

IMPROVING THE CONTROLLING FUNCTION WITH A STRUCTURED OPTIMIZATION PROJECT

Valerian LAVAL¹

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The controlling function should provide decision relevant information to the top management. However, in some companies the controlling function does only deliver little or no decision support to the management and in consequence loses influence. This paper aims to solve this unfavorable situation.

The paper will outline how the controlling function is unconsciously influenced by internal and external factors. Special focus is put on the influence of the company size on the controlling function which is analyzed based on a recent survey.

To find an optimal project set up various suggestions made in the literature are analyzed and developed further. The suggested project set up is a scalable project plan which involves top management as recipient of controlling services at an early stage. As restructuring initiatives have to overcome the resiliency against changes the suggested project plan will focus to achieve quick wins on the one hand side and to prepare the organization for more strategic changes on the long run.

The introduced project plan will provide companies a blueprint how to maximize project success while minimizing complexity and possible resistance towards the adaption process. This paper is expected to have a high relevance for companies who want to improve the value contribution of their controlling department.

Keywords: Controlling, optimization project, role model, business partner, change management.

JEL Classification: M41.

¹ Faculty of Economics and Business Administration, West University of Timisoara, Romania.

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1. Introduction

There are no legal requirements how to set up controlling functions in companies or what quality of results this function has to deliver (Krings, 2012). Because of that, the set up differs from company to company. The actual set up of the controlling function is influenced by several internal and external factors (Figure 1).

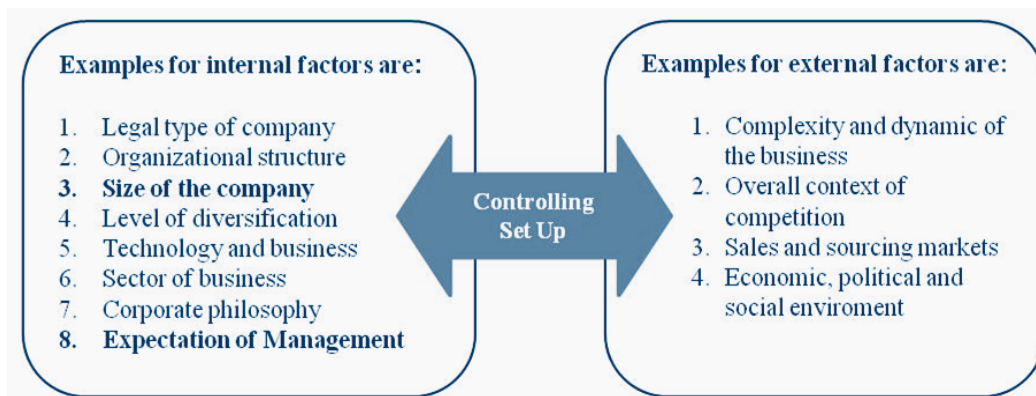


Figure 1. Overview on internal and external factors

Source: Author's figure based on Küpper, Möller and Pampel (2012)

The actual controlling organization will reflect those internal and external factors saying that there is not one ideal controlling set up which would suit all purposes. These context factors can change over time, e.g. a company can steadily grow in size and complexity which will impose a growing pressure to adapt the controlling organization correspondingly (Küpper et al., 2012). To illustrate this understanding, two important internal factors and their influence on the controlling function will be analyzed in the first part of this paper: (1) the size of the company and (2) expectation of the management.

These factors influence the controlling function but in many cases they do not lead to effective set up of the controlling organization. To achieve such effective controlling organization, the paper suggests a structured project plan discussed in the second part of this paper. For this the paper analyses and compares various suggestions of project approaches made in the literature. The suggested project blue print is the result of this literature review as well as practical experiences gained by the author in the role of financial director on three continents.

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2. Unconscious Influences on the Controlling Function

2.1. The influence of company size on the controlling function

The size of a company influences the controlling function in many ways. The survey conducted by Schäffer and Weber (2014b) is analyzed to show how company size influences (1) the headcount; (2) the contents and specialization fields and (3) the organization of the controlling function within a company. The survey was made with 378 company representatives in 2014.

One of the most influential factors for the controlling function is the size of the company. According to a survey made by Schäffer and Weber (2014), the number of controllers correlates significant with the number of total employees (*Figure 2*).

