

# The IGC on Sustainability and Sustainability Controlling

Kim Dillenberger / Ronald Gleich / Klaus Eismayer / Heimo Losbichler / Klaus Möller / Rita Niedermayr

In view of climate change, increasing regulatory requirements (e.g. EU taxonomy, NFRD, CSRD) and a stronger focus on sustainability on the customer side, sustainability is one of the future challenges in corporate management. With the dimensions of "environmental", "social" and "governance", sustainability makes corporate management more complex. Accordingly, sustainability management is the subject of intense academic and practical research. This article focuses on the supporting role of management control in the sustainability transformation. The following thoughts are intended to provide orientation on the role, focus and tasks that the IGC (International Group of Controlling) sees for controlling. We draw heavily on the considerations of the ICV (International Controller Association) ideas workshop, which were co-developed by IGC Board members.<sup>1</sup>

## "Sustainability controlling" is a new and highly relevant controlling task

Controlling and sustainability have long been intertwined areas, and their connection is more relevant today than ever before. The increasingly noticeable climate change, stronger stakeholder orientation in society and prominent corporate scandals in the recent past have led to a steady increase in the relevance of the topic of sustainability in recent years, resulting in a sharp rise in regulatory requirements, particularly in Europe. Regulation will influence behavior and therefore also economic and business decisions in the long term. Controlling is required to take account of this increasing relevance. It must be taken into account that, in addition to regulation, customers, suppliers and stakeholders from the company's own organization are also fueling the increasing focus on sustainability.

Sustainability controlling therefore plays an important role in supporting the implementation of sustainability management. Corporate management concepts of the future can therefore no longer be focused solely on traditional economic targets. Rather, sustainability targets may extend classic management control concepts to include several sub-dimensions. In the long term, all controlling processes will be affected by the addition of sustainability aspects (see the example of the IGC process model in Figure 2).

The transformation towards comprehensive sustainable corporate management is imminent for all companies. The following section presents a maturity model that outlines three possible evolutionary steps towards a successful transformation. Building on this, sustainability-based effects on controlling processes are outlined using the IGC controlling process model as well as the most important design factors for sustainability controlling.

## IGC recommendation: Maturity model for sustainable controlling

Sustainability aspects and therefore also sustainability controlling play a different role depending on different industries, companies, and regions. Factors such as "regulatory requirements", "pressure for change in an industry" and "own level of ambition" currently characterize a certain heterogeneity of sustainability controlling.







In order to determine one's own starting point, a competitive comparison or a target position, it is therefore advisable to systematize using a maturity model. We differentiate

between three maturity levels for this systematization:

- Level 1: Efficient implementation of regulatory requirements.
- Level 2: The partial integration of sustainability aspects into the management concept and strategy.
- Level 3: Sustainability as a fully integrated component of the business model, strategy and management.

Level 1 maturity pursues the goal of implementing regulatory requirements as efficiently and stably as possible in order to achieve the best possible balance. Sustainability issues only play a subordinate role in corporate decision-making processes and therefore also in sustainability controlling. Strategic discussions and targets are predominantly focused on traditional economic issues and the processes required for operations are carried out within existing structures. Additional expertise focuses on regulatory requirements and is essentially geared towards a group of experts.

Level 2 builds on the regulatory framework of level 1 and aims to integrate sustainability aspects that are considered essential into management control. This means that sustainability goals are integrated into the strategy or even that a separate sustainability strategy has already been formulated and its implementation is seen as an important task. Sustainability aspects play a key role in certain decision-making processes (e.g. investments), but are often still secondary to economic objectives. In addition to binding standards, voluntary external standards and ratings are reported. Target achievement is monitored throughout the year, for which the existing system landscape and the associated data model

