

INVOLVEMENT CFOs IN THE SUSTAINABILITY BUSINESS

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Abstract: *This article is aimed on position and function of CFOs in sustainability business. It deals about relevancy and importance of involvement CFOs in sustainability business via mutually beneficial relationship between achievement of financial goals and strategy of business sustainability. Article presents current practice and opinion of CFOs in this issues and discusses about which finance function are key for maximize business value of strategy of sustainable business.*

Key words: *sustainability business, sustainability strategy, role of CFOs*

1. INTRODUCTION

Traditionally, sustainability issues have fallen outside the jurisdiction of the CFO. But they are owner of many competencies which can help successful and effective sustainability strategy. CFOs manage key business processes, such as budgeting, acquisition and allocation of capital, external and internal financial reporting, energy management, which directly affect the achievement of the sustainable business. On the other hand, well designed and implemented sustainability strategy can help CFOs to achieve a lot of financial goals. There are positive correlation between financial performance and sustainability business. Today the CFO, as a leader and key strategic decision maker; and the finance function, as a central department, has important roles to play in sustainability business.

Important question is what should they really do for sustainability business, how can they maximize mutually beneficial relationship between achievement the financial goals and strategy of business sustainability.

2. SUSTAINABILITY BUSINESS AND FINANCIAL PERFORMANCE

Sustainability has evolved considerably over the last number of years. The economic, social and environmental challenges facing businesses today are unlike any that organizations faced in the past. At first, organizations were just trying to be good corporate citizens, focusing on 'green' initiatives which weren't deemed central to the business such as energy conservation. Today 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. [7]

It is increasingly recognized that incorporating corporate sustainability into business makes good business sense and creates unique business value. Benefits of corporate sustainability initiatives include improved company reputation, enhanced employee morale, and

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strengthened competitiveness, amongst others. These factors are reflected to the financial and economic performance by different intensity. [3]

Correlation between sustainability and financial performance is issue for many years, next figure compiles the results of 159 studies (from 1972 to 2008). Most of the studies are drawn from academic sources (128 articles) and 31 come from the practitioner literature. Results from these studies show a positive relationship between sustainability and financial performance (63%).

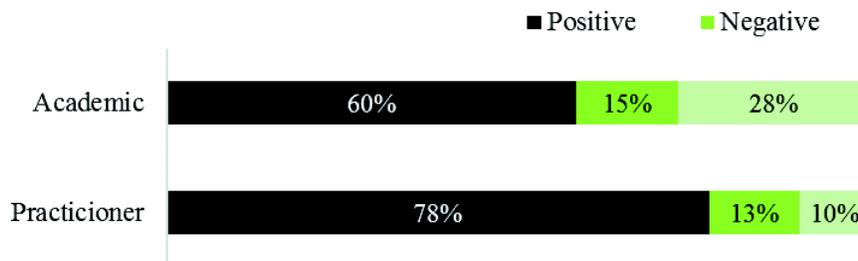


Figure 1: Correlation between sustainability and financial performance [8]

These historical studies confirm more actual research (2014) - interviews of 150 sustainability leaders at UK firms across 20 industry sectors. One of question was “How important is sustainability to the financial success of your firm” and 51% of respondents answer “Sustainability describes energy, environment and sustainability factors that will impact our firm’s financial performance in the next two years”. [2]

Relationship between sustainability business and financial performance is recognized as real and intensive by CFOs in practice too. Deloitte conducted survey (2012, 2013) [5], respondents were 250 CFOs, Finance Directors or equivalents from 15 different industries and 14 different countries (5 continents). 84% of surveyed CFOs have recognized a direct link between sustainability business and financial performance of the enterprise.

