

Sustainability: CFOs are coming to the table



The data discussed in this whitepaper represents

250 completed interviews

The interviewees represent **14 countries**

or regions (Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Mexico, Middle East, Russia, South Africa, UK and US)

The interviewees represent **15 different industries**
with a minimum of 9 interviews per industry

All firms have annual revenues greater than \$1 billion with an average of **US\$12 billion**

Firms surveyed have total revenues of more than **US\$3 trillion**

Respondents were CFOs, Finance Directors, or equivalents in

non-English speaking countries

CFOs are engaging with sustainability.

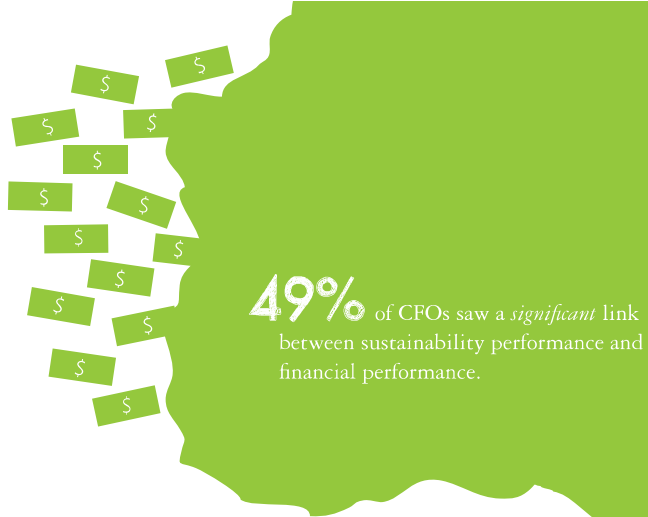
That's the finding of the **2012 Sustainability & the CFO Study**, undertaken on behalf of Deloitte Touche Tohmatsu Limited and its member firms by independent analyst firm Verdantix. The 250 CFOs surveyed – representing companies with greater than US\$1 billion in revenue each, across 14 countries on five continents – painted a clear picture of a CFO function whose attitude toward sustainability is in transition.

For much of this group, sustainability is integral to how their businesses run.

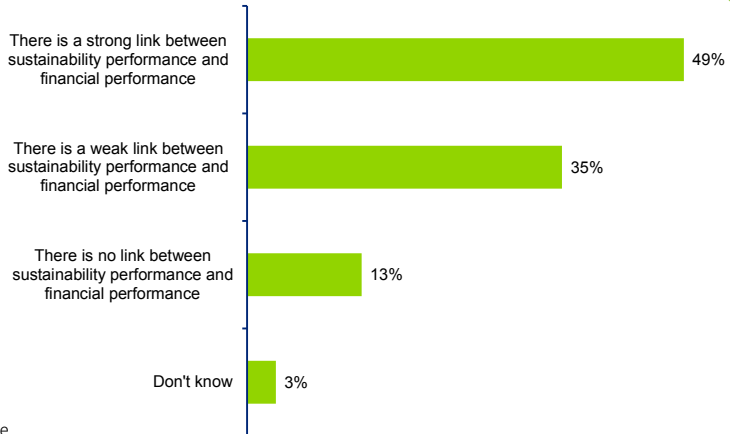
These attitudes are reflected in 10 key findings.

The big picture

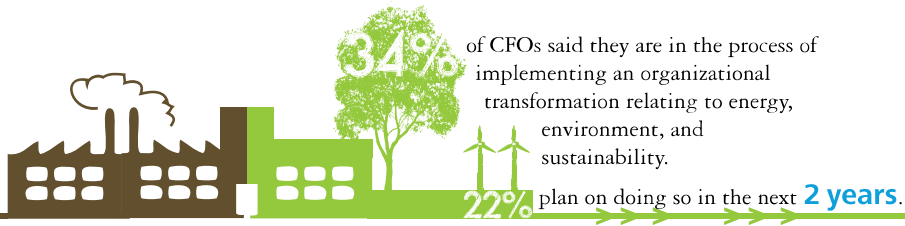
- 1 Sustainability is seen as a key driver of financial performance.



Which of the following statements best describes your perspective on the link between sustainability performance and financial performance?



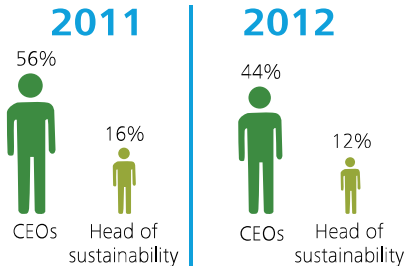
2 Organizations are transforming in response to the sustainability imperative.



