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# CFO Insights

# Sustainability

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## By Dave Pearson, Christopher Park, and Eric Hespenheide

THIS has been a critical year for sustainability and business. At the Rio+20 Corporate Sustainability Forum in June, more than 1,000 corporate leaders pushed for new regulations and measures to incentivize moves to a green economy.[1] Pending European Union regulations are expected to make certain types of nonfinancial reporting, including environmental reporting, mandatory in the near future.[2] And the International Integrated Reporting Council (IIRC) is putting the finishing touches on its first framework, which is expected to debut in 2013.[3]

Sustainability has obviously arrived on many corporate agendas. And judging from the results of a new Deloitte Touche Tohmatsu

> "Sustainability provides virtual savings at an early stage and can only be made real when well integrated with finance."
>
> — CFO, China

> "All organizations are dependent upon financial performance; financial performance depends on various factors such as sustainability."
>
> — CFO, United Kingdom

Limited (DTTL) study of CFOs, it has also landed squarely on the CFO agenda. In fact, while sustainability may have taken a back seat to dealing with the global economic malaise of the last few years, it has now emerged as a finance priority not just because of regulations and the push for transparency—but because it has been demonstrated to be a valuable weapon in a CFO's cost-cutting arsenal.

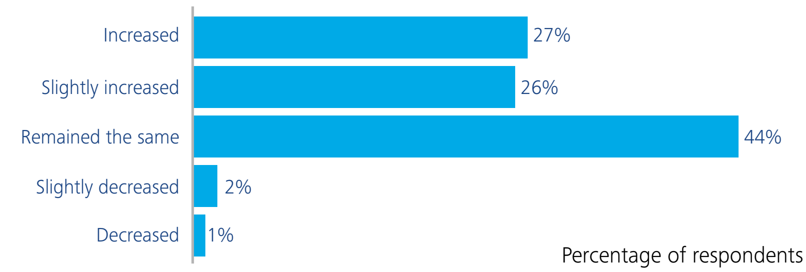
The *2012 Sustainability & the CFO* survey, conducted by Verdantix on behalf of DTTL and its member firms, found that some 53 percent of the CFO participants say their involvement in sustainability issues has become more pronounced in the last year, and another 61 percent expect their role to increase at least somewhat in the next two years (see figures 1 and 2).[4] Their motivation is clear: 49 percent of the 250 CFOs surveyed—representing companies in 14 countries with an average of US $12 billion in revenue—see a strong link between sustainability performance and financial performance. And in this edition of *CFO Insights*, we discuss why sustainability has made such progress on the CFO agenda and outline how finance executives can extract even more value from their sustainability endeavors.

## Behind the green gains

When the study was conducted a year ago, many CFOs had other priorities—or more accurately, imperatives, such as liquidity and sometimes even survival.[5] And while there is no sole catalyst, there are several forces pushing sustainability to center stage.

For example, given the improved quality of solutions (think highly programmable energy-saving thermostats) and the visible success of early adopters (think Toyota and Johnson

**Figure 1. How has your involvement in sustainability strategy at your firm changed over the last year?**




Source: 2012 Deloitte Touche Tohmatsu Limited study, *The 2012 Sustainability & the CFO survey*

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**Figure 2. How do you expect your role in sustainability strategy to change in the next 2 years?**


Source: 2012 Deloitte Touche Tohmatsu Limited study, *The 2012 Sustainability & the CFO survey*

Graphic: Deloitte University Press | DUPress.com

& Johnson),[6] companies have the tools and the benchmarks for launching sustainability initiatives. At the same time, external forces are demanding that companies and CFOs embrace sustainability. Rating agencies are requiring more information regarding firms' sustainability practices; indexes such as the Dow Jones Sustainability Index and the FTSE4GOOD index seek to rank firms' corporate responsibility standards; and stakeholders, including investors and employees, continue to clamor for more nonfinancial information.

The main driver, however, is economic. In an era of high cash balances and careful investing, CFOs have recognized the benefits of initiatives that can be done with little capital and payback periods of two to three years. And as they strive to maintain margins in a low-growth environment, they are pushing those savings even more: Some 56 percent of CFO survey respondents, for example, are planning investments in telepresence and video-conferencing equipment in the next two years; 55 percent plan to build energy-efficient equipment; and 52 percent specifically cite plans to invest in data center efficiency equipment.

