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Impact of Recent Megatrends on the Controlling Role Model

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Abstract

Recent megatrends such as increasing complexity, volatility, internationalization and increased demand for transparency and compliance change the expectation towards the controlling function. The starting point of this paper is a specification of the contemporary controlling function including the perspectives controlling mission, the controlling processes and the role model concept in controlling. The paper aims to analyze the new expectations concerning the controlling role model.

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1. Introduction

1.1. Objective of the paper

During the considerable time spent in decision-making positions in multinational production companies, including various controlling and management functions, it came to my attention that the controlling function may be considerably improved and, consequently, contributes to the success of a company. Unless controlling provides a clear basis for the decision making process of the top management, top managers make their decision, not based on controlling analysis, but on intuition or, alternatively, rely on the analysis of other functions such as production or business development functions. The paper makes an extensive analysis of this phenomenon and shows why controlling should be approached in order to regain its influential place.

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1.2. Hypothesis

Recent mega trends changed the expectation of the management concerning the controlling function, meaning that controlling has to adapt to the new requirements. As literature suggests, unless this adjustment takes place, controlling tends to remain dominated by engineering tools and reports (Weber, 2004). Under everyday circumstances, the management is unable to understand or follow all these sophisticated tools and the controller risks spending considerable time adjusting the entire set of tools to meet the needs of the decision makers. Consequently, the controllers have fewer resources to support management performance by providing timely, qualitative information.

2. Theoretical framework of controlling

Since there are no legal requirements regarding the controlling function in companies or the quality of results it should deliver (Krings, 2012), the organization of the controlling system differs from one company to another. It is also a rather vague concept that was approached differently over time.

The paragraph tries to clarify the meaning of controlling according the current understanding in literature, outlining three different perspectives: (1) the controller's mission statement, (2) the controlling process model and (3) the role concept in controlling.

2.1. The Controllers Mission Statement

The "Controllers Mission Statement" describes the purposes and the role of the controller. The mission statement was last updated and published by the "International Group of Controlling" (IGC) as follows:

"CONTROLLERS' MISSION STATEMENT"

As partners of management, controllers make a significant contribution to the sustainable success of the organization. Controllers ...

1. design and accompany the management process in defining goals, planning and management control so that every decision maker can act in accordance with agreed objectives;
2. ensure the conscious preoccupation with the future and thus make it possible to take advantage of opportunities and manage risks;
3. integrate an organization's goals and plans into a cohesive whole;
4. develop and maintain all management control systems, to ensure the quality of data and provide decision-relevant information;
5. are committed to the welfare of an organization as a whole." Source: (IGC - International Group of Controlling, 2013)

The mission statement was last updated in 2013, to reflect the increased requirements for controller. Therefore, a more pro active role than prior mission statements is proposed, in order to assist the management in defining the goals, in planning and in management control (Losbichler, 2013). The management control cycle is outlined in Figure no.1:

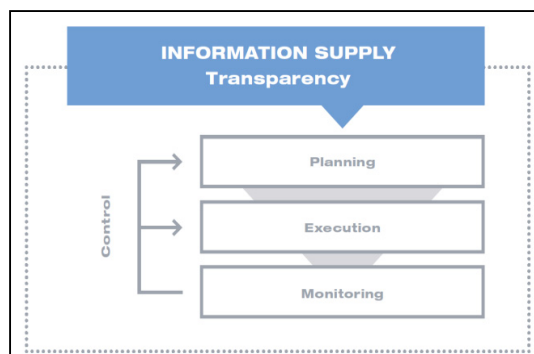


Fig. 1. The management control cycle
Source: (ICV & ICG, 2013)

To be noticed that planning is important to guide a detailed and operative way to reach the set targets, whilst the execution part of the management control cycle is not mentioned in the mission statement because it is included the role of management.

