors

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BizControl Solutions specializes in helping organizations develop a new "core competency"—*business control.* Using a set of proven best practices, BizControl Solutions provides a complete process map for minimizing risks of being out of control and for lower unnecessary costs.

Footnotes

[1] Cooper, K. (2002). *The Relational Enterprise: Moving beyond CRM to maximize* All *your business relationships,* (New York: AMACOM), pg. 13.