The CFO’s Time in Corporate Sustainability

Environmental, social and governance (ESG) risks and opportunities are increasingly being addressed in corporate boardrooms and executive team discussions around the world. The consensus that the sustainability function can no longer be relegated to its own silo is growing, as is the expectation that the oversight over sustainability performance sits at the highest levels of management. Corporate officers will need to adapt from being passively “kept informed” to taking a much more active role in ESG discussions and execution.

The role of the CFO within an organization has naturally grown and evolved over time. As companies continue to recognize the ROI of an ESG-mindset and sustainable business practices, they will naturally develop and refine the analytical tools needed to evaluate and measure their sustainability efforts. The finance function will consequently become more deeply involved in decisions surrounding ESG strategies, as CFOs are uniquely positioned to influence organizations and make the business case for action.

Why sustainability and corporate finance go hand-in-hand

There are many synergistic opportunities to be found between the corporate finance and sustainability functions. Both are concerned with managing material risks while preserving and creating value for the business. Tracking and evaluating productivity, asset optimization, long-term investments and regulatory shifts are shared responsibilities between sustainability and finance, albeit with varying accountability and communication requirements to different stakeholders.

On the topic of stakeholders, however, the investors who consume your financial data are frequently becoming the same investors asking for ESG data. Capital markets are increasingly viewing ESG performance as a proxy for management quality, which puts the CFO and Investor Relations squarely in the sustainability discussion. On the debt side, the growth of sustainability-linked loans and green bonds–instruments that incentivize borrowers to achieve meaningful, predetermined sustainability objectives–will likely motivate finance and accounting teams to work more closely with the sustainability function (or other cross-functional teams) to improve their ESG profiles and narratives for credit facilities and lenders.

Finally, sustainability accounting and reporting will likely soon require the same criteria as financial accounting and reporting (accurate, reliable, complete, comparable, etc.) The growth in market adoption of materiality, strategy and governance-focused reporting standards such as SASB and the TCFD recommendations signal that investors will expect corporate officers and board directors to demonstrate a strong, data-driven understanding of company-specific sustainability and climate-related risks.

How CFOs can help lead ESG strategies

Using Deloitte's "Four Faces of the CFO" framework as a lens, leveraging the CFO's role for sustainability can help improve the finance function's contributions to overall company value through four interdependent activities: serving as a catalyst, a strategist, a steward, and an operator. There are many competencies essential to the CFO role that lend themselves naturally to the needs of your company's sustainability strategy, performance and reporting.

- *Materiality*: Material sustainability risks can affect a company's financial statements in a number of ways, both short- and long-term. CFOs and their accounting teams are well-trained in making materiality judgements–extending this analysis to ESG topics can help both the finance and sustainability functions satisfy stakeholder information needs.

- *Data analysis*: Finance teams have the unique ability to help drive sustainability performance through the development and use of robust and data-driven metrics, KPIs, systems and structure to report how sustainability initiatives are performing and how they translate into shareholder value.
- *Disclosure*: A recent IFRS report confirmed that companies may need to consider ESG risks in the context of their financial statements rather than solely as a matter of CSR reporting. Financial and voluntary sustainability disclosures are steadily becoming more integrated, where ESG narratives are encouraged to be included in Management Discussion and Analysis (MD&A). A CFO can help set up clear governance around sustainability reporting processes and controls.
- *Quality assurance*: Shifting financial accounting rules regarding ESG risks and opportunities are another driver behind calls for better integrated reporting. Assuming its eventuality, we would see all disclosures, including sustainability risks, reviewed by the CFO and/or audit committee who can verify the accuracy of ESG statements and perform and oversee audits of ESG disclosures to confirm their accuracy.
- *Long-termism*: Engaging and deepening the buy-in of your CFO regarding sustainability's financial benefits to the business can help transition traditional short-term-focused discussions such as earnings calls and annual budget planning to longer-term-focused conversations on value creation and forward-thinking risk management.

ESG risks are business risks

Despite the common use of the term "non-financial" to describe sustainability data and performance, material ESG risks are inherently "pre-financial" risks. A strong ESG framework can help reinforce the growing responsibilities (and expectations) of the CFO and, in turn, an ESG-minded CFO can help elevate and integrate corporate sustainability into wider enterprise strategy and risk management. The reverse is also true for poor ESG management and a siloed sustainability function. It is a symbiotic, inevitable relationship that more and more corporates should look to embrace.Whether an additional, new type of CFO ("Sustainability CFO") is required to meet the needs of a maturing ESG landscape or whether an existing CFO role can expand to include corporate sustainability is a question to be considered at the individual company level. What remains clear is the importance any CFO will have in corporate ESG strategy and execution as sustainability gradually breaks free from its silo and joins finance and accounting through integrated thinking.