

Dear readers

Sustainability controlling has become a special focus since the introduction of the ESG taxonomy. All companies are currently facing the challenge of rethinking and implementing both the reporting and the management of sustainability issues. We would like not only to promote this change, but also to support it. That is why our thematic focal point this year is “sustainability controlling”.

In this newsletter we aim to introduce the topic and provide initial ideas for integrative sustainability management.

The first article introduces how external standards such as the ESG taxonomy influence sustainability controlling. The second article outlines the challenges for viable sustainability performance management with regard to IT architectures. The last article presents the winner of the ICV Controlling Excellence Award 2022, Deutsche Post DHL Group, as a best practice example for integrative sustainability controlling. In addition, we also invite you to contribute to the ongoing development of this important topic by participating in the Green Controlling Study 2022.

We would like to thank the experts from the Think Tank who supported us in creating this 35th edition of our quarterly newsletter (Dr. Marco Möhrer, Andrea Kämmler-Burrak, Stefanie Wink and Kim Dillenberger). We wish you interesting reading and hope you will enjoy this issue.

Prof. Dr. Heimo Losbichler
Chairman of the ICV Board of Managing Directors

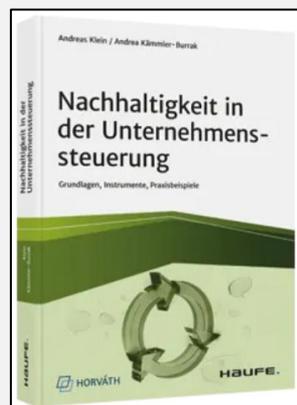
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Reading tip

The book “Nachhaltigkeit in der Unternehmenssteuerung” (translation: Sustainability in Corporate Management), published in 2021 by Andreas Klein and Andrea Kämmler-Burrak, addresses this year’s thematic focal point of the ICV’s Think Tank.

Experts explain in this book how companies can meet



the challenge of positioning sustainability at the centre of their activities. The book focuses in particular on the key role played by controlling in this regard.

The experts lay out how the transformation can be supported, from strategy through

to reporting, and present sustainability guidelines as well as success factors of sustainable corporate strategies. The book discusses not only holistic corporate management, but also special topics such as sustainable supply chain management and carbon accounting. Recommendations that can be implemented immediately are one of the book’s particularly valuable features, as these recommendations are provided by the experts based on a well-founded overview of tools and concepts. The experts therefore offer a deep insight into how companies can achieve a sustainable business model with the help of holistic ESG management.

Sustainability controlling in transition | How external standards (can) influence sustainable corporate management

The issuance of numerous new standards is creating an enormous increase in the requirements for corporate sustainability reporting. This mounting burden is currently impacting operational reporting structures in particular, but questions are also being raised about the methodological classification in controlling's other processes and tools. The current focus on reporting should be supplemented by a holistic management approach.

Policy-makers in recent years have increasingly attempted via regulatory intervention to hold companies accountable for the environmental and social impact of their business activities. These efforts have been accompanied by far-reaching changes in sustainability reporting, which are noticeable in numerous areas in corporate practice.

