





The Principles Of Responsible Management Education Collection
Oliver Laasch, *Editor*

Responsible Management Accounting and Controlling

A Practical Handbook for Sustainability, Responsibility, and Ethics

Daniel A. Ette

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PRME Principles of Responsible Management Education

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This book is dedicated to all people who share my responsible controlling vision and especially to those who always supported me in writing down the idea of a controlling approach that positively fosters corporate responsibility and corporate sustainability. Many thanks also to the ones who challenged me in the process of bringing my ideas onto these papers. You have not been of less importance than the ones who gave me their support.

And, above all, thanks to Barbara and to the rest of my family!

Abstract

Sustainability is becoming a business megatrend. The issue of this book is to be seen in the fact that controlling departments are hardly involved in sustainability topics and do not contribute to corporate responsibility. This book postulates the following assertion: responsible controlling is indispensable to make an organization more responsible. The objective of this book is the conceptual development of a responsible controlling framework toward decision making which is based on an ethical fundament in order to make a company a responsible business.

This book presents a thoroughly examined recommended course of action regarding responsible controlling for practitioners based on a profound theoretical background. We take a close look onto responsibility. In this context we find out that responsibility means recognizing the unimpeachable freedom of all human beings. Corporate responsibility deals with the legitimate claims of all stakeholders. Ethics as a basis for responsibility must not be understood as one ethical approach in the realms of consequentialism or nonconsequentialism. Rather a prism of ethical theories helps to better understand the issue at hand. Especially Kant's categorical imperative, extended by a consequentialist view, is helpful.

I show what is to be understood by controlling in an organizational context and in which areas controllers are active. Moreover we will regard different controlling approaches toward sustainability. Yet, we realize that the prevalent controlling concepts are not sufficient with respect to responsibility.

Through the development of a responsible controlling framework I give recommendations how the status quo of controlling should be altered in terms of both tools and mindsets. In detail I elaborate a twelve-step responsible controlling roadmap which shows how controlling can contribute to foster a corporation's responsible behavior and how sustainability topics can be integrated in management decisions. With regard to decisions, I expose that the basis for good decisions is to be seen in the recognition of all legitimate claims and thus in the unimpeachable human dignity of all human beings. I do not provide a catalogue with clear-cut answers or behavioral instructions. On the contrary, it becomes

evident, that ethics as a critical reflection effort is central to responsible controlling. Decisions in a responsible sense will not be made on hard facts, like profit, as the sole criterion. Soft facts must also be considered.

I conclude with the defense of my assertion. Responsible controlling must first and foremost be understood as a mindset. If controllers change their mindsets and their tools and encourage others to do so as well, I claim as a conclusion that responsible controlling is an uncommon but indispensable approach of making an organization more responsible.

Keywords

boundary, communication, controlling, corporate responsibility, corporate social performance, corporate social responsibility, creating shared value, data platform, decision making, dilemma situations, ethics, green controlling, key performance indicators, management accounting, materiality, mission, reporting for sustainability, responsibility, responsible controlling, responsible controlling framework, responsible controlling roadmap, scope, sociocontrolling, stakeholder, sustainability, sustainability controlling, targets, triple bottom line, vision

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Responsible Controlling Vision

In responsible controlling the assumption of responsibility is deeply rooted in every controlling function. Controlling is a driver toward corporate responsibility and sustainability and focuses on positively influencing the triple bottom line. Ethics as a reflection effort is the basis for every action.

CHAPTER 1

Setting the Stage

"Nowadays people know the price of everything and the value of nothing."[1]

—Oscar Wilde

1.1 Why Read This Book

Sustainability is becoming a business megatrend that can no longer be ignored by managers.[2] More and more stakeholders consider the so-called externalities like water usage and pollution, as well as carbon dioxide emissions, as crucial elements of a company's performance. Moreover, globally interacting supply chains lead to environmental strains and also to corresponding liabilities of business actors. In the future, all parts of a business will be affected by sustainability-related issues.[3] A "clear vision and the (necessary) execution capabilities"[4] are crucial in order to be a pioneer within this megatrend.

