From isolated reporting to full-fledged steering.
Starting points for pragmatic sustainability controlling

Nowadays, the principle of sustainability has reached many areas of the economy and society. Both the raised stakeholder expectations in this context and the potentially favourable direct economic effects should encourage organisations to deal with the issue of sustainability. This article approaches the question of how organisations can develop effective steering of sustainability issues from exactly that perspective. We will provide practical recommendations ranging from the selection of suitable steering measures to the implementation through integration into the regular financial controlling and reporting processes.

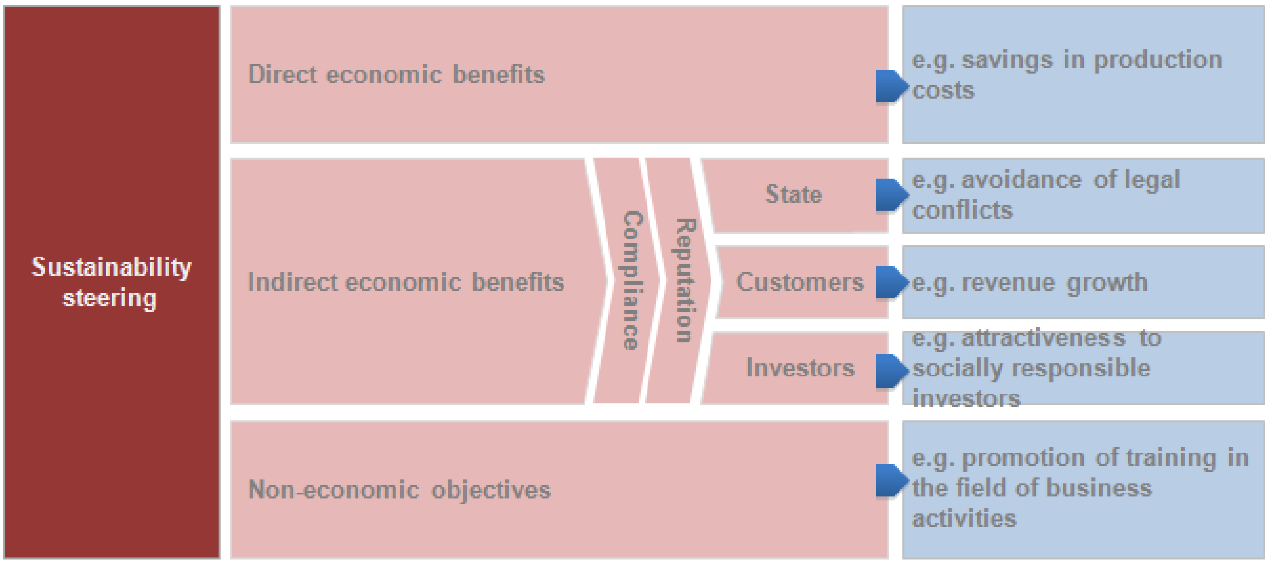

Fig. 1: Achievable effects through the introduction of sustainability steering

The growing significance of the subject of sustainability

In a nutshell, the principle of sustainability requires “[meeting] the needs of the present without compromising the ability of future generations to meet their own needs” (UN, 1987). While this may appear simple at first sight, it remains one of the biggest challenges of our time. Consumption of natural resources is already high and continuously increasing. The resulting long-term scarcity of resources is self-explanatory; yet, there are also indirect negative effects, above all climate change (Weber et al. 2012). Raised awareness of this fact has caused a change of perception in society and encouraged more responsible handling of natural resources, which goes hand in hand with a different approach to individual consumption patterns. Issues such as environmentally friendly production or fair working conditions are given stronger consideration in the purchase decision of end-consumers and this trend has been apparent for some time. This shift in priorities directly affects companies facing such expectations. Companies can contribute to sustainable development through their actions in an economic, ecological and social context and attempt to meet market requirements in this manner (OECD 2011). **Direct favourable economic effects can be created simultaneously; for instance, by reducing production costs by means of resource-efficient production methods.** However, such opportunities are not seized if organisations have not adopted sustainable business management practices. This can give rise to a competitive disadvantage that may even jeopardise market position and therefore the company’s ability to meet stakeholder requirements in the long-term. 80 percent of all executives surveyed by Deloitte in a European study share this view and consider the inclusion of sustainability issues relevant to long-term economic success. In addition to direct and indirect economic objectives, companies can also adopt sustainability activities that offer no added value in economic terms (see Fig. 1).