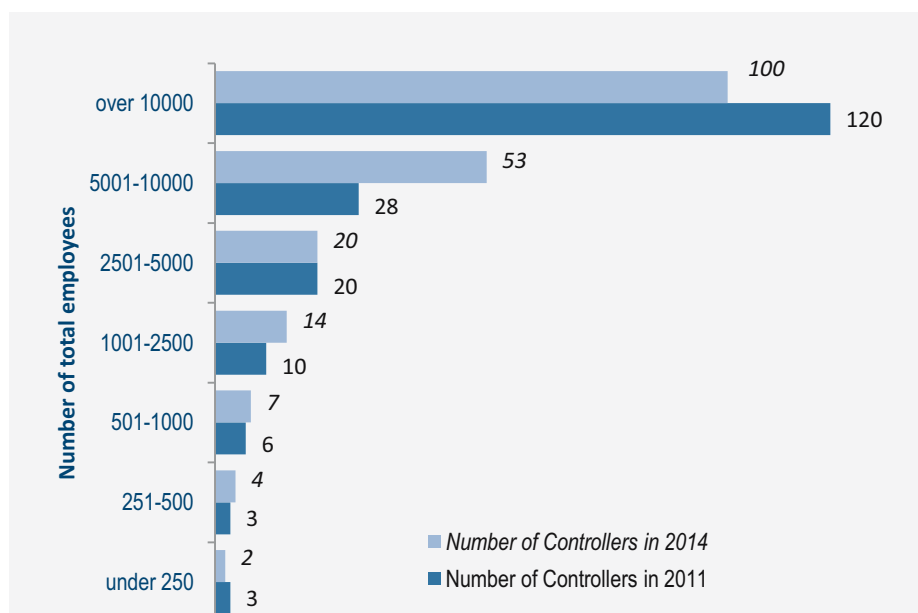


Figure 2. Headcount of controlling depends on company size

Source: Author's modification of Schäffer and Weber (2014, p. 17)

The numbers of controllers between 2011 and 2014 remained relatively stable with a slight increase in smaller companies and a decrease in companies with more than 10.000 employees. Dividing the number of controllers by the number of employees clarifies, that the number of controllers per employees decreases significantly in larger companies (Schäffer & Weber, 2014).

As depicted in *Figure 3*, in smaller companies up to 250 employees, 2.2% of the employees are controllers meaning that there is one controller for 45 employees. In large companies the

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percentage drops to 0.3%, meaning one controller comes for 333 employees. The average over all company sizes is 1 controller for approximately 120 employees.

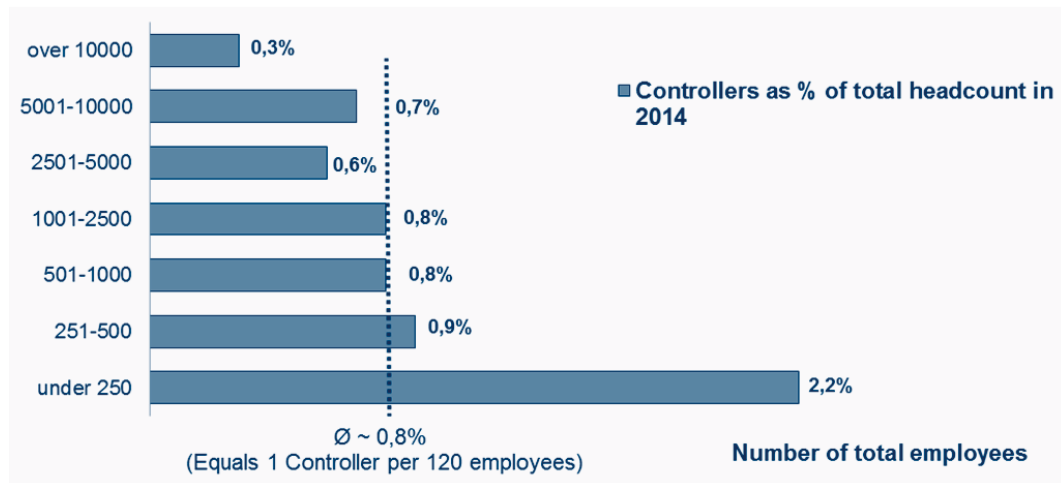


Figure 3. Percentage of controllers depending on company size

Source: Author's modification of Schäffer and Weber (2014, p. 17)

The decreasing percentage of controllers of total number of employees relates to the observation that the complexity of the company's business is increasing with company size in a sub proportional manner.

Also the number of controlling specializations is influenced by the company size. In bigger companies the average number of specializations is 7, in small companies 2 and in average the controlling functions maintains 4 specializations. The most prominent specializations in controlling relate to finance-, sales- and division-controlling (Schäffer & Weber, 2014).

Based on a survey made by Becker, Ulrich, and Zimmermann (2012) with 45 company representatives a correlation between the increasing company size and increasing importance of strategic orientated tasks was observed. Also other empirical research studies such as Littkemann, Reinbacher and Baranowski (2012) showed that the majority of controllers in mid-size companies focus on operative controlling tools and that only half of the mid-size companies used strategic oriented tools.

