

Dear Readers,

In the last two newsletters from the Dream Factory, we gave you a fair amount of information on our new featured topic. The work on the corresponding Dream Car Report **“Staying Ahead of Boom and Crisis – Designing Controlling to Withstand Volatility”** is currently in its final stages. The report will be presented to the controller community by the 38th Controller Congress on April 22-23, 2013, in Munich.

Today, we would like to use this issue of our newsletter to give you further insights into the fields we have been investigating and hope this will arouse your curiosity.

We shall start by portraying the importance of early recognition in volatile environments. This includes a look at the principles of identifying indicators of volatility.

A second section summarizes the findings of our work on corporate performance management in volatile environments.

Naturally, our work will not be over once we publish the current Dream Car Report. The Dream Factory has been on the lookout for new topics of interest and we will finish this issue by presenting our theme for the coming year.

Yours,



Péter Horváth



and

Uwe Michel

Green Controlling Prize | Announcement 2013

To foster initiatives in controlling to tackle the “Green Challenge”, the Péter Horváth Foundation in cooperation with the *Ideenwerkstatt* of the ICV is awarding a prize for the most innovative and effective “green” controlling solution for designing and managing ecological strategies, programs, projects and measures in companies and the public sector.

The prize will be awarded to controllers or teams of controllers. The prize-winning solution will receive €10,000. You may submit all solutions for consideration which have been implemented since 2012.

Please submit your green controlling solution by **31st August 2013** to the Péter Horváth Foundation at:

Péter Horváth Foundation, phorvath@ipri-institute.com
c/o IPRI gGmbH,
Königstraße 5,
70173 Stuttgart

Your green controlling solution should be submitted based on the following structure in no more than ten pages:

- Which problem needs to be solved?
- What is the underlying concept of the green controlling solution?
- What makes the concept innovative?
- How is the green controlling solution implemented?
- Which role does the controller play in concept, implementation and application?
- How can the results or the impact of the solution be assessed from economic and ecological standpoints?

Further information can be found at

<http://www.controllerverein.com/iw>,

at the offices of the ICV and from Mr. Andreas Aschenbrücker, IPRI gGmbH, Stuttgart.

E-Mail: AAschenbruecker@ipri-institute.com

Staying ahead of Boom and Crisis | Designing controlling to withstand volatility

The new Dream Car Study “Staying Ahead of Boom and Crisis – Designing Controlling to Withstand Volatility” is in the final stages of approval by the Dream Factory! Both the manager community and the controller community are heavily involved in our annual topic 2012/2013!

By taking on this study we have undertaken to carry out a comprehensive and critical appraisal of the problem of volatility and put together a set of design recommendations for managers and our ongoing work in the ICV. The report is rounded off by a selection of interesting case studies.

How do we manage a company in a volatile economy? What form should suitable controlling processes take. Which new instruments must controllers have in their toolkit? What degree of personal flexibility is expected of controllers themselves?

These are questions which we want to answer in our Dream Car 2013 and we will deal with them as follows:

- First, we substantiate what in many instances is the undefined term “volatility” (Chapter 2).
- Then, we see how to measure and predict volatility (Chapter 3).
- Next, we check which design options corporate management has in a volatile environment (Chapter 4).
- After that, we develop a system for controlling under volatile conditions (Chapter 5).
- Finally, we put together a set of design recommendations for the practical work of controllers (Chapter 6).

The Importance of Strategic Foresight in Volatile Environments | Identifying indicators of volatility

The objective behind studying volatility is to gather information which supports management in running their company and improves the basis for decision-making. Above all, in volatile times it is information about future developments that is of paramount importance. Once companies are affected by strong changes in their environment, opportunities and risks are often recognized too late or the reactions to perceived events take longer.

One possibility to react to this danger lies in implementing an strategic foresight system which should support companies in

recognizing potential threats, or those which have already occurred, and opportunities early enough to initiate suitable measures as reactions to them. The effect of strategic foresight is shown in Figure 1. If environmental changes are perceived earlier and lead to a company recognizing the need for change, that company can shorten its reaction times

One form of early recognition is early indicators. As their name suggests, these give indication of future developments and changes in a company and its environment by showing the development of an observed phenomenon in advance.