In addition to the expression "sustainability," other terms like corporate social responsibility (CSR) or corporate responsibility (CR) are being discussed among academicians as well as in business environments.[5] Regarding CSR, Milton Friedman states in his article, *The Social Responsibility of Business Is to Increase its Profits*, that businesses cannot have responsibilities other than making profits.[6] But does that mean that profit maximization should be the overall goal of a corporation? Already Adam Smith, the founder of the market economy, considers the well-being of mankind as the central idea of economic activities,[7] and not profit maximization. Profit only is the yardstick

Corporate Social Responsibility, Corporate Sustainability, or Corporate Responsibility: Same or Different?

Our understanding will be clarified in Chapter 2—for the moment we will use the expressions as synonyms.

to measure the efficiency. In today's economy, though, profit has become an end in itself, while the production of goods and services only serves as a means to this end.[8]

Sustainability and CR matter not only in terms of environmental issues, but also in terms of social factors. They are not less important. In our current economic behavior, human rights are often infringed and people are only seen as a means to an end. Moreover, against the backdrop of the aging population in Europe and the resulting shortage of skilled labor, high-potentials increasingly look for employers who provide meaning and values within the job—a job in which the employees can contribute to the development of the society and have an adequate work–life balance.[9] As shown in the United Nations' *World Population Prospects*, in contrast to Europe the global population is rapidly growing.[10] As incomes internationally are expected to rise, resource consumption will also increase. Hence, corporations are acting in a field of expanding markets, while resources are running out and their prices becoming more volatile.[11]

There are many other aspects in which companies strive toward sustainability. It may be due to intensified customer interest in ecological products[12] or due to an increasing regulation in the field of CSR in many parts of the world. Furthermore, there is an increasing corporate obligation to legitimize its behavior in society and to adapt to a new understanding of a corporation's role.[13] Undoubtedly, corporations must contribute toward a sustainable development and not leave this task exclusively to the state and to society.[14] As a side effect, companies thereby have the chance to participate in scoping sustainable actions and not just having to react to legislative pressures. The United Nations Global Compact is one prominent example that defines 10 voluntary principles in the fields of human rights, labor practices, environment, and anticorruption with which companies should be compliant and give a guideline for responsible behavior (Table 1.1).[15]

Being sustainable means that all parts of a business must necessarily be integrated into the strive for sustainable development. The finance departments too need to realize the relevance of these global issues. An Ernst & Young survey, conducted in 2011, shows six trends on sustainability in a business environment. Among them, three directly influence

Table 1.1 The 10 principles of the United Nations Global Compact

Field	Principle	
Human rights	1	Businesses should support and respect the protection of internationally proclaimed human rights; and
	2	make sure that they are not complicit in human rights abuses.
Labor	3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	4	the elimination of all forms of forced and compulsory labor;
	5	the effective abolition of child labor; and
	6	the elimination of discrimination in respect of employment and occupation.
Environment	7	Businesses should support a precautionary approach to environmental challenges;
	8	undertake initiatives to promote greater environmental responsibility; and
	9	encourage the development and diffusion of environmentally friendly technologies.
Anticorruption	10	Businesses should work against corruption in all of its forms, including extortion and bribery.

Source: United Nations (2000).

an organization's finance section: (1) sustainability reporting is growing but currently is not well equipped; (2) the chief financial officer (CFO) is gaining an important role; and (3) sustainability rankings and ratings are becoming relevant to business leaders.[16]

In this book, the question is raised whether and how the management accounting and controlling function can contribute toward fostering a corporation's responsible behavior. Moreover, it will be examined if a responsibly behaving controlling department is necessary and useful for organizations.

Facts

Sixty-six percent of the respondents of the Ernst & Young survey realize a growing number of sustainability-related inquiries from investors and shareholders. Therefore, the need for reporting is growing.

Thirty-nine percent of the respondents stress the importance of the CFO because of his or her role in approving the budget for sustainability topics.

Ernst and Young (2012).

The book postulates the assertion that **responsible controlling is indispensable to make an organization more responsible.** The core issues addressed in this book are that finance and controlling departments are barely involved in sustainability topics and that they do not contribute to CR, as shown in the *Corporate Sustainability Barometer* published in 2010.[17] Against the backdrop of the global megatrends, management accounting and controlling must detach itself from being driven only by monetary issues. There is a need for controlling to make a greater contribution in terms of responsible behavior by extending the company's instruments toward nonmonetary criteria and also by changing controlling's mindset toward a more responsible and joint thinking. With the aim of rendering assistance to this effort, the book elaborates on a controlling framework that should help foster an organization's responsibility. While attempting this we should always bear in mind that "nowadays people know the price of everything and the value of nothing."[18] What Oscar Wilde expressed more than 100 years ago is still a valid claim.

