Perspective

of the International Controller Association (ICV)
and the International Group of Controlling (IGC)

The essence of Controlling – The perspective of ICV and IGC

Motivation for the paper

Controlling is a key success factor for companies in German-speaking countries. However, there are often uncertainties about what the essence of Controlling really is. Hence, this paper aims to provide an up-to-date view of the term "Controlling" and the role of the controller. At the same time, it defines the position of *the International Controller Association (Internationaler Controller Verein, ICV) and the International Group of Controlling (IGC).*

Our starting point is the understanding of "Controlling" developed by Albrecht Deyhle. It is characterized by three features: target-oriented control, controllers and managers acting as a team, and interplay between analytics and soft factors. Since Albrecht Deyhle's core ideas were first formulated, the practical application of Controlling has spread rapidly. At the same time, it has undergone change and further development. In particular, new developments have taken place in terms of scope of activities (strategy, risk, sustainability), future orientation (e.g., early warning) and the role of the controller (proactive, jointly responsible). Additionally, certainly in large companies, controllers as a group (the "controller community") play an essential role today.

Thus, this paper reviews Albrecht Deyhle's basic ideas and, in view of the aforementioned developments and scholarly debate in the field, gives a brief and up-to-date perspective on the concept of "Controlling".

Controlling

Controlling is a management activity. It means being objective-driven and directing all decisions towards achieving this end. Consequently, planning and calculative practices, as well as monitoring and control, are of central importance. This applies to each individual management decision as well as to the management of the corporation as a whole.

In the latter case, it is important to assure that the processes of information provision, planning and control are closely interrelated:

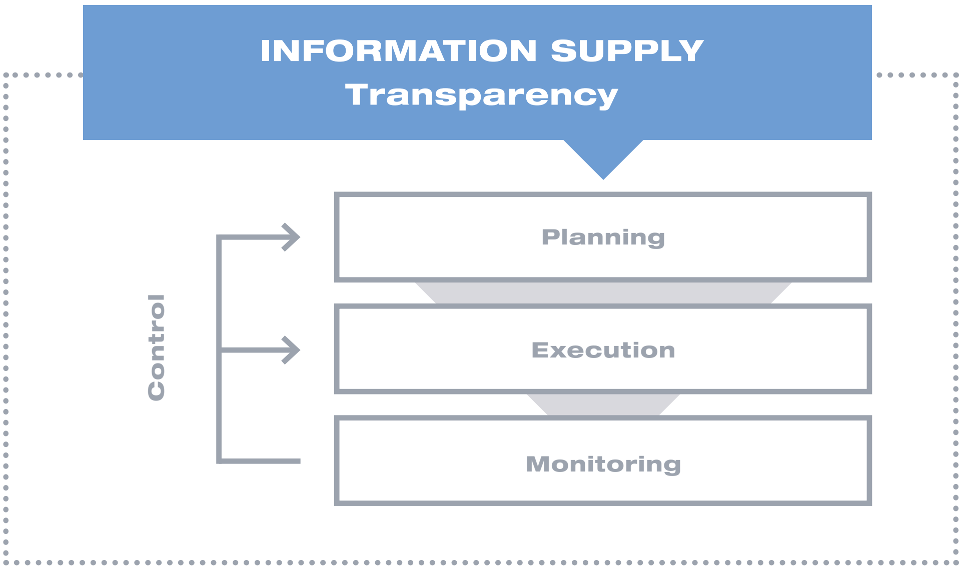
1) The decision-making process carried out as part of strategy development and planning defines the objectives and the means by which these can be accomplished. Additionally, the preoccupation with the future associated with this process leads to a better ability to cope when things do not turn out as planned.

2) Control involves monitoring whether objectives will be achieved and, if not, to identify why this is the case. The insights gained from monitoring should be applied in order to counteract as early as possible and subsequently improve execution and planning.

3) Together, planning and control set limits on individuals in the corporation while, at the same time, precisely this allows for managerial discretion and decentralized initiative.

4) Due to the complexity of the management control process, it is very important to plant the idea of Controlling in the minds of all employees ("convince employees to join in").