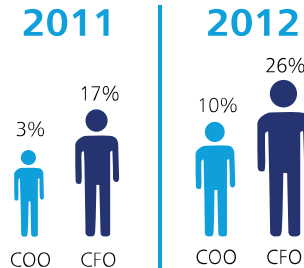
3 Sustainability is becoming operationalized.

While a plurality of CFOs still noted that sustainability authority rested with their CEOs (44%), this figure represents a significant decrease from 2011's figure (56%). Similarly, those reporting authority resting with the head of sustainability (12%) decreased from 2011 (16%).

Sustainability accountability decreased for CEOs and heads of sustainability...



... and increased for CFOs and COOs



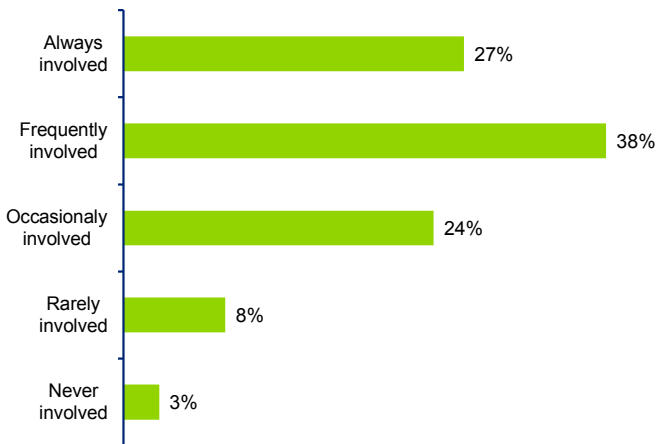
Where did this authority go? To the CFO (26% versus 17%) and the COO (10% versus 3%).

This shift represents a transfer of sustainability authority from line sustainability managers and “face of the brand” CEOs into the hands of those empowered with operating authority – and substantive budgets.

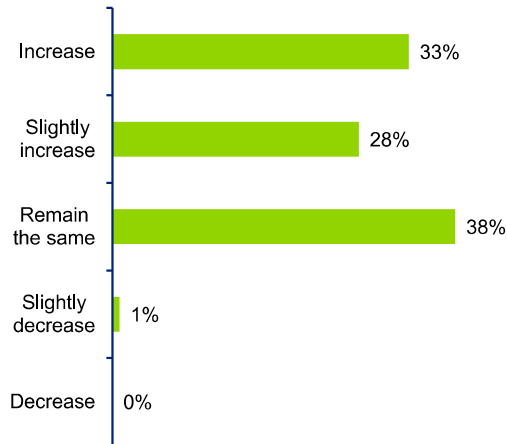
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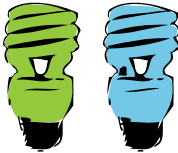
CFO involvement with sustainability is deepening. Two-thirds (66%) said they were “always” or “frequently” involved in driving execution of sustainability strategy in their organizations. More than half (53%) said their involvement had increased over the last year. More than three-fifths (61%) said they expected their involvement to increase over the next two years.

What best describes your current involvement in sustainability strategy at your firm?



How do you expect your role in sustainability strategy to change in the next two years?





1 in 2 Retail CFOs plans to invest in building energy equipment in the next **2 years**.

In their own words: CFOs on the central role of sustainability



South Africa

As sustainability plays an ever increasing role in the future of the business. It is receiving more attention from the board so as a consequence of that [our] involvement will increase.

France

There is [a] close link between [the] Finance and Sustainability department[s]. Procuring new sustainable technology, deploying environment friendly policies, transformations etc have definitely added an extra layer of responsibility in my job function and [this responsibility] will keep on increasing.

Middle East

With sustainability requirements' increasing many aspects of financial reporting [have changed]... I have to get involved deeply.

China

Sustainability provides virtual savings at an early stage and can only be made real when well integrated with finance.

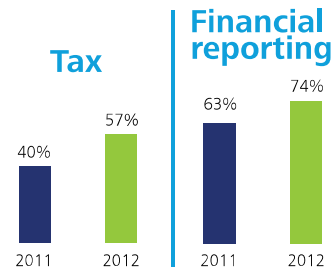


Topics of interest to CFOs

5 Sustainability aspects of tax and financial reporting have gained significant mindshare among CFOs in 2012, perhaps reflecting regulatory developments.

