



Master Class: Controlling The Key to Effective Performance Management: The House of Controlling

German-Mongolian Corporate Days 2015

Prof. Dr. Dr. h.c. mult. Péter Horváth

Ulaanbaatar, October 13, 2015

Outline

- Why Controlling? 7
- The House of Controlling 8
- From Bookkeeping to Management Accounting 9
- From Accounting to Finance 10
- From Fortune Telling to Planning 11
- From Statistics to Management Reporting 12
- From Monitoring to Internal Control 13
- The Future of Controlling 14

Outline

■ Why Controlling?	7
■ The House of Controlling	8
■ From Bookkeeping to Management Accounting	9
■ From Accounting to Finance	10
■ From Fortune Telling to Planning	11
■ From Statistics to Management Reporting	12
■ From Monitoring to Internal Control	13
■ The Future of Controlling	14

Can You Answer these Questions?

■ Do you know which products/services of your company are profitable?

■ Do you know the cost drivers in your company?

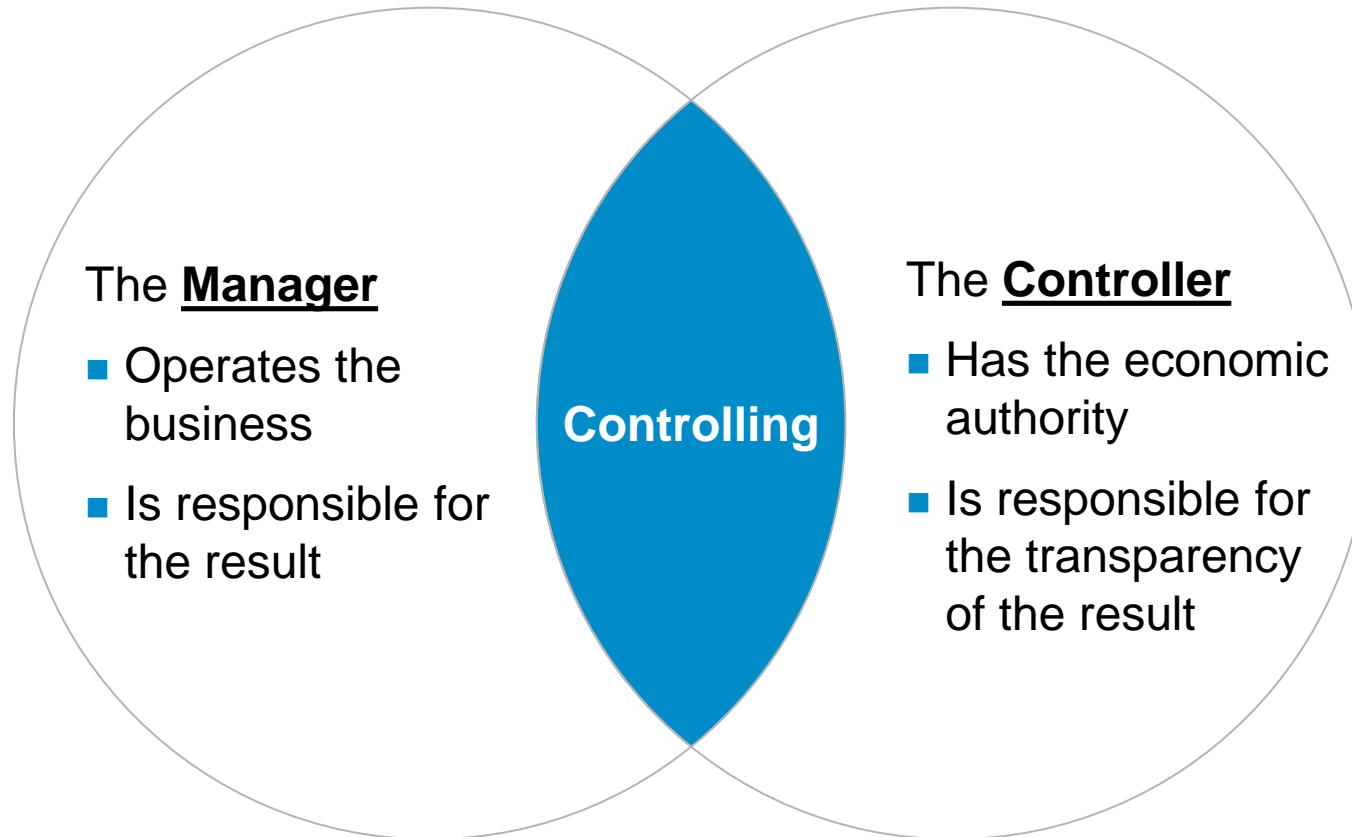
■ What are the key performance indicators in your company?

■ Do you know the profitability of your customers?

■ Are you able to transform your strategy into concrete activities?

■ Can you check the effectivity of capital expenditures?

The Manager Needs a Business Partner!



Source: Adapted from IGC (ed.), "Controller-Wörterbuch", Stuttgart 2005, p. 58

The IGC's Mission of the Controller

Controllers design and accompany the management process of defining goals, planning and controlling and thus have a joint responsibility with the management to reach the objectives. The following characteristic core tasks can be derived

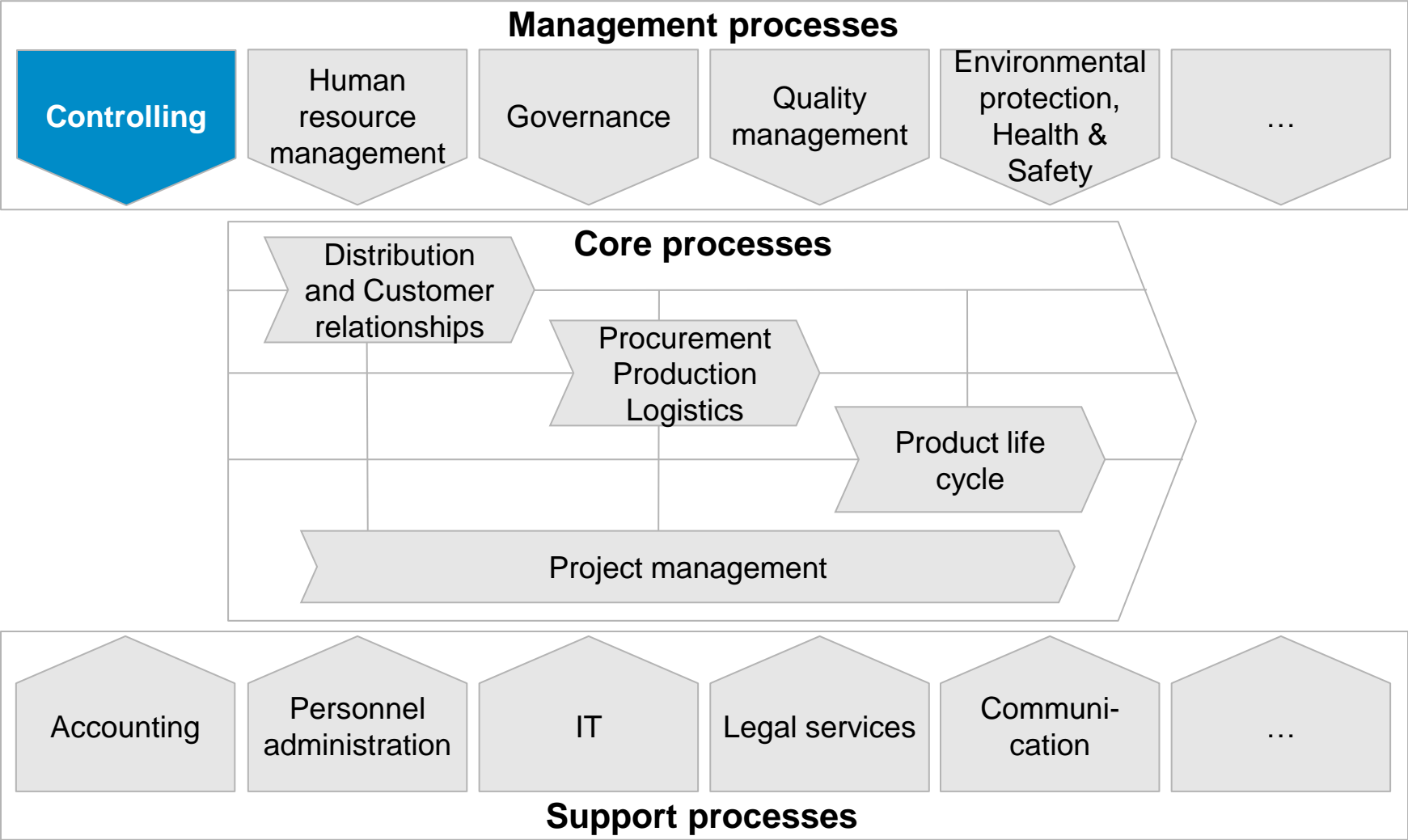
- Ensuring the transparency of strategy, business results, finance and processes
- Coordinating sub-targets and sub-plans in a holistic way
- Organizing a reporting system that is oriented towards the future and covers the enterprise as a whole
- Moderating and designing the management process of goal-finding, planning and management control so that every decision maker can act in accordance with agreed objectives
- Safeguarding the provision of all relevant controlling information to managers
- Developing and maintaining the controlling systems

Source: IGC, "Controlling Process Model", Freiburg 2012, p. 13

Outline

■ Why Controlling?	7
■ The House of Controlling	8
■ From Bookkeeping to Management Accounting	9
■ From Accounting to Finance	10
■ From Fortune Telling to Planning	11
■ From Statistics to Management Reporting	12
■ From Monitoring to Internal Control	13
■ The Future of Controlling	14

