The Controlling Concept
Cornerstone of Performance Management

A Practical Guide to Effective Management Control

Vahlen
The Controlling Concept:

A guide to controlling, and how to adopt controlling effectively in business practice.

This book describes, by means of the “House of Controlling”, how you can effectively implement controlling in your business practice. For instance, it clarifies the following questions:

- What is the heart of the controlling concept?
- Which subject areas are covered by an effective controlling system?
- What does state-of-the-art controlling look like?
- By what measures can the success of controlling be determined?
- How can the effectiveness and efficiency of controlling be improved?
- How is controlling continuing to develop?

Chapters are supplemented by organisational checklists and business practice examples, drawn from Horváth & Partners’ many years of experience developing and implementing controlling concepts at home and abroad.

Horváth & Partners is one of Germany’s foremost international consulting firms with core competencies in business management and performance optimisation, and for years has held the top spot in all rankings for Controlling and Finance.
The Controlling Concept

Cornerstone of Performance Management

by

Horváth & Partners
Preface

We are delighted that our tried-and-tested “Controllingkonzept” book is now available in English under the title of “The Controlling Concept”, making it accessible to an even larger readership. This version is the translation of the 8th edition of the German book. A Chinese edition has also been available since May 2018, sitting alongside the German and English version.

The 1st edition of this book was published by Prof. Dr. Dr. h.c. mult. Péter Horváth, professor emeritus at University of Stuttgart and founder of Horváth & Partners, together with associates from Horváth & Partners, and released in German-speaking countries back in 1990. Since then, the book has continued to be developed further based on the latest developments within corporate practice, cutting-edge scientific findings in different management disciplines, and the very latest developments in IT. This edition therefore replicates the state of the art in controlling. The book is targeted at controllers and managers of larger companies, who wish to create a controlling system that complies with both current as well as future company management requirements.

We would like to thank Prof. Horváth, who supervised this edition organisationally and played a key role in shaping its content, as well as the many colleagues from Horváth & Partners contributing to this edition. We would also like to give particular thanks to René Linsner, Frank Poschadel, Christian Huck and Christina Seez, who all made a massive contribution to bringing the English version to life.

Stuttgart, January 2019

Dr. Uwe Michel
Member of the Managing Board
Horváth & Partners Management Consultants
Objectives and structure of the book

How does a company align itself with its objectives and ensure success in the long term? All companies have to face these challenges all the time. The challenges have become even greater given the increasing level of volatility and global uncertainty in recent years. The task for management is to direct the company and to adapt to changes in the corporate environment by way of suitable corporate strategies, structures and processes. Controlling primarily supports management in this task by providing suitable controlling information and processes.

But how is an effective controlling system structured?

By using a wide range of successful consultancy projects regarding the structure and improvement of controlling systems as the basis, Horváth & Partners has developed the “House of Controlling” (see Fig. 1). This covers the central components of an effective controlling system and has proven itself in practice time and time again.

This book provides a detailed description of the components of the “House of Controlling”, illustrating the key findings in a manner that is easy to understand for readers. In addition, specific structural principles for managers and controllers as well as practical examples enable implementation in small- and medium-sized enterprises as well, thus contributing to the distribution of effective controlling systems in all sectors and through companies of all sizes.

This book is specifically designed for practitioners who have experience in dealing with managerial issues, but who require structural know-how for the purpose of a modern controlling system.

The book therefore has the following objectives in mind:

- Readers should become familiar with and understand the central components and design features of an effective controlling system (“House of Controlling”).
- Readers should learn how to deal with the various terms, tasks and tools involved in controlling.
- After having read this book, readers should know how an effective controlling system is structured and which design features need to be observed in particular. They should therefore be able to adapt the knowledge they have obtained to the special characteristics of a company.

This will generally involve replicating the latest status regarding practical and scientific findings on controlling and illustrating numerous examples from corporate practice. The general practice-oriented controlling system is always at the forefront of this. This does not involve a detailed scientific approach as regards individual controlling problems.

