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The electronic professional journal of IAFEI
(International Association of Financial Executives Institutes)

Foreword December 19, 2012

Dear Financial Executive,

You receive the **IAFEI Quarterly**, **Special Issue,**
Management Control,
International Observatory 2012

The **International Observatory of Management Control** has been launched at the end of 2010 by the French IAFEI affiliate, DFCG, in partnership with Decision Performance Conseil.

The **2011 edition** of the Observatory was based on a descriptive analysis of international practices identified in over 14 countries, related to the activities, processes, methods, and systems. This analysis, the first ever made, has been very successful internationally, allowing us to get a clear understanding of management control practices depending on the country, the industry sector and the company size.

Beyond cultural or professional habits specific to every country, we noticed that management control practices were defined depending on the company's typology. We also identified and measured the emergence of a kind of management control more outward-looking and open to innovation.

The **2012 edition**, has undertaken further analysis, based on a greater diversity of respondents (36 countries) and using a questionnaire similar to the one used in 2011, to ease comparison. Last year, the results included both a descriptive analysis and a typological analysis. An analysis of efficiency profiles in management control practices has been added this year.

I hope the detailed results of the survey for 2012 will be of great interest for you. Furthermore, the IAFEI board of directors has decided to recognize the value of our International Observatory of Management Control and has dedicated to the Observatory one of the four IAFEI permanent working committees. We will then be happy to come back to you for the 2013 survey of the Observatory.

In the meantime, I wish you all my best for the end of this year and a very happy new year.

Best regards,

Frederic Doche,
Chairman of the DFCG Management Controller Commission,
Founder and CEO of Decision Performance Conseil
frederic.doche@conseil-dpc.com

Letter of the Editor — December 19, 2012

Dear Financial Executive,

You receive the **IAFEI Quarterly**, **Special Issue,**
Management Control,
International Observatory 2012

This is another issue of the IAFEI Quarterly, the electronic professional journal of IAFEI, the International Association of Financial Executives Institutes. This journal, other than the IAFEI Website, is the internal ongoing information tool of our association, destined to reach the desk of each financial executive, or reach him, her otherwise, at the discretion of the national IAFEI member institutes.

The attached study **"International Observatory of Management Control 2012 Results"** has been made by the **French IAFEI member institute DFCG,** in association with **Decision Performance Conseil**.

We wish t o make the results available to all IAFEI member institutes, and we do thank the French member institute DFCG and all members of the French Expert Team to give permission for re-issuing this study.

Once again, I conclude with our ongoing invitation to IAFEI member institutes, and to their members, to send us articles for inclusion in future IAFEI Quarterlies, and to also send to us your suggestions for improvements.

With best personal regards,

Helmut Schnabel

INTERNATIONAL OBSERVATORY OF MANAGEMENT CONTROL 2012 RESULTS

Which activities? Which processes?
Which methods? Which systems?

DFCG ASSOCIATION NATIONALE DES DIRECTEURS FINANCIERS ET DE CONTRÔLE DE GESTION

Décision Performance Conseil

ESSCA ÉCOLE DE MANAGEMENT

Composition of the working group:

Leader:

Frédéric DOCHE, Chairman and founder of Decision Performance Conseil
Member of DFCG Scientific Committee
Co-Chairman of DFCG Management Control & Decision Making

Members of the working group:

John BILQUEZ, Senior Consultant, Decision Performance Conseil
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Xavier DURAND, Head of Finance Department, ESSCA
Catherine KUSZLA, University Professor, Université d'Angers
Sylvia PIEL, CFO, Armand Thiery
Nicolas ZANELLI, CFO, Mayence

Many thanks for their contribution and support to:

Decision Performance Conseil (www.conseil-dpc.com)
ESSCA, School of Management

Our thanks also for their support:
Thierry LUTHI, Chairman, DFCG
Armand ANGELI, Chairman, DFCG International

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1. Management Summary

The DFCG International Observatory of Management Control (IOMC), in partnership with the consulting firm Decision Performance Conseil and the management school ESSCA are presenting the results of their study for the second year running.

The 2011 edition of the Observatory was based on a descriptive analysis of international practices identified over 14 countries, related to the activities, processes, methods, and systems. This analysis, the first ever made, has been very successful both in France and abroad, allowing us to get a clear understanding of management control practices depending on the country, the sector and the company size.

Beyond cultural or professional habits specific to every country, we noticed that management control practices were defined depending on the company's typology. We also identified and measured the emergence of a kind of management control more outward-looking and open to innovation. In 2012, we wanted to undertake further analysis, based on a greater diversity of respondents (36 countries) and using a questionnaire similar to the one used in 2011, to ease comparison. Last year, the results included both a descriptive analysis and a typological analysis. An analysis of efficiency profiles in management control practices has been supplemented this year.

The sample of management control professionals who completed the survey has been widen to new American and African countries, and thus strengthens both international and sector coverage

All sizes of companies are represented in a consistent way with greater representation of sectors such as Energy, Construction, Bank, Insurance & Financial Services, and Transport & Logistics. Profiles are generally more financial, younger but more trained compared to last year's ones. They rather report to the Finance Department.

In a tougher environment than in 2011, management controllers have been increasingly pressured. Internal reporting remains the activity on which most time is spent. With the sharp decline of the added value generated by budget and forecasting activities, we notice that activities related to the performance of operations on a short term are strengthened, and management controllers are getting more involved in business reviews.

In terms of processes, short term forecasting is declining for the benefit of reporting, produced more frequently, which proves information is needed at a time of great uncertainty. If the timeframe for indicators production is getting consistent, in 2012, it seems that companies can no longer wait to know their performance. Transparency and involvement of operational resources are assigned to short term. More indicators have been used, in particular for cash flow follow up and for CSR (Corporate Social Responsibility), which appears to be a rising and significant topic. Such a phenomenon clearly reflects that companies are intending to adapt their performance review.

In 2012, the use of all structuring methods is making progress, which testifies management control practices are becoming more professional. Last year, we highlighted the growth of benchmarking; it is still increasing this year. It can be noticed that benchmarking is mostly internal in the USA, whereas in Europe, it is mostly based on external or mixed indicators. If BSC method (Balance Scorecard) is growing in every country, its use is definitely soaring in two specific sectors: distribution and industrial equipment. We can also notice ZBB breakthrough (Zero Based Budget); included in large companies, which may be explained the constant need to control cost; as well as the emergence of beyond budgeting.

Systems wise, the survey has been extended to the use of software packages for performance monitoring, suggesting specific tools as possible answers (budgeting tool, spreading dashboard tool, multidimensional program). If Excel remains the first tool used in all activities, we can see that its use is clearly decreasing, in particular for plan building. American companies are better equipped than European ones with ERP and dashboard diffusion tools. We can point out the low number of projects planned by the companies for the monitoring information system development or redesign. This might be linked to the tight budgets assigned to tools' evolutions, which is a bad omen for the monitoring systems improvement in the coming two years. Indeed, an efficient system to measure the performance can be a real lever and an asset in a tense economic situation.

In 2012, we brought in a new qualitative analysis of efficiency profiles in management control practices. This analysis has been structured in five lines of efficiency for management control practices:

- Agility;
- Innovation;
- Globality;
- Participation;
- And Transparency.

With this support tool for practices improvement, we noticed that management controls practices in medium size companies are more efficient, related to the fact that they are more participative, global and innovative than those observed in smaller companies.
As for practices observed in large companies, they seem to be more transparent and flexible. Fast growing companies have the most efficient practices, which are more flexible, participative and global. Practices in companies facing a slowdown are less transparent. In terms of sectors, Distribution has the most efficient practices while Public Services have the less efficient ones, especially regarding transparency and completeness. Practices on Logistics sector are the most innovative but are neither very agile nor global. German companies' practices are more efficient because they are more participative and global.

International Observatory of Management Control results are ending with the cluster analysis of management control practices in which are identified "natural groups" among a set of qualitative data.

Four company's profiles have been defined from 2012 sample:

- Social companies;
- Controlled companies;
- Dynamic companies;
- Companies in trouble.

We can see that the most dynamic companies are the ones that consider that forecasting and risk are at the very center of their concerns. In their efforts to cope with the ambient gloom, most companies choose monitoring systems that they would not have considered until recently, and take a real interest in knowing the most advanced tools (BSC for example).

Finally, it can be noticed the continuous standardization of management control practices depending on companies typologies (it had already been mentioned in 2011). Geography is no longer a discriminatory criterion.

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Some key figures

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36 countries have been surveyed and root the legitimacy of the Observatory 2012

90% of respondents discern that all their activities are either increasing or remaining stable in terms of time spent or added value

-9 added-value points for budget

44% of companies are using new indicators

+5 percentage points both in the use of the cash flow indicator for the plan and the budget

+6 percentage points for the use of Balanced scorecard (BSC)

25% of respondents are using the Zero Based Budget (ZBB)

-10 percentage points for the use of Excel

57% of companies need a more integrated tool

53 % of companies do not have any project for the upgrade or reengineering of their Monitoring Information System within the next two years

2. Introduction of the International Observatory

2.1 General introduction

The International Observatory of Management Control has been launched at the end of 2010 by the DFCG (Association Nationale des Directeurs financiers et du Contrôle de Gestion, the French Financial Association) in partnership with the consulting firm Decision Performance Conseil.

The purpose of the Observatory is to get a better understanding of the management controller's activities, processes and methods, and ~~of~~ the tools used all over the world.

In the current crisis environment, management control professionals are facing many challenges: they are responsible for helping to comprehend a world becoming more complex, to cope with increasingly volatile markets, to measure changeable activities and unpredictable performance, and to cope with the increasing expectations from the Financial Department or from the Head Office.

The management control function is becoming more and more central in the company, either to make the link between operations and company performance, or to improve the company flexibility in an ever-changing environment, or to support innovation on fast-moving markets.

As we stated last year, it is difficult to compare management control practices between different countries as it could make us leap to hasty conclusions. The International Observatory of Management Control provides responses, and 2011 results have been presented many times, published on the AFEI website (International Association of Financial Institutes), and commented during the FEI congress (Financial Executive Institute) in the USA.

It seemed important to Frederic DOCHE, co-chairman of DFCG "Management control and decision-making" committee, and chairman and founder of Decision Performance Conseil, to refine the analysis and to compare results between two consecutive years.

The partnership between DFCG and Decision Performance Conseil therefore continued and produced the 2012 results of International Observatory of Management Control that you currently hold.

These conclusions will be presented during Financium 2012 congress and during the IAFEI 2012 international congress that will take place in Mexico.

As in last year's edition, you will find in this document an analysis of 2012 results complemented by a cluster analysis of management control practices (Chapter 8).

We added this year an analysis of the efficiency of management control practices (Chapter 7) in order to help management control professionals to identify the keys of strategic benefits of management control towards their company's performance.

2.2 International partners

As in 2011, the 2012 Observatory was backed up by a **survey of 36 countries on the internet**, with the help of the IAFEI, International Association of Financial Executive Institutes.

In each country, it has been forwarded by the following financial associations:
AEEF (Spain),
ANDAF (Italy),
CFO-FORUM (Israel),
CIMA (UK),
FEI (USA),
FINEX (Philippines),
GEFIU (Germany),
IAFEI (World Wide),
IMA (USA),
IMEF (Mexico),
and of course, DFCG in France.

We would like to thank all the local representatives who contributed to extend the survey to **22 new countries.**

2.3 Some information about the companies: diversity in terms of nationality, economic sectors and structures

The 2012 study: always multi sector, multi size and more international.

Companies from 36 countries answered the questionnaire this year compared with 14 in 2011. In 2012, African and American companies, especially from Mexico and United-States, are more present.

The companies from the Energy/Utilities, Engineering/Construction, Bank/Insurance and financial Services and Transport/logistics sectors strengthen their appearance. We can notice the same trend for small and medium sized companies (Fig. 2.3-1 and -2). The distribution by capital nature listed or not listed) strictly remains the same as 2011 (21% and 79% respectively).

Fig. 2.3-1. Distribution by turnover (in Euros)

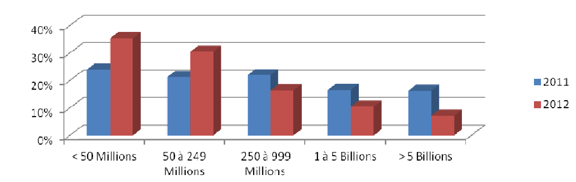
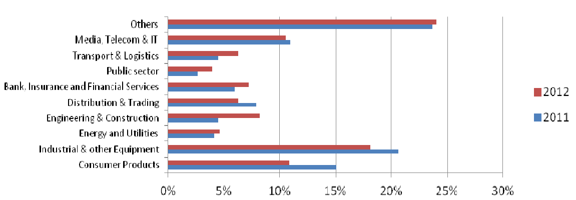
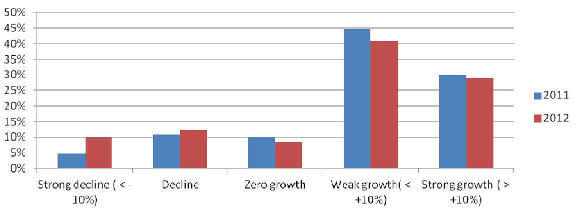


Fig. 2.3-2 Distribution by economic sector



A harder economic context in 2012 than in 2011 (Fig. 2.3-3)

Fig. 2.3-3 Evolution of the turnover over the past fiscal year



Nevertheless the responding companies show an economic dynamism through their high turnover growth rate. This growth rate is weak or strong for 70% of them. And the Products/Services innovation still remains the primary driver of economic growth (as in 2011).

