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## The Competitive Challenge of Controlling

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### Abstract

The complexity of today's business increases and, correspondingly, the requirements for decision support increase. A traditional supplier of top management decision support is the controlling function. However, when controlling struggles to meet the increased requirements, the influence of controlling on top management decisions can get marginalized and eventually vanishes. This paper analyses this observation based on recent surveys and statistics and suggests solutions to master the "competitive challenge of controlling".

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*Keywords:* controlling; role model; strategy orientation; competitive challenge

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### 1. Determinants of the controlling function

Recent megatrends such as increasing complexity, volatility, internationalization and increased demand for transparency and compliance have changed the expectations towards the controlling function (Laval, 2015a).

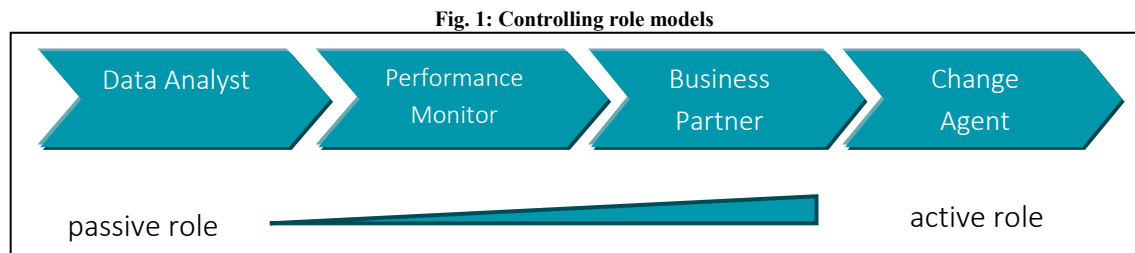
As there are no legal requirements on how to organize controlling, the actual set up depends on the requirements of the company's management. This provides the controlling department with the possibility as well as the responsibility to adapt its services in a flexible manner to the operative and strategic needs that the company faces. In the following, multinational production companies were defined as large production companies with more than 20,000 employees operating and producing in multiple countries with an annual sales volume exceeding 1,000 million EUR (see figure 20: The headcount of controlling depends on company size). Based on the surveys analyzed, the controlling function in such companies employs on average more than 60 controllers or 0.3% of the total headcount (Gräf & Horváth & Partners, 2014). The number of maintained controlling specializations is seven, with an imbalance towards production controlling (Gräf & Horváth & Partners, 2014). In comparison with small companies, multinational production companies regularly apply strategy-oriented planning and controlling tools (Littkemann, Reinbacher, & Baranowski, 2012). In 65% this sized companies, the head of controlling reports to the

CFO (Gräf & Horváth & Partners, 2014). However, such quantitative figures do describe the controlling function only on the surface. To further analyse the content and goals of the controlling function three qualitative perspectives, namely (1) mission, (2) processes and (3) roles were applied. For each perspective, there is a framework in which the controlling function is described and organized.

The mission statement of the controller (IGC - International Group of Controlling, 2013) includes the definition of goals, of parameters for planning and of applicable management control. Controllers should support decision makers with reliable and relevant information so that every decision maker can act in accordance with agreed objectives.

The processes, as summarized in the controlling main processes (IGC, 2010; International Group of Controlling, 2012), can be described as the activities which are executed to achieve the purposes that have been defined in the mission statement of the company. The processes are further divided into sub processes and a hierarchical process structure is implemented. The central processes are strategic planning, budgeting and operative planning, forecasting, cost accounting, management reporting, project and investment controlling, risk management, management support and the enhancement of organization, processes, instruments and systems. These processes need sources and the allocation of the sources is carried out according to the needs of the company and can be changed over time (Laval, 2015a).

The controlling roles are the third perspective on the controlling function (Ernst, Reinhard, & Hendrik Vater, 2006; Gleich, 2015; Gleich & Lauber, 2013; Schäffer & Weber, 2014b). A role in general can be defined as set of connected behaviors, rights, obligations, beliefs, and norms as conceptualized by people in a social situation. It is an expected or continuously changing behavior and may possess a given individual social status or social position. According to the controller's mission statement the controller shall support the manager to keep the company moving towards the defined objectives, to achieve the vision and the mission statement of the company and to make the right management decisions. This general understanding of the role can be broken down into four distinct roles a controller can take.