The structure of the book is aligned with the components of the “House of Controlling” by Horváth & Partners:

To begin with, Chapter 1 clarifies the term “controlling”, general controlling tasks and an understanding of the role and skills of the controller. This provides the basis for illustrating the components and design features of an effective controlling system in the subsequent chapters.
Objectives and structure of the book

Chapters 2 to 7 describe the individual components of an effective controlling system. All chapters are structured identically to each other. The objectives of the chapter are indicated in the first section. The second section in each chapter illustrates the need to take the component into account as part of an effective controlling system. The third section describes the central design features and the special characteristics to be noted. The fourth section makes use of a practical example to illustrate and supplement the knowledge blocks developed. Each chapter is concluded by way of a summary of the most important findings in the form of structural checklists for managers and controllers. These checklists are based on diverse consultancy experience with regard to the structure and improvement of controlling systems in practical situations.

Chapters 8 and 9 describe the legal, information-related and organisational framework of a controlling system.

Chapter 10 offers a concluding outlook on current and future developments for controlling and controllers.

Overall, the new edition of these proven guidelines aims to provide an illustration of the “state of the art” as regards controlling.
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Introductory Remarks

How can a company be orientated towards a performance goal and manage to ensure that this goal is reached?

Only when the company is able to master this increasingly demanding challenge will its continued existence be secured. But that in itself is not really an answer, because it does not tell us how to master the challenge of performance orientation. This is why successful performance management concepts have been developed all around the world, in academia and in business practice, over the past century.

This book takes a close look at the concept of Controlling, which – while based on US role models – was originally developed in Germany and has since spread and proven itself in Europe as well as America and Asia.

As in other fields, there are various approaches in the concepts for corporate performance management, which sometimes overlap. In many cases, companies have individual solutions which are made up from a mixture of different concepts. Internationalisation and globalisation mean that such “best practices” are communicated and copied all around the world.

One particular problem we find here is the “wording”. Although English has become the lingua franca of the business world, there are still frequent communication problems. This makes it even more important to define terms clearly and also to distinguish clearly between them.

This is especially important for the “Controlling Concept” as the word “Controlling” has become a part of the German language; in English, it does not always carry the same meaning as it does in German.

For this reason, we would like to provide a brief explanation of the most important, commonly used specialist terms in Controlling, and shed light on the relationships between them. We are well aware that some things might be described differently in textbooks and in business practice. We believe we should begin by explaining three concepts and defining how they relate to one another:

• Accounting, which is broken down into Financial and Management Accounting
• Performance Measurement/Performance Management
• Controlling/Management Control
Controlling as the Foundation of Performance Management

In literature and in business practice, the term “accounting” is used in two ways. First, it is used as an umbrella term to describe all the processes and procedures used to collect and process financial data. Usually, accounting is then broken down into financial accounting and management accounting. In the narrower sense, accounting is also used to describe financial accounting, which comprises bookkeeping (today more commonly called accounting) and balance sheets.

The task of management accounting is to provide management with information from accounting to support the decision-making process.

Performance measurement is a set of tasks which deal with the definition and measurement of performance. Performance measurement is an essential element of operationalising corporate targets.

Performance management is a term which is used in a wide variety of ways. We interpret the term in a very broad sense. We see performance management as all the decisions and activities of management which foster the efficient and effective achievement of corporate goals.

Some authors equate performance measurement with performance management. We do not. For us, performance measurement is the measurement of performance whereas performance management consists of the all-embracing management task of ensuring a good or service is actually produced.

In general, management control is seen as the process of planning, managing and monitoring.

Controlling, as described in this book, is a function which integrates the process-based aspects of management control and the topics of performance measurement and management accounting (cf. Figure 1).

![Figure 1: Controlling: Integrative support function](image)

Now, who are the persons in charge of this function?

In English and American English, accountants are the people who are responsible for accounting and balance sheets.
Management accountants (sometimes also called cost accountants in English) are in charge of management accounting.

The controller is responsible for providing all the necessary support for management through systems and information (also including management accounting) – they are the main character of our book (cf. Figure 2).

Due to their close involvement in performance management, the controller is referred to as a business partner to the manager. (The name “management accountant”, which is still common in some places (UK, USA), does not do sufficient justice to the actual role of the controller.)

In our book, we call manager all those people who are responsible for decision-making in the company.

