

# REPORT FROM THE EXPERT WORK GROUPS

ISSUE NO. 1 - NOVEMBER 2018

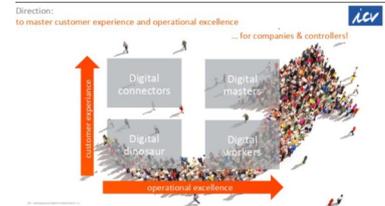
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## Expert work group Working Capital Management: Fatigue symptoms in the WCM?

This article from the ICV expert work group Working Capital Management has been written by Prof. Dr. Heinz-Jurgen Klepzig and Dr. Hendrik Vater (Head of the expert work group) after an expert work group meeting.

### Time signals

In a medium-sized industrial company, the owner complained of too much cash in the company: "investing brings nothing!" On the other hand, "taking money costs (almost) nothing!" His decision was: build a warehouse so that you can deliver faster.

From a speculative point of view, this decision may prove to be the right one for the individual. From the point of view of "value orientation", however, this structure of working capital (WoC) is undoubtedly to be rejected. Could you perhaps achieve the same effect by improving the processes?

In fact, in the current market situation of "cheap money", cash management in various companies is more lax than ever

before, making WoC management less urgent. Cash is currently not a bottleneck for companies.

**Conclusion:** The current market situation is not particularly WoC motivating.

Before you give up consistent WoC management due to low interest rates as of little relevance currently, you should examine its effects in detail. WoC design is:

- cash relevant
- result relevant
- balance sheet relevant

The **key question** is: How do low interest rates affect these three dimensions?

### Cash relevance

Taking free cash flow as a benchmark, improving this benchmark with low interest rates is plausible if you succeed

## Welcome!

The work of the ICV expert work groups has been a strategic focus of the International Association of Controllers for several years. Thanks to the excellent results, the expert work groups have become well-recognized controlling competence networks far beyond the Association. Teams of leading practitioners, consultants and scientists combine here the latest research results with hands-on experience. Their goal is to develop new, practice-oriented controlling solutions for current challenges.

This know-how should be disseminated in the Controlling Community for the benefit of our members. For this purpose, we now start a new series of the ICV publications. For the debut work I have received special support from the Delegate for the ICV expert work groups Christian Bramkamp and from heads of the expert work groups - I would like to express my heartfelt thanks for their help.

I wish you all, dear readers, a stimulating read!

**Hans-Peter Sander**

Head of the ICV Team PR/New Media

(Verte)

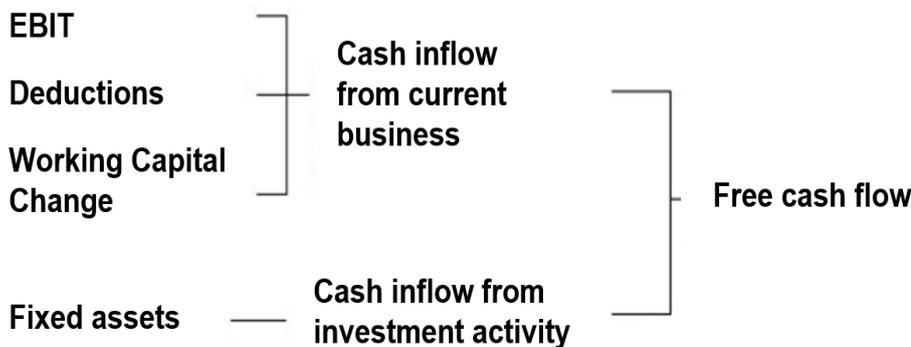


Illustration 1: Free Cash Flow

in raising EBIT significantly due to lower interest costs. However, practice shows only marginal improvements.

**Conclusion:** The importance of a working capital reduction to improve the free cash flow remains thus basically undecided.

