

New mindset? Interview with Péter Horváth and Claudia Maron

Sustainability permeates every corporate area and controlling has not only been preparing for the new tasks since yesterday. In the interview “Sustainability in Corporate Management: Basics – Instruments – Practical Examples”, which was published by Haufe in September 2021, Claudia Maron, ICV Board Member and Head of Governance at Datev, and Prof. Dr. h. c. mult. Péter Horváth, founder and Deputy Chairman of the Supervisory Board of HORVÁTH AG focus on the challenges of green controlling.

A) Background & Goals

Controlling-Berater: Professor Horváth, even quite early on you were of the view that controllers had a role to play in sustainability: In an interview ten years ago, you talked to us about sustainability and green controlling, a topic that you had put forward for the ICV ideas workshop. For controllers in particular, this was still a fairly new area at the time, so it is not surprising that a certain reluctance was voiced on a number of occasions. How would you appraise the situation today? To what degree has sustainability in controlling found its way into operational practices today?

Péter Horváth: Sustainability – in a broad sense – is now part of a controller’s everyday routine. Sustainability has become increasingly important, and our society as a whole now recognizes its existential significance. Going hand-in-hand with that is the fact that stakeholders of organizations are also actively demanding sustainability – financial profit alone is no longer enough. So sustainability has moved from something of a fringe topic to being an integral component of corporate objectives. If the controller wants to fulfill their role as a “business partner”, they need to take this trend into account.

Controlling-Berater: Ms. Maron, how do you perceive this from the point of view of the ICV?

Claudia Maron: Sustainability is definitely an issue for controllers. So is their reluctance to address it! Two trends can be observed. On the one hand, there is a clear shift towards more sustainable corporate governance. The EU Green Deal, the climate goals of the German Federal Government, and sustainable finance mean that the sustainability debate has arrived in the corporate world. However, sustainable management is not yet at the top of the watchlist for controllers; in fact it was not identified among the top 10 future topics set to be relevant for controlling in 2025¹. Why is that? In many companies, the main responsibility for sustainability is usually assumed by top management and by specialized departments (e.g. environmental management).² Controlling is often on the sidelines.

The ICV took this up at an early stage. Since 2011, the ICV’s Green Controlling for Responsible Business expert work group has been³ identifying, discussing and

developing goal-oriented, practical and feasible solutions for green controlling.

Controlling-Berater: Sustainability is a rather broad topic which takes in social and economic aspects as well as environmental considerations. In practice, the current climate discussion often seems to be limited to ecology. To what extent do you think this makes sense?

Péter Horváth: This almost-exclusive focus on ecological concerns – in particular the CO₂ issue – does indeed fall short of what is required. Instead, companies need to pursue a holistic concept of sustainability in terms of ESG criteria. In addition to broader ecological considerations such as water, waste and biodiversity, this also concerns social and governance components. In order to be truly sustainable, companies must identify and consider their impact and dependency on natural and social capital, and ensure minimal negative impact.

Claudia Maron: Prompted by the environmental and climate debate, the English word “green” has become established as a brand name for sustainable activities. This may suggest that environmental protection and ecological issues are the sole focus, but sustainable business actually involves a great deal more. Responsible corporate management⁴ will always take social and economic aspects into account.

Controlling-Berater: In your opinion, does positioning and integrating these issues more strongly in the corporate strategy make sense for facilitating their practical implementation? Here I’m talking especially about striking a balance between economic, environmental and social dimensions considering the various conflicts of objectives that regularly arise between the three areas.

Péter Horváth: Discussing sustainability without any context is fundamentally not effective. Sustainability always requires a specific business context as well as a basic sustainability concept. In practice, it is really important to establish a clear connection between corporate mission statement and strategy; to integrate financial and non-financial value drivers; and to create a balance in the sense of a “triple bottom line”. As you mentioned, this is the only way to achieve company-wide acceptance, and to identify and balance potential conflicts of objectives.

Claudia Maron: The integration of environmental and social issues into a corporate strategy is certainly part of sustainable corporate management. It ensures that company management has a clear framework and commitment to addressing these issues. The conflicting objectives often arise due to a short-term view of added value. For example, a photovoltaic system incurs costs and has a longer payback period. On the other hand, it has a positive impact on the CO₂ balance, and as such improves corporate image and employer attractiveness. Investment can be financed via green loans, which in

turn has a favorable effect on sustainability ratings. So in the long term, conflicts of objectives often resolve themselves. However, it is important to transparently set out any opposing objectives to get an idea of the impact, and to make informed decisions.