2.4 The profile of the respondents: experienced and trained controllers

A similar population in 2012 versus 2011 in terms of professional experience, but younger and more trained (Master level).

The gender distribution is strictly the same for both years (men 78% and women 22%).

2012 respondents still are characterized by their financial profile, their wide responsibilities and a true professional experience in the management control function (more than 10 years).

Their financial profile is more accented:

- In the 2012 « Financial » controllers » appear more clearly whereas CFO and Management controllers are less represented (- 15 points and – 8 points respectively).
- More CPA degree holders answered the questionnaire in 2012 (30% in 2012 versus only 21% in 2011).
- This year more controllers own a specific diploma in Management control, which allows them to practice management control in their country (16% in 2012 versus 8% in 2011).

Fig. 2.4-1 Age of the respondents (years)

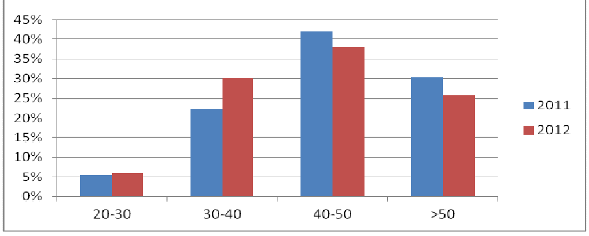
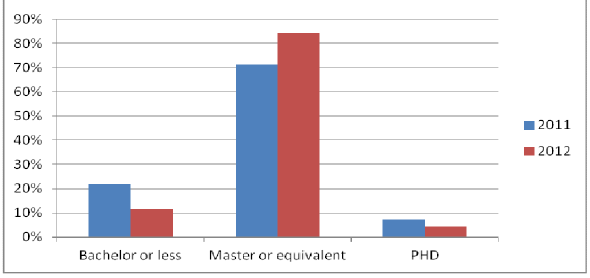
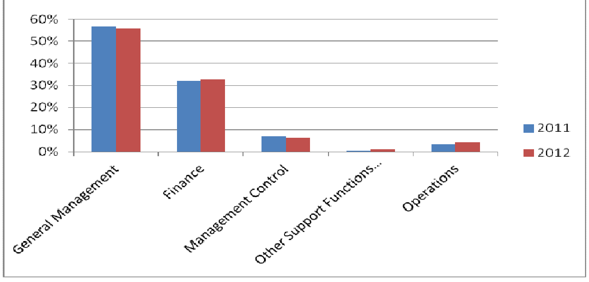


Fig. 2.4-2 The respondents' higher degree



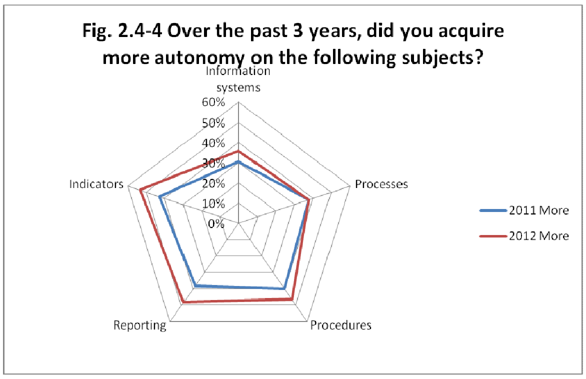
The respondents hierarchically are now slightly more dependent of the financial function.

Fig. 2.4-3 Who do you report to ? Hierarchically



Comparatively to 2011, respondents claim that they are more autonomous in their scope of responsibility, specifically in their activities

of reporting, choice of indicators, procedures and Information systems implementation.



The question about the delegation of power (from the top to the bottom) shows that power mainly remains in the headquarters level, (more than 56% of the answers), but this proportion strongly decreased (65% in 2011). The feeling of a greater autonomy is developing.

Hierarchical or functional management rates are exactly the same in 2011 and 2012.

Mainly the respondent is responsible for a small team (less than 20 people) but has functional links with a group of 5 to 20 other colleagues or members of his/her company.

3. Activities of the controllers

3.1 Breakdown of activities

Activities of respondents cover:

- Reporting (internal and external);
- Forecasts and forecast updates;
- Planning (plans and budget);
- Operational performance (variance analysis, animation with business functions, business reviews);
- Management accounting;
- Development of information systems;
- Internal control;
- Monitoring of non-recurring projects (merger, acquisition, structuring investments, etc.).

In parallel, the survey measures the level of commitment in specific activities of management control such as risk management, assessment or management of intangible assets, sustainable development reporting/ social and environmental reporting, human resources, quality programs, communication with financial investors, identification and implementation of new systems of management control, transfer pricing, calculation and updates on accruals, cash flow forecasts, mergers and acquisitions, partnerships.

Fig. 3.1-1 Variation of time spend 2012 versus 2011

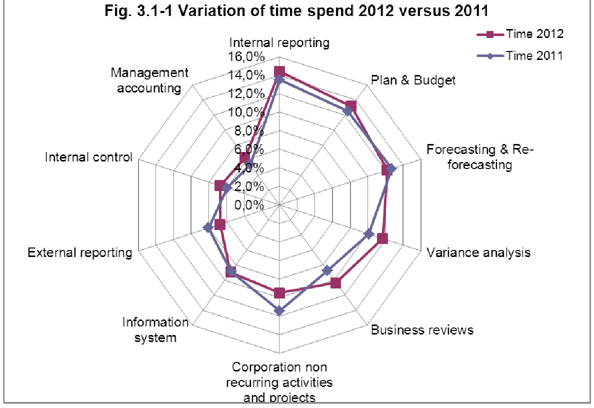
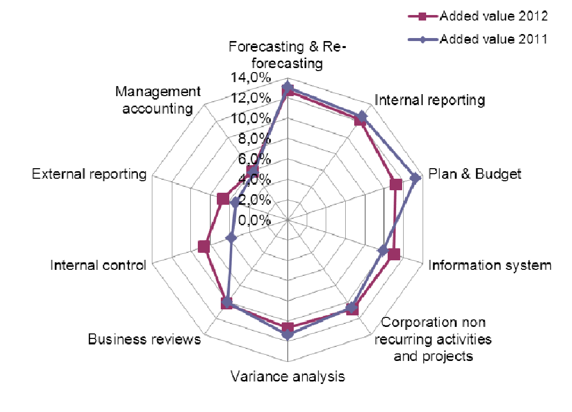


Fig. 3.1-2 Variation of added value 2012 versus 2011



Increased pressure on business control.

The first highlight is that respondents (90%) perceive the evolution of each of their activities, up or equal in both time and added value. We could expect disengagement in some activities to compensate the increased involvement in others. Specifically, controllers perceive that they are increasingly in demand, which induces increased requirements (quality - cost - time) and ultimately a recognition of their position within the company.

Internal reporting confirmed as the activity with more significant time.

More than 70% of the respondents reported as significant time. Its weight among the activities have increased compared with 2011.This trend is very marked in SMEs (turnover less than 50 million euros) for which the time spent on internal reporting is now significant for 71% of respondents against 57% in 2011. Similarly, the reporting is considered now added value to 73% against 64% in 2011.
This development is put into perspective with a more difficult situation of SMEs in 2012 than in 2011, 27% of respondents in this category stating a figure with declining sales, against 19% in 2011.
Consider that in companies with more 1 billion euros sales, if the time spent on reporting is on the rise, the added value perceived is in decline. This conclusion should support the financial managers and business controllers to question the relevance of reporting in place, the width and depth of the items carried, and the optimization of the production data.

Strengthening activities related to the short-term operational performance (variance analysis, business reviews, animation with business functions) at the expense of budget and forecasts.

As in 2011, the second group of activities is the budget and forecast / re-forecast. As well as for internal reporting, the time spent on these activities is significant for two-thirds of respondents with a proportional value seen. However, the added value is declining, both in the budget (-9 points) for forecasts / re-forecast (-5 points). The reasons are probably numerous, but it is for each financial manager within its financial organization to understand the origin of this trend: is it a real decline of the interests in these two activities (in favor or not others)? Or is it too cumbersome with complex processes penalizing perception of the internal added value, this without question of interest in the business? It should be noted that the added value perceived of the forecasts / reforecast (significant for 67% respondents, almost the same level as the internal reporting in 2011) is higher (and passes front) to the budget (65%), the uncertainty environment economic and crisis requiring regular adjustments of the forecasts.

Fig. 3.1-3 Time spent considered as "significant" (% of respondents)

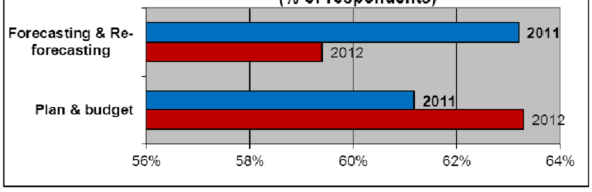
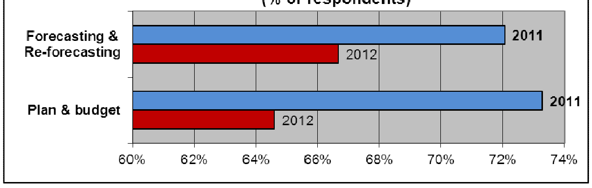


Fig. 3.1-4 Added value considered as "significant" (% of respondents)



The third group of activities, significant for more than half of the respondents, consists in the gap analysis, business reviews and talks with operational teams (the latter is a new category in the survey and considered as an important part of the function of controller. This group of activities, focused on "operational performance" has the fastest progress in the time spent compared to the 2011 study (7 points). The added value is perceived as meaningful for two-thirds of respondents. In other words, report time / value is very favorable. This is particularly obvious for the activity "animation with business functions" 69% consider it brings in real added value and very significant for a time considered less significant (54% judging significant).

Perception surveyed by the evolution in the last three years of the added value of this activity has also the highest increase: 62% respondents believe in its increase.

Fig. 3.1-5 Time spent considered as "significant" (% of respondents)

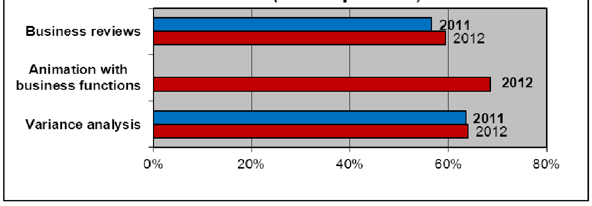
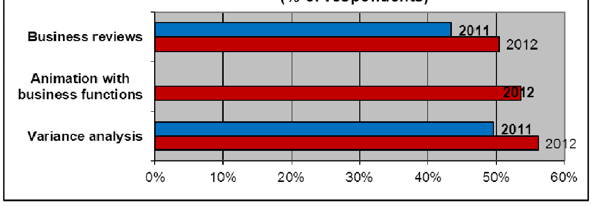


Fig. 3.1-6 Added value considered as "significant" (% of respondents)



The analysis of the efficiency of each activity otherwise showed the relationship between the resources invested (time spent) and the creation of value for the company reinforces the "animation with business functions" activity regarded as the most" relevant "to business controllers. It is followed by business reviews, forecasts and variance analysis.
On the contrary, internal reporting activities, external reporting, planning & budget are perceived as having a lower efficiency. Regarding external reporting, although important to communicate with shareholders and financial partners of the company, its value internally is actually moderate compared to the time spent.

Fig. 3.1-7 Time spent + / Added value -

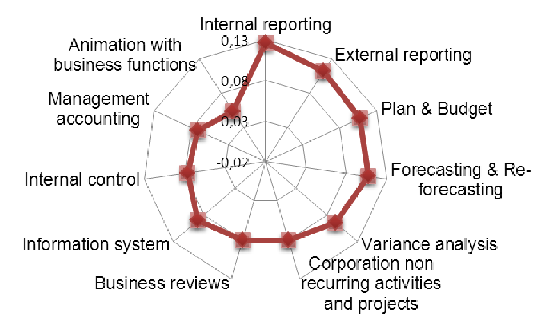
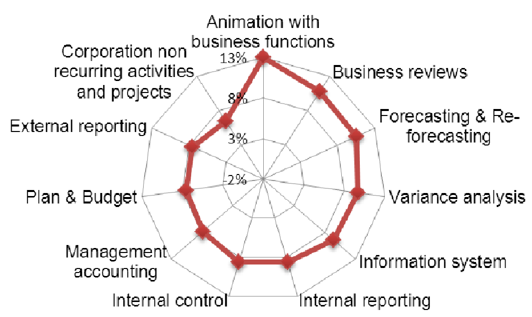


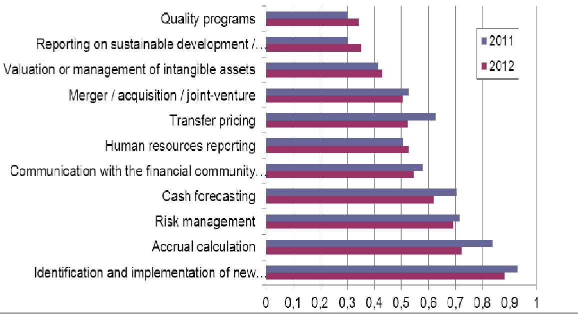
Fig. 3.1-8 Time spent - / Added value +



Business controllers become less mutli-tasked?

