



Dear readers

We have finalised our annual thematic focal point on the controlling of start-ups and start-up initiatives. Prof. Losbichler concluded this topic by presenting excerpts of the report during the Meetingpoint event of the Strascheg Institute for Innovation, Transformation & Entrepreneurship of the EBS University of Economics and Law.

It is now our pleasure to introduce the new thematic focal point: "Controlling in Times of Crisis" (a working title). Crises are especially challenging for controlling. In this first newsletter we intend to focus on two areas in particular: how controlling and management should collaborate in times of crisis, and whether cost-cutting measures are always expedient. At the same time, we will delve into the traditional phases of a corporate crisis.

In a second article we will try to summarise what companies can learn from critical situations. This should be particularly relevant if you would like to take preventive measures for the future.

We hope you enjoy this issue.

Prof. Dr. Heimo Losbichler
Chairman of the ICV Board of Managing Directors

Siegfried Gänßlen
Member of the ICV Board of Managing Directors

Prof. Dr. Ronald Gleich
Head of the Think Tank in the ICV

Stefan Tobias
Head of the Think Tank in the ICV

Reading tips

In the book **Nach dem Crash ist vor dem Crash: Praktische Tipps, um aus Krisen zu lernen und neue zu vermeiden** (English: After the Crash is Before the Crash: Practical Tips to Learn from Crises and Avoid New Ones) by W. Neun,



(English: After the Crash is Before the Crash: Practical Tips to Learn from Crises and Avoid New Ones) by W. Neun, the author illustrates how managers and companies can deal with economic crises. Using personal experiences and case studies, he provides interesting assistance that focuses in particular on factors responsible for the emergence of a critical situation, and what entrepreneurs and managers can learn from them.

W.D. Kley's article **Kostenreduktionsprogramme richtig aufsetzen – Praxiserfahrungen und Lehren im Controlling aus der Krise** (English: Implementing Cost-reduction Programmes the Right Way – Practical Experience and Lessons Learned in Controlling from the Crisis) presents a comprehensive foundation for tackling cost-reduction programmes. The author argues that



the key factors are in particular defining detailed objectives in advance, and determining the planned scope of the cost-cutting programme. He concludes by discussing transparent and open communication about these programmes, and by illustrating how the typical process of a cost-cutting programme actually unfolds.

The collaboration of controlling & management in a crisis | Communication, planning and implementation

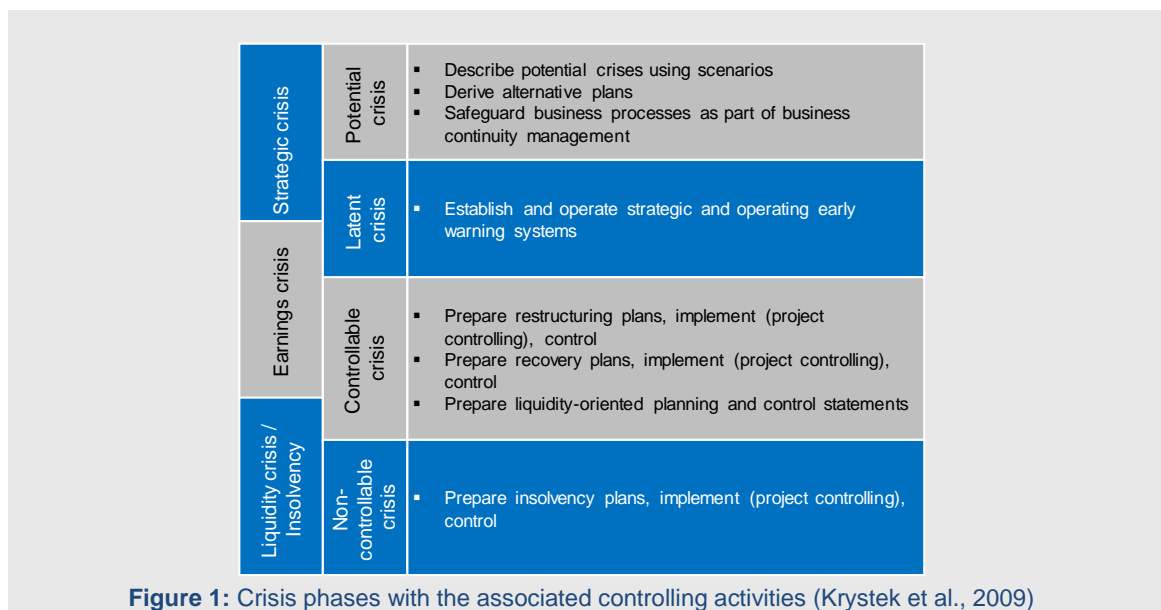
What exactly are controlling's tasks in a crisis and how closely should it collaborate with management? A frequent criticism in the past was that controlling tends to be even more of a limiting factor in crisis situations. Today we see the exact opposite is actually the case.