B) Tasks & Content

Controlling-Berater: *Does sustainability represent an opportunity for our profession? Do you see parallels in this with the megatrend of digitization?*

Péter Horváth: The integration of sustainability into the controlling system is indeed an opportunity – in fact an obligation! Any organization has to take sustainability into account, but effectiveness and efficiency cannot be achieved without controlling. As with the megatrend of digitization, sustainability transformation is a cross-functional challenge which requires collaboration across a whole range of corporate divisions. In this area too there is a risk that controlling will stand passively on the sidelines for too long. It is high time that controlling took on a more creative role and played a more active leadership part in this.

Claudia Maron: The sustainable and digital CFO and controlling agenda – both of these topics are forward-looking. They represent a realignment of the finance department and thus have a spillover effect on controlling. Controllers will ideally act as change agents to help shape these change processes. It brings up the same questions: How is the financial organization changing? What are the implications for the controller role? Are new processes required? Which methods and tools should be used in future? How does this affect the business model?

Controlling-Berater: *What will be the resulting additional tasks for controllers?*

Péter Horváth: Controlling has the fundamental task of defining an overarching management approach which views financial and non-financial aspects holistically and consolidates them, as well as ensuring that common goals are achieved. Controlling is particularly sought-after when it comes to establishing processes and systems for successful implementation of a sustainability strategy.

In addition to company-related tasks, I see a new challenge in the systematic consideration and incorporation of an external perspective, so that not only input and output calculations, but also outcome and impact considerations will be required in order to track the economic value to society and to nature throughout the entire value chain. What kind of positive and negative impacts on society, the economy, and the environment could result from the company's activities? And what are the financial implications of the impact of corporate activities on society and the environment? The current work of the Value Balancing Alliance is certainly interesting in this regard. I should also mention that an ICV expert working group has just developed a comprehensive impact measurement system.

Claudia Maron: Their proximity to management and corporate management means that controllers are particularly well positioned to address the economic aspects of sustainability. However, the social and environmental considerations can also be integrated without significant additional effort or new processes. A planning or reporting process is not made different by the inclusion of non-financials alongside financials. Instruments and processes are the same and just need to be updated to include sustainable aspects.

There are also new requirements for controllers though, such as impact measurement⁵ (correlation of cause/effect mechanisms), double materiality (considering the stakeholder view in addition to the corporate view), external CSR reporting, sustainable finance and green rating requirements. Controlling must also address the implementation of EU taxonomy as a European classification system for environmentally sustainable activities.

The ICV “Green Controlling for Responsible Business” expert working group is currently working on a white paper on this topic, which will be published in the second half of 2021.

Controlling-Berater: *On this topic, can you see risks that could arise – for our companies, but also for controllers?*

Péter Horváth: I say that there's no alternative to sustainability and its integration into controlling. So yes, I do see a risk for companies, most prominently in their ignorance of the topic. In my opinion, there are no specific risks in implementation, but rather numerous challenges, and opportunities to rethink and amend. That means there are huge opportunities for integrated governance as a basis for expanded accountability, with the aim of creating a more sustainable economy and inclusive society.

Claudia Maron: For companies, the risks are increasingly tangible. Any company that does not address climate risks will pay for this in future in the form of a carbon price. At present this price seems to be fixed, but if you follow the political and scientific debate it may have to double, so it is certainly fraught with risks to companies. As part of the German Corporate Due Diligence Act, companies will have to address the risk of non-compliance with human rights in the future. If the necessary certifications are not in place – e.g. for environmental management or energy systems – there is a risk that companies will not acquire customers or will even lose them. The issue of sustainable finance is also gaining traction. Sustainable management, which is certified by a sustainability rating, affords access to more favorable financing terms.

The risk then is that controllers will have little input into the key issues of the future. Finance still remains the key factor, but stakeholders' interests are also driving a shift towards sustainably managed companies.

Controlling-Berater: Against the backdrop of this extended scope, what do you see as the biggest challenge for controlling?

Péter Horváth: To my mind, the greatest challenges are establishing a fundamental willingness to change, to look beyond the company's borders, and the very closely integrated interdisciplinary collaboration that is required. In addition, I see the need for a process of sustainability-focused development of all instruments, from operational cost accounting to strategy development.