CFOs see further savings in taking a holistic view of sustainability. According to the survey, more than a third of companies have already implemented an organizational transformation in response to sustainability risks, and another 22 percent plan to do so in the next two years. What that means is that companies are trying to develop solutions that will make their business much more resilient going forward. Water use offers many possibilities. One leading manufacturer, for example, is using less water in its finishing process in an effort to guard against climate change-damaging cotton crops. And a major brewer seeking to reduce its water footprint has launched a water stewardship campaign to educate customers and employees in the process.

The implications for CFOs themselves are clear: According to the survey, CFO reporting authority for sustainability has increased from 17 percent last year to 26 percent, and in countries such as Australia (40 percent) and Germany (32 percent), it is much higher (see sidebar, "Sustainability around the world"). Moreover, 66 percent said they were "always" or "frequently" involved in driving execution of sustainability strategy in their organizations, and another 65 percent are involved in forming the sustainability strategy. And given the opportunities sustainability offers for both cost savings and growth, the increased responsibilities offer a bridge between the CFO's steward and strategist roles.

## Risks, stakes, and stakeholders

Where CFOs' sustainability responsibilities will increase will obviously depend on industry and circumstances. But the survey raises some common questions CFOs should be asking at this juncture:

1. **Has my company fully leveraged sustainability initiatives for cost savings throughout the enterprise?** At this point, many companies have picked the low-hanging

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

— CFO, France

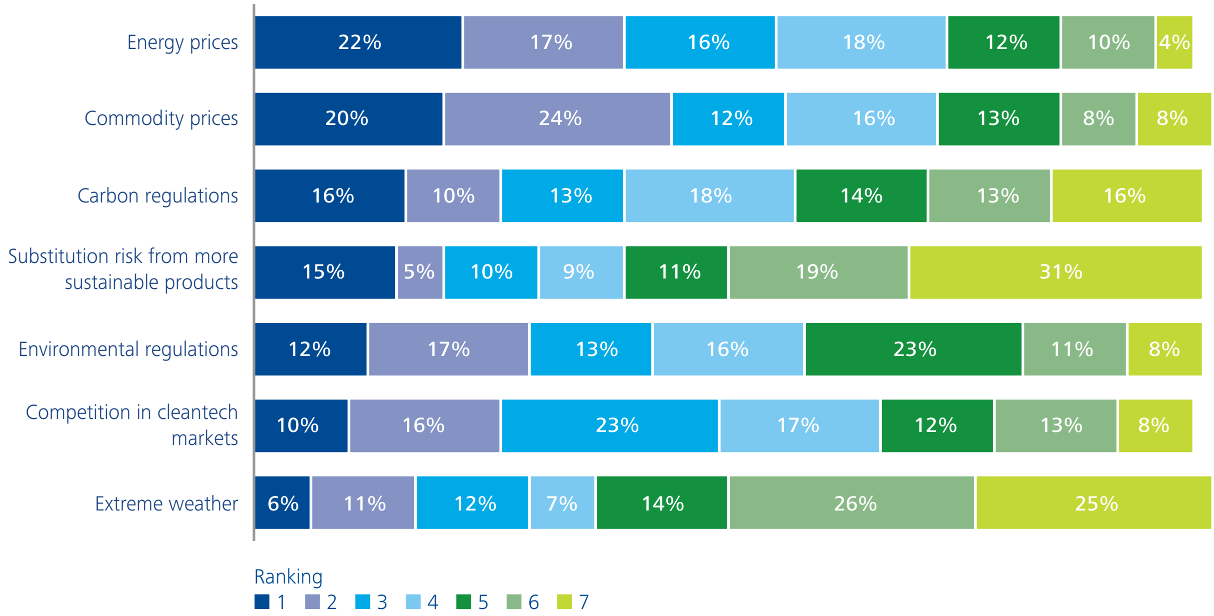
fruit sustainability offers, but savings can still be achieved with programmatic changes such as a comprehensive energy management strategy. In addition, CFOs should ask if the tax implications of sustainability, such as incentives for green initiatives, have been fully explored.

2. **Is my company adequately prepared for the different environmental compliance scenarios that may play out in the coming months?** CFOs are bracing for new rules and regulations on the compliance front, including the new European Union (EU) disclosure rules and the recently implemented carbon tax in Australia. Some 74 percent plan to conduct a compliance risk assessment this year, and 68 percent say that compliance will have either a slight or significant impact on their financial management over the next two years. Given the uncertainty surrounding new rules, particularly in the United States, CFOs would be wise to include scenario planning in those risk assessments.