Corporate crises demand a lot from the employees of the affected companies. A crisis can shake a company to the core: employees fear job cuts, yet at the same time there is additional work due to the crunch. The impact of corporate crises on controlling is especially severe. According to a study by Weber et al. (2009), the workloads of controllers in particular increase significantly during a crisis, regardless of the size of the respective company. Controlling must furthermore provide to management more extensive interim reports at shorter intervals. In addition, controllers tend to be given more responsibility in critical moments, increasingly in budget planning. This, in turn, means that controlling and management collaborate very closely in the planning process, with controlling acting as a counterpart to strategic planning in order to reflect the tactical initiatives developed by management.

Corporate crises can be divided into three different phases (Situm, 2014). If companies veer off course, they are usually in a **strategic crisis**. Recognising or becoming aware that a critical situation is imminent can be very challenging in this phase, as there are virtually no early warning indicators in these situations. For example, companies must distinguish whether the problems they are confronting relate perhaps to a corporate / industry crisis, or whether an economic downturn is involved. In the second phase, the **earnings crisis**, the problem has become considerably advanced, although the company generally still has enough

resources at its disposal to achieve a turnaround. Once these resources are depleted, a **liquidity crisis** then ensues. As the company becomes increasingly insolvent, the likelihood of an imminent **insolvency** grows. The further the trouble progresses, the more urgent the pressure to act becomes. However, recognisability (for example, via the annual financial statements) usually becomes possible only when an earnings crisis has materialised. Controllers seeking to take preventive action should therefore work with management to develop an early warning system that can identify strategic crises. We would like to refer in this regard to a publication by Exler & Situm (2014).

The aforementioned crises can now be linked to controlling activities (see Fig. 1). Regardless of which specific activity is being performed, controlling and management should collaborate very closely. Countermeasures and goals should be derived based on the magnitude of the problem, and then communicated transparently to all relevant stakeholders. Depending on the extent and phase of the individual crisis situation, the controller will be confronted with many tasks, usually including a restructuring project in addition to their own ongoing controlling activities. This is yet another indication that controlling during the crisis becomes more important. Given this greater importance, controlling should be equipped with significant responsibility in the planning, implementation and control of countermeasures to overcome the crisis.



2008 – One decade later | What we can learn from crises

When the global financial crisis of 2008 reached its most devastating extent, questions were quickly raised about the causes, and whether various economic policymakers could have taken action proactively to prevent the meltdown. Although the global economic crisis has been overcome, individual corporate or industry crises continue to occur. What can we learn from crises? A summary.

You often hear the cliché “*every crisis is an opportunity*” from managers and executives who are dealing with severe problems. The initial identification of a corporate crisis and the development of a willingness to learn from it are the first two pillars of this opportunity. Most corporate crises are generally attributable to mistakes in the company’s strategic orientation. Squandering opportunities (e.g. expanding into new markets, internationalising, exploiting related business areas) also pushes companies to the brink. In these cases, the calls for savings and budget-cuts quickly become loud, especially in companies in which financial investors control spending. In an initial crunch, aimless and hastily thought-out **budget-cuts** and the associated **resource limitation** can also significantly exacerbate the problem. More than ten years after the global economic crisis, the question remains: can a company become **crisis-resistant**?

Not many companies were spared the financial crisis of that time. Being immune to catastrophes of that magnitude is clearly not realistic; for that reason, this article will now focus mostly on industry and corporate crises.

A common cause of corporate crises is a deficient **strategic perspective** (Nine, 2012). Why? Because many controllers and executives respond to a poor economic situation or an initial crisis by immediately implementing cost-cutting and extensive **savings programmes**, mostly in non-core activities or in personnel. According to a study by Deloitte (2019), about 89% of all cost-cutting programmes miss their target (by comparison, 2016: 67%). This enormously high number results because the cost-cutting goals are often set unrealistically high, making their achievement unlikely. In addition, genuinely proper measures are rarely undertaken to implement these savings. Managers and controllers usually lack the necessary implementation skills to do this, which makes them feel overwhelmed. Cost-cutting in strategic or business-critical areas can have catastrophic consequences. In addition, those areas that are needed once the business recovers should continue to be budgeted. In these instances, controlling should try as much as possible to intervene with top management if they propose radical cost-cutting measures in important areas.