Figure 3 shows an overall view of how we understand the roles and the people playing them in this book:

![Figure 3: The Performance Pyramid](image-url)
Controlling as the Foundation of Performance Management

Financial accounting supplies the basic data from accounting and balance sheets for management accounting. Management accounting and performance measurement are the sole responsibility of the controller. Management control, in the sense of process design and information supply, also falls under the remit of the controller. Performance management operates using Controlling as its foundation.

Thus, we can summarise as follows:

- The Controlling process comprises and integrates management control, performance measurement and management accounting.
- The Controller is the person in charge for management support designing and using the Controlling process (“business partner”).
- Controlling lays the foundation for performance management in the form of information and processes. We see this as all the leadership and management activities which are needed to produce the company’s goods and services congruent with corporate goals.
- On the whole, this concept of Controlling we see as the essential cornerstone of performance management.

This book is a practical guide for manager and controller on how the Controlling Concept can increase the performance of their organisations.

Further reading

1.1 Chapter objectives

In this introductory chapter we will first develop a common understanding of the term *Controlling*, of the general tasks of Controlling, and of the roles and competences of controllers. The main objective of the chapter is to provide the reader with an initial overview of the main components of an effective Controlling system.

![Fig. 1.1: Chapter objectives](image1)

![Fig. 1.2: Position of the chapter in the “House of Controlling”](image2)
1 Nature and Structure of Controlling

1.2 Introduction

Over the years, Controlling has developed continually in business practice and has become an indispensable management support function for any modern company. Nevertheless, there are still considerable differences of opinion about the term Controlling. In many cases, Controlling is often taken erroneously to mean control, but Controlling is much more than that. Controlling is a cross-functional performance management concept tasked with the performance-based coordination of planning, control and the provision of information. Hence, the controller is the “economic conscience” of the company.

In recent decades Controlling has become strongly rooted in nearly all industries; nowadays, Controlling departments can be found not only in classical industrial companies but also in retail, financial services providers, or public authorities. However, alongside the universal necessity for coordinating planning, information provision and control, there are often further specific reasons for setting up a Controlling function in the respective field. These reasons also explain why Controlling functions in different industries sometimes have very individual characteristics.

1.3 Tasks of Controlling

In principle, we must differentiate between Controlling as a function (“controller service”, “controllership”) and the controller as the executor of that function. As a matter of fact, in terms of performance management, Controlling is a core task of management. To a certain extent, every manager performs some Controlling functions. Thus, Controlling as a process and mind-set is created jointly by managers and controllers in a team and forms a type of “intersection”. In this, the controller is involved in the management processes of target-setting, planning and performance management by supporting decision-making through the provision of information and the creation of transparency, as well as being a planning facilitator. As a result, the controller is partially responsible for enabling the manager to take timely, target-based decisions.

Together, managers and controllers share responsibility for the Controlling process (see Chapter 8 for details of the Controlling process). Fig. 1.3 shows Controlling as the area of intersection between the tasks of the manager and those of the controller.

Primarily, Controlling is not the name of a position or person, but rather a remit or scope of tasks carried out by different people, or by management itself, without a specific person actually having to hold the title of “controller”. Above all, in small companies the Controlling function is frequently executed by management itself or by the head of accounting.

Is there a controller mission statement in your company?
The tasks, the self-image and the responsibility of the controller are described very concisely and succinctly in the Controller Mission Statement from the International Group of Controlling (IGC) (cf. Fig. 1.4). The current version of the mission statement explicitly emphasises the controller’s joint responsibility for target achievement. On the one hand, this joint responsibility stems from the fact that controllers are responsible for the accuracy of the information they collect and prepare; on the other hand, it can be derived from the fact that controllers, by designing and accompanying the management process of target-setting, planning and performance management, make a significant contribution to management’s ability to make decisions in time and with an eye on corporate objectives. However, responsibility for the decisions actually taken, as expressed in the adoption of plans, still remains with management.

**Controller Mission Statement**

Controllers design and accompany the management process of target setting, planning and performance management, and share responsibility for target achievement. This means:

Controllers ensure the transparency of business results, finance, processes and strategy and thus contribute to higher economic effectiveness.

