DRIVING SUSTAINABILITY THE CFO'S ROLE

Chief Financial Officers are increasingly engaging with sustainability as **Eileen Healy** and **Jennifer Casey** report.

Sustainability is just one of a plethora of terms used to describe the social and environmental movement and consciousness that is gaining significant attention and credence in boardrooms. Organisations are beginning to acknowledge the importance of finding the right balance between financial, social and environmental priorities – the so-called 'triple bottom line'. Businesses are seeking ways to understand and respond to social and environmental impacts, influence govern-ment regulation, manage risk, identify new goods and services, and manage external relationships to build trust and credibility. The findings of the latest quarterly survey of Irish CFOs undertaken by Deloitte shows that it is imperative that senior management engage with drive and promote sustain-ability in their businesses. Some 91% of CFOs believe there is a direct link between sustainability programmes and business performance. This article explores CFOs' views on driving and promoting sustainability within the business and highlights some of the survey findings.

Sustainability has evolved considerably over the last number of years. At first, organisations were just trying to be good corporate citizens, focusing on 'green' initiatives which weren't deemed central to the business such as energy conservation. Recently however, many business leaders have begun to view sustainability as a more integral component of their business strategy, linking it with opportunities to enhance revenue, reduce costs, improve margins and strengthen brand value. It is unsurprising therefore that CFOs are increasingly engaging with sustainability, a key finding from the survey. For the vast majority of finance leaders surveyed, sustainability is integral to how their businesses run.

Set out below are five key findings that illustrate how CFOs in Ireland are engaging with sustainability.

1. SUSTAINABILITY IS SEEN BY CFOs AS A KEY DRIVER OF FINANCIAL PERFORMANCE

A significant majority (91%) of CFOs saw a direct link between sustainability pro-grammes and business performance. Increasingly, organisations are using sustainability as a means of differentiating their businesses and enhancing financial performance. For example, major beverage

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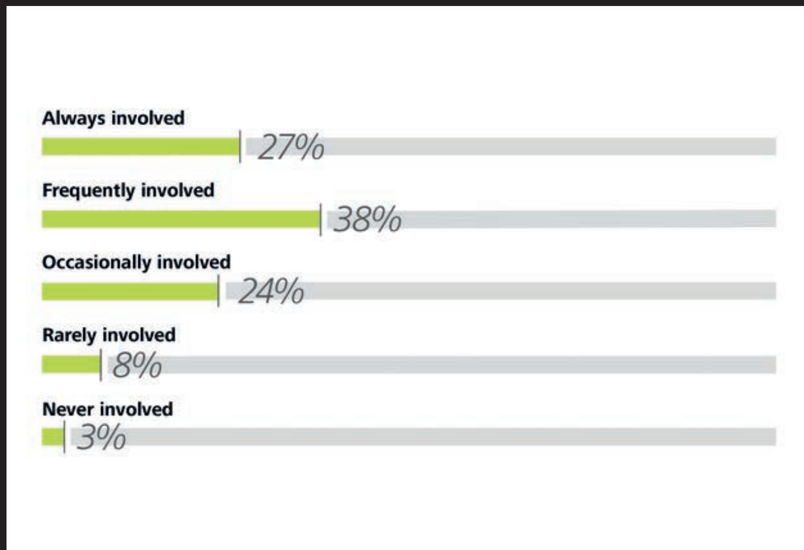
Figure 1: What best describes sustainability in your firm?

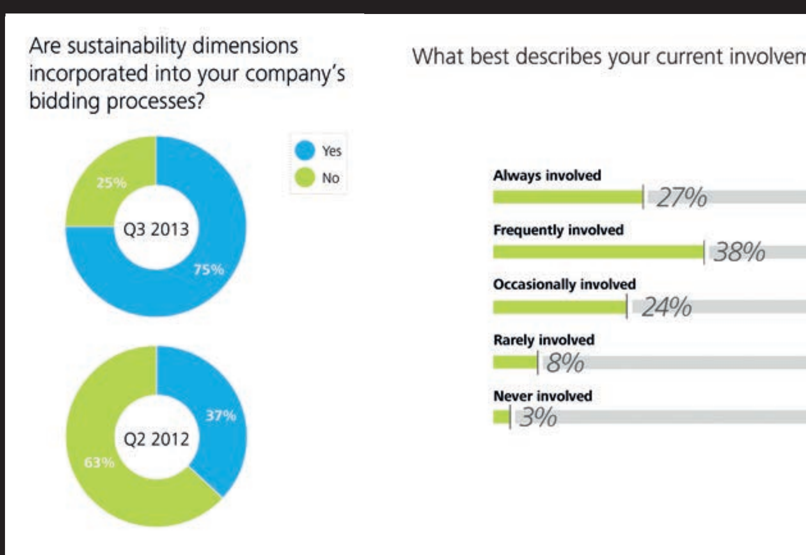


bottlers require about 0.15 litres of crude oil – a significant cost component – to manufacture a single litre plastic water bottle. One bottled water manufacturer was able to decrease the amount of plastic in each of its bottles by approximately 40%. This change allowed the manufacturer to not only deliver social and environment benefits but also to realise significant cost savings.

2. CFOs SEE SUSTAINABILITY AS AN INTEGRAL PART OF THEIR ROLE

CFOs are increasingly involved in driving execution of sustainability strategy in their organisations. They have a key role to play in measuring the impact on enterprise value of sustainability efforts, helping to prioritise how and when to invest in sustainability programmes and initiatives. Some 81% of CFOs surveyed regard sustainability programmes as either an important or extremely important part of their role. This is a jump of 23% on the same metric last year, indicating that CFOs are progressively viewing sustainability as an integral part of their role. This finding was echoed in a global survey of 250 CFOs from 14 countries across five continents carried out by Deloitte last year which reported that 61% of CFOs expected their role in sustainability strategy to increase or slightly increase in the next two years.

Figure 2: Sustainability Dimensions



3. SUSTAINABILITY GAINED GROUND LAST YEAR IN RELATION TO COMPANIES' SUPPLY CHAIN PROCESSES

The supply chain represents an area of both risk and opportunity in terms of its environmental and social impacts. Customers are demanding ever increasing transparency in how companies operate and firms are looking to differentiate themselves with responsible business practices. Businesses are responding to this by incorporating sustainability dimensions into their bidding and procurement processes. The survey of Irish CFOs found that there has been a significant jump in the number of businesses incorporating sustainability into supply chain processes in the last year, as illustrated in *Figure 2*.

Of the respondents who currently do not incorporate sustainability measures into their supply chain processes, almost half plan to incorporate these dimensions in the future.

4. BUSINESS VALUE IS THE FOREMOST CONCERN FOR CFOs IN RELATION TO THE IMPACT OF SUSTAINABILITY

Sustainability can be considered as a catalyst for value creation and transformation that the CFO can leverage through sustainability initiatives and programmes. Value can be created by eliminating waste and inefficiencies, driving cost savings, ensuring ethical business practices and increasing brand awareness. Value is a key area where sustainability measures can impact as highlighted by the survey results where business value and long-term value creation were ranked as the top two areas where CFOs believe sustainability could have a positive effect.

5. SUSTAINABILITY AND NON-FINANCIAL REPORTING IS SLOWLY GAINING MOMENTUM AMONGST CFOS

Sustainability and non-financial reporting are becoming increasingly important to global organisations as regulators are taking a hard look at what sustainability aspects should be regulated and how. In April this year, the European Commission adopted a proposal for a directive enhancing the transparency of certain large companies on social and environmental matters. Companies concerned will need to disclose information on policies, risks and results as regards environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity on the boards of directors. The objective is to increase EU companies' transparency and performance on environmental and social matters, and, therefore, to contribute effectively to long-term economic growth and employment. Coupled with the increased regulatory requirements around sustainability reporting, a rising number of senior management teams and boards are recognising the benefits that measuring, managing and disclosing their strategies and performance on environmental, social and governance factors can have for their companies. In addition to reputational benefits, it affords companies the opportunity to engage with existing and potential customers, investors and stakeholders and offer transparency about what they are doing. It also has the potential to increase employee loyalty. We reported last year that 28% of CFOs surveyed reported on social and environmental measures as part of their companies' reporting cycle. This is a metric that will continue to increase and gain momentum amongst CFOs and their companies. A study by the Governance and Accountability Institute – a data partner for the Global Reporting Institute (an organisation that promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development) – found that 57% of Fortune 500 companies published corporate social responsibility/sustainability reports in 2012 compared with only 20% the year before. It is apparent therefore that sustainability reporting is emerging as common practice and is something that CFOs need to play a role in.

CFOs are by default concerned about their business' 'bottom line'. A new era has emerged, however, where the focus of finance leaders needs to be on the 'triple bottom line', a combination of financial, social and environmental performance measures. CFOs are recognising that they need to play a key part in sustainability programmes and are increasingly viewing their role through a sustainability lens to ensure that the long term economic viability of the business is considered and a balanced view of the firm's social and environmental impacts is maintained.

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IN BRIEF

IFAC POLICY PAPER ON ENHANCING ORGANISATIONAL REPORTING

The International Federation of Accountants (IFAC), has published a Policy Position Paper 8, *Enhancing Organisational Reporting*, to emphasise the importance and usefulness of reporting broad-based information beyond that which is provided in traditional financial reporting. Enhanced organisational reporting provides a more complete view of an organisation's position, performance, and longer term potential and sustainability, and is in the public interest. It provides important information for both internal and external stakeholders to support managing and directing operations, decision making, promoting transparency, and the discharge of accountability. The Position Paper is available for download from www.ifac.org

ACCRUAL BASIS IPSASS

The International Public Sector Accounting Standards Board (IPSASB) has published an Exposure Draft (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards*. This proposed standard, which is applicable to entities that present accrual basis financial statements during the process of adopting and implementing International Public Sector Accounting Standards (IPSASs), provides exemptions during the transition period.

The ED and an *At-a-Glance* document, which provides a summary of the ED can be downloaded from the IPSASB website at www.ipsasb.org. The comment period closes on 15 February 2014.

IOSCO AND IFRS FOUNDATION AGREE JOINT PROTOCOLS TO ENHANCE CONSISTENCY IN THE IMPLEMENTATION OF IFRS GLOBALLY

The International Organization of Securities Commissions (IOSCO) and the IFRS Foundation have agreed on a set of protocols under which the two organisations will deepen their cooperation in support of their shared commitment to the highest standards of financial reporting globally.

IASB ISSUES LIMITED AMENDMENTS TO THE IFRS FOR SMES

The International Accounting Standards Board (IASB) has published an Exposure Draft of proposed amendments to the *IFRS for SMEs,* which it developed based on its initial comprehensive review of the *IFRS for SMEs*. Most of the proposed amendments clarify existing requirements or add supporting guidance, rather than propose changes to the underlying requirements in the *IFRS for SMEs*. Consequently, the IASB says that for most SMEs, the proposals are expected to improve understanding of the existing requirements, without having a significant effect on the entity's financial reporting practices and financial statements. The proposals are open for comment until 3 March 2014.

GLOBAL DEVELOPMENT REPORT

MOSAIC, the Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration recently published a report assessing professional accountancy organisation (PAO) development at global, regional, and national levels. The report is available for download from the IFAC website, www.ifac.org