**Result relevance**

Working capital ratios are this way indicators of process performance in the company. The reduction of errors, changes, superfluous coordination processes, queries, disruptions, in general of non-add-value operations, leads to more targeted faster processes and, in addition to the lower capital commitment, to lower functional costs and thus to an improvement in EBIT. The latter is achieved only marginally in practice by low interest costs.

The potential for improvement becomes

clear on the basis of an empirical study by REL in 2015: Some 1,000 major European companies were examined for their performance in terms of current assets. Only 3% of companies have been able to continuously improve their capital commitment over the past five years. REL estimates that companies with consistent working capital management could increase their EBIT by 15% and more!

**Conclusion:** The importance of the WoC as an indicator of the quality of process management in a company is undiminished.

**Balance sheet relevance**

Low WoC reduces the capital tied up in a company and thus, according to ROCE formula, improves the return on capital employed by way of balance sheet reduction. Moreover, in accordance with the above considerations, the NOPAT in

the counter is also improved.

This argumentation is of particular importance, since companies in the German-speaking area are highly profit-oriented and often treat the balance sheet and its structuring very neglectfully. This is regularly evident in ratings by credit institutions and credit negotiations.

Again, the potential for improvement should be outlined by means of a rough estimate: If e.g. in an industrial enterprise, the fixed assets approximately equal to the current assets and this is approximately equal to the WoC, then a reduction of WoC by 5% brings an improvement in ROCE by as much as 3%! Further improvements in the interest rate, e.g. by reducing the functional costs in the context of the targeted WoC management are not even considered.

**Conclusion:** An immediate impact of low interest rates on the WoC cannot be foreseen, if you ignore the currently observable "negligence" due to low interest rates (such as lax debt collection or generous shopping). The reduction of the WoC therefore remains a key objective from the perspective of the balance sheet even at low interest rates.

According to our argumentation consistent WoC management has undiminished importance for a company. **Why, then, in many places, the signs of fatigue in WoC management?**

Good WoC management is punished in today's interest-free times apparently: acquired excess liquidity can only be held at negative interest rates, it comes in fact to "parking fees" for cash. Companies are thus "punished" by the banks and the capital market for negative interest rates, so to speak, for holding excess liquidity. It stands to reason that companies are now more willing to breach good WoC

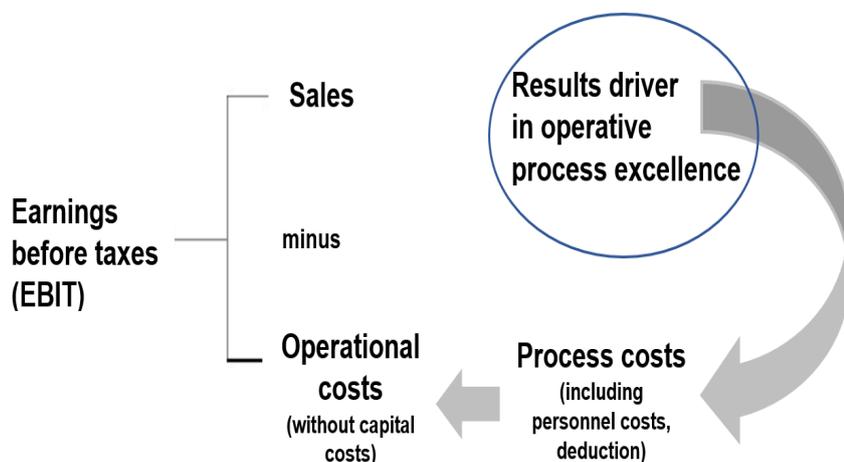


Illustration 2: EBIT composition

management guidelines by building up inventories or giving customers more generous payment terms while not reaching their own payment targets.

