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CFO Insights

Sustainability

The sustainability imperative

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By Nick Main, John Marry, Sanford Cockrell III, and Ajit Kambil

WHO could blame some CFOs for letting sustainability slip as a strategic priority? Given the 2008-2010 financial crisis and the continuing global economic malaise, many CFOs have had other priorities—or more accurately, imperatives—in the last few years, such as liquidity and sometimes even survival.

That is not to say CFOs are not keenly aware of the tactical implications of sustainability. According to a recently released Deloitte Touche Tohmatsu Limited (DTTL) study of 208 CFOs globally, finance chiefs know well what sustainability means for their "mainstream" duties. In fact, more than 70 percent of those surveyed expect sustainability to have an impact on compliance and risk management, and more than 60 percent foresee changes to functions such as financial reporting.[1]

Still, the study, *Sustainable finance: Risks and opportunities that (some) CFOs are overlooking*, also found that almost one-third of CFOs (31 percent) indicated they are either rarely involved or not involved in sustainability strategy and governance. (The study was conducted by Verdantix, an independent analyst firm, on behalf of DTTL and its member firms.) In addition, 43 percent of the respondents indicated that they either do not expect their involvement to change or expect it to be reduced over the next two years (see figures 1 and 2).

Given the opportunities for increased revenue and reduced costs associated with sustainability efforts, however, it would appear to make sense for finance to steer the strategic course of their companies' efforts. Moreover, given the risk issues involved in sustainability, CFOs are the logical point persons on these issues, particularly vis-à-vis the board. In this edition of *CFO Insights*, we discuss how finance executives can embrace the strategic imperatives of sustainability.

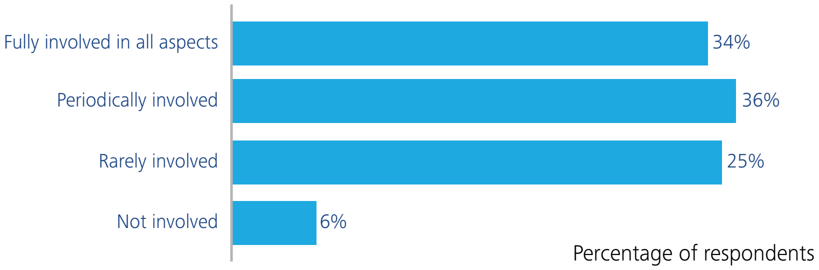
Why sustainability is a CFO issue

The DTTL study points to a need for CFO involvement in setting sustainability strategy. Take the outlook for capital investment in sustainability. Nearly half of those surveyed are planning investments in equipment for increasing energy efficiency, generating on-site renewable energy, or reducing industrial emissions. And when you consider that the total spend on sustainable business programs by large companies (revenues of more than US $1 billion) in Australia, Canada, the United Kingdom, and the United States is expected to reach US $60 billion in 2013,[2] the case for CFO oversight is clear.

The increasing importance of this issue to stakeholders is also not lost on CFOs. In fact, more than three-quarters of survey respondents indicated that it is important or very important to communicate about sustainability to shareholders and institutional investors. And more than half said that sustainability is an important or very important topic of communication with all the stakeholder groups named in the survey, including suppliers, policymakers, and customers.

Moreover, CFOs are embracing their roles as de facto risk officers in the area of sustainability. Nearly three-quarters of those surveyed reported plans to assess compliance and enterprise risks related to sustainability issues, and almost two-thirds plan to assess sustainability risks to physical assets. These findings are encouraging. If CFOs can frame sustainability risks in strategic terms, they can better help management teams mitigate risks and take advantage of the openings that risks can create.

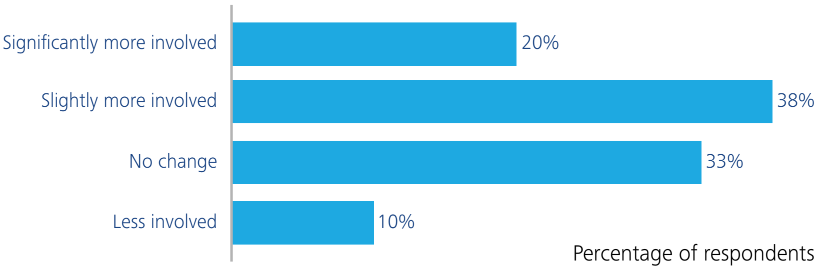
Figure 1. What best describes your current involvement in sustainability strategy and governance at your firm?



Source: 2011 Deloitte Touche Tohmatsu Limited study, *Sustainable finance: Risks and opportunities that (some) CFOs are overlooking*

Graphic: Deloitte University Press | DUPress.com

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



Source: 2011 Deloitte Touche Tohmatsu Limited study, *Sustainable finance: Risks and opportunities that (some) CFOs are overlooking*

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A world of difference

The importance of sustainability to the CFO is not viewed uniformly around the globe. The DTTL study interviewed finance chiefs in 10 countries, including the United States, and the results highlight both industry differences and the impact of country regulations. Some of the specific variances include:

1. **China.** Recently, there has been a striking turnaround in official Chinese attitudes toward—and investment in—sustainability. For example, the current five-year plan focuses on energy and climate and calls for dramatic moves to reduce fossil energy consumption, promote low-carbon energy sources, and restructure China's economy. It may seem possible that these official attitudes will eventually affect

Chinese-company CFOs, but it will take a while. According to the survey, Chinese respondents were least likely to name the CFO as responsible for sustainability strategy (overwhelmingly naming PR/investor relations). None saw themselves as "fully involved" in sustainability strategy and governance, and almost half expected this not to change in the next two years.

