INNOVATION IN CONTROLLING

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Abstract

Current more and more competitive economic environment requires companies to continuously innovate as business cycles are shortening and competitive advantages do not last for long. Innovation is often associated with technological breakthroughs however innovation occurs in all aspects of business. This paper is focusing on innovation in controlling that is the less visible part each company's operations. Three types of innovation in the area of controlling have been defined: redefinition of controller's role, development of information technology and new approaches in planning and budgeting. Firstly the role of controller and financial professionals in general is shifting from analytical and reporting role into roles of business advisors that support the company's business. Secondly Information technology has shifted all aspects of human activity in the last decades. Controllers benefit from this development as well. Controllers are able to Enterprise resource planning system (ERP) that store big amounts of data. The innovation in this area is in linking ERP with business intelligence tools. Last area of innovation is coming from different concepts to planning and budgeting. Rigid yearly planning that does not provide efficient allocation of resources is being replaced by rolling budgeting that enables companies to be more reactive in decision making.

Key words: controlling, innovation, enterprise resource planning, rolling budgeting, business intelligence

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Introduction

The goal of this paper is to find innovation in the less visible part of company's business: in controlling. Firstly current economic environment and need for innovation will be described. Secondly innovation and innovation process will be defined. Thirdly three areas of innovation in controlling will be analyzed.

Current research does not specifically focus on innovation in controlling. All three areas where innovation can be found have been thoroughly separately researched but they are not being assembled as in this paper. Redefinition of finance roles has been in the spotlight of researchers particularly since financial crisis. However researchers focus more on the role of chief financial officers rather than controllers. Innovation in information technology is also very often discussed but focuses mostly on benefits for the whole company rather than on one specific company function. The last area of new approaches in planning and budgeting is the closest to the topic of this paper. That is why majority of relevant research resources are being used there in this area.

1. Economic environment

After the financial crisis in 2008 and 2009 and subsequent economic slowdown in the world economy it is still unsure when and if the world economy will return to its pre-crisis growth. Despite central banks' efforts to insert money into economies by quantitative easing and purchases of government bonds, the fundamentals of those economies still remain weak. This is more apparent in the developed economies in Europe and in the United States. Moreover there is increasing concern of overheating of important developing economies such as China that have served as an engine for growth during the last years.

Throughout the world global companies have to look for growth opportunities in more and more competitive environment. There is no space and time to wait or stand on one place. The current economic environment is characterized by shortening business cycles and competitive advantages that do not last for long. As a typical example could be used the case of Nokia that was unable to predict the boom of smart phones. Despite being the largest manufacturer of phones in the world it was not able to be profitable from its sales. On the other hand Apple had such competitive advantage with its iPhones that it was able to achieve high margins and thus very high profits. However as technological advantage of Apple is being diminished by its competitors it will have to decrease its margins or come up with another breakthrough product.

On the example above it was described how fast the economic environment is changing nowadays as this has happened within a five years period. During this period one company has almost bankrupted while the other company's profits and stock has skyrocketed.

The most visible part of innovation is technological innovation of products as new iPhone can be easily distinguished from five years old classic Nokia phone. However this is just tip of the iceberg. Innovation should not be limited only to new products and technological breakthroughs. New ideas and new approaches have to generated throughout the whole company. This development is also associated with a term of New economy (Kislingerová, 2011). This paper will analyze where there is possibility to innovate in not so visible part the business: Controlling.

2. Innovation

There are several definitions of innovation. Schumpeter considers innovation as an entire part of capitalist system: the essential point to grasp is that in dealing with capitalism we are dealing with an evolutionary process and that: The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates. The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in (Schumpeter, 2003).

Peter Drucker names seven sources of innovation, four such areas of opportunity exist within a company or industry: unexpected occurrences, incongruities, process needs, and industry and market changes. Three additional sources of opportunity exist outside a company in its social and intellectual environment: demographic changes, changes in perception, and new knowledge (Drucker, 2002).

When innovation and its sources are discussed it is often written about technological breakthroughs. As an example could be mentioned railroads, electricity, modern manufacturing, computers or internet. However world is full of small innovation that builds up and benefits from those technological breakthroughs.