Facts

Controlling departments are hardly involved in sustainability topics. *Eight percent* of the interviewees see finance, controlling, and accounting as supportive for sustainability matters. Whereas *89.3 percent* of the respondents consider public relations and communications as beneficial for sustainability.

Schaltegger, Windolph, and Harms (2010).

1.2 What Are the Objectives of This Book

Claim

Responsible controlling is not only about new tools. Mindset changes are indispensable when it comes to a new understanding of controlling.

Considering the current global economic and social pitfalls, there is a need for more responsible corporations. In their survey, *The Limits to Growth,* conducted for the Club of Rome in 1972, Meadow and colleagues point out that it is the will of humankind that is crucial for a prevailing and effective sustainable behavior.[19] The fact that sustainability nowadays is perceived as a megatrend consequently arises from a will

in society and from a change in peoples' mindset toward a socially and ecologically responsible world.[20] For the effort of establishing a responsible controlling framework, it means that changes in mindset are indispensable when it comes to current tasks and motivations of controlling.

According to Schaltegger, Windolph, and Harms, the awareness of sustainability has reached the top-level management of corporations.[21] But how can this awareness be broken down and integrated into different corporate functions? Unlike specialized departments for CSR and unlike many corporate communications departments, finance and controlling is currently less involved in sustainability topics. Even more alarming is the fact that only eight percent of the respondents of the *Corporate Sustainability Barometer* consider finance and controlling as having a positively fostering influence on sustainability.[22] Hence, controlling is not perceived as being a driver toward sustainability. This is to be seen as a serious integration deficit. The original task of controlling—providing information to the management in order to facilitate the decision making process—is not performed adequately when it comes to sustainability. Given the relevance of sustainability that is surprising. As a consequence, corporations miss the opportunity to use established information and management approaches and neglect the integration of sustainability and finance information.[23]

I have worked in a controlling function for several years. Moreover, I have been highly involved in establishing controlling practices that do not only consider monetary factors while decision making. This circumstance, together with the aforementioned social and environmental issues, led to the motivation of and the following discussions in this book:

- It shall be evaluated and shown whether and how controlling (departments) can contribute toward fostering a corporation's responsible behavior.
- Can controlling be a driver toward corporate sustainability and can sustainability topics be integrated in management decisions?
- And what should be the basis for good decisions?

To answer these questions, a look at ethical thinking will help.

According to Crane and Matten, business ethics is concerned with "business situations … and *decisions* (italics added) where issues of (morally)

right and wrong are addressed."[24] Hence, I raise the question why there shouldn't be a link between ethics and controlling. After all, both are concerned with decision making. Last but not least it is to ask how adequate controlling tools could look like and how controllers' mindset and thinking would need to change. In short: How can such a "responsible controlling" be implemented?

The objective of this book is the conceptual development of a responsible controlling framework toward decision making, which is based on an ethical principle in order to make a company a responsible business. It can be assumed that it will be a difficult path to integrate ethical thinking into actual controlling behavior and to make responsibility a cornerstone in controlling. However, I am convinced that responsible controlling can contribute a lot to foster an organization's responsible behavior. Therefore, within this book, a recommended course of action for practitioners based on a profound theoretical background for academic readers will be developed. The intention is to inform management accounting practice and help current and future business leaders navigate through the topic of responsible business from a controlling perspective.

1.3 Structure of This Book and Who Should Read It

At the beginning, the context and the relevance of the issue of responsible controlling has been detailed. The following chapters will be concerned with the theoretical foundations of (1) responsibility, sustainability, and ethics (RSE; Chapter 2); (2) management accounting and controlling (Chapter 3); and (3) controlling sustainability and responsibility (Chapter 4). Regarding responsibility, we will examine what is to be understood by responsibility in an organizational context. Furthermore, you will find a discussion on why your organization should assume responsibility, which responsibilities should be taken into account, and for whom an organization is responsible.

Chapters 5, 6, and 7 synthesize responsibility and controlling and set up responsible controlling. To do so, a responsible controlling framework and a roadmap have been developed. Within the roadmap, there are recommendations on how to establish controlling as a driver toward sustainability. Finally, Chapter 8 summarizes all the topics discussed previously.