Dimensions	<i>Efficient implementation of regulatory requirements</i>	<i>Partial integration of sustainability aspects</i>	<i>Fully integrated component of business model, strategy and management</i>
 <b>Ambition &amp; Strategy</b>	No independent sustainability strategy or target ambition defined	Selected aspects of a sustainability strategy are defined, or a basic sustainability strategy is in place	Sustainability goals are fully interlinked with an overall strategy and strategy process, goals and measures are broken down
 <b>Steering concept &amp; Incentivization</b>	Sustainability aspects play no or only a subordinate role in the management concept	Selected sustainability aspects are relevant in internal decision-making processes	Sustainability KPIs are integrated into an extended management concept, including the integration into planning, reporting and incentives
 <b>External Reporting &amp; Risk Management</b>	Binding regulatory requirements are fulfilled/reported	Voluntary standards are fulfilled in addition; a target image for sustainability reporting is available	Active management of external standards (prescribed/voluntary) through continuous monitoring, evaluation and further development of systems, data and processes
 <b>Governance &amp; Organization</b>	Adjustments based on regulatory requirements	Individuals and committees responsible, selected decision-making processes	Separate sustainability unit(s) and sustainability as an integral part of committees
 <b>Data &amp; Systems</b>	Use of existing systems, focus on efficiency for expansions, low frequency	Volume/frequency-dependent integration of data into existing system landscape	Integrated sustainability data model, complete integration, automation and verification
 <b>Employees &amp; Culture</b>	Experts on external requirements, limited group of people for discussions	Broad and regular training, sustainability integration through regular change measures	Sustainability as an integral part of the culture across all business models and functions

**Figure 1:** Maturity model for sustainable corporate management

are embedded in existing systems as comprehensively as possible.

The highest expansion level aims to fully integrate sustainability aspects into the strategy, business models, management concept and controlling processes. This involves supplementing or realigning the organization, systems and data as well as sending a clear signal to all stakeholders that the company is making a positive contribution to society and the preservation of the planet. This involves a wide range of investments, including in controlling systems and processes as well as in the broad development of expertise in various functions.

The key aspects of the three maturity levels are summarized in the overview in **Figure 1**.

As a rule, management is responsible for determining the target positioning of its own company. The management control function provides support both in setting

targets and in achieving the sustainability targets (e.g. transformation from maturity level 2 to maturity level 3) through sustainability controlling that is appropriate to the requirements. Management control also regularly creates transparency regarding the current positioning on sustainability and evaluates and assesses it. In its role as business partner, management control also discusses with management whether the target positioning for sustainability is feasible or should be adjusted if necessary.

### Adjustments to the controlling processes using the example of level 3

Sustainability changes the company's target system and therefore also the controlling coordination system. This has a fundamental impact on all controlling processes. This is outlined below using the example of level 3 of the maturity model along the processes

of the IGC process model 2.0 (see **Figure 2** and IGC 2017)<sup>2</sup>. We recommend a step-by-step approach and a focus on the processes that are particularly affected (highlighted in blue in **Figure 2**):

- As a first step, the creation of a standardized data landscape with clear KPIs is certainly one of the most important tasks of the finance department when it comes to sustainability issues. The focus is therefore on the processes of strategic planning, investment controlling, management reporting and data management.
- As recommended, controlling processes should not be adapted all at once, but gradually and in stages – in line with the company's level of maturity.
- The first step should be to adapt the sub-processes and instruments of strategic planning. Additional stakeholders must be taken into account, sustainability-related aspects must be integrated and scenario considerations and longer-term observation periods are becoming in-

Main processes	Sub-processes									
Strategic Planning	Set up the process	Performing strategic analyses	Review and adjust vision, mission, values & strategic target positions	Review the underlying business model and adjust if necessary	Derive or update strategic direction	Define concrete goals and measures + metrics	Evaluate strategy financially	Coordinate, present and approve strategy with relevant stakeholders	Communicate strategy across management levels	Monitor strategy implementation
Planning, Budgeting, Forecasting	Set up the process	Define & communicate planning premises and top-down goals	Create, summarize & consolidate individual plans and budgets	Check planning results, adapt plans and approve planning	Create/ update forecast, compare with last forecast/ plan/ budget & analyze deviations	Develop countermeasures				
Investment Controlling	Set up the process	Plan investment and prepare investment application	Decide on investment program and individual investments	Carry out investment monitoring including forecasts	Create decision templates and recommendations for action	Recalculate investment				
Cost, performance and earnings accounting	Define and maintain master data	Perform cost type and cost center accounting (incl. activity allocation)	Carry out quotation/order/plan calculations (preliminary costing)	Carry out running or post-calculation	Perform period earnings calculation	Perform period-end closing for cost accounting	Carry out variance analyses			
Management Reporting	Set up the process	Manage reporting system/data processes	Perform data analysis and create reports (numerical part)	Create reports (deviation analysis, message and commentary)	Carry out assessment by management and initiate measures					
Business Partnering	Accompanying and moderating decision-making processes	Actively initiate and support measures for results/cost management	Initiate and collaborate on process analyses and optimization	Participate in projects (organization, restructuring, etc.)	Actively promoting business know-how within the company	...				
Project Controlling	Set up the process	Plan project	Decide on project approval	Create project progress reports including variance analyses and forecasts	Create decision templates and recommendations for action	Create final project report and conduct project review				
Risk Controlling	Set up the process	Inventory and analyze company data	Recording the interdependencies between data quality and economic impact	Define control indicators	Define target values for the control indicators	Measure control indicators	Analyze measured values	Derive data quality measures	Submission of data quality report	
Data Management	Continuously review the quality of controlling	Permanent (further) development of controlling	Organize interaction between different controller levels (centralized, decentralized)	Develop and document guidelines and standards (e.g. controlling manual)	Communicate and document knowledge regarding adapted/new instruments	Examination of the potential outsourcing of controlling processes	...			

