Sustainability performance management:

How CFOs can unlock value

Contents

Sustainability is vital to the future success of business. This report highlights how powerful the CFO and finance function can be in making the case for sustainable behaviour and realising the value that sustainability can bring to the business.

Jessica Fries, Director, The Prince's Accounting for Sustainability Project (A4S)

Forewords

Charles Tilley FCA, Chief Executive, CIMA

Sustainability is firmly on the corporate agenda – although as with many business challenges, committing to a course of action often proves difficult. Supporters of the traditional capitalist model argue that companies exist to create value for their owners – and have no duty to make up for the fact that those owners may have a short-term or self-interested focus. That is the purpose of regulation. Others believe, like Peter Drucker, that the purpose of a company is to serve society.

Such profound philosophical differences seem hard to reconcile. But there is common ground, which is to focus on the value that sustainability can add to a business and society – its contribution to the 'triple bottom line' of profit, planet and people.

CIMA asked Accenture to compile this report to provide specific recommendations for CFOs and their finance functions on how to unlock the value that sustainability can deliver to their businesses.

Accountants are key players in delivering that value – both because their skills bring robustness to sustainability performance management and because they are well placed to support the integration of sustainability across the business.

Accountants are very influential. They can encourage the board and senior management to commit to sustainability, not only by providing reassurance and proof that it can be measured and monitored, but also by advising that sustainability can be and should be taken into account clearly and consistently in day to day decision-making.

Andrew Meade FCA, Managing Director, Finance & Performance Management, Accenture

Sustainability has a pragmatic and profound impact on the strategy and operations of companies today. It isn't just about being ethically responsible, it is about smart business. Eliminating waste and inefficiencies makes simple economic sense and produces real bottom line impact. Sustainability initiatives often combine tangible, short-term gains with longer term benefits to generate new sources of revenue and enhance intangible assets such as brand and reputation.

As a finance professional, I recognise the important role that we can play across the sustainability agenda. It is up to us to bring the right skills, knowledge and tools to translate sustainability into real numbers that impact our financial performance. We have a duty and the responsibility to tackle and embrace how sustainability performance is managed and reported to ensure alignment with existing business processes. We can assist our organisations to focus on areas that really do deliver financial value to the company and shareholders, as well as benefits to society and other stakeholders.

Accenture are very proud to have been asked by CIMA to compile this report. In our interactions with CFOs and their finance teams, we see an increasing level of interest to further understand sustainability and determine their role in ensuring that sustainability is appropriately addressed to deliver business value.

I do hope that you enjoy reading this report and find the analysis insightful and actionable.

Recommendations

1. Corporate sustainability contributes directly to business value, whether through revenue generation, cost control, risk management or long-term value creation. Sustainability should therefore be a strategic issue for any organisation.

2. Companies are starting to develop sustainability strategies for their business in a clear, structured and rigorous way. However many are failing to uncover the latent value from sustainability and sustainability should be linked explicitly to business performance to maximise value creation and preservation.

3. Clear drivers and meaningful outcomes relating to sustainability and the value it creates can be measured by applying a robust sustainability performance management (SPM) framework. This demands well thought-out and consistent metrics, systematic processes and appropriate use of technology. Sustainability can then be incorporated into both internal and external reporting.

4. CFOs and the finance function can give structure to SPM and provide the impetus required to maximise its business value. They should take the following steps:

   i. **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.

   ii. **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.

   iii. **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.

   iv. **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.

   v. **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.

The earlier CFOs and their teams engage with sustainability performance management, the greater the benefit they can bring.[1] As three of the world's largest accountancy organisations (CIMA, AICPA and CICA) recently put it, 'To remain relevant, the accounting profession must take ownership and embrace business sustainability. Accountants can apply the necessary financial and commercial rigor to develop clear and measurable sustainability goals, 'decision-useful' and reliable sustainability reports and become change agents for a sustainable future.'[2] Plenty of people can advise an organisation on how sustainability performance should be measured. But few are as convincing as the CFO when it comes to demonstrating not only what should be measured but also how this creates business value and sustainable organisations.

> *Pushing sustainability onto the agenda is not simple – but when the finance function makes clear the effect on P&L performance at every level, the discussions become much easier.*
> **Jan Piet Valk, CFO, Logica Benelux**

Executive summary

Sustainability can drive significant business benefits. But in many organisations, its value is not fully realised. Robust sustainability performance management, driven by finance professionals, can be a key enabler to unlocking this value.

