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Finance for a sustainable future
Evolving Enterprise Performance Management

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Expanding Enterprise Performance Management (EPM) to embrace sustainability is a natural evolution—one that appears to be happening fast. For finance organizations, understanding the “what” may not be complicated.

But then comes the “how.”

Sustainability is a growing and more urgent priority around the world—culturally, operationally, and as a focus of regulation. As sustainability grows from what used to be a niche concern into a way to move the needle on enterprise value, the work of quantifying it is becoming part of an organization's core plan of action. That means incorporating sustainability into the practice of Enterprise Performance Management.

Enterprise Performance Management

EPM is the ongoing, integrated practice of setting, monitoring, and measuring enterprise objectives against business performance, informing decision-making that advances organizational strategy at scale. EPM can encompass planning, budgeting and forecasting, profitability and cost management, analytics, and management reporting—disciplines that can help define an organization's vision, inform its decisions, and track its progress.

Historically, EPM has been focused on the financial health of an organization—revenue and sales growth, profitability, working capital, and more. As sustainability commitments are evolving the definition of business performance, EPM practices, too, should evolve. EPM can help transform sustainability from a worthy idea into a tangible business activity—an arena in which not only carbon footprints and greenhouse gas (GHG) emissions are quantified, but also commitments to diversity, equity, and inclusion; stakeholder engagement; and new value streams are as well. EPM should expand to have broader organizational implications, provide a pulse on the overall business health, and inform the path to a sustainable future.

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Why evolve EPM now?

What's driving this? Multiple factors, from multiple directions. Customers, shareholders, and employees value sustainability more strongly and increasingly demand it of every organization.[1] For regulators, these demands are expressed in line with prescriptive frameworks such as the Corporate Sustainability Reporting Directive (CSRD) in the EU, the International Sustainability Standards Board (ISSB) globally, and others.[2]

As important as regulation and reporting is, leaders who focus only on the blocking and tackling of those tasks may miss a larger opportunity—one that emerges from the very capabilities that make compliance possible. The choices they make to address external reporting requirements can also guide and equip them as they evolve their EPM processes, people, and technologies.

These new priorities have the potential to reshape value chains up- and downstream. In your value chain, new opportunities will likely arise. Being able to anticipate or even lead on those opportunities could be a distinct advantage. With similar expectations coming from many directions at once, and with both costs and benefits potentially at stake, folding sustainability into EPM may no longer be a choice.

This is a job for finance.

Is sustainability a finance concern? The logic is clear: Since the CFO is responsible for translating the organizational vision, strategies, and activities into financial terms, it follows that is the leader who should also measure and drive performance on emerging sources of value presented by sustainability. Finance should lead the way in evolving EPM to include sustainability and, when it does, the CFO will likely be better able to guide business decisions that achieve sustainability ambitions.

This responsibility aligns with the **"four faces of the CFO"** – Strategist, Catalyst, Operator, and Steward. Embedding sustainability into EPM is likely to help the CFO carry out each of those roles.

Strategist

Influencing the future strategic direction of the organization with insights that help align business, financial, and sustainability strategies to grow the business in a way that is not only coincident, but also consistent, with meeting social impact expectations.

Catalyst

Embedding sustainability and climate considerations into cost of capital, investment decisions, and capital allocation processes can stimulate and drive the change needed throughout the organization to help achieve sustainability commitments.

Operator

The CFO can drive efficient, effective, and integrated processes that include sustainability performance—from managing carbon accounting to climate risk scenario planning to strategic planning and financial forecasting. This integration can make it easier to measure the two-way relationship that connects sustainability progress to enterprise value.

Steward

It may be the CEO who gets to hold a press conference announcing the goal to, say, be carbon-neutral by 2050, but it's the CFO who guides the rest of the C-suite in how to fund that goal and in what ongoing decisions and compromises may likely need to be made.

Sustainability has gone from a nice thing your business should do to a fundamental thing to do. And for an enterprise to drive fundamental change—and make it count, literally and figuratively—Finance should lead the way.

