

The CFO Program

The Sustainability Imperative for CFOs 2022 China CFO Survey Report

1st Issue





Dear CFOs,

Deloitte has been regularly collecting and tracking the perspectives of CFOs in various countries and regions since 2011. By gathering and understanding CFOs' views on the business environment, corporate strategy, financial priorities and other critical issues, we provide a useful reference for financial decision-makers. In this most recent [Deloitte China CFO Survey](#), we included the widely discussed topic of 'sustainability'. This allows us to examine the impact of China's 'dual carbon' strategy on different organizations, assess the progress of the companies' sustainability plans, and explore the role of CFOs in driving sustainable development within their organization. Thanks to Deloitte's extensive global network, we are also able to offer insights from a global perspective in order to provide a more comprehensive viewpoint.

Despite the lingering impacts of the pandemic, coupled with multiple geopolitical issues, China maintained a world-leading GDP in 2021. As we enter the second quarter of 2022, uncertainties in the external economic environment have increased significantly. Energy prices have risen, global geopolitical risks have become more intense, and the pandemic situation in China is yet to subside, impacting both the financial markets and the broader economy. As the survey was completed in January 2022, the results do not reflect the significant political and economic events that have occurred since.

Key survey findings:

1. A large proportion of respondents are optimistic about the current economic environment in China and the prospects for their businesses, and many believe that China's economic growth momentum will be stronger than that of other parts of the world, but respondents are more cautious about the outlook for the coming year.
2. The factors of greatest concern for CFOs over the past years have been the recurring impact of the pandemic, inflation, prevailing geopolitical issues, and rising commodity costs. In addition, the tightening of industry regulation in 2021 has raised companies' concerns over policy and regulatory issues.
3. While the majority of respondents believe that sustainability strategies will have a positive impact and most of them have started to implement sustainability-related work, the level of emphasis on sustainable development differs across industries. Traditional industries such as energy, resources and industrials feel the greatest impact from China's 'dual carbon' goals. These national targets also have some impact on financial services and technology, media and telecommunications.
4. With increasing regulatory requirements for climate risk information disclosure, the current responsibility for CFOs centers around the disclosure of financial information related to sustainable development. The expansion of China's green finance market and the increasing demand for corporate carbon emissions audit is expected to broaden the CFO's role in the field of sustainable development.
5. The major challenges that CFOs are currently facing in the area of sustainable development are: a lack of accurate data and information to assist decision-making; the absence of a clear and unified carbon emissions-reduction strategy and accountability system; and a shortage of professional talents.

We appreciate your time in completing the survey and sharing your views with us. We believe that the findings will encourage CFOs to take a more active role in corporate sustainability.

Norman Sze
Vice Chair
Leading Partner of CFO Program
Deloitte China



Key findings

- **Regional economy: More than half of CFOs are optimistic about China's economy**
- **Capital markets: A conservative financing strategy overall; inclined towards equity financing over debt financing**
- **External risks of greatest concern: Changes in government policies and regulations, post-pandemic recovery, and inflation**
- **Internal risks of greatest concern: Cost pressures, inability to drive growth, talent acquisition and retention**
- **Key metrics: Optimism about post-pandemic growth**



Special topic: The sustainability imperative for CFOs

- **Status of sustainable development**
- **CFOs' current involvement in sustainable development**
- **CFOs' challenges regarding sustainable development**
- **The role of CFOs in promoting sustainable development**

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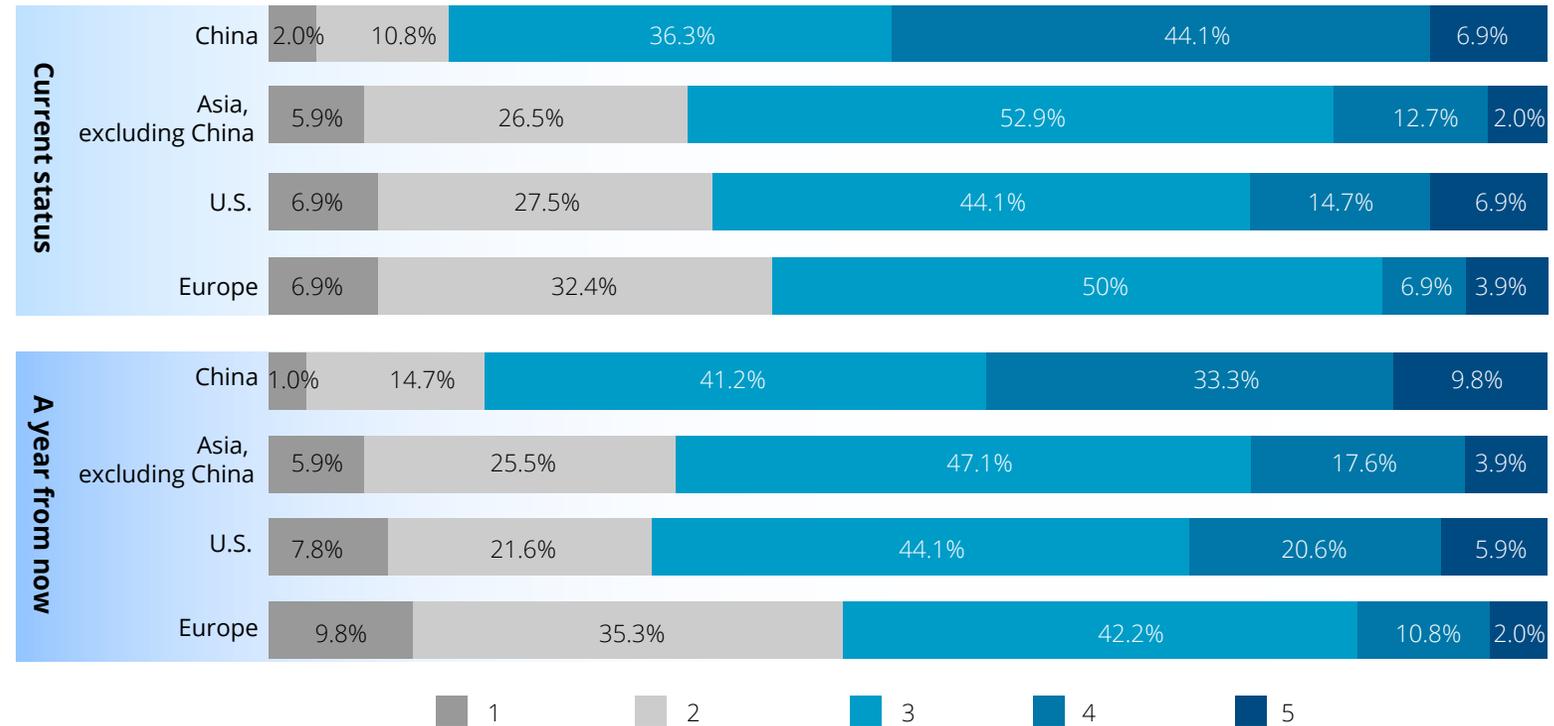
Key findings