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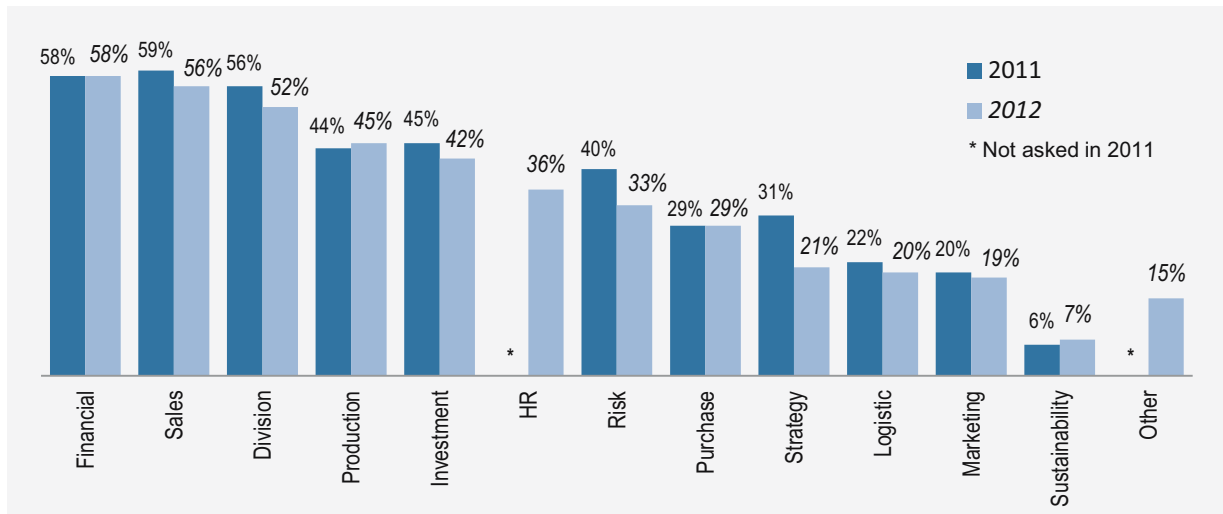


Figure 4. Popularity of controlling specializations

Source: Author's modification of Schäffer and Weber (2014, p. 20)

The company size also influences the controlling organization. The head of controlling reports in the majority of cases directly to the CFO. However in smaller companies the controlling reports to the CEO or the management board as a whole (Schäffer & Weber, 2014) – see Figure 5.

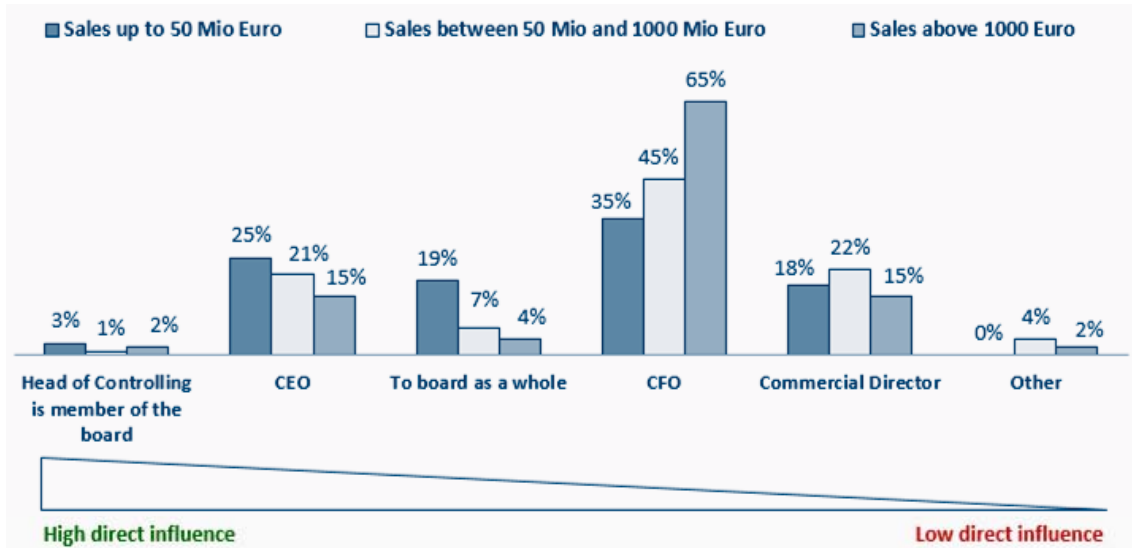


Figure 5. Reporting lines of the head of controlling

Source: Author's modification of Schäffer and Weber (2014, p. 12)

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As preliminary conclusion it can be established that the controlling function of the company is influenced by various internal and external factors. 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. The company size has a positive effect on the number of maintained specializations and the strategic orientation of the controlling function.

2.2. The influence of the management expectation on the controlling function

The activities of the controlling function are also influenced by the management expectations. Following this expectations the role model of the controlling can be passive or a more active. Gleich and Lauber (2013) introduced four illustrative role models as a continuum with an increasing active role from left to right (*Figure 6*).



Figure 6. Controlling role models

Source: Author's figure based on Gleich and Lauber (2013)

The controlling in a company can take a more passive or a more active role. A survey made by Heimel (2011) revealed that the role model observed in various companies is diverse (*Figure 7*).