Sustainability, when embedded throughout an organisation, its strategy and operations, can drive value across a number of dimensions:

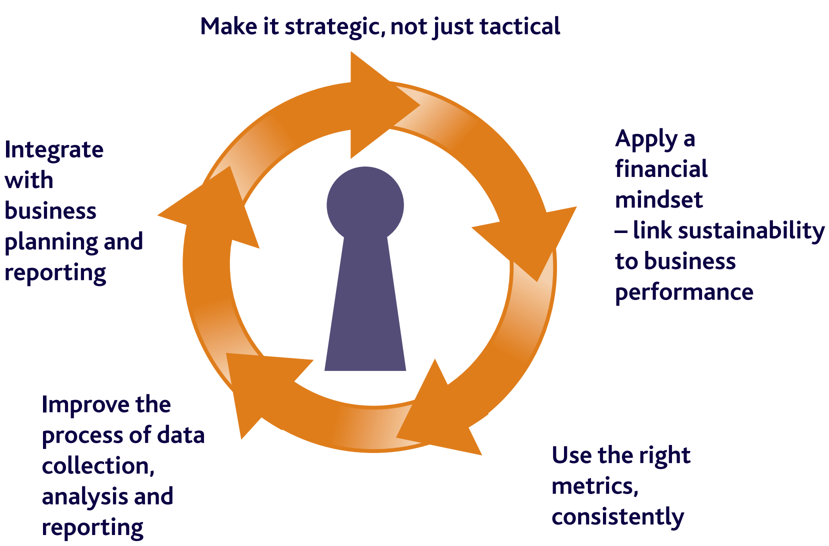
- **Revenue generation** – from new products, services and markets.
- **Cost control** – resource efficiency, lower energy consumption and waste minimisation.
- **Building trust** – enhancing brand value and promoting a positive culture among employees and other stakeholders.
- **Risk management** – by breaching regulations or avoiding safety and environmental incidents.

Sustainability and the value it creates must be quantified and linked to business performance if the case for sustainability is to be made and the benefits are to be realised. A robust sustainability performance management (SPM) capability provides the information required for decision makers to identify and create value from the sustainability levers relevant to their business.

The discipline and rigour applied to financial information should be applied to sustainability reporting. In many companies that process has already begun. Standard Chartered, in the first of our case studies, incorporates environmental, social and economic dimensions into its performance reviews and the approvals processes for new loans. Novo Nordisk, the second case study, has not only embedded sustainability throughout the organisation but is also one of a host of companies that has incorporated sustainability reporting into its annual report, creating an integrated approach for its management, auditors and investors.

However, for many organisations current efforts to manage sustainability performance tend to be tactical rather than strategic. These efforts are rarely linked to business performance and the measurement and tracking of sustainability initiatives is not as rigorous as that of revenue or profitability. In a recent CIMA survey for example, only 17% of respondents said their organisations have fully integrated environmental considerations into project appraisal.[3] By incorporating sustainability into standard business systems and processes, it becomes part of planning and reporting – further integrating it with both day to day operations and strategy (see Figure 1).

Figure 1: Creating a virtuous circle for sustainability performance management



The chief financial officer (CFO) is ideally placed to drive business value from sustainability. The finance team has visibility into every part of the enterprise – and understands how it all fits together. CFOs usually fulfil key compliance and risk management roles; they are the board member most directly responsible for efficiency and cost control.

As a recent report from three of the world's largest accountancy bodies observes, 'Accountants can serve as leading agents for change by applying their skills and competencies to develop sustainability strategies, facilitate effective implementation, accurate measurement and credible business reporting.'[4]

CFOs who nurture the cross-functional skills of both sustainability and finance professionals and find ways for them to work seamlessly together will see more opportunities to grow value for stakeholders. It is this marriage – of rigour and reporting on the one hand; and understanding the key attributes of sustainable practices on the other – that ensures a business is able to deliver shareholder value over the long-term. But making it happen requires clarity, vision, leadership and a willingness to act.

In this report we:

- Demonstrate the link between sustainability and delivery of business performance.
- Explain why this matters to CFOs.
- Outline how the finance function can integrate sustainability with performance and use it to drive business value.

Methodology of the report

This report has been prepared by Accenture for the Chartered Institute of Management Accountants (CIMA) and is based on two surveys. The first is an Accenture survey of 85 decision-makers in the field of sustainability performance management, including 33 CFOs.[5] The second is a CIMA survey of 883 finance and sustainability professionals, including 44 CFOs, 97 financial directors and 52 chief sustainability directors.[6]

We have also conducted interviews with senior executives at two companies, Novo Nordisk and Standard Chartered. These interviews were around their experiences and challenges in valuing sustainability, integrating sustainability management and reporting and driving business performance through sustainability. Both show how SPM can drive business improvement and provide an engaging narrative to support the recommendations we make in this report.

Sustainability: a definition

The way an organisation creates value for its shareholders and society by maximising the positive and minimising the negative effects of environmental, social and economic issues.