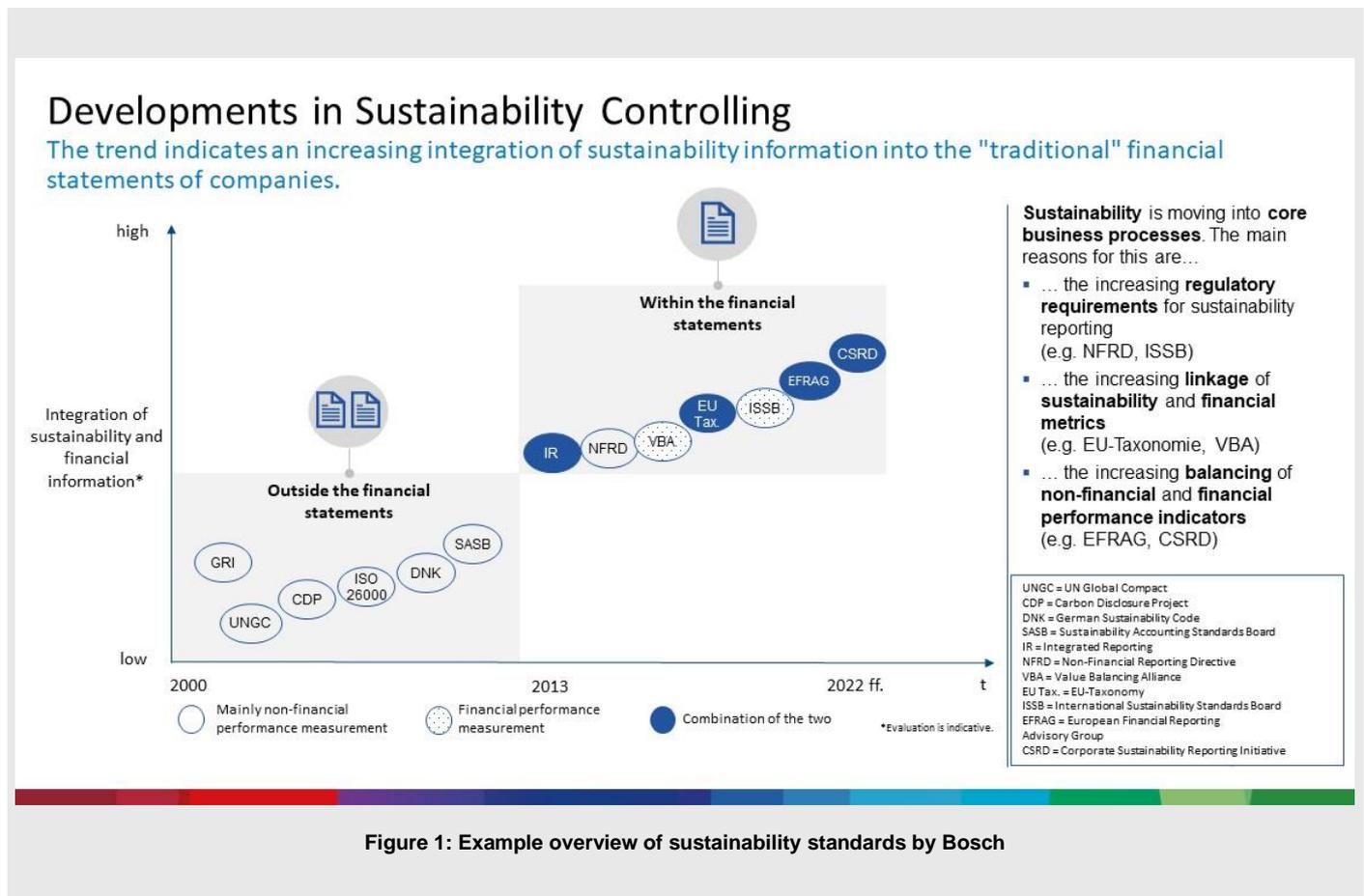
The Accounting Standards Committee of Germany (ASCG), for example, recently decided to establish a special "Sustainability" committee (ASCG 2021). In addition, the founding of the International Sustainability Standards Board (ISSB), which has been tasked with the creation of sustainability standards within the framework of IFRS, marks the preliminary high point on the journey to a holistic performance assessment of companies (ISSB 2022).

The numerous standards for sustainability reporting that meanwhile exist aim to ensure that companies' sustainability

performance can be assessed in a transparent and comparable manner. The developments in sustainability controlling at Bosch provide an overview (see Fig. 1).

Early standards, such as the Global Reporting Initiative (GRI), are based on the development of a sustainability report in which the sustainability performance – clustered according to environmental, economic and social indicators – is disclosed separately from the financial report. The resulting assessment, with the exception of the economic indicators, is usually carried out in non-financial units of measurement (e.g. carbon emissions as part of environmental performance).

The trend in recent years, however, indicates that sustainability information is increasingly being integrated into companies' financial reports. The verification of this information by external third parties is also becoming more and more important (EY 2020).



One of the drivers behind this development was the Non-Financial Reporting Directive (NFRD), which led to the CSR Directive Implementation Act (CSR-RUG) in German commercial law. Under these regulations, capital-market-oriented companies with more than 500 employees must disclose special sustainability information (ICV 2021). In addition, the requirements for combined reporting of financial and non-financial indicators are growing. Several observers have therefore argued from early on, with some justification, that companies' management report could evolve into an integrated report in the future (Haller/Groß 2014).

Standards that currently point very strongly in this direction are the EU taxonomy and the Corporate Sustainability Reporting Directive (CSRD). The EU taxonomy obliges companies that are subject to the NFRD today and the CSRD in the future to examine their business (products, services, assets) to determine how large the sustainability component actually is.