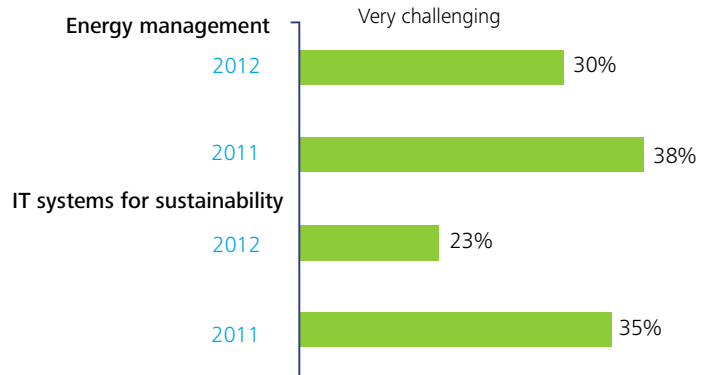
As integrated reporting gains momentum (legislated in South Africa), and the impacts of changing green credits and incentives measures are felt by companies worldwide, CFOs have responded by moving sustainability aspects of tax and financial reporting up their agendas.

Which of the following aspects of financial management have been impacted by sustainability issues at your firm?



6 Energy management still topped the list of issues — considered

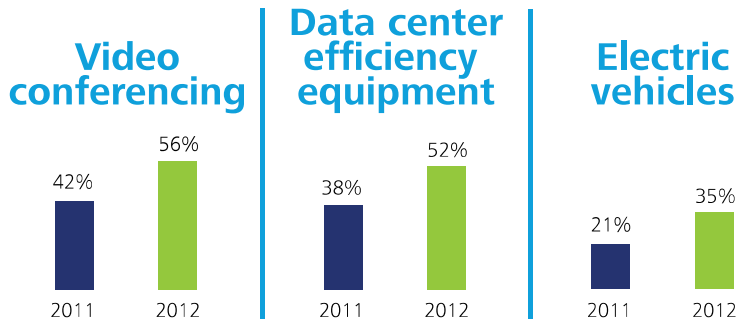
“very challenging” (30%), but this finding did reflect a drop-off from 2011’s finding (38%). Similarly, while 35% of CFOs in 2011 found IT systems for sustainability “very challenging,” only 23% had the same perception in 2012.



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Gaining ground on the investment front: videoconferencing equipment, data center improvements, and electric vehicles. This finding resonates with the public dialogue around reducing the sustainability impact of company travel (which would be addressed by video conferencing and electric vehicles) as well as increasing public critique of energy use from data centers.

The largest 2012 gains in investments that CFOs were most likely to plan to invest in...





94% of food and beverage CFOs said it was very important or important to communicate with consumers about sustainability.

In their own words: CFOs on the central role of sustainability



India

Sustainability is the primary concern for any business. From the environment's perspective, and the profitability perspective, we need to strike a balance between [these two goals].

Canada

To speculate and evaluate future investments it is important to integrate both the finance and the sustainability departments.

UK

All the organizations are dependent upon financial performance; financial performance depends on various factors such as sustainability. In the short run we can manage but in the long run it is definitely not going to work out.

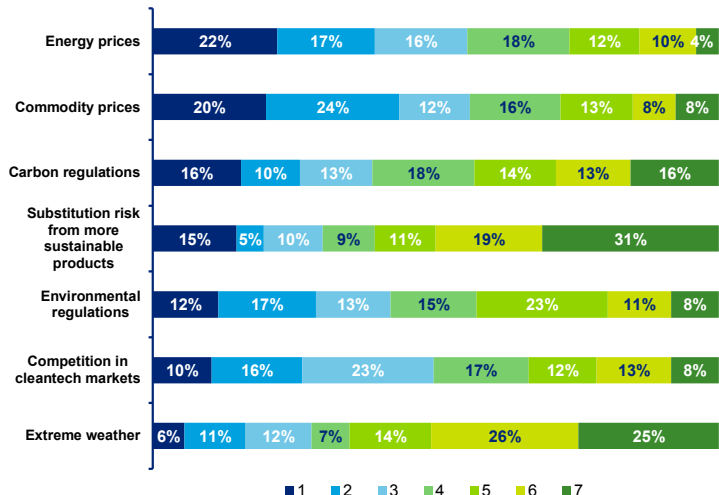


Areas to watch

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On the risk front, energy and commodity price volatility and availability remain top of mind. CFOs also continue to be concerned with assessing sustainability compliance risk – and are increasingly concerned with assessing sustainability supply chain risk. In 2012, much as in 2011, CFOs were most concerned about risks deriving from energy prices (22% rating this a “very significant risk” compared to 21% in 2011) and commodity prices (20% rating this a “very significant risk” compared to 19% in 2011). In both 2011 and 2012, nearly three-fourths of CFOs planned to assess sustainability compliance risk (74%). Interestingly, as supply chain pressures mount worldwide, 65% plan to assess sustainability supply chain risk, compared to 56% in 2011.