Analysis of the business controllers' activities shows an involvement decrease in their activities that are historically not the core business of their functions:
- Significant decrease (-10 points) of the "projects non-recurring" activity which is not anymore a mostly significant activity for the respondents (46% versus 56% in 2011). Also, the involvement in business control in the specific activity of "Mergers and Acquisitions partnerships" is back by two points. This evolution is correlated with the crisis which has pushed companies to delay these projects;
- Withdrawal of specific activities dealing with the accounting issues: 10% reduction of their involvement in the calculation of accruals (72% against 83% in 2011). In a crisis context, financial directions optimize their resources in the accounting production and in refocusing the business control to the operation matters.
- If the identification and implementation of new systems mobilize always an important part of respondents (88%), this involvement fell by 5% compared to 2011.

Fig. 3.1-9 Variation of involvement in specialized activities



It needs to be balanced with the weight of the most recent activities:

- Confirmation of the involvement of business control in new social responsibilities: 35% of respondents are now involved in sustainability, social & environmental reportings (versus 5% in 2011) and more than half (53%) on the Human Resources Reporting (+2 points versus 2011)
- Their involvement has increased in Quality programs: +4 points up to 34% is as much as sustainable development reporting.
- The rank of intangible assets section is firmly established by 43% of the respondents.

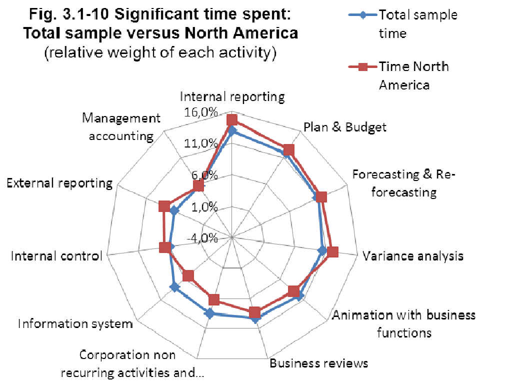
Last but not least, the Risk Management still concerns 70% of respondents.

Common activities across countries, but different ways to see the contribution of management control to company success.

If the activities and trends described above are common in the surveyed countries observed in the International Observatory of Management Control report, the way they are balanced differs from one country to another one.

Thus, the activity profile of the North American controller appears - in line with North American culture of management control e.g. very focused on operations such as internal reporting, variance analyses and forecasting. The internal reporting involved more these controllers significantly (82% of respondents spending a significant time) and has an added value to performance management at the same level. It is 13 points higher than the average profile of the sample. The external reporting is also an important part, both in time spent and added value (+10 points compared to overall respondents).

Fig. 3.1-10 Significant time spent: Total sample versus North America (relative weight of each activity)



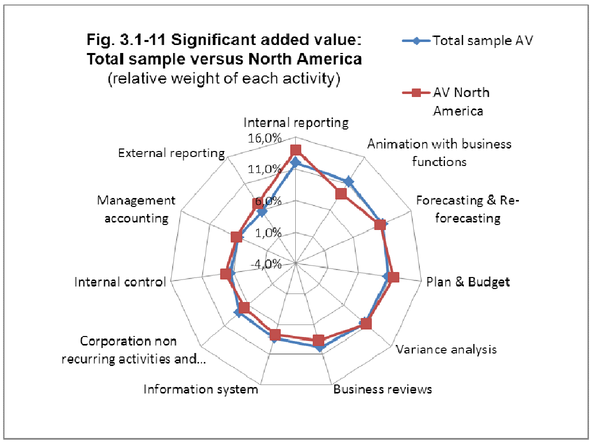


Fig. 3.1-11 Significant added value: Total sample versus North America (relative weight of each activity)

Furthermore, answers from South American respondents tend to show that the Management Control is changing. We noticed an orientation towards higher delivered added value, increasing involvements in budget, plan and forecasting. The South American management controller spends more time than in the past on business review and support to business functions, at the expense of accounting-related activities and Information Systems.

The management controller in small and medium-sized enterprises (SMEs): a deep changing function?

A focus made on companies having less than 50 million Euros sales per year shows a global increase of the time spent considered as "significant" (+8 points), reflecting a reinforcement of the requirements on management control :

- Internal reporting : time spent considered material by 71% of respondents (45% in 2011)
- Business review : 52% (compared with 27% in 2011)
- Internal control : 42% (compared with 21% in 2011)

The added value to performance management increases also among SMEs but to a lesser extent (+6 points). This discrepancy probably shows the efforts of the management controllers to set up, to make reliable data and to deploy management control practices fully adapted to SMEs companies, the added value of those efforts being nevertheless not yet easily seen and read.

We noticed the external reporting added value has doubled (one third of respondents compared with 15% in 2011). This trend may be correlated with the declining economic environment of SMEs, the need to find external funding partners increasing constraints and requirements – reliability, relevancy and lead-time – in the financial disclosure.

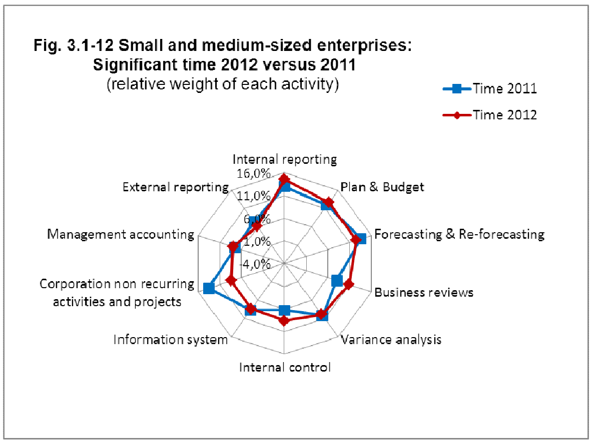


Fig. 3.1-12 Small and medium-sized enterprises: Significant time 2012 versus 2011 (relative weight of each activity)

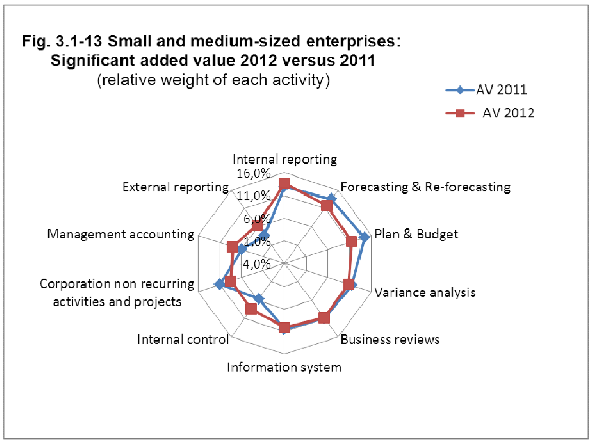


Fig. 3.1-13 Small and medium-sized enterprises: Significant added value 2012 versus 2011 (relative weight of each activity)

The activities comparison between SMEs and the overall profile of respondents enables to design major themes to improve for SMEs CFO:

1. Strengthening resources on variance analysis
2. Identifying quality improvement tracks for the plan, budget and forecasting processes.

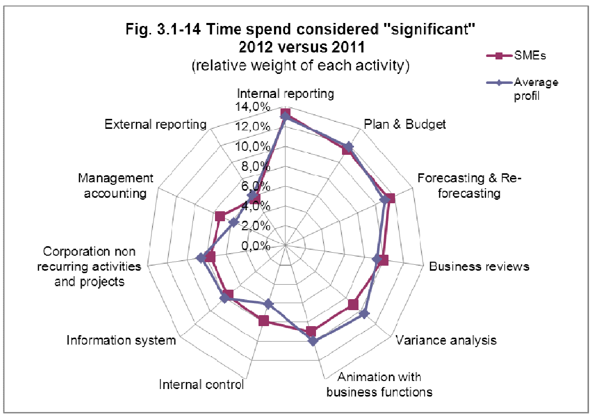
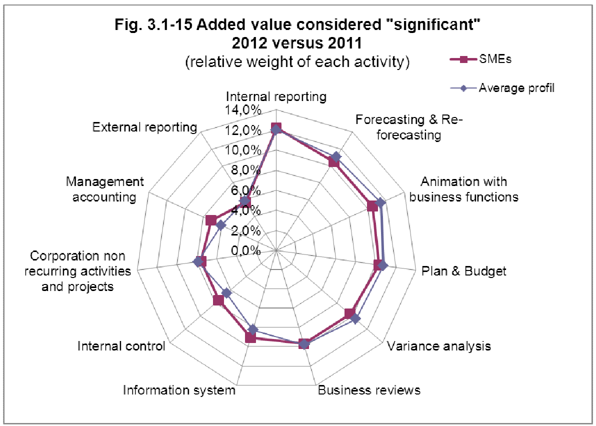


Fig. 3.1-14 Time spend considered "significant" 2012 versus 2011 (relative weight of each activity)

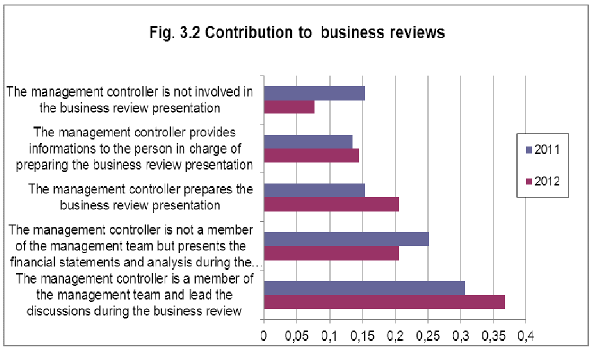


3.2 A greater and more frequent participation in business reviews

The involvement of management controllers in Business reviews is at large growing stronger (8% compared with 15% in 2011).
The proportion of controllers not involved in this activity is divided by two and becomes eventually not substantial.
As a consequence, it has induced more responsibilities for management controllers and they are expanding beyond the role of historical datum providers, by preparing the business review (21% compared with 15% in 2012).

If, as in 2011, the management controllers - members or not of the Management Committee - are more than half of respondents (57%) to lead the Business review, they are more and more to be a member of the management Committee (37% compared with 31% in 2011). From that perspective, Europe is lagging behind North-America where 62% of controllers are member of the Management Committee and lead the Business review (compared to 30% in Europe).

Finally, we also pointed out that management controllers of SMEs are less represented in the management committee than the management controller belonging of bigger companies (48% compared with 58% among companies with a yearly turnover over 50 Million euros). Despite their growing involvement in the operations over this last year, the position in the organization chart of the SMEs management controllers has been not yet fully recognized.



4. Management Control processes

The main changes from 2011 to 2012 in management control processes are:

- Increase of long-term plans and decrease of short term forecasts
- An extended range of indicators
- Frequency: increased for planning and reporting processes, reduced for forecasting
- Variable levels of operational management involvement and transparency

4.1 Increase of long-term plans and decrease of short-term forecasts

Although the crisis makes any mid and long-term vision uncertain, the medium-and long-term planning adepts are more numerous, , even if remaining at a high level, shows a slight decrease, while the practice of forecasts and budgets

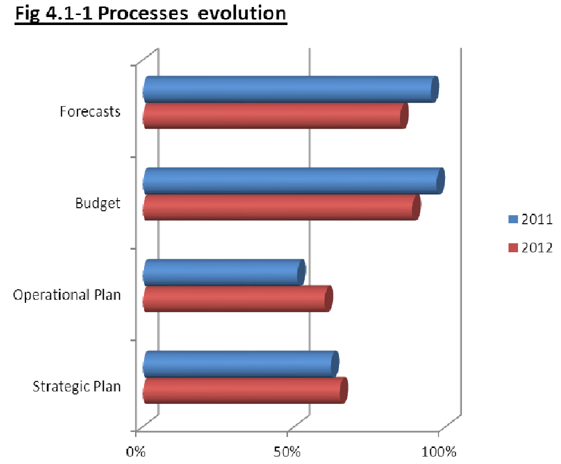
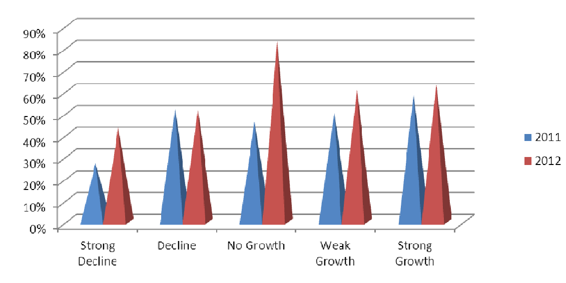


Fig 4.1-1 Processes evolution

The portion of companies making long-term plans has increased: 60% of companies set up an operational plan in 2012 (when they were only 51% in 2011) and 65% are performing a strategic plan (vs. 62% in 2011). The development of a strategic plan does not dependent on the size or nationality, but is linked to the growth rate (the more companies grow, the more they prepare a strategic plan) and to the belonging to specific sectors (Banking / Insurance, FMCG Industry).

The progress of the operational plan was also noted regardless of the size of the company. It is more obvious for companies in low or no growth.



4.1.2. Operational Plan evolution and Growth rate

The company nationality has an impact on the adoption of an operational plan: Europeans do this job less than Americans (55% vs. 75% average).