The EU taxonomy legally defines for the first time what (environmental) sustainability is and which evaluation standards are to be used when assessing it. The CSRD, which is already available in a first draft and envisages numerous KPIs for reporting on environmental, social and governance (ESG) metrics, further expands significantly the scope of impacted companies compared to the NFRD. According to the current status, companies with more than 250 employees will be expected to report in the (group) management report in compliance with the CSRD and EU taxonomy (ICV 2021) from 2026 at the latest (for the 2025 financial year).

The contribution of the sustainability initiatives currently under discussion can be seen above all in two areas: first, in the way

they bring the topic of "sustainability" closer to companies' core processes, and second, that they work towards integrating sustainability into corporate decision-making processes. In the medium and long term, however, today's strong reporting focus must be backed up by feedback regarding companies' strategic sustainability goals so that targeted management is ultimately enabled.

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Green Controlling Study 2022

We would like to persuade you to participate in the Green Controlling Study 2022. The aim of this study is to examine the current status of green controlling at companies in the DACH region (Germany, Austria, Switzerland). The study will also compare its current findings with the results of the two previous ICV green controlling studies from 2011 and 2016. In addition, the relevance of individual current trends and future major challenges will also be examined. The study is being conducted by the Green Controlling for Responsible Business expert group in cooperation with the Think Tank.

You can participate in the study via the following link: https://ww3.unipark.de/uc/ICV_Green_Controlling_Studie_2022/

Upon request, all participants will subsequently receive the results of the study by e-mail. In addition, one free ticket for the Congress of Controllers 2023 in Munich and eight free tickets for the Controlling Competence Spaces (CCS), an autumn conference of the ICV in online avatar format in November 2022, will be raffled among all participants in the survey.

Please help us promote this important topic. We look forward to numerous responses. You can participate in the online survey until 15 September 2022. Thank you very much!

IT architectures for sustainability controlling | Challenges for viable sustainability performance management

The higher quality requirements for sustainability reporting in the future will likewise lead to higher requirements for sustainability controlling: It will be necessary to provide more comprehensive, standardised and auditable sustainability information. Automation is a key success factor in this regard. As a result, a change is taking place away from what was previously a topic-specific and tool-oriented dialogue to a holistic discussion of the requirements for processes and IT systems. The associated IT architectures for sustainability controlling must offer maximum flexibility to cope with the highly dynamic conditions prevailing with regard to the issue of sustainability.

Companies implementing sustainability controlling today must address a large number of external framework conditions: EU taxonomy, Sustainability Reporting Standards (EFRAG), IFRS Sustainability Disclosure Standards (ISSB) and a wide variety of voluntary standards such as GRI, SASB and WEF. It is becoming increasingly apparent in the most recent developments that non-financial reporting will have an equal status with financial reporting in the future. As a result, companies can no longer ignore the extensive influence of sustainability dimensions; they must take a strategic approach to addressing non-financial aspects and establish auditable performance management that extends from strategy, via analysis and control, culminating in external reporting.

Complying with the new regulations and standards means that future sustainability controlling will be based on a large volume of qualitative and quantitative information, as well as financial and non-financial data. These statistics no longer relate only to the company's own value creation; rather they must also include information related to the company's entire value chain, including its products and services, its business relationships and its supply chain. This information should be collected not only about the past, but also about the future.

All data along the three traditional ESG sustainability dimensions, i.e. environmental, social and governance aspects, are relevant for decision-making and therefore relevant for recording purposes. The heterogeneity of the data means that a variety of different data sources and IT systems are usually involved. For example, environmental data come from multiple sources including CRM systems, social data from ERP systems and governance data from HR systems. Frequently the data must be recorded manually from direct sources. IT systems support the collection and storage of raw data as well as the further processing and integration of these structured and unstructured data.

Effective sustainability controlling requires not only the collection and integration of data, but also the performance of complex

KPI calculations and scenario analyses. Flexible data modelling, calculations and simulations based on real-time integration with financial information are particularly helpful in this regard. To address reporting requirements, support for cross-functional collaboration is also becoming more important. Companies must additionally take audit trails into account to ensure traceability and auditability. In terms of analysis, interactive dashboards that enable quick navigation are a focal point.

IT architectures for sustainability controlling must therefore meet a wide range of requirements for sustainability performance management. These include:

- (1) data acquisition and harmonisation;
- (2) data modelling, simulation and projection;
- (3) orchestration, traceability and auditability; and
- (4) support for various types of requirements and regulations.