This book may be valuable for you, if you are

- a student or a professor in a business school or an MBA and an executive MBA student and like to get introduced to tangible but uncommon thinking from a controlling perspective;
- a practitioner within the field of controlling and management accounting and you are assigned to install a controlling system which takes into account RSE;
- a practitioner within the field of CR or corporate sustainability and you need to get familiar with the topic of steering a corporation;
- a corporate executive and you would like to make your organization both successful and a pioneer in sustainability.

1.4 How to Read This Book

Of course, it makes sense to read the entire book. However, if your time is limited there are different approaches to read through this book, depending on your intentions and your state of knowledge.

You would probably benefit from reading the entire book if you are

- a student in business school or an MBA and executive MBA student and you are not yet familiar with the topics of RSE or with controlling;
- a professor in business school and you would like to teach not only the current mainstream management accounting and controlling practices but also some alternative approaches;
- a practitioner within the field of controlling and management accounting and you are assigned to install a controlling system that takes into account RSE and you do not have enough insights into these topics yet.

If you are a practitioner in the field of controlling, and you already have knowledge in terms of RSE, you may directly read the responsible controlling framework (Chapters 5, 6 and 7). If you are a practitioner within the field of CR and you need to get familiar with the topic

of steering a corporation it would be helpful for you to start reading Chapter 3. As a corporate executive who likes to steer his or her organization successfully under the conditions of RSE you may at least have a look at the responsible controlling framework (Chapters 5, 6, and 7) in order to get an idea how to integrate responsible behavior into traditional corporate management.

1.5 Some Points to Remember

Sustainability is becoming a business megatrend that should no longer be ignored by managers and by controlling departments—that is, by you. In future, all parts of a business will be affected by sustainability. Finance and controlling must make its contribution. Therefore, ask yourself and your team: Why should profit maximization (not) be the ultimate goal of a corporation and thus (not be) an end in itself?

However, currently finance and controlling departments are hardly involved in sustainability topics and do not contribute toward CR. The original task of controlling—providing information to the management to facilitate the decision making process—is not performed in an adequate manner when it comes to sustainability. Therefore, there is a need for controlling to make a greater contribution in terms of responsible behavior by extending the company's instruments toward nonmonetary criteria and also by changing the mindset toward a more responsible and joint thinking.

In an effort to make an organization more sustainable, responsible controlling is indispensable. Therefore, this book provides a recommended course of action for practitioners regarding responsible controlling based on a profound theoretical background. The intention is to inform about management accounting practice and help current and future business leaders navigate through the topic of responsible business from a controlling perspective.

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A Practical Handbook for Sustainability, Responsibility, and Ethics

Daniel A. Ette

Sustainability is becoming a business megatrend. This book looks into why controlling departments are rarely involved in sustainability topics and do not contribute to corporate responsibility. The author postulates the following assertion: responsible controlling is indispensable in making an organization more responsible.

Inside, you'll learn a specific course of action for the development of a responsible controlling framework toward decision making, which is based on an ethically driven, reflective fundament in order to make a company a responsible business. Through the development of a responsible controlling framework, the author gives recommendations for how controlling should be altered in terms of both tools and mindsets. A twelve-step responsible controlling roadmap is detailed, showing how controlling can contribute to foster a corporation's responsible behavior and how sustainability topics can be integrated in management decisions.

The conclusion of *Responsible Management Accounting and Controlling* reiterates the main goal of this book: responsible controlling must first and foremost be understood as a mindset. Responsible controlling, therefore, is an uncommon but indispensable approach of making an organization more responsible.

Daniel A. Ette is energy and climate protection manager in a German medium sized company and consultant for sustainability controlling and sustainable corporate management. He earned a degree in business economics from the Baden-Wuerttemberg Cooperative State University, and graduated with a master of arts in responsible management from Steinbeis University Berlin. In the past years he worked as CSR-consultant within a European Union project for implementing corporate responsibility in small and medium sized enterprises, and for an international company for which he implemented a sustainability controlling system. In 2012, his efforts were honored when the company he worked for was rewarded for Mr. Ette's innovations with the "green controlling" award of the Péter Horváth foundation—one of the leading controlling think tanks in Europe.

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