## Fatigue in WoC management: Consequences

### Cash consequences

The current economic situation in Germany appears to be stable: good capacity utilization and low refinancing costs for companies, low unemployment rate, good export ratio. Nice, if it continues. However, we have learned that we live in a volatile world: the lesson from the Lehman crisis is that companies in volatile markets can have excessively high cash requirements "overnight". Bunkering stockpile liquidity can quickly lead to cash bottlenecks in the event of a crisis. Because stocks are rarely available in immediately liquidity to implement. Especially in crisis situations it says: Cash is King!

If a company with tight WoC management has worked out surplus liquidity, the royal road is not to put fat back in WoC. You must start to actively search for alternative uses for excess liquidity: discount usage, revision of payment terms, zero-interest current accounts are examples. In addition, massive changes are foreseeable in the corporate environment (for example, demographics, digitalization, electromobility...), to which companies have to respond in good time to further training, process and product innovations and / or M&A activities. That too needs cash. In all these cases, good WoC management is indispensable!

### EBIT consequences

Neglecting lean process design through casual Working Capital Management

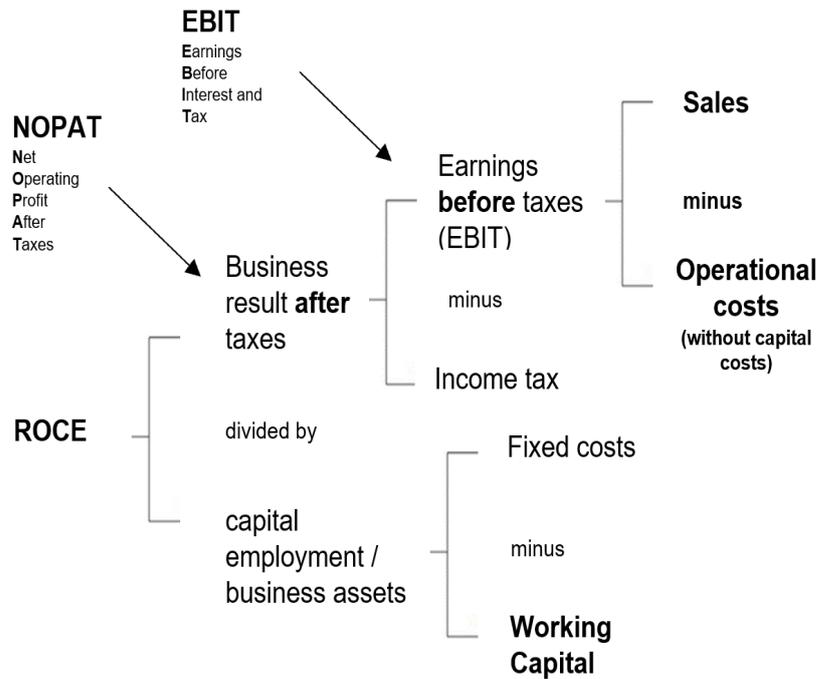


Illustration 3: ROCE composition

leads gradually to lush processes, thus to higher functional costs, thus to a lower EBIT. As stated above, however, there are particularly great potentials here for improvement for many companies!

### Balance sheet consequences

An unskilled, not expertly tailored WoC tends to grow wild. The effects are reflected in the balance sheet structure, but also in a balance sheet extension. The consequence is - in addition to a worse rating - the less favorable return on capital employed.

### Conclusion

The current focus on WoC effects is heavily cash-oriented: Cash currently does not appear to be a bottleneck. However, the current economic situation conveys a false certainty: volatilities can cause special cash needs overnight, which - see once in the Lehman crisis -

can only be served by internal financing with good Working Capital Management. In addition, the one-sided cash view of the WoC effects must be supplemented: WoC design continues to have a broadband impact on the EBIT and on the balance sheet on ROCE.

This addresses three key KPIs of the company, each of which benefits from good WoC management. Low interest rates do not undermine the importance of consistent WoC management for this KPI.