Controlling in the Company's Process Map

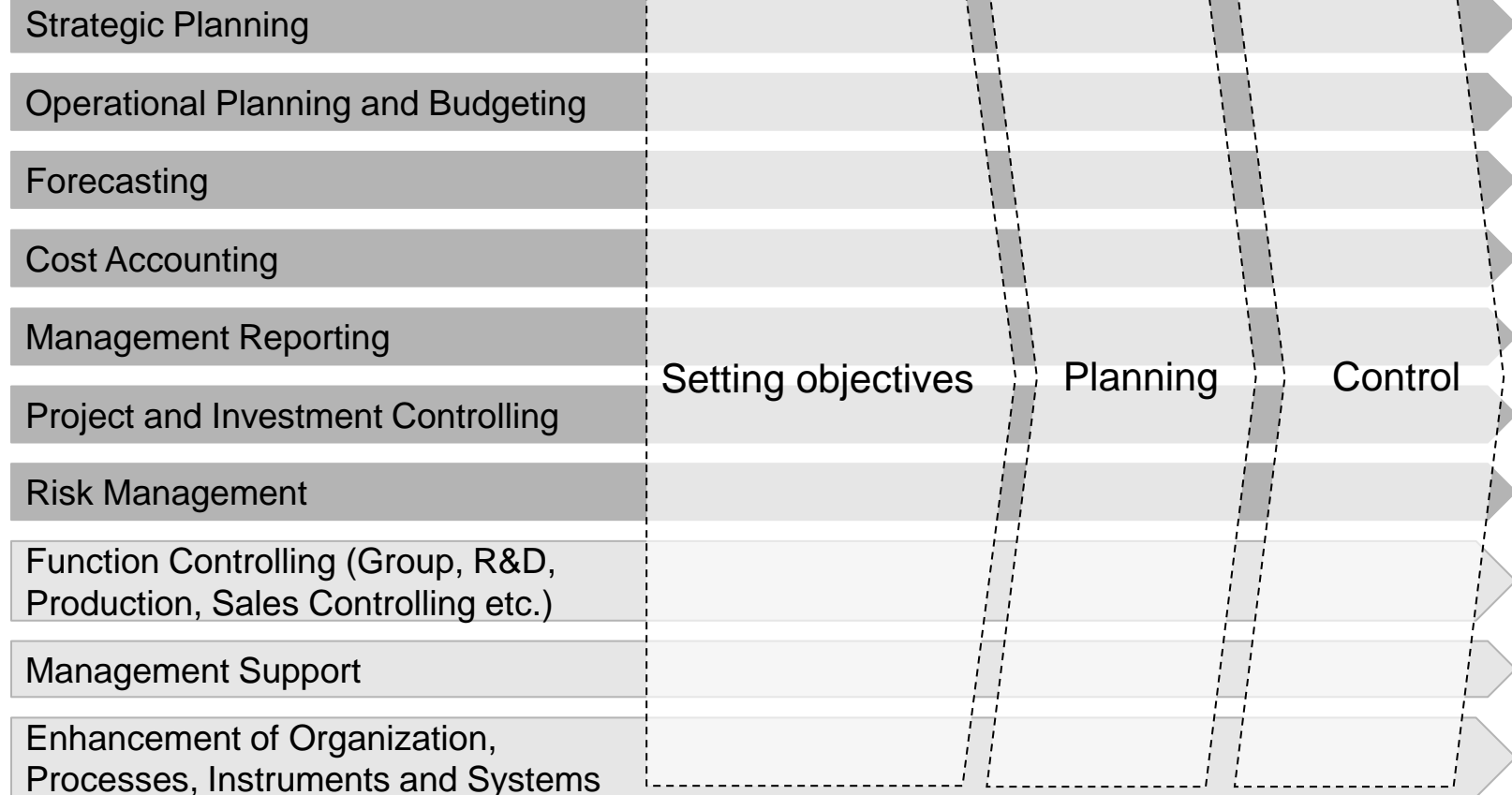


Source: IGC, "Controlling Process Model", Freiburg 2012, p. 15

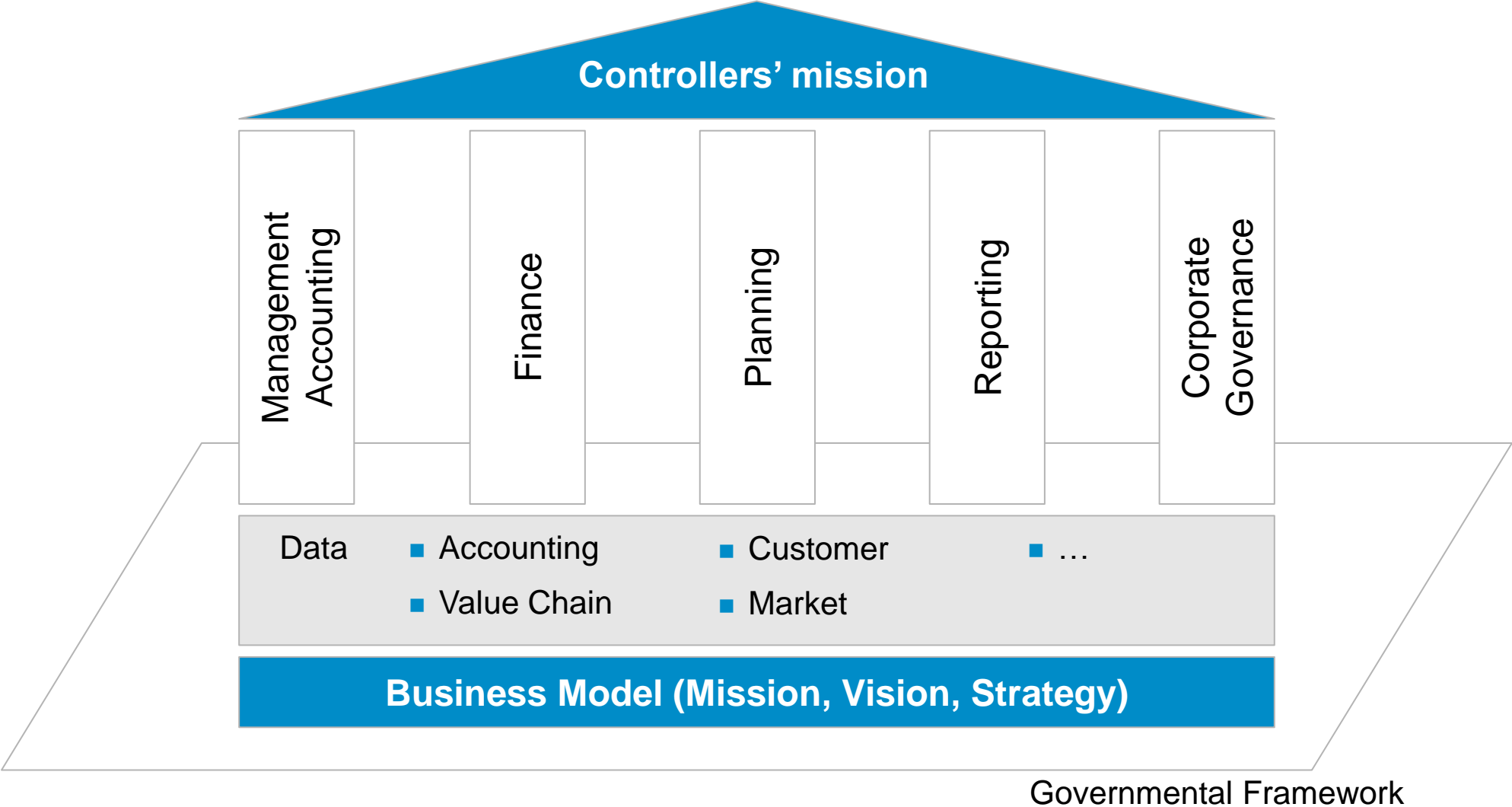
The Controlling Process Model

Controlling

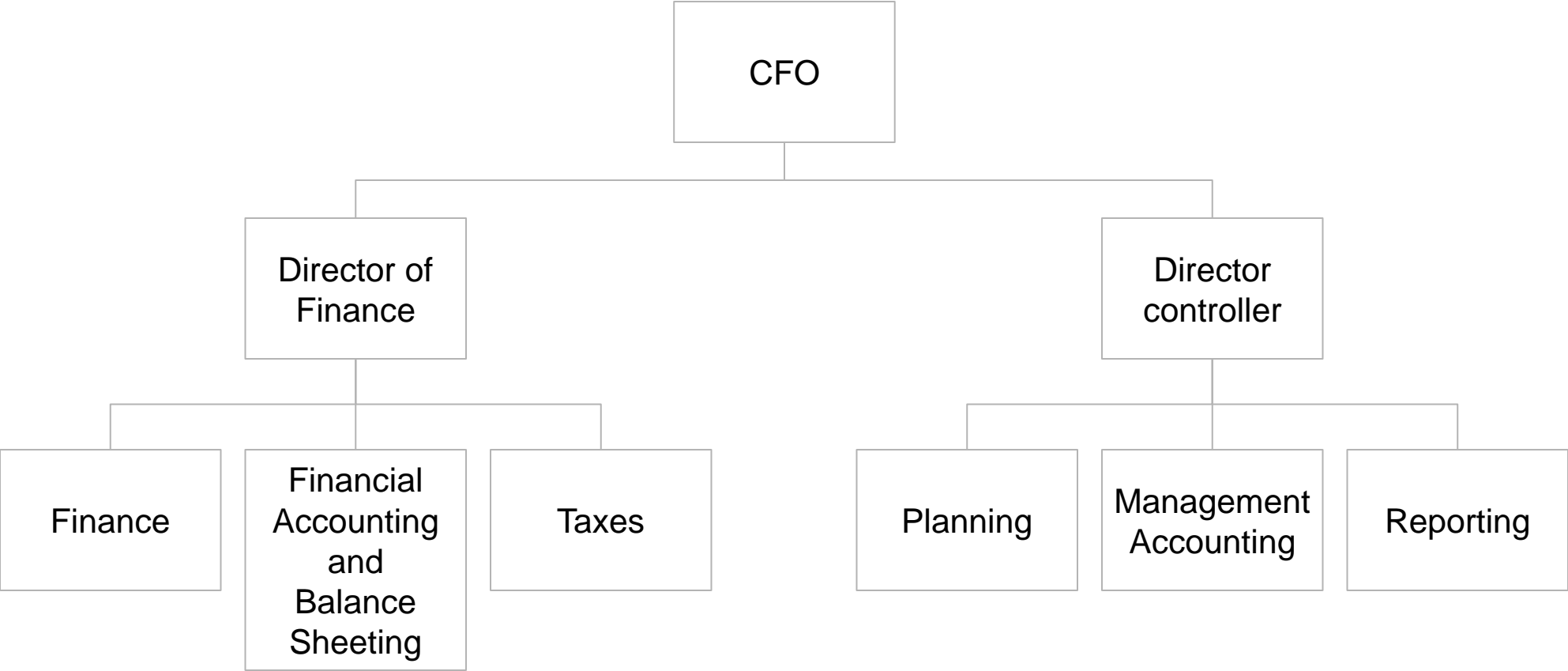
Controlling - Main Processes



The House of Controlling



Organization of Controlling

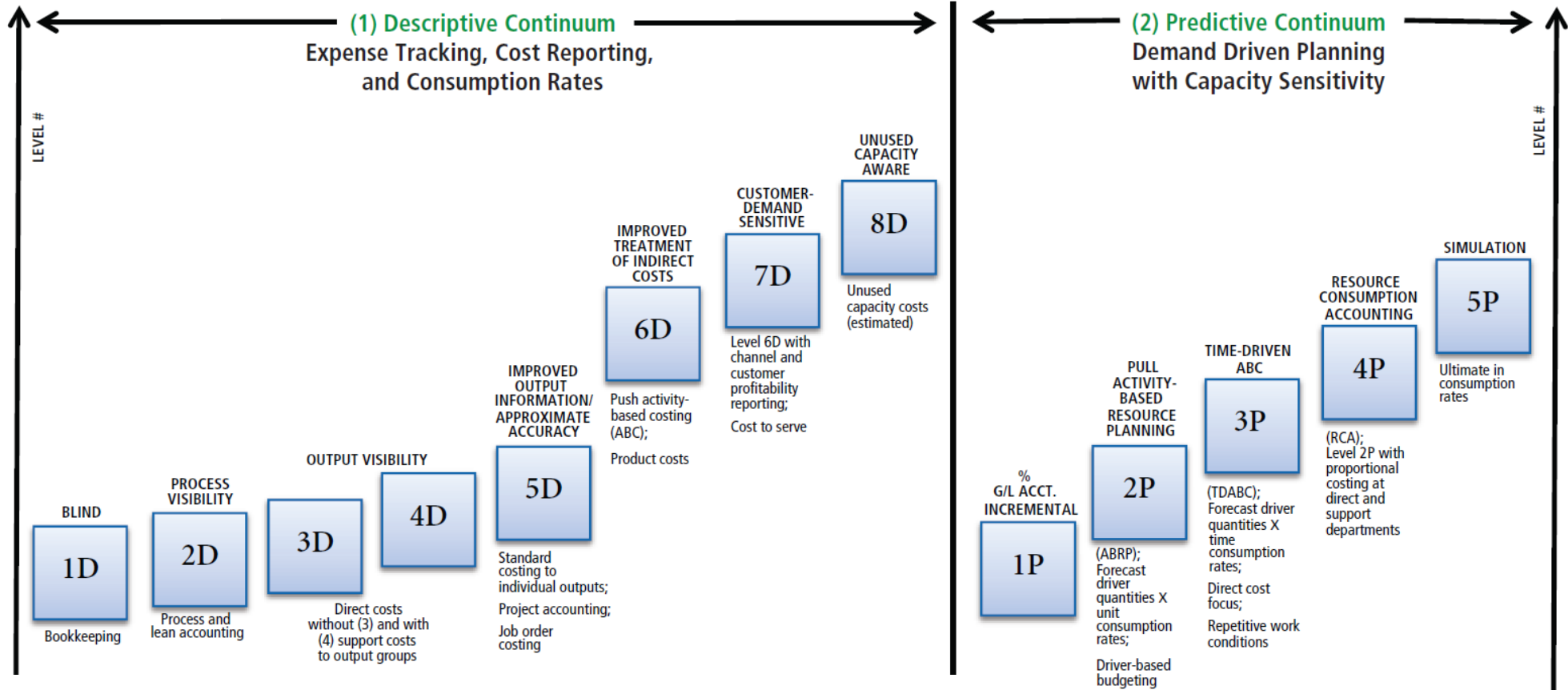


Source: Deyhle, A., et al., "Controlling & the Controller", Munich 1992, p. 185

Outline

- Why Controlling? 7
- The House of Controlling 8
- **From Bookkeeping to Management Accounting** 9
- From Accounting to Finance 10
- From Fortune Telling to Planning 11
- From Statistics to Management Reporting 12
- From Monitoring to Internal Control 13
- The Future of Controlling 14

Levels of Maturity in Management Accounting



Source: Cokins, G., "Evaluating the Costing Journey: A Costing Levels Continuum Maturity Framework 2.0", published by the International Federation of Accountants (IFAC), 2012.

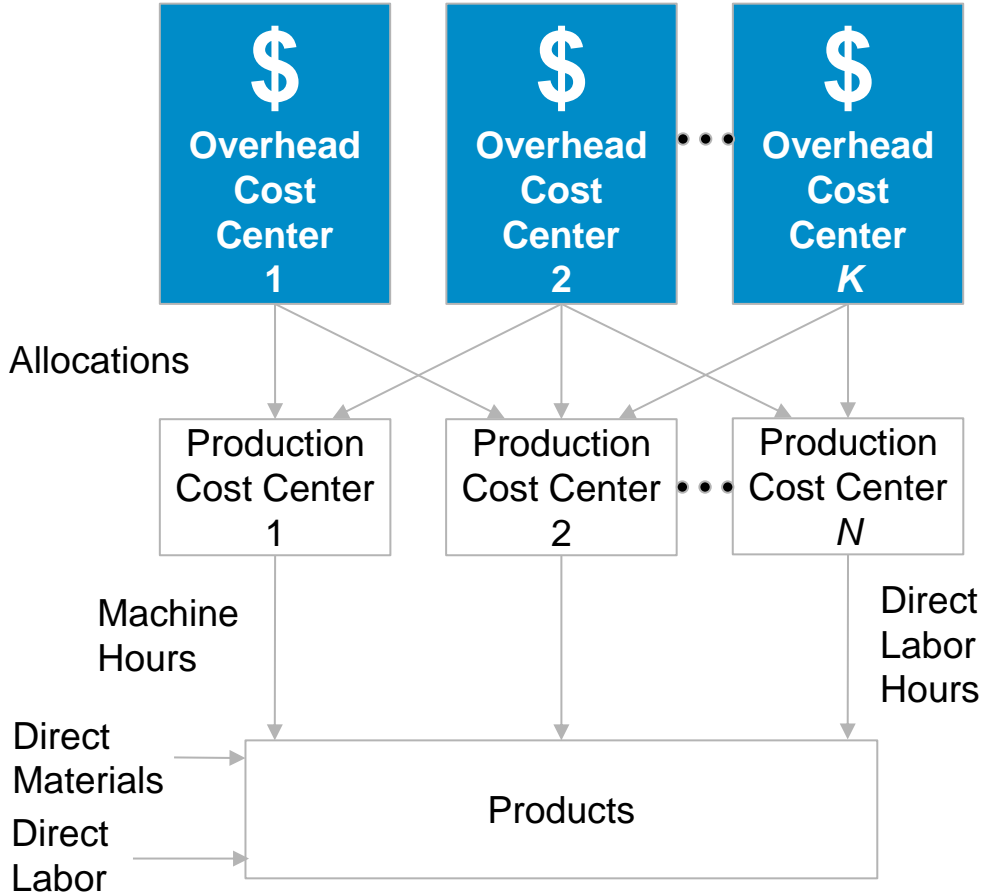
Contribution Margin: Segment Margin Approach

	Company Totals	Territory		East Territory		West Territory	