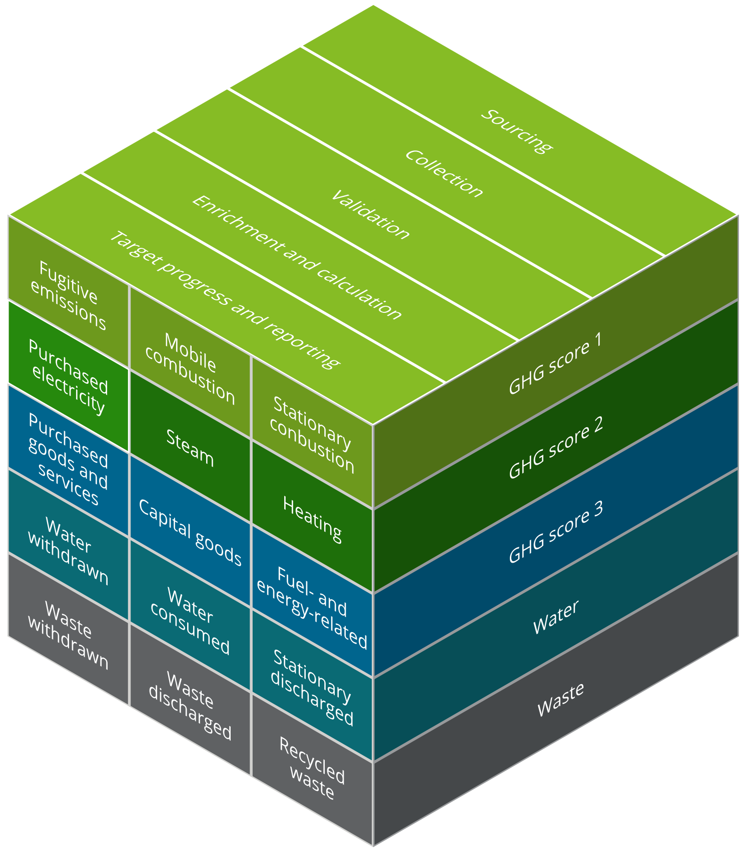
Why folding sustainability into EPM can be difficult

Currently, the idea of doing a comprehensive sustainability report in 30 days is likely untenable for many organizations. There's just too much to process. Consider only one sample variable: tracking the use of jet fuel. A global company might receive some of its fuel invoices in imperial gallons, or US gallons, or liters—and all that must be reconciled before it even begins to address the different currencies involved. And that's only one example. Sustainability requires the use of a common language that could cover hundreds or even thousands of data categories.

Let’s take another example. What if your organization has set a goal to move to 100 percent renewable energy sources? How does this manifest in your EPM processes for purchasing electricity?