Claudia Maron: The main challenges are to move away from purely financials towards non-financials, and to think in terms of analytics, and to do so with closer reference to the corporate strategy. For example, customer and employee satisfaction or the net promoter score are already among the top strategic KPIs. The Internet of Things delivers an incredible amount of data through smart data. Linking this non-financial information to the financial world, casting it into data models, and analyzing it with AI or business analytics is precisely where controllers can start to generate benefits in the value chain. How lean would a strategy and planning process be if we could quantify that a 1% increase in employee satisfaction costs xxx euros, while at the same time proposing the five most effective measures based on AI?

Controllers play a key role as change agents and partners of management.

C) Instruments & Methods

Controlling-Berater: *To what extent do we need to update our existing metrics and control instruments in light of our reporting systems' continued focus on finance, and the changes to controlling tasks that we discussed earlier? Or do we fundamentally need completely new metrics and information systems?*

Péter Horváth: I see a fundamental need for a process of sustainability-focused development of all instruments, from operational cost accounting to strategy development. In my opinion, the biggest requirement is the development of new environmental and social metrics and their links (cause-effect) to the financial dimension. Moreover, suitable business analytics tools have to be developed to go with them.

Claudia Maron: The question of metrics and control instruments comes second. As a top priority, the switch towards integrated reporting and changed tasks that consider environmental and social aspects as well as economic parameters requires a change of mindset in controlling. Integrating non-financial information into business management is a new challenge for more finance-oriented controllers. The "green" controller model provides⁶ guidance. As partners to management, controllers make a significant contribution to the sustainable success of an organization in economic, environmental, and social terms.

Only then is it worthwhile to look at metrics and control instruments. The most important new characteristics are greater integration into the strategy process, thinking in

terms of cause/effect relationships (impact measurement), and supporting decisions based on data- and driver-based models.⁷ Non-financial information is the well from which AI and business analytics drink. In future, external reporting will also focus more keenly on the green interests of stakeholders and politically prescribed standards.

Controlling-Berater: *In which existing information systems do you see the greatest need for adaptation and where are the biggest challenges?*

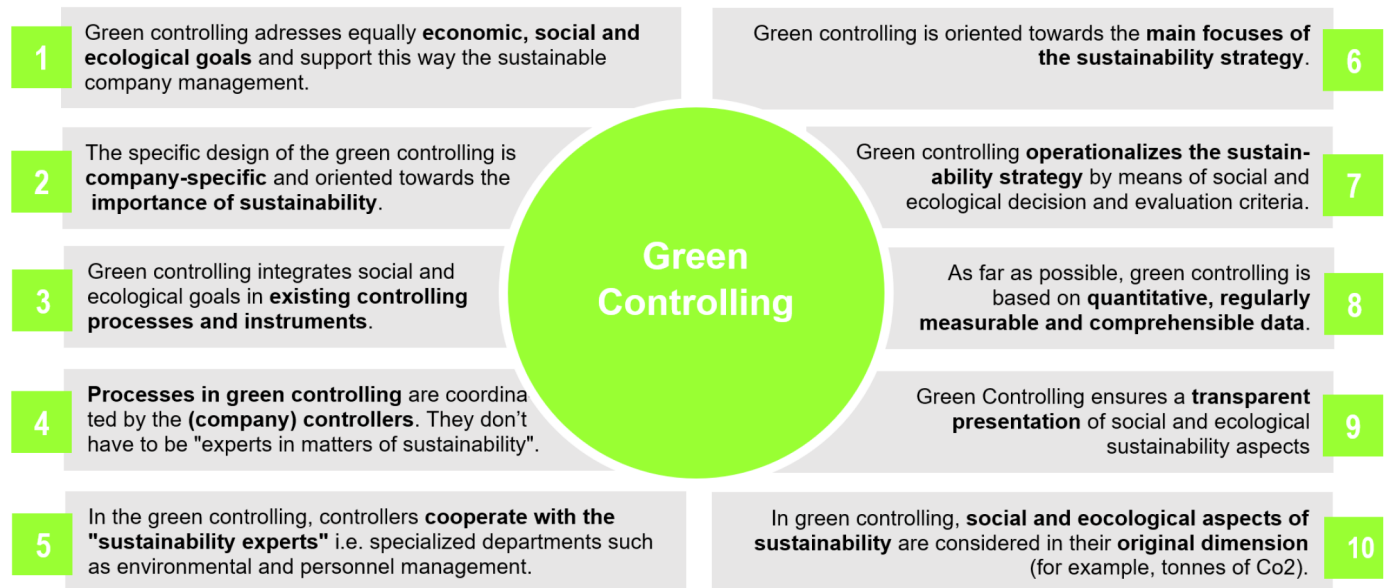
Péter Horváth: Controlling is absolutely central to development and implementation of strategy, management of measures, and to reporting and success-monitoring. Strategic planning must absolutely play the key role in designing the route map. Scenario analyses and the inclusion of external, sustainable context are increasingly vital tools in presenting options for the future. Existing instruments for operationalization of the strategy, including the balanced score-card, must be expanded to include non-financial value drivers. In terms of operations, I feel measurability of impact – in other words, the use of outcome-impact evaluations – will be one of the greatest challenges.