Sustainability and corporate steering

Given the raised expectations of organisations, these can no longer forego integrating ecological and social aspects into their guiding principles and publicly presenting the resulting activities in a transparent manner. In 2012, more than 3,000 companies worldwide employed external sustainability reporting for this purpose and 2,400 of these publish reports in accordance with the recognised standard of the ‘Global Reporting Initiative’ (GRI) (see Global reporting Initiative 2013). The continuous prevalence of voluntary reporting standards, such as the GRI standard or the recently adopted IR framework of the International Integrated Reporting Council (IIRC), places increasing pressure on all organisations to map the issue of sustainability in their external reporting. **While external sustainability reporting is becoming more and more established, the subject of sustainability continues to be side-lined in internal reporting.** According to the Deloitte study mentioned above, only around one third of all surveyed companies take account of sustainability issues in their management reporting. We can assume that even fewer organisations actively incorporate sustainability issues into their corporate steering.

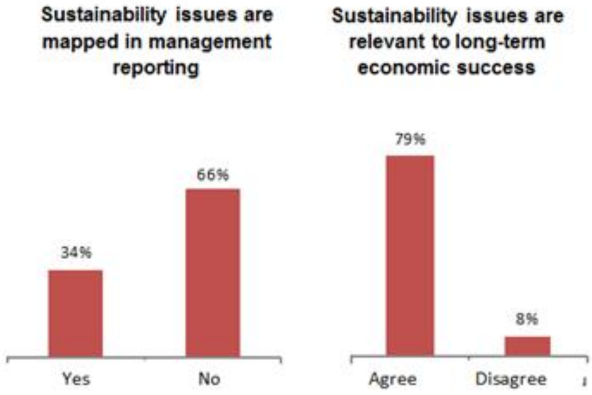

Fig. 2 Survey results on sustainability

However, **stakeholder expectations** already go beyond mere reporting. **There is an expectation that companies should actively influence and steer their “sustainability footprint” (that is, the negative impact of their activities on their stakeholders).** Thus, having to report on a *negative* development of its sustainability footprint would be rather problematic for a company unable to take appropriate counter measures.

To prevent a negative effect of transparent sustainability reporting, an organisation needs to steer its sustainability footprint effectively. The increasing number of socially responsible investors (SRIs) highlights that this can translate into solid economic benefits for an organisation.

Thus, integration into corporate steering is very much necessary to facilitate the generation of real economic benefits; if, for instance, cost savings are to be achieved through a reduction in resource consumption, this must also be a subject to active steering.

In general, the same planning and reporting instruments can be employed for such sustainability steering as are used in the context of classical, finance-oriented corporate steering. However, the practical implementation of sustainability controlling requires the consideration of some key points to ensure successful integration into corporate steering. By providing a number of pragmatic tips, this article offers guidance for developing effective sustainability steering and discusses the key points that have to be taken into account.

Starting points and recommendations for implementation

Separating sustainability and philanthropy

Many organisations invest significant amounts in philanthropic activities, such as arts, culture or sports sponsorship. On the organisational level, these commitments are often grouped together with the sustainability initiatives in a Corporate Social Responsibility (CSR) department.

Fig. 2: Integrative approach for the successful introduction of sustainability steering

We recommend **separating the areas of sustainability and philanthropy clearly**, both in the development of sustainability steering and in external and internal reporting. From the perspective of intrinsic motivation - sustainable business - their objectives are different. Minimising or improving the effect of business activities on the environment and on the stakeholders of an organisation is at the very heart of sustainability. Philanthropy, in contrast, tends to focus on "giving something back to society" or simply "to do good" and this is not related to any other activity of that organisation. From an extrinsic perspective - the direct and indirect economic benefits - the objectives are equally different and they also take effect in a different way: While philanthropic activities generally focus on creating a favourable outward appearance of an organisation, sustainability measures aim to avoid risks to the reputation of an organisation (resulting from the specific expectations of key stakeholders), and ideally even create immediate economic benefits to that organisation. The latter may manifest in the form of cost savings (direct economic effect) or revenue growth (indirect economic benefit); for instance, by targeting customer groups with a pronounced awareness for sustainability issues. The importance of these direct and indirect economic effects can primarily be attributed to the fact that - unlike philanthropic activities - sustainability measures are closely aligned with an organisation's core business, and consequently signal a high degree of relevance, allowing the organisation to gain credibility in these areas.