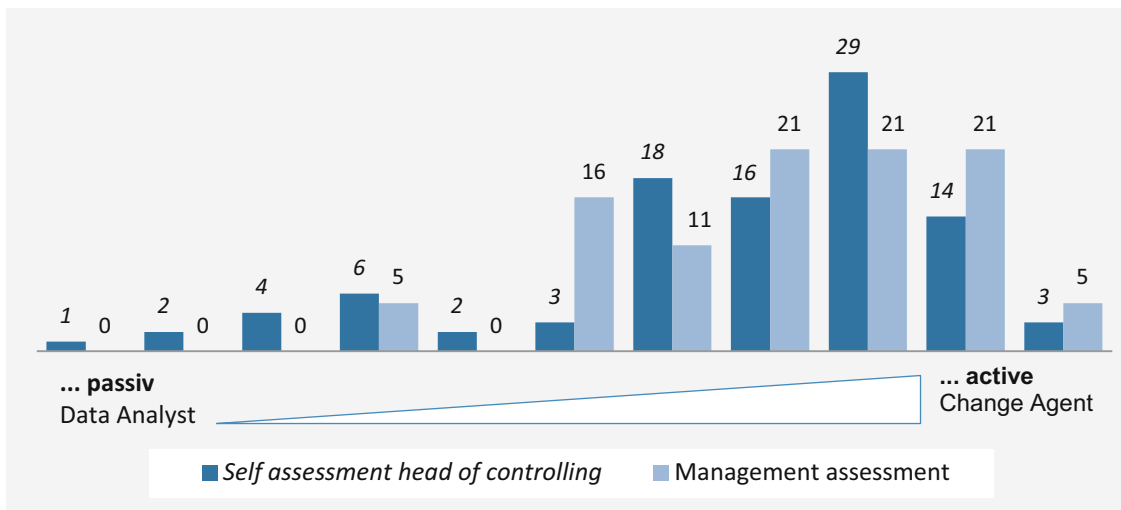


Figure 7. Role of the controlling in companies

Source: Author's modification of Heimel (2011, p. 13)

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Based on this survey the majority of controlling functions tend to take a more active role. However, the actual setting of the role model in a company depends mainly on the demand of the top management as internal customer of controlling services.

3. The Conscious Adaption of the Controlling Function

The controller cannot fulfill his tasks successfully without providing services that are tailor made to the individual requirements of the company's management (Losbichler, 2013). The necessary adoptions for this happen often naturally over time by "trial and error". It is most likely and possible that the actual set up of a controlling function in a given companies was made without applying a structured and reflective approach (Küpper et al., 2012). However, it can be assumed that the success rates of a structured approach are higher than the ones of a "trial and error" approach.

Several authors described structured adjustment approaches for the controlling function. They vary in the titles and number of process steps. Heimel et al. (2009) and Küpper et al. (2012) suggest comparable structured improvement programs for the controlling function. The main difference between those two approaches is that the first split up the implementation phase of the approach in three sub steps. The fundamental approach described by U Krins (2012) is in comparison less detailed:

Table 1. Overview on structured adaption approaches

Heimel et al. (2009)	Krings (2012)	Küpper et al. (2012)	Optimization Project
Set a target position	Acceptance	Mission statement	Satisfaction survey
As is analysis			Workshop
Positioning		Analyze current controlling	Increasing effectiveness
Determine the measures	Effectiveness	Develop target controlling	Efficiency in current organization
Action plan	Efficiency		
Continuous improvement		Implementation plan	Efficiency in target organization

Source: Author's table

Further on, an optimization project plan shall be outlined and discussed. The goal of this approach is that quick wins can be realized easily and that the project scope can grow based on the success of the first phases. The optimization project was designed to gain acceptance and without the need to "sell a big project" at the beginning. Hereby the resistance of the people affected by this project shall be minimized.

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For a structured project it is helpful to understand in which aspects and dimensions such optimization could take place. When reviewing the performance of a controlling organization there are two questions in focus: 1. whether the controlling products "reports" have a significant impact on the decision making process and 2. whether the production of those products is as efficiently organized as possible (Heimel, Meier & Schmidt, 2009).

Optimizing processes within controlling can only increase the efficiency of the controlling work. The progress in IT capabilities can lead to an increased efficiency in generating various kinds of reports and numbers. By creating all those reports without customer or strategy orientation the effectiveness of the reports can be vanished. This phenomenon is also referred to as "Effectiveness Trap". Therefore, the effectiveness should be optimized BEFORE addressing the efficiency (Bernauer, 2008).

Krings (2012) outlined correspondingly that for the optimization of the controlling first the roles and expectations have to be clarified for acceptance, second the products of the controlling function can be reviewed for effectiveness and as last step the processes shall be reviewed to "produce" as efficient as possible.

All the above considerations were integrated in the outlined optimization project. The first project steps will involve only a limited amount of resources. Only the later project phases need increasing involvement and effort of the organization to reach the optimization goals. It can be decided depending on the specific company situation which group of people the full project plan shall be disclosed at the beginning or if the communication should follow a step by step approach.

3.1. Satisfaction survey as starting point

To perform a customer satisfaction survey, the first step is to clarify the actual and potential customers of controlling services in a company. This might not be clear from the beginning because the service orientation in a company might be so low that the controlling has no yet clearly defined their customers.