Figure 2: Sustainability-based effects on controlling processes using the IGC controlling process model (highlighted in blue with effects relating to sustainability)

- creasingly important. One focus is on translating objectives into concrete measures and metrics.
- As a logical next step, we recommend adapting the investment controlling process. As part of the investment evaluation, sustainability aspects are included so that they are taken into account in investment decisions. Accordingly, when selecting a location for a production plant, the expected costs in the economic-financial dimension as well as the effects on local communities in the social dimension and ecological effects (e.g. the potential threat to native plant and animal species) would be taken into account.
  - Risk controlling, management reporting and data management are processes that are coming more into focus, particularly against the backdrop of increasing regulation. This will also affect the business partnering process in order to move away from pure reporting towards proactive performance management. This means that these processes must be adapted to sustainability requirements in an integrated manner wherever possible.
  - The consideration of sustainability in cost, performance and earnings accounting

varies greatly in corporate practice. Only a few companies have already adapted their existing instruments or established new instruments such as environmental cost accounting or environmental life cycle accounting. The most obvious starting point is the alignment or integration of carbon accounting – the recording, evaluation and reporting of CO<sub>2</sub> emissions – with traditional cost accounting (How much does our CO<sub>2</sub> footprint cost us?) and data management (Data sources, instruments, and implementation of carbon accounting). The accounting of CO<sub>2</sub> emissions should be integrated into *carbon controlling* and management control should define and monitor targets in order to increase CO<sub>2</sub> efficiency.

### Design factors for sustainable controlling: implementation of maturity levels 1 to 3

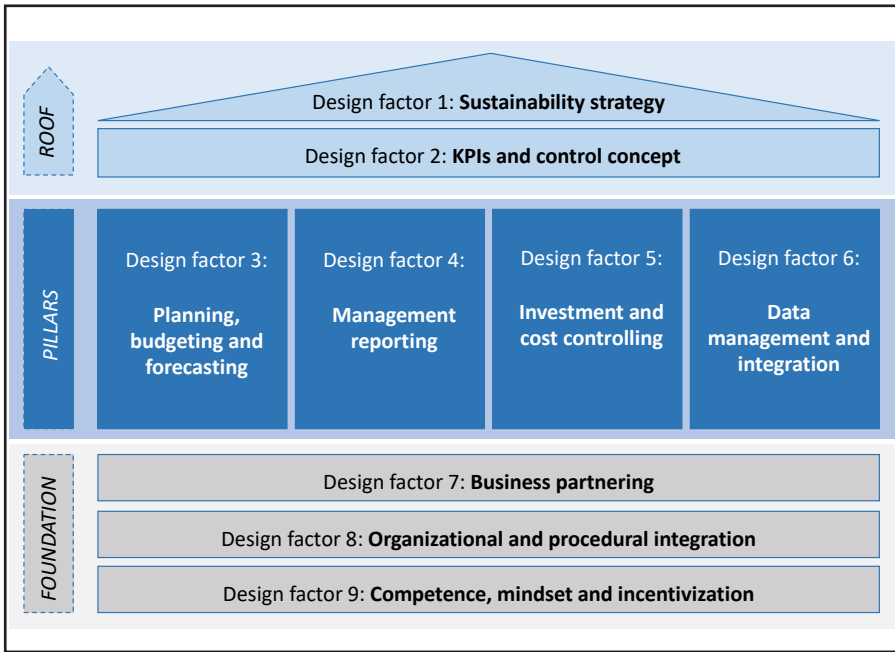
Controlling plays an important role in the in the transformation process towards sustainable corporate management. At the same time, companies are faced with the challenge of filling this role in a meaningful way. Questions arise such as

- "How is the topic of sustainability anchored in terms of organization and governance?"
- "What sustainability-oriented data is required for each required for each maturity level?"
- "What are the implications of sustainability reporting and the establishment of sustainability controlling for controlling tasks and processes?"