Focusing on a small number of key issues

In the context of external sustainability reporting, numerous individual subjects are examined from all three angles of sustainability (economic, ecological and social issues) and this is often communicated to stakeholders together with an extensive and detailed set of figures. Thus, external sustainability reporting covers a broad range of information and performance indicators that cannot be transferred to internal sustainability steering in that form. We propose focusing sustainability steering on a small number of issues, for several reasons:

(1) Not all topics presented in external reporting are important enough from the perspective of economic or sustainability objectives to find regular management attention. Active steering efforts would often exceed the potential benefit, even under optimistic estimates.

(2) Management support for the development of a sustainability steering function is higher if the expected benefit can be seen clearly. In order to gain the support of the management, a focus on the most promising issues thus makes sense.

(3) The existence of controllable variables is a prerequisite for steering. These must be closely related to the matter that is to be steered. If no such performance indicators can be defined for a particular issue, this subject area cannot be considered for quantitative steering[1].

(4) When selecting relevant steering indicators, both the relevance for the matter to be steered and the timely availability of the underlying information must be taken into account: Annual sustainability reporting can be based on the annual figures. Internal steering requires monthly or quarterly data collection to facilitate effective measures. Given that data collection and preparation must be feasible, there is a limit to the number and type of matters that an organisation can steer.

Ensuring credibility through economic relevance

Sustainability initiatives typically only achieve the desired effect if stakeholders perceive them as *relevant* and *credible.* Above all, this requires the sustainability objectives to be linked to the organisation's core business and to offer a sufficient economic incentive. For an airline company, for instance, a reduction of CO_2 emissions is a relevant and credible objective. It is *relevant*, because exhaust emissions are directly related to the airline company's core business - more flights mean more emissions. Moreover, the enormous volume of CO_2 emissions strongly suggests that the company can achieve considerable leverage for the improvement of its sustainability footprint.It is *credible*, because the favourable economic effects that go hand in hand with a reduction in emissions provide the company with a significant incentive to achieve the target it defines.

Ensuring credibility is a challenge, especially if a particular sustainability measure provides no direct economic benefit to an organisation.[2] In this case, credibility can be achieved through stronger communication and independent external monitoring (for instance, through independent NGOs).

[1] Other steering mechanism, such as corporate culture or procedures (e.g. in the procurement process) may equally be used (Weber et al. 2012). Moreover, qualitative external reporting on such issues is possible.

[2] One such scenario may be a telecom company taking the interests of residents into consideration when constructing mobile phone towers. While this matter provides no direct economic benefit to the company, it is closely related to its core business.

Stakeholders are more likely to consider an issue relevant if they perceive it to be a key component of an organisation's sustainability footprint. Other sustainability issues that are not related to the core business (e.g. sustainable office concepts) may prove interesting for external reporting. Yet, they should not be considered objects for steering measures.

Realising quick wins

When establishing sustainability steering, an initial pilot run with a reduced set of issues will prove beneficial. This pilot set should allow a relatively quick implementation and should ideally be a significant economic factor for the organisation. The quick and successful realisation of an economically relevant pilot will usually make it easier to place the subject of sustainability steering on the management agenda and to obtain the resources required for the development of more comprehensive steering. However, in the medium-term, broader, more comprehensive sustainability steering is usually required. Its scope will depend on the sector and the specific situation of the organisation (e.g. stakeholder environment) (Weber et al. 2012).

Integrating planning and reporting

Planning and forecasting are core components of effective steering - **they are a prerequisite for the alignment of resource use with corporate strategy, the early detection of deviations from the initial targets and consequently, the timely correction of such deviations.** From a decision-oriented controlling perspective, there is no benefit in the mere reporting of sustainability indicators without the planning and regular analysis of the same.