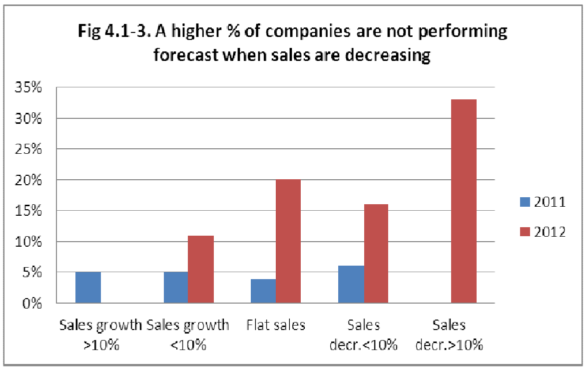
89% of participants in the survey set up a budget versus 97% in 2011. This decrease has nothing to do with the sector, size or health of the company. But there are differences across countries: only 75% of African and 81% of Mexican respondents do a budget when 93% of French companies do it (against 97% in 2011).

The development of Beyond Budgeting, identified in the methodologies analysis, also explains this trend. In addition, there is a greater integration of budget in the long-term plans (72% vs. 64% in 2011), which would confirm this hypothesis.

In 2012, 15% of companies do not complete forecasts when they were only 5% in 2011.

This increase is impacted by the change in the profile of respondents from 2011 to 2012. 20% of companies with a turnover inferior to 50 million € do not carry out forecasts when 100% of the largest companies (excluding the public sector) do forecasts. These small and middle size enterprises account for 35% of respondents in 2012 against 24% in 2011.

Moreover, we identified that the more their turnover is decreasing, the less companies complete forecasts. All companies with a strong growth produce forecasts while 33% of companies in sharp decline do not. Among 2012 respondents there are 22% of companies with a declining turnover, while these companies stood only for 15% of respondents in 2011. This evolution partly explains also the increase in the percentage of companies that do not perform forecast.



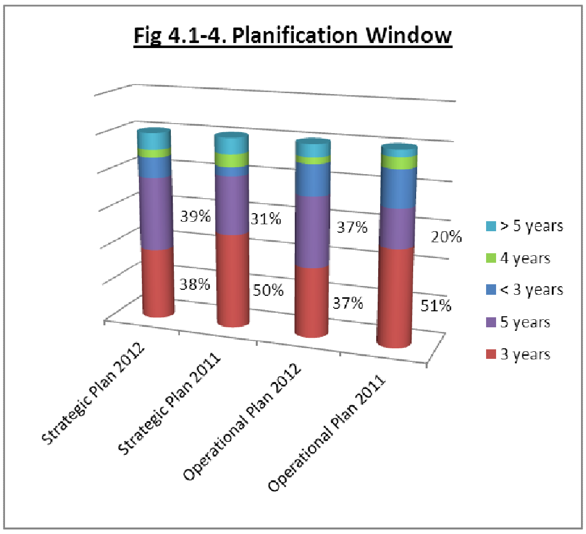
At large, we can nevertheless conclude that, in a situation of crisis and uncertainty, more businesses "play it by ear". It is then more important to manage cash on a daily basis than prepare forecasts. However we may hope that in this situation, quantified corrective action plans are defined and monitored daily.

By sector, nearly 100% of companies carry out forecasts in the areas of distribution, consumer goods, banking and insurance. On the opposite, 41% of public sector respondents and 21% of the transport sector are not.

Window of Planning and Forecasting.

"Looking further ahead" is also in the mood of the time!

Whereas, in 2011, the 3-year plan was the most current practice, in 2012 supporters of the plan with a longer time frame are much more numerous than those setting up a 3-year plan window.

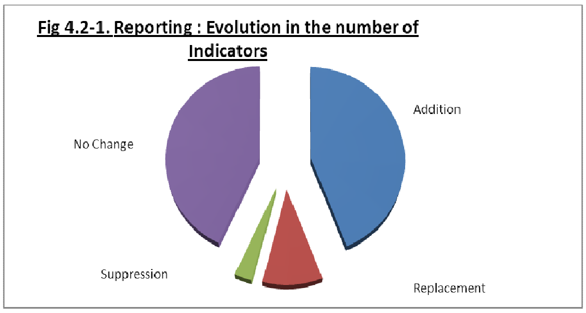


The distribution, media and administration sectors promote 3- year strategic plans, while those of the energy and other services prefer 5-year strategic plans.

Regarding forecasts, 26% of respondents who use rolling forecast windows are stable from 2011 to 2012. Note that the moving window is more used in the United States (37%) and Germany (29%) than in Mexico (15%) and France (11%) where the fixed window (usually the current year) remains the most common practice.

4.2 An extended range of metrics

Over the last 3 years, 57% of companies have largely changed the metrics reference used for reporting and 45% the frequency of publication.



In fact, 44% added metrics, 10% replaced and 3% deleted ones. But one should be careful not to produce indicators that would not refer to constant perimeter and periodicity. It must be ensured that the selected indicators are relevant for the said evaluation.

4 out of 10 companies saw their frequency of reporting speeding up.

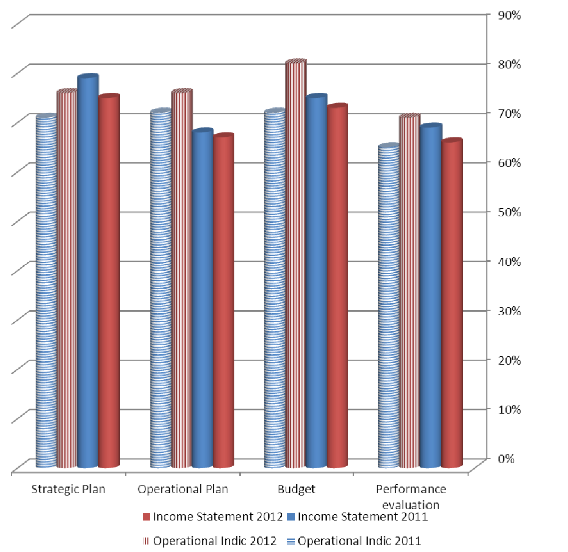
The content enhancement of reportings, and the increase in their number, results in lengthening the publication time. More than 4 out of 10 companies say they now publish their reporting later than over the last 3 years (the publication time is more than 5 days for 1 company out of 5).

Evolution of the range of indicators.

If the income statement and the operational indicators remain the preferred tools of respondents, their preference order has changed. Operational indicators have got greater importance in the whole process, even to the point of moving the income statement to the second place.

Operational indicators and the income statement remain the essential indicators to assess performance.

Fig 4.2-2. Income Statement and Operational Indicators evolution



As for the other indicators, only the monitoring of working capital and capital expenditure has not changed between 2012 and 2011.

Undoubtedly, the liquidity crisis has contributed to the increase of cash flow monitoring: the portion of companies integrating this indicator rises from 4 to 5 points whatever the process to set them up is.

Fig 4.2-3. Other key indicators

Companies whose turnover is lower than 250 million € are more likely to adopt the cash flow as an indicator, as well as companies producing consumer goods and industrial equipment.

The consumer slowdown has forced companies to better understand the evolution of their prospects and customers. Taking into account market and competition indicators has been significantly developed in the planning processes.

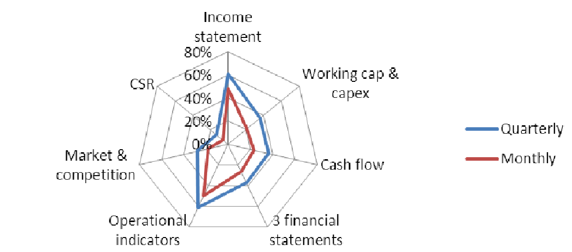
These trends can also be found in the forecasting processes:

The most widely used indicators in the monthly forecast are increasingly the income statement (48% in 2012 against 44% in 2011) and in a more significant way, the operational indicators (50% in 2012 compared to 39% in 2011).

We noted that, here also, CSR (corporate social responsibility) indicators really took off: in the monthly forecast, they jumped from 3% in 2011 to 6% in 2012 and in the quarterly forecast, from 6% in 2011 to 13 % in 2012.

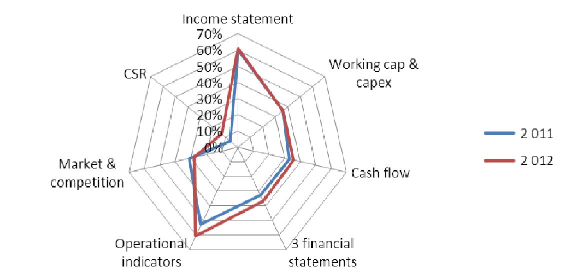
Also, as we saw in 2011, the range of indicators used is wider in quarterly forecasts than in monthly forecasts.

Fig 4.2-4. More indicators in quarterly forecast than in monthly forecast



In 2012, there was an increase in the range of indicators used in the quarterly forecasts.

Fig 4.2-5. Quarterly forecasts: increased focus on cash, operational indicators and CSR from 2011 to 2012



4.3 Frequency: increased for planning and reporting processes, reduced for forecasting

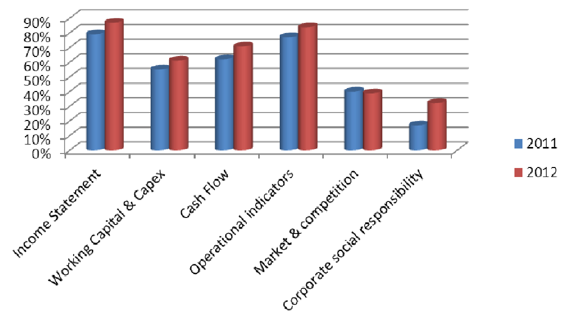
Companies undertaking a strategic plan do it annually in a higher proportion (77% in 2012 vs. 71% in 2011). Although the annual review of the operational plan is more important (82% in 2011), it rose again in 2012 (85% of firms report an annual review).

Companies whose turnover is lower than 50 million € are going the opposite way: in 2012, 68% of respondents reported developing a strategic plan each year, against 79% in 2011. As for other companies, 82% do it on a yearly basis, against 69% in 2011. This trend is true also for the revision of the operational plans.

Declining firms revise their strategic and operational plans less frequently than growing companies.

In 2012 the companies seem more "in a hurry" to know their performance results.
On the reporting side, the number of indicators increased in the monthly statements, especially for the income statement (87% of companies include this indicator in their results reporting in 2012 vs. 79% in 2011), cash flow (71% of companies in 2012 vs. 62% in 2011) and even the sustainable development (32% of companies in 2012 vs. 17% in 2011).

Fig 4.3-1 Monthly Publication of indicators



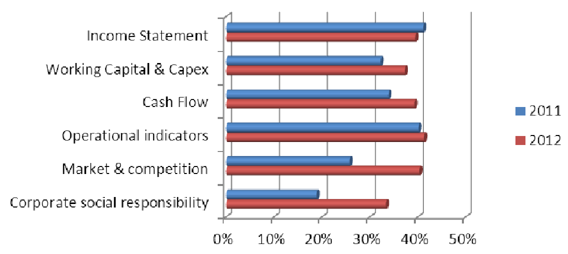
The indicators time to publishing is harmonized.

Whereas in 2011 the income statement and operational indicators were published first, in 2012 other indicators joined them.
for 39% of companies following this indicator, cash flow is reported between 1 and 5 days after the end of the period, e.g. at the same time as the income statement.

Market indicators and competition monitoring, although less popular than operational indicators, are published in the same time frame.

Regarding the integration of sustainable development progress in the various processes, it probably relates to the emergence of more relevant standards and to the promotion of these indicators by some leading companies in each sector, using their corporate responsibility image as a competitive advantage.

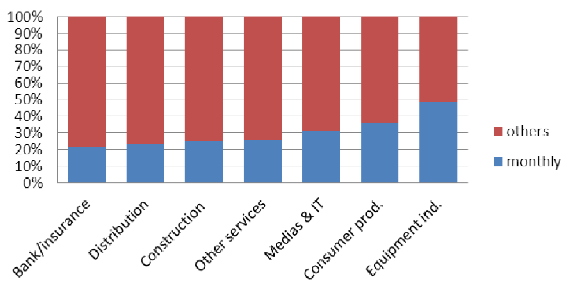
Fig 4.3-2. Indicators Time to Publication : 1 to 5 days



Unlike other processes, we found that the forecasts frequency decreases. in 2012 Forecasts are updated monthly only in 32% of cases compared to 39% in 2011. But in 2012 they are updated every six months in 27% of cases instead of 19% 2011. This decrease may be explained, as for the lower % of companies completing forecasts, by the economic crisis and the increased uncertainty.

We see this decrease in frequency in the areas of distribution, services and other media, telecom and IT. Only the industrial equipment sector increased its rate. The monthly updated forecasts being made in 49% of companies in 2012 instead of 38% in 2011.

Fig 4.3-3. Forecast frequency for each business sector



The ranking of sectors by forecast frequency is roughly the same in 2012 as in 2011 except for media and IT, moving from the first to third rank and industrial equipment that comes now first. This stable ranking confirms that the frequency of forecasts is a feature of management control practices that is more specific to each sector than to each country.

4.4 Variable levels of operational management involvement and transparency

Levels of operational involvement and transparency are down in the plans and rise in short-term processes (budgeting and forecasting)

The operational involvement in strategic plan processes was reduced from 93% to 88%. The same applies to the operational plan (down from 96% to 90%).