The satisfaction with the controlling function can be measured following the "WHU-Controller Index" systematic. This index used in surveys of the "WHU Controllerpanel" consists in nine questions (Schäffer & Weber, 2014), presented in *Figure 8*.

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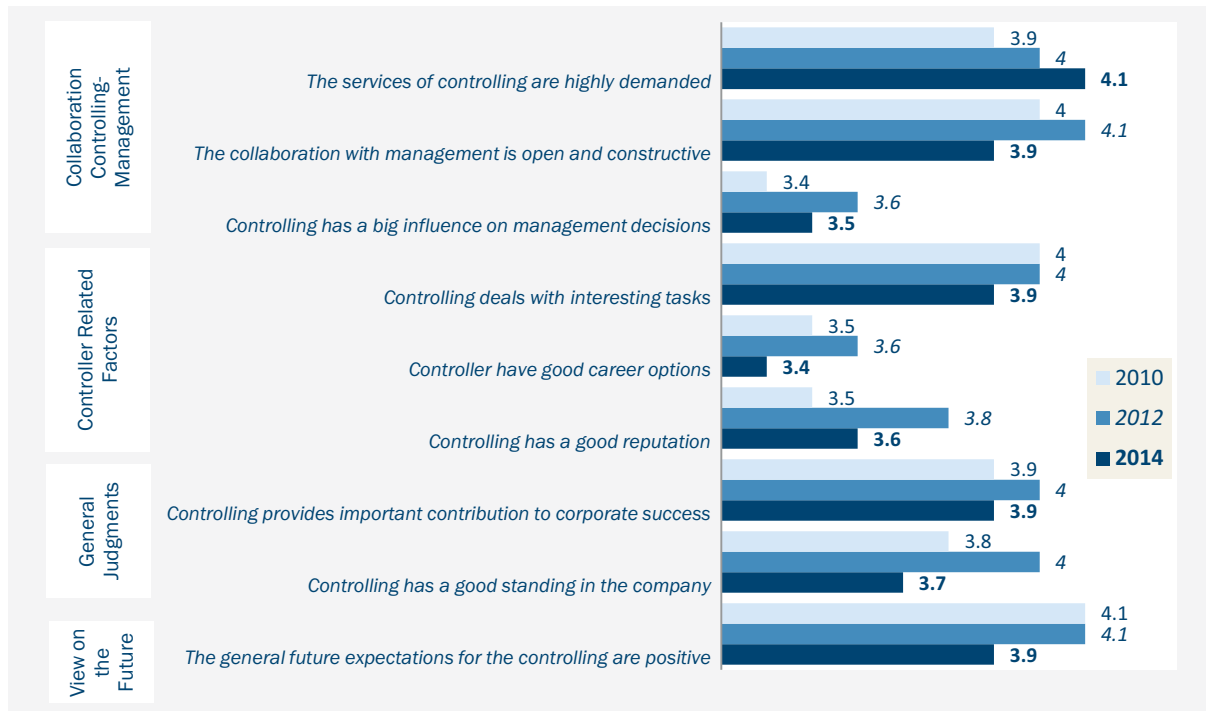


Figure 8. WHU Controller Index 2014

Source: Author's translation of Schäffer and Weber (2014, p. 30)

This scheme and the results of Schäffer and Weber (2014) can be used as benchmark to better evaluate the satisfaction with the controlling function in a given company. When performing the survey the answers should be separated for the top management as customer and the controllers as suppliers. This helps to identify difference between the self-perception of the controllers and the perception of the customers of the controlling services. The satisfaction survey can be done in a compact format with a web based tool. The purpose of the survey is not to identify all weak points in detail but to answer the following two questions before the optimization project gets continued:

- Is there a true need to continue with the project?
- Is sufficient management support for this project?

If the satisfaction level with the controlling function in a given company is considerable low this would affirm the need for an optimization project.

3.2. Workshop to specify change areas

If the satisfaction based on the web based survey showed improvement needs, the top management and the controlling executives should be prepared and motivated for the next step

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which is a one day workshop to specify change areas. The goal of the workshop is to align and synchronize the controlling activities with the management approach and expectations (Heimel et al., 2009).

To realize this the “products” of the controlling and the underlying controlling processes should be evaluated by the customers to what extent they match their requirements and are in line with the strategic challenges and questions of the company. Increasing the customer orientation and satisfaction will increase the extent to which controlling products are considered in the decision process of the management (Schäffer, Weber, & Strauß, 2012).

The controller role can include various degrees of managerial activities. In the first part of the meeting the management should discuss about the different services of the controlling function and which importance they assign to them. The controlling role models can be a basis to elaborate what kind of controller role the management is willing to appreciate and accept. The current trends in the controlling communities can be reviewed based on recent surveys such as the one of Gräf, Horváth and Partners (2014).

