Challenges of
Digital Transformation

Wanted:
New Steering Model!

In its capacity as a business partner, the finance and controlling department supports the implementation of new business models by providing an adapted financial steering model for orientation and monitoring.
Digital transformation and the growing volatility in the business world are giving rise to a major challenge for finance and controlling departments: coming up with a new steering model oriented to strategy. At the same time, these circumstances are generating new opportunities. Finance and controlling can guide the transformation into the new business model and provide the information required to do so correctly and in good time. Moreover, this represents a good opportunity to examine closely and, as needed, to adapt existing processes.

But how does one go about finding the right steering model? And what effect does strategy have on a company’s steering model? With the aid of fundamental design principles and by taking into account the various aspects of steering, it is possible to compile an ideal selection of various steering models for a company. The careful implementation of the new steering model is without a doubt an important factor for the company’s success.

Finding the right steering model

Digital transformation is forcing companies to rethink their business model so that they can maintain (or in some cases, even regain) their market position. The steering logic is a function of the underlying strategy and is influenced by the specific stage of the life cycle and the competitive advantage – the market situation and the competitive pressure.

Changes in the business model and consequently in the focus of the steering have an impact on various business units and functions within the company. Moreover, companies go through a learning curve during the application of steering models: they begin with simple methods and progress until the business model matures; complexity and expenditures of time and effort increase as the model is supplemented by the addition of tools and KPIs. As awareness of the interrelationships within the company’s own business model grows, the next step is steering with an aggregated view of the business (operating excellence). A performance indicator system of this type demands a high level of internal experience and expertise for successful management using highly aggregated and complex KPIs. This is the means to assuring a manageable steering model, which has also been optimized for the use of resources, as the foundation.

In general, companies follow a specific steering model. The consequence is that a new steering model always involves extensive modifications of tools and processes for the finance and controlling department. But the transformation to a new steering model impacts the whole company at the same time. There is no avoiding complexity in the entire transformation process and the need to take the greatest possible care in implementing it.

Finance and controlling should be prepared for any eventuality. Whenever any changes are made in the business model, preparatory measures in line with the role of finance and controlling in the company must be initiated. They relate to the department’s own ability to provide information and support the decision-making process: the creation of structures, the provision in good time of data of correct content, and, if necessary, the adaptation of its own processes. As soon as a decision in favor of a new steering model has been made, a seamless transition from the current to the new steering model can be carried out successfully.

![Figure 1: Learning Curve](source:Detecon)
Corporate strategy as a trigger for the steering model

There is a connection between the corporate strategy and the steering model. One important factor for the corporate strategy is its current position in the life cycle and the well-known development phases of the cycle: introduction, growth, maturity, and decline. The market conditions, which change over the course of time, and the problems which result must be managed carefully. The aspects of the life cycle include the company, the product, the technology, and the market. These various aspects overlap one another and make the decision for the ideal steering method even more complex.

Other important factors include current (future) positioning and the current (future) competitive pressures the company faces. The two most common extremes in terms of positioning are price leadership on the one hand and quality leadership on the other. There are many possible strategies within the field of tension between these two poles.

A special strategy and corresponding business model are developed and implemented under the strong influence of these factors. In accordance with the principle that "structure follows strategy" and depending on how truly significant the changes are, a new steering model must be implemented. Finance and controlling have the task of supporting and guiding the business departments in their pursuit of the chosen strategy.

The relevant steering levers and the appropriate KPIs must be described in the context of the as-is situation and the selected business model. A pragmatic – not a dogmatic – approach should be taken to achieve maximum impact in the organization. One decision is essential: Should there be one single steering model for the entire company, or should a number of different steering models for various company units be implemented parallel to one another (because the units are in various phases of the life cycle)? Yet another important decision is related to the organizational effects of the change: What steering instrument will enable me to guide this change most effectively?

Aspects of the steering model

In our view, a holistic steering model transforms the following elements into a performance indicator system:

- Corporate management: responsibility for the corporate group as a whole or responsibility at the local level
- Goal-oriented strategy realization: growth or operating excellence
- Business support from finance and controlling: structure, information, advice, up-to-date and correct data
- Information and communications function: coordination processes
- Definition of tasks, authority, and responsibilities: departments, units, divisions, and more
- Allocation of resources for the road map: FTE, CAPEX, costs, tools, premises, and more
- Presentation of as-is situation, analysis of aberrations, and operational steering

> Steering Models (1-9) are a function of the factors of the company strategy (e.g. status in life cycle and positioning/competitive pressure).
> They have to be described by the combination of relevant steering approaches.
> Scoring Steering Models: Assessment shows what steering model you should have (“To be-situation”) depending on the analysis of your company situation and shows a possible GAP to your current steering model (“As is-situation”).

Figure 2: Scoring Matrix and Questionnaire

![Figure 2: Scoring Matrix and Questionnaire](image)
There is also the fact that steering models are strongly influenced by the relevant steering viewpoints such as customer or product focus and the specific steering history of the company.

Another aspect is related to the types of steering instruments. We distinguish among the following instruments which, depending on their combination with one another, form a steering model for the specific company:

- Planning: defining strategy; budget, forecast, and the related reporting and risk management
- Definition of the financial target system: performance indicator systems such as BSC, EVA, RoCE, or driver trees
- Cost accounting and contribution margin accounting: products, customers, processes; according to cost type, cost center, cost object, and the related reporting
- Decision-making: business case, comparative calculation of investments, cost-benefit analysis
- Function/finance management: measurement of performance of the functions or organizational units (quantitative and qualitative)
- Cost analysis, monitoring, investment management, and the related reporting
- Goal management: e.g., management by objectives

**Design principles for the steering model**

The steering model is a function of factors from corporate strategy and can be described in terms of the combination of relevant steering instruments. We distinguish among the following basic models during the development of steering models:

- Product-centric: low profit/revenue and competitive advantage; USP related to product; neglect of strategy and customers
- Customer-centric: low profit/revenue and competitive disadvantage; power/pressure from market and customers
- Cash-generating: high profit/revenue and competitive advantage; USP related to market and therefore cash-generating
- Cash-optimizing/efficient: high profit/revenue and competitive disadvantage; cash-optimizing

Generally speaking, every steering model consists of a mix of the basic models described above. Every model can be described in terms of the detailed specification of the relevant steering instruments and must be adapted so that it is an optimal fit for the circumstances of the specific company.

**Implementation of the new steering model**

We propose a four-stage implementation model. The first stage is the assessment of the company’s as-is situation. Based on a questionnaire, the “DTC Audit Tool”, completed by experts within the company, it becomes possible to assess all of the aspects of the present steering model within a relatively short period of time. Moreover, it is linked to the company’s strategy.

A gap analysis is conducted during the second stage to determine where the difference from the as-is steering model can be found so that the specific situation of the company can be taken more precisely into consideration. The result is a listing of the various fields of action and the identification of key points for the implementation.

The third stage comprises the prioritization of the key points and the decision regarding the specific steering instruments which must be modified. The result is a proposal for the modifications of the steering model which can be realized along with the affected functions and tools.

This is followed by the fourth and most important stage: the implementation of the proposed modifications in the finance and controlling processes and, parallel to this, the implementation of all of the modifications required in the IT environment. During this period, active management of the transition from the previous steering model to the new methodology, which includes documentation and, of course, training, is important.

Digital transformation is giving rise to new business models. Adaptation of the steering model by finance and controlling is indispensable for the appropriate management of these new models by internal steering. The realization of the strategy can otherwise not be assured.

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