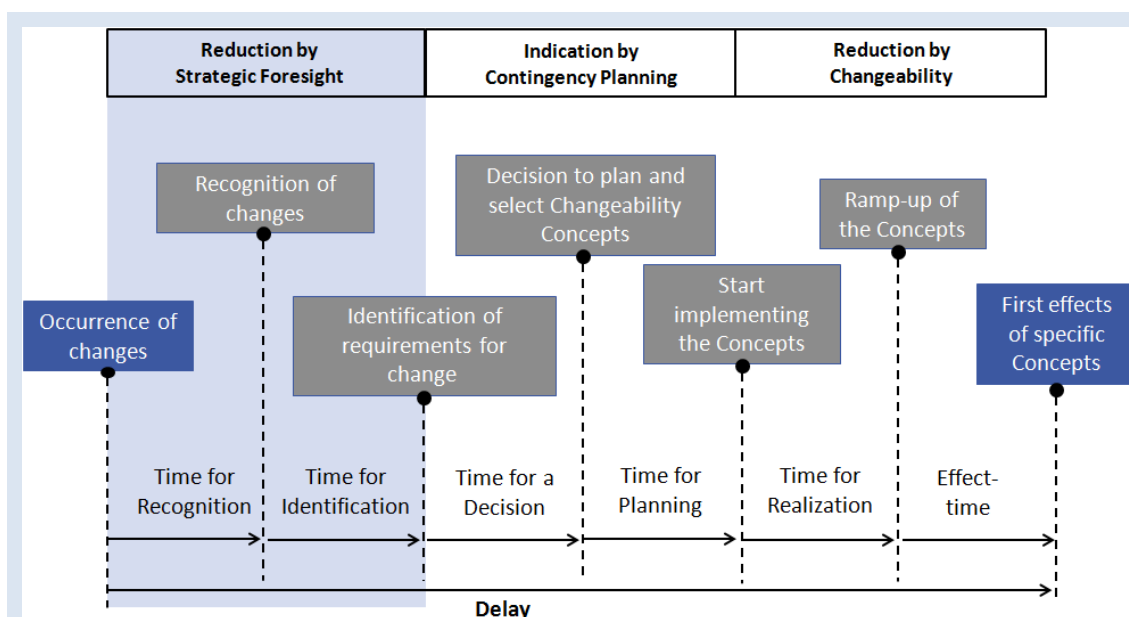


Figure 1: Reducing delay by Strategic Foresight - faster reactions by shortening Time for Recognition and Identification (following Wiendahl et al. 2005, p. 56).

One example is the approval of mortgages which gives ten months advance notice of the development of housing construction.

However, strategic foresight using indicators has a particular inherent difficulty which is that of identifying those indicators which lend themselves well to early recognition.

The first step is to use theoretical considerations as the basis for mapping the phenomenon and its particular connection and to show the direct correlation between them. To this end, for example, network analyses can be used to derive cause-effect correlations between different parameters.

During this step it is important that weak signals are also always integrated, for example the opinions of relevant key per-

sons. The premise underlying this is that change and upheaval always originates from people who voice their opinions and intentions in public.

The second step is to check possible identified indicators for their suitability. This can be done in a precise mathematical way using methods of time-series analysis. The underlying thinking here is the evaluation of the cross-correlation between the time series of the indicator and that of the parameter being observed. This measures the correlation between the values of two time series for different time shifts or lags.

If it is possible to identify corporate volatility indicators in this way, these must be integrated into the company's corporate performance management systems.

Corporate Performance Management in Volatile Environments | triple-A controlling

A suitable framework for meeting the challenges of volatility to corporate performance management is to introduce a *management control system* (MCS). An MCS serves as an instrument of corporate performance management in the implementation of a company's strategy and enhances classical management control with organizational, cultural and staffing aspects.

Simply introducing an MCS is not enough for controlling in a volatile environment. Due to the changing demands and need for information, new or more highly-developed controlling tools are required. Controlling must focus on three key abilities, known as the *triple-A* (cf. Losbichler 2012):

- „**Agility**“ describes the ability of a company to adapt to short-term market fluctuations.
- „**Adaptability**“ is the ability to react and to adapt to structural market changes in a timely fashion.
unternehmensausrichtung
- „**Alignment**“ consists of the ability to bring the company in line with specific goals and coordinate global, decentralized corporate structures.

Erweiterung bestehender und Einführung neuer Prozesse und Instrumente in der Unternehmenssteuerung

Management control describes the classical “steering systems” which can be broken down roughly into planning and performance measurement, including reporting.

The many changes to basic environmental conditions brought about by volatility require planning to

be simplified. We should expend less effort in portraying great detail while at the same time reducing the overall time needed for planning. Additionally, flexible and dynamic elements, such as rolling forecasts, should be included or expanded, respectively. Performance measurement systems need to be expanded to include volatility indicators which enable changes to be perceived at an early stage. The integration of developments in the company's environment is also desirable, e.g. about relative targets. Reporting must be adapted to satisfy management's increased need for information. However, the need for information changes continuously in a volatile environment in the same way as the external

