

# Is your controller out of control?

*An underqualified bookkeeper can spell disaster for your firm.*



BY GERRY MURAK

**I**S THE CURRENT financial control of your business giving you a false sense of security? Are family relations unnecessarily complicating the financial aspects of your business?

Combining family dynamics with business affairs can lead to trouble. All too often, turnaround specialists who work with family companies find that the business owner has interpreted the controller's responsibilities in a way not found in any management or accounting textbook.

In some cases, the owner or other family members see the controller as the keeper of their personal checkbook. In other companies, the controller doesn't want to disappoint the owner, so he or she tries to make poor business results look good. And then there are the family business owners whose financial knowledge is so weak that the controller can—intentionally or unintentionally—get away with inaccurate reporting.

When turnaround specialists or lenders try to uncover the problem, they generally have trouble getting the family's equity players to place all their cards face up on the table. Family business owners are notoriously reluctant to let outsiders know about their

financial matters—much less their dirty laundry.

Here are some commonly encountered scenarios:

1. *Back off*: "It's my company and my checkbook."
2. *Lucky gene pool*: "Who else can you trust?"
3. *Undersized*: "Just give my accountant the shoeboxes."
4. *Survivor*: "They have been here since Day One."
5. *Defector*: "They must be good; they used to work for my accountant."

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**In some family firms, it's 'my way or the highway'—even if 'my way' leads off the edge of a cliff.**

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6. *Teflon owner*: "They don't have a clue what it takes to run this business."

7. *Big league*: "They got tired of working for the big corporation."

8. *Tag team*: "If one is good, two are better."

9. *Jumping ship*: "I knew they were the problem."

Let's take a closer look.

**Back off.** There is no question about who is in control here. This family business

owner tries to do it all, including keeping the books. No one else is trusted with the company's financial information—sometimes not even the outside accountant.

Under this style of control, lenders are way down the food chain. Typically, calls from a lender are put off, or they are not returned at all. It is a case of "my way or the highway," even if "my way" involves going off the edge of a cliff.

**Lucky gene pool.** This family business owner often shrugs off financial control by saying, "I don't have time for that stuff." Such owners cite numerous examples of why they can trust only their spouse, son or daughter. This family controller's education or outside experience usually does not qualify him or her for the position.

Sometimes the son or daughter fresh out of school with no outside experience is given the job of controller. If the son or daughter attempts to improve financial controls in the company, he or she risks straining relations with the parent running the business, at home as well as in the office. Unfortunately, members of the lucky gene pool can sometimes be swayed by

the promise of another perk from Dad or Mom.

**Undersized.** Family businesses often grow their financial control titles faster than the knowledge or experience of the person in the job merits. When family businesses experience rapid growth, business systems and manager skill sets often lag behind.

At one client's company, the controller was asked for a cash-flow report and responded, "What's that?" At another company, the vice president of finance wrote payroll checks in longhand!

**Survivor.** Owners often have a non-family confidant in the business. Typically, this employee joined the company shortly after the business got going. The confidant has been there through the ups and downs, and the owner has faith in the person: "He pulled me through before."

The confidant typically has worn many hats. Even when the business is in a crisis, the owner is very reluctant to break this bond. "After all, he is part of the family," the owner might say. "The banker is used to working with him." Once again, individuals who fit this profile often have titles and compensation that exceed their capability.

**Defector.** This scenario arises when a member of the family business's accounting firm has come to know the company. A working relationship develops between the family business owner and the outside accountant. This comfort level leads the family to disclose more information to this person than to

other internal or external contacts. As a result, the family hires the accountant as a controller.

Sometimes this situation works out well. Other times, this may be her first move away from public accounting, and she lacks hands-on business experience in costing and other managerial accounting functions. An intervention strategy, coupled with coaching for such a controller, can often yield significant benefits.