		East	West	Mr. A	Ms. B	Mr. C	Ms. D
Sales	<u>\$ 500</u>	<u>\$ 300</u>	<u>\$ 200</u>	<u>\$ 175.0</u>	<u>\$ 125.0</u>	<u>\$ 70</u>	<u>\$ 130</u>
Less: Variable							
production expense.....	200	140	60	80.0	60.0	25	35
Variable marketing and administrative expenses.....	<u>80</u>	<u>25</u>	<u>55</u>	<u>14.5</u>	<u>10.5</u>	<u>23</u>	<u>32</u>
Total variable expenses.....	<u>280</u>	<u>165</u>	<u>115</u>	<u>94.5</u>	<u>70.5</u>	<u>48</u>	<u>67</u>
Contribution margin.....	\$ 220	\$ 135	\$ 85	\$ 80.5	\$ 54.5	\$ 22	\$ 63
Contribution margin as a percent of sales.....	44%	45%	42.5%	46%	43.6%	31.4%	48.5%
Less: Fixed cost traceable to segments.....	<u>130</u>	<u>69</u>	<u>61</u>	<u>33.5</u>	<u>35.5</u>	<u>18</u>	<u>43</u>
Segment margin.....	\$ 90	\$ 66	\$ 24	\$ 47	\$ 19.0	\$ 4	\$ 20
Segment margin as a percent of sales.....	18%	22%	12%	26.9%	15.2%	5.7%	15.4%
Nontraceable costs....	<u>20</u>						
Income before tax.....	<u>\$ 70</u>						
Beforetax income as a percent of sales.....	<u>14%</u>						

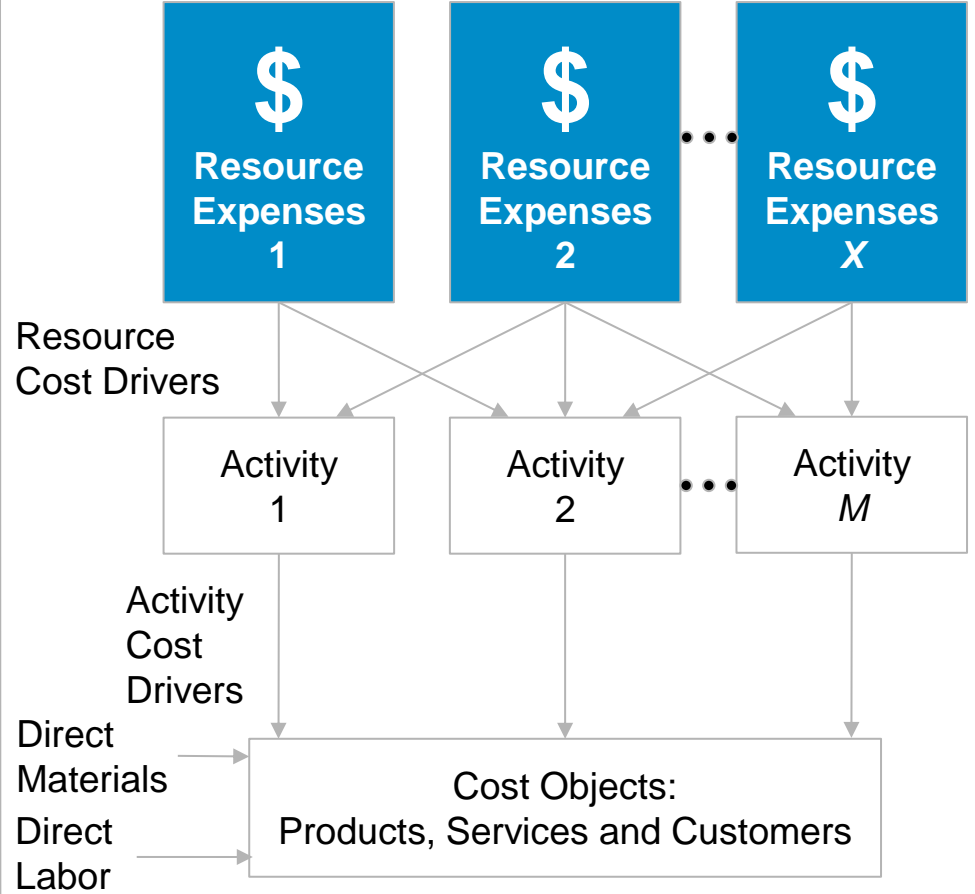
Source: Zirkler, B., "Führungsorientiertes US-Amerikanisches Management Accounting", Universität Erlangen-Nürnberg 2001, p. 218