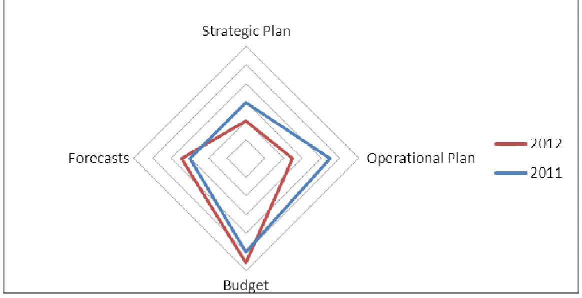
Fig 4.4-1. Operational management involvement according to processes

Banking, distribution, construction and engineering involve more the operational management. Differences in the level of involvement do not seem to be related to size, nationality or growth rate.

Transparency is evaluated on the sole criterion of the visibility given to managers on the performance of their "peers". From 2011 to 2012, this transparency is also reduced for plans and increased for short-term processes (budgeting and forecasting).

This is partly explained by the increase of benchmarking in budget processes and performance measurement that we found (see Chapter 5 on methodologies). Indeed, internal benchmarking requires a higher visibility on data related to the performance of peers.

Fig 4.4-2. Transparency according to processes

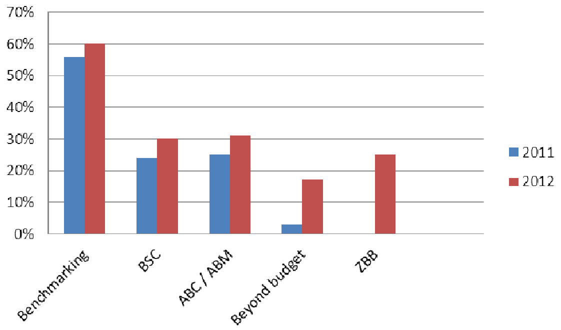


5. Methodologies

5.1 A growing use of all methodologies in 2012

All methodologies have spread from 2011 to 2012. it is especially true for beyond budgeting which is emerging now.

Fig 5.1. A growing use of all methodologies



This year, we have introduced ZBB (zero based budgeting). It confirmed that this methodology is back - probably due to the difficult business environment where any euro spent has to be justified.

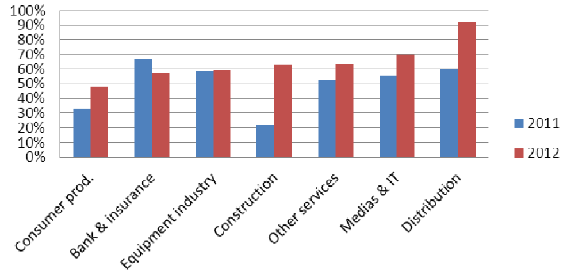
5.2 Benchmarking, a new generation of performance appraisal criteria

The traditional approach to performance appraisal is to set goals in absolute value for top line, bottom line, cash generation…Benchmarking introduces a relative performance approach by appraising performance as a comparison with the performance achieved by other business units. If these units are competitors or if the comparison is performed with the evolution of market, the benchmarking is external. If these units are other branches within the same company, the benchmarking is internal.

The use of benchmarking to assess performance is on the increase: 56% in 2011 to 60% in 2012.

This evolution has been different for each business sector:

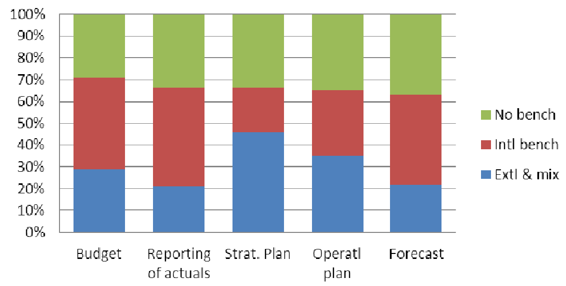
Fig 5.2-1. The growing use of benchmarking by business sector



The percentage of the use of benchmarking decreased for the banking sector only (from 67% of users in 2011 to 57% in 2012).

It remains stable (at 59%) in the equipment industry sector and increases in all other sectors.
In the distribution sector, benchmarking is becoming the standard practice as it is used by 92% of companies (versus 60% in 2011).
The nature of benchmarking is different between countries: USA favors internal benchmarking while France has a higher percentage of use of external or mix (ie both internal and external) benchmarking.
For performance appraisal, external or mix benchmarking is used by 30% of respondents, internal benchmarking by the same 30% while 40% of respondent are not using benchmarking.

Fig 5.2-2. Use of benchmarking for each process



These percentages differ for each process:

- Benchmarking is especially used in budget (by 71% of respondents) as it is a basis for setting goals. As actuals have to be compared to budget for performance appraisal, benchmarking is also significantly used in the reporting of actuals (by 66% of respondents). Its use is lower (63%) in the forecast process as the key goal of forecast is more on predictability than on performance measurement.

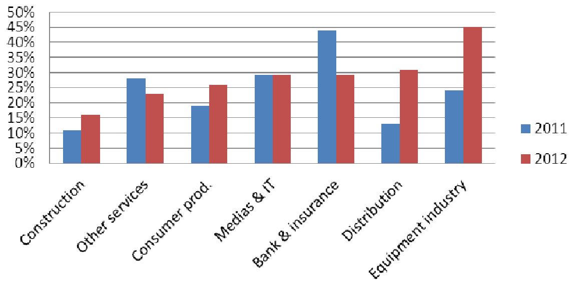
- The strategic plan is based largely on external benchmarking whereas operational plan actually uses internal benchmarking.

5.3 Balanced scorecard (BSC), more sophisticated implementations

The use of BSC is growing from 24% of respondents in 2011 to 30% in 2012.

Four out of the seven business sectors we are analyzing are recording such a growth:

Fig 5.3. The growing use of BSC by business sector



Even though it increased from 2011, the use of BSC in the construction sector remains low (16% of respondents compared to an average 30%)

The fastest growths from 2011 to 2012 are in the distribution sector (from 13% to 31% of respondents) and in the equipment industry sector (from 24% to 45%).

BSC implementations are more sophisticated in 2012 than in 2011:

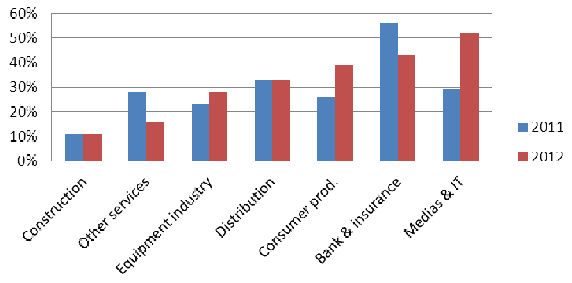
- The number of indicators increases: respondents who are using more than 20 indicators is increasing from 15% in 2011 to 37% in 2012
- Respondents who are using a simplified version of BSC decreased from 66% to 54%. Respondents who are using a "customized" version of BSC increases from 19% in 2011 to 36% in 2012.

5.4 ABC/ABM, a mature methodology

in 2012 31% of respondents use ABC/ABM against 25% in 2011.

However, this increase is different for each business sector:

Fig 5.4. the growing use of ABC/ABM by business sector



2 sectors are showing decreases in use of ABC/ABM:

- "Other services", from 28% to 16%
- Bank & insurance but they remain one of the top 2 users of ABC/ABM

As identified, the construction sector remains a limited user of methodologies.

All other sectors are either stable (distribution with 33% of users) or increasing. This increase is especially true for consumer products (from 26% to 39% of users) and medias/telecoms/IT (from 29% to 52%).

The implementation of ABC/ABM follows the same increasing sophistication pattern as the one we identified for BSC: implementation of

- A simplified version reduces from 63% in 2011 to 56% in 2012
- A customized version increases from 21% to 25%
- A full version with all functionalities increases from 16% to 19%

5.5 Beyond budgeting, the emerging methodology

Beyond budgeting is a flexible performance management methodology where the content of the traditional budget process is split in three separate processes:

- goal setting (generally built on a benchmarking basis),
- forecast (not biased anymore by the impact of goal negotiations)
- resources allocations (done on demand when required instead of once a year).

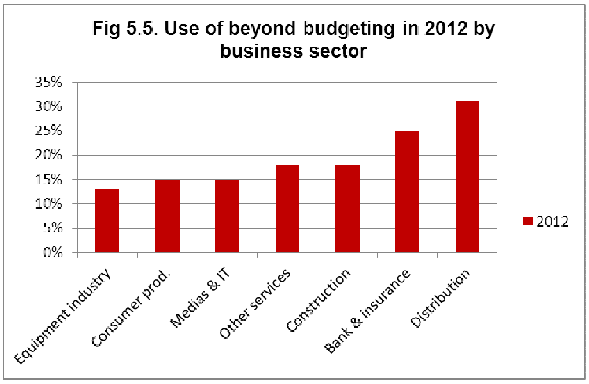
as a methodology, Beyond budgeting is emerging: in 2011, 5 respondents had implemented it; in 2012, this number has increased to 31 respondents it corresponds to 17% of respondents who have effectively answered the questions related to beyond budgeting.

Companies who have implemented beyond budgeting are in all ranges of company sizes.

However, 74% of these companies record growth.

Moreover, 24% of listed companies have implemented beyond budgeting versus 8% only for unlisted companies.

Distribution is the most advanced business sector in terms of beyond budgeting implementation.



The user's level of beyond budgeting is approximately the same between the United States (17% and France (15%).

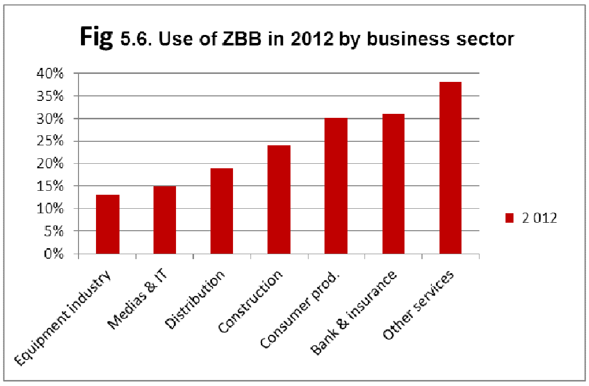
5.6 Zero based budgeting (ZBB), back to the future

Zero based budgeting has been introduced in the 60's in the private sector and in the 70's in the public sector. We however have identified that this approach is far from being outdated. Budget negotiations are less and less based on increments against past and current years. All revenues and the associated spending have to be justified from 0. This is why we have introduced this methodology in our 2012 questionnaire.

We have identified that 25% of respondents are effectively using ZBB.

The largest ZBB users are the largest companies with revenues above 5 billion (29% of users) or the smallest companies with revenues below 250 million (28% of users).

"Other services" is the business sector which is the heaviest ZBB user (38% of users).



The use of ZBB is at the same level in the USA and in France. It is lower in South America.

6. Information systems currently used

6.1 Excel is still omnipresent but in decrease

Respondents were asked about used systems for the development of the forward budget (plan, detailed budget and forecasts), the consolidation of the plan and of the same forward budget, the development of the actual reporting and its consolidation.

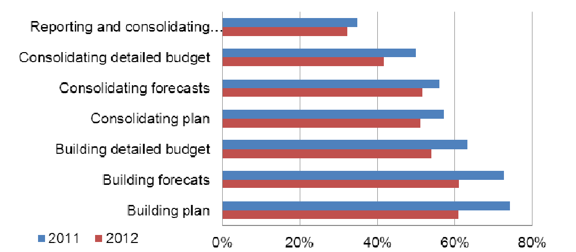
In 2012, we extended the utilization of performance measurement software packages, putting forward a number of answers of tools dedicated to budgeting, to spreading dashboard tool, to multidimensional analysis, to consolidation, to must-have ERP or even to an innovative tool like balanced scorecard (BSC).

On overall activities, the main used solution remains Excel in 50% of the cases, a decrease of 10 points from 2011.

Excel still omnipresent…

As we noticed in 2011, Excel remains present to one degree or another in all activities. Despite its continuing decline, if Excel continues to be dominant for forward-looking measures in development of plan and forecasts (61%) and detailed budget (54%) and for consolidation of the plan (51%) and forecasts (52%), **it is less and less used to report and consolidate actuals (32% compared with 35% in 2011**)

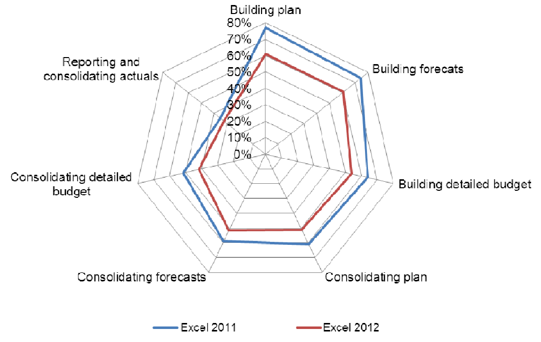
Fig. 6.1-1 Excel in the different activities?



… but in continuing decrease

On overall activities, we observed in 2012, a gradual decline of the use of Excel spreadsheet software. We see a **fall of 17% in the use of Excel for building plan compared with previous year and a decrease of 13% in the assistance for building forecasts**.