3. **What can finance do to hedge against such risks as rises in commodity prices and shortages in valuable resources?** Over the past few years, the prices of energy and commodities have negatively impacted corporate profits, and many CFOs expect the volatility to continue. Some 71 percent of surveyed CFOs name energy and resource management as either challenging or very challenging. And when asked to name the biggest risks to financial performance over the next two years, energy (22 percent) and commodity prices (20 percent) ranked highest on a scale of one to seven (see figure 3). What CFOs do to manage that volatility—through hedging, reducing use, technological solutions, and so on—as well as potential shortages, particularly concerning water,[7] could protect against tremendous damage to a company's income statement and balance sheet.

4. **Where do my company's stakeholders stand on sustainability, and are we meeting their expectations?** Shareholder

**Figure 3. In the next 2 years, how significant will the following risks be to your firm's financial performance?** (Rank 1–7 with 1 being the most significant)




Source: 2012 Deloitte Touche Tohmatsu Limited study, *The 2012 Sustainability & the CFO survey*

Graphic: Deloitte University Press | DUPress.com

> "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."

— CFO, South Africa

interest in corporate social responsibility and sustainability continues to increase. Some 78 percent of CFOs acknowledge that it is either "important" or "very important" to communicate the financial implications of sustainability to shareholders. Yet 32 percent said they have no plans to integrate data on energy, environmental, or social issues into their financial reports, up from 20 percent last year. As the liaison to the board, CFOs must balance the push for additional transparency around nonfinancial metrics with the company's ability to identify and measure those metrics, and be prepared to defend—both internally and externally—how the company is accounting for and measuring sustainability risks.

5. **Is integrated reporting a viable option for my company?** Some 2,000 sustainability reports that adhere to Global Reporting Initiative (GRI) guidelines have been produced to date.[8] But in most of the world—except South Africa—integrated reporting is still a voluntary task. Whether more companies choose to disclose using GRI guidelines or adopt the upcoming IIRC framework remains to be seen. While 36 percent say they already integrate nonfinancial data, CFOs will have to decide if adhering to voluntary international standards is worth the time and effort of their finance departments.

## Meeting the sustainability imperative

When you consider the amount of money being invested in sustainable business programs, it only makes sense that CFOs are taking on more responsibility in this area. In fact, according to Verdantix, the total spend on such programs by large companies (revenues of more than US $1 billion) in Australia, Canada, the United Kingdom, and the United States will reach US $60 billion in 2013.[10]

What those figures also give CFOs is the permission to integrate sustainability into their finance agendas. To do so successfully, however, requires the following actions:

- **Gather good sustainability information.** Only 12 percent of CFOs believe they have "excellent" sustainability information, while 37 percent rate their information "good." Savvy CFOs should examine data sources, management information systems, and reporting to key audiences to make sure the right analysis is being performed and conveyed to an increasingly well-informed array of audiences, both internal and external.

- **Evaluate your resource use and the full array of solutions.** Energy management seems to have become the normal course of business for many CFOs, as fewer are naming it "challenging" or "very challenging"

## SUSTAINABILITY AROUND THE WORLD

The DTTL study interviewed finance chiefs in 14 countries and found a world of difference. Some of the specific variances include:

1. **Australia.** In Australia, thanks to a growing commitment to the GRI, Australian CFOs are becoming well versed in sustainability efforts. In fact, in the last two years, the number of GRI reports in Australia has almost doubled.[9] Little wonder that according to the survey, some 40 percent of CFOs are accountable to their boards for their company's sustainability strategy; 40 percent are always involved in driving the execution of that strategy, while 30 percent are frequently involved; and in the last year, 80 percent say their sustainability involvement has increased at least slightly.

2. **China.** It seems the official Chinese attitudes toward and commitment to sustainability may have already affected Chinese CFOs. For example, the current five-year plan calls for dramatic moves to reduce fossil energy consumption, promote low-carbon energy sources, and invest in a sustainable future. That may explain why 54 percent of the Chinese respondents say their involvement in sustainability strategy has increased in the last year at least slightly, and another 54 percent expect their role to increase even more in the next two years. In last year's survey, none saw themselves as "fully involved" in sustainability strategy and governance, and almost half expected this not to change in the next two years.