In principle, an **early warning system** can help to identify problems at an early stage and provide enough time to select countermeasures wisely. This is where controllers are especially important. They usually know the company’s cost structure very well. Their task is therefore to identify early warning indicators and to update them at regular intervals. These include, for example, swelling inventories, hiring freezes, budget cuts, as well as the lack of customer demand and the associated weak order intake.

In this regard the significance of the findings from the current Deloitte study (2019) should be mentioned again. The study states that the importance of sufficient implementation competence when carrying out agreed cost-cutting measures should be a top priority. Management should ensure that all relevant actors with implementing powers also have the necessary competencies and assertiveness. Collaboration between management and controlling to plan and develop goals and measures, and to plan and control the implementation, should ultimately ensure that these implementation competences can be applied.

In the end, suitable **managers** are needed who are not only able to deal with critical situations such as crises, but who also have the composure and necessary skills to implement the prepared measures against the crisis and to delegate. Managers are responsible for communication and are a major driver when managing a serious problem (Nine, 2012). They are the ones who must provide a good atmosphere and motivate their employees, even though the company is experiencing difficulties.

Major economic downturns have made it clear that sometimes you cannot be prepared well enough, especially considering the severe extent of the 2008 crisis. While a cure-all is still unknown as of today, this report attempted to demonstrate the first major success factors in crisis prevention and management. This year’s study by Deloitte illustrates particularly well that most companies have not yet fully understood the impact of their **cost-cutting measures**.

Helpful tips for dealing with crises

Frequent cause of crises: mistakes in the strategy

Many cost-cutting initiatives miss their target. Specific measures should begin with peripheral activities and not with important departments

Controllers, particularly when interacting with management, must design an early warning system with indicators

Managers play a crucial role, especially when dealing with employees, regarding communication and as sources of motivation

Executive management must ensure that line managers have the necessary implementation skills to navigate safely through the crisis

Figure 2: Helpful tips for dealing with crises

Bibliography

- Deloitte (2019). Deutsche Unternehmen stehen vor einem gravierenden Umbruch – Strategische Kostentransformation 2019 (English: German Companies are Facing a Major Upheaval – Strategic Cost Transformation 2019).
- Exler, M. W., & Situm, M. (2014). Indikatoren zur Früherkennung von Unternehmenskrisen in der Beraterpraxis. Ansatzpunkte zur Etablierung eines internen Frühwarnsystems (English: Indicators for the Early Detection of Corporate Crises in the Consulting Practice. Starting Points for the Establishment of an Internal Early Warning System). *Krisen-, Sanierungs- und Insolvenzberatung*, 10(2), 53-59.
- Neun, W. (2012). Nach dem Crash ist vor dem Crash: Praktische Tipps, um aus Krisen zu lernen und neue zu vermeiden (English: After the Crash is Before the Crash: Practical Tips to Learn from Crises and Avoid New Ones). Springer Science & Business Media.
- Situm, M. (2014). Potenzielle Unternehmenskrisen früher erkennen (English: Recognise Potential Corporate Crises Earlier). *Controlling & Management Review*, 58(6), 60-68.
- Weber, J., Zubler, S., & Rehring, J. (2009). Aktuelle Benchmarking-Ergebnisse – Auswirkungen der Krise auf das Controlling (English: Current Benchmarking Results – Impact of the Crisis on Controlling). *Controlling & Management*, 53(6), 361-366.

Legal notice

Publisher and copyrights

Internationaler Controller Verein eV
Think Tank
Prof. Dr. Heimo Losbichler
Siegfried Gänßlen
Prof. Dr. Ronald Gleich
Stefan Tobias

Editor

EBS University of Economics and
Law
Dr. Jan Christoph Munck
Rheingastr. 1
65375 Oestrich-Winkel
Telephone: +49 (611) 7102-1380
Fax: +49 (611) 7102-10-1380
christoph.munck@ebs.edu

Think Tank's core team

Manfred Blachfellner
Siegfried Gänßlen
Prof. Dr. Ronald Gleich
Dr. Lars Grünert
Prof. Dr. Dr. h.c. mult. Péter Horváth
Prof. Dr. Heimo Losbichler
Dr. Jan Christoph Munck
Prof. Dr. Mischa Seiter
Karl-Heinz Steinke
Stefan Tobias
Prof. Dr. Dr. h.c. Jürgen Weber

Internationaler Controller Verein eV

Office
Münchner Str. 8
82237 Wörthsee
Telephone: +49 (0) 8153 88 974 - 20
Fax: +49 (0) 8153 88 974 - 31
www.icv-controlling.com
verein@icv-controlling.com