The following factors regarding the technical requirements are particularly important for the success of a viable IT architecture: supporting automatic data collection and updating, ensuring flexible data modelling and flexible adjustment of data models and processes, and supporting collaboration and ensuring the traceability of data modifications. Apart from that, clear governance is essential too. Responsibilities and competencies must be clearly defined and monitored. In addition, the IT architecture must of course also meet general requirements such as maintenance, authorisations and interfaces.

In summary, a change is clearly taking place away from a topic-related, tool-oriented dialogue to a holistic discussion of the requirements for processes and IT systems. Today it is important to ensure process efficiencies and high data quality for viable sustainability controlling. The key challenges for future IT solutions include the flexible integration of data sources, integration of data and mapping of standardised data models with maximum flexibility due to very dynamic requirements, and the facilitation of cross-functional collaboration.

ICV Controlling Excellence Award 2022 | Deutsche Post DHL Group wins with the project “Integrating Sustainability Objectives in Controlling”

All companies face the challenge of embedding effective sustainability controlling into their finance organisation. Deutsche Post DHL Group has already succeeded in doing this; its example offers valuable lessons.

The need for a change in sustainability controlling was one of the focal points at this year’s Congress of Controllers, in addition to the main topics of agility and digitisation. While the EU taxonomy aims to provide a framework for effective sustainability controlling, it presents all companies with the challenge of how to implement such controlling. Deutsche Post DHL Group exemplifies how such an implementation can be achieved. Deutsche Post DHL Group received the ICV Controlling Excellence Award 2022 for its project “Integrating Sustainability Objectives in Controlling at Deutsche Post DHL Group” (see Fig. 2). This makes sustainability controlling at Deutsche Post DHL Group a lighthouse project that can serve as an example for other companies. According to the jury, the project deals “in a very convincing way with the integration of ESG dimensions into controlling and corporate management.” Deutsche Post DHL Group thus prevailed against SAP SE and Phoenix Contact GmbH & Co KG, among others. In the podcast with Mr Bluhm from Performance Manager Podcast / atvisio.TV, the winning team from Deutsche Post DHL Group presents the lighthouse project.

The winning project builds on the sustainability objectives that Deutsche Post DHL Group has anchored in its 2030 strategy. The project’s goal was to integrate ESG controlling into the finance function and therefore to establish structures for both reporting and, in particular, for the management of the individual ESG dimensions of environment, social and governance. For this purpose, an ESG roadmap was developed and introduced into the entire organisation in March 2021. Since then, the finance department of Deutsche Post DHL Group has been responsible for both internal and external ESG reporting. Resources from finance, sustainability communication and corporate strategy were pooled for sustainability controlling. The team determined that the first major challenge was to develop the right metrics. They asked themselves the question: Do these metrics reflect what we aim to manage? In terms of content, this means, for example, a comprehensive carbon reduction at Deutsche Post DHL Group. The winning team speaks of “clean operations”, i.e. minimising carbon emissions in operational processes. The drastic reduction in emissions by 2030 is managed with the objective of being climate-neutral by 2050. The team at Deutsche Post DHL Group can now draw on extensive experience in managing such substantive goals and has defined meaningful operational and financial targets. An internal

reporting system has been established for these verifiable metrics. The output from this system is then used in regular business reviews and performance meetings. Deutsche Post DHL Group has therefore created a special benefit for its own company: The company can view a measure and its impact together, allowing for optimal management. In addition, this creates absolute transparency over the efficiency and effectiveness of its measures. This approach allows the company to act and invest based on a forward-looking perspective. Deutsche Post DHL Group plans to invest around EUR 7 billion in sustainable technologies by 2030. This plan is a response to one of the lessons learned, namely that investment decisions today must include ESG criteria because they have far-reaching consequences for the future.

While sustainability controlling embedded in the finance organisation is still a long way off for many companies, Deutsche Post DHL Group is setting a good example and providing promising approaches for companies that are repositioning themselves in sustainability controlling.



Fig. 2 The winning team from Deutsche Post DHL Group with Dr. Klaus Hufschlag (centre), Klaus Kenfenheuer (2nd from left) and Martin Momberg (2nd from right), together with ICV Chairman Prof. Dr. Heimo Losbichler (right) and the head of the jury for the ICV Controlling Excellence Awards, Prof. Dr. Utz Schäffer.
Photo: Florian Huber

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<https://www.icv-controlling.com/de/verein/icv-awards/preistraeger.html>

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