Fatigue phenomena in Working Capital Management are therefore not appropriate at all, even a fire hazard. On the contrary: **The WoC performance is a constant watchdog! And you should - high doses - take advantage of it regularly!**

**Dr. Heinz-Jürgen Klepzig & Dr. Hendrik Vater**

# ICV Expert Work Group „Green Controlling for Responsible Business“: Why the expert work group expanded its name

A sustainable corporate governance and the management of social and ecological goals are becoming increasingly important to companies. This is exactly where the ICV expert work group "Green Controlling for Responsible Business" comes in: It identifies, discusses and develops goal-oriented, practicable and implementable solutions for green controlling. Vera Stelkens and Dr. Alexander Stehle, management duo in this expert work group, give information.

Your expert work group at the ICV has a new name: "Green Controlling for Responsible Business". How did this name change come about?

Vera Stelkens: I would not call it a change of name, after all, we remain faithful to our "brand name" Green Controlling. With the extension of the name, we would like to signal more strongly that the expert work group - as the previous name might have incorrectly suggested - not only deal with the management of environmental protection issues, but that

controlling of economic, ecological and social goals and therefore responsible corporate governance as a whole is important for us.

In spring, your expert work group published a new white paper titled "10 Theses on Green Controlling". What's it all about?

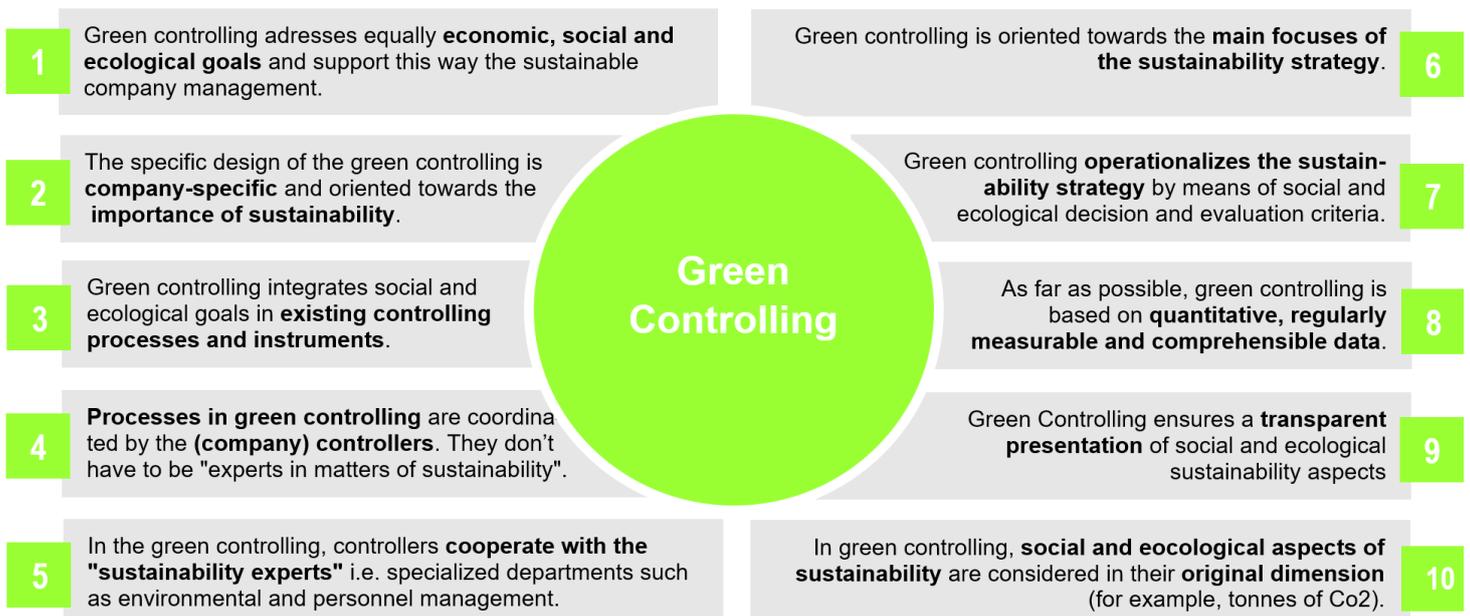
Alexander Stehle: In the course of the change of the name we discussed on the one hand very intensively the contents and the arrangement of an ideal-typical green controlling according to our conception. On the other hand, since our foundation in 2011 we have viewed green controlling from different perspectives, collected a lot of knowledge and generated a lot of publications. Therefore, we have summarized the current perspective of the expert work group in the thesis paper, we describe there our vision of a "good" green controlling based on ten practice-oriented theses.

