

Interview with Juergen H. Daum, SAP AG:

„Sustainability as Objective of Enterprise Management and Control“

By specialist journalist Alfred Biel, Solingen, Germany

This series of interviews by Alfred Biel for the German *Controller Magazin* focuses on both drawing attention to topics worthy of discussion and presenting the knowledge, opinions, and ways of thinking of notable persons and those with particular insights into particular subjects. For this edition, Biel interviewed Juergen H. Daum, who has repeatedly made a name for himself as a thought leader on the ever more important question of sustainability in enterprise management.

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Profile: Juergen H. Daum



Juergen H. Daum worked for eight years as controller and chief financial officer/chief operating officer before joining SAP's German sales division, where he was responsible for customer-side consulting for financial directors and IT managers on software-based process innovations in finance and controlling. Daum's subsequent positions at SAP have included: sales support manager for Europe; project manager, product manager and global director of program management in product development; and for several years now, chief solution architect of the SAP Business Solution Architects Group. He is also a cofounder of and the conceptual mind behind the SAP Best Practice Network, which is oriented toward executives, managers, and professionals in SAP's customer organizations. In this role, he serves as a conceptual advisor to CFOs, controllers, and senior finance professionals of SAP's major European customers on topics such as finance transformation, the re-engineering of enterprise performance management, and the repositioning of finance and control roles. Beyond his work at SAP, Daum is involved in a number of international networks dealing with subjects such as intangible assets, performance management, business model innovation, and entrepreneurship and is founder and president of the International Institute of Enterprise – Heidelberg (IIOE – see: www.iioe.eu), a think tank and training & advisory organization dedicated to develop and promote concepts and practices for enterprise management & leadership that facilitate entrepreneurial value creation and sustainable enterprise development. He has published several business books and numerous articles. In addition, he speaks at conferences, seminars, universities, and business schools in Germany and abroad. He is also a longstanding member of the International Controller Association (ICV) and is frequently involved in its activities.

Alfred Biel: Mr. Daum, you've long dealt with the theory and practice of developing, managing, and controlling companies. In this context, I'd like to speak with you today about a management topic that is becoming the focus of increasingly intensive discussion throughout the world – sustainability. What makes this topic so intriguing?

Jürgen H. Daum: In times characterized by increasingly rapid, often unpredictable changes in technical, economic, social, and political circumstances and a resulting high level of dynamism, both managers and controllers need to ask themselves more often **how they can design their enterprises to be sustainable and future-proof**. At the beginning of my career, I worked for

small and midsize companies as a controller and finance and operations director and always had close working relationships with the companies' founders. That's how I came to know how essential it is for these entrepreneurs to keep a constant eye on the future of their companies in every action they take. After all, small companies don't have much room for error. One wrong decision – involving a major customer, investments, or an important interest group related to the company, for example – can endanger their very existence. On the other hand, you can't be too careful or hesitant; making no decision at all is often even worse.

Biel: “Sustainability” was originally a forestry term coined in Germany by Hans Carl von Carlowitz in 1713. For some time, we’ve been witnessing a broadening and evolution of the word. People have been coopting the basic concept of sustainability in formulating sustainable development strategies for a number of years. Today’s definition of sustainability involves permanently sustainable development in both the economic and the ecological and social realms. How would you define sustainability?

Daum: I don’t think it’s a coincidence that the term’s origins are in forestry: In that field, it’s immediately evident **that failing to manage things in a sustainable manner will end in disaster**. If you have a section of forest with full-grown trees and decide to cut them all down – in other words, exhausting the forest’s yield potential all at once – it will take decades of reforestation to restore things to their original state. Assuming that reforestation is even possible under such conditions, those will be decades of investment without any kind of yield. This was precisely the situation we had here in central Europe in the Middle Ages: widespread deforestation and exploitation with no reforestation. The experience gave rise to the model of sustainability in forestry, which is based on the principle of only cutting down as many trees as can be replaced in the same period of time. So the goal was to ensure sustainable (forest) management. In this context, sustainable management simply means following policies that conserve your existential basis – in this case, the forest – and its potential use for future generations.