Regional economy: More than half of CFOs are optimistic about China's economy

Despite the lingering impact of the pandemic and geopolitics at the start of 2022, more than half of respondents remain optimistic about China's current economic situation. Respondents feel more optimistic about the prospects for China's economic development than they do about those for other economies, with the largest proportion of CFOs holding neutral views on the economies of North America, Europe and the rest of Asia. In our 2021 Q1 survey, most CFOs anticipated that, compared to other regions around the world, China would post stronger post-pandemic economic growth. The same view continued into this year. Furthermore, 43.1% of respondents are confident about China's economic prospects for the coming year. Although this figure is 8 percentage points lower than the share of respondents who are positive about China's current economic condition, it remains far higher than the optimism felt by CFOs about prospects for the rest of the world.

Chart 1: China CFOs' views on the current and future (a year from now) status of the following economies (1 means very bad, 5 means very good)





Key findings



Capital markets: A conservative financing strategy overall; inclined towards equity financing over debt financing

Fewer than half of the respondents think that equity financing is attractive, while an even smaller share find debt financing attractive. Many CFOs hold a neutral view on both types of financing, but respondents find equity financing to be near 16 percentage points more appealing than debt financing.

Chart 2: China CFOs' views on the attractiveness of equity financing

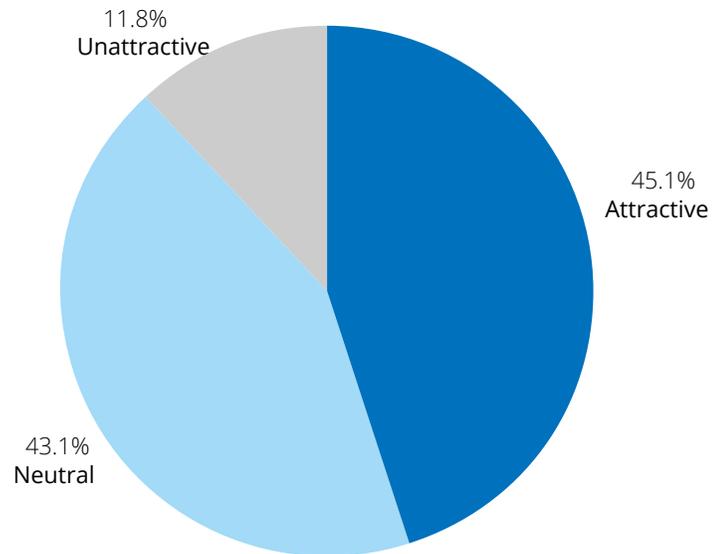
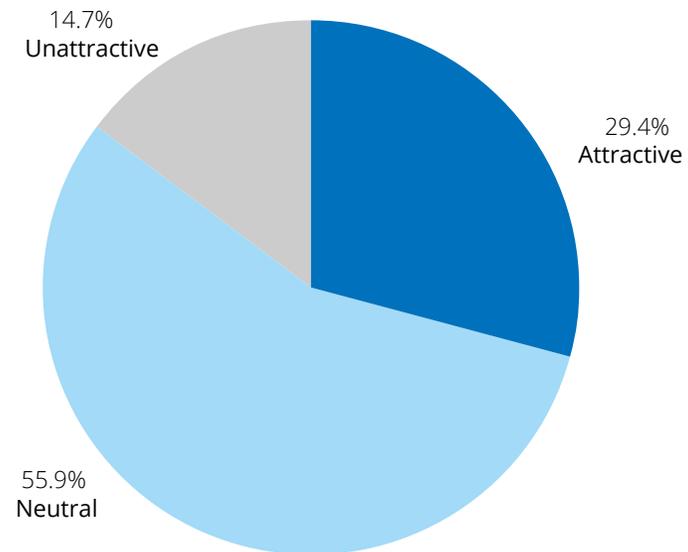