Controllers co-ordinate secondary goals and the related plans in a holistic way and organize a reporting system which is future-oriented and covers the enterprise as a whole.

Controllers moderate and design the controlling process of defining goals, planning and management control so that every decision maker can act in accordance with agreed objectives.

Controllers provide the necessary services relating to the provision of data and information.

Controllers develop and maintain the controlling systems.
1 Nature and Structure of Controlling

In general, through coordination, controllers help solve problems caused by the increasing impact of these environmental factors:

- Increasing dynamism and volatility
- Ongoing globalisation
- Changes in value creation owing to new technologies
- Increasingly shorter product life cycles
- The spread of digitisation across all organisations

Controlling enables corporate management to face these challenges head-on with innovative solutions, instead of relying on old, outdated remedies.

Which concrete strategic and operative challenges does your company face?

However, Controlling is not merely a service to enable management to “cover their backs” with the information it provides. It is also an idea which all employees in a company should take to heart. This idea consists of two aspects. First, acting, and taking personal responsibility for one’s actions, to further the company’s bottom line and in line with corporate planning; and second, thinking outside of one’s specific remit and embracing the concept of interface management. Thus, Controlling is not only carried out by controllers but ideally on the spot by the member of staff directly affected. In this way, Controlling is increasingly transitioning into self-Controlling; more than ever, controllers are undertaking “missionary work” to spread the underlying idea behind Controlling.

1.4 Role and job description of the controller

Now that we have discussed the tasks of Controlling, let us turn to the controller as a person and their position in the organisation. As already mentioned, on the one hand, controllers support management, but on the other hand, they also have decentralised (local) activities in that they spread the word about the idea of controlling among employees. Through their involvement in the planning process and the attendant need for information supply, they provide direct support for corporate management. That being said, controllers are active on all tiers of the hierarchy and in all corporate functions. Accordingly, we are starting to see a differentiated Controlling organisation among larger companies, one which is made up of both central and local controllers.

At this stage, however, we do not want to discuss organisational details – that is the subject of Chapter 8. At the moment, it is enough to say that alongside the performance management model and the claim to leadership of the management, the tasks and position of the controller depend heavily on the size of the company. Thus, for small and mid-sized enterprises it is typical for the controller to be a “Jack-of-all-trades” and not
only deal with purely Controlling tasks, while large companies often employ specialists for sub-sections of Controlling in their finance and business functions. Hence, one way of further defining the tasks of controllers and their position within the leadership structure of a company is to take a look at the respective job description.

Fig. 1.5 shows the job description of the head of controlling in a mid-sized company. The job description provides information about the rank and chain of command/line of reporting of the controller and their precise fields of activity, competences and powers. Hence, it is particularly suited to clarifying the framework of the controller’s activities and to clearly documenting the position of the controller.

<table>
<thead>
<tr>
<th>Job description</th>
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<tr>
<td><strong>1.0 Job title</strong></td>
<td>Head of Controlling</td>
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<tr>
<td><strong>2.0 Rank</strong></td>
<td>Head of Department</td>
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| **3.0 Goal** | To develop and implement procedures that help the company to make enough profit  
To support the company’s executives by acting as an analyser, adviser and economic supervisor so that they can all undertake controlling themselves |
| **4.0 Job title of direct supervisor:** | Managing Director |
| **4.1 Holder of the post also follows specialist instructions from** |  |
| **5.0 Holder of the post gives specialist instructions to** |  |
| • Head of Cost Accounting  
• Head of Planning and Reporting  
• Employees in the Controlling department |
| **6.0 The holder of the post is represented by** |  |
| • Managing Directors, in relation to financial, administrative and business-related matters  
• Head of Administration department |
| **7.0 The holder of the post represents** | Head of Administration department |
| **8.0 Special powers** | (Special rights and powers that are not associated with rank and therefore exceed the scope of the general authorisation guidelines should be listed here) |
| • Joint power of representation  
• Banking authorisation  
• Representative of the suggestion scheme (commercial sector) |
9.0 Description of the specialist activities that the holder of the post in particular has to carry out (independently)

- Management consulting
- Responsibility for reporting and management information systems
- Compiling budgets and monthly results
- Variance and benchmark analyses
- Performing, interpreting and commenting on comparisons of targets and actual figures
- Compiling forecasts
- Checking product costings and setting target prices
- Overseeing internal and external reporting
- Carrying out efficiency analyses and investment appraisals
- Financial planning
- Assisting with/carrying out strategic planning
- Analysing processes and developing countermeasures
- Standardising and improving controlling tools
- Project management

Note to the holder of the post:
Your duties as specified in the competencies in the job description are binding. You are obliged to act and make decisions accordingly. You must inform your direct supervisor immediately in the event of major deviations.