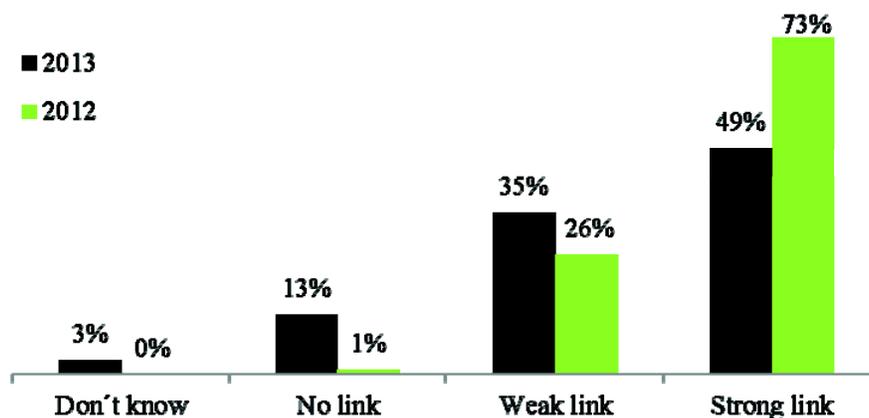


Figure 2: Relationship between sustainability and financial performance by CFOs [5]

One question in this survey was aimed on identifying specific areas of financial management directly affected by the implementation of sustainable business initiatives. CFOs marked the

most affected areas: risk management, compliance, and financial reporting (every from these areas 66% in 2013). Other financial aspects influenced by the implementation of sustainable business strategies can see in the following graph.

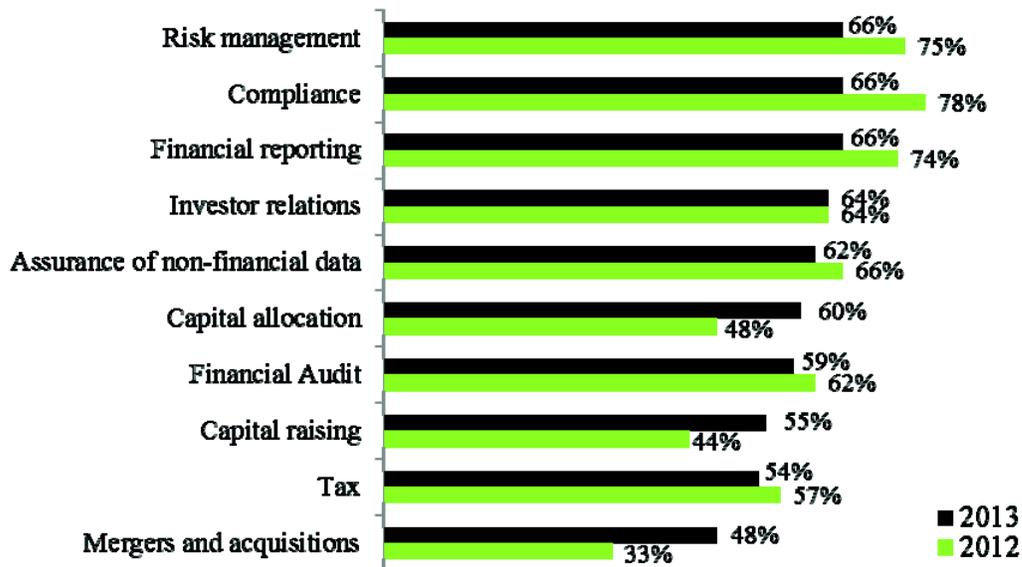


Figure 3: Impact of sustainability on aspect of financial management [1]

3. CURRENT SITUATION OF CFO'S PRACTICE IN SUSTAINABILITY BUSINESS

Company Ernst&Young made a research (2011) [6] about the integration and importance of CFO in sustainability. According to this survey, about one in six respondents (15 %) said their CFO was "very involved" with sustainability, while 52% said the CFO was "somewhat" involved. This means that about 65% of CFOs are now engaged in sustainability.

A year later (2012), Deloitte conducted a similar survey [5] with 250 CFOs from around the world (14 different countries, 5 continents): "What best describes your current involvement in setting sustainability strategy at your firm" Only 3% of surveyed CFOs responded that they have never been and currently are not even engaged in this topic.