**Teflon owner.** When a family business is in need of a turnaround, it often turns out that the owner does not understand how to read financial reports and act on them. "I give the controller anything she asks for," the owner says, "and I get back all these

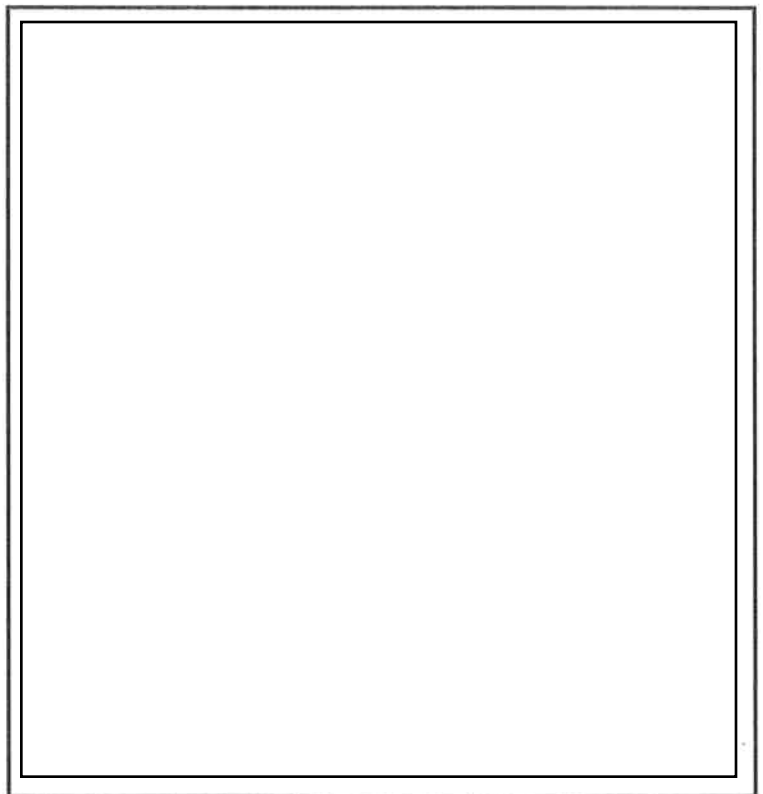
reports. What good are they?"

In these situations, problems can arise even if the controller has the right skills and knowledge. The owner washes her hands of any accountability and lets the controller take the heat.

A clear understanding of the owner's specific individual strengths and weaknesses is essential to providing the necessary direction. It's very important to establish clear responsibilities for the owner and the controller, and hold them accountable for their actions.

**Big league.** In this scenario, the controller came to work for the family business with a wealth of knowledge and experience from her tenure at a major corporation. This

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type of controller is usually brought on board during a stage of significant growth, when a well-intentioned owner sets out to “professionalize” the business. This situation can sour if the controller has difficulty making the transition to the family company, typically a smaller organization with significantly fewer resources.

**Tag team.** This structure is often an outgrowth of the “big

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league” scenario. When the controller from the big corporation is promoted to vice president of finance at the family business, a new controller is hired. This may seem logical, but if this new structure is implemented prematurely, the family business may be unable to carry the added financial burden.

**Jumping ship.** “How can my controller wind up with such a great job at another company when we have so much to offer?” a genuinely bewildered owner may ask.

What this family business owner fails to understand are the consequences of withholding information from the controller or pushing him into questionable accounting practices. Faced with such a situation, a good controller

will look for employment elsewhere, and often lands a better job. The owner often blames the company’s problems on the inability of the departing controller. Consultants digging into the root cause would be wise to interview former employees.

### **Taking action**

Successful family businesses may encounter similar scenarios, but they work through them. They succeed because they recognized the problem and corrected it to emerge from a crisis or to avoid the predicament altogether.

All family business owners must ask themselves whether their company’s controller is qualified for the position. Good communication and people skills, along with a high degree of technical skill, are crucial to the financial management of a family business.

Other important questions, regardless of the scenario, are: Who is really in control? Who has all the facts and knows how to use them to develop a detailed plan of action for the future? Are family and business issues kept separate?

To help resolve these issues, family councils or advisory boards can be used as forums to educate the family about the power of shared information and proper financial control. □

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