Figure 1: The management control cycle

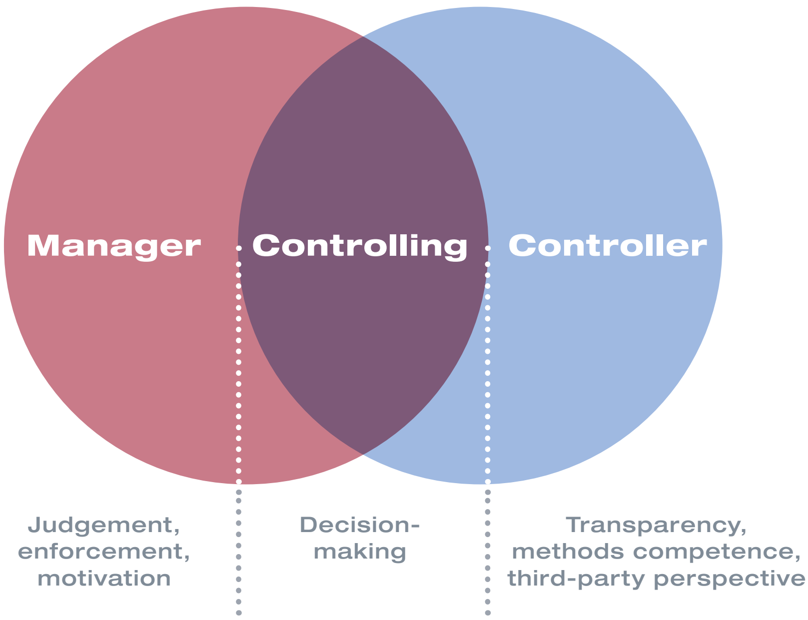


Controlling should take place wherever there are objectives that need to be reached. Consequently, Controlling is not only relevant for profit-oriented companies but also for not-for-profit and public organizations. Only the underlying type of objective and, as a consequence, the definition of performance ("and what you consider to be good performance") are different.

Thinking in terms of means-end relationships implies a long-term and holistic perspective aimed at the sustainability of achieving objectives. Accordingly, great importance is attached not only to financial but also to non-financial aspects and, at the same time, to all relevant stakeholders of corporate management commensurate with their part in ensuring long-term performance. Thinking in terms of means-end relationships and basing all decisions on their performance consequences form the core of rational management and are essential activities for each individual manager. Therefore, Controlling is not an activity which is limited to controllers or any other management support function.

There can be no Controlling without management. Since Controlling is so important and complex, it makes sense to support managers in this task. This support is largely provided by controllers. Therefore, it is the interaction between managers and controllers that constitutes Controlling, as Albrecht Deyhle shows in his "classic" set diagram of intersection. Although not all managers conform to the dominant intuitive decision-making entrepreneur implied by Albrecht Deyhle, they can still benefit from a counterpart who focuses on their specific strengths and weaknesses.