Fig. 6.1-2 Use of Excel by activities

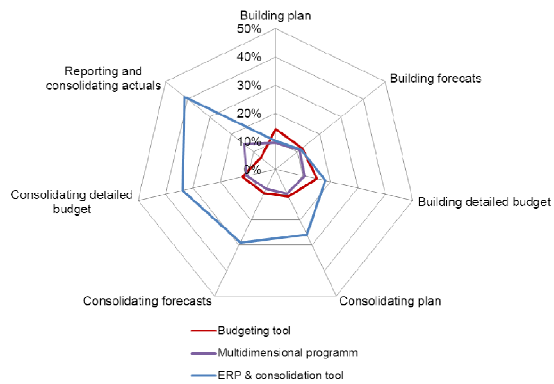


6.2 Opening to new systems

A diversification of performance measurement systems.

The evolution of management control systems means a diversified allocation of software packages in the assistance for building budget, from reporting to consolidation of plans and forecasts, in particular in companies with sales above 50 million euros.

Fig. 6.2 Type of information system by activities (without Excel)



The most used tools for reporting and consolidation of actuals are ERP (23%), followed by consolidation tools (18%) and multidimensional tools (14%) in decentralized groups that do their statutory consolidation in particular in the United States and in France.

For plan and forecasts building, software packages begin progressively being used again, mainly boosted by integrated groups. Thus, Budget consolidation tools amount for 19% of systems, 16% for forecasts and plan consolidation.

It should be noticed that **in 2012 the appearance of the BSC tool for all activities with a 1% average us**. This level is on a different wavelength from the perception of methods utilization where a clear increase was noted in the use of BSC dashboards from 24 to 31% in one year. This gap is due to the design of BSC dashboards **that are implemented with the help of standard decisional tools instead of being implemented from BSC specific tools.**

Fast-changing technology helps the management controller to produce value analysis and to reduce information delivery time.

ERP or BI tools enable to spend less time collecting data and making them reliable. Multidimensional tools allow producing an analysis based on as many criteria as you wish.

6.3 Some discrepancies among countries in the use of systems

Software packages less used in France.

Whether it be for plan building or for reporting, European and American companies are better-equipped than the French ones. In 2012, 63% of German companies are using an ERP tool for actual reporting as compared to only 17% in France. Dedicated tools for budget building and consolidation are used at 22% on average by European and American companies while this rate is only 8% in France where companies mainly use Excel for this purpose (72%).

Fig. 6.3-1 Use of information system by con tinent for building plan

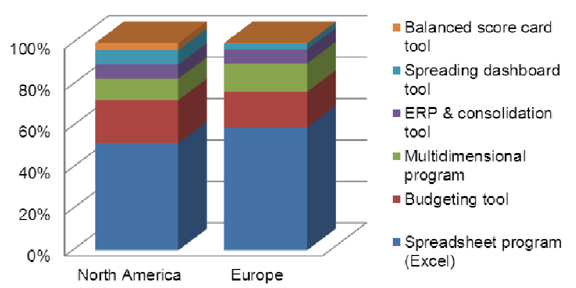
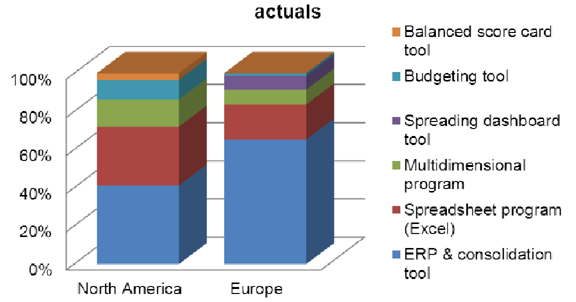


Fig. 6.3-2 Use of information system by con tinent for reporting and consolidating actuals



6.4 A need for performance

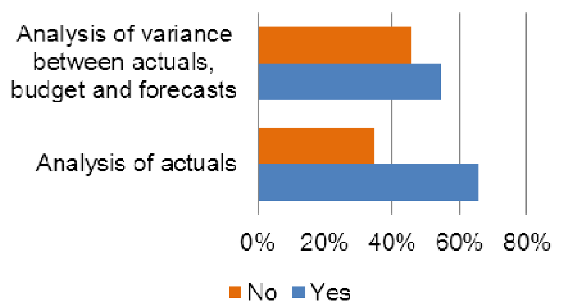
A need for integration.

It seems complex to have a good understanding and to ensure the availability and the analysis of data.
Because of the soaring number of sources of information, the process to get and to analyze data is not easy to manage. 57% of respondents declare they need a tool more integrated, which should not be polluted by manual interfaces (currently 38%).

A need for further investigation.

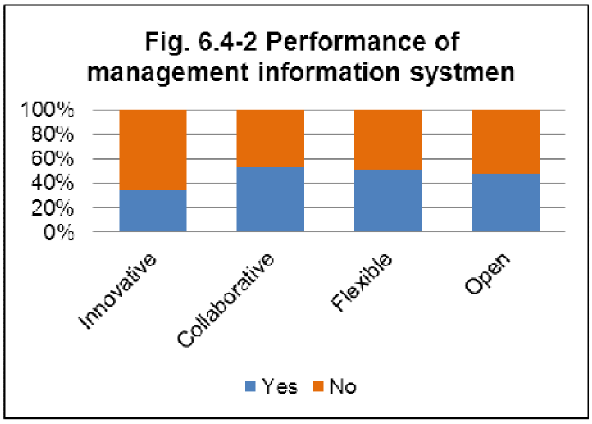
At all company's levels, BI, ERP solutions and multidimensional tools support financial and operational analysis. However, investigation has to be strengthened in order to explain the gap between actual, budget and forecast. It can be seen that 45% of respondents are satisfied with their tools' drill down option.

Fig. 6.4-1 Satisfaction with the drill down capabilities



A need for innovation.

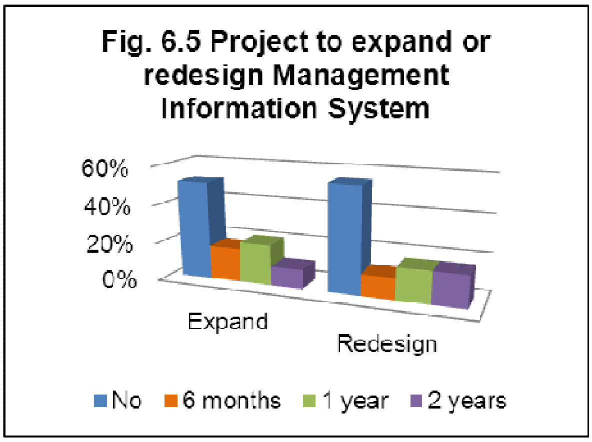
In 2012, the choice of monitoring information system depends at 71% on the existing group solution. Figures show that users regret a lack of flexibility (49%) and innovation (66%), despite new functionalities as research (textual research, research more intuitive), score carding, and big data storage provided by software companies.



6.5 A slow changing project implementation

A Monitoring Information System transformation in a very long timeframe.

In spite of (and maybe because of) a competitive and unstable environment, projects related to the implementation of monitoring tools, though very useful for decision-making, are not part of the top priority IS projects.



Management controllers in the USA (62%) and in Germany (75%) did not identify any project aiming to develop or redesign their monitoring IS. Still, in these countries, software packages are already used for reporting, consolidation and budget building.

In France, however, 58% of respondents declare that they do not plan any redesign project for the monitoring IS in the coming year. The trend for changes seems to be gradual and slow

IS projects are slowing down in French Public Services as only 29% have implemented a project to develop IS within a year.

In addition, 25% of surveyed banks registering more than 1 billion Euros turnover plan to develop their Monitoring IS within 6 months.

And yet, having relevant and accurate information available is now decisive, as it enables to make the right decisions rapidly at all company's levels.

Introduction to efficiency and typological analysis of management control practices.

In the previous chapters we went through a **descriptive analysis** of characteristics and trends of management control activities (chapter 3), processes (chapter 4), methodologies (chapter 5) and systems (chapter 6).

We will combine also this first approach with two kinds of analysis:

The qualitative analysis of efficiency profiles in management control practices (chapter 7) is a new perspective we brought in 2012. This analysis involves grouping responses in five lines of efficiency:

- Agility,
- Innovation,
- Globality,
- Participation,
- Transparency.

Ratings were assigned to answers for each axis. These enables to build a radar plot to compare the efficient profile in management control practices. According to the Observatory questionnaire, the profile of companies' practices can be presented in comparison with the average profile of companies group's practices to which they belong (for instance, listed companies or high-growth companies).
This analysis may be conducted to build operational improvement programs of management control practices.

As well, the statistical analysis of companies typologies depending on management control practices (chapter 8) is a study that has been introduced during the two previous years. Four company's profiles have been defined in 2012 sample:

- Social companies
- Controlled companies
- Dynamic companies
- Companies in trouble.

7. An « efficiency profile » built with five axes to improve the performance management practices

2011, a first approach to open performance of management practices.

In 2011, we introduced a pragmatic approach to the concept of open performance management practices. It was based on the answers to a limited number of questions.

We have thus identified:

- In the process area:
  - Open practices associated to transparency: in 2011, 68% of respondents had a visibility on the performance of their peers. In 2012, this % increases to 70%
  - Practices open in the field operators: in 2011, 40% of respondents thought that the involvement of operators in plan and forecast processes are essential. This % remains stable in 2012
  - Opening to the human factor dimension of performance management: in 2011, 50% of respondents were convinced that the most important added value of forecasting is more in the mobilization of managers' energy than in the accuracy of the forecast itself. In 2012, this % increases slightly to 51%

- In the methodologies area:
  - Opening towards benchmarking: in 2011, 56% of respondents were using benchmarking in performance measurement. In 2012, this % increases to 60%;
  - Opening to innovation: in 2011, 24% of respondents had implemented BSC (Balanced Scorecard) and 25% ABC/ABM (Activity Based costing & management). In 2012, these percentages increase

respectively to 30% for BSC and 31% for ABC/ABM.

More transparency on peers' performance, a stronger involvement of operators, more benchmarking and an extended use of BSC and ABC/ABM show that performance management practices are more and more open.

On the basis of this encouraging start with the concept of "open" performance management practices" in 2011, we added new questions in the 2012 questionnaire so that the concept of "open practices" is now extended to the broader concept of "efficient practices".

2012, from open to efficient practices: introduction of a new analysis based on 5 axes.

The new analysis of the "efficiency profile" that we introduce in 2012 is fully built on a broad range of answers to questions we introduced in the questionnaire: these questions related to performance management activities, processes, methodologies and systems.

7.1 Five features of efficient performance management practices: agile, innovative, global, participative and transparent

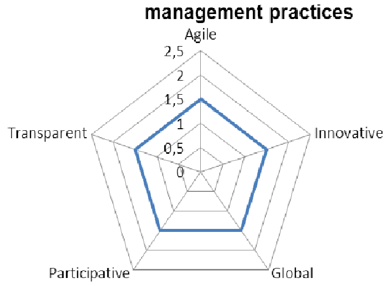
Each of the 5 axes that we are measuring provides a different and complementary approach to the overall efficiency of performance management practices:

- **AGILITY**: we measure the agility of practices with 10 questions on duration of processes (the shortest, the most agile), frequency and content of forecasts, reporting deadlines, use of open methodologies and flexibility of information systems;
- **INNOVATION**: we assess the innovation of practices with 13 questions on the extended content of performance management activities, the number of implemented methodologies and the sort and evaluation of information systems;
- **GLOBALITY**: we measure the global approach to performance management practices with 10 questions on the extent of activities included in performance management, the effective use of non-financial metrics and the implementation of multi-domain methodologies such as BSC;
- **PARTICIPATION**: we assess this axis with 7 questions about the level of involvement of managers in processes, the priority of quality of forecast given to mobilization of managers' energy instead of accuracy of forecast and the collaborative aspect of information systems;
- **TRANSPARENCY**: we measure transparency with 11 questions on visibility on peers' performance, use of benchmarking and of open information systems.

The combination of these 5 axes provides the specific efficiency profile of performance management practices associated to each type of company.

We gave a mark to each answer to each relevant question and added them for positioning groups of companies on each axis. The related total has been equalized for each axe so that the average mark for all respondents can be illustrated with the following average efficiency profile:

Fig 7.1 Average efficiency profile of performance management practices



This graphic presentation is then used to compare the efficiency profile of different categories of companies. The efficiency profile of performance management practices will thus be different according to the size, the growth, the listing on the stock market, the business sector and the nationality of companies.

The total efficiency index, which is the addition of each score recorded for each axis, provides a first level of information. For instance, the average profile illustrated above corresponds to 7.5 (i.e. a mark of 1.5 for each of the five axes).

However the profile itself shows a more comprehensive analysis as it can be used for identifying strengths and weaknesses on each of the 5 dimensions of the efficiency profile.

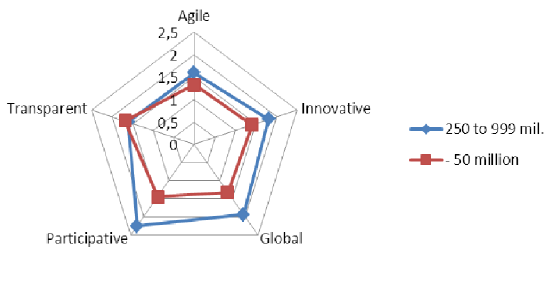
7.2 A higher efficiency profile for medium size, growing, listed companies and the distribution sector

Medium size companies have the most efficient practices. They are more participative, global and innovative. The largest companies have more transparent and agile performance management practices.

