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Towards a sustainable future

The Chief Financial Officer's role embedding sustainability

The commitment to sustainability has become universal. Companies accounting for 80% of global corporate industrial greenhouse gas emissions have committed to achieving net zero emissions by 2050 or sooner[1]. But the path to achieving these commitments and embedding sustainability in organisations' core operations is often not yet laid. The CFO has the skills to define, measure and inform sustainable thinking and decision-making and therefore truly embed sustainable value creation in the organisation.

The urgency has been recognised

Sustainability means meeting our needs in the present without compromising future generations' ability to meet their needs. Integrating sustainability in the organisation's core requires embedding it into the company's strategy, culture, and operations as well as securing buy-in and commitment of senior management. ESG criteria must be built into every relevant decision-making process, every product or service the company offers, and the thinking and mindset of all employees.

The urgency of the challenge is now widely acknowledged. The grand jury of stakeholders – investors, customers, suppliers, competitors, governments, regulators, employees, shareholders – are putting pressure on organisations to transition to sustainability and are looking for greater rigour and transparency.

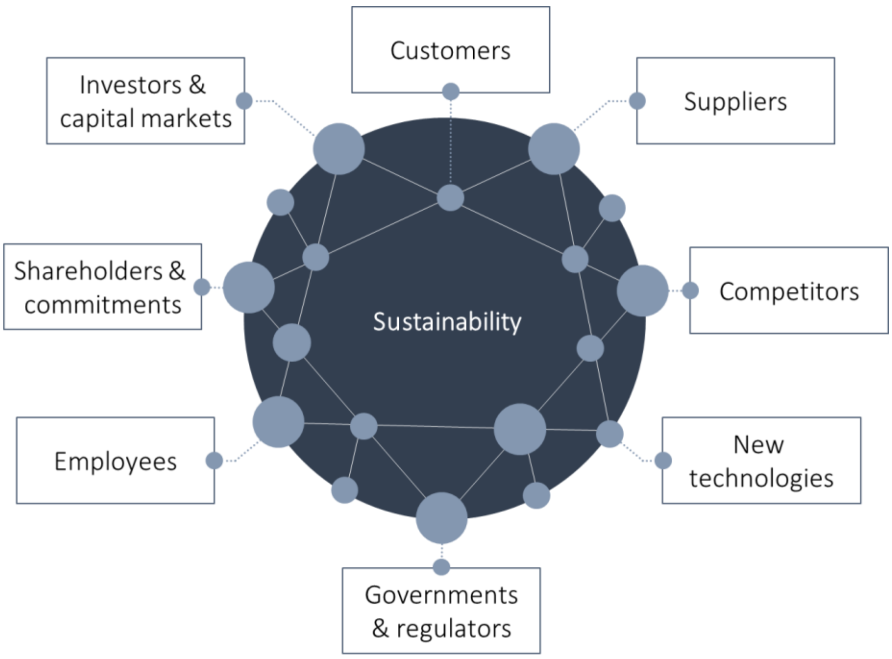

Illustration 1: The grand jury of sustainability stakeholders

Governments and regulators are significantly strengthening external disclosure requirements and companies are increasingly required to disclose climate-related information in public filings. The double materiality concept is a combination of most known ESG reporting standards and is set to become a widely adopted standard. It addresses sustainability topics that have a material financial impact on the company and those that are affected by the company. Double materiality is now a mandatory element of standards such as those set by the Task Force on Climate-related Financial Disclosures (TCFD) or Corporate Sustainability Reporting Directive (CSRD) which oblige companies to disclose the financial risk to which the company is exposed and report on the external impact of the company's operations and activities.