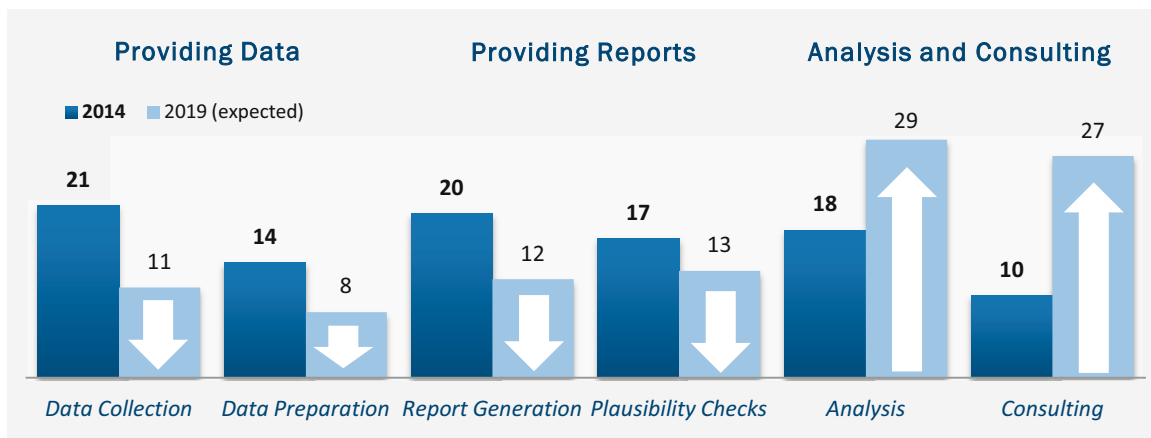


Figure 9. Priority shift in management reporting

Source: Author's translation of Gräf, Horváth and Partners (2014, p. 24)

For the workshop it is recommended that the controlling provides the current allocation of their time on the activities so that the survey of Gräf, Horváth and Partners (2014) can be used as benchmark. The above survey illustrates the expected increasing importance of controlling activities related to analysis and consulting. Controlling shall not spend the majority of time on data and report generation but use their energy for value added activities. The degree in the individual situation will depend on the abilities of the controller as supplier and the demand of the top management as requestor. Supportive for the acceptance of the controller as consultant

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are social skills like empathy and the ability to communicate with colleagues and management (Krings, 2012).

A supplementary more detailed approach is to split up the activities of the controlling following the process model of IGC (2010) and to discuss the current and target focus on the different processes (Table 2).

Table 2. Process table based on IGC process model

Main Process		Current *	Target *	Delta *
1.	Strategic Planning	5	10	5
2.	Operative Planning and Budgeting	30	10	-20
3.	Forecast	5	10	5
4.	Cost accounting	5	5	0
5.	Management Reporting	20	10	-10
6.	Project- and Investment Controlling	5	10	5
7.	Risk Management	2	5	3
8.	Functional Controlling	20	10	-10
9.	Internal consulting	3	25	22
10.	Improvement of processes, tools and systems	5	5	0
* Illustrative figures		100	100	0

Source: Author's table based on the process model of IGC (2010)

The current numbers should be provided by the controlling. To ensure the customer focus in the optimization project the target numbers should be the result of an agreement with the customers of each process. Here the accuracy is not so important; the goal of this exercise is more the delta proportion which indicates the need for adaption in this area.

The advantage to use such process model is that it can be drilled down easily from the process level down to activity levels which will support more structured adaption phases later on. The disadvantage is that a too detailed technical controlling discussion in the workshop could overstrain top management. Therefore it may be considered to follow up with such details on a second meeting or to elaborate such details not with top management but with middle management representatives.

3.3. Increasing effectiveness

As result of the workshop it became transparent on what activities the controlling should put less and on which more emphasis. The portfolio of unneeded/ unappreciated activities can be reviewed. Most likely those can be found in the processes with indication that they should lose importance. Based on an inventory of products it should be checked if there is an easy way to

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omit unneeded activities without negatively effecting appreciated products. The time gained by this shortening of unneeded activities can be used to increase the energy on desired activities. In this phase the project team shall not spend time to optimize the efficiency of activities because this is reserved to a later phase.

To increase the value added does not mean to increase the number of reports and figures reported but to increase the decision usefulness of the data provided to the decision makers of the company (Bernauer, 2008). The survey of Gräf et al. (2013) reveals that especially financial KPI's are expected to lose their dominance in the decision making process while the non financial and external information are gaining importance. The effectiveness of reports can therefore be increased by aligning them with the KPI's required by management for the decision making process (Figure 10).