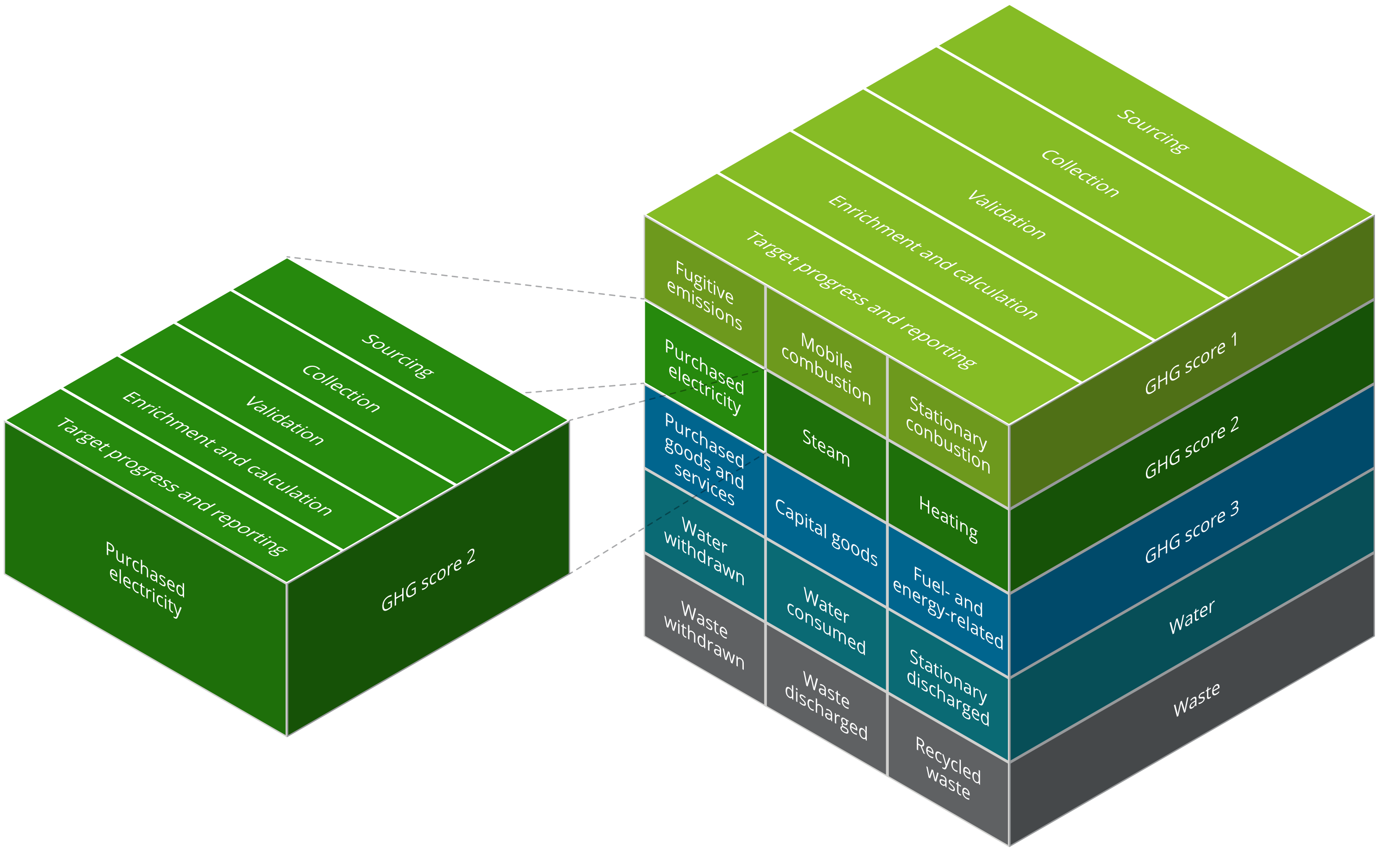
First, you need to understand current energy consumption, identify improvement opportunities, allocate investment to purchase renewable energy, set metrics and key performance indicators, monitor and report on progress, and provide insights to drive ongoing decisions and continuous improvement. Easy, right?

In theory yes, but in reality, no. Data on your organization’s energy consumption is likely trapped in disparate sources. Maybe it’s on a paper invoice. Maybe it’s a transactional entry in an enterprise resourcing planning (ERP) system. And the information you collect may not be complete (or accurate), so you’ll likely need to validate and enrich it. There may be multiple stakeholders—procurement, manufacturing, facilities management—with differing views on how to measure energy consumption and track progress; so you should align those perspectives and win organizational buy-in.



Weighing progress against this sustainability goal isn't a stand-alone job; you should balance it against other organization objectives—which you likely won't be able to do if sustainability considerations aren't embedded in your EPM processes and technologies, from an ERP to purpose-built EPM solutions.

So again, it's not easy. But likely to be well worth it if all of this helps your organization navigate complexity, unlock decision-making insights, and weigh the compromises that may await you along the sustainability journey.