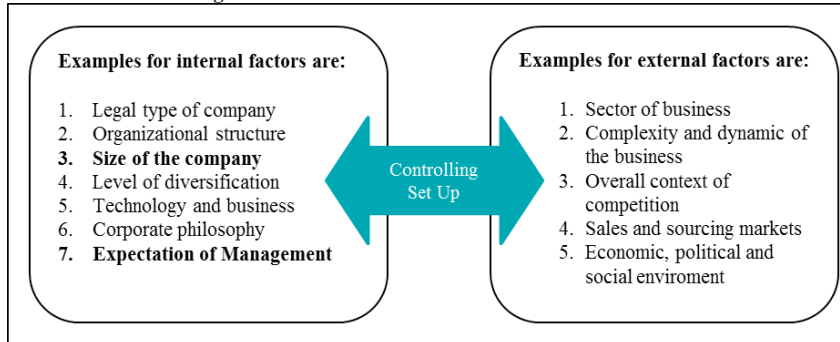


Source: Author's own processing based on (Gleich & Lauber, 2013)

These roles are data analyst, performance monitor, business partner and change agent. The data analyst role includes the preparation of the monthly and quarterly management reports, a collection of the operational data and many others. The performance monitor role includes the review of the manager's spending of resources and setting up of the performance reports for top management. The business partner role includes the evaluation of investment opportunities, development of plans for cost reduction and increased profit. The change agent role in addition involves the initiation of the change processes (Edlefsen & Pedell, 2015; Gleich, 2012; Gleich & Lauber, 2013; Schäffer & Weber, 2014b)

The controlling function at multinational companies is diverse as the controlling function in a specific company reflects various internal and external influencing factors. In the following it was therefore analysed, how the controlling function in a specific company is influenced by various internal and external factors:

**Figure 2: Overview on internal and external factors**



Source: Author's own processing based on (Küpper, Möller, & Pampel, 2012)

The most obvious factor is the companies size as especially the size of the company influences headcount, specializations and organization of the controlling function. Bigger companies have a larger controlling team in absolute figures but the relative number of controllers in relation to the total headcount decreases (Schäffer & Weber, 2014b). The company size has a positive effect on the number of maintained specializations and the strategic orientation of the controlling function (Becker, Ulrich, & Zimmermann, 2012; Littkemann et al., 2012). Other important influencing factors are among others the expectations of the management and the field of business the company is doing.

In addition to the described factors, the strategy orientation influences the controlling function was identified as a key trigger influencing the controlling function. For this, two basic orientations can be distinguished: first the cost leadership strategy and second the differentiation strategy. In the modern complex business environment companies might not purely follow a cost leadership or purely follow a differentiation strategy but mix both strategies to some extent. In such case, it must be evaluated which of the both strategies dominate the other.