What are the three central theses in your white paper?

Vera Stelkens: The emphasis that green controlling in our view addresses both economic as well as environmental and social goals is a key issue. In addition, we see the cooperation of controllers and sustainability experts as an essential factor for the success of green controlling. Incidentally, we have already successfully practiced this cooperation in the expert work group. Last but not least, it is essential for us to measure the sustainability performance or goals as quantitatively as possible so that the controlling loop works.

After the white paper has been published, what is the focus of the expert work group work in 2018?

Alexander Stehle: Our main topic 2018 and 2019 will be "Total Impact Measurement", i.e. the holistic measurement and evaluation of corporate activities. We want to have an overview of the (mostly external) requirements and the existing methods of these so-called "value calculation concepts" and evaluate what contribution they can make to a green controlling.



# Expert Work Group "Communication Controlling": Meaningful, management-relevant key figures

You can find an appealing combination of nature and technology in the Autostadt Wolfsburg. As a MixedUseCenter, the Autostadt offers a wonderful landscape park with attractions, gastronomy and the presentation of cars in architecturally attractive pavilions. Through the many streams, ponds, lakes, which are connected to the Mittelland Canal (Germany), numerous species of animals (including wild geese, nutrias) have settled here and are safe from natural enemies. Created for the Expo 2000 on 28 hectares, the Autostadt has become a supra-regional amusement park, which attracts not only customers of the VW Group, but by the end of 2017, a total of about 37 million visitors. This creates a benefit for both VW (stakeholder engagement) and other partners (gastronomy, hotels, the city of Wolfsburg, service providers) and pays a positive tribute to the Group's reputation.

On June 28/29, 2018 the expert work group Communication Controlling (ICV)

was the guest at the VW AG in the Autostadt. Stakeholder management as the strategic task of corporate communication was the topic of the 34th working meeting:

- 1) What information do decision makers need in order to manage their area of responsibility?
- 2) How can this information be obtained and made available (formats and processes)?
- 3) How can meaningful, management-relevant key figures be developed?
- 4) How can a key performance indicator be developed for the area of responsibility of a decision maker?

A reputation analysis conducted in 2017 was the starting point for these questions. What information important for the board could be gained from the reputation analysis, which goals could be derived from this and translated into a management system by means of suitable reporting? Goals were derived and formulated in group work, translated into measurable goals by means of

suitable measures and stored with specific measures. In the formulation of objectives, the question of which behavior of the relevant stakeholders benefits the target dimension was particularly important. The expert work group continued its agenda at Case VW AG to make the added-value contribution of communication work visible and controllable by means of integrated reporting.

Conclusion: One and a half fertile days with very open discussions, new insights and sharpening of the method set. The exchange between business practice, consulting and science brought exciting changes of perspective. Thus, in every practice case, the "rationality principle" rubs against the reality of companies and the leading interests of the actors. And all in the wonderful ambience of the Autostadt.

*Information: Rainer Pollmann, Deputy Head of the expert work group Communication Controlling*



The ICV expert work group Communication Controlling in the Autostadt Wolfsburg

# Digital Transformation: Controller in „pole position“

The interview of the ICV Delagate for the expert work groups Chistian Bramkamp with the expert work group "Digital Transformation", on the sidelines of a meeting at KUKA AG.