2.2. The Controlling Process-Model

The "Controlling Process-Model" was set up by an IGC Working group and describes the processes and activities which can be executed to fulfill the purpose outlined in the mission statement. The process-model is a hierarchical approach with the "business process" controlling as level 1. The 10 "main processes" are displayed as level 2. The "main processes" are split up in "sub processes" as level 3 which lead to the "activities" as level 4. Figure no 2 and table no.1 outline this hierarchical approach:

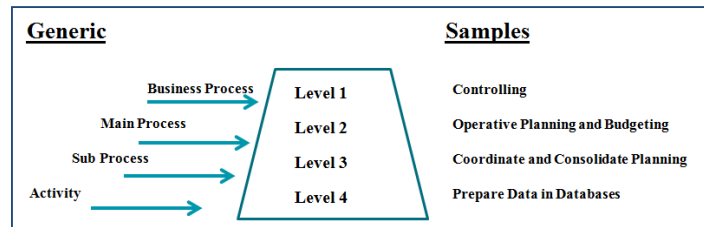


Fig. 2. Controlling Process Model
Source: Own translation of (IGC, 2010)

The 10 controlling main processes give a good overview on the portfolio of processes which make up the controlling function according to this process model:

Table 1: Controlling Main Processes

1.	Strategic Planning
2.	Operative Planning and budgeting
3.	Forecast
4.	Cost accounting
5.	Management Reporting
6.	Project- and Investment Controlling
7.	Risk Management
8.	Functional Controlling
9.	Internal consulting
10.	Improvement of processes, tools and systems

Source: Own translation based on (IGC, 2010)

This systematic structure can serve as a basis to set up and organize the portfolio of activities of a given controlling function. The allocation of resources to the individual processes depends on the internal needs of the company.

2.3. The role models of the controller

A basic role metaphor used in literature regards the manager as the captain of a ship (company) and the controller as the navigator. While the captain is responsible for the entire ship, the navigator suggests the right course to reach the set goal. Therefore, the manner the manager and the controller interact is crucial for the success of the company (Amann & Petzold, 2014). Figure no. 3 shows the necessary interweaving interaction of the manager and the controller:

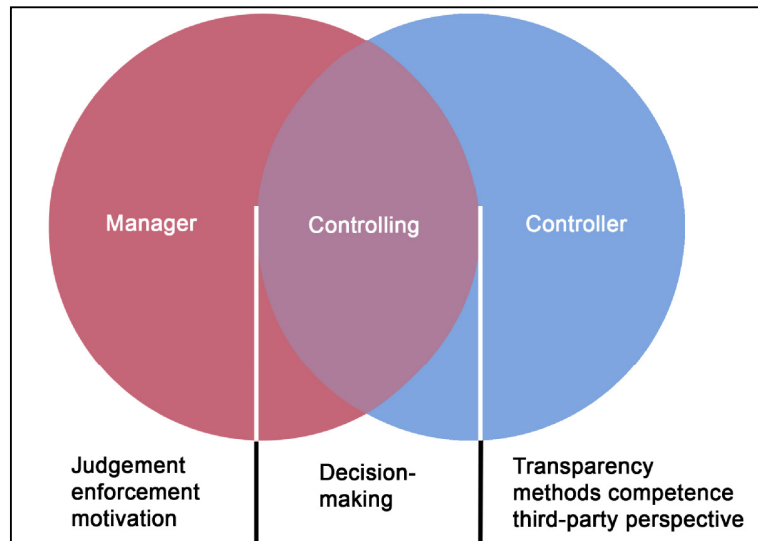


Fig. 3. Decision Model
Source: (ICV & ICG, 2013)

To be noticed that the decision making process is the overlapping section between the supportive role of a controller who is responsible for transparency, methods competence and to provide a third party perspective on the business stance. The distinguishing role aspect of the manager is to bring the judgment, enforcement and the motivation needed to implement the decision in day to day business.

This basic role model of the controller was further split up to cover the heterogenous objectives and processes in the controlling function. The literature provides an extensive discussion on the role model, mainly how to attach elements and processes to different types of role models. Gleich & Lauber (Gleich & Lauber, 2013) argue that there are four competence profiles or role models of controlling while (Schäffer & Weber, 2014b) or (Ernst, Reinhard, & Hendrik Vater, 2006) use slightly different role model types varying in concept and the number of distinguished roles. However, the meaning and underlying foundation is the same. The model of (Gleich & Lauber, 2013) will be described to illustrate the concept. Figure no.4 illustrates the four role models as a continuum with an increasing active role from left to right:

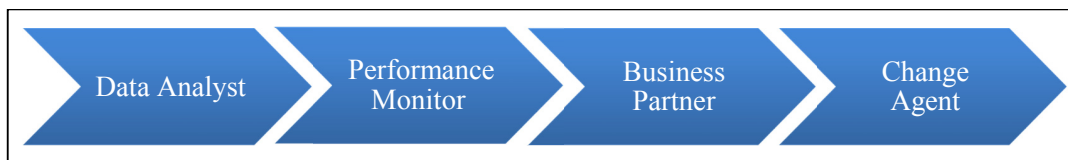


Fig. 4. Controlling role models
Source: Own graphic based on (Gleich & Lauber, 2013)

The four roles model of the controller shall be explained in further detail: The Data Analyst prepares and analyzes the business data in a comprehensible manner for top management. The required competencies focus on the technical and methodical aspects of controlling (Gleich & Lauber, 2013). Typical activities of this role include:

- preparation of monthly and quarterly management reports
- performance of ad hoc analysis
- coordinating the Planning- and Budgeting Process
- preparation of Finance- and Budgets
- collecting of operational data
- maintenance of data systems (Schäffer & Weber, 2014b).