Claudia Maron: One major challenge will be to combine the various already-existing environmental and social information systems with the established financial information, and to mold them into an integrated information system.

Several questions arise here: How should we collect data in a structured way? How should the wealth of sensory information be used? How can suitable data management systems, such as data lakes, be set up? How can the analyzability of structural and transaction data be ensured? How can financial and sustainable data be linked by means of AI and business analytics in such a way that added value for corporate management is created? How should controlling be positioned? Are BI-related topics migrating towards Business Intelligence?

Controlling-Berater: *It is often argued that for many key sustainability indicators, a lack of monetization makes a holistic, integrated approach to corporate management difficult. However, there is an opposing argument that says monetization prevents us from tackling the fundamental issues. What do you think about this, and how can companies overcome this barrier?*

Péter Horváth: In my opinion, an artificial conflict is being created here. It is certainly not possible to develop KPIs for all sustainability issues and to assign monetary value to all impacts. There is a learning process under way on this, underpinned by ongoing advances in technology and science, and this should lead to greater precision. As a general rule: A qualitative opinion is better than no assessment at all! It is crucial that we highlight direct and indirect impacts, that they are afforded the right degree of significance, and that this information is incorporated into corporate decision-making processes.



Claudia Maron: The mix of physical, quantitative and monetary variables and their integration into a holistic corporate management concept is crucial. At this point, I'd just like to draw your attention to the ten theses on green controlling⁸ formulated by the ICV, as they make a clear statement on this.

Monetization should be task- or contingency-based, particularly in the context of reporting, and should focus on the information needs of stakeholders. As such, data should, as far as possible, be quantitatively and regularly measurable and transparent (Thesis 8). For internal management of the sustainability strategy and measures, the ICV recommends considering factors in their originating dimensions (e.g. metric tons of CO₂) (Thesis 10). Factoring in the financial consequences, for example those arising from environmental pollution or a lack of digital skills due to minimal further training, will allow companies to manage environmental and social goals within a comprehensive framework.

Controlling-Berater: *Is there not a need to focus more on the long-term perspective? Has quarterly thinking finally become a thing of the past?*

Péter Horváth: I fully agree with you, though this applies regardless of the sustainability aspects. Quarterly thinking is not compatible with a long-term perspective on sustainability. It is far more important to safeguard and enhance the long-term profitability of the company by implementing sustainability measures. This requires flexibility, diligence, and self-reflection.

Claudia Maron: By definition, sustainability is already geared towards the long term. Short-term thinking and management based on quarterly results should be reinforced by a long-term perspective in terms of a triple bottom line – though it does continue to make sense to report non-financial information such as energy consumption or waste generation, for example, during the course of the year. Globally relevant output factors,

such as CO₂ emissions, must become long-term considerations within the context of a company's strategic goals. Sustainable business also requires uprooting the shareholder value concept and moving towards considering stakeholder value. Investors, finance providers and rating agencies are also increasingly looking at their environmental and social footprint, and medium-term perspectives are assuming greater significance as a result.

Controlling-Berater: *In addition to pure measurement, there is an ongoing focus on reporting. A frequent criticism of ESG reporting is a lack of consistency and comparability in ESG metrics. Today, where do you see the key challenges in ensuring high-quality reporting?*

Péter Horváth: The existing lack of consistency and comparability in ESG reporting, though also in the field of rankings and ratings, currently makes it difficult to make a solid assessment of a company's sustainability performance, and would ultimately make it harder to take effective decisions. This is why we urgently need standardization in ESG reporting as well as in ESG ratings and ESG indices.

Claudia Maron: Sustainable standards for ESG reporting already exist, such as the Global Reporting Initiative (GRI), the CSR Directive (Corporate Sustainability Reporting Directive) and the DNK (German Sustainability Code). At the same time, sustainability ratings such as Ecovadis and CDP⁹ aim to make it easier to compare environmental, social and economic performance.