**Chistian Bramkamp: How was your meeting today?**

**Jurate Keblyte** (Head of the expert work group): We have met again after almost a year of unwanted break and had the urgent need to recap, what we have worked out since the founding of the expert work group (*laughs*). Seeing what we have done and learned in four meetings has impressed us today!

**Christian Bramkamp: What was your first focus?**

**Jurate Keblyte:** Right from the start, we have been oriented by a "digitalization matrix" and have looked at digital transformation in companies from two perspectives: digitalization of internal processes (operational excellence) and digitalization of products, services and customer interaction (customer experience). Above all, we focused on the role of controlling and controllers. In the first meetings we designed a vision of controlling in a "Digital Master Company" and then worked out the gap between this vision and reality to continue to work on the recommendations for the transformation of this reality into the vision.

**Reinoud Vandervliet:** And today we have worked on a specific possible contribution of controlling in the digitalization of a company. The idea that a process house of a company could be a wonderful starting point for the consideration of digitalization and potentials, came to us in the second meeting. Today we tried it on the basis of the process house of KUKA. We are very satisfied with the "found" potentials

and the ideas for KPIs for measuring the degree of digitalization!

**Christian Bramkamp:** The contribution of controlling is therefore no longer collecting, processing and analyzing numbers? What are the possibilities and the challenges for the controllers in this new world?

**Reinoud Vandervliet:** What we are doing in controlling now becomes superfluous. The today's data processing and even analysis will soon be automatable!

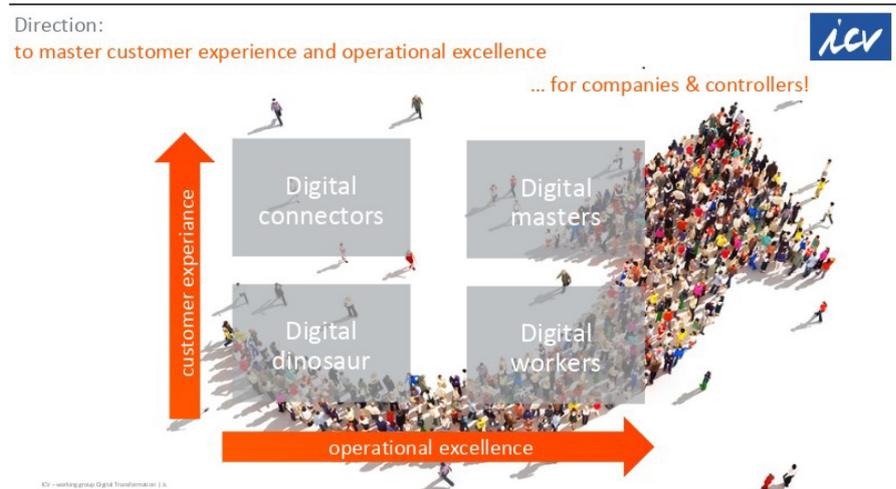
**Christian Bramkamp: Does the controller position generally fall away because data "just-in-time" can be retrieved and evaluated and thus the historical data no longer has to be processed in the today's form? The managing director has the current data as needed on their smartphone, the computer analyzes the current situation and indicates the trend direction? Where is the journey of the "controller" going? How can the controller continue to be a business partner?**

**Reinoud Vandervliet:** At the moment, I am the business partner in that I prepare the data, analyze it and thus answer the questions of the management. Therefore, it is indeed difficult to argue that the controller role is retained.

**Jurate Keblyte:** It is actually paradoxical: the raison d'être of controlling is decreasing through data sovereignty, although data plays an increasingly important role in business life. This is precisely where the impact of digitalization comes into play: what controllers have done manually for decades the new technologies do better, faster and more efficient now. Those who want to create added value in controlling must learn to use these technologies and thus use their advantages for corporate management. Today's world is changing so fast that the well-tried gut feeling or data available 10 days after the end of the month is no longer enough to run a business... Following CB Insight's slogan: Without data you are just another person with an opinion.