Companies with revenues between 250 and 999 million euros have the most efficient performance management practices with a total efficiency index of 9.2 (to be compared with the average index of 7.5 for all respondents).

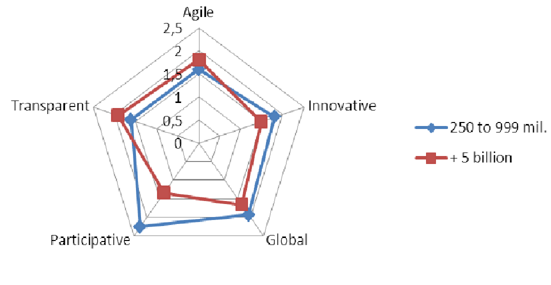
If we compare them with the performance management practices of the smallest companies (index of 7. 2), the practices of medium size companies are more participative, more global and more innovative.

Fig 7.2-1 A better efficiency profile in medium size companies: comparison with small companies



When we compare the efficiency profile of performance management practices in medium size companies with the profile of large companies (with a total efficiency index of 8.5), practices is slightly more transparent and more agile while practices in medium size companies are more innovative and global.

Fig 7.2-2 A better efficiency profile in medium size companies: comparison with large companies



The higher efficiency of practices in medium size companies as compared with both small and large companies is however not only due to more innovative and global practices. The strongest point of these practices is the participative dimension.
This feature is probably linked to the fact that smallest companies have not yet structured participative performance management processes while largest ones have replaced the human dimension of informal performance management with tight and excessively formalized performance management processes and tools.

Performance management practices have the higher efficiency profile in high growth companies. Their practices are more agile, participative and global. The major limitation of practices in moderately declining companies is in the transparency dimension.

There is an actual link between the growth pattern of companies and the efficiency profile of their performance management practices. This does not mean that efficient practices are the key growth factor. However, there is no doubt that performance management practices can contribute to growth when they evolve towards a higher efficiency profile.

In high pressure environments created by strong variation of revenues (above 10%), the efficiency profile of practices of strong growth companies is higher (with a total efficiency index of 8.0) than in strong decline companies (with a total efficiency index of 6.7). If innovation, global vision and transparency are close in both cases, practices in high growth companies are much more agile and participative. It is probably easier to have participative practices when business is growing than when it is declining.

Fig 7.2-3 A higher efficiency profile of practices in high growth companiesefficient than in high decline companies

Agile

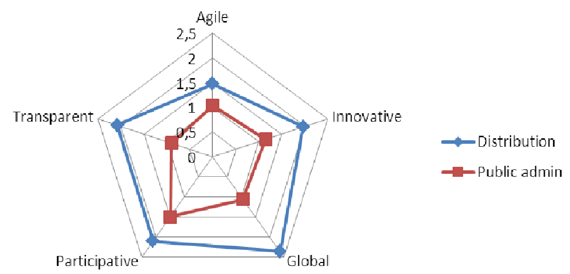
Medias & IT	6,2	Transparent
Consumer products	6,1	All axes (1)
Public admin	5,5	All axes (1)

(1) "All axes" means that the related sector is behind the average score of all sectors for each of the 5 axes.

The efficiency profile of practices of both the best in class (distribution sector) and the lowest profile (public administration) is shown in Fig.7.2-6. This example shows the added value of the graphic presentation of the efficiency profile as a deeper analysis than the information provided by the total efficiency index.

For instance, we see in the efficiency profile that, if the distribution sector has the best practices, it can still improve its agility.

Fig.7.2-6. Business sectors: extremes



This efficiency profile also brings a better understanding of the specific strengths and weaknesses of each business sector. This is shown by the comparison of a "well balanced" sector such as the equipment industry with logistics where performance management practices are neither global nor agile but are especially innovative. The recent development of logistic firms servicing the growth of new e-commerce activities has forced them to be innovative in both their business operations and, subsequently, their performance management practices.

Fig.7.2-7. Business sectors: differenciated profiles

We can show this approach with an example.

Let's consider a company with performance management practices which are behind its competitors (or any other benchmarking basis which is available) in terms of agility and participation practices. Its current profile is compared with its competitors' one. Moreover, a 3 year target profile can be defined as illustrated in Fig 7.4.

Fig.7.4. Building a target efficiency profile

8. Towards a typology of controlling practices

8.1 Description of the methodology

Like last year, we conducted a typological analysis on the surveyed population. From a statistical point of view, we selected a TWOSTEP CLUSTER procedure, a classification tool which leads to identify natural groups within a set of qualitative data. This typological analysis enables us to **highlight four typical organization profiles** according to the characteristics of the companies we got in touch with, the activities of finance – control function or the processes, methodologies and management systems that are used. Then the readers will have the possibility of placing their company in one of the classes so identified.

Of course, these are only models showing the limits of this analysis, for which qualified features are needed. So most organizations we approached do not fully fit in one of those categories but approach them or oscillate probably between the one and the other. Nevertheless, this method is interesting because it gives a rather synthetic vision of management control practices according to the participating countries and enables us to compare to the typology we achieved in autumn 2011[1]: that is why we should not hesitate to compare, along this part 8, between those two classifications.

Indeed, such a comparison is relevant as the method of analysis, the number of respondents and the variables of our survey are quite similar. We can notice that the 2012 typology is more compact and, in a sense, more "readable": the classes we obtained this year seem to be more homogeneous, even more "pronounced" i.e. more discriminated. Should we see here the impact of recession - at least in the Western countries – leading companies to adopt the same type of behavior?

Four profiles are clearly identified:

- "The social companies" (13%);
- "The controlled companies" (31%);
- "The dynamic companies" (35%);
- "Companies in difficulty" (21%).

As a reminder, the 2011 typology consisted of four classes:

- "The traditional companies" (53%);
- "The dynamic companies" (13%);
- "The democratic companies" (10%);
- "The controlled companies" (13%);
- "The international companies" (11%).

A certain relevancy between the classes we obtained in 2011 and those we identify in 2012 should be noted. Three classes - "The social firms", "The controlled firms" and "the dynamic companies" - were identified last year: we find totally or partially shared characteristics (for instance, "the social firms" look like to "the democratic companies" regarding the involvement of managers in the management process and, in addition, a tendency to use non-financial indicators as human resources indicators).

On the opposite, there is a "shift" of "traditional companies" to "Companies in trouble" (it seems that some industrial and mid-sized companies initially grouped in this class bore the brunt of financial crisis) and of "the international firms" to "dynamic companies" and "social firms" (it appears that, faced with a delicate situation in 2011, banks, insurance companies and very large firms in other services, choosed a management system more proactive and human).

Despite a stable base, this analysis finally shows that the typical profiles of companies tend to change considering the likely evolution of the economic and financial environments.

[1] See DOCHE F. & al. (2011), "International Observatory of Management Control - Results 2011 – What activities? What processes? What methodologies? What systems ?", Echanges Review, Special issue, number 4, December.

Companies' profile

	Class 1 (13%) "The social firms"	Class 2 (31%) "The controlled firms"	Class 3 (35%) "The dynamic companies"	Class 4 (21%) "Companies in difficulty"
Turnover	From 1 to more than 5 billion €	From 1 to more than 5 billion €	From 0 to 249 million €	From 0 to 249 million €
Turnover evolution	Weak growth	Weak growth Weak decline*	Strong growth	Weak growth Strong decline*
Staff	From 5 000 to 25 000 employees*	From 5 000 to 24 999 employees*	From 0 à to 999 employees*	From 0 à to 999 employees
Activity sector	**Other services*** Media, telecom and IT Consumer products	**Engineering & construction*** Industrial and other equipment Transport and logistics	**Bank, Insurance & Financial Services*** Industrial equipement* Other services	**Industrial equipment** Other services Media, telecom and IT
Geographical area	From different countries	**Europe*** Arab countries - Asia*	**Europe*** North America* - South America*	From different countries
Number of subsidiaries abroad	From 20 to more than 100 subsidiaries	From 5 to 19 subsidiaries	From 0 to less than 5 subsidiaries	From 0 to less than 5 subsidiaries
Part of turnover achieved abroad	From 0 to 49%	From 0 to 19%	From 0 to 49%	From 0 to 19%
Turnover evolution abroad	**From weak growth to strong growth**	From strong decline or decline* to zero-growth	**From weak growth to strong growth**	From strong decline or decline to zero-growth

Activities of finance and management control function

	Class 1 (13%) "The social firms"	Class 2 (31%) "The controlled firms"	Class 3 (35%) "The dynamic companies"	Class 4 (21%) "Companies in difficulty"
Activities to which management control function devotes most time	**Staff management** Variance analysis Internal reporting	**Internal reporting** Plan and budget	**Forecast and forecast updates*** Plan and budget* Internal reporting	Internal reporting Plan and budget
Future activities	Internal reporting Variance analysis Plan and budget	Information systems Staff management Projects	Forecast and forecast updates* Internal reporting* Plan and budget*	Internal reporting Forecast and forecast updates
Other activities in which management control function is heavily involved	New controlling information systems Risk management	New controlling information systems Calculating and updating provisions	New controlling information systems* Risk management*	New controlling information systems Risk management Calculating and updating provisions
Indicators used in monitoring activity	Financial indicators Operational indicators HR indicators*	**Financial indicators*** Operational indicators	**Financial indicators** **Operational indicators**	Financial indicators Operational indicators

Processes, methodologies and management systems[1]

	Class 1 (13%) "The social firms"	Class 2 (31%) "The controlled firms"	Class 3 (35%) "The dynamic companies"	Class 4 (21%) "Companies in difficulty"
Forecasting processes	Budget Forecasts	**Budget*** Forecasts*	Budget Forecasts	Strategic plan Operational plan Budget
Strategic plan: frequency	Annual* (minority) Less frequent (majority)	Annual (minority) Less frequent (majority)	Annual (minority) Less frequent (majority)	Annual (minority) Less frequent (majority)
Strategic plan: staff's involvement	Average	Close to zero	Rather strong	Strong enough
Strategic plan: indicators used (financial/no-financial indicators)	Importance of financial indicators: strong Importance of no-financial indicators: weaker	Importance of financial indicators: strong Importance of no-financial indicators: **weak***	Importance of financial indicators: **quite strong** Importance of no-financial indicators: **stronger**	Importance of financial indicators: strong Importance of no-financial indicators: weaker
Operational plan: frequency	Annual* (minority) Less frequent (majority)	Annual (minority) Less frequent (majority)	Annual (minority) Less frequent (majority)	Annual (minority) Less frequent (majority)
Operational plan: staff's involvement	**Crucial***	Close to zero or average	Average	Close to zero or average
Operational plan: indicators used (financial/no-financial indicators)	Importance of financial indicators: strong Importance of no-financial indicators: weaker	Importance of financial indicators: strong enough Importance of no-financial indicators: rather weak*	Importance of financial indicators: quite strong Importance of no-financial indicators: rather strong	Importance of financial indicators: strong Importance of no-financial indicators: weaker

Processes, methodologies and management systems(2)

	Class 1 (13%) "The social firms"	Class 2 (31%) "The controlled firms"	Class 3 (35%) "The dynamic companies"	Class 4 (21%) "Companies in difficulty"
Budget: frequency	Month	Month Year	Month Year*	Month Year
Budget: staff's involvement	**Crucial**	Average	Crucial*	Average
Budget: indicators used (financial/no-financial indicators)	Importance of financial indicators: strong Importance of no-financial indicators: average	Importance of financial indicators: strong enough Importance of no-financial indicators: average	Importance of financial indicators: quite strong Importance of no-financial indicators: rather strong	Importance of financial indicators: strong enough Importance of no-financial indicators: weak
Forecasting: frequency	Quarter*	Quarter Semester*	Quarter Month*	Quarter
Forecasting: staff's involvement	From average* to strong	**From close to zero* to average**	From average to strong*	From average to strong
Forecasting: indicators used (financial/no-financial indicators)	Importance of financial indicators: strong enough Importance of no-financial indicators: weaker	Importance of financial indicators: strong enough Importance of no-financial indicators: weaker	Importance of financial indicators: quite strong* Importance of no-financial indicators: stronger*	Importance of financial indicators: strong Importance of no-financial indicators: rather weak*

Processes, methodologies and management systems(3)

	Classe 1 (13%) "Les SOCIALES"	Classe 2 (31%) "Les CONTROLEES"	Classe 3 (35%) "Les DYNAMIQUES"	Classe 4 (21%) "Les EXPOSEES"
Reporting : importance of financial and no-financial indicators	Importance of financial indicators: average Importance of no-financial indicators: average	Importance of financial indicators: strong enough Importance of no-financial indicators: weaker*	Importance of financial indicators: quite strong* Importance of no-financial indicators: rather strong*	Importance of financial indicators: average Importance of no-financial indicators: average
Reporting: variation in the frequency of publication	Equal	Increasing	Increasing	Increasing
Resort to benchmarking (to assess managers' performance)	No	Internal using: reporting and budget External using: strategic plan	Internal using: reporting and budget External using: strategic and operational plan	No
Management tools most used	BSC ABC/ABM	BSC* Beyond budgeting*	BSC ABC/ABM*	BSC ABC/ABM
Using of management tools	. Plan: spreasheet program & budgeting tool . Budget: spreasheet program & budgeting tool . Forecasts: spreasheet program & budgeting tool . Reporting: spreasheet program, ERP & consolidation tool	. Plan: spreasheet program & budgeting tool* . Budget: spreasheet program & budgeting tool* . Forecasts: spreasheet program & budgeting tool* . Reporting: spreasheet program, ERP* & consolidation tool	. Plan: spreasheet* & **multi-dimensional program*** . Budget: spreasheet program & budgeting tool . Forecasting: spreasheet* & multi-dimensional program* . Reporting: spreasheet*, ERP & consolidation tool*	. Plan: spreasheet program & budgeting tool . Budget: spreasheet program & budgeting tool . Forecasts: spreasheet program & budgeting tool . Reporting: spreasheet program & ERP
Degree of adaptation of information system	Rather suitable	Rather suitable	**Suitable***	Rather suitable
"Dominant profile"	**PARTICIPATORY**	**RIGID TRANSPARENT**	**AGILE GLOBAL**	**TRADITIONAL OPAQUE**

8.2 Description of classes

Class #1 – "The social firms" (13%)

Prevailing profile: large, international and growing firms …

This minority class is quite represented by very large companies whose sales exceed 5 billion € and staff 25,000 employees. Specialized in other services (what is a characteristic of this class!), in the media, telecommunications, computing and consumer products, these organizations of various origins (Europe, South America or Africa ...) resist the crisis (slight increase in activity). Listed or not, they are "international oriented": the number of their subsidiaries settled abroad may exceed 100 and the part of their turnover abroad 20%. They seem to benefit from their openness to the world because they show slow or **strong growth** in international sales.