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<tr>
<td>Direct supervisor:</td>
<td>Head of Department:</td>
<td>HR Department</td>
<td>I have been provided with the job description</td>
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**Fig. 1.5: Job description of a controller**

For the following sections it is important to bear in mind the picture of Controlling within the management system of the company. Based on these underlying tasks of controllers – coordinator of planning, control and information supply – we can derive all their fields of activity and consolidate them in a cohesive and meaningful framework.

### 1.5 The “House of Controlling” – Building blocks of an effective controlling system

Based on the aforementioned definition of Controlling, the controller’s remit covers tasks relating to planning, control and information supply. In the following section, this framework will serve as the basis for deriving the building blocks of a comprehensive and effective Controlling system.

In order to illustrate both the basic idea and the necessity of Controlling, we will first look at the following classical questions that should be asked in a company (cf. **Fig 1.6**). If you are able to answer all of these questions with a definitive “yes”, then feel free to put this book back down again, as your Controlling function is top of the line. If not, then perhaps you should read on.
1.5 The “House of Controlling” — Building blocks of an effective controlling system

Do you know precisely which of your products makes money and where you take a loss?
Do you know the specific impacts of the measures you take on your bottom line?
Do you know what your earnings are purely based on business principles, i.e. without balance sheet or tax distortions?
Does your planning define ambitious targets and allocate resources accordingly?
Do you receive timely information about whether you are still congruent with the plan or if you are deviating in any way?
Is the need for decision-making escalated in a timely fashion and are appropriate measures initialised when needed?
Can you implement your corporate strategy in concrete earnings and action plans?
Are you aware of the factors which drive up overheads?

Fig. 1.6: Eight examples of questions on the necessity and basic concept of Controlling

Every company has a specific strategy which they pursue by appropriately designing their operative processes and creating a suitable organisational structure. The Controlling system is embedded in this organisation. When it comes to the tasks, organisation and instruments involved, Controlling must form a cohesive entity, must deliver a complete system. In this sense, a Controlling system comprises all the components necessary for executing each and every aspect of the Controlling function.

In all, the Controlling system and its components serve management as management utilises the planning system by creating concrete plans, and to do so processes the information extrapolated by controllers from their information network to finalise decision-making.

For this reason, an effective Controlling system must comprise all components required to guarantee the supply of target-orientated information. This helps management’s decision-making, as management is ultimately responsible for shaping the entire value chain appropriately to suit the changing environment.

Thus, an effective controlling system must consist of the following elements in order to be able to complete the tasks of a planning and control system and of an information supply system (cf. Fig. 1.7):

- **Block 1: Management Accounting** (cf. Chapter 2): First of all, it is vital that corporate management be supplied with the information necessary to objectively prepare for and take the right decisions. Here, the first important step is to determine precisely what information is needed, to gather that information and to present it in an appropriate format. The most important source of information within the information supply system is (internal) management accounting. Management accounting
regularly calculates actual values and compares them with target values to gain information about the real degree to which operative targets are being achieved. This comparison of actual values with targets (target-actual comparison) and the analysis of the deviations form the basis for further performance management measures by corporate management. Effective management accounting consists of cost and profit accounting, investment appraisal and financial statements.