**Helene Eder:** But data is not everything. Further added value of the controller comes from the understanding of the business in combination with the findings of (predictive) analytics. I do not think that data scientist, who does not know the business, can draw the right conclusions from the data.

**Jurate Keblyte:** I would like to complete this with the hitherto purely human ability - creativity. The AI (artificial intelligence) will not be enough to replace this cognitive ability. The technology will help



to recognize complex relationships, but innovation - yes, also needed in controlling! - will not go without creativity.

**Helene Eder:** Exactly! You do not have to be afraid of the power of technology and digitalization because a computer cannot dream...

**Christian Lohr:** I also see the new technologies as a help rather than a threat to the controller work places. Because with the systems and tools, we get all the data. However, it is important to recognize what is relevant from this data, what is important for a company. When everything is automated, the controller can prepare a structured, goal-oriented decision-making.

**Christian Bramkamp:** What demands do the controllers have to not only "survive" but also help to co-design this change? How do you want to prepare for the next 23 years?

**Dr. Nadia Vazquez Novoa:** I may be a good example of a career transformation! Since completing my studies, I worked as a controller, but I wanted to use the opportunities offered

by IT at my work and have therefore reoriented myself to data science. In my new job, I now learn what I can later use in controlling. I am firmly convinced that we do not have to be computer scientists and write complicated codes or model like a mathematician. We have specialists for that. But we need to understand statistics and technology. We need to understand what we need and what we can deliver.

**Christian Lohr:** IT helps to manage the controlling tasks, but for some who are critical of change, it can be difficult. People like us, who enjoy changing, developing, are grateful for the new. The youth that is coming along is growing up anyway in the digital age.

**Florian Baumgartner:** Co-designing is an important keyword in the question of Christian Bramkamp. Today we spend too much time on data processing and analysis and far too little time with the moderation. From the progressive digitalization I expect better visibility around - we do not have to torture ourselves with the individual trees in the forest! - and thus more visibility ahead. The controllers today are still far too

busy with the past. It can happen to you like to the turkey on Thanksgiving: you believe the time of feeding is coming and then you end in the oven. The automation of routine work gives us room to think ahead.

**Jurate Keblyte:** In addition, I think that the controllers are in the "pole position" for the design of the digital transformation. There is hardly any other function in the company below top management that has a better overview of the company. And the tools of controlling are also helpful in the transformation: plan - do - check - act. We can already measure and we have just developed new key figures today (*laughs*)! We just have to start seeing digitalization as a goal to pursue. And adapt our approach to planning: Digital transformation works badly if you "break it down" to individual functions. What exactly that means, what methods and techniques are there, we will learn in our next meeting!

**Christian Bramkamp:** Thank you and good luck to the expert work group „Digital Transformation“!



Conversation partners (from the left to the right): Jurate Keblyte, Helene Eder, Florian Baumgartner, Reinoud Vandervliet, Christian Bramkamp, Dr. Nadia Vazquez Novoa, Christian Lohr

# ICV expert work group portrait: Business Valuation

The ICV expert work group Business Valuation is aimed at valuation practitioners. Participants of the expert work group are both consultants and employees of companies that deal with the business valuation.

The expert work group discusses theoretical and practical valuation problems as well as their solutions. Working with theory forms the basis for the solution of valuation problems. In the past, e.g. the general consideration of the perpetuity, the use of multiples, the consideration of country risks as well as the debt betas etc. were discussed here and there were recommendations derived for action.

Furthermore, specific valuation problems

are discussed on the basis of case studies of individual participants. For example, in the past, the valuation of foreign companies in the context of the consolidated financial statements was discussed and, in particular, the effects of exchange rate effects.

The aim of the expert work group is the exchange of experience among valuation practitioners with the result of creating specific solutions, and the joint development of recommended actions for general valuation problems in practice in industry and consulting.