Given the significant time and cost expenditure of the planning process, we once again recommend beginning with a carefully selected pilot set (comp. section 4.4). Management will take a more favourable stance on the integration of sustainability performance indicators into the regular planning cycle if these indicators are linked to the core business and are economically relevant. Indicators have to be aligned with the fundamental management interest to gain the necessary support of the management. Irrespective of the business unit driving the initiative for such a planning and forecast process forward, the specialist and operational competence of Finance and Controlling should be utilised to avoid the development of inefficient overlapping structures and processes.

Utilising the expertise of the finance and controlling functions

Sustainability *per se* is a holistic concept. Thus, it cannot be realised in one single department. Rather, **it always affects an organisation as a whole, and upstream and downstream operations are also increasingly affected.** A holistic approach requires a coordinating and steering function that has an overview over all activities and steers them in the same direction. Given that the Finance and Controlling department plays a key role in corporate steering, this function is perfectly suited to assuming this role. No other division can offer such extensive expertise in the area of planning and reporting, as well as such well-established quality assurance processes and standards for information relevant to steering. This increases the credibility of both, reported and planned information, and therefore the overall credibility of sustainability steering - internally and externally. Meanwhile, the utilisation of existing processes and IT systems translates into a significantly lower effort and expenditure in the realisation of sustainability steering than would be required for the development of a new, dedicated process and system landscape to this end. Nevertheless, **close cooperation between Controlling and the the Sustainability department remains crucial -** for the selection of the matters that are to be steered, the analysis of the achievement of objectives set, as well as the definition of appropriate measures.

We can already observe successful examples of the integration of sustainability steering into the Finance department: Deutsche Post DHL has integrated its sustainability standards and KPIs into its financial policies (Aschenbrücker 2012). The company utilises the existing system landscape and has successfully incorporated sustainability controlling into its regular finance and controlling processes, thus avoiding the need for complicated new solutions. This allows efficient internal steering with reasonable time and cost investment.

Flughafen Stuttgart GmbH has also developed strong and integrated sustainability steering (Isensee 2013). Not only is sustainability information relevant to steering provided in the SAP BW used for controlling purposes, but existing control instruments, such as capital budgeting, have been extended by sustainability aspects.

Openly communicating steering to stakeholders

As has been stated above, it is often raised stakeholder expectations of a stronger consideration of sustainability issues from company management that make “true” sustainability controlling necessary. This is why a company that has taken its first steps towards the integrated steering of sustainability issues should also communicate its efforts to its stakeholders adequately as part of its external sustainability reporting. This highlights that sustainability activities are not only listed, but that effective steering is in place to allow the measurement and shaping of the activity’s success. Informing stakeholders about the steering approach, as such, is a start. Yet, communication must go further. A precise definition of the objectives set and the extent to which these have been achieved should equally be included in the external sustainability report. Such a variance analysis provides transparency of the effectiveness of sustainability steering. This also increases internal pressure to take these sustainability objectives seriously, as it allows stakeholders to detect and possibly sanction negative variances.

The company Henkel provides such a sustainability report that includes targets and variances: Sustainability indicators are reported that are linked to specific sustainability objectives, making the achievement of these objectives transparent. The same indicators reported externally in aggregate form are directly linked to various measures implemented internally and these measures are in turn based on detailed indicators (Colsman 2013).

Summary

This article provides companies with a number of pragmatic recommendations for the development of sustainability controlling and its embedding into the regular finance processes. The objective: Sustainability must be controllable to be considered credible by stakeholders and to generate real and favourable economic effects for the organisation. Sustainability activities should be separated clearly from philanthropy, because their underlying motivation and objectives differ. Not all indicators used in external sustainability reporting should be integrated into sustainability steering. Rather, an effective approach to steering requires the selection of relevant and credible sustainability indicators that are marked by economic relevance and a direct link to the core business. A pilot run with a significantly reduced set of sustainability issues is beneficial in the development stage of sustainability steering, as it allows the realisation of quick wins and thereby increases support through the management. **The steering of sustainability issues requires the planning and regular analysis of measures taken - regular reporting does not suffice.** Existing system and process infrastructures of the Finance department should be utilised. Finally, the existence of effective steering should be openly communicated to stakeholders, together with the key performance indicators used, as well their target and actual values.

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