- **Block 2: Strategic planning** (cf. Chapter 3): Frequently, controlling systems are set up purely with the aim of improving the efficiency of operations. Clarity concerning overall company strategy and the strategy of the individual business areas (divisions) is a prerequisite for this perspective. As the general conditions for the strategic management of companies are characterised by growing dynamism, internationalisation and complexity, aspects of strategic management and strategic planning are becoming increasingly important. The most important support activities for strategic management and strategic planning lie in coordinating and managing the strategy process and in supplying management with the information necessary for decision-making. At the centre of this are preconceived developments which represent both opportunities and risks for the company and thus a “potential for success”. The aim of strategic planning is to ensure the competitiveness and earning power of a company in the long term.

- **Block 3: Operative planning, budgeting and forecasting** (cf. Chapter 4): In contrast to strategic planning, during operative planning controllers deal with developments which have already manifested themselves in the present through costs and activities. Budgeting is the transfer of operative plans into numbers and figures. Regular forecasts are created in order to facilitate ongoing monitoring and management of target achievement in the quantified operative plans during the year. A forecast is the projection of planned values throughout the year (e.g. projected annual earnings). This projection forms the basis for deviation analyses and enables the early initiation of reactions and counter-measures.

- **Block 4: Financial planning and performance management** (cf. Chapter 5): Alongside securing the earning power and the economic production of goods and services of a company, the second most important factor for securing the viability and thus existence of a company is to ensure its financial strength, i.e. liquidity. To this end, financial planning and performance management is dedicated to ensuring the company’s day-to-day solvency, to securing short- and mid-term financing and to guaranteeing long-term liquidity.

- **Block 5: Management reporting** (cf. Chapter 6): In many companies there is an organisational separation between the collection of information (e.g. in management accounting) and the use of that data. For this reason, there must be a transfer of information in the form of a suitable reporting system between the points of information creation and information use. Here it is important that we transfer such information in the form of appropriate key performance indicators (KPIs) as will support the planning and control work of corporate management. This means that first we must select the most important information, then consolidate it into suitable KPIs, and finally prepare and present it in a suitable form tailored to the needs of individual recipients.

- **Block 6: IT system** (cf. Chapter 7): Instruments of data processing and modern IT have become an integral and indispensable part of management reporting for companies
1.5 The “House of Controlling” – Building blocks of an effective controlling system

today. The use of modern IT both improves the quality of the information supplied
and of planning and control and makes the processes involved far easier (e. g. through
automated data preparation, IT-based planning models or automated reporting sys-
tems). The biggest challenge here is digitisation.

- **Block 7: Organisation** (cf. Chapter 8): Generally, Controlling organisation is seen as
the combination of the organisational and operational structures in Controlling.
When creating the organisational and operational structures, we should ask ourselves
the following questions: Which fields of activity should be assigned to a Controlling
department? At which level in the company organisation should Controlling ac-
tivities take place? In which order do Controlling processes take place? How are
the Controlling activities integrated into the processes and procedures of the other
corporate functions?

- **Governance** (cf. Chapter 9): In order to exercise direction, coordination and moni-
toring, it is necessary to have a regulatory framework which ensures that rules and
regulations are adhered to and that risks can be countered. This adherence to rules
and regulations is vital and is known as compliance.

![Fig. 1.7: “House of Controlling” – Building blocks of an effective Controlling system](image-url)
1 Nature and Structure of Controlling

The Horváth & Partners “House of Controlling” comprises all the necessary building blocks of an effective Controlling system (cf. Fig. 1.7).

When designing the “House of Controlling”, the following questions must be answered for each individual component:

- What are the tasks?
- How should the processes be designed?
- Which interfaces and touchpoints must be considered?
- Which instruments are used and where?
- Who is involved and how?
- How is this embedded in the organisation?
- What IT support is planned?

During the course of this book we will provide a detailed description of each element in the House of Controlling and its main characteristics, and create design checklists for managers and controllers.

1.6 The “House of Controlling” and its context factors

The previous section summarised the central elements of an effective Controlling system in the form of the “House of Controlling”. Now, however, we have to ask the question: How should we design the specific details of those building blocks, i.e. how should we breathe life into the House of Controlling? The answer to this is that there is no “one” controlling system which suits all companies. Rather, the House of Controlling depends on the business model of the specific company and the situation and environment that company finds itself in.

What sort of business model does your company have?

The starting point for the “House of Controlling” is the business model of a company (cf. Fig. 1.7).