Chart 3: China CFOs' views on the attractiveness of debt financing





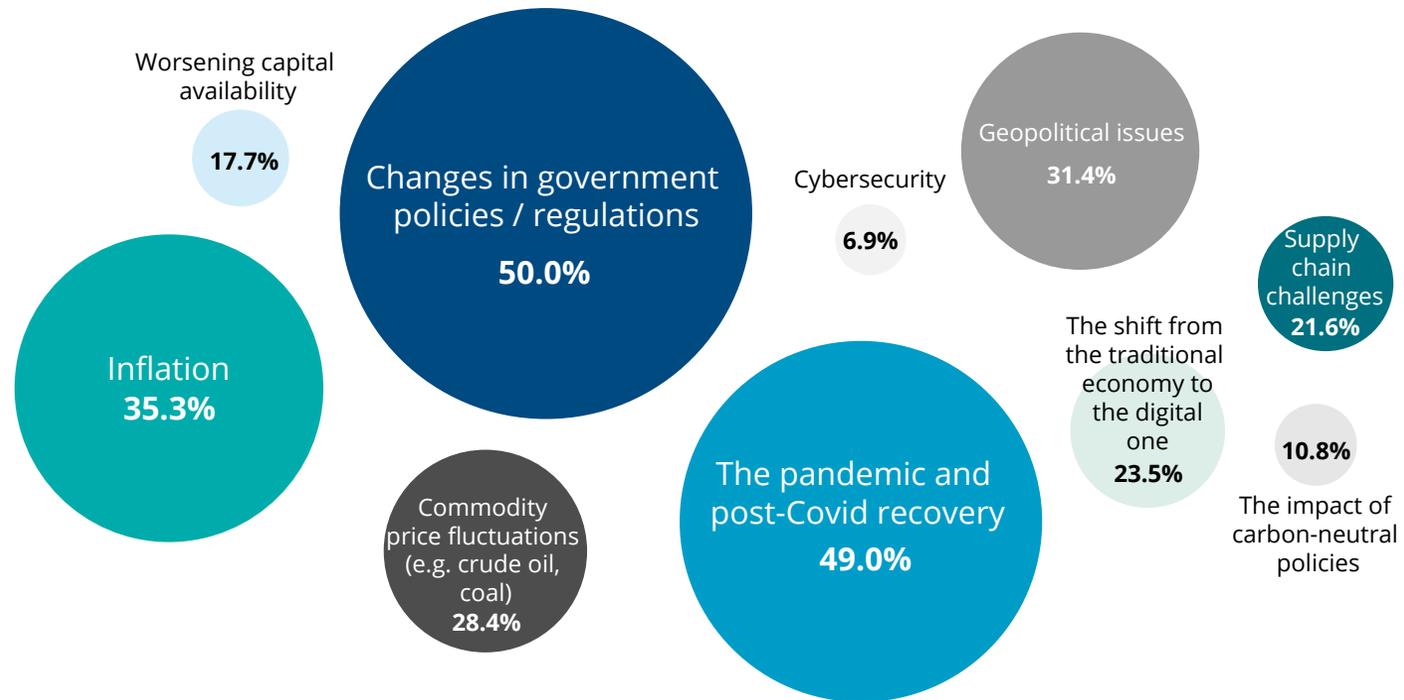
Key findings



External risks of greatest concern: Changes in government policies and regulations, post-pandemic recovery, and inflation

When compared to the previous year’s survey results, the proportion of respondents who are worried about changes in government policies and regulations increased significantly from 27% to 50%. Concerns about the pandemic and subsequent economic recovery, and worries about geopolitical issues decreased by 12 and 8.6 percentage points, respectively, but remained the second and fourth most worrying risk factors among China CFOs. Concerns about inflation and commodity price fluctuations increased by 16.3 and 10.4 percentage points respectively.

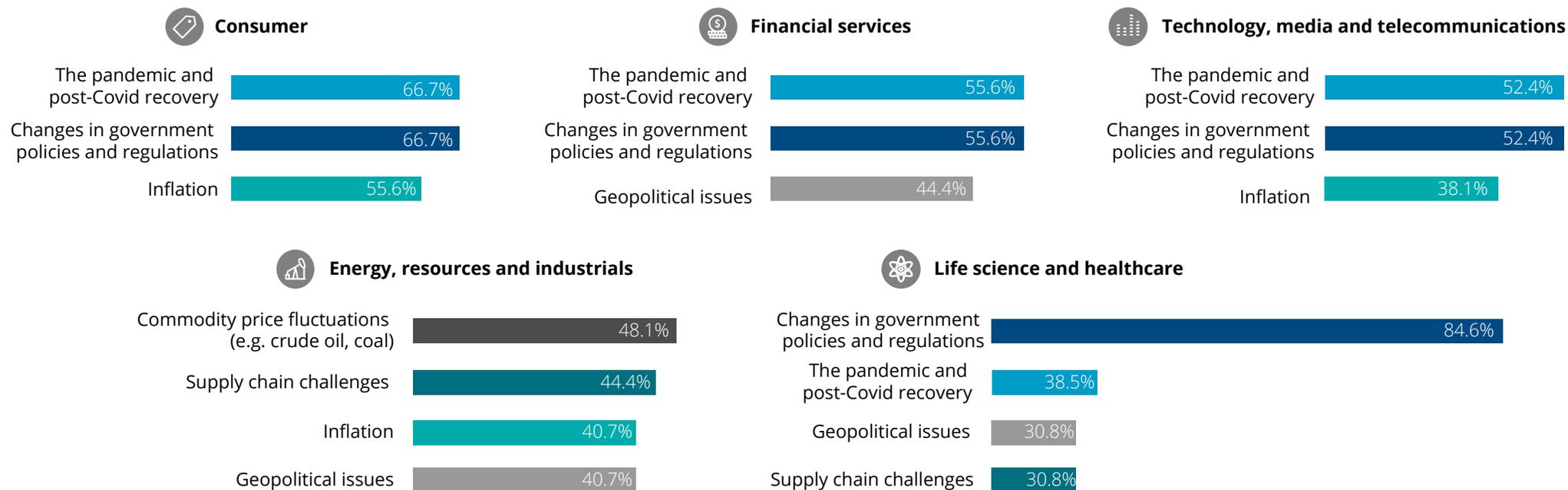
Chart 4: The external risks worrying China CFOs





Analysis by industry shows that government policy and regulatory changes, and the pandemic and subsequent economic recovery are the top two external risks concerning respondents from the life science and healthcare, consumer, financial services, and technology, media and telecommunications industries. In the life science and healthcare industry, nearly 85% of respondents consider government policy and regulatory changes a major risk – a far higher proportion than for other risk factors. Respondents in energy, resources and industrials, on the other hand, are more concerned about commodity price fluctuations, supply chain challenges and inflation.

Chart 5: The external risks that worry China CFOs (by industry)