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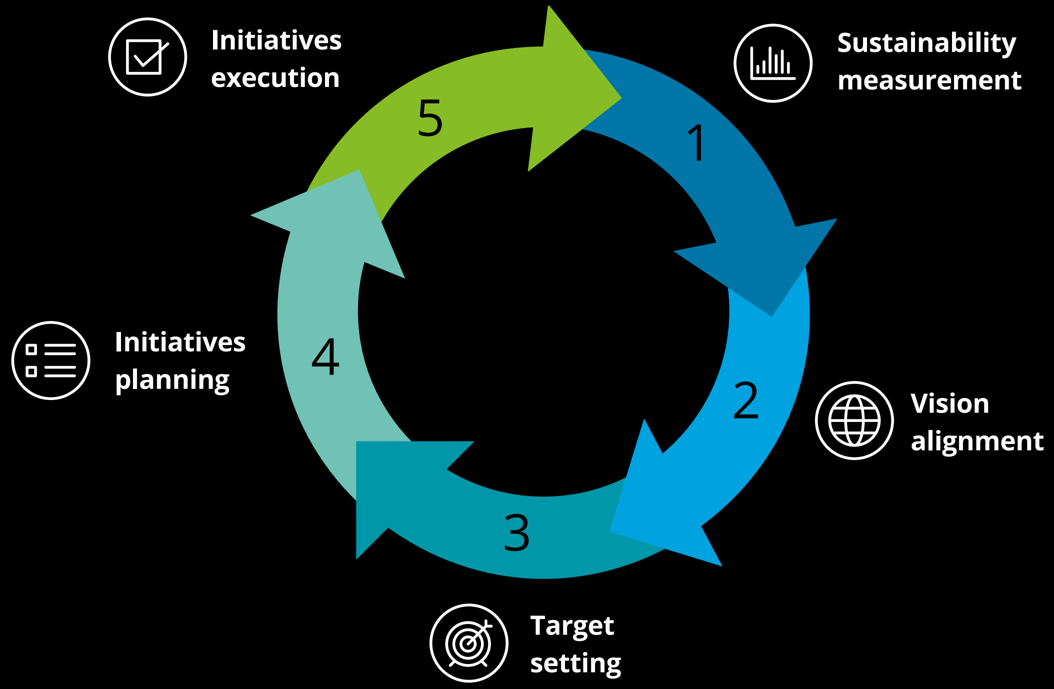
5 steps to managing sustainability reporting

The process begins with understanding the requirements and setting up key performance indicators (KPIs) to monitor and report enterprise, social, and governance (ESG) compliance, aligning on the visions and target goals, planning, and executing various initiatives. This process continues reiteratively basis a monitoring and feedback loop.



1. **Sustainability measurement**
   - Set up/refresh ESG KPIs and metrics baseline
   - Track initial state/initiative progress
   - Disclose ESG metrics internally and externally
2. **Vision alignment**
   - Research on the industry trends
   - Identify the key focus areas
   - Document the ESG vision statement
3. **Target setting**
   - Set financial and non-financial goals for ESG metrics
   - Work collaboratively and assign responsibilities
4. **Initiatives planning**
   - Plan initiatives to align with vision
   - Set up data generation process
5. **Initiatives execution**
   - Leadership support on the agenda
   - Clear messaging across the organization
   - Monitor deviations and take corrective steps

Previously, a sustainability team might choose the metrics that mattered to it. Now, companies will be required to report on other parties' terms—regulators, investors, customers, and employees. That will generally take a broader view, more resources, and more people.

Sustainability uses many of the same muscles as financial metrics. From the carbon footprint of a single SKU to M&A prospecting and integration, sustainability calls for huge new volumes of data. The data models and attributions it takes may be challenging if working across multiple ERP systems.

It isn't only platforms that should align. So should teams. The people who know procurement may not know the core ERP. The people who know sustainability may not know the application architecture. Putting the required data into the system may require someone conversant with the ledger. And it all should flow through a reporting team. All of this will likely require new connections and new teamwork. It will generally be up to finance to turn it all into a clear, single narrative. That team already has many of the required capabilities, so it should be well-positioned to find the balance among new and old roles.

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Fitting a new job into an existing structure

To meet the challenge of integrating sustainability within EPM, it can help to break the problem into its main components—and also to see it along a timeline.

This is often a multi-horizon journey in which organizations will likely expand and improve capabilities over time, especially as it relates to tracking and aggregating data, informing and mobilizing initiatives, and understanding and measuring the impact of different sustainability efforts. A systematic approach can not only help tame the large data and technology needs that lie ahead, but also steer the organization toward a true “green balance sheet” that satisfies strategic needs as much as it serves reporting requirements.