The Performance Monitor is the "financial conscience" of the company who has to monitor of operational performance indicators. He has to review documents for decision and evaluate to which extend they fit to the main target of the company. Therefore the role requires higher analytical competencies in comparison with the analyst (Gleich & Lauber, 2013). Typical activities of this role include:

- setting up of performance reports for top management
- setting up of internal rules and procedures
- ensuring the managers spending is necessary
- ensuring manager respect the requirements of accounting regulations
- evaluating if managers comply to top management objectives (Schäffer & Weber, 2014b).

The Business Partner supports the management actively in the decision making process based on reliable analysis. The business partner role requires additional business understanding. The business partner needs good social skills to interact with management and team members and needs to have a solution based approach (Gleich & Lauber, 2013). Typical activities of this role include:

- developing plans for cost reduction and increased profit,
- analyzing product and customer profitability,
- setting up of measures to reach targets,
- appraisal of investment opportunities,
- setting up of new strategies (Schäffer & Weber, 2014b).

The Change Agent can be regarded as Business Partner who actively initiates change processes. This role profile requires an even higher understanding of the business model. The change agent typically works proactively and autonomously. Because change processes can lead to difficulties and resistances, the change agent must to be able to resolve conflicts using empathy and related social skills. (Gleich & Lauber, 2013)

The qualification requirements increase in all competence fields continuously from the data analyst in the direction of change agent. This increase cannot be addressed by seminars or other forms of education, to raise business partner and change agents it needs to understand the "life cycle of employees" a and succession planning (Gleich & Lauber, 2013).

2.4. Preliminary conclusion:

The content and goals of the controlling function can be described applying the three perspectives (1) mission, (2) processes and (3) roles. For each perspective there is a framework available in which the controlling function can be organized. As there is no legal requirements how to organize the controlling the actual set up depends on the requirements of the company's management.

3. Trends in development of role models

3.1. Mega trends affecting the controlling role models

The requirements for controlling are increasing due to mega trends of which four are outlined, as follows:

- (1) The increasing internationality and the complexities of business operations increase.
- (2) The volatility of the business shifts importance from accuracy of number towards reaction time. Doing deviation analysis the controlling has to focuses to identify the root courses of the deviation and to suggest measures and actions to bring the business back on track (Forum, 2011).

- (3) The demands for transparency and compliance are emphasized (Conrad Günther, 2012).

- (4) The increasing efficiency of ERP solutions requires less and less time of the controller for standard reports. Correspondingly, the time spent for data preparation for controlling is assumed to decrease utilizing better IT solutions.

The increasing efficiency of ERP shall be underlined with a recent survey of (Schäffer & Weber, 2014a) who predicts a significant boost in data availability for management without needing the controller as data collector. For 2019 almost 97% of the survey respondents expect that management can retrieve their company data by some degree of self service (Schäffer & Weber, 2014a). 53% of the survey respondents expect even that management will have a full access to all company information with complete drill down function by the year 2019:

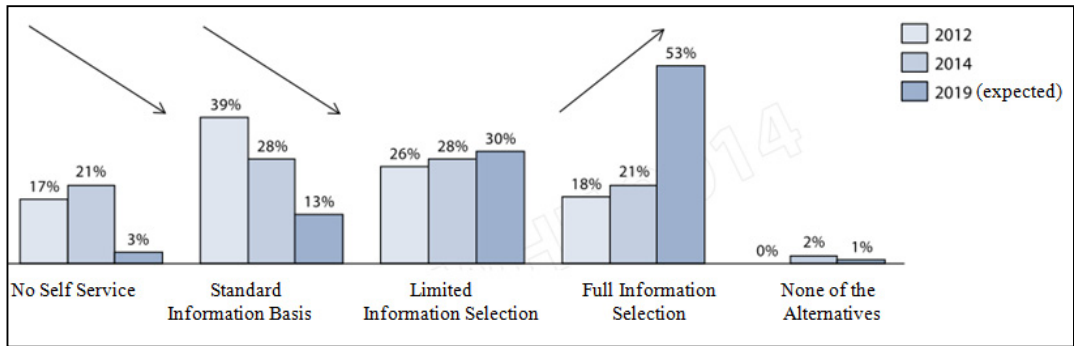


Fig. 5. Data availability for management
 Source: Own translation of (Schäffer & Weber, 2014a)