Key findings

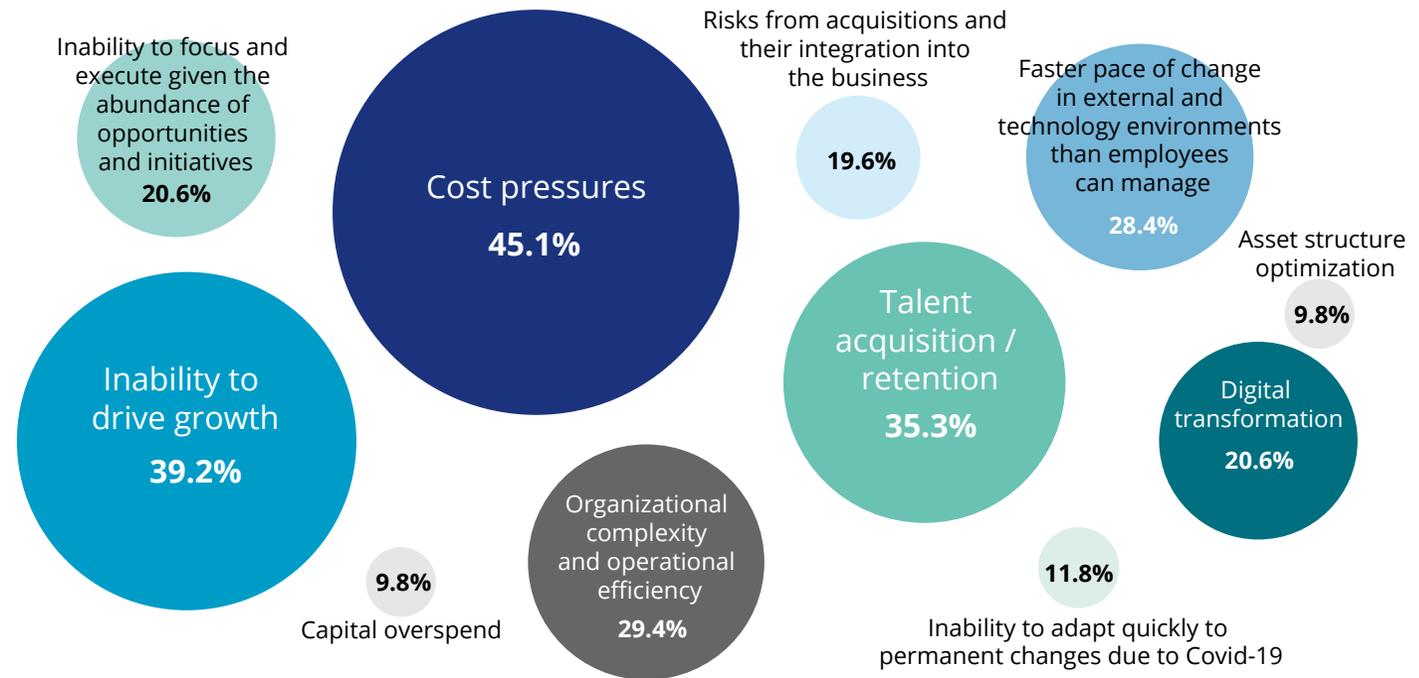


Internal risks of greatest concern: Cost pressures, inability to drive growth, talent acquisition and retention

Related to the external risks mentioned, the top two internal risks worrying CFOs are cost pressures due to inflation and the inability to drive growth amid concerns over post-pandemic recovery. These are followed by talent acquisition/retention.

In addition to these three areas, CFOs express their concerns about a range of internal risks including (in descending order of concern) organizational complexity and operational efficiency, difficulties for employees in adapting to changes in the external environment and technology, the inability to choose and execute the right opportunities and initiatives, and digital transformation. In our 2021 Q1 survey results, digital transformation (58%) and talent retention and development (45%) were the top two priorities for CFOs in China. Respondents' views echoed those of their peers in other parts of the world – as seen in other CFO surveys we conducted at the end of 2021 – that talent remains one of the top concerns. For example, according to our 2021 Q4 North America CFO survey, talent/ labor was one of the top three enterprise priorities, even outweighing financial performance and growth.

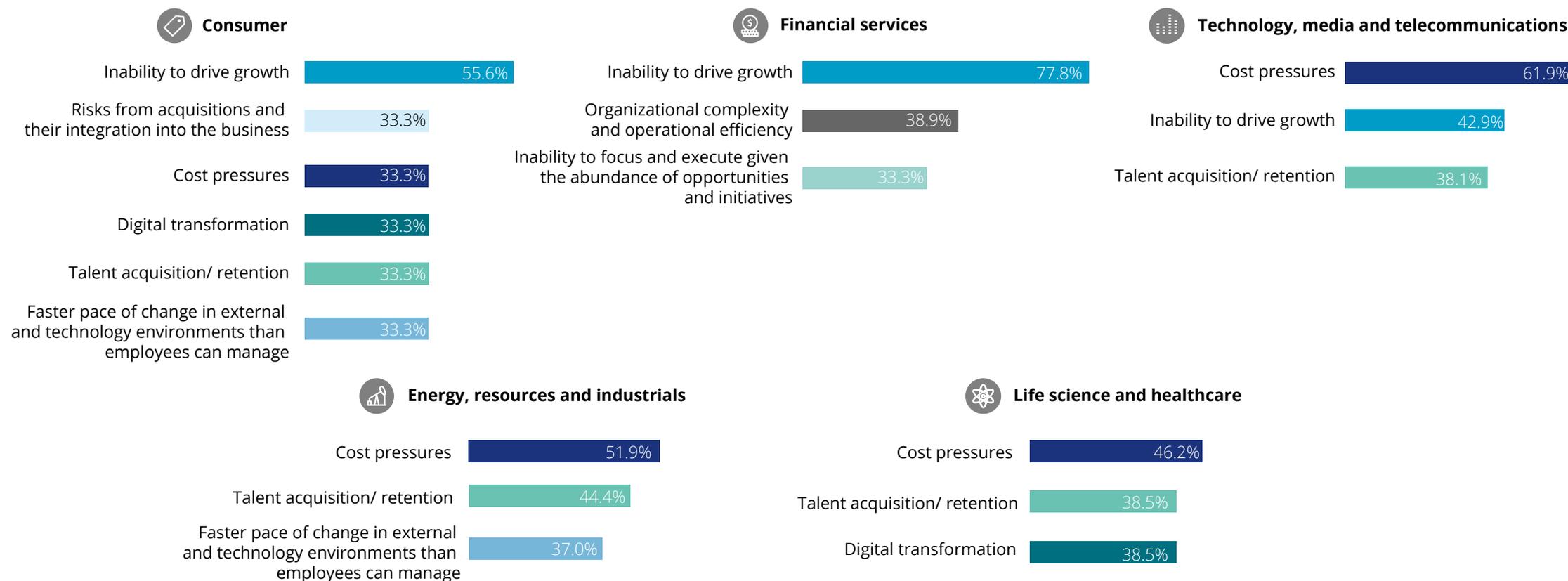
Chart 6: The internal risks worrying China CFOs





From an industry perspective, CFOs in the energy, resources and industrials sector are quite concerned about employees' ability to respond to external environments and technological changes, while the inability to drive growth is top of mind for CFOs in the financial services industry. This is by far the most worrying risk for this group.