Section 1: Sustainability in a business context

Introduction

Sustainability in businesses was traditionally an item on the corporate and social responsibility (CSR) agenda. It was driven largely by moral obligation, reputational risk or regulatory requirements.

That has changed in the past few years. There has been a decisive shift in the balance from risk management to opportunity.[7] Investors still see the risks in companies depleting their resources, failing to nurture talent, harming the environments in which they operate or neglecting customers – all of which may destroy the present value of future earnings. But they increasingly expect management to create value from a changing business landscape and by living up to their long-term fiduciary duties.

Rising commodity prices – which have pushed the cost of energy in particular, to historically high levels – and an increasingly competitive global marketplace are key factors in this change. In many companies for example, a desire to do the right thing has been joined by a need to reduce energy consumption simply to protect the bottom line.

Sustainability will only be embedded in an organisation if it is supported by a robust business case linked to tangible benefits. Accenture recently surveyed over 1,000 business leaders on this issue for the UN Global Compact (UNGC). The resulting report concluded that CEOs are convinced that, '...good performance on sustainability amounts to good business overall. The imperative to act has shifted from a moral to a business case.' 93% of CEOs surveyed believe sustainability is important to future success.[8]

Sustainability is seen as a way to unlock new revenue sources, drive out cost, increase efficiency and enhance brand value. A sustainable approach can deliver competitive advantage, build strong and lasting customer relationships and create long-term stakeholder value. It is becoming aligned with organisations' core objectives and helps deliver business outcomes.

While the business case makes sustainability a compelling agenda item for boards, it brings its own justifications too. The UN Global Compact-Accenture CEO Study added that CEOs, '...believe that we are moving toward an era in which businesses will no longer focus purely on profit and loss as the primary means of valuation but rather take into account also the positive and negative impacts on society and the environment.'[9]

That means there is an additional demand for finance to be involved in SPM and sustainability decision-making – not just to record and promote the business benefits but also to measure these sustainability metrics. 80% of respondents to the CIMA survey said finance should be involved in climate change initiatives.[10] It is a surprise therefore, that so few CFOs or their teams have direct responsibility for SPM.[11]

Section 2: The business opportunity

Sustainability can boost both top and bottom line performance and strengthen the balance sheet. These opportunities exist throughout the value chain of any organisation (see Table 1). It is important to note that while many companies are already seeing explicit gains from sustainable decision-making in these areas, there continues to be new opportunities emerging for further gains.

- **Revenue generation** is not just about meeting uncertain consumer demand for 'green' products or identifying new markets with long-term income streams. The roll-out of low-carbon technology in buildings, transport and energy, driven by targets to reduce CO_2, is creating huge opportunities – believed to worth €2.9 trillion in the EU alone, between 2011 and 2020.[12]
- **Cost control** is always on the agenda of the CFO. Saving money by reducing energy and water consumption, production costs, travel spend and exposure to unnecessary waste and carbon costs are obvious business benefits – all of which can flow from a well-worked sustainability programme.[13] These will become more important with rising commodity prices and the increasing cost of compliance driven by increasing regulation.
- **Building trust** in this context often means brand value.[14] According to the Edelman Trust Barometer, 77% of consumers have refused to buy from a company they do not trust.[15] But a sustainable business also nurtures intangibles other than brand or reputation – such as talent and intellectual property for long-term value creation.
- **Risk management** will continue to be a key consideration, with large fines for non-compliance on waste regulations or carbon emissions schemes, for example. In addition, firms that have untrustworthy sustainability records are losing out on sales. Failure to embed sustainable thinking into operations is in itself a major risk.

Business value of sustainability

Case study: Standard Chartered

Sustainability is at the core of Standard Chartered's business model. The bank is committed to building a sustainable business, creating long-term value for its shareholders, working in partnership with its customers and clients and having a positive social and economic impact on the communities where it operates.

Standard Chartered aims to have a positive impact in three ways: by contributing to the real economy, by promoting sustainable finance and by leading the way in communities. Environmental, social and governance assessment is integrated into the bank's decision making process for new and existing clients.

Water, food and energy security affect the health and prosperity of millions of people across Standard Chartered's footprint in Asia, Africa and the Middle East. By providing finance effectively and responsibly, the bank believes it can have a positive impact and help to instrument change. Gill James, Head of Sustainability says, 'You have to approach sustainability as a core business issue – and then you see the real benefits.'