One of the areas that are nowadays crucial for well functioning company is Controlling. Three types of innovation could be found in this area have been identified as source of innovation: redefinition of controller's role, development of information technology and new approaches in planning and budgeting.

3. Innovation in Controlling

3.1.Redefinition of controller's role

The creation of position of modern controller and departments of controlling was introduced in the second half of the 20th century mainly in German speaking country. Into the Czech environment controlling was introduced after 1989.

At first controllers' role has not been clearly distinguished from the role of an accountant. The main difference between those two roles is that controllers are forward looking, are interpreting financial statements and making decisions based on them. On the other hand accountants make sure that financial statements are correct and reflect the reality. Their role is not to make judgments based on its results. Even though accountants are integral part of each company they have recently became part of outsourcing processes. Accountants are often assembled in shared service centers as they are capable to manage accounting on distance. However controllers are very rarely outsourced as they are considered as core part of the business.

The second evolution of the role definition came after the financial crisis that in general changed the finance function and its requirements. Before controllers used to be responsible mainly for reporting, data analysis and its presentation to management that made decisions based on this. This has changed and controllers started to be asked to become business specialists who are capable to understand the business of the company rather than just be data miners and reporting machines. Controllers are often asked to make judgments and to move to the role of business advisors or consultants. Controllers should serve fully as a right hand for a general manager in management of the business unit or company. Controllers thus should be informed about all important decision making within the company in order to able to assess it impact on the functioning of the business.

It is important to state that this does not make controller responsible for achieving company's targets. It is still responsibility of general management. Good controllers can assist and help guide company through difficult times but he should not be considered as an only possible savior. This role remains as well with general management. However general management should feel that they have all the information needed and are presented with all the consequences of their business decisions.

There is also a new requirement on controllers' skill set. Analytical and numerical skills are still a must for controllers. On the other hand controllers no longer need specific knowledge of local taxation and legislation as they are required to be very mobile within the company and globally. Tax and legal departments serve as their support locally. On the other hand presentation skills and communication skills are becoming more and more important as controllers cooperate with different functional departments.

While joining the company multinational companies often develop programs that require controllers to go to make a round through the company operations so that they get the business understanding. This could also be a disadvantage in controllers' career growth. It is no longer valid that numbers are the same regardless of the company's business. That means career changes between different types of business are not easy.

To sum up main innovation in redefinition of controller's role is a shift of a role of controller from reporting and data analysis more into data interpreting and business advisor's role.

3.2.Development of information technology

The era of paper and pencil are long gone in almost aspects of human activity. Computers and technology are omnipresent. This applies as well to controlling.

Key to each controller's job is Enterprise resource planning (ERP) system. Enterprise resource planning (ERP) is defined as an integrated computer-based system that manages internal and external organization resources. These resources include tangible assets, financial resources, materials and human resources. At the same time ERP is an application and software architecture that facilitates information flows between various business functions inside and an outside organization, as such, an enterprise wide information system (Bidgoli, 2004). The most known ERP system is SAP.

ERP systems have been firstly introduced in 1990s and then reworked after 2000s. The important parts of ERP systems for controllers financial and management accounting. As the majority of companies are already using ERP system the next innovation is transforming information from ERP system into business intelligence tools. Data storage has been solved by ERP the key is data interpretation and presentation.

ERP systems include big amount data that are not structured in a user friendly way. Therefore business intelligence tools have been introduced in order to enable controllers and other users to analyze data in a desired structure. Business intelligence is often directly linked with ERP that downloads and updates data on regular basis. Controllers' role is to define and create reports and structures that could be used by marketing and sales departments. The biggest advantage is the replacement of manual data downloads and report building as reports are created all at once at the beginning and then only automatically updated. Even though it creates dependency on proper and timely links between ERP and business intelligence it is big time saver. Controllers are able to use saved time to provide more value added activity to all stakeholders.

ERP also does not allow proper planning and simulation of budgets and trends. That is why simulation tools are being implemented throughout companies. Even though Microsoft Excel spreadsheet is still one of the most widely used tools it is being replaced by more sophisticated tools. The key to success of those tools is its possibility to be linked with ERP and business intelligence.