The application of these standards creates transparency. However, there is still a lack of standardization for risk-based investment and financing decisions. The room for interpretation makes it difficult to assess and compare. For example, it is important to scrutinize the disclosure of a company's climate goals. The scope of what is to be offset (scope 1, 2 or 3) or whether the off-setting is

climate-neutral or climate-positive cannot be reasonably interpreted without knowing the objective of the individual companies.

At the same time, we are currently seeing a consolidation of the “reporting market”, in which more and more providers are collaborating with each other to develop common standards. This is an important step, but also presents challenges in combining the various methods.

Controlling-Berater: Recent developments on the part of the EU, such as the current draft EU directive on sustainability reporting, or the EU sustainable finance taxonomy, clearly indicate the direction of future regulation: The creation of transparency and comparability, as well as the establishment of uniformity in reporting. Against this backdrop, how do you assess the future importance of integrated reporting of financial and non-financial KPIs?

Péter Horváth: These recent developments are indeed helpful and necessary, and show that we are already on the road to some degree of standardization. This process of developing standards and norms is typical when new issues arise.

The increasing importance and demand for non-financial information and its linking to classic financial indicators, as well as its consideration in routine processes and reports, promotes this trend towards integrated reporting. It is an issue that controllers and accountants have been working on for a long time.

Claudia Maron: Its importance is considerable. The EU taxonomy clearly defines the criteria that economic activity must meet in order to be considered environmentally sustainable. It also sets a standard that companies will have to follow in the future to report their sustainability performance. Controllers should therefore familiarize themselves with these issues at an early stage in order to be able to actively support the process.

In addition, the ICV expert work group has developed practical proposals for implementing an integrated reporting system¹⁰, with an emphasis on the definition, collection and presentation of indicators which primarily represent a gateway to non-financial KPIs.

D) Organization

Controlling-Berater: *What do you think will be the organizational impacts on a company, and on controlling in particular? To what extent will processes and structures in controlling have to change due to greater consideration of sustainability?*

Péter Horváth: We really have to make a distinction here depending on the industry and company size. Organizational anchoring can vary greatly depending on the extent of the requirements relating to sustainability transformation. We can essentially assume that, on one side, sustainability considerations must be integrated into all processes; the flip side is that specialization will also increase.

Claudia Maron: In organizational terms, the ICV recommends that small to medium-sized enterprises anchor the economic pillar of a triple bottom line into controlling, and integrate it into corporate management together with the departments responsible for environmental and social sustainability. The processes involved, from planning through decision-making to reporting, must be expanded to include non-financial information.

Large corporations, on the other hand, often have their own department that covers all aspects of sustainable management. The important thing is that each company finds a way that suits them best.

Controlling-Berater: *Along with creating processes, there is also a need to establish supporting IT systems to enable regular and integrated data collection and provision. What developments are you seeing here and what do you think are the biggest challenges?*

Péter Horváth: I absolutely agree that this is needed, and I think that collaboration with technical functions in particular will have to be strengthened. Controllers need the help of data scientists here. They must also be able to discuss this expansion of their information needs!

Claudia Maron: It will be crucial to bring together the two megatrends of sustainability and digitalization. After all, new information needs which arise as part of sustainable corporate management – in particular the issue of impact measurement – can only be addressed if the corresponding digital infrastructure is built. Controllers should assume a leadership role here.



Controlling-Berater: *Within the context of sustainability reporting, the facets of assurance and sustainable corporate governance are also coming to the fore. In view of this, what are your expectations regarding controlling requirements?*

Péter Horváth: Controlling is a key element of effective governance. Controllers have a large set of instruments at their disposal that they can use to make an effective contribution to sustainable corporate management. They have experience and the appropriate tools to collect data, implement internal control and supporting management systems, and generate complete and transparent documentation. Sustainability is also a cultural issue! Controllers can ensure credibility, consistency and acceptance, in particular through their interface to the financial sphere.

Claudia Maron: Sustainable governance ensures that reports and communication on CSR (Corporate Social Responsibility) activities hold up to a fact-check. In other words: Green stories instead of greenwashing! Sustainable commitment must be authentic. When assessing environmental or social risks, the problem is that the time horizon in question is too short, at one to three years. In future, a long-term focus must also be reflected in long-term risk assessments.

Controlling-Berater: *An increased focus on sustainability must be supported internally by an appropriate corporate culture. What barriers do you see in this regard and how can controlling contribute to this?*

Péter Horváth: The main barrier is “small-minded” controlling. Controllers must consider and actively promote the opportunities that sustainability brings, and the link between sustainability and profitability: “Stay in the black by being green!”