Activity Based Costing

Traditional Cost Systems

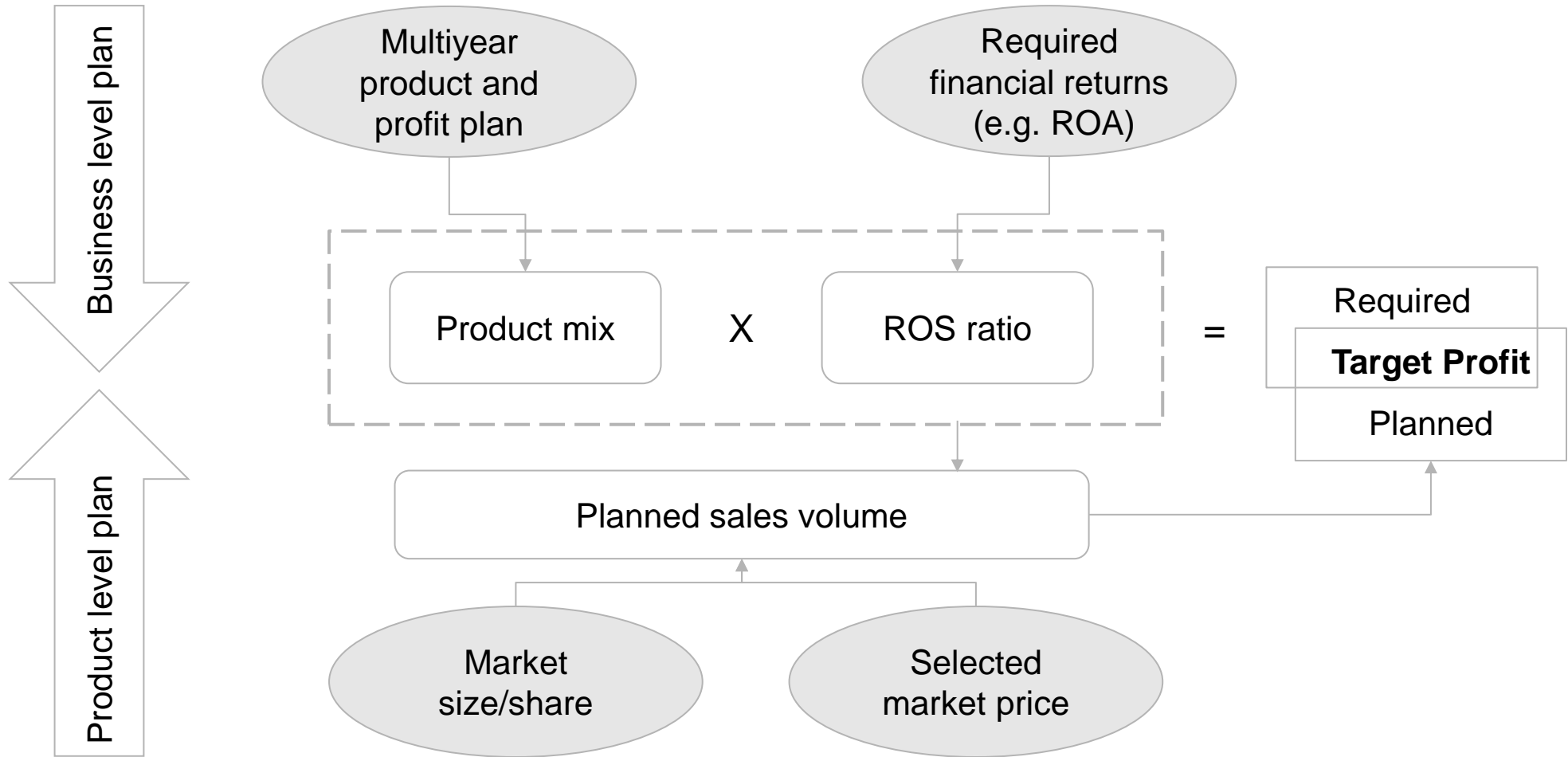


Activity-Based Cost Systems



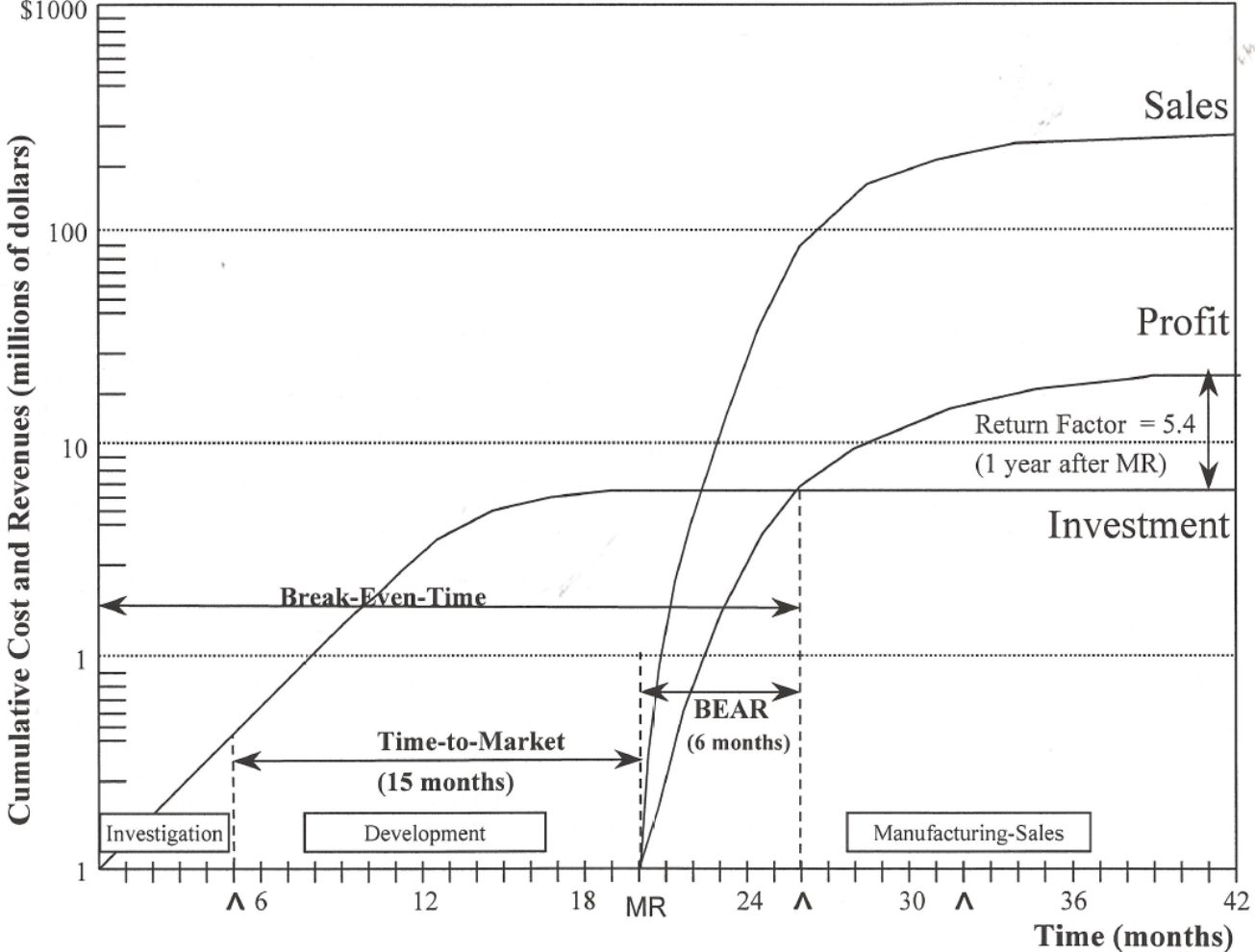
Source: Kaplan, R., Cooper, R., "Cost & Effect", Boston 1998, p. 83/84

Target Costing



Source: Ansari, S., Bell, J., CAM-I Target Cost Core Group: Target Costing, The Next Frontier in Strategic Cost Management, Chicago 1997, p. 37

Life Cycle Costing



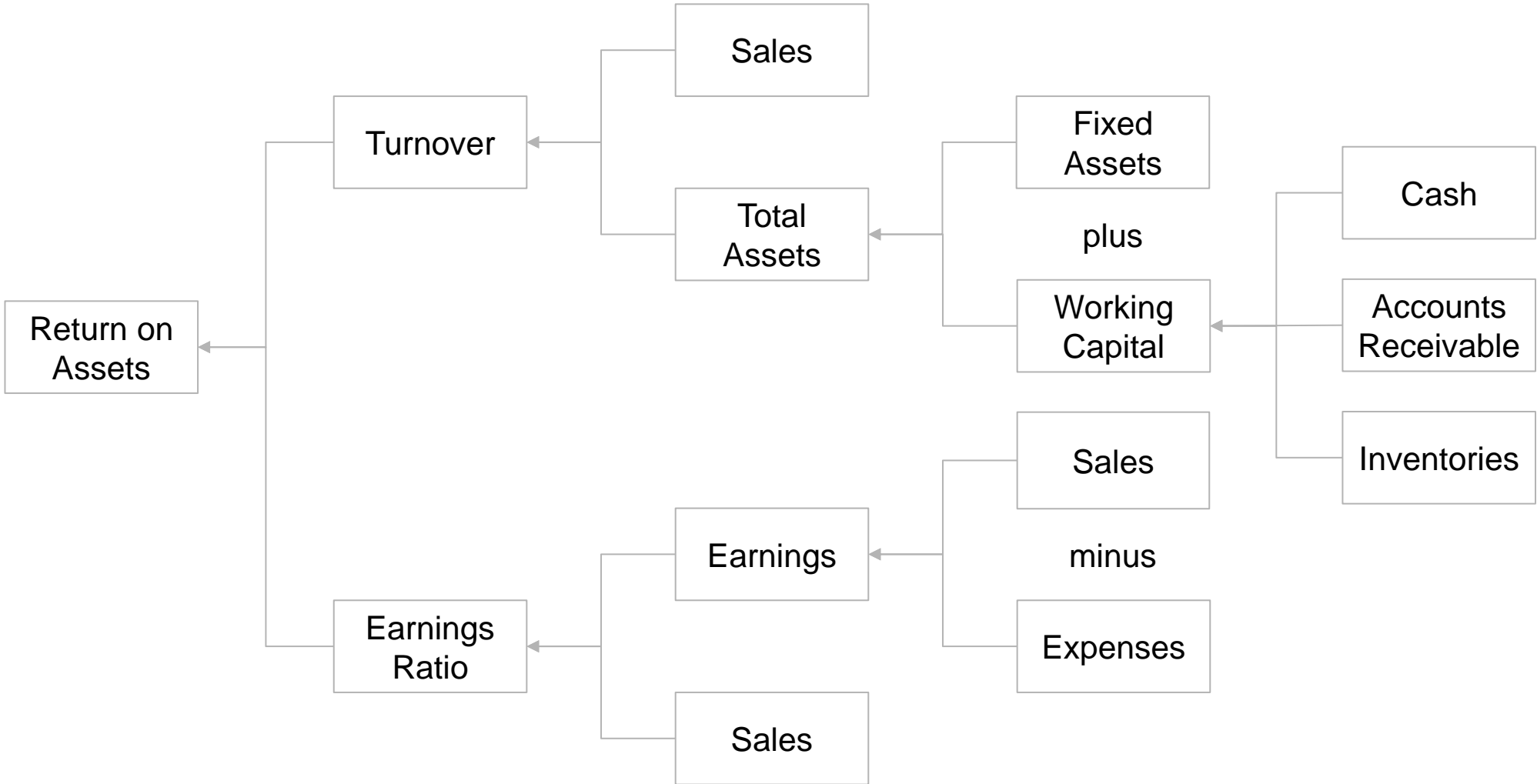
BEAR = Break-Even-After Release
MR = Manufacturing Release

