The CFO as the Driver of Sustainability
Introduction

Sustainability-driven challenges

Why should CFOs take the lead?

Characterization of the expanding role of the CFO based on the model “Four Faces of the CFO”

Conclusion

Contacts
Introduction

Sustainability has a variety of impacts – and now that competitive advantage is at risk, companies can no longer afford to ignore it.

In this article, we first analyze the impact ESG (Environmental, Social, and Governance) issues are having on companies and their stakeholders. Then, we elaborate on the specific responsibilities and opportunities for Finance departments as companies move towards sustainability, placing particular emphasis on why we believe CFOs have what it takes to be key players in the transition to the sustainable enterprise.
Political
ESG issues are a big factor in political debates and policy-making
Supranational and governmental ‘greening’ initiatives as well as grants and funding at the UN, EU and national level are profoundly reshaping our current and future taxation policies. Policymakers are requiring companies to be transparent about their sustainability performance towards all stakeholders, including investors.

Legal
Extensive ESG requirements are reshaping legislation
With a set of new sustainability-related regulations coming into force in international, regional and national legislation (e.g., carbon taxes, CO2 emission regulations, sustainable packaging, health and safety), companies will be under increasing pressure to respond to future challenges by upgrading their internal and external processes for sustainability-related financial control and reporting.

Economic
New aspects of sustainable Finance are disrupting the financial markets
The structure of the financial markets is changing, massively impacting how companies obtain financing (e.g., Green Bonds, ESG funds, etc.) and manage their investor relations. Companies that are focusing on ESG issues and adapting their business models with a focus on sustainability can improve their financing terms and financial performance.

Environmental
Environmental aspects impact operations across the entire supply chain
With our globally interconnected supply chains, environmental factors (e.g., wildfires, water shortages, plastic pollution, etc.) can potentially become direct and indirect company risks. It is in companies’ best interest to prepare for climate effects on their operations, i.e., low water levels that restrict inland waterway transport, higher energy costs for refrigeration of goods, etc.

Social
Society already expects companies to be sensitive to climate issues
It has become the norm for the general public, investors, rating agencies, suppliers and customers to expect companies to meet their expectations on sustainability. Half of the respondents in the 2019 Deloitte CFO survey reported that the biggest pressure to address sustainability issues was coming from customers.

Technological
Sustainability is a major driver in scientific research and technological innovation
Environmentally-friendly and resource-efficient technologies are the leading innovations in new products and services. As a result, these disruptive technologies are creating new markets, new business models and new value networks by first redefining and then replacing ‘business as usual’.

2 Deloitte Germany: CFO survey Autumn 2019
Sustainability-driven challenges

Despite increasing pressure on companies, many CFOs have yet to recognize the importance and the impact of becoming more sustainable.

Most of the planning, steering and reporting work CFOs do is focused on financial KPIs, but a company’s value and risks are not only expressed in financial statements. In fact, we are seeing increasing pressure from a variety of stakeholders, including

- government regulators for compliance with non-financial (ESG) requirements,
- investors and analysts that prefer comprehensive sustainability reporting and
- customers shifting their buying behavior towards sustainable products.

Companies need to designate one overarching position to steer sustainability prerequisites, identify opportunities, connect the dots and communicate the derived insights across the entire organization. As ESG issues are all interconnected, they are relevant for several departments, e.g., Finance, Accounting, Investor Relations, Operations, Marketing, HR and R&D.

When it comes to making standard corporate processes more sustainable, structural redesign and transformation are likely to be on the agenda.

That’s why cross-divisional cooperation is so essential for CFOs to gain a broad overview across the organization. Through the efficient design of customized incentive systems, they can motivate all stakeholders to implement ESG initiatives. CFOs can also take the lead in establishing a transparent infrastructure by designing and implementing sustainability dashboards for sustainability-related processes, information exchange, performance tracking and reporting.

CFOs are not only key stakeholders in this area; they are predestined to take the lead thanks to their organizational network and in-depth overview of data, processes and reports. In addition, CFOs have the professional toolkit to align ESG issues with the company’s profitability goals.

CFOs are not only key stakeholders in a company’s successful transition to a sustainable enterprise, they are predestined to take the lead.
Companies need to expand the role of the CFO to include sustainability issues, if they want to satisfy all internal and external demands as well as ensure long-term success.

But even though the transition to a sustainable enterprise has already begun, CFOs still don’t have what they need to take the lead. Here is what CFOs are lacking:

- Regulatory know-how about sustainability, e.g., how ESG criteria are defined. This undermines the credibility of companies’ well-intentioned sustainability efforts internally as well as externally.
- Analytics to source, aggregate and interpret sustainability-related data, which would enable companies to give investors and management the information they need to make decisions.
- The ability to monetize non-financial sustainability data, which would allow companies to incorporate sustainability issues into their strategy and monitor whether that strategy has been executed.
- Sustainability criteria as part of performance management, which would provide more incentive to affect change – after all, 'only what gets measured, gets managed'.
- Tools to incorporate sustainability data into standardized ERP structures, which would make it easier for auditors to verify.
- Scenario-based, cross-divisional planning of sustainability-related factors, e.g., CO₂ penalties or climate risks to operations.
- Internal controls regarding ESG and a recognition among risk managers that sustainability risks are, in fact, material.

We need to initiate proactive measures to address what is lacking and ensure an extended, smooth and successful inter-departmental transition towards sustainability.

Without the ability to track and report sustainability metrics, CFOs will be unable to meet both investor and management expectations.
Why should CFOs take the lead?

Finance departments have a key role to play: in ensuring that the sustainability metrics provided to internal and external stakeholders are relevant, compliant and accurate on the one hand, and in supporting the overall execution of the sustainability strategy on the other. As key players, CFOs bring unique skills to the table in terms of measuring and tracking non-financial achievements. This applies to risk analysis as well as governance, internal monitoring, measurement, prevention, mitigation and third-party assurance. In addition, they are uniquely suited to identifying and balancing the added value of both finance and sustainability measures.

The methodologies for tracking and assessing the financial impact of sustainability measures are becoming more and more advanced, including internal cost accounting methods for sustainability projects. And using their power to develop new tools and solutions, internal dashboards as well as individual and collective performance criteria, CFOs have the big-picture view they need to impact both financial and non-financial performance and create roadmaps to reach their goals.

Finance executives can help rethink their company’s steering model using new accounting frameworks, such as the Triple Depreciation Line, and new measures for triple performance (i.e., economic, social and environmental). They have the right perspective to leverage expertise and establish efficient data infrastructure as well as integrated reporting across all departments – particularly with the more advanced cross-functional cooperation that is needed to successfully respond to sustainability challenges.

At the intersection of sustainability and financial performance, CFOs are in the best position to communicate to stakeholders how a company’s ESG strategy management and performance contributes to overall value creation.

Deloitte’s Sustainability Maturity Assessment is a first step in the journey, designed to screen your company with respect to the way sustainability is defined, managed, measured and reported. With the optimization opportunities derived during screening, companies can accelerate the transition and maximize the combined sustainability and profitability benefits.

Via our established methodology called "The Four Faces of the CFO", we provide a deeper understanding of the massive impact sustainability will have on the role of CFO.

Finance departments play a central role in integrating sustainability measures into standard processes across an organization.

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3 Deloitte Insights: Financing a sustainable transition
Characterization of the expanding role of the CFO based on the model “Four Faces of the CFO”

CFOs can stimulate and drive a timely transition, not only within the Finance function, but also across the entire enterprise. Using the power of the purse strings, they can prioritize initiatives that add value to the company.

Finance executives can promote the transition to sustainability by rethinking their company’s underlying performance model through new accounting frameworks, e.g., the Triple Depreciation Line framework. Ensuring that these non-financial KPIs become a central pillar of the incentive system, CFOs can create more drive towards sustainability within the organization.

They should not, however, restrict these changes to the corporate level. The ambitions need to permeate the entire organization. That’s why it is so vital for Finance to involve all levels and departments to ensure that there is both the will and the budget to implement the required practices and plans. This means Finance should have continual oversight over all the efforts undertaken to manage risks and maximize opportunities.
The CFO as the Driver of Sustainability

Strategist
Setting strategic goals, making decisions & deriving Finance strategy
CFOs have a seat at the strategy development table and help steer the future direction of the company. They are vital in providing financial leadership, and aligning business and financial strategies.

Given the increased stakeholder interest, sustainability is becoming a key criterion for strategic decisions in the boardroom. We are seeing a shift in the CFO role around the world as a result, encompassing a broader mandate through increased involvement in sustainability strategies and investments. CFOs must use their core Finance skills from financial analysis and resource allocation to reporting systems as part of the transition to a sustainable enterprise.

As key executives, CFOs can help quantify the financial value that is created with investments in sustainability and resolve potential conflicts that come from embedding sustainability into the corporate strategy. This requires internal alignment, e.g., with Chief Sustainability Officers, to better understand the environmental impacts. Only if all functions are aligned, can we avoid developing inherently inconsistent strategies that raise doubts about a company’s commitment to sustainability.

Steward
Managing compliance & control systems
It is the CFO’s job to protect the vital assets of a company, to ensure compliance with various financial regulations, to close the books and to communicate value and risk issues to investors, boards and other stakeholders.

Finance departments have a key role to play in making sure that the sustainability information provided to external stakeholders is relevant, compliant and accurate. At a minimum, CFOs must ensure that the company has understood and complied with the increasingly complex sustainability legislation in order to avoid hefty penalties.

It is also essential to develop a good understanding of the most pressing ESG issues and quantify their impact on long-term performance. By expanding the process of risk identification, CFOs can make sure they address and measure sustainability-related risks. The entire C-suite needs to be involved in this process, because sustainability risks can arise in all areas of the company. Once quantified, it is important to separate the material from the immaterial sustainability issues to manage sustainability in the most effective way.

Operator
Ensuring the skills, quality & efficiency of the Finance function
CFOs have to ensure that their Finance departments operate efficiently and effectively, providing a variety of services to the business, such as financial planning and analysis, treasury, tax, financial statements, etc.

Demands for more reliable sustainability information are increasing among stakeholders. Finance departments have a key role to play in ensuring companies can report non-financial information. In this sense, the CFO’s overview of both financial and non-financial performance is unique.

Without quality non-financial insights, it will be impossible for Finance departments to reliably derive a strategy and execute it. This entails integrating new data sources, new flows of data and possibly entire new systems. Finance professionals need to be equipped with sufficient knowledge of ESG issues and the related legislation as well as data modelling capabilities – while still keeping their expenses at an acceptable level. And as environmental impacts factor into more C-suite decisions, the Finance team must be able to quickly access, transform and interpret this vital data.
Conclusion

Regardless of your industry or business model, sustainability has become one of the central corporate success factors for the future. That said, Finance departments are not yet equipped to address the main challenge of our generation.

In order to embark on a path towards sustainability and stay on track, CFOs will have to reevaluate their role. Using the “Four Faces of the CFO”, we can analyze how sustainability is impacting the role of the CFO to pave the way for a more sustainable enterprise.

First, as a steward, CFOs need to identify the most relevant ESG issues and metrics in order to safeguard their company for the long-run.

Once this is achieved, the strategist translates sustainability into monetary terms and helps to embed sustainability into the corporate strategy.

Over time, they provide continuous oversight as a catalyst who evaluates efforts and outcomes to ensure that the company stays on track.

As an operator, CFOs make sure the company is able to issue compelling, high-quality reports on sustainability by gaining broad expertise in this new data universe. In the long-run, CFOs will drive efficiency within the Finance department.

We are here to help CFOs start transforming their role. Equipped with our methods and tools, Finance leaders can set a successful course for sustainability and help quantify the financial impact of sustainability initiatives.

Are you and your organization ready to address the implications of sustainability? With the transition already well under way, where do you see yourself and your organization now and in the next five years? Feel free to reach out and work with us to gain the insights that will make your company’s journey towards sustainability a complete success.

Now is the time for Finance departments to kickstart transformation, guiding the enterprise towards sustainability and making sure it stays on track.
The CFO as the Driver of Sustainability
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