Despite the fact that implementation of ERP, business intelligence and simulation tools require tailor made company solutions that are expensive the payoff is in capability of companies to react fast and appropriately in current changing economic environment. Innovation is in having the right information, in the right structure at the right time.

3.3.New approaches in planning and budgeting

Budgeting and planning is linked with a lot of rigidity and inefficiency.

Budgets serve mainly as tools to measure deviations from plans in traditional approaches to planning and budgeting. It defines, what should be done, how it should be done, when it should be done and by whom. It is important that any divergences from the plan influence possible future courses of action and that managers are able to adjust current actions so that the results of a budget year are as close to the set goals as possible.

There are several reasons why traditional budgeting does not provide efficient allocation of resources. First of all budgets act as a ceiling for costs but they also act as a floor for costs, i.e. managers know that they can spend as much as they are allotted) but on the other hand they try to spend the whole budget even when it is not justified. Managers get their bag of money in the beginning of the year but only start to think about the most value-adding use of the money when the year is coming to an end and the bottom of the bag is visible. To continue the metaphor, another problem is the great number of bags that are handed out every year as the corporate level budget is often broken down to a very detailed level (Norton & Peck, 2006). Combining the vast amount of bags and detailed allocation of money with the turbulent and unpredictable business environment of today is questionable – how is it possible to plan such a detailed budget and the allocation of resources even half a year in advance?

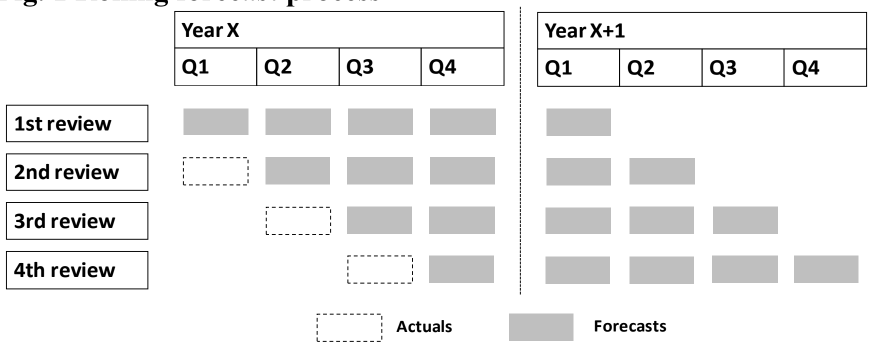
Another weakness of traditional budgeting is that it does not focus on what we get back from the money we invest in the business. There is no distinction between good costs (investments that pay themselves back) and bad costs (Hope, 2006).

New approaches in budgeting and planning such as rolling budgeting are not as rigid as traditional budgeting. They show a different view on how, how often and by whom the planning and budgeting is done. The most advanced concept that will be used as an example in comparison with traditional budgeting is rolling budgeting.

The rolling budgeting concept is based on not being fixed on yearly time horizon but is updated adding another time period when the previous period expired. All plans are thus reviewed and updated on regular basis.

The system of rolling budgeting could be seen on a diagram below.

Fig. 1 Rolling forecast process



Source: J. Hope (2009), Reinventing the CFO

The main advantage of rolling budgeting compared to traditional budgeting is that budgets are available to managers for one year ahead every month and a practice of continuous planning and thinking of the future is incorporated.

Managers are also no longer motivated to inflate or deflate results at the end of budget period and should always have a future oriented vision.

Changing concepts from traditional budgeting to rolling budgeting is a long process that requires mainly change in the company's culture and structure.

Conclusion

Innovation is not limited only to the areas of technology and industry. It is integral part of each human activity. The article has shown three types of where innovations in the area of controlling could be found: redefinition of controller's role, development of information technology and new approaches in planning and budgeting.

Redefinition of controller's role and new approaches in planning and budgeting require change within a company. Even though there is outside pressure and the impact of environment process and mindset changes have to come from within the company as opposed to development of information technology that is dependent mostly on external factors.

Further and detailed research is needed in all the three areas of innovation. It would require detailed evaluation of each to support decision where should company prioritize on implementation of each innovation.

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