3. **Europe.** In Europe, where the EU is readying new legislation that would require non-financial reporting by companies, respondents from France, Germany, and the United Kingdom seem to be bracing for the changes. For example, in both France and Germany, some 48 percent of CFOs expect to see some increase in their sustainability-related responsibilities in the next two years (compared to only 38 percent in the United Kingdom). Still, in the United Kingdom, almost a third of CFOs say they have inadequate or nonexistent management information about sustainability-related business challenges, while the figure is 21 percent in France and just 4 percent in Germany.

4. **Middle East.** Despite the fact that the Middle East is one of the most water-short regions in the world, sustainability does not seem to be a top CFO priority at some companies. In fact, none of the surveyed CFOs report that they are accountable to the board for their company's sustainability strategy, and only 9 percent say that they are always involved in the execution of that strategy (27 percent are frequently involved). That doesn't mean they aren't affected, however. Some 72 percent of CFOs expect sustainability to impact capital raising at least slightly over the next two years, and another 63 percent expect it to affect financial reporting.

5. **South Africa.** With the addition of Russia to this year's survey sample, South Africa now ranks second in the number of CFOs who say they are always involved in driving the execution of sustainability strategy (50 percent). But over the last year, 60 percent of South African CFOs have seen some increase in their sustainability activities, and 73 percent expect to see an even larger increase in the next two years. Driving the increase may be new rules for listed companies on the Johannesburg Stock Exchange that require integrated financial reports that detail environment impact.

6. **United States.** In the United States, where the outcome of the 2012 election could influence the direction of environmental regulations, 60 percent of CFOs expect to become either slightly or significantly more involved in sustainability strategy in the next two years. In the meantime, US CFOs are bracing themselves for expected changes: 84 percent expect a slight or significant impact on compliance, and almost half expect sustainability to affect their M&A activities. In addition, almost 30 percent rank commodity prices as a significant threat to their financial performance and a similar number name energy prices (on a scale of 1-7).

this year. Bringing similar scrutiny to less well-understood issues such as water and land management can also provide new opportunities and diminished risk. Similarly, while CFOs don't have to become technology experts, understanding the full gamut of cleantech solutions available to address resource problems can be a game-changer and is probably one reason 26 percent of CFOs rated "investment in cleantech products" as a "very important" initiative.

- **Leverage the enthusiasm of your stakeholders.** As companies transform based on sustainability initiatives, the changes will be felt throughout the organization. This year's study shows that sustainability has gained quite a bit of traction among employees. In fact, 39 percent of CFOs believe it is "very important" to communicate about sustainability to employees, versus 23 percent in 2011. The substantive bump in perceived employee consciousness of sustainability is good news for CFOs, who can benefit from having a workforce that increasingly embraces the imperative as much as they do.

Today's CFOs are charged with sustaining the enterprise as opposed to the environment. But viewing the CFO's role through the lens of sustainability ensures that a company's long-term economic viability coincides with a balanced view of the environmental impact.

## HOW IRISH CFOS VIEW SUSTAINABILITY

In the second quarter of 2012, the Deloitte Ireland CFO Survey—in conjunction with Business in the Community Ireland—looked at CFOs' views on various aspects of sustainability (see "Deloitte Ireland CFO Survey: Sustainability and the CFO, Quarter 2 2012 survey results").[11]

What is clear is that Irish CFOs are embracing sustainability in a bigger way than many of their global counterparts and are increasingly involved in the management, measurement, and reporting of companies' sustainability programs. In fact, 93 percent of Irish CFOs believe there is a direct link between sustainability programs and business performance. Moreover, 58 percent of CFOs noted that it was extremely important or important for sustainability programs to be part of the CFO's role, with a mere 6 percent of CFOs deeming it unimportant. As one respondent noted, "Sustainability is … simply a matter of common sense and good business."

# Endnotes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# About the survey

The independent, global survey of 250 CFOs was undertaken by Verdantix on behalf of DTTL and its member firms. All the companies represented by the interviewees report annual revenue of more than US $1 billion, and their average annual revenue is US $12 billion. Total revenues of the firms represented by the interviewees exceed US $3 trillion. Interviewees were based in 14 countries (Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Mexico, Middle East, Russia, South Africa, the United Kingdom, and the United States), with a minimum of 10 interviews per country, and represented companies in 15 industries, with a minimum of 9 interviews per industry.

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