It’s also about **safeguarding the long-term interests of others along with the typically more short-term interests** of the acting party. These days, you’d describe it as securing stakeholder interests – those of the forest owner’s heirs, but also of current and future residents in the area with regard to the recreational value of the forest and the preservation of its ecological balance, for instance. Things like soil erosion due to clear cutting pose a danger to such aspects. As you can see, the concept of sustainability in forestry already contains economic, social, and ecological dimensions.

In my view, sustainability always involves all three. It means that as a manager, I strive to preserve the essence of that that sustains both my own interests and the stakeholder interests influenced by my actions.

Biel: That’s a vivid description; let’s take it a bit further. Why has the topic of sustainability undergone such an evolution in recent years, spreading from the forestry industry to the business world?

Daum: These days, no company can afford to ignore the requirements of corporate social

responsibility, which also involve ecological aspects. Doing so would run the risk of causing long-term damage to a company’s reputation, and thus to its business opportunities and chances of success. On top of that, today’s highly networked world affords a great deal of transparency and people really expect companies to behave like good corporate citizens. There are many examples in recent and more distant memory in which companies faced negative global headlines in the media – in some cases with significant consequences for their business. Such examples demonstrate how coming into conflict with the public’s expectations can quickly put a company’s license to operate at risk. This is why many companies now report their business activities freely and publicly in the spirit of corporate social responsibility. For a number of them, sustainability reports have become an integral part of their corporate publicity.

Biel: This poses the question of whether such published sustainability reports actually reflect a company’s efforts regarding transparency and responsibility. In preparing for our conversation, I spoke with a prominent professor of controlling, who said: “I think it’s most often about marketing, image maintenance, and direct or indirect consumer pressure. I’m generally suspicious of topics espoused by the political establishment, and that’s exactly what you have here.” Do the main tenets of sustainability primarily serve obvious marketing and commercial interests or is it really about a key ongoing development that managers actually believe in and support?

Daum: This skepticism is widespread, and understandably so. However, we should differentiate between two areas: **outward corporate communication** and **internal enterprise management and control**.

Let’s start with **outward corporate communication**, the area in which the aforementioned sustainability reports have led to significant progress in recent years. Today’s companies take this topic seriously; when I started working on it just over 10 years ago, however, it was anything but common wisdom. Back then, only a few companies – most of them outside of Germany – published sustainability reports. One of the best-known early international examples was Shell and its Shell Report (now known as the Shell Sustainability Report), which the company has published along with certification from KPMG and PricewaterhouseCoopers since 1998. In doing so, Shell has reported its performance based on a “triple bottom line” – in other words, from an economic, social, and ecological perspective, which is the current standard for creating sustainability reports according to the Global Reporting Initiative (GRI).

Things are much different today: At larger companies, at least, sustainability and corporate

social responsibility are now on CEOs' agendas. They've realized that they can **no longer ignore the public's expectations on their companies.**

Biel: Even if we assume that only a few isolated companies are concerned exclusively with the marketing and commercial aspects: how can the interested public tell whether such codes of ethics and other documents are pure lip service or if they involve plans and measures that companies actually implement and follow?

Daum: It's crucial that the seriousness with which companies go about reporting on aspects of their sustainability is visible and credible to the public. Does a company only report positive things, or does it include problems, challenges, and things that have gone wrong, as well? In the long run, only those companies that are open about challenges and how they deal with them remain credible. This is the criterion by which companies are ultimately measured and judged.

Publishing a sustainability report always means making a commitment from that day forward. You've set a new standard for your own actions, and that's what you will be judged by.

Biel: Allow me to follow up from a different perspective. What about the implementation within an enterprise? In your opinion and experience, how far are we in terms of the internal realization of sustainable management and the overall philosophy of sustainability? And how do they avoid sacrificing such principles when the next short-term opportunity comes along?