This indicates that the manual preparation of reports by the controlling will lose importance. However the controllers have to maintain the reporting functionalities to ensure, that the reports keep their relevance and that no misleading figures are reported (Conrad Günther, 2012).

All the described four mega trends tend to be noticeable in bigger companies. Correspondingly, bigger companies have a more intense need for adaptation and often play a leading part in initiating improvements in the controlling function.

3.2. Effects on the development of role models

In the controlling literature and surveys over the last years, there is a clear trend towards an increasing importance of the business partner and change agent role while the relative importance of the other roles is decreasing. In this paper the following illustrative surveys are referred and analyzed:

Table 2: Overview on research studies

Year	Author
2006	(Ernst et al., 2006)
2012	(Utz Schäffer & Weber, 2012)
2012	(Pótsch, 2012)
2013	(Gräf et al., 2013)
2014	(Utz Schäffer & Weber, 2014a)

Source: Own table

The survey made by (Ernst et al., 2006) examined which of the roles would describe the role of controlling at the German company "Deutsche Post World Net". The survey indicated that the need for profiles such as "number cruncher", "administrator" and "policeman" are expected to decrease significantly in the future while profiles such as "business partner", "challenger" and "internal consultant" are expected to gain importance. This development was expected by the controllers as well as the internal customers of the controlling in similar magnitude:

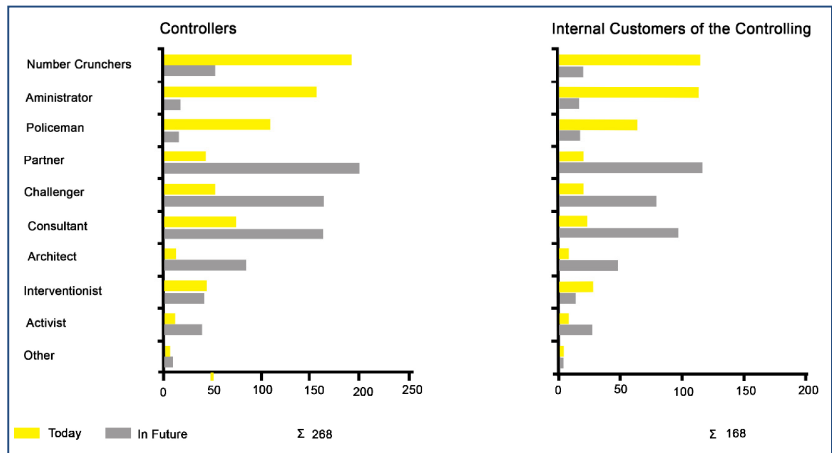


Fig. 6: Controlling roles at Deutsche Post World Net
 Source: Own translation of (Ernst et al., 2006)

The future role of the controller was also analyzed in a survey conducted by (Schäffer & Weber, 2012). For this survey the feedback of 448 controllers and board members in the year 2011 were collected and analyzed. Based on this survey the following three roles and fields of the controlling for the future will gain importance: (1) support to increase the efficiency of the company, (2) organize the strategic planning and (3) the role of the controller as business partner. Those roles and fields of the controlling were addressed by controllers and board members commonly.

At Volkswagen AG a corresponding three step development process of the controlling function was observed by (Pötsch, 2012): (1) controlling function mainly fulfilled the function of calculating cost. In the second phase (2) controlling was involved in management decision processes by coordinating corporate planning and control systems and as of today (3) the controllers work as an active consultant to the board of management.