Deloitte repeated this survey a year later (2013) with the same sample of respondents. The main aim was to determine annual changes in the actual and expected involvement of CFOs in the issue of sustainability business. The number of CFOs engaged in the all sustainability business significantly increased (from 27% to 43%) during the monitored annual period. Other annual changes can see in the following graph.

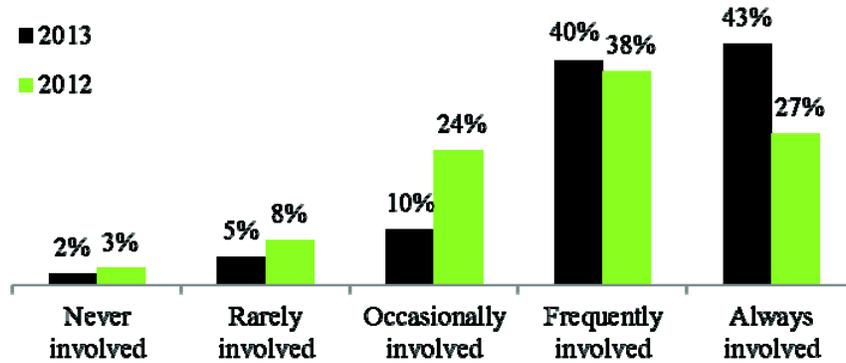


Figure 4: CFO's involvement in sustainability strategy [4]

Next field of this survey was CFO's expectations of changes in their roles of sustainable business strategy during the next two years. 61% of surveyed CFOs expected increase their commitment to sustainable business strategy (2012). A year later (2013), the expectations increased again - 80% of surveyed CFOs predicted a rise in their commitment to sustainable business strategy during the next two years.

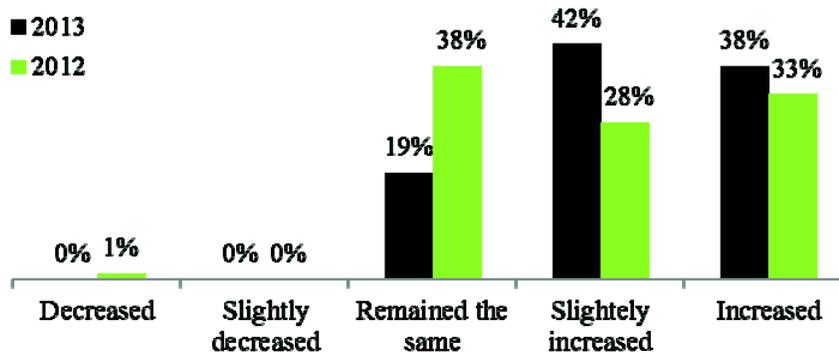


Figure 5: Expectation changing the CFO's role in sustainability strategy [4]

4. FINANCE FUNCTION IN SUSTAINABILITY BUSINESS

Organization CIMA created report (2011) [1] which deals about role of CFOs in sustainability performance management based on two researches – Accenture (85 respondents) and CIMA (883 respondents), together 968 respondents. This report describes CFO's opinion on the tasks within their competencies which are relevant and important for achievement sustainability business. These tasks are divided into "led" and "assisted". Results of these researches can see below.

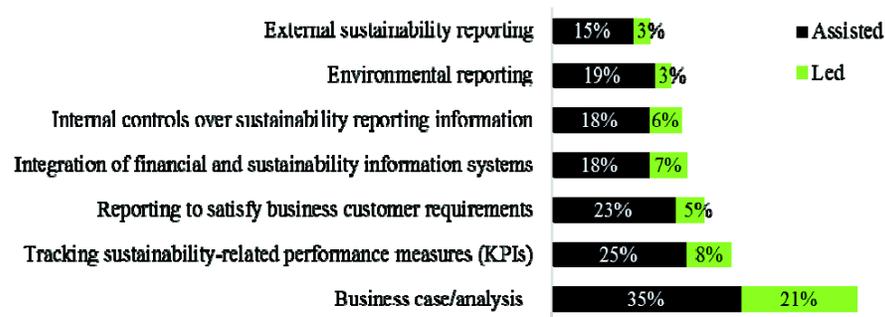


Figure 6: Finance function involvement in sustainability business [1]