Figure 2: Set diagram of intersection adapted from Albrecht Deyhle

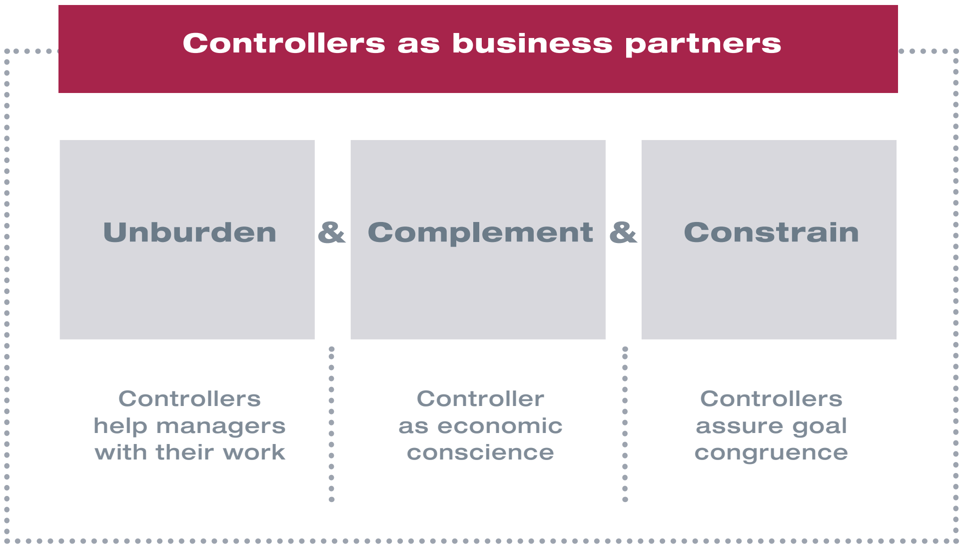


Management support by controllers

Controllers support managers in a *variety of ways.* They unburden managers by taking over specific tasks (e.g. organizing planning activities or providing information). They complement managers by acting as economic conscience. They prevent managers from making inefficient decisions which are based on divisional and personal interest. In carrying out these various tasks, controllers strive to assure the rationality of corporate management. Controllers support managers in an *individual manner.* "Off-the-peg" services do not meet managers' requirements. Every manager has different management skills, preferences and experience. Controllers need to adjust to the individuality of each manager accordingly.

Controllers support managers *comprehensively.* Generally, their field of interaction covers the full spectrum of a manager's responsibilities. All management activities have an economic impact. It would not make sense to exclude some activities or include "blind spots". Thus, the work of controllers goes far beyond numbers. Motivation and incentive systems appear on their agenda alongside strategy, organisation and culture. It is precisely this broad range of management support that constitutes the work of controllers, and this range has grown significantly over the last few years. The end result is an image of the controller as a comprehensive companion for managers; the *"management partner"* or *"business partner".*

Figure 3: Management support by controllers according to Weber / Schäffer



Cooperation between managers and controllers in this kind of business partnership should be on an eye to eye level. While managers set the direction for achieving the company's objectives, controllers carry joint responsibility. Thus, controllers should not wait passively for instructions from managers but act as *proactive, complementing partners of management.* This applies to routine business activities as well as to new fundamental developments, e.g., establishing economic value orientation or sustainability in corporate management. A central aspect of a business partner's role is to identify and promote such topics. It is increasingly important that controllers achieve a balance between, on the one hand, their active involvement in the management process and contributing personal ideas, and on the other hand, their restrictive function as guardian of company interests and critical counterpart or sparring partner ("involvement versus independence"). Controllers must be able to wear two hats.

Main areas of management support

The work of the controller focuses on a variety of topics, most of which are listed in the controller mission statement and the controlling process model of the International Group of Controlling (IGC). Controllers assure *economic transparency* ("Controllers ensure the transparency of business results, finance, processes and strategy and thus contribute to higher economic effectiveness."). To achieve this, they not only have to provide figures and metrics but also communicate them appropriately. It is not sufficient to simply supply management with information. Controllers rather need to assure that this information is understood and used correctly. Controllers are guardians of business figures ("single source of truth") and are also responsible for defining these and ensuring their quality.

Controllers make a significant contribution to *rational corporate management* ("Controllers moderate and design the controlling process of defining goals, planning and management control so that every decision maker can act in accordance with agreed objectives." In the on-going *planning process,* they are assigned two tasks: management of the planning process (from defining the process to documenting the results) and contributing content (from plan preparation to critical discussion and revision of plans).

Controllers face a particular challenge in the coordination of the various participating sub-units and their respective managers, on the one hand, and the various planning levels, on the other – from strategic planning to medium-term planning and capital budgeting through to the annual budgeting process ("Controllers co-ordinate secondary goals and the related plans in a holistic way."). Controllers are also assigned various tasks as part of their monitoring function. These range from communicating variances to ensuring that corrective measures are taken.

Controllers are responsible for the appropriate *design* and interaction of *all management control systems* as well as the enhancement of these systems ("Controllers develop and maintain the controlling systems." – "Controllers organize a reporting-system which is future-oriented and covers the enterprise as a whole."). This is a complex, analytically challenging management task, and management often lacks the time, interest and expert skills to carry it out ("the controller as a specialist for methods and systems").

In addition to the controller's routine set of tasks, more and more case-by-case activities have emerged that can be characterized as individual decision or project-related consulting. They address various management topics ranging from market analyses to implementation support for new business processes. Here, too, controllers are responsible for ensuring economic transparency as well as for striving to reach rational decisions that support company objectives. For all areas of management support mentioned above, it is essential to act in a *future-oriented way.* Retrospective questions are of little help.