A survey of Horváth in 2013 pursued the current and expected importance of seven activities in controlling (Gräf & Horváth & Partners, 2014). Following the survey the activities "data collection", "data preparation" "report generation" "plausibility checks" are decreasing in importance while "analysis" and "consulting" are expected to gain importance. The graphic illustrates this development:

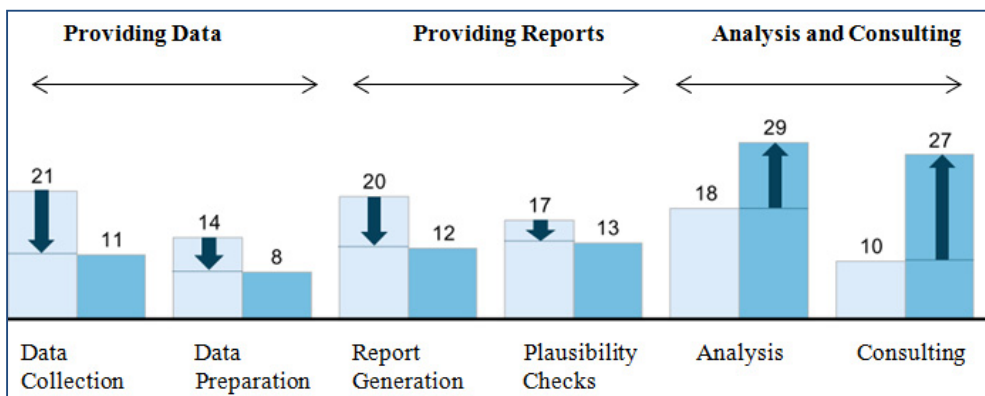


Fig. 7. Priority shift in management reporting
 Source: Own translation of (Gräf & Horváth & Partners, 2014)

The results from the Horváth survey from 2013 were confirmed by a survey conducted by (Schäffer & Weber, 2014a) with 472 survey respondents. The focus of this survey was the on the hierarchy level in controlling that provides a business partner role at the moment and which hierarchy level is expected to provide such role in five years. There is a significant shift in the hierarchy level of the controllers providing the role as business partner in 2014 and expected for 2019. In 2014 this role was mainly reserved for the "management level" and "selected experts" with each 37% of answers. Until 2019 46% of respondents expect that the business partner role will be provided by "all controllers":

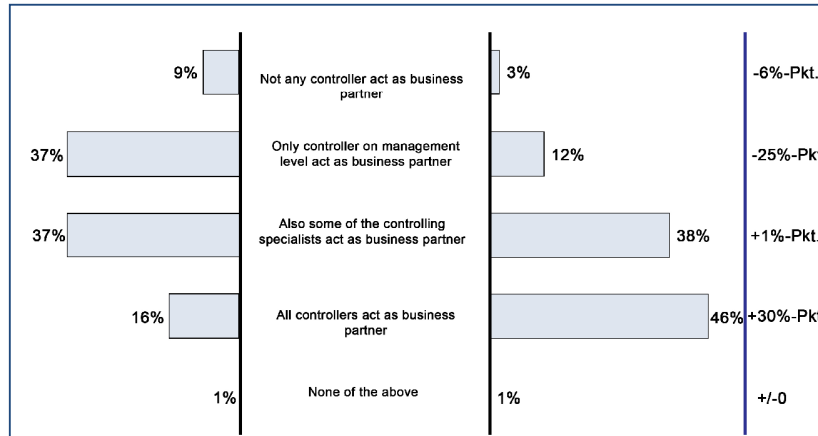


Fig. 8. Current and future owner of the business partner role
 Source: Own translation of (Schäffer & Weber, 2014a)

This significant shift towards the lower levels of the controlling hierarchy implies a higher number of controllers working as business partners.

3.3. Preliminary conclusion:

Following all outlined surveys the focus of the activities within the controlling function is shifting from data preparation to an active part in advising management and initiating change processes. The expectation towards the efficiency and effectiveness of the controlling functions are increasing.

4. Implication of the changed expectations for the individual company

4.1. The adoption need of the controlling function

As described in the prior paragraphs, the expectation concerning the controlling function is changing. If the controlling function does not adapt, the controlling function will not deliver the support for top management to base their decisions. What can do managers if they have this observation? Basically they have two options. Their first option is to make their decision based on their feeling, but not supported by facts and figures. Their second option would be to use the analysis of other functions such as the production function or business development function. Especially for companies in distress it will be a crucial test and turning point for the importance of controlling: either it fulfills the increasing demands and gains importance or it fails and gets substituted by other functions (Goeldel, 2010). There are several inside and outside competitors to the controlling function. Following a recent survey by (Schäffer & Weber, 2014b) the main competitors of the controlling function are external consultants, internal consultants and corporate development which all relate to the more strategic orientated aspects of the controlling work:

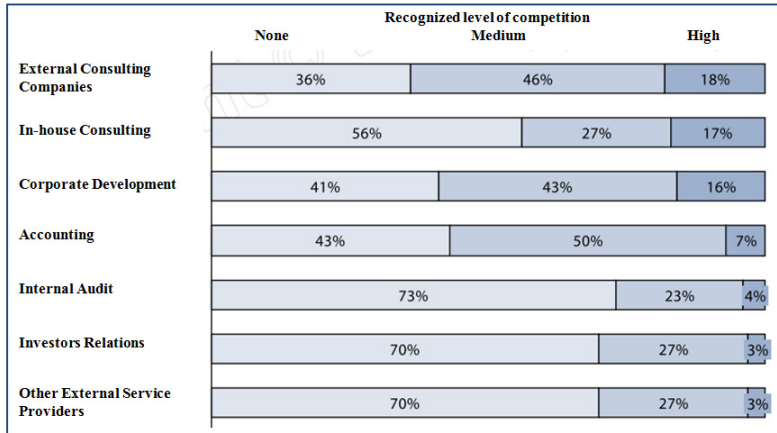


Fig. 9. Competitors of the controlling function
 Source: Own translation of (Schäffer & Weber, 2014b)

The position of the controller within a company depends on the controller and the role and tasks he takes. If the controller limits himself to budget process and commenting P&L positions the importance is decreasing. Complementary the role of other functions is increasing. For example the importance of of the finance/accounting functions increases if they takes responsibility for cash management and liquidity projections. Another complimentary example is the area of corporate development who can build out its stakes in scenario planning and restructuring if controlling takes no or only insufficient responsibility in those areas (Goedel, Hanns, 2012).

Although controlling has the tools to offer valuable input to the management it strongly depends on the head of controlling how he can play his cards to the top management to maintain the influence of his function. When the strategic aspect of the controlling function is challenged by alternative strategic functions, the controlling function can be reduced to operative reporting topics (Krystek, 2012). The more the controlling function gets excluded in the strategy process the more its capability to contribute to the strategy process as a consequence is eroded. The process of slowly substituting the controlling function with by so called "shadow controllers" is described by (Ernst et al., 2006) as shown in Figure no.10:

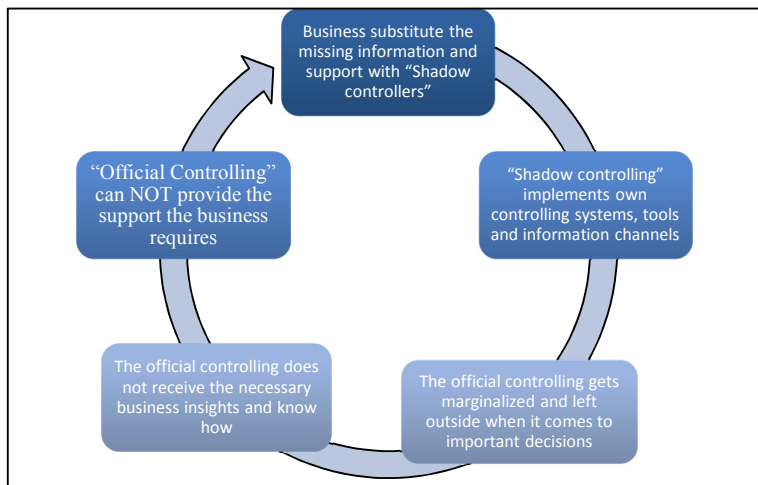


Fig. 10. Shadow controlling

Source: Own graphic based on (Ernst et al., 2006)

Building up shadow controllers might be better than having no fact and figures at all. But for sure the best solution would be to bring the established controlling back on track. The importance of the controlling position in the company can gain importance if the controller also focuses on market and business performance aspects and hereby get involved in the decision making process (Goedel, Hanns, 2012).

4.2. Preliminary conclusion:

If controlling wants to maintain an influential function in the company it needs to adapt to the changed expectations from management. The adaption process should be structured to reach optimized results.

5. Final conclusion and outlook

This article outlined the current trends in the development of the controlling function and the need for the controlling to adapt to this need. Despite the potential for value added out of a more consulting orientated business partner role a survey made by (Weißberger, Wolf, Neumann-Giesen, & Elbers, 2012) revealed that the controller normally does not take the position of the business partner role by intrinsic motivation but if the management request this role from him. This means that the management must clearly address the changed expectation towards the controller. It will take a good effort and structured approach in modern companies to set up a change process to accompany the needed adaption and modernization of the controlling function.

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