The following impulses are intended to answer further questions. The Controlling & Sustainability House (see Figure 3) serves as a guide, which uses nine design factors (some of which overlap with the IGC processes) to show which aspects of the transformation process should be taken into account and - as the name suggests - must be actively shaped.

The design factors include the five core processes of the ICV process model (integrated into the design factors 3, 4, 5, 7, see also IGC 2017, 19) and, due to its paramount importance in sustainability controlling, data management (design factor 6) and strategic planning (in the form of the sustainability strategy, design factor 1). We consider risk controlling to be a sub-aspect of the sustainability strategy, while project controlling has





**Figure 3:** Design factors in the controlling & sustainability house

not been considered separately due to its rather low relevance to sustainability.

In addition to the controlling processes mentioned above, the Controlling & Sustainability House also includes personnel development and management, governance and organizational aspects (design factors 8 and 9), without which sustainability management and controlling could not be successfully implemented. Furthermore, a management concept suitable for sustainability needs to be developed or the existing concept needs to be extended with the desired sustainability KPIs (depending on the desired level of maturity).

The Controlling & Sustainability House is structured according to the following structural logic:

The roof and therefore the point of alignment for the design of controlling and sustainability is formed by design factor 1: Sustainability strategy and design factor 2: KPIs and steering concept. Sustainability-oriented corporate management begins under this roof by aligning the strategy and management concepts with the relevant sustainability aspects.

As explained above, the pillars of the house are the core controlling processes, which are

fundamentally affected by sustainability-oriented corporate management and need to be adapted to sustainability requirements (see Fig. 2 on how the various sub-processes in the controlling process are affected). Potential for change or necessity should be identified for each design factor and aligned with the desired sustainability aspects (depending on the desired level).

The foundation consists of cross-cutting issues that both support the main processes involved in management control - the pillars - as well as contribute to the implementation of the strategy, the roof. This includes design factor 7: Business partnering. Design factor 8: Governance and organizational anchoring and design factor 9: Competence, mindset and incentivization.

Based on the maturity model, our suggested procedure for implementing the design factors would be as follows:

- With regard to maturity level 1, we recommend the company-specific development and implementation of the regulatory minimum requirements, design factors design factors 2, 4, 6 and 8.
- In order to achieve maturity level 2, i.e. the partial integration of sustainability aspects into corporate management, design factors 3 and 5 should also be elaborated and initial considerations regarding de-

sign factor 1 should be developed and implemented.

- Finally, for maturity level 3 (sustainable corporate management is a fully integrated component of the business model, strategy, and management), concepts for design factors 7 and 9 and their implementation are also required.

**To the point**

The relevance and topicality of the topic of sustainability controlling is beyond question.

The pressure to find a viable model for a company's own reality is high; the challenge is correspondingly great. The maturity model for sustainable controlling provides orientation. It serves to analyze the status quo on the one hand, but also to define the target picture. Based on this, the relevant management control processes can be gradually changed in a targeted manner. This transformation is based on the design factors presented.

From the IGC's point of view, it is important that controllers accept the current challenge, proactively use the current scope for sustainable management control and acquire the necessary expertise for the extensive new tasks. Otherwise, the important and comprehensive role of controlling in the sustainability transformation cannot be performed satisfactorily.

**Remarks**

- 1 The considerations outlined in the article are based in part on the Dream Car report of the ICV Ideas Workshop: Gleich/Tobias/Losbichler et al, Controlling & Sustainability: The role of controlling in the transformation process towards sustainable corporate management (2023). The illustrations and text are taken from the Dream Car report. A detailed text citation from the report has been omitted. Other authors of the Dream Car report: Grünert, Maron, Blachfellner, Dillenberger, Patzke, Seiter, Dannenberg, Dreher, Hartlieb, Hein, Kämmler-Burrak, Linde, Möhrer, Neuhuber, Schulze, Wink.
- 2 IGC, Controlling-Prozessmodell 2.0 (2017).
- 3 Gleich/Tobias/Losbichler et al, Controlling & Nachhaltigkeit (2023) 92.
- 4 Gleich/Tobias/Losbichler et al, Controlling & Nachhaltigkeit (2023) 22.
- 5 Gleich/Tobias/Losbichler et al, Controlling & Nachhaltigkeit (2023) 33.