It is a matter of knowing what to do in the future, not only in terms of planning, but also in terms of monitoring. Furthermore, as long as the future is extremely uncertain and volatile, the controller in the role as business partner needs to:

1) Focus controlling systems more strongly on volatility: leading indicators, forecasting and especially rolling forecasts, risk cockpits as well as scenario planning and stochastic analyses all become particularly important;

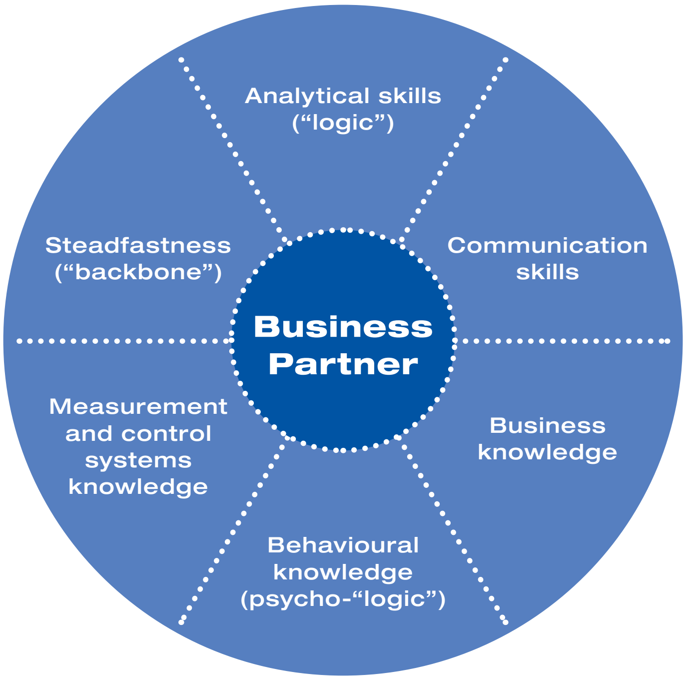
2) Keep controlling particularly lean and thereby flexible: the granularity of planning and budgeting should thus be limited, and the key metrics should be linked to strategy;

3) Promote flexibility of structure costs as well as the business models on which they are based.

Demands on controllers

If controllers are to provide comprehensive support for managers, they need a wide range of skills that can be reduced to six core competencies. These already form the basis of Albrecht Deyhle's "classic" chart on job requirements and become even more important for the controller as business partner:

Figure 4: Core competencies of controllers



1) Controllers need *analytical skills.* These skills are necessary for converting ideas into numbers as well as for understanding complex plans and variance analyses. Analytics are especially important when interacting with intuitive managers ("gut feeling").

2) Controllers need to have a command of the full spectrum of *measurement and control systems.* This applies to each individual system, but, more particularly, to the way in which they interact with each other ("management control systems as a package").

3) Controllers need to be able to *communicate in an appropriate way.* It is not what is said, but how it is said, that is important. Controllers who cannot get their message across will fail.

4) Controllers need to *adapt to the individual characteristics of managers.* This applies to their professional skills and preferences as well as to their attitude. Therefore, analytical skills alone are not enough for controllers. Equal consideration should be given to "logic and psycho-logic".

5) If controllers are to assist managers "on an eye to eye level", they need to have a satisfactory knowledge of *the business.* In order to know the managerial functions involved, controllers need to understand the nature of the manager's business. Otherwise, figures will quickly become meaningless and "anaemic".

6) Controllers need to be *steadfast.* Despite their role as partner, controllers need to be incorruptible and neutral towards individual managers and also able to "show backbone" in case of conflicts. Moreover, they need to develop and maintain a „referee" ethos when coordinating the various managers.

Interaction of controllers

Controllers cannot perform their tasks alone; they collaborate with other management support functions (e.g. accountants) and, in most cases, also with other controllers. In the case of the other management service providers, it is necessary that close cooperation takes place. Competitiveness is damaging to all parties. Controllers can only be successful through cooperation.

If a company has several controllers, the Controlling department needs to be organized appropriately. This starts with a mission statement and ranges from establishing a controller community to determining procedural relationships and lines of authority in the Controlling department.

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