This research find out that CFOs and the finance function can provide the impetus required to maximise business value of strategy of sustainable business, they should take the following steps: [1]

1. Make it strategic, not just tactical - finance has the skills and ability to support the business to ensure sustainability initiatives are strategic rather than tactical in nature.
2. Apply a financial mindset - link sustainability to business performance - CFOs and the finance function have unique skills and knowledge which can help define the business case for sustainability strategies and initiatives.
3. Use the right metrics, consistently - finance professionals can identify value drivers within a business and ensure focus on the right set of metrics is maintained.
4. Improve the process of data collection, analysis and reporting - finance professionals bring the rigour and discipline used in accounting to the collection, analysis and reporting of sustainability data. They must however, work closely with sustainability professionals to understand what information needs to be captured and how it is to be used.
5. Integrate with business planning and reporting - CFOs and the finance function are best placed to incorporate meaningful sustainability metrics into business planning and reporting processes.

CFOs who grasp the potential for sustainability to maximize business value for their organizations can play a vital complementary role in the following areas of corporate strategy and execution: [9]

- **Materiality Assessment:** CFOs could explore ways to improve their business by participating actively in assessment of the materiality of sustainability factors. Materiality assessment helps them identify the sustainability-related challenges and the magnitude of their impacts on business performance, which helps focus them on specific areas of improvement. It is one of the things that chief financial officers are increasingly watching, which they may not have been doing before.
- **Risk Assessment:** One of the CFO's chief responsibilities is to assess and reduce long-term risks and avoid unfortunate surprises in the future. CFOs can help their organizations pioneer new ways to evaluate the riskiness of all business investments because of future resource constraints, threats to operational readiness, supply chain disruption, and loss in future value of assets, to name a few. Some CFOs are spending more time and resources understanding and anticipating these hidden financial risks in order to be effective. A sustainability lens presents a new way of looking at forecasts and risks.
- **Data Collection:** As experts in data collection and analysis, CFOs can help their organizations get smarter about how to better collect the sustainability-related data (on

emissions, energy, water, waste, ecosystem dependencies, and ecosystem impacts) that can enhance real-time decision making and strategic planning. Some CFOs already see this kind of data collection as an important part of their own mission. They try to collect of all sustainability-related data from across the business and provide the platform, and guide their colleagues in other departments on data collection and calculation.

- Business Decision Making: CFOs can help develop smarter tools and methods to help business functions better integrate sustainability related costs and benefits often difficult to quantify or monetize into financial analysis and decision making. CFOs have a big role in terms of working with colleagues in R&D, marketing, sales and supply chain to help them translate these sustainability-related factors into decisions relating to the development and commercialization of our products. That's what it all comes down to, trying to help the business as a whole makes better decisions.



Lucia Budinská

PhD student at University of Economics in Bratislava (field of study: Business Management - Financial Management) interested in business sustainability. It is reflected in her thesis: "Sustainability as a key aspect of financial management in the 21st century" aimed to identify and show changes that need to occur in financial management of the company that adopts elements of corporate social responsibility.

5. CONCLUSION

The article demonstrated a positive correlation between sustainability business and financial performance via many actual and historical studies (up to the year 1972). Therefore, it is understandable that sustainability business is over time more and more related with competencies of CFOs.

We presented several surveys relating to current and expected function of CFO in sustainability business. Based on these chosen surveys, it can be clearly noted an upward trend of involvement of CFOs in the sustainability business strategy. The reasonable explanation for these business practices is growing contribution of CFOs to the development and implementation the business sustainability strategy.

Last part of article described the specific functions of CFO in the sustainability business in current practice, the most common are: business case/analysis, tracking sustainability-related performance measures, reporting to satisfy business customer requirements. Involvement of CFOs in this topic is reviewed year to year and they became leader and key strategic decision maker in sustainability business strategy. Therefore, it is predicted their functions will be expanded and intensified in this area.

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