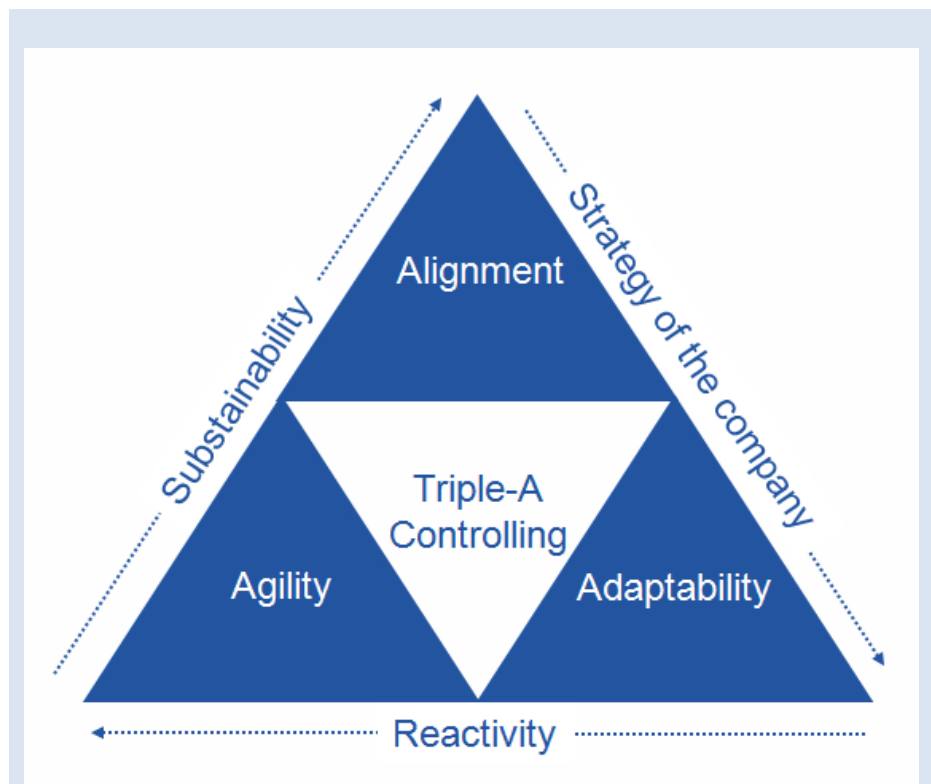


Figure 2: Triple-A Controlling.

influences do. Hence, there is a trend towards slimming down reporting and the possibility of flexible evaluations and ad-hoc queries by management.

Organizational Modifications are Necessary

Alongside changing tools, this means controlling also needs modified or completely new processes. These can only be implemented if organizational changes take place at the same time. Bundling competences in controlling shared service centers leads to increased efficiency in standard processes which can be passed on to new processes with an enhanced requirements profile.

Staffing and Cultural Controls Round Off Performance Management in Volatile Environments

Triple-A controlling can only be realized if the staff themselves also adapt. It is above all in controlling that we can see significant change here. Increasingly, controllers are being regarded as the business partners of management and as drivers of change. Changes can only bring benefits if they are lived by the employees and this in turn requires the fundamental acceptance of those changes. Employee participation in decision-making and communication with employees create transparency for the relevancy and necessity of the changes, thereby creating acceptance.

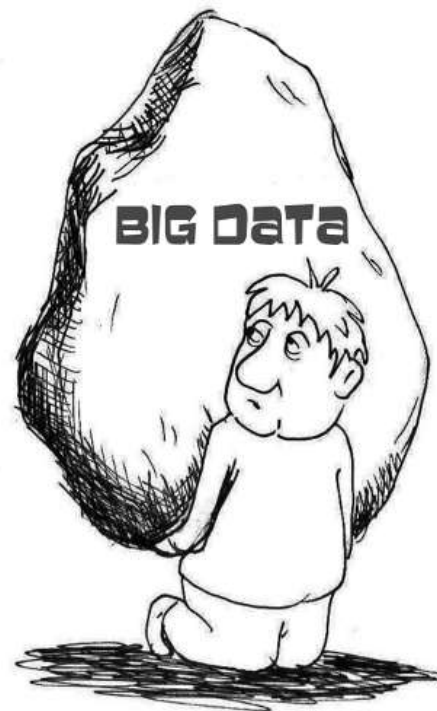
Big Data and Social Media in Controlling | The new annual topic for the Dream Factory

An old saying from Germany's favorite child, football, goes: "After the game is before the game". The Dream Factory will also start work on a new topic shortly after publishing the current Dream Car Report. This time we will be tackling the issues of big data social media. The central question here will be: "What are the challenges and solutions for controllers?"

The new technical possibilities arising from information technology enable us to gather, save and network quantities of information that were previously unimaginable. The "Internet of Things" and the "Industrial Revolution 4.0" are examples of this, to name but two.

Now it is time to find out which challenges this development creates for controllers or – perhaps more importantly – which new and extended possibilities of information supply and decision-making support arise for the business partnership.

This is the topic we wish to study in 2013/ 14.



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