There appears to be a greater emphasis on accountability and transparency by employees, shareholders, and stakeholders, and EPM can help address those demands. When these components all come together, they can help answer the challenge of internalizing sustainability as a new dimension of business performance.

A few key steps to consider include:

Identify and place the right accountabilities

Translate the ESG strategy (your targets, goals, both public and internal, and both mandatory and voluntary) into a KPI framework mapped to your enterprise structure, and get those metrics embedded in your organization.

Put necessary structures in place

Existing value case frameworks, decision and priority matrices, and existing charts of accounts and data dictionaries should be redesigned or even rebuilt so that sustainability data can be integrated effectively.

Integrate sustainability-related risks and opportunities to decision-making

Identify, assess, quantify, and control sustainability-related risks. Qualify, model, and mobilize for new opportunities.

Include sustainability in your core “decision rituals”

Robust risk and opportunity (R&O) processes and policies apply to sustainability just as well as traditional performance management. This means identifying, assessing, quantifying, and controlling risks.

To deliver effectively on sustainability EPM in ways that drive planning and value in addition to measuring and reporting, a finance team should take an active role in shaping data access, ERP requirements, and infrastructure. Think about the data journey of a single SKU—including the externalities associated with it, its carbon footprint—multiplied by every SKU and operational program. As in many other settings, having data is just a precursor to determining where it’s housed, who has access to it, and how the company’s systems use it. Finance does this now with data it’s familiar with. It should take just as broad an approach in this new category.

A few core enablers should be in place:

Processes and policies

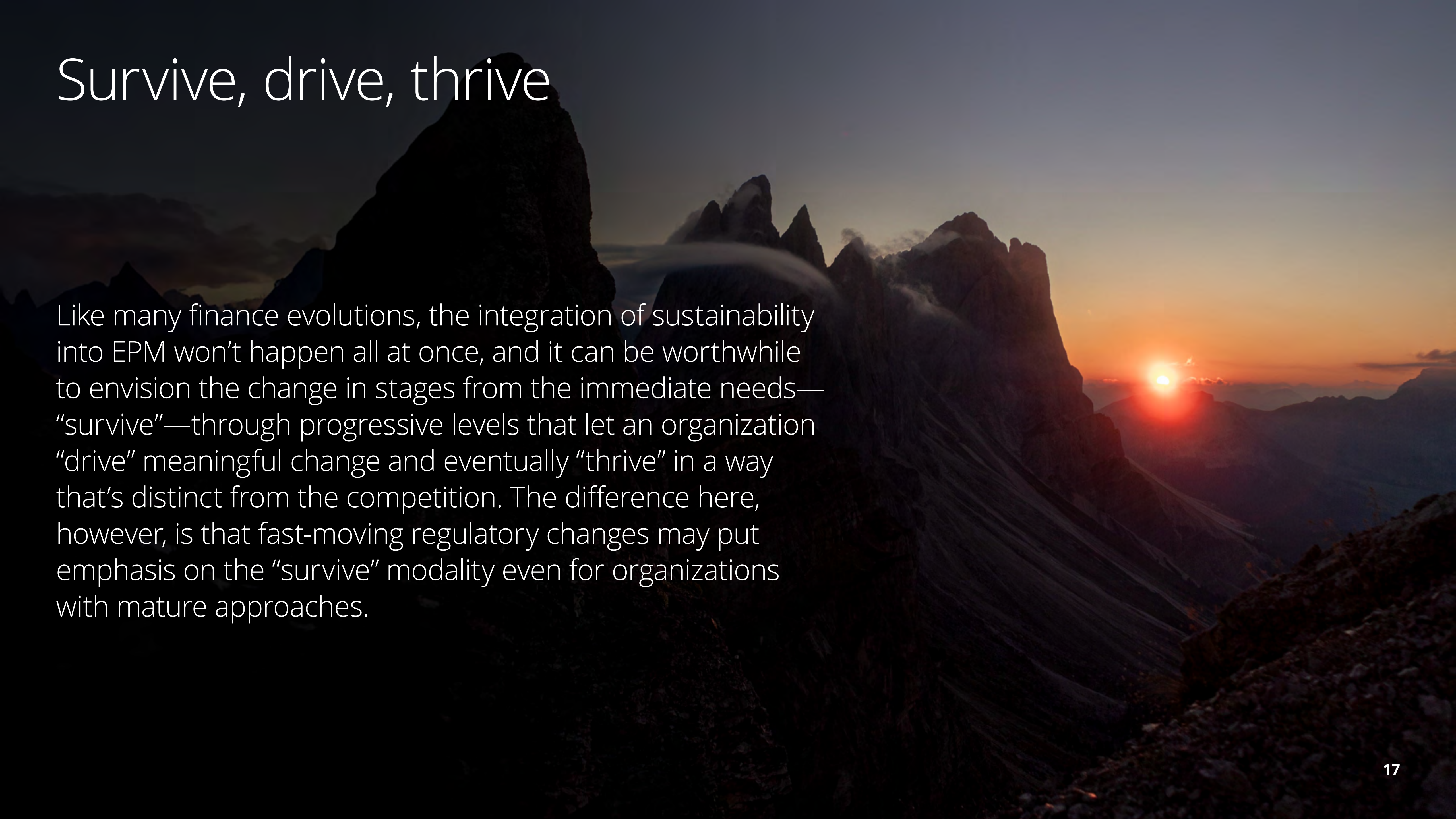
Identifying the real operational levers to turn performance decisions into effective operational changes on a day-to-day basis, and providing clarity on ESG-related policies and accounting methodologies can be important in order to evaluate performance and variances in comparable ways. An ESG accounting manual could come in handy here. Do you have one?

