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Common Methodological Mistakes Made by Financial Controllers in International Companies and Their Potential Repercussions for Decision Making*

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Abstract

Over many years of consulting practice as advisor to senior executives, the author of the present paper identified several most common errors made by financial controlling departments of international companies. These are: a. using full cost accounting for strategic decisions regarding product pricing and discontinuation; b. failure to correctly account for unused production capacity when calculating the profitability of individual products/services; c. using full rather than incremental cash flows to assess the rationality of investment projects; d. reliance on performance management system, which is not reflective of the structure of the underlying business processes; e. lack of adaptive budgeting process; f. non-alignment of management motivation systems with cost control procedures; g. staffing the controlling departments predominantly with finance specialists without in-depth knowledge of the underlying business processes. While academic literature on the subject remains scarce, these mistakes can have serious repercussions for the companies' strategic decision making and can even result in severe operational difficulties. The author presents the essence of the enumerated mistakes relying on case studies from consulting practice as well as ways to remedy them in order to increase awareness among financial managers and avoid costly repercussions.

Keywords: management accounting; performance management; international business.

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