As everyone seems to be bandying the term “business model” about, and everybody understands it in a different way, first of all we should define what the term actually means. The description of a business model developed at the University of St Gallen in Switzerland is so simple, clear and convincing that we have used its structure as the basis for the explanations and information provided here (for more details, see Gassmann et al. 2013). This model has four elements which form a “magic triangle” (cf. Fig. 1.8):

1. Who are our target customers?
2. What benefits do we offer our customers?
3. Which value chain do we use to produce our goods and services?
4. How do we generate a financial return?
1.6 The “House of Controlling” and its context factors

Fig. 1.8: Structure of a business model (Gassmann et al. 2013, p. 6)

Fig. 1.9: 7C Principle
Another approach to appraising a business model is offered by the 7C Principle developed by Horváth & Partners (cf. Fig. 1.9). At the heart of this principle is the strategic core of the company which comprises the basic decisions of the company. These decisions concern defining the product portfolio, selecting the target customers and markets, and utilising the core competences. The other elements “circle” the strategic core and their correlations must be investigated and defined.

- **Customer perception:** Customer perception focusses on those design aspects which take place in particular in the minds of the customers, in their perception. This includes market-related value proposition, positioning on the market and the type of brand utilisation including the instruments of communication used.

- **Customer interface:** The customer interface consists of those decisions which determine the direct interaction with the customer. This includes sales channels, the earnings model (i.e. clarification of precisely what the customer is willing to pay for), customer loyalty concepts (e.g. via contracts, bonus programmes or personal relationship) and the design of the customer service.

- **Value Chain:** The value chain addresses the method of producing the good or service and looks at the core services and service level, existing (production) locations and how they are networked, and (production) procedures used.

- **Cooperation partners:** Within this dimension of the business model we define who the company cooperates with and how that cooperation takes place. Alongside working together with suppliers, both alliances and affiliations (including M&A activities) play an important role.

- **Concepts for the future:** At the core of this design field is the analysis of the main focus of innovation, the definition of the dynamics of innovation in the sense of timing (e.g. first mover v. early follower), and decisions relating to the depth of innovation, thereby answering the question of whether external partners are integrated into the different phases of the innovation process.

- **Human capital:** The human capital component of the business model focuses on the personnel and knowledge structures of the company, as well as aspects relating to corporate culture.

The business model influences the House of Controlling in different ways. Firstly, the business model, strategy and strategic planning complement one another. In simple terms, this can be described as follows. The business model describes the customer-centric architecture of the business; the strategy and strategic planning focus on maintaining competitiveness and ask questions about the company’s unique selling proposition (USP). Against this background, the business model also forms the basis for, for example, financial plans and budgets.

Changes on the market due to company-specific environmental factors (e.g. new competitors, new technologies, changes in customer behaviour) make it imperative to continually evaluate the business model and, if necessary, to develop it. Only in this way can a company prepare itself in time for changes and maintain or develop its own competitive position.
1.6 The “House of Controlling” and its context factors

Do you systematically map the factors which affect the environment your company operates in (e.g. using 5 Forces)?

Thus, the design of the House of Controlling is also heavily dependent upon the company-specific environmental factors. We can use Porter’s Five Forces (Porter and Heppelmann 2014) to systematically map a company’s environment. This can help companies to describe and understand their own environment based on five competitive forces (cf. Fig. 1.10). These forces influence the profitability of a company. The stronger the forces are, the more difficult it is for a company to be profitable in its industry.

Each individual competitive force has a different impact on the company and, in the final analysis, on the House of Controlling.

- **Competition from existing and new companies and from substitutes:**
  The intensity of competition describes how strong the rivalry is within a market or an industry. If competition between the existing companies is intense or if it becomes more intense due to new entrants or substitute products, corporate management must think about expanding or changing their portfolio (entirety of all products and services) or about changing the technologies they use (equipment, procedures and methods for producing the goods and services).
  Here, the impacts of the portfolio on Controlling are manifold: Controlling must design the concept for information supply and reporting which enables the company to take decisions on streamlining or expanding their products and services. The broader and deeper the portfolio is, the more complex this task becomes.
  For their part, the technologies used affect above all the cost estimation proce-