Organization readiness

Identify how to organize Finance around sustainability, looking at new roles and responsibilities or updating traditional ones, and focusing on upskilling the fFnance organization and their stakeholders in the business.

Data and technology

Navigate the technology landscape and define an appropriate strategy to integrate sustainability requirements in the finance systems and data landscape, while also bringing sustainability data up to the appropriate quality for decision-making. Many of you may be already implementing or considering a new finance system or data implementation—have you considered ESG requirements in your future scope? Proactive thinking now could potentially mitigate a lot of reactive spending later.



Survive, drive, thrive

Like many finance evolutions, the integration of sustainability into EPM won’t happen all at once, and it can be worthwhile to envision the change in stages from the immediate needs—“survive”—through progressive levels that let an organization “drive” meaningful change and eventually “thrive” in a way that’s distinct from the competition. The difference here, however, is that fast-moving regulatory changes may put emphasis on the “survive” modality even for organizations with mature approaches.

Survive

The urgent aspect of “survive” mode is likely to command attention even from more mature organizations: the array of new US and European regulations that are on the horizon. Even “survive” mode—target-setting with “must-haves” while leaving “may-haves” for later—may be a huge stress.

Prioritizing required updates to data collection and reporting structures is likely to be important. Some regulations may require limited assurance as part of climate reporting at this stage, with reasonable assurance set to phase in later. At this maturity level, finance could be a sustainability “verifier” charged with putting the company’s sustainability performance into focus and giving transparency and credibility to the effort.

Likely capabilities that correspond to this stage:

- Facilitate reporting in compliance with ESG regulations, often by consolidating ESG data for disclosure.
- Translate ESG goals into measurable business objectives and cascade targets down the organization.
- Integrating ESG metrics and validations into financial reporting processes.
- Measure, monitor, and report on corporate footprint (carbon, water, pollution, etc.).

Surviving in this manner often calls for managing thousands of new data elements, sometimes in very rapid reporting cycles. If that’s the minimum, are you there yet?

Drive

Companies that are confident in weathering the initial push to satisfy reporting requirements can start to build sustainability considerations and metrics into places where it is not immediately required. At this stage, what used to be two separate mandates—sustainability and core strategy—should begin to show signs of merging. A “driving” EPM approach generally embeds sustainability as more than a cost. You should look to begin to get something out of the effort that’s valuable according to your business model.