Source: House, H., Price, L.: The Return Map: Tracking Product Teams, in: Harvard Business Review, January - February 1991, p. 92

Outline

- Why Controlling? 7
- The House of Controlling 8
- From Bookkeeping to Management Accounting 9
- **From Accounting to Finance 10**
- From Fortune Telling to Planning 11
- From Statistics to Management Reporting 12
- From Monitoring to Internal Control 13
- The Future of Controlling 14

KPI-System



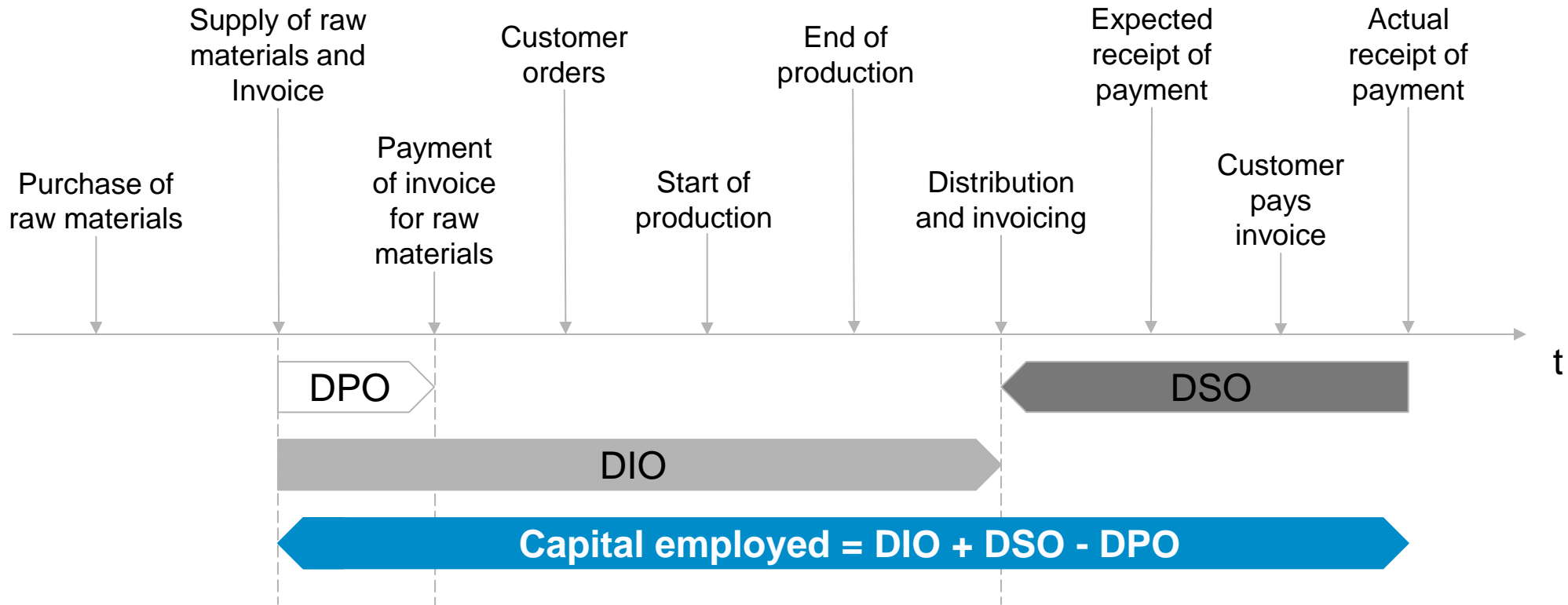
Source: Roehl-Anderson, J., Bragg, S., "The Controller's Function", New Jersey 2005, p. 321

From Profit to Cash Flow

	Profit	Transition	Cash flow
Revenue	\$ 10.000.000		
- Growth of debtor's stock		\$ 200.000	
			\$ 9.800.000
Productions costs of sold products	8.000.000		
+ Increase in stocks		300.000	
- Growth of creditors and short-term liabilities		50.000	
			8.250.000
Administrative and sales expenses	1.000.000		
- Growth of creditors and short-term liabilities		10.000	
			990.000
Growth of net working capital		\$ 440.000	
Expense for depreciation	100.000		
+ Expense for depreciation		100.000	
- Investments in fixed assets		150.000	
			150.000
Earnings before taxes	900.000		
Taxes	400.000		
- Growth of tax provisions		30.000	
			370.000
Cash flow			\$ 40.000
Annual profit	\$ 500.000		

Source:
Rappaport, A.,
"Creating
Shareholder
Value. The New
Standard for
Business
Performance"
(1986), p. 25

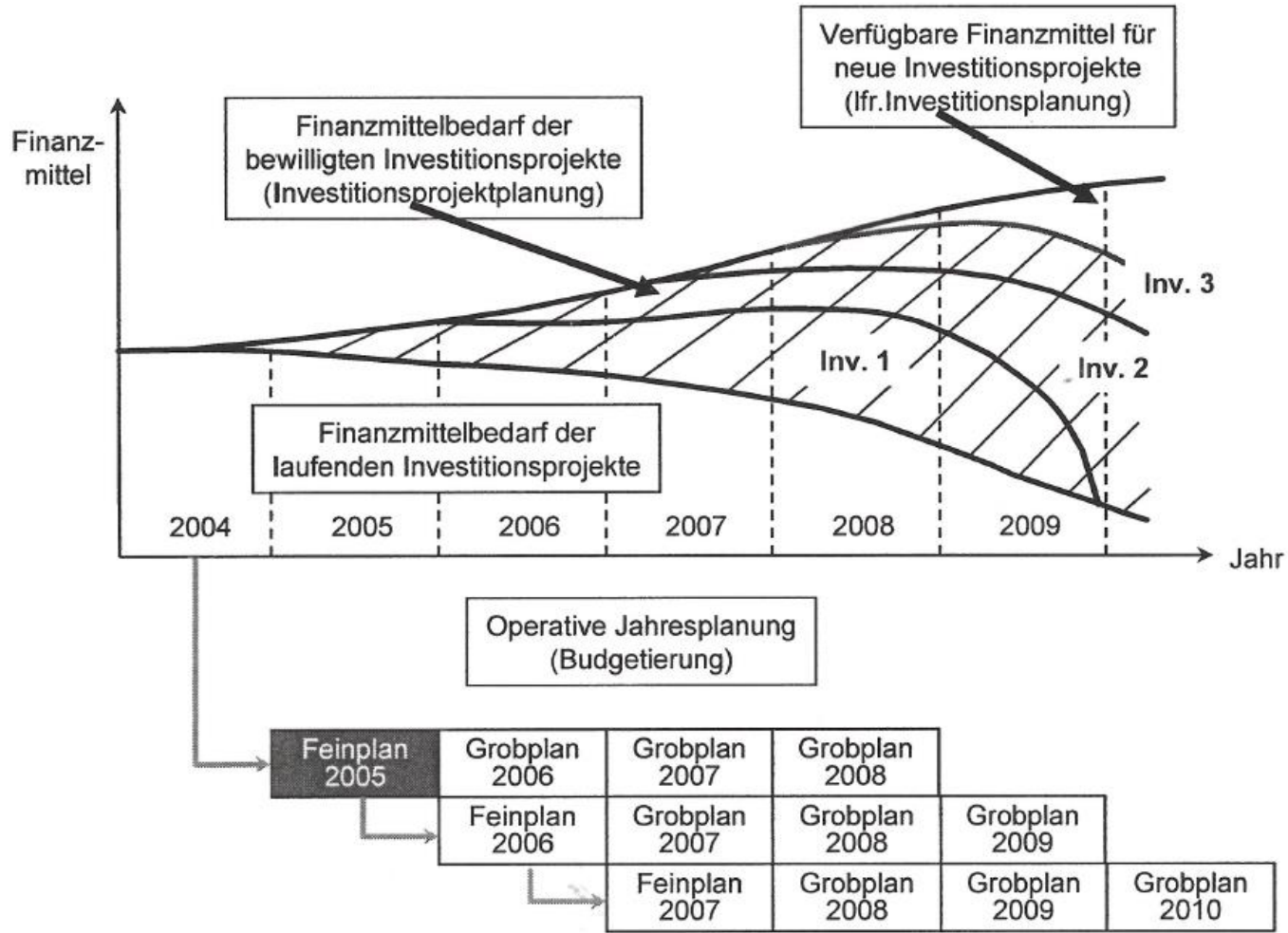
Cash Conversion Cycle



DPO: Days payable outstanding
 DIO: Days Inventory Outstanding
 DSO: Days Sales Outstanding

Source: Gleich, R., Horváth, P., Michel, U. (ed.), "Finanz-Controlling - Strategische und operative Steuerung der Liquidität", Munich 2011, p. 18