Claudia Maron: In the best-case scenario, sustainability should not be a matter for one company department or staff unit that deals exclusively with these issues; it should be an applied understanding of responsible business practices, covering conventional economic considerations alongside social and environmental issues. The chance of sustainable values becoming part of the corporate culture grows in proportion with the commitment of management and anchoring in the corporate strategy.

There are also some great controlling services relating to sustainability, and the best of these green controlling services are recognized once a year. This award is presented by the Péter Horváth Foundation in partnership with the International Association of Controllers. So get involved¹¹! We look forward to hearing your ideas.

D) Outlook

Controlling-Berater: *Have we now reached the point, at the European level at least, where there is no alternative to systematically integrating external impacts? Has the right time come to really get to grips with the issue?*

Péter Horváth: Sustainability is not a sprint, but a marathon. The implementation and integration of sustainability into corporate processes and systems takes multiple years, and requires a continuous process of development. Taking all this into account, we're actually a long way past the start point! Anyone who has waited this long needs to wake up and smell the coffee, and take action as quickly as possible. There is no alternative for controlling: Sustainability is a must if we want to survive!

Claudia Maron: Yes. As part of the EU taxonomy, companies will be required to report on greenhouse gas emissions for the first time in the 2021 financial year. The EU is currently debating whether to extend the reporting obligation to non-capital-market-oriented companies.

This also puts the focus on larger medium-sized enterprises,¹² which should start their preparations now to give themselves enough time to adapt their information systems to the new requirements.

Controlling-Berater: *Many thanks for a really fascinating discussion!*

¹ 4. WHU Future Study: Future topics for controlling, 2020

² International Association of Controllers, Green Controlling 2015/2016 – Where are we after 5 years? Wörthsee 2016 (Editors: Steinke, K.-H., Berlin, S., Stehle, A.).

³ ICV – Expert Working Group on Green Controlling for Responsible Business; Portrait (ICV-controlling.com)

⁴ Triple Bottom Line – ControllingWiki (controlling-wiki.com)

⁵ International Association of Controllers, Rolle des Impact Measurement in der integrierten Unternehmenssteuerung - Leitplanken und Handlungsempfehlungen für die Implementierung eines neuen strategischen Steuerungsinstrumente [Role of Impact Measurement in Integrated Corporate Management – Guiding Principles and Recommended Actions for Implementation of a New Strategic Management Instrument], Wörthsee 2020 (Editors: Jordan S., Möhrer M., Stehle A., Nunweiler E., Weihofen S.).

⁶ International Association of Controllers, Green Controlling – Leitfaden für die erfolgreiche Integration ökologischer Zielsetzungen in Unternehmensplanung und -steuerung [Guidelines for the successful integration of environmental objectives into corporate planning and management], Freiburg/Munich 2014 (Editors: Steinke, K.-H., Schulze, M., Berlin, S., Stehle, A. and Georg, J.), p. 20 et seqq.

⁷ International Association of Controllers, Rolle des Impact Measurement in der integrierten Unternehmenssteuerung - Leitplanken und Handlungsempfehlungen für die Implementierung eines neuen strategischen Steuerungsinstrumente [Role of Impact Measurement in Integrated Corporate Management – Guiding Principles and Recommended Actions for the Implementation of a New Strategic Management Instrument], Wörthsee 2020 (Editors: Jordan S., Möhrer M., Stehle A., Nunweiler E., Weihofen S.).

⁸ Theses on Green Controlling, ICV expert work group Green Controlling for Responsible Business, 2017, Portrait (ICV-controlling.com),

⁹ <https://www.cdp.net/en>

¹⁰ International Association of Controllers, Integrated Reporting – Schritte zu einer ganzheitlichen Unternehmenssteuerung [Steps towards holistic corporate management]: Praktische Vorschläge zur Umsetzung einer integrierten Berichterstattung mit Fokus auf die Definition, Erhebung und Darstellung von Kennzahlen [Practical proposals for the use of integrated reporting with a focus on the definition, collecting and presentation of indicators], Wörthsee 2017 (Editors: Stelkens, V., Ilg, P., Steinke, K.-H.).

¹¹ Green Controlling Award of the Péter Horváth Foundation (icv-controlling.com)

¹² This applies to companies that meet two of the following three criteria: Number of employees >250, revenue > €40 million, total assets > €20 million.