The number of companies implementing the recommendations of the TCFD is growing and the contents of the disclosures are being further developed. In Switzerland the Swiss Federal Council has adopted the ordinance on mandatory climate disclosures for large companies, which comes into force on 1 January 2024. The new ordinance is based on the TCFD recommendations and obliges public companies, banks, and insurance companies with 500 or more employees and at least CHF 20 million in total assets or more than CHF 40 million in turnover to report publicly on climate issues.[2]

Within the European Union, sustainability reporting will become mandatory under the CSRD for reports published in 2025[3]. Internationally climate and sustainability disclosure based on the International Sustainability Standards Board (ISSB) will become mandatory beginning in January 2024[4]. For the United States, the Securities and Exchange Commission (SEC) is finalising the legal requirements for the proposed SEC climate disclosure rules, potentially starting in 2024.[5] Sustainability reporting will soon be required globally.

Moreover, in response to heightened investor scrutiny, companies across all industries are pledging to decarbonise their operations. Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The UN Secretary General, Antonio Guterres, has observed that "Climate action 100+ investors have committed to engage with the world's largest corporate greenhouse gas emitters to improve their climate performance and ensure transparent disclosure of emissions. They are betting on green because they understand this is the path to prosperity and peace on a healthy planet. The alternative is a dark and dangerous future."

A fundamental change is taking place in the thinking behind economic and financial performance measurement – a paradigm shift in which negative and positive externalities are given an economic value. No longer can organisations consider the environment a resource that is free to use. An organisation's use of and negative impacts on natural assets must be measured and evaluated in financial appraisals and statements. This new paradigm introduces new ways of calculating familiar metrics with ESG considerations in mind.

The risks for organisations that fail to address sustainability are considerable – they come from regulators, consumers who turn against the company's products and services, and investors. The CFO can define a path, achieve sustainability commitments and report on the company's progress.

The CFO's role embedding sustainability

CFO's impact	Decision-making	Business knowledge	Internal stakeholders	External stakeholders
Key aspects	• Involvement in business decision-making • Influence on capital structure and allocation	• Understanding of business data, metrics, processes • Driver of Financial planning steering and reporting capabilities	• Interactions with key internal stakeholders • Driver of performance management	• Management of external stakeholders • Communicator of company's operations, results and impacts

Illustration 2: The importance of the CFO in embedding Sustainability

CFOs and other Finance leaders are key to the shift to sustainability as they are at the heart of decision-making. Embedding sustainability relies heavily on Finance's capabilities and represents a natural extension of the CFO's and Finance function's role.

Finance's inherent analytical capabilities, business knowledge and understanding of data, metrics, processes, and governance puts them in a position to help formulate and operationalise the organisation's strategy. Moreover, Finance's planning, steering, and reporting capabilities enable the establishment of a robust and transparent sustainability-reporting framework that informs decision-making. No other function within the organisation has the capability to collect detailed data at source, aggregate across businesses and geographies, and validate and report internally and externally with the robust processes and controls needed. Furthermore, the CFO plays a significant leadership role in M&A, investments, and the capitalisation of the company. And Finance also manages key external relationships with shareholders, auditors, investors, and rating agencies.

The CFO should therefore be the organisation's sustainability champion, role model and leader, building the path to long-term sustainability success.

What the CFO should do to embed sustainability

Below are examples of how the CFO can drive attainment of sustainability based on Deloitte's four faces of the CFO — as a catalyst and strategist in the medium to long term and as a steward and operator in the short to medium term.