**Figure 3: "Characteristics of strategy orientation"**

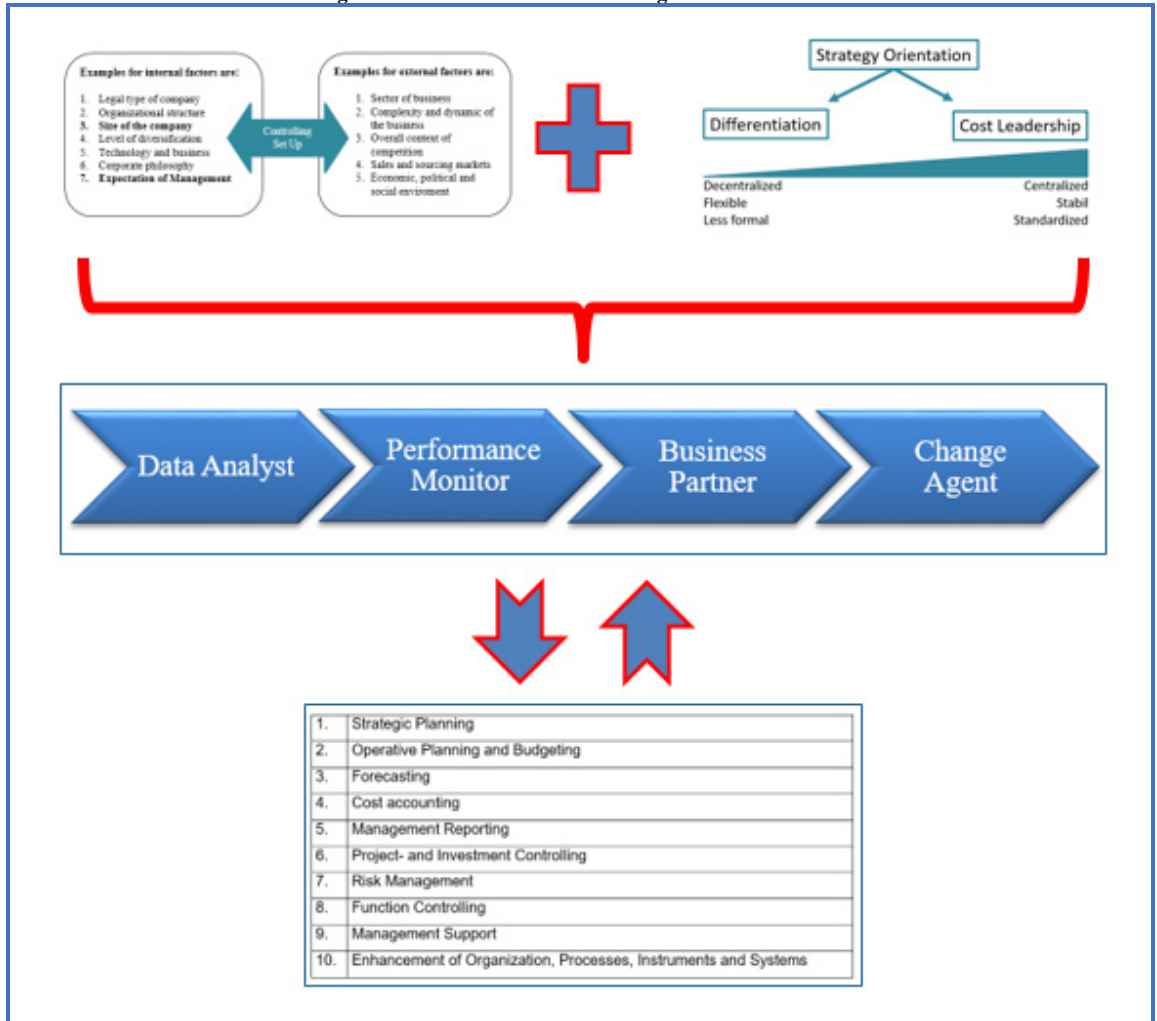


Source: Author's own processing based on (Gates & Germain, 2015)

Companies who pursue a cost leadership strategy often seem to prefer a centralized, standardized and stable controlling function. This tight and detailed budgeting process is important to realize a cost management and hereby a cost leadership. A focus on non-financial performance indicators for such companies is often seen as not helpful and kind of distracting from the cost control aspect (Gates & Germain, 2015).

Companies who follow a differentiation strategy prioritize a product / service leadership which requires a focus on activities such as research or product quality. Such companies often prefer a rather decentralized, flexible and less formal and detailed budgeting process with more sophisticated Hybrid Measurement Systems (HMS). Such HMS systems can be used to evaluate and monitor in addition also nonfinancial performance figures. One of the most prominent HMS is the balanced scorecard (Gates & Germain, 2015; Schäffer, 2013).

Fig. 4: Determinants of the controlling function



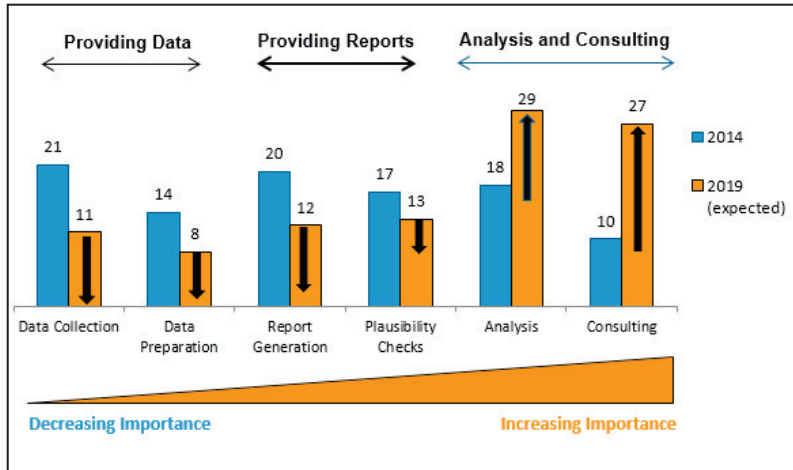
Source: Considering (Gates & Germain, 2015; Gleich & Lauber, 2013; Küpper et al., 2012)

Based on the above model various described internal and external factors as well the strategy orientation influence the role setting of the controlling function which can take a more passive or a more active role. The activities and services performed by the controlling function reflect this role setting. Vice versa, the activities performed by the controlling factor will influence the role that controlling will play in a specific company.