Chart 7: The internal risks worrying China CFOs (by industry)





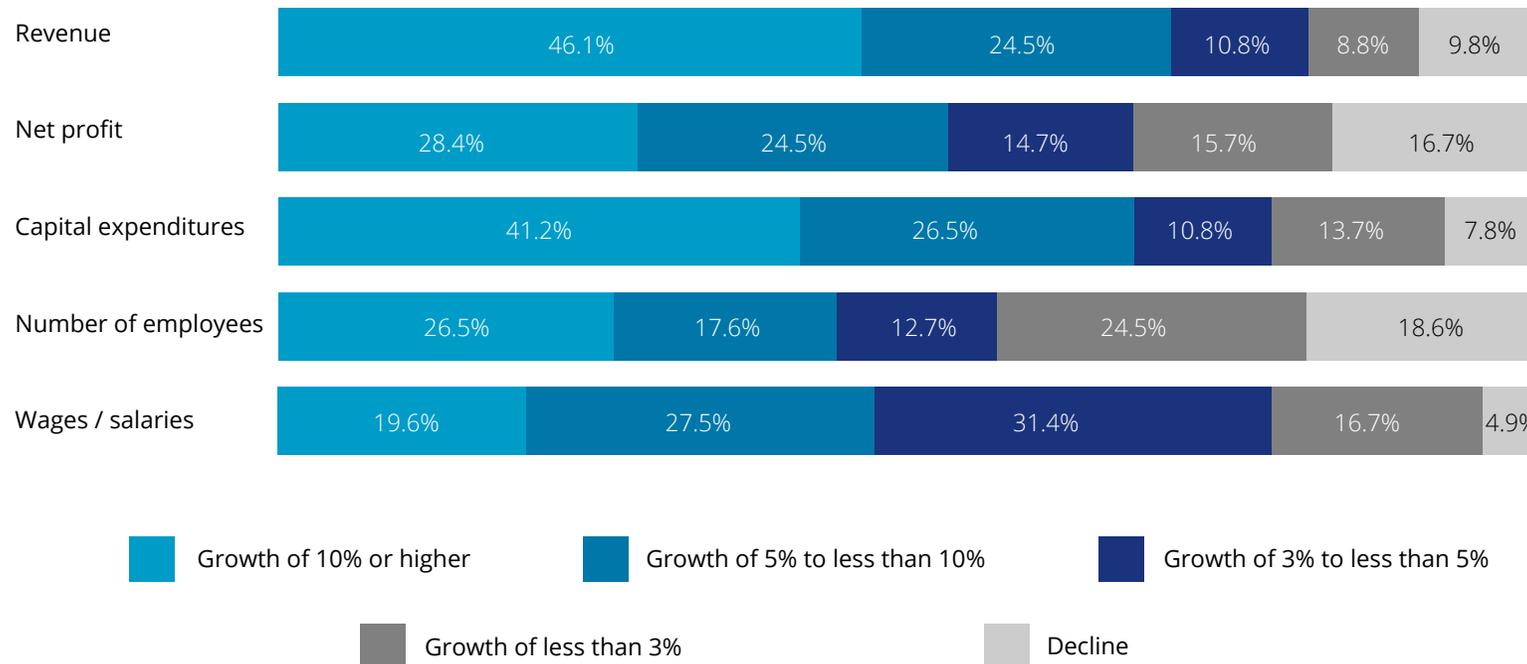
Key findings



Key metrics: Optimism about post-pandemic growth

Respondents feel optimistic about their company's overall business growth prospects for the year ahead. The majority expect their company to achieve growth of more than 5% in revenue (70.6%), net profits (52.9%) and capital expenditures (67.8%), while 81.4% expect their organization to increase hiring; 47.1% expect to deliver salary increases of more than 5%.

Chart 8: Expectation for the following metrics over the next 12 months





Special topic: The sustainability imperative for CFOs

As the world transitions toward a low-carbon economy, sustainability has come to the fore globally. Companies are increasingly integrating sustainability into their business strategy.



The worsening climate crisis adds urgency to the need for action

The continued rise in global temperatures causes more frequent occurrences of extreme weather events and creates a heavy human and economic toll worldwide. To reverse course, countries across the globe must take proactive measures to reduce carbon emissions.



Countries around the globe strive to achieve net-zero emissions amid more intense regulatory requirements

A growing number of countries have made a commitment to net-zero targets. As of September 2021, such goals covered about 63% of global emissions.¹ In September 2020, China also set timelines for its 'dual carbon' goals, which involve peaking carbon emissions by 2030 and achieving carbon neutrality by 2060.

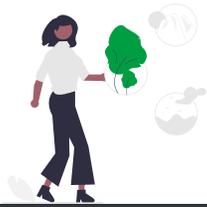


Sustainability enables businesses to achieve growth while creating opportunities

Sustainability-related financial products and the development of green finance are creating long-term opportunities for businesses, allowing them to:

- Enhance their reputation and attract more consumers and clients driven by “environmental, social, and governance (ESG)” values
- Mitigate the risks of climate change and deliver long-term financial returns
- Improve business operations, capture innovation opportunities, and create greater social value

¹ <https://ccpi.org/net-zero-targets-gain-substantial-global-support/#:~:text=An%20unnecessary%20focus%20on%20net,about%2063%25%20of%20global%20emissions.>



Status of sustainable development



CFOs believe that implementing sustainable development strategies will have a positive impact on the company's financial performance. However, the percentage of Chinese companies that have conducted climate assessment is lower than that in other regions

Respondents believe that implementing sustainable development will enhance the company's revenue (59.8%) and profitability (43.1%), although a majority believe that implementing related strategies will increase the cost of compliance (82.4%) and raw materials (65.7%).

Around a quarter of the enterprises polled have completed a climate assessment. While 10.8% of the companies questioned have also fully reflected the impact in their financial statements, this percentage is lower than both the global average of 18% and the Asia-Pacific region's figure of 17%, according to [The Audit Committee Frontier: Addressing climate change](#) survey conducted by Deloitte in 2021. In addition, 54.9% of the respondents' companies have not completed a climate assessment and believe that the results will not have a material impact on their financial statements. This proportion is slightly higher than the global average of 52% and the Asia-Pacific region's figure of 49%.