The expert work group meets at least twice a year (early summer and end of the year) at the premises of the

WirtschaftsTreuhand GmbH in StuttgartVaihingen and is run by Prof. Dr. Georg Heni (Shareholder Managing Director of WirtschaftsTreuhand GmbH).

If you are interested in participating in the expert work group, please contact Andrea Frietsch +49 711 489 31 519, [andrea.frietsch@wirtschaftstreuhand.de](mailto:andrea.frietsch@wirtschaftstreuhand.de).

The next meeting of the ICV expert work group Business Valuation takes place at the beginning of December in StuttgartVaihingen. For topic suggestions and notes you can contact Andrea Frietsch and Stefanos Karagiannidis (+49 711 489 31 - 404, [stefanos.karagiannidis@wirtschaftstreuhand.de](mailto:stefanos.karagiannidis@wirtschaftstreuhand.de)).

## ICV expert work groups: contacts and dates of meetings

### BI/Big Data and Controlling

Prof. Dr. Andreas Seufert  
[andreas.seufert@ibi.de](mailto:andreas.seufert@ibi.de)

### Compliance Management and Controlling

Dr. Rainer Vieregge  
[r.vieregge@4egge4you.de](mailto:r.vieregge@4egge4you.de)  
Next meeting: 18.10/Hannover

### Controlling and Quality

Frank Ahlrichs  
[frank.ahlrichs@konsequentsein.de](mailto:frank.ahlrichs@konsequentsein.de)  
Next meeting: 30.11/Köln/Bonn

### Controlling and Risk Management

Tobias Flath  
[tobias.flath@de.pwc.com](mailto:tobias.flath@de.pwc.com)  
Next meeting: 21.11/Düsseldorf

### Digital Transformation

Jurate Keblyte  
[jurate.keblyte@kuka.com](mailto:jurate.keblyte@kuka.com)  
Next meeting: 21-22.11

### Green Controlling for Resonsible Business

Dr. Alexander Stehle  
[Alexander.Stehle@eismann.com](mailto:Alexander.Stehle@eismann.com)

Next meeting: 23.11/Bonn

### Investment Controlling

Dr. Walter Schmidt (temporary)  
[fkinvestitionscontrolling.ch@icv-controlling.com](mailto:fkinvestitionscontrolling.ch@icv-controlling.com)

### Communication Controlling

Dr. Reimer Stobbe  
[rstobbe@munichre.com](mailto:rstobbe@munichre.com)  
Next meeting: 15-16.11/München

### Project Controlling

Dr. Dietmar Lange  
[fkprojektcontrolling.de@icv-controlling.com](mailto:fkprojektcontrolling.de@icv-controlling.com)

### IFRS

Andreas Krimpmann  
[icv@krimpmann.com](mailto:icv@krimpmann.com)

### Start-up Controlling

Dr. Jörg Engelbergs  
[joerg.engelbergs@zalando.de](mailto:joerg.engelbergs@zalando.de)

### Transfer Pricing Management - Interface Controlling / Taxation

Jörg Hanken  
[joerg.hanken@de.pwc.com](mailto:joerg.hanken@de.pwc.com)

### Valuation

Prof. Dr. Georg Heni  
[georg.heni@wirtschaftstreuhand.de](mailto:georg.heni@wirtschaftstreuhand.de)

### Working Capital Management

Dr. Hendrik Vater  
[hendrik.vater@dhl.com](mailto:hendrik.vater@dhl.com)

### Imprint

"Report from the expert work groups" is a publication of the International Association of Controllers (ICV). Resp. Editor: Hans Peter Sander, Head of the ICV Team PR / New Media; Ammersee Denkerhaus - Co-working Space, Sonnenstr. 1, 86911 Dießen am Ammersee, e-mail: [presse@icvcontrolling.com](mailto:presse@icvcontrolling.com)