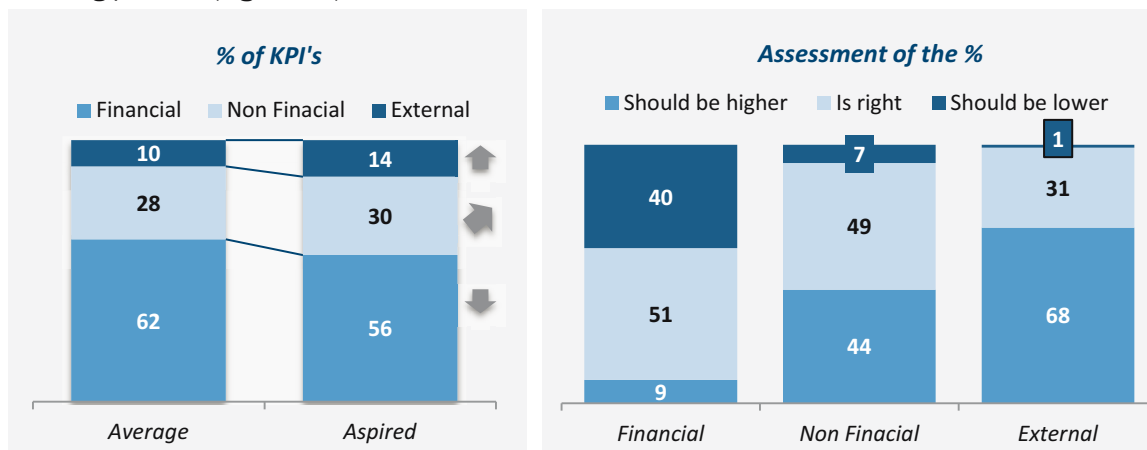


Figure 10. Development of KPI's used for decision making

Source: Author's translation of Gräf et al. (2013, p. 10)

Besides reviewing the existing reports for their effectiveness the controlling should identify measures to improve their value added by providing internal consulting services. Selected business partnering projects can address consulting needs so far not sufficiently covered. The necessary resources can be gained by shifting the resources from the unneeded tasks to the uncovered needs. To get the support for this business partnering role of the controlling some sample projects should be agreed with top management. Those projects can be first set up on central level as pilot projects which can be later rolled out through the organization. The required learning and training activities should be provided closely to the projects instead focusing on formal trainings.

3.4. Increasing efficiency in the current organizational setup

The efficiency of controlling processes can be increased in many ways with different level of organizational change effort. Horvath (2012) introduced three key measures to increase

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efficiency in controlling field he refers to as the "industrialization in controlling": (1) standardization and simplification of processes for forecast, planning and reporting; (2) improving efficiency by using shared service solutions with it two subcategories "Center of Scale" and "Center of Excellence"; (3) improving IT infrastructure. This approach was followed by U Schäffer et al. (2012) who added (4) simplifying and shortening the reporting material. The below figure illustrates how such optimization measures affect the organizational set up:

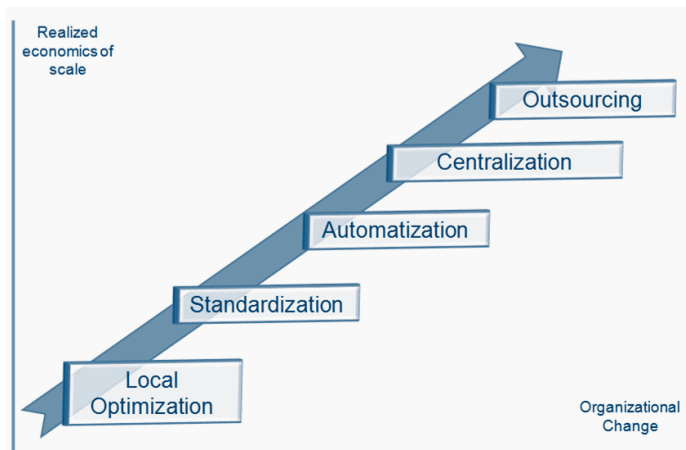


Figure 11. Organizational impact of efficiency measures

Source: Author's translation of Goltz and Temmel (2014, p. 383)

To avoid resistance in organizations towards the adaptation the outlined optimization project addresses the measures one by one starting with measure which requires the smallest organizational changes. Step by step the optimization can be extended to measures which involve more organizational changes.

For the **local optimization** a process overview of the controlling processes should be set up. The analysis should follow the structure of a process model such as the model of IGC (2010). This overview should include all processes performed, when they are performed, by whom and how much time is needed. Based on the overview local process descriptions can be set up. The local process descriptions should be discussed within the controlling team to identify inefficiencies and weaknesses. Also the data suppliers of the processes should be integrated in this discussion to optimize data interfaces.

Based on local optimization these optimized processes can be rolled out to other plants or functional areas of the company and hereby **standardized**. During the roll out the comparable processes of the different plants will be compared with each other which will challenge the initial standard setting as it will bring new ideas and viewpoints to the existing process documentation.

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As soon a standard process understanding is established throughout the company the process efficiency of the plants can be benchmarked to identify improvement areas. For the benchmarking of those activities relevant KPI's need to be defined. Those benchmarks can relate to input KPI's such as the man days to perform a certain activity or days required for the budget process. Also output KPI's such as the satisfaction level of the recipient with a specific service provided. Those KPI's should be benchmarked with the internal and but also external peers (Küpper et al., 2012). It is reasonable to start with the benchmarking of process most resource consuming and focus the later improvement activities on processes in plants with significant performance under the benchmark.