Chart 9: The impact of implementing a sustainable development strategy on financial metrics

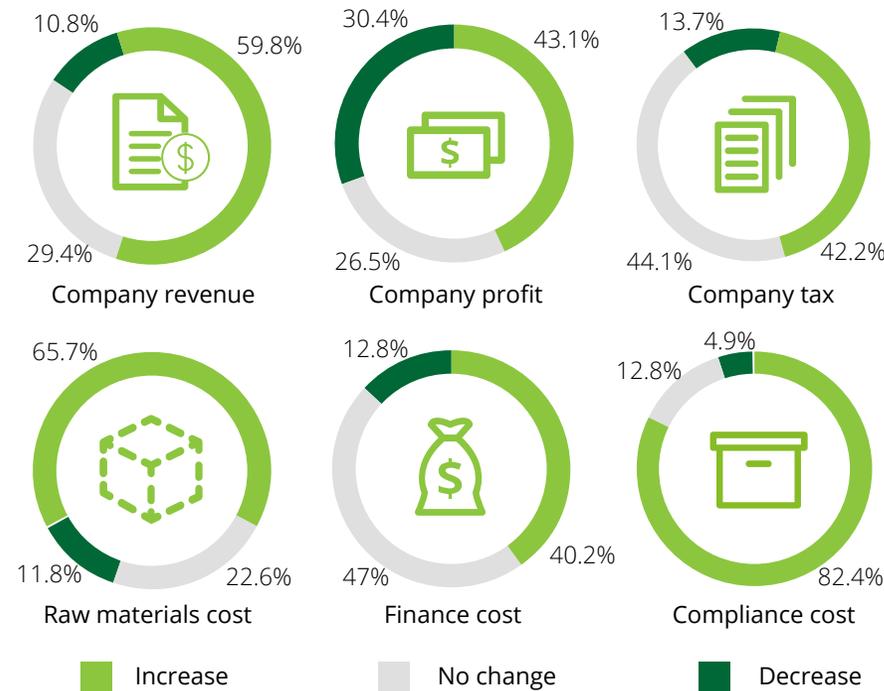
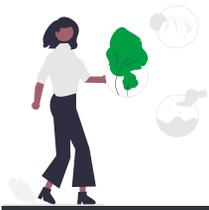


Chart 10: Progress on climate assessments and whether the results and commitment have been fully reflected in the financial statements





Status of sustainable development



The emphasis that enterprises place on sustainable development work varies depending on their industry

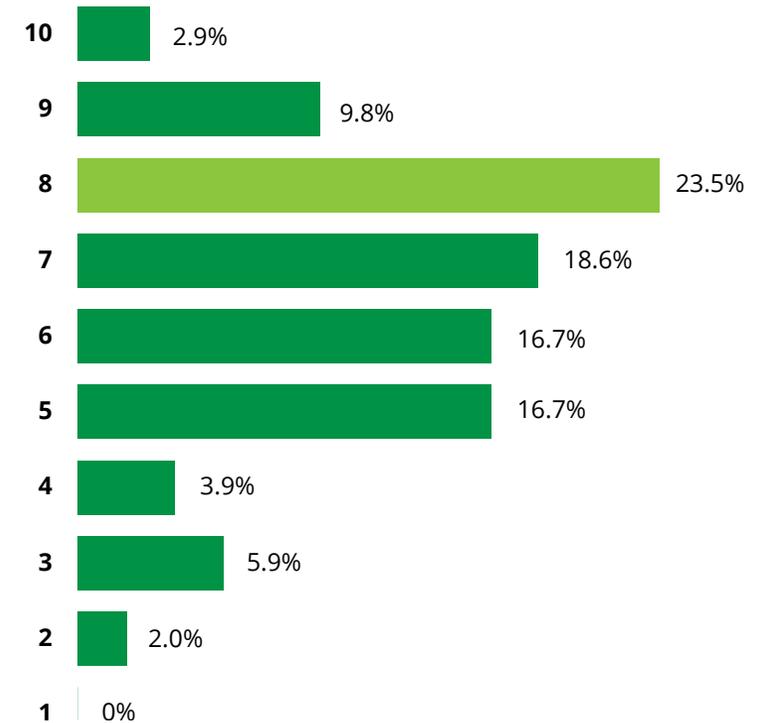
Companies from different industries have experienced varying degrees of impact from the 'dual carbon' goals, and the emphasis that enterprises place on sustainable development work varies depending on their industry. According to our survey, 77.8% of respondents in the energy, resources and industrials sector believe that the 'dual carbon' goals have had some or even a significant impact on their development strategies. This finding is also consistent in the financial services (50.0%) and technology, media and telecommunications industries (47.6%).

Among respondents, 71.6% rate their company's sustainability performance as being six or higher (on a scale of 10), showing that a majority of CFOs are satisfied with the progress on sustainable development. However, given a lower rate of completing a climate assessment and reflecting the impact in the financial statements among China CFOs, compared to their peers in the rest of the world, awareness of sustainable development needs to be increased and more work needs to be done in this aspect.

Chart 11: The impact of China's '3060' goal ("dual carbon" goals) on the company's development strategy