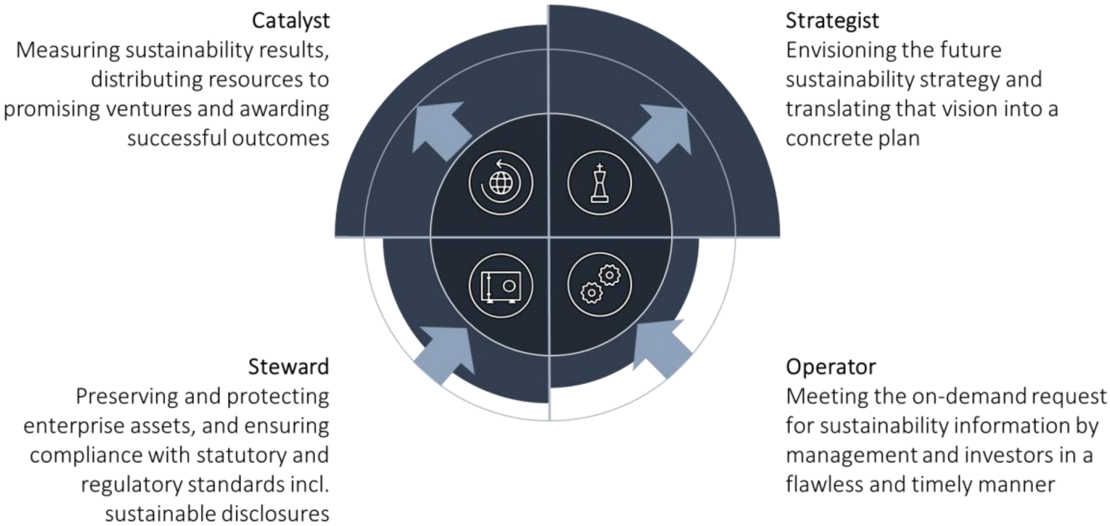

Illustration 3: The future CFO – The evolution of the four faces of the CFO

As Catalyst:

- Drive performance management: rethink the underlying performance model (triple bottom line: performance, people, and planet) to achieve an integrated perspective
- Incentivisation: anchor non-financial measures within incentives across all levels and departments
- Prioritisation and resource allocation: allocate resources to projects with a positive impact on the triple bottom line
- External costs internalisation: internalise all external costs, adjust decision-models and communicate pricing adjustments to stakeholders
- Financing the Sustainability transition: create transparency on incremental costs across the value chain during the transition and develop value cases based on revenue levers such as incentives and grants.

As Strategist:

- Strategy: participate in the strategy development process and be knowledgeable about the central criteria for future strategic decisions
- Provide financial leadership: use financial analysis to monetise sustainability investments
- Align business and finance strategy: intertwine sustainability into corporate strategy and manage conflicting goals

- Consolidate estimates from diverse departments: use position as gatekeeper to align with the Chief Sustainability Officer (CSO) and all other departments
- Use communication platforms to communicate what the company is doing in sustainability, including governance changes and a proactive role improving external sustainability regulation to reinforce the paradigm shift.

As Steward:

- Ensure compliance with regulations: understand the increasingly complex and continuously changing sustainability legislation
- Protect the vital assets of the company: broaden the risk identification process to include sustainability risk within all functions
- Communicate value and risks to shareholders: include Sustainability in CxO reports and annual reports to ensure compliance and raise awareness.

As Operator:

- Guarantee the technical ability to report to management and external stakeholders: enhance systems and skills to report non-financial (ESG) information with the same rigour as financial reporting
- Manage an effective and efficient Finance organisation: apply automation and self-service to ESG reporting and train users in ESG terminology
- Ensure cost efficiency: ensure that costs of Finance don't increase disproportionately and stay stable while adding new performance measures and reporting processes
- Ensure fast analysis: factor in ESG demand to have staff available to quickly access, transform, and interpret ESG data.

Moving forward: Deloitte's perspective

Sustainability is now being addressed with urgency across many organisations. Public commitments have been made, new responsibilities assigned, including that of Chief Sustainability Officer (CSO), and resources mobilised.

We observe that many organisations have moved or are considering moving responsibility for non-financial reporting to the CFO.

CFOs are key to the drive towards sustainability. Regulatory compliance by itself is challenging enough. However, the real opportunity for the CFO is to be the designer, educator and overseer of a new performance management and incentive framework capable of steering the organisation towards sustainable value creation. Sustainability challenges are interconnected and affect many departments. It's therefore important for CFOs to lead collaboration across divisions in the effort to redesign and transform corporate processes to make them more sustainable.

CFOs own their organisation's performance and are the architects of their performance management frameworks, including the financial frameworks. Deloitte's "Sustainability

Lab for CFOs" can help you navigate the sustainability landscape and understand which topics must be addressed most urgently.

To find out more about how you as a CFO and your Finance function can lead the way in embedding sustainability into your organisation, please reach out to our experts:

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Sources:
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