Investment Planning

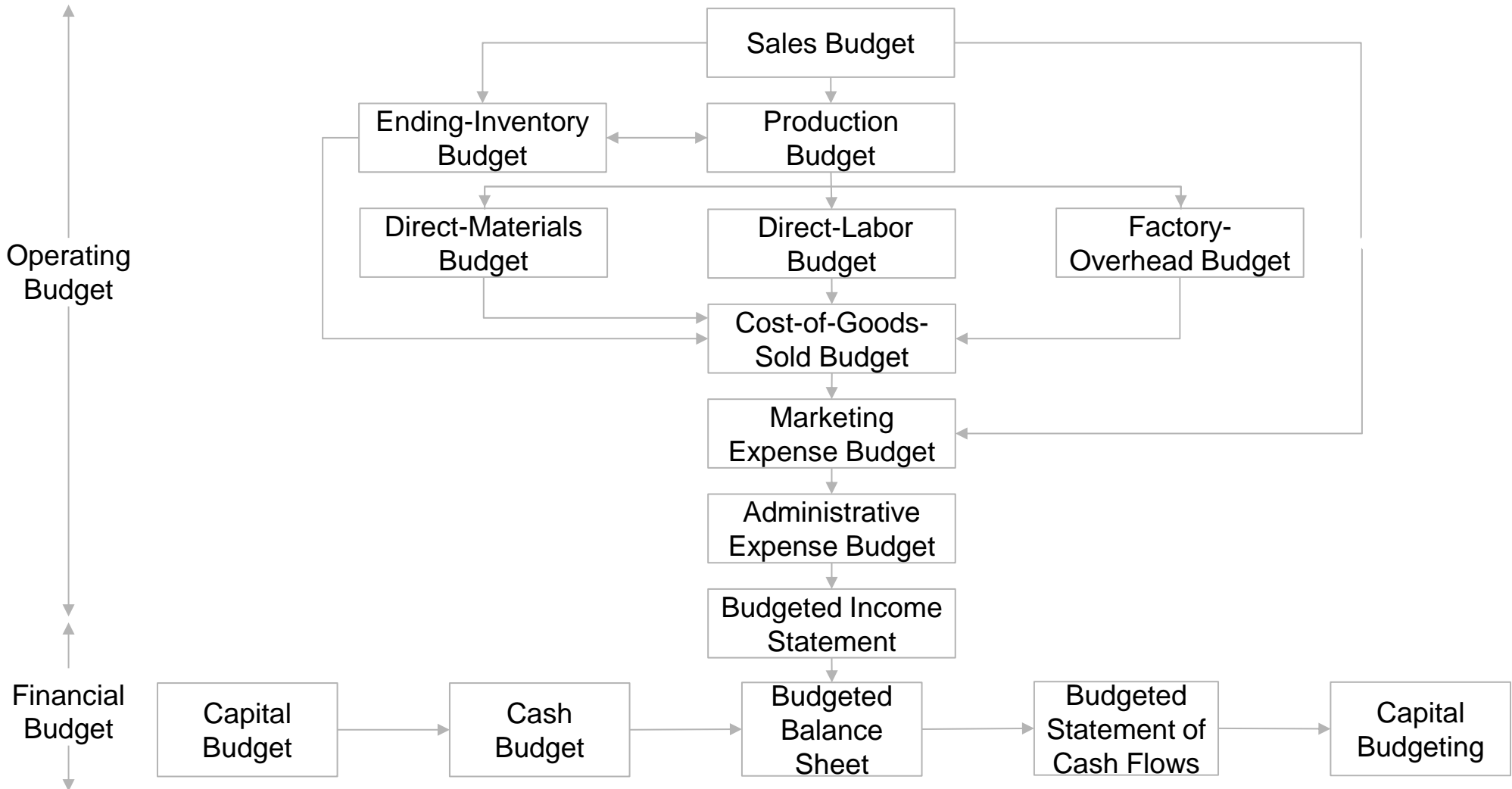


Source: Horváth, P., "Bewertungsinstrumente des Produktionscontrolling", Berlin 1995, p. 18.64 - 18.88

Outline

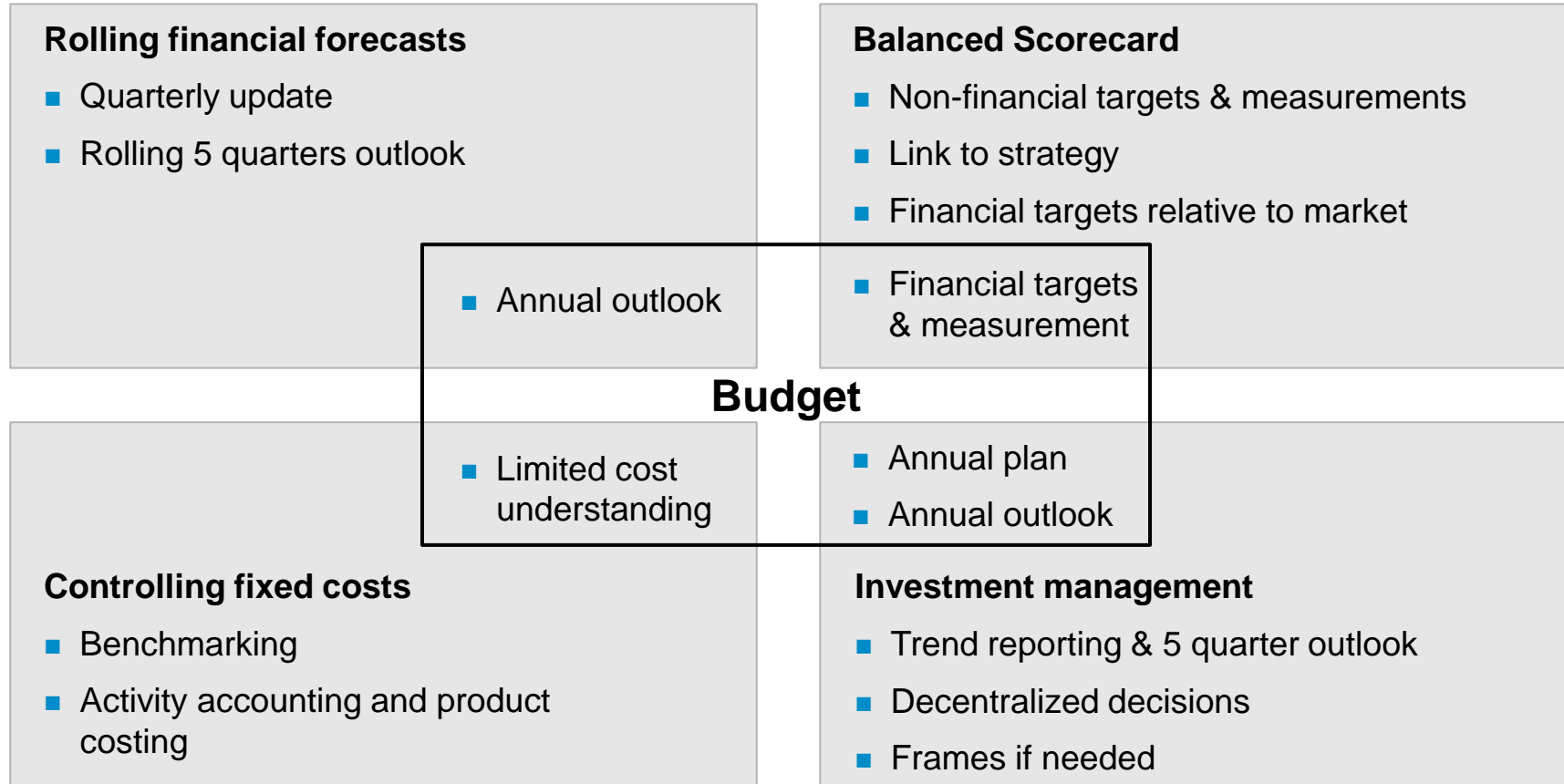
- Why Controlling? 7
- The House of Controlling 8
- From Bookkeeping to Management Accounting 9
- From Accounting to Finance 10
- **From Fortune Telling to Planning** 11
- From Statistics to Management Reporting 12
- From Monitoring to Internal Control 13
- The Future of Controlling 14

Budget-System



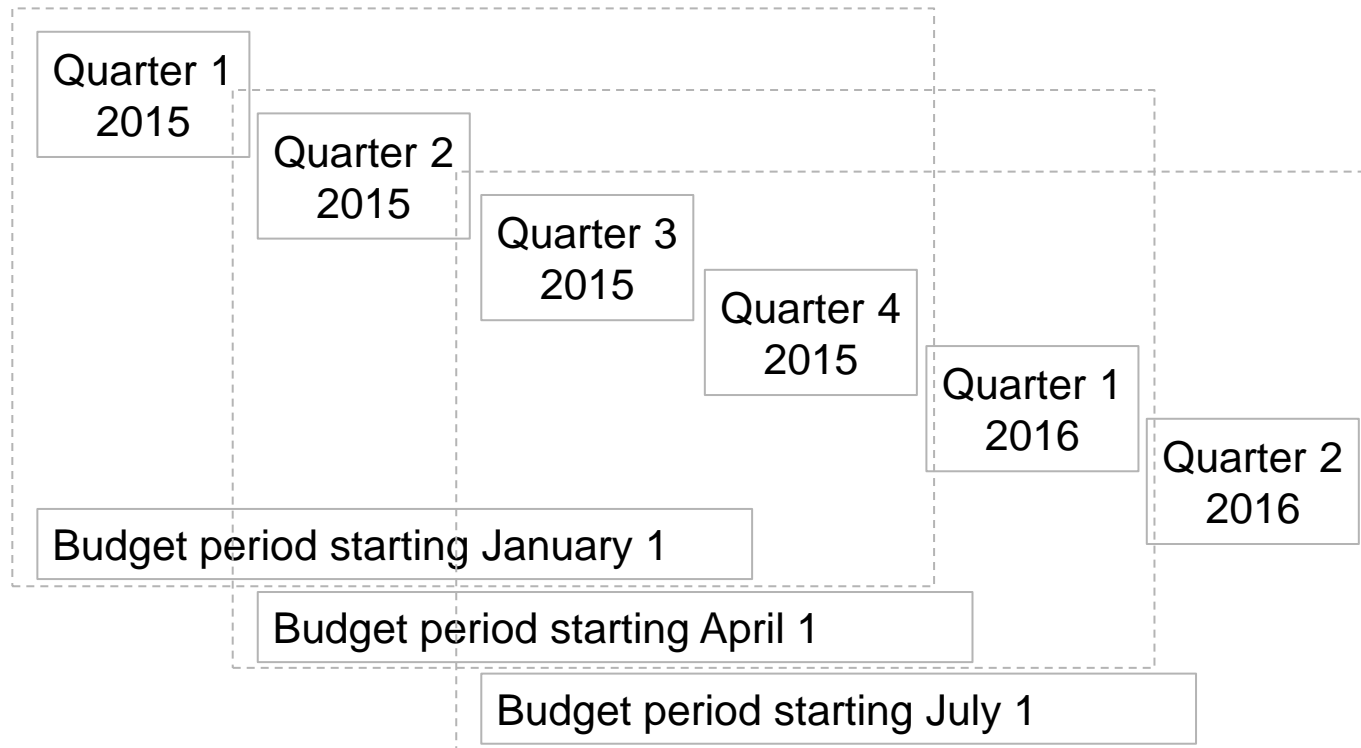
Source: Zirkler, B., "Führungsorientiertes US-Amerikanisches Management Accounting", Universität Erlangen-Nürnberg 2001, p. 209

Budget-System



Source: Boesen, T., "Replacing Traditional Budgets With A New Management Tool", The ICAEW 21st Century Budgeting Conference 2000

Rolling Budgets



Source: Drtina, R., Hoeger, S., Schaub, J., "Continuous Budgeting at the HON Company", in: Management Accounting 1 1996, S. 20-24