Chart 12: Rating on the sustainability performance of the company





CFOs' current involvement in sustainable development



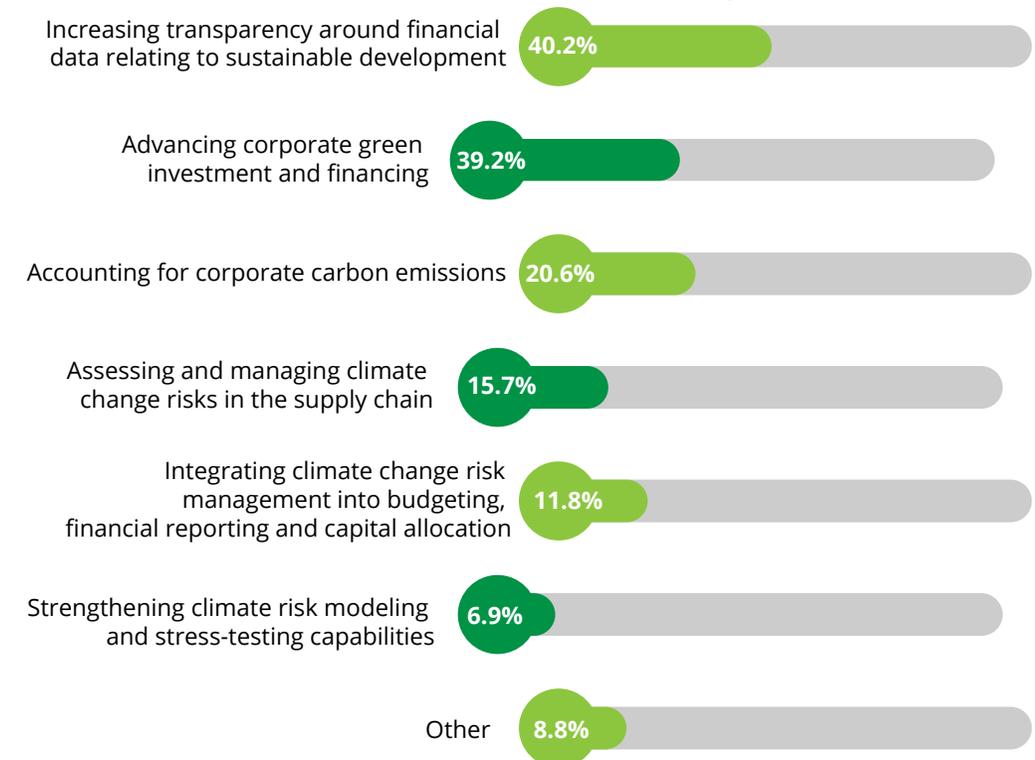
CFOs employ their professional skills to ensure compliance with information disclosure requirements, and drive the company's exploration of green investment and financing, and carbon auditing

As regulatory authorities step up information disclosure requirements, the CFOs' responsibilities in terms of sustainable development mainly involve information disclosure related to climate risks or environmental impact assessment. In recent years, regulatory authorities and stock exchanges in different jurisdictions have strengthened their requirements for environmental, social and governance (ESG) information disclosure:

- At the global level, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to develop consistent recommendations for the voluntary disclosure of climate-related financial information by financial and non-financial institutions. In June 2017, the FSB released a framework for disclosing climate change information.
- In Chinese mainland, the Shanghai Stock Exchange and the Shenzhen Stock Exchange require some listed companies to make ESG disclosures, e.g. companies in specific industries or of a specific nature.
- The Hong Kong Stock Exchange's new regulations, effective from July 2020, have expanded the scope of mandatory ESG information disclosure. The bourse also published its Climate Information Disclosure Guidelines in November 2021, requiring listed companies to identify and assess the impact of climate risks on their financial results. This requirement will be enforced by 2025.
- In March 2022, the U.S. Securities and Exchange Commission (SEC) proposed rules that will require SEC-registered U.S. and foreign corporations to report information about their greenhouse gas emissions and the impact of climate change on their financial performance. The consultation draft mandates the inclusion of climate-related financial indicators and comments in the notes to the financial statements, as well as specifying the third-party assurance requirements for greenhouse gas emissions. The SEC will review public feedback received within next 60 days of the consultation date and will implement the rules accordingly once the consultation concludes.

The policy system and market environment that supports the development of green finance began to take shape in China in 2021, paving the way for rapid expansion of the green finance market. Green investment and financing will continue to pick up pace this year, manifested by the accelerated issuance of green bonds in January. The People's Bank of China has also provided financial institutions with a carbon emissions-reduction support tool in the form of low-cost loans. As green financial mechanisms continue to improve, promoting the development of corporate green investment and financing will become a priority for CFOs.

Chart 13: China CFOs' involvement in sustainable development





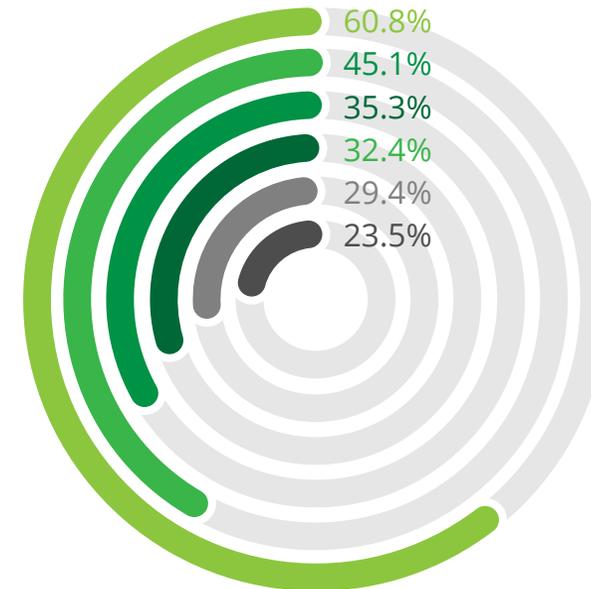
CFOs' challenges regarding sustainable development



To take the lead in advancing sustainability initiatives, CFOs need multi-level support from their organizations. For example, the company's management needs to place greater emphasis on sustainability issues, strengthen data and information collection and monitoring, improve the transparency of sustainability disclosure, recruit more climate-literate talent, and provide sustainability-related training.

Chart 14: The biggest challenges CFOs face in terms of implementing sustainability goals

- Poor data or lack of accurate or complete information for management to make decisions
- Setting a clear and agreed-upon carbon reduction strategy as well as a mechanism for holding management accountable for seeing it through
- Shortage of "climate-literate" talent
- Lack of buy-in from company leadership
- Lack of real-time tracking capabilities
- A clear way to tie sustainability-related progress to executive pay





Recommendations for CFOs

Establish and strengthen corporate-level climate governance

- Consult with business executives and key stakeholders on their climate-related expectations, vision and goals
- Designate board and management supervision of climate-related issues: define roles, responsibilities and charters, or establish a cross-functional sustainability committee with clear roles, responsibilities and objectives
- Develop internal and external stakeholder engagement mechanisms, such as training and discussion on climate-related risk assessment, data collection and goal setting

Identify climate risks and opportunities

- Master the most recent knowledge and trends connected to sustainable development, and make forward-thinking recommendations for corporate management's decision-making
- Identify climate-related transformation risks (including legal and regulatory, market, product, and physical risks) and explore opportunities arising from the transformation. Analyze the anticipated short-, medium- and long-term impacts of these risks on the company's financial statements
- Lead the financial department in acquiring professional knowledge and skills related to the enterprise's sustainable development, as well as strengthening skills and training for the department and team