Daum: With regard to the latter aspect – the endurance of sustainability in internal enterprise management and control – there's definitely much that still needs to be done. That said, I can also give you some interesting examples. One of the first was again Shell, which implemented the Shell Sustainable Development Framework within its organization back in 1998 to make sure it was taking economic, social, and ecological aspects into account in its business processes. You have to remember, however, that reorienting a company toward sustainability in such a way is always a big step forward that needs time. **You're affecting the company's entire management system, after all.**

To get back to the last part of your question: Until there's a more comprehensive approach that integrates sustainability **into both corporate communication and all aspects of enterprise management – particularly into planning, reporting, and incentive systems** – sustainability goals that are communicated externally risk to be ignored in the day-to-day business, or companies will simply make suboptimal trade-off decisions and will miss opportunities to create value from their sustainability efforts. What they need is an integrated, coordinated enterprise management

and control concept that enables managers and other employees to make good everyday decisions, even in conflict situations.

Biel: Looking at the diverse areas you're involved in, one wonders how the various topics are related. For example, you've dealt in particular with intangible assets and published a book on the subject that has been well received both in Germany and internationally: *Intangible Assets and Value Creation (John Wiley & Sons, 2003)*. My impression was that the concept and philosophy of sustainability are a core aspect of this book, along with the associated topics of sustainable enterprise development and the significance of sustainable enterprise investments. I assume that you see this topic as an important building block of sustainable enterprise management and control. Can you please explain why intangible assets are now so crucial to sustainable enterprise management and how you personally came into contact with the subject?

Daum: I used to always work for companies that had little or nothing to do with the traditional industrial production processes and facilities I was familiar with from the company my father worked for as an engineer. Their focus was more on innovation, service, and partnership activities, and on the intellectual capital and on the intangible assets they used to create value. While they did use the traditional management and controlling tools you find in business textbooks, these only covered a very small part of their real business world and of their relevant critical factors of success. A relatively large part wasn't covered.

If you're in the fashion business, for instance – as I was early in my career – you deal with very short innovation and product cycles, often spanning no more than a few months or even weeks. This makes certain components crucial in generating value: your product innovation process, an innovative marketing and store concept, and a network of subcontractors to which you outsource your production on multiple levels. It all has to run smoothly to get your products into your stores before the latest trend passes. Keeping a handle on the cost side – on efficiency, in other words – and having the appropriate controlling instruments available is definitely key to any company's success. The ultimate determining success factors, however, are the other components I mentioned that ensure your effectiveness: meeting customer demands on time and in a better, more attractive manner than the competition. Securing these factors involves knowing exactly which intangible assets – including structural capital, relationship capital, and human capital – you need to develop to make it all possible; how to best implement, motivate, and maintain these elements; and above all, how you control the entire process. It has to happen in the same way as companies are used to being

able control their short-term profitability and liquidity and their operations to keep things running smoothly. **That said, traditional controlling tools offer little or nothing in terms of intangible assets and the related processes.** If you're a manager or a controller, this presents some challenges.

Biel: To what extent does this problem affect companies who are still involved in industrial production?

Daum: In today's highly competitive global buyer's markets, companies in **all industries**, including manufacturing companies, are creating value with effective and flexible business processes in product development, marketing, internal and external supply chains and with strategic management processes and the resulting business model innovations - i.e. with business and management processes based on significant intellectual capital and intangible assets and focused on customer value-add -, rather than with industrial processes based on fixed assets and purely focused on technical efficiency. **This usually entails adopting a new, enhanced approach to enterprise management and control.**

Companies need to make intangible assets the integral element of their controlling and management systems. These days, we have to follow a much more dynamic approach to enterprise management because preserving the value and value creation potential of intangible assets requires constant adjustment of the assets themselves, the related business processes and resources, and ultimately the entire business model to new company and market circumstances. This is also the reason why I've focused in the past years more on dynamic enterprise management and dynamic planning and performance management (see: <http://www.juergendaum.com/bb.htm>) and, most recently, on process-oriented business model innovation (see: <http://www.iioe.eu/ebmif.html>) in customer projects and in my conceptual work

So, in summary: **A failure to factor intangible assets into enterprise management and control systems in a methodical way makes sustainable management impossible and endangers the achievement of any company's economic, social, and ecological goals** in today's knowledge-based economy.

It's similar to a non-sustainable approach to forestry: Without the intangible assets perspective in enterprise management and control, companies run the risk of **cannibalizing their own core substance for the sake of optimizing short-term financial results.** By unwittingly destroying essential intangible assets, they put their value creation and yield potential for the future – and thus their very existence – in jeopardy. I see

sustainability and intangible assets as two sides of the same coin: Intangible assets require a focus on sustainability; sustainability requires intangible assets.