Strategic Planning vs. Management Control

Characteristics	Strategic Planning	Management Control
Focus of plans	On one aspect at a time	On whole organization
Complexities	Many variables	Less complex
Degree of structure	Unstructured and irregular; each problem different	Rhythmic; prescribed procedures
Nature of information	Tailor-made for the problem; more external and predictive; less accurate	Integrated; more internal and historical; more accurate
Communication of information	Relatively simple	Relatively difficult
Purpose of estimates	Show expected results	Lead to desired results
Persons primarily involved	Staff and top management	Line and top management
Numbers of persons involved	Small	Large
Source discipline	Economics	Administrative, persuasive
Planning and control	Planning dominant, but some control	Emphasis on both planning and control
Time horizon	Tends to be long	Tends to be short
End result	Policies and precedents	Action within policies and precedents
Appraisal of the job	Extremely difficult	Much less difficult

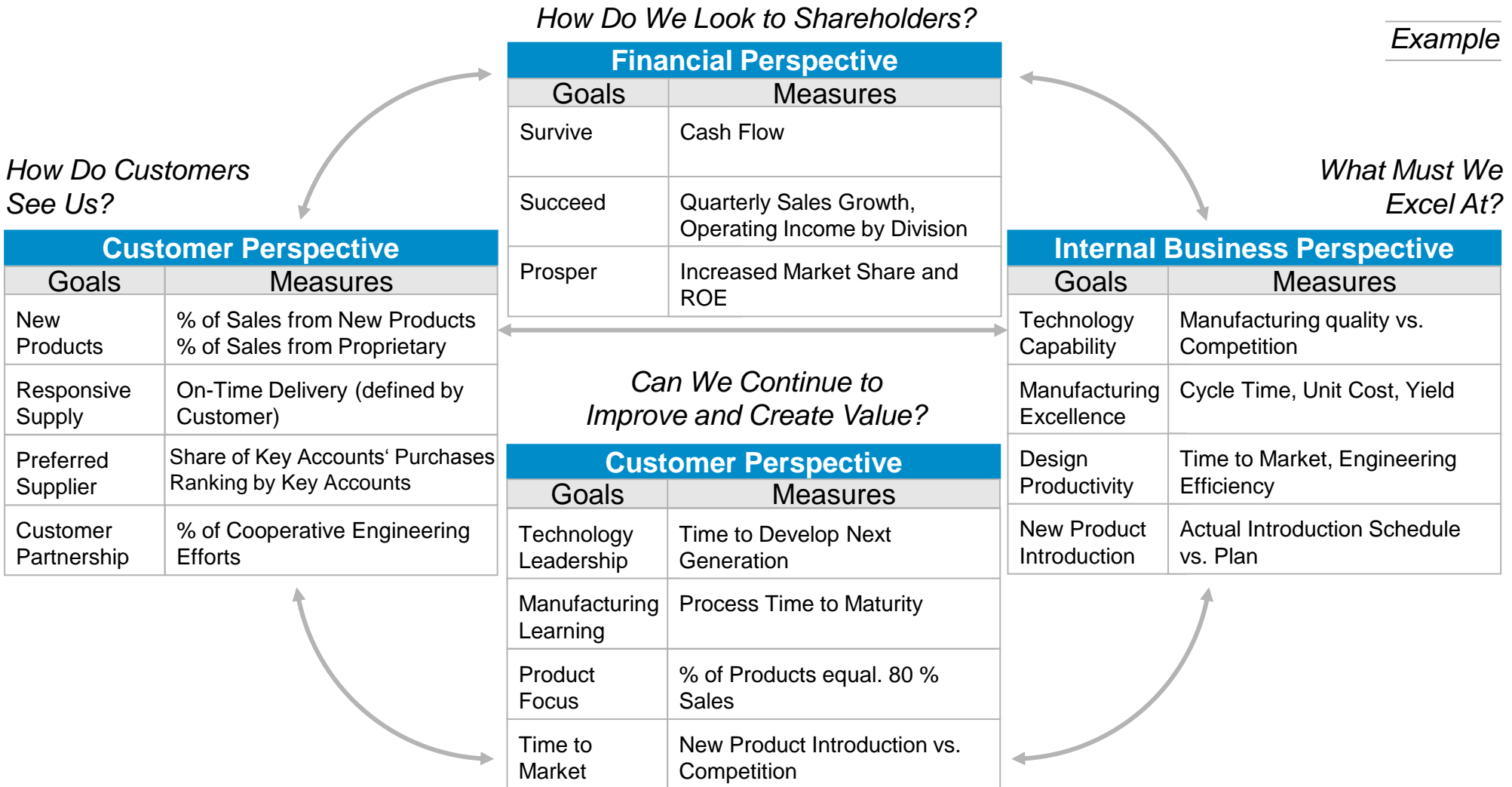
Source: Anthony, R. N. et al., "Management Control Systems", 7th ed., Boston 2003, p. 14

Strategy and Action



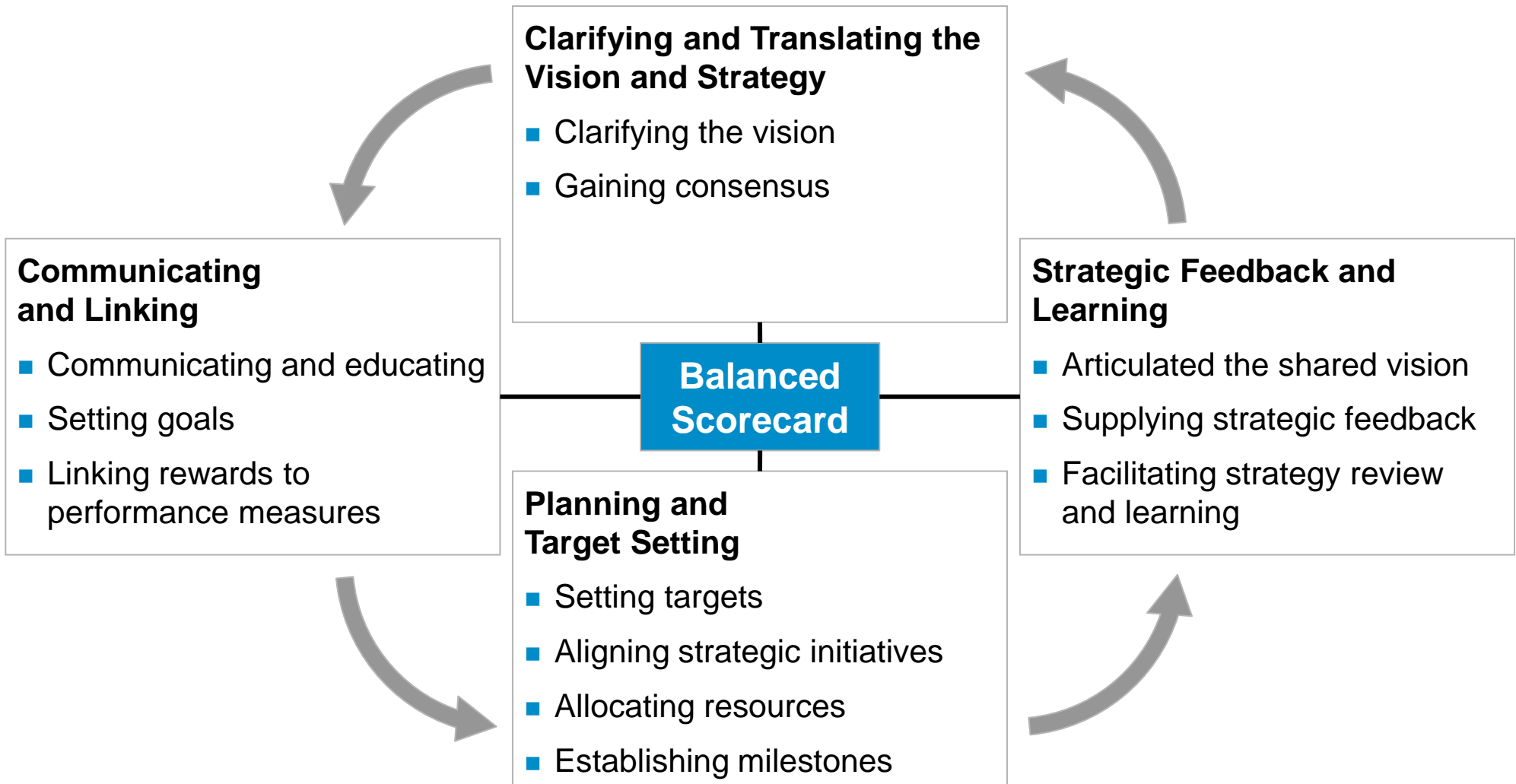
Source: Kaplan, R., Norton, D., "Strategy Maps", Harvard Business School 2004, p. 33

Balanced Scorecard: Translate a Strategy Into Operational Terms



Source: Adapted from Zirkler, B., "Führungsorientiertes US-Amerikanisches Management Accounting", Universität Erlangen-Nürnberg 2001, p. 117