Get ready for future climate information disclosures

- Prepare for more transparent climate information disclosure and formulate transformation plans by understanding the disclosure requirements of climate-related indicators and targets
- Utilize the existing financial reporting and control structure to evaluate the process for gathering and monitoring climate data, aided by a well-developed disclosure procedure and control model
- Implement standardized governance mechanisms to improve data quality, timeliness, automation and correlation, and combine finance management with climate disclosure
- Plan ahead for greenhouse gas certification
- Analyze scenario, parameter, hypothesis and financial impacts

Leverage resources and professional networks

- Talk to your industry peers to exchange knowledge and experience and share quality resources
- Connect with professional services organizations and seek their strategic advice to provide support for the sustainable development of the company



The role of CFOs in promoting sustainable development



Based on Deloitte's 'The Four Faces of the CFO' model, CFOs are expected to play more diverse roles in driving sustainability action.

Drawing on professional skills, CFOs are in a unique position to drive the implementation of sustainability strategies and contribute to value creation while overseeing the company's financial performance.

CFOs can work as a catalyst, strategist, operator and steward. From these four different dimensions, CFOs are well poised to take the leading role in driving a company's sustainable development.

Chart 15: The Four Faces of the CFO

Catalyst

Catalyze behaviors across the organization to execute strategic and financial objectives while at the same time creating a risk intelligent culture

Strategist

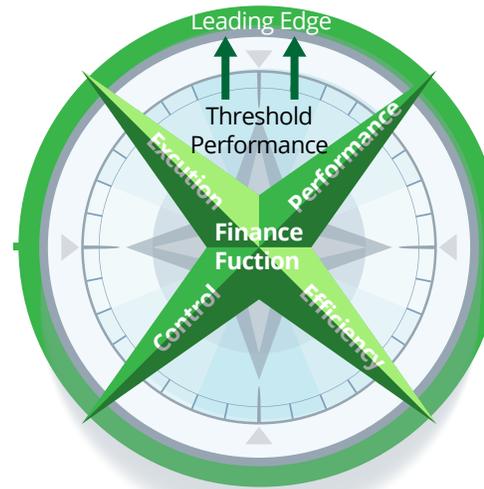
Provide financial leadership in determining strategic business direction, M&A, financing, capital market and longer-term strategies vital to the future performance of the company

Steward

Protect and preserve the critical assets of the organization and accurately report on the financial position and operations to internal and external stakeholders

Operator

Balance capabilities, talent, costs and service levels to fulfill the finance organization's core responsibilities efficiently





CFOs need to gain a clear understanding of the diverse roles they play in driving sustainability goals and work toward various areas based on the company's real needs in transition to maximize their impact in guiding the company toward sustainability.



Catalyst: Implementing sustainability initiatives effectively and maximizing value creation

With a clear understanding of the company's financial performance and the big-picture view of business development, CFOs are uniquely positioned to drive the sustainability agenda. CFOs can draw attention to the significance of sustainability in business operations, rethinking existing financial systems and frameworks by ensuring that non-financial factors, such as environment and governance, are reflected in financial assessments along with traditional financial metrics. The CFO's role in supporting sustainable development should not be restricted to the corporate governance level but can extend to more aspects by involving various business units. With an overview of the company's business, CFOs need to make sure that there are adequate budgets for different departments to implement sustainability-related plans while managing risks and maximizing value creation.



Operator: Driving sustainable development in a more efficient way

Getting both financial metrics and non-financial information is vital in supporting the overall planning and execution of a sustainability strategy. Therefore, CFOs need to take a leading role in promoting data collection and integration within the organization, strengthening the finance department's data-modeling capabilities, and improving the existing data system to make sure management and various departments obtain relevant information efficiently, which will, in turn, provide great support for the green transformation of the company.



Strategist: Setting achievable strategic goals in sustainable development and participating in the decision-making process

As a growing number of customers, clients, shareholders and other stakeholders look to sustainability issues, it is important for companies to integrate sustainable development into their business strategies. With expertise in financial analysis, CFOs can help quantify the value that is created with sustainable development and better assess how to allocate resources to drive the green transformation in a more efficient manner. In doing so, CFOs can assist companies in developing feasible and achievable sustainability goals and strategies.



Steward: Ensuring compliance and managing risks

Short- and long-term value creation and risk management stand at the core of the CFO's role. With more sustainability-related regulations coming into force, CFOs have a key role to play in ensuring that the sustainability information disclosed is compliant. CFOs can also help their organizations identify and manage risks during times of transition. By providing accurate sustainability information and data and making sure of its consistency with the company's financial reports, CFOs can effectively communicate relevant issues to stakeholders.





About this survey



Since 2011, Deloitte has conducted CFO surveys in different markets around the world, regularly collecting and tracking CFOs' perspectives on major issues such as the business environment, company strategy and financial priorities, in order to provide financial decision-makers with relevant insights. This edition of the [Deloitte China CFO Survey](#) focused on the special topic of sustainable development. The survey questionnaire was completed in January 2022. The respondents are CFOs from Chinese mainland, Hong Kong SAR and Macau SAR, working in companies across a wide range of industries, with annual revenue ranging from less than RMB1 billion to more than RMB40 billion.

The respondents:

- **By industry:** Energy, resources and industrials: 26.5%; Technology, media and telecommunications: 20.6%; Financial services: 17.7%; Life science and healthcare: 12.8%; Consumer: 8.8%; Government and public services: 1%; Others: 12.8%.
- **By sector:** Private enterprise: 47.1%; Foreign/multinational enterprise: 24.5%; State-owned enterprise: 22.6%; Others: 5.9%.
- **Total revenue in the last financial year in China:** Less than RMB 1 billion: 38.2%; RMB 1 billion to RMB 20 billion: 42.2%; RMB 20 billion or more: 19.6%.

Acknowledgment

We would like to thank the CFOs for participating in the survey and supporting this initiative.



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About the Deloitte China CFO Program

The China CFO Program brings together a multidisciplinary team of Deloitte leaders and experienced professionals to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward-thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges and adapt to strategic shifts in the market.

For more information about the Deloitte China CFO Program, please visit:

<https://www2.deloitte.com/cn/en/pages/finance/topics/china-cfo-program.html>



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