Table 1: Business benefits from sustainability

Company value chain		Revenue generation	Cost control	Building trust	Risk management
Procurement and logistics	• *Supply chain* • *Warehousing* • *Equipment* • *Inbound logistics*	The **Co-operative** switched its own-label chocolate to Fairtrade suppliers in 2002, resulting in a 50% sales volume uplift in the following 12 months.[16]	**Walmart** substantially exceeded a target of 25% improvement in fleet efficiency against 2005 baseline within one year.[17]	**Walmart's** ethical standards programme for sourcing merchandise is recognised as one of the 'gold standards' in the industry.	In July 2009, energy drink manufacturer **Red Bull** was ordered to pay over £270,000 in fines and costs for breaking recycling laws.[18]
Operations	• *Products* • *Services* • *Operations* • *Buildings* • *Manufacturing*	**Philips** earns 38% of total revenue from 'green product' sales (up from 31% in 2009).[19] **M&S's** 'Plan A' generated £50m profit from new products – such as M&S Energy which provides insulation and solar panels for 300,000 customers – and reduced costs in only the third year of its operation in 2009-10.[20]	**IKEA** saved £1m by removing plastic bags from checkouts in the UK in 30 months.[21] Its stores are 9% more energy efficient compared to 2005.[22] Japanese pharmaceutical firm **Tanabe Seiyaku** hit annual savings of ¥33m with new environmental accounting techniques.[23]	**GE's** brand value increased by 17% after the launch of 'Ecomagination', a business initiative to meet customer demand for more energy-efficient products.[24]	**Taylerson's Malmesbury Syrup** realised that sales of their products were linked to cold weather and would decline within the next 20 years as winters become milder. The product range was reviewed and they now provide syrups to be used with ice creams and cold frappes.[25]
Marketing, sales and service	• *Marketing* • *Sales* • *CRM* • *Retail* • *Customer service* • *Outbound logistics*	**Vodafone's** 'Carbon Connections' report demonstrates a potential for 113Mt reduction in CO_2e and €43bn in cost reductions through 1bn new mobile connections.[26]	**M&S's** 'Marks and Start' programme (work experience for disadvantaged adults) has lower attrition rates than comparable schemes for new employees.[27]	77% of consumers have, in the past year, refused to buy products/services from companies they do not trust. Trust must be built or sales are put at risk.[28]	The **Co-operative Bank** showed the risk associated with a loss of trust, citing the 'flight to trust' after the banking crisis as one of the key drivers of a 38% increase in their own current account sales in 2009.[29]
Support activities	• *Finance* • *Technology* • *R&D* • *HR* • *Legal* • *Firm infrastructure*	**Novo Nordisk** bring products to market faster by including environmental, social and economic impacts in new drug applications.[30]	**Fife Council** have identified additional cost avoidance opportunities of £75m that can be achieved by improving its carbon reductions by a further 3% per annum between 2007 and 2021.[31]	Graduating MBAs from leading **North American and European business schools** are willing to forgo financial benefits to work for a more ethical employer.[32]	**Ribena** noticed that local weather patterns have been changing, affecting their blackcurrant harvests. They have been developing new varieties of blackcurrants that will thrive in a changing climate.[33]

Section 3:
Driving business benefits from sustainability

It is one thing to accept that sustainability can create and protect long-term value for shareholders and other stakeholders. But uncovering, measuring and maximising that value is an entirely different challenge. It requires organisations to monitor activities using some kind of SPM approach.

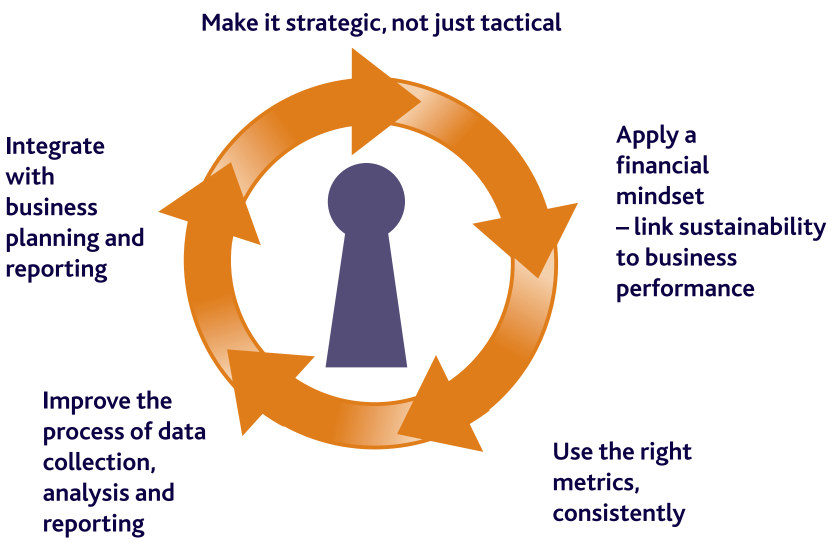
There are five key steps to making that happen (see Figure 2). Together, they create a self-sustaining system that ensures an organisation is both sustainably managed and is reaping maximum business benefits from its sustainability efforts.

Sustainability performance management