By now, there should be finance team members dedicated to sustainability, and they can help define and track new KPIs and perform internal and external reporting that goes beyond what’s formally required—keeping EPM principles in focus as they de-silo their reporting capabilities, include sustainability at the start of budgeting processes, and factor it into employees’ incentive and bonus structures.

This should happen in parallel with a growing awareness of sustainability and acceptance of its importance across the organization. In addition to measuring sustainability progress, finance can function as a sustainability “enabler”—an internal partner to those parts of the business that are operationally involved in climate- and resource-related change. That can include establishing sustainable EPM as a new risk-reward structure and working to manage that risk with equal focus on the upside and downside.

At this stage, capabilities may include:

- Quantify ESG risks and impacts of and on financial assets.
- Define and manage carbon budgets across the organization.
- Define and manage ESG-related performance metrics and reporting.
- Implement integrated reporting systems across ESG and financial data.
- Embed ESG considerations in investment decisions.
- Produce insights from sustainability data.

Themes such as product footprint, corporate footprint, carbon budgets, and integrated reporting are likely to become recurrent in the discussions between finance and business counterparts. They may become factors in business decisions and can be supported by factual data.

Thrive

To help them stand out from the pack, companies should push to finish that "merge" so that sustainability and core enterprise strategy are parts of a whole. Climate and other considerations should be part of the organization's DNA, embedded in each decision and process from end to end. An approach like this can can help to separate merely compliant companies from ones that lead their marketplaces, or even help reshape them.

From investments to performance metrics to reporting, "sustainability KPIs" should not be stand-alone factors. An organization that performs sustainability-informed EPM at this level should be able to close the 'green' books at any time on a "Lights Out" basis, just as it can for pure financials.

Thriving goes beyond reporting. For one thing, finance can have a seat at the company's core regulatory deliberations, not just supply information to support them. Finance can also be the authoritative internal source of insight and strategy on sustainable EPM. Define the end-states from which financial, operational, and strategic decisions will flow. Spotlight the soundest sustainability-related risk-reward bets that most likely give the company an opportunity to stand apart. And exercise leadership in educating people on the value-add aspects of sustainable EPM and set expectations for all parts of the enterprise to meet.

A thriving enterprise with respect to sustainability EPM should be equipped to:

- Stand up and manage a sustainability funding process for ESG initiatives that spans multiple years and performance cycles.
- Set and implement an internal carbon price policy.
- Implement carbon ledgers (and other ledgers such as plastics, pollution, water, etc.), creating one version of the truth and integrating ESG policies in core operational processes such as procure-to-pay, order to cash, etc.
- Embed sustainability into organizational decision-making to balance sustainability and financial impact.
- Run scenario planning and modeling integrating sustainability and future financial performance.

Take the (crystal) ball and run

It’s the comprehensive nature of this change that makes it important not only to see the big picture, but to be able to bring change everywhere it’s needed in a coordinated way. Embedding sustainability into EPM involves all of performance management—including areas such as risk management, human resources, and others. Being able to address each of those areas is a plus. Being able to address them all as part of a single vision can be a source of advantage.

The change is yet another evolution, but it's not incremental. Sustainability is a new use case for EPM—one that calls for a new lens on performance and a new approach to finance leadership. One challenge is to reconcile the ways in which sustainability may appear to contradict the traditional bottom-line calculus.

Another is to understand the ways in which sustainability contributes to enterprise prosperity. What began as a backward-looking assignment—to track sustainability for the sake of reporting on it—is a future-focused discipline that can help steer the organization, not just account for what it's done. A newly attuned EPM approach can generate insights that inform decisions, which could ultimately help to shape the company yet to come.

Of course, these changes to the CFO's role aren't happening in a vacuum. But finance leaders aren't strangers to this kind of change. The wrinkle here is to fold in considerations that may not have felt financial until very recently.

There's a lot of work ahead, but a key decision to make now is whether to do only what you must or everything you can. Tomorrow's leading companies will likely choose the latter path, and it could run right through the CFO's office.

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Endnotes

1. Deloitte LLP, “Insight-Driven Performance: The Future of Enterprise Performance Management,” 2022.
2. Deloitte, “Sustainability regulation: A catalyst for transformation,” accessed January 4, 2024.

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