2. **South Africa.** Perhaps because of South Africa's King III Code on corporate governance, which recommends that companies create sustainability reports, and new rules for listed companies on the Johannesburg Stock Exchange that require integrated financial reports that detail environmental impact, CFOs surveyed there were most likely to identify themselves as responsible for sustainability strategy and to anticipate seeking external support for integrated reporting (70 percent) and assurance (60 percent). Among the countries surveyed, South African CFOs were the most likely to be fully involved in sustainability strategy (50 percent), to expect to become significantly more involved (35 percent), and to perceive a strong link between sustainability strategy and firm performance (70 percent).

3. **Europe.** The responses of CFOs from France, Germany, and the United Kingdom varied despite their geographical proximity. For example, in Germany, only 24 percent of surveyed CFOs report being fully involved in sustainability strategy, but 32 percent of CFOs in France do, and in the United Kingdom, the number rises to 44 percent. Among those countries, CFOs in the United Kingdom also perceive the strongest link between sustainability strategy and firm performance (40 percent) compared to Germany (36 percent) and France (24 percent).

4. **United States.** In the United States, only 19 percent of CFOs in the survey report that they are accountable to the board for sustainability strategy. But, almost 60 percent expect to become either slightly or significantly more involved in sustainability strategy and governance in the next two years. In the meantime, US CFOs are taking action on multiple fronts to manage the sustainability and climate change risks facing their businesses: In 2011, those intended actions included enterprise risk assessments (84 percent), physical asset risk assessments (77 percent), compliance risk assessments (74 percent), and supply-chain risk assessments (71 percent).

Embracing sustainability strategically

There are recommended actions that CFOs can take to leverage sustainability as a strategic priority, regardless of country or industry. Consider your responses to the following questions:

1. **Have you fully worked through the basics of sustainability management for your finance function?** For CFOs, this means incorporating a sustainability dimension in day-to-day functions such as internal controls (over sustainability information), compliance with tax regulations, pursuit of tax incentives (such as those for green initiatives), and performance measurement and reporting (of financial and nonfinancial indicators).

2. **Do your processes for capital investment and M&A/divestitures anticipate shifts toward a sustainable economy?** Only 29 percent of respondents in the DTTL survey indicated a belief that M&A activities would

be affected by sustainability—indicating a possible blind spot. Deal analysis should incorporate scenarios where energy and commodity availability and pricing vary greatly. In addition, on capital projects, CFOs can expect tougher questions from lenders, many of whom are signing pledges such as the Equator Principles, which oppose the financing of projects that are seen as likely to cause environmental harm.

3. **Do you understand your company's positions in markets linked to the environment?** The prices of energy and materials are experiencing unprecedented volatility. Many companies also have exposures in new classes of environmental commodities: carbon emissions, water, forests, and ecosystems. As markets for these commodities take shape and set prices, the impact to your company's income statement and balance sheet could be enormous.

4. **Do you know what sustainability questions your company's stakeholders are asking—and do you have answers?** More and more stakeholders are making decisions based on companies' sustainability performance, as reflected by the growing market share of sustainability-sensitive investors, the proliferation of codes of sustainable business conduct, and the widening acceptance of voluntary standards for reporting sustainability performance.

5. **Do you have the right team to address this set of crucial emerging issues?** Many sustainability-related duties require specialized knowledge and training. As the heads of sizable teams, CFOs must consider preparations to recruit, develop, and deploy staff members who can carry out both traditional finance tasks as well as tasks that support corporate sustainability programs.

The vantage point that CFOs enjoy within organizations, with visibility into balance sheets, corporate transactions, and the entire business, means that they are positioned to shape strategy as well as carry out core finance functions. In our view, CFOs will increasingly recognize the relevance of sustainability initiatives to their portfolio of responsibilities and seek a greater role in driving those initiatives.

Endnotes

1. Nick Main and Sanford Cockrell, *Sustainable finance: Risks and opportunities that (some) CFOs are overlooking*, Deloitte Development LLC, 2011, http://dupress.com/articles/sustainable-finance-the-risks-and-opportunities-that-some-cfos-are-overlooking/, accessed October 29, 2012.

2. Verdantix, "Verdantix Says The Sustainable Business Market Will Reach A Tipping Point In 2013" [press release], May 19, 2011, http://www.verdantix.com/index.cfm/papers/Press.Details/press_id/53/verdantix-says-the-sustainable-business-market-will-reach-a-tipping-point-in-2013, accessed October 29, 2012.

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About the survey

The independent, global survey of 208 CFOs was undertaken by Verdantix on behalf of Deloitte Touche Tohmatsu Limited. All the companies represented by our interviewees report annual revenue of more than US $2 billion and their average annual revenue is US $17 billion. Total revenues of the firms represented by our interviewees exceed US $3.5 trillion. Interviewees were based in 10 countries (Australia, Brazil, Canada, China, France, Germany, India, 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 10 interviews per industry.

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