Biel: Let's turn to the role of CFOs and controllers. Your statements thus far indicate that sustainability is an important topic for people in such positions. Have I understood you correctly?

Daum: I think corporate sustainability starts with economic sustainability – at least for businesses. The other two aspects, social and ecological sustainability, follow as a result, if you take economic sustainability serious.

And as you said, when we discuss management and sustainability, we enter the very domain of CFOs and controllers. Corporate sustainability, then, becomes a **topic for CFOs and controllers as soon as their companies begin serious internal efforts to achieve it.** That's not only because CFOs and controllers are responsible for monitoring their companies' economic performance: They're also associated with the skill and discipline required to make other aspects of performance manageable.

Biel: This area is surely of particular interest to our readers. Could you give us more on the background and details of what's required of today's CFOs and controllers? What do you see as the tasks, roles, and perspectives of CFOs and controllers in the future with regard to sustainable enterprise management and control?

Daum: The very ability to achieve sustainable management – and thereby enterprise sustainability – is essentially based on the **ability to generate added value organically.** Investors, other important stakeholder groups, and the general public are paying increasing attention to whether and how a company is able to **create original, sustained value for its customers, investors, and stakeholders.**

This will lead managers to demand more of the corresponding controlling tools and other decision-making support.

As such, it will be more important for CFOs and controllers to not only secure their companies' ability to control and optimize the financials, but to integrate all the aspects of sustainable value generation into their overarching enterprise control system in the future. In particular, they will need to involve themselves much more actively in shaping business. In the future, CFOs and controllers will focus more on helping to develop the (business) pipeline rather than just reporting on the pipeline, as a member of one of my CFO discussion groups recently put it. This means getting into process design and management in R&D, sales and marketing, and the supply chain, as well as in HR and IT management. Right now, I'm organizing a workshop for four European companies looking to exchange ideas on how

they can more effectively arrange their R&D management and controlling processes. I could give you similar examples for the other topics, as well. If you're a CFO or controller looking to accomplish some of these things, you'll quickly become involved with soft factors, with the intangible assets, and how to link them to hard factors to achieve optimal results.

Biel: Do CFOs and controllers really buy into these topics and tasks? After all, they traditionally deal more with the hard factors you mentioned.

Daum: In the past two or three years, I've been able to watch CFOs start to pay increasing attention to soft factors. **It's my belief that CFOs and controllers have long since bought into the topic of sustainability** – even if they don't call it that. They might call it R&D effectiveness, marketing effectiveness, supply-chain effectiveness, organizational effectiveness, or business model effectiveness. These are simply different terms for what I have described earlier.

Biel: One final question: What is necessary to implement a comprehensive approach to sustainability in company management and controlling as you've described?

Daum: It requires a number of elements. First, **a clear commitment of a company's leadership** to the principles of sustainable management and controlling is required - both internally and externally. This means of the executive board, supervisory board, and main shareholders. With 'external', I mean a clear external communication policy that emphasizes sustainability and the company's commitment to it.

In finance and control (F&C) – the realm of CFOs and controllers – you need dedication to the notion that this area is not responsible for the company's financial figures alone. On the F&C side, this obviously also requires an understanding of how sustainable, organic value creation in and around the company works; how to correctly map the value creation process in a controlling system; and how to go about constantly advancing this process from both an operational and strategic standpoint to ensure the company's future. Here, you need an approach that goes beyond the area's usual focus on process and information standards. It's also about **getting a handle on intangible assets in finance and control, as well** – such as in people development, organizational setup, and finance culture – to shape and promote the role of F&C as a business partner and active member of the business team.

My last point is on business economics and the related theory. As I mentioned, today's business world is not the same as some decades ago, when the architecture and fundamental components of the industrial mass production model were developed that still underpin our

management concepts of today. This led to **a gap** in the theory of business economics, which no longer fully covers the requirements of modern enterprise management and control. The modernization of business economics has already begun successfully in a number of areas. For example, think about the balanced scorecard concept in strategic enterprise management, or operational controlling concepts in supply chain management and customer relationship management. **What's still missing, however, is a new, holistic, integrated approach** – the type of integrated business management architecture we used to have for the industrial production company.

In the 20th century, industrial mass production served as a new value creation engine that required companies to supplement their traditional financial accounting efforts with more complex cost accounting methods, leading to corresponding innovations in controlling that enabled managers to control and optimize their new value creation processes. Think of the German "Grenzplankostenrechnung" (flexible marginal standard costing), for instance. In the same way, we now need to enhance our controlling systems with perspectives that map and can optimize the new activities and processes in value creation in order to end up with management systems and management processes that foster effective knowledge transfer with regard to the real success factor of today's companies and thus institutionalize effective decision-making.

The fact that things have gotten more complex today than some decades ago makes this more difficult. In the traditional industrial company, you created value in two basic processes: (mass) production and sales or distribution. Today's companies involve far more processes, many of which are no longer handled by the companies themselves, but by partners in their expanded business networks. In my opinion, we clearly need to define this kind of business management architecture. However, due to the **complexity** involved, individual players can no longer afford to do so as they could some decades ago in the pioneering years of business economics. What we need is a single concentrated effort to compile the experience and expertise of companies, controller organizations, scientists, and regulators (particularly with regard to IFRS).

Two years ago, I started a European initiative called International Management Accounting Standards (IMAS), which I've been organizing **on behalf of the International Controller Association (ICV) and the International Group of Controlling (IGC)**. The goal was to develop controlling standards across European controller organizations, both with regard to IFRS (uniform internal controlling standards in support of uniform

fair-value assessments on the controlling side, among other aspects) and to establish a type of best practice for the controlling of “new” value creation processes in R&D, marketing, and so on. Unfortunately, the initiative is currently on hold. However, there is still strong interest in continuing it – particularly from the European companies I initially addressed and invited to participate. That's why I'm confident that we will be able to re-launch it and continue with the work we have started with.

Biel: I'd like to offer a brief 10-point summary:

1. Sustainable economic development is not only a concept on the political agenda, but a necessary program that benefits companies.
2. In an ever more complex and dynamic business world, sustainability helps secure companies' futures. **Sustainable thinking, management, controlling, and reporting means seriously committing to a company's future existence as part of the network of its stakeholders' interests and thus operating also in the day-to-day business proactively – always weighing risks and opportunities.**
3. Sustainable company management is not a purely ecological or social program, but a modern management approach that integrates ecological and social aspects into economic enterprise management.
4. Sustainability / corporate social responsibility reports are particularly important. **It is also crucial that efforts communicated externally are also implemented internally.**
5. Sustainability requires a holistic approach in reporting and communication, management systems and ways of thinking, and controlling. **When truly achieved throughout a company's culture, sustainability has great potential.**
6. The capability for sustainable enterprise development is based on and significantly influenced by an enterprise's intangible assets.
7. We find ourselves at the beginning of the likely long and difficult process of implementing comprehensive, sustainable enterprise management.
8. Insufficient in their current form, our concepts and instruments in controlling require further development.
9. This topic presents a challenge to CFOs and controllers – a challenge brimming with both objective and personal opportunity.
10. That said, CFOs and controllers should not act alone. A company's leadership must be clearly committed to the principles of sustainable management and controlling.

Mr. Daum, thank you very much for your views on these topics. Having known you well for a number of years, I'm happy to have had the chance to interview you. I'd like to also thank you on behalf of our publisher, Dr. Eiselmayer, as well as our readers. Working with you has been very interesting and enjoyable, and your contributions have been exceptional.

Our discussion only scratched the surface of this multi-faceted subject, but we both hope that it will initiate or advance further discourse in the controller community. We could then consider our common goal accomplished. Finally, our understanding of a controller focused on added value and sustainability is in line with that of the International Controller Association (ICV). **Taking up and advancing this subject area in a praxis-oriented fashion is a unique challenge for the controller community and, in particular, those representing its interests, the ICV.**

Original long version (in German) of the interview: http://www.iioe.eu/fileadmin/files/publications/Sustainability_Management_Lang_Interview_JDaum_CM.pdf