Characteristic of the finance function: focus on managers' involvement…

In the class #1, the finance function - control devotes most of its time to the mobilization of operational managers (what is a characteristic of this class), the variance analysis and the internal reporting. The last two activities, in addition to plans and budgets, are increasing. Other activities in which our respondents are involved are the identification and implementation of new systems of management control and risk management. The metrics used in monitoring activity are financial, but also operational HR (hence the name of the class in which the human dimension is taken into account much compared to other families).

In terms of process, methodology and systems, business practices of class 1 are fairly standard: use of budgets and forecasts, strategic and operational plans whose frequency is generally greater than one year, monthly budget and quarterly forecasts, low managers' involvement in the strategic plan but considered essential in the operational plan, budget and forecasts (which again characterizes the members of this class); predominance of financial indicators on non-financial indicators including HR in the overall process management. The companies of this class in which the reporting is not a priority, however use the balanced scorecard or ABC / ABM. Concerning the plan, the budget and forecasts, they use traditional instruments such as spreadsheet or budgeting tool. The information system is considered appropriate by the respondents concerned. Given the mentioned elements, and in reference to Part 7 of our survey, the prevailing profile of this class would rather be **PARTICIPATORY**.

Class #2 – "The controlled firms" (31%)

Prevailing profile: big firms, less international oriented and in trouble…

Constituting nearly a third of our sample, the class #2 is composed of large companies, whose sales exceed 5 billion € and the staff can vary from 5,000 to less than 25,000 employees. Specialized in the construction and engineering (what is a characteristic of this class!), industrial equipment or transport and logistics, these organizations of very various origins (Europe, Arab countries, Asia, Americas ...) are less resistant to the crisis than class #1 (slight decrease in activity for the majority of them). Most often quoted, they are not very internationally oriented: the number of foreign subsidiaries does not exceed 19 and the proportion of their turnover abroad is below 19%. Suddenly, they do not seem to benefit from growth opportunities as their international sales drop significantly or moderately.

Characteristic of the finance function: focus on controlling and reporting…

In the class #2, the finance function - control devotes most of its time to internal reporting, plans and budgets even though the three activities that will be important in the future are rather in relation to information systems, mobilization of operational managers or projects. Other activities in which our respondents are involved are the identification and implementation of new systems of management control, calculation and updating of provisions. In this category where control operations seem essential (the emphasis is more than anywhere else, budgets and forecasts), the indicators used in monitoring activity are mainly financial (which is also a characteristic this class!).

In terms of processes, methodologies and systems, business practices of the class #2 may be considered as more "rigid": particularly strong appeal to budgets and forecasts, strategic and operational plan whose frequency usually exceeds one year, monthly and annual budget, quarterly forecasts and half; low involvement (or close to zero) of managers in strategic and operational plans, budget and forecasts (it characterizes the members of this class ... vertical or horizontal coordination finally being instrumental and essentially transparent or "objective"!), preeminence strong financial indicators on non-financial indicators in the monitoring process. These companies, in which the reporting itself is growing, also use benchmarking, the balanced scorecard or beyond budgeting; concerning plan, budget and forecasts, they use traditional instruments such as spreadsheet or budgeting tool; concerning reporting, they use ERP or consolidation tools. The information system is considered appropriate by the respondents concerned. Given the mentioned elements, and in reference to Part 7 of our investigation, the dominant profile of this class and would rather **RIGID and TRANSPARENT**.

Class #3 – "The dynamic companies" (35%)

Prevailing profile: mid-sized and opportunistic companies …

Accounting for more than a third of the sample, the class #3 is composed of medium-sized companies (compared to other classes), whose turnover is less than 249 million € and staff between 0 and 999 employees. Less diversified than the other categories, this family includes companies specialized in banking, insurance and financial services (it characterizes this class), industrial equipment and other services. These groups are European or American (North America and South America) and are highly resistant to the crisis (growth activity for the majority of them). Often quoted, they are not very internationally oriented: the number of foreign subsidiaries does not exceed 5 even though the part of their turnover abroad can reach 49%. But unlike the class #2, they seem to enjoy growth opportunities abroad because their turnover is significant or shows a moderate increase.

Characteristic of the finance function: focus on anticipation and risk management…

The Class #3 is characterized by organizations that anticipate or give priority to plans and budgets, forecasts and forecast updates. These three activities - including internal reporting - are positive developments. Other activities in which our respondents are involved are the identification and implementation of new systems of management control and risk management (it is really a distinctive quality of this class). In this category (where pro-action and flexibility are essential), the indicators used in monitoring activity are both financial and operational.

Regarding processes, methodologies and systems, the business practices of the class #3 are participative: strong involvement of managers in the strategic plan, budget and forecast. This category is also characterized by the use of non-financial indicators in the strategic and operational plan, budget, forecasting and reporting. The other criteria are traditional: classical use in the budget process and forecasting, frequency of strategic and operational planning generally greater than one year, annual and monthly budgets. These organizations, in which the reporting is increasing, also use benchmarking, the balanced scorecard and methods ABC / ABM. For the plan, budgets and forecasts, they do not hesitate to use sophisticated and global instruments (multidimensional tool, ERP ...). The principle of management is more integrated and comprehensive than in other families. Moreover, the information system is really appreciated by our respondents. Given the mentioned elements, and in reference to Part 7 of our investigation, the dominant profile of this class and would rather be **AGILE and GLOBAL**.

Class #4 – "The companies in trouble" (21%)

Prevailing profile: mid-sized companies and in trouble…

As in the class #3, we find, in the class #4, medium-sized companies (compared with the total sample), whose turnover does not exceed 249 million € and staff 999 employees. Also less diversified than classes #1 and #2, this family includes companies specialized in industrial equipment, other services, media, telecom and IT, of diverse origin (Europe, U.S. continent in particular). They are suffering from the crisis (significant decline or decrease in activity for most of them). Often quoted, they are not necessarily more open to international: the number of their foreign subsidiaries does not exceed 5 and the part of their turnover achieved abroad is below 19%. Furthermore, unlike the class #3, they are experiencing a decline or stagnation in their export activities.

Characteristic of the finance function: focus on the implementation of more efficient tools…

In the class #4, like in the class #2, the finance function - control devotes most of its time in internal reporting, plans and budgets. Future activities are linked with internal reporting, forecasting and forecast updates - as if these companies were trying to improve their present situation through the implementation of **anticipation and monitoring tools**. The other activities in which our respondents are involved are the identification and the implementation of new systems of management control, risk management, calculation and updating provisions. In this category, the indicators used in monitoring are financial and operational.

In terms of process, methodology and systems, the business practices of the fourth class are the following: implementation of the strategic plan, operational plan and budget; with a higher frequency than once a year for plan and a quarterly frequency for forecasts; a strong involvement of the managers in the strategic plan but curiously in the average for the operational plan, budget and forecast (which characterizes the members of this class ... as if the actors had not to be involved in the process of control !); predominance of financial indicators on non-financial indicators throughout the monitoring process. Those companies, in which the reporting is becoming more and more important, do not use benchmarking but balanced scorecard or ABC / ABM. For the plan, budget and forecast, they use traditional instruments such as spreadsheet or budgeting tool. The information system is considered suitable. Given the mentioned elements, and in reference to Part 7 of our survey, the dominant profile of this class and would rather be **TRADITIONAL and OPAQUE**.

8.3 Focus on similar and divergent elements

Beyond the internal analysis of each class, the typology emphasizes divergent elements between companies constituting our sample.

- Like last year, all companies do not live in the same way the current recession. In this regard, differences have also tended to widen: when the classes #2 and #4 ("The controlled firms" and "the companies in trouble") seem to suffer from the crisis (slight decrease of sales), the class #1 ("The social firms") and the class #3 ("The dynamic companies") manage to continue their growth. However, these are the classes #1 and #3 that are also more internationally oriented: **economic growth in some geographic areas where these firms are located probably helps them to avoid the slowdown they can experience in other parts of the world.**

- Our typology does not really indicate whether factors like size or area are discriminating in terms of resistance to the crisis. However, we note that the most **dynamic companies in the sample are those whose approach is more proactive** (forecasts and forecast updates, risk management) and more globalized (use of financial or operational indicators, use of complex and integrated management tools)

- The managers' involvement in the process of strategic and operational plan, budget and forecast is heterogeneous according to the category: if the participation of managers in the strategic plan is strong in the companies of the class #3 (consistent with their ability to anticipate), it is strong enough in those of class #4, medium in those of class #1 and absent in those of class #2. Similarly, the participation of managers at the operational level is key in the companies of the class #1 (which is consistent with their social dimension), but average in those of the class #3 and close to zero in those of the classes #2 and #4. Moreover, the managers' involvement in the budget and the forecasts is rather strong in the companies of the classes #3 and #1 but lower in the other classes. In other words, **in the companies where the social dimension and the ability to anticipate are stronger than the monitoring process seems to be more decentralized.**

- **Regarding tools, all companies do not mobilize the same control means to cope with the actual crisis**: some choose to strengthen their internal reporting system (classes #1 and #4), their staff management (class #2) or their forecasting system (classes #3 and #4). Note: companies of the class #3 ("The dynamic companies") have a special place because they are characterized by a much more systematic use of non-financial indicators (strategic and operational plan, budget, forecast and reporting) and management tools that help to understand complexity and transversality (ABC / ABM, multi-dimensional instrument, ERP, benchmarking).

The typology 2012 highlights families much more homogeneous and discriminatory. Nevertheless, it is interesting to note similar elements (although they are less numerous than in 2011) regardless of the class, the firm or the geographical area we are studying.

- Overall, the activities in which the finance function-control devotes most of its time are similar to four classes (plans and budgets and internal reporting… even though the class #1 focuses more on the mobilization of managers). The four families are also heavily involved in the identification and the implementation of new systems of management control - companies look likely to adapt their management tool to economic uncertainties. This tends to confirm certain **homogeneity of the control practices throughout the world**, a phenomenon that we observed in 2010 and 2011.

- To adjust their control system to current economic difficulties, **the companies expect, in the near future, to implement or to strengthen monitoring systems they do not necessarily manage today**. Indeed This is the case of the class #1 with plans and budgets, the class #2 with information systems or managers' mobilization, the class #4 with forecasts and forecast updates. On the opposite the companies of the class #3 seem to confirm, for the future, relevance of the tools they currently use (forecasts and forecast updates, internal reports, plans and budgets) as if they felt that these tools were perfectly adapted in times of crisis. For once, what is interesting is that the situation differs from last year: in 2011, the firms wanted to strengthen their existing control systems.

- Moreover, there is some consensus about the evolution of the importance and frequency of publication of reporting. Of course the notion of control is particularly present in class #2 but there is a widespread phenomenon in all classes. **Uncertainty in the markets is likely to force companies to report more in particular to shareholders**.

- **Despite criticisms formulated against it, the budget remains the main tool**: integrated into the strategic, monthly, quarterly or annual processes, it still keeps a prevailing place in the management control process, even though the degree of staff's involvement is fluctuating according to the classes. The advantages relative to its preservation (the budget allows to structure the organization, to delegate or to give managers responsibilities) always get the better of its drawbacks (heaviness of the process, etc.). The emergence of beyond budgeting observed in 2012 must be seen not as the end of the budget process but as a greater sophistication of the latter in which goal setting, forecasting and re-allocation of resources still exist but are separated into three sub-processes.

- It seems that the **"new" tools of management control** (BSC, ABC / ABM, beyond budgeting) **are increasingly used** regardless the class, which was not necessarily observed in 2011. Does it mean that the financial crisis leads companies to invest or to be more structured? In any case, all of the companies in our sample felt that their information system is suitable.

9. Glossary

ABC Activity Based Costing

ABM Activity Based Management

AV Added Value

BSC Balanced Scorecard

CAPEX Capital Expenditure or Investment

CFO Chief Financial Officer

COMEX Executive Committee

ERP Enterprise Resource Planning

IOMC International Observatory of Management control

IT Information Technology

FP&A Financial Planning & Analysis

SMEs Small and medium-sized enterprises