## 2. 2. The competitive challenge of controlling

The determining factors and therefore the observable work and role of the controlling function are not stable over time but changing. The following model “competitive challenge of controlling” analyzes two key elements of this change and their consequences. The first key element is a priority shift within the controlling function (see figure 27: Priority shift within the controlling function).

Figure 5: Priority shift within the controlling function

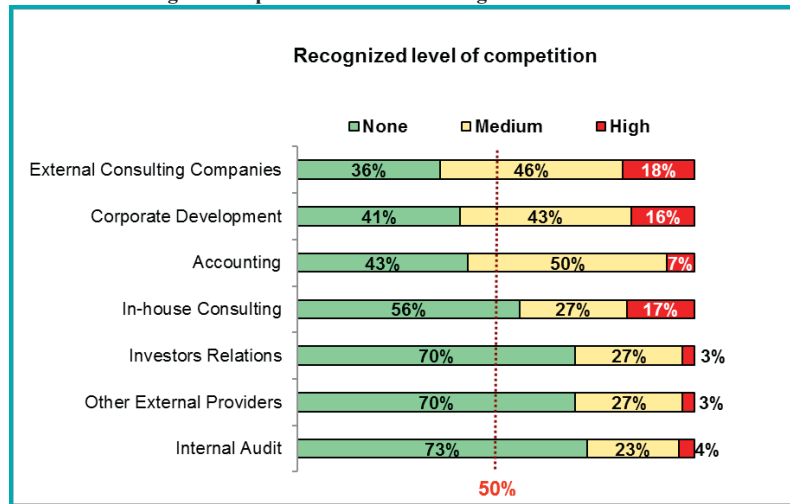


Source: Author’s translation and modification of (Gräf, 2014)

According to the reviewed surveys, the focus of the activities within the controlling function is expected to further shift from passive roles such as data preparation to more active roles such as advising management and initiating change processes. In consequence, the significance of the business partner role increases (Cokins, 2014; Gräf, 2014; Möller, 2015; Paul & Traber, 2015; Schäffer & Weber, 2014a; Shields, 2015).

The second key element is the understanding that supporting the preparation of business decisions is not exclusively the field of activity of the controlling function. Also, other functions provide such services. Especially external consulting companies, corporate development, accounting, and in-house consulting are the competitors of the controlling function regarding decision support. On the other side, due to increasing external reporting requirements, the accounting function is pushing into the data analysis and presentation aspects of controlling.

Fig. 6: Competitors of the controlling function

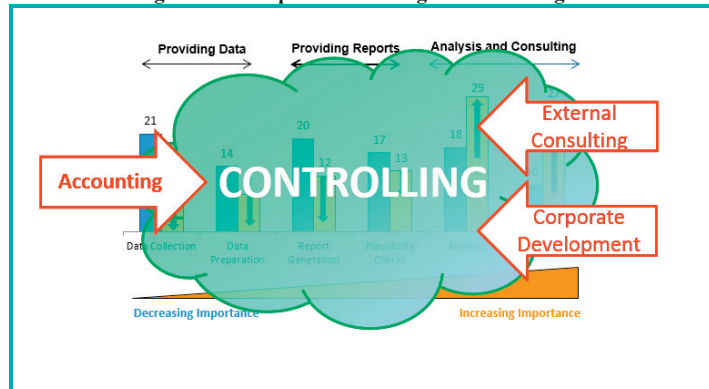


Source: Author’s own processing modifying (Schäffer & Weber, 2014b)

There are several internal and external competitors to the controlling function. Following the survey by (Schäffer & Weber, 2014b) the two main competitors of the controlling function are external consultants and corporate development followed by the accounting function. The following figures list the most important competitors, sorted by the scale of experienced competition:

Most respondents assigned a high or medium level of competition to the top three competitors. Analyzing the implication of the main competitors for the controlling function shows that the controlling function tends to be squeezed from two sides:

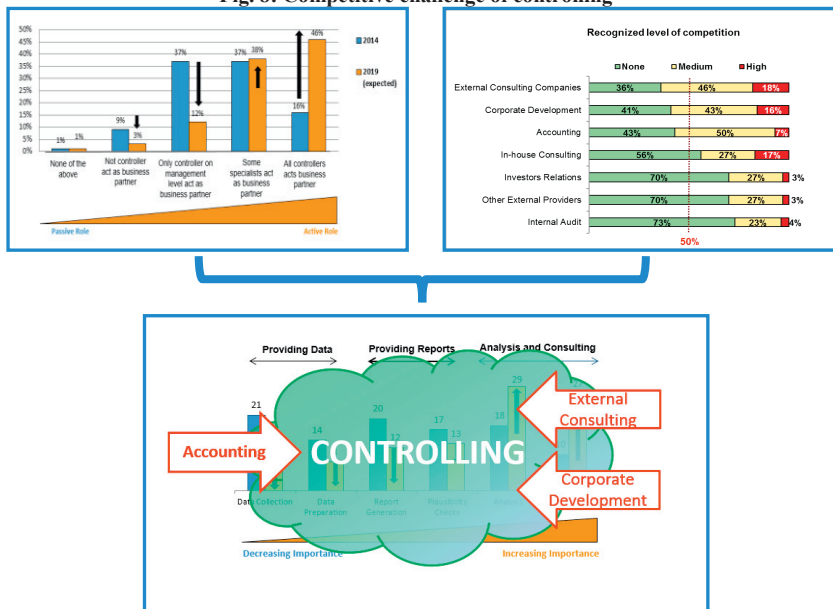
Figure 7: “Competitive challenge of controlling”



Source: Author’s own processing based on (Gräf, 2014)

The reviewed surveys indicated that the importance of active activities, such as analyzing and consulting are increasing. Those activities are the main competence of the controlling function but also strong competencies from external consulting and corporate development. This inherent competitive position makes it difficult for the controlling function to cover these fields despite the increasing importance. On the other side it is observable, that the amount of data provided by the accounting function is increasing due to increased external reporting requirements (Wagenhofer, 2015). Both trends can lead to the situation in which the controlling function is stuck in the middle. The following figure summarizes this Competitive challenge of controlling:

Fig. 8: Competitive challenge of controlling



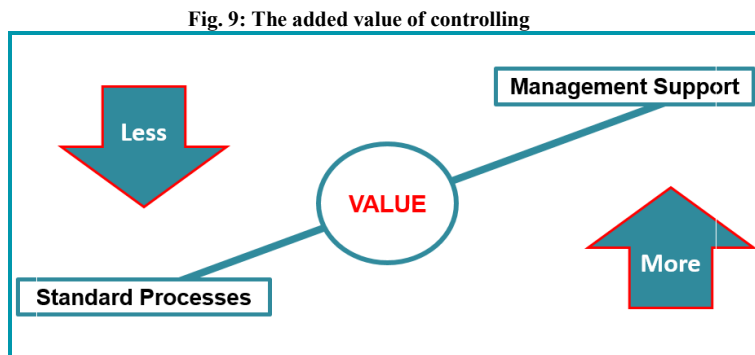
Source: Author’s processing considering (Gräf, 2014; Schäffer & Weber, 2014b)

Although controlling has the tools to offer valuable input to the management, it strongly depends on the

head of controlling; how he/she can play his/her cards to the top management to maintain the influence of the controlling function. When the strategic aspect of the controlling function is challenged by alternative strategic functions, the controlling function can be reduced to operative reporting (Krystek, 2012).

### 3. 2. Conclusion and outlook

The “competitive challenge of controlling” was summarized in a new model. Following this model, the controlling function can be easily squeezed between the accounting function on the one side and corporate development and external consultants on the other side: To maintain its relevance within a company, the controlling function needs to adapt to the changed expectations. The controlling function will add to the company’s value, if the value created through the decision support outweighs the costs of the controlling function (Laval, 2017b)



Source: (Laval, 2017b)

As described the first important aspect to increase the value contribution of the controlling function is to decrease the costs of the controlling function for standard processes. This can be done by increasing the effectiveness of standard reporting processes (Laval, 2015c, 2016b) and by strengthening the reporting focus on strategy and decision usefulness (Laval, 2016a, 2016c). The time and capacity saved on standard processes than can be used to support management in business activities such as optimizing and restructuring the business (Laval, 2015d, 2015e, 2017a). Improving the performance of the controlling function can require to a complex change management and can face change resistance from the side of the controllers but also the competing functions involved. To master the “competitive challenge of controlling” a structured change management is recommended (Laval, 2015b).

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