Balanced Scorecard: A Strategic Management System



Source: Kaplan, R., Norton, D., "The Balanced Scorecard", Boston 1996, p. 11

Outline

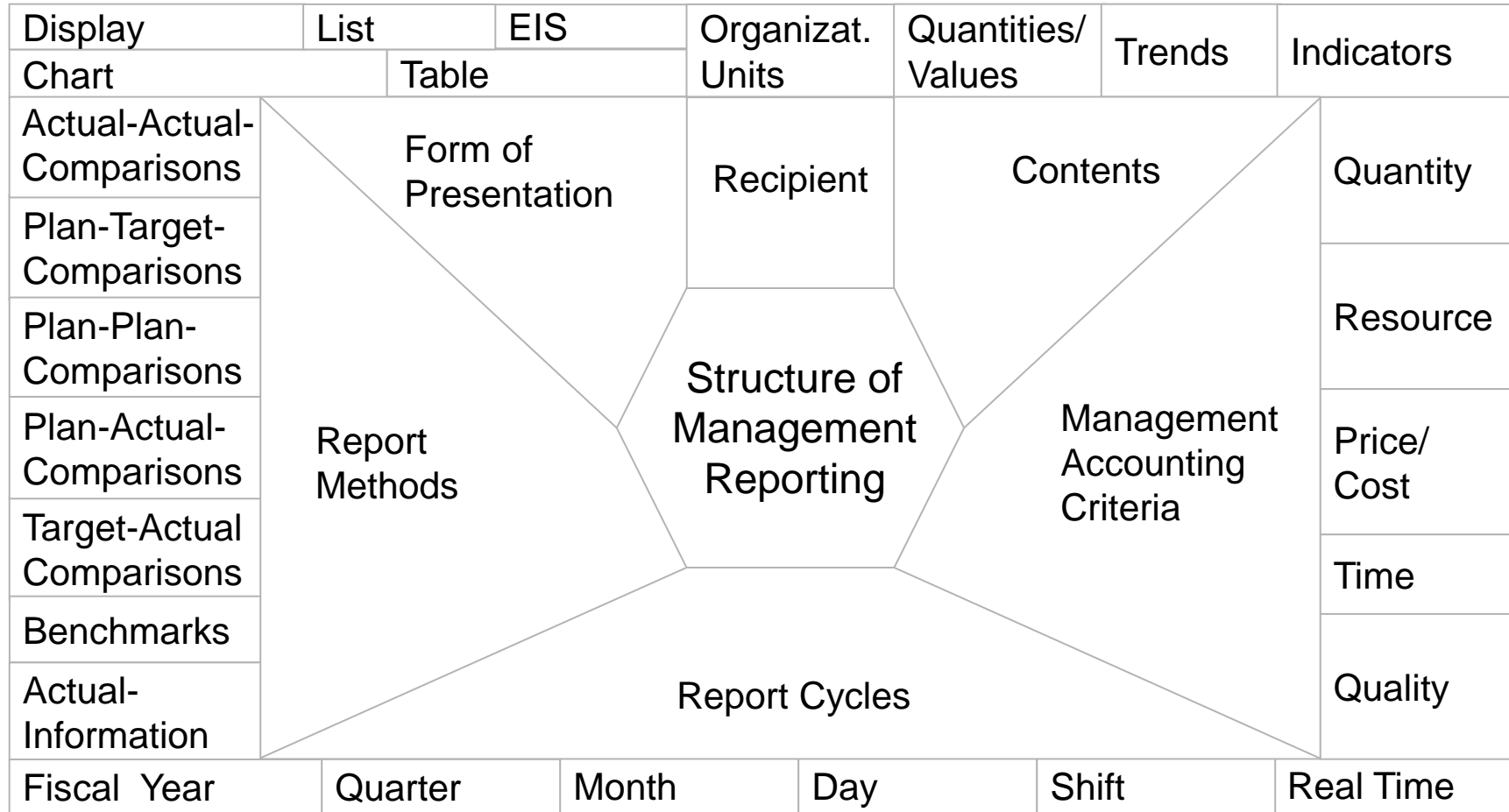
- Why Controlling? 7
- The House of Controlling 8
- From Bookkeeping to Management Accounting 9
- From Accounting to Finance 10
- From Fortune Telling to Planning 11
- **From Statistics to Management Reporting** 12
- From Monitoring to Internal Control 13
- The Future of Controlling 14

Example of a Management Report

	Prev. Y.	PL	Actual	Δ Prev. Y.	Δ PL	Δ PL%	Δ PL
Hamburg	20,2	18,2	24,5	+4,2	+6,3	+34%	
Hannover	15,0	14,4	15,1	+0,1	+0,7	+5%	
Bielefeld	5,6	5,9	5,4	-0,1	-0,4	-8%	
Rostock	4,6	5,0	5,3	+0,7	+0,3	+6%	
Frankfurt ●	84,0	92,4	81,5	-2,5	-10,9	-12%	
Berlin ●	18,4	18,4	15,7	-2,8	-2,8	-15%	
Düsseldorf	8,4	7,7	9,9	+1,5	+2,3	+29%	
Munich	25,1	25,4	25,4	+0,2	-0,0	-0%	
Stuttgart	2,8	2,8	3,2	+0,4	+0,5	+17%	
Rest	2,6	2,4	2,8	+0,2	+0,4	+17%	
Germany	186,8	192,6	188,8	+2,0	-3,8	-2%	

Source: Gleich, R., Klein, A. (ed.), "Der Controlling-Berater", Freiburg 2014, p. 120

The Structure of Management Reporting

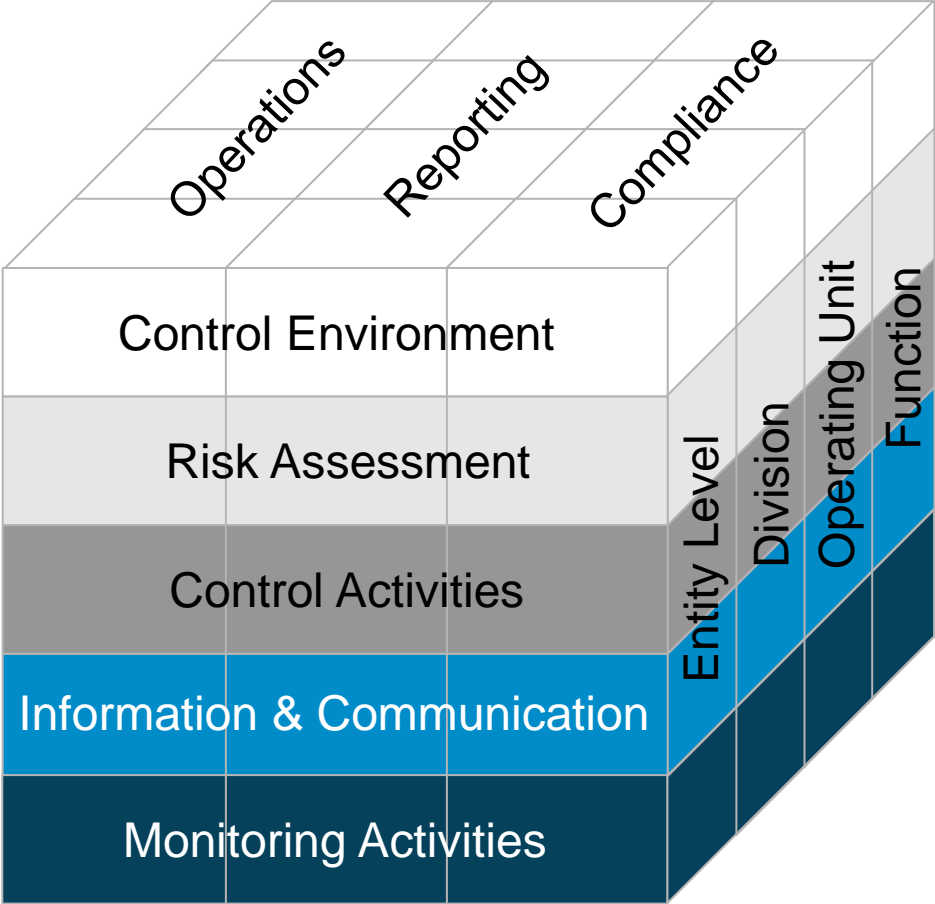


Source: Gleich, R., Klein, A. (ed.), "Der Controlling-Berater", Freiburg 2014, p. 73

Outline

- Why Controlling? 7
- The House of Controlling 8
- From Bookkeeping to Management Accounting 9
- From Accounting to Finance 10
- From Fortune Telling to Planning 11
- From Statistics to Management Reporting 12
- **From Monitoring to Internal Control** 13
- The Future of Controlling 14

The COSO Cube

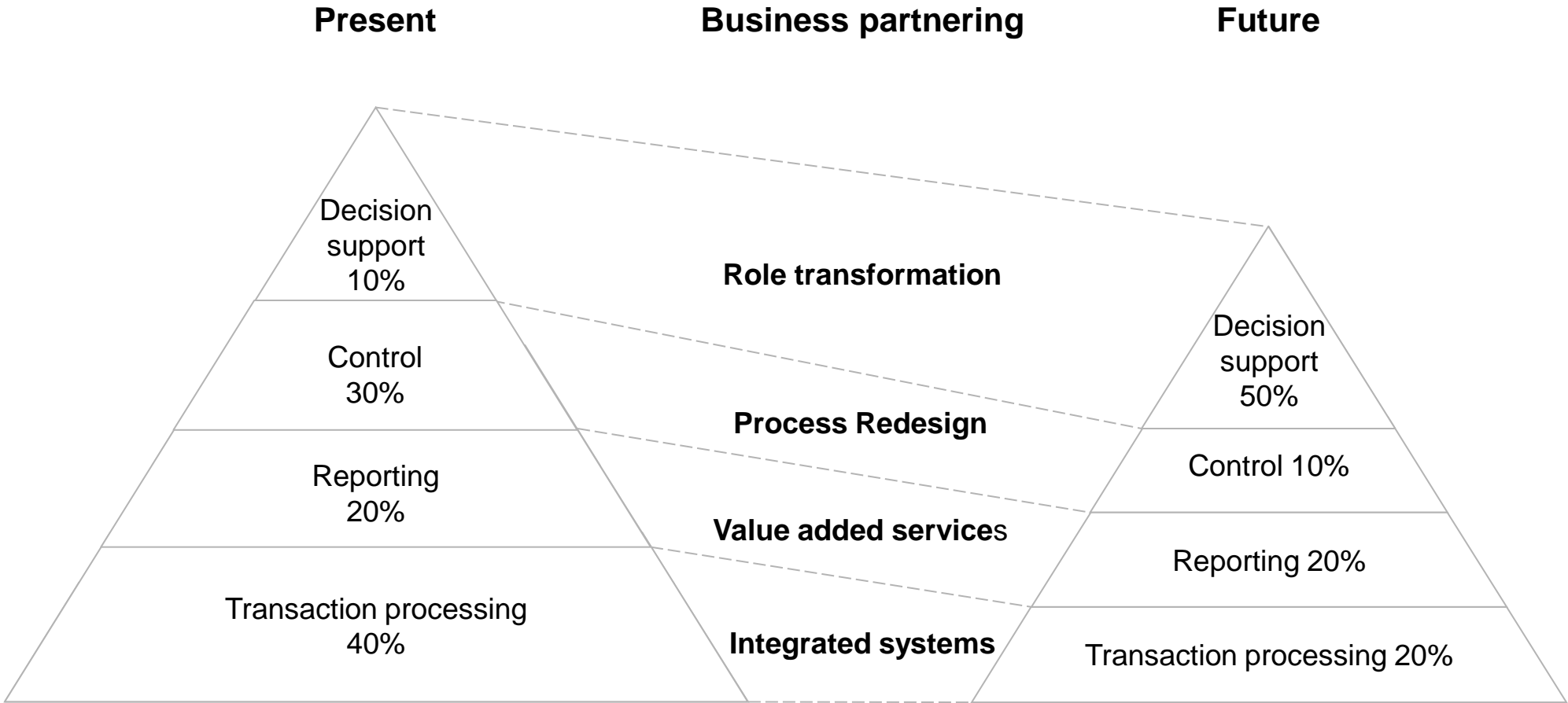


COSO: Committee of Sponsoring Organizations of the Treadway Commission

Outline

- Why Controlling? 7
- The House of Controlling 8
- From Bookkeeping to Management Accounting 9
- From Accounting to Finance 10
- From Fortune Telling to Planning 11
- From Statistics to Management Reporting 12
- From Monitoring to Internal Control 13
- **The Future of Controlling 14**

Refocusing the Resources of the Finance Function



Source: Price Waterhouse Financial and Cost Management Team, "CFO Architect of Corporation's Future", New York 1997, p. 3

HORVÁTH & PARTNERS
MANAGEMENT CONSULTANTS

Steering Business

Successfully