3.5. Increasing efficiency in the future organizational setup

The next level for increasing the efficiency will target to optimize the structural set up of the process landscape. This includes automatization, centralization and outsourcing considerations.

Especially the **centralization** using controlling shared service centers was so far only seldom applied as the controlling apparently requires relatively close business knowledge and includes confidential information (Goltz & Temmel, 2014). However only pooling the data preparation activities in shared service center organization can be a smart move which also supports the standardization of reporting within a company. The analysis part of the reporting should remain close to the business where the business understanding is available to provide valuable analysis and commenting. The below figure illustrates this approach:

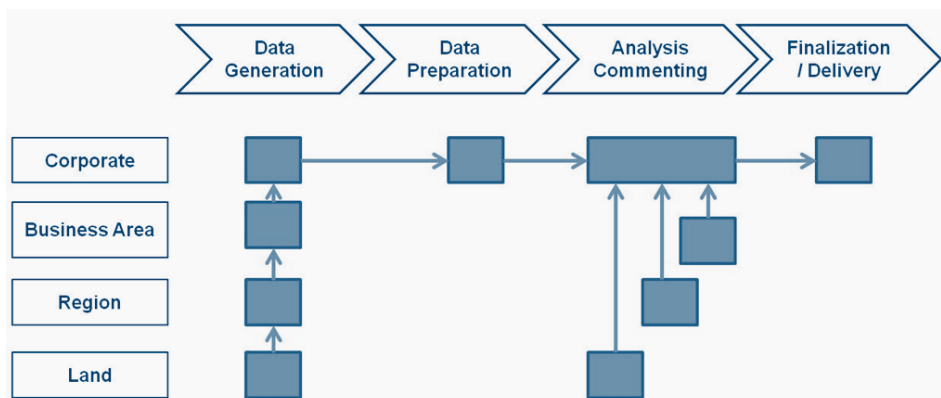


Figure 12. Shared service center reporting

Source: Author's translation of Goltz and Temmel (2014, p. 384)

3.6. Informal adoption approach as workaround

A complex optimization project can bring formalities and complex project structures which might not be possible to realize in a change hostile environment. Without setting up a formal

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optimization project it has to be noticed, that there are "self improvement mechanisms" which can be used consciously. This informal adoption approach uses the inverse effect of the cycle with the shadow controller introduced by Ernst, Reinhard and Hendrik Vater (2006).

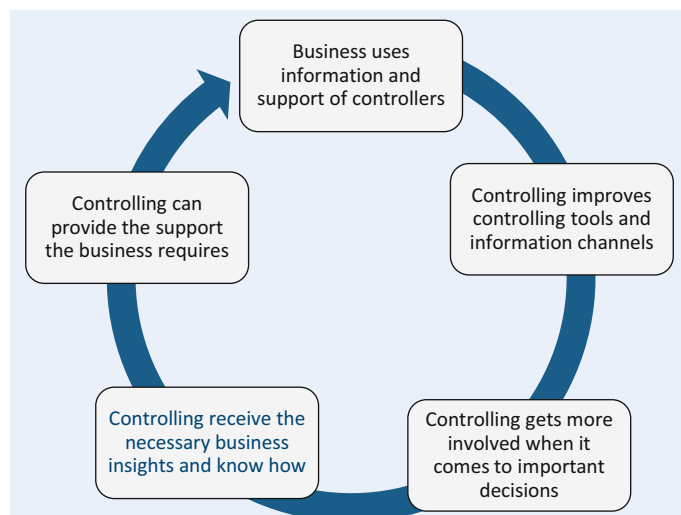


Figure 13. Self-improvement mechanisms

Source: Author's figure reversing Ernst et al (2006, p. 13)

The process is a continuous one which can be described as an iteration between the supplied and the demanded controlling products. The better the supply of controlling services the more they will be demanded and vice versa. With this step by step approach the effectiveness of the controlling can be improved and hereby the relevance and inclusion of the controlling function in the decision making process can be increased.

4. Conclusions and Outlook

This paper targeted to improve the setup of the controlling function so that it can provide more decision relevant information to the top management and hereby can improve its influence on the company decision making process.

The paper outlined in the part step how the controlling function is unconsciously influenced by internal and external factors. This step was important to understand which are the most important drivers on the existing organizational set up and also to clarify that these factors in many cases do not lead to effective controlling organizations.

In the second part of this paper introduced a project plan how the controlling organization can be improved in a structured manner. The adaption of the controlling function can lead to a

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complex project with growing change resistance. Especially in change resistant environments the outlined optimization project therefore aims to realize quick gains "under the radar" with low involvement of the organization.

The introduced project plan provides companies with a blueprint how to maximize their success in optimizing the controlling function while minimizing complexity and possible resistance towards the adaption process. This paper is therefore expected to have a high relevance for companies who want to improve the value contribution of their controlling department.

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