In the next two years, how significant will the following risks be to your firm’s financial performance? (Rank 1 to 7 with 1 being most significant)

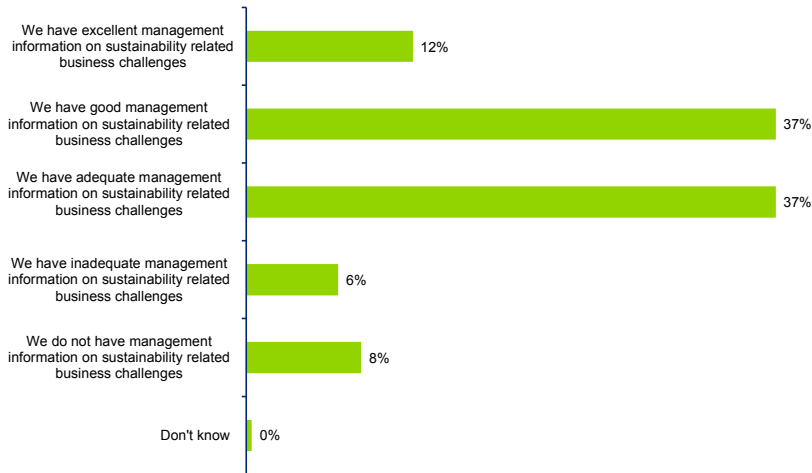


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Superior sustainability information is still somewhat elusive for CFOs.

Only 12% of CFOs believed they had “excellent” sustainability information. 37% rated their information “good,” with an equal percentage calling it only “adequate.” 14% said they had either inadequate or no sustainability information at all.

How would you describe the management information you receive on sustainability related business challenges?

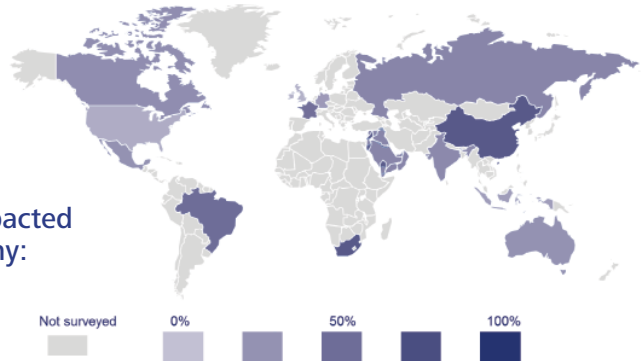


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Which CFO audience has become increasingly concerned with sustainability in 2012? Employees.

39% of CFOs believed it was “very important” to communicate about sustainability to employees, **versus 23% in 2011.**

Percentage of CFOs noting that financial reporting has been impacted by sustainability at their company: BRICs + South Africa in the lead



In their own words: CFOs on the central role of sustainability

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Brazil

If we do not follow [sustainability] best practices we will never be able to be the best supplier in our industry. We must be on the same track as other big organizations.

France

To keep up with the current competition it is important to keep on investing in sustainability... eventually it can help us gain a competitive advantage.

South Africa

To be profitable going forward we have to invest in sustainability. It's not an option but a necessity. If this is not done the organization will not be able to survive in future years.

”

So what does this all mean for companies?

Robust data and analytics — verifiable sustainability information enables informed and sound sustainability decisions.

Most CFOs were disappointed in the robustness and usefulness of the sustainability data they were receiving, yet recognize the importance of this data in successfully managing business performance. Savvy CFOs should get involved in deciding relevant business metrics as a part of their financial transformation programs ensuring data is business relevant. CFO need to examine data sources, management information systems, and reporting to all of their key audiences to make sure the right analysis is being performed – and conveyed to an increasingly conscious array of audiences, internal and external including investors, the board, their people and civil society.

Resource management is key to performance and risk minimization.

As this year's results show, engaging with issues such as energy management (which have the potential to provide palpable competitive advantage if handled properly) is becoming the normal course of business for many CFOs. Bringing a similar scrutiny to less well understood – but equally potent – issues such as water, essential raw

materials and land management can also provide new opportunities and help diminish risk. Similarly, while CFOs don't have to become technology experts, understanding the full range of Cleantech solutions available to address resource problems can be a game-changer. More CFOs (26%) rated "investment in Cleantech products" as a "very important" initiative than any other – those who don't explore this avenue risk being left behind. CFOs should also look to understand risks for these key resources such climate impact and weather risks and price increases due to increasing competition for diminishing resources.

Don't be afraid to transform. Your employees are ready. The substantive bump in perceived employee consciousness of sustainability from this year's survey is good news for CFOs. As they continue to strategically remake the finance function into one deeply conscious of business's impact on the wider world, they are increasingly surrounded by those who embrace this imperative. The companies that truly make good on this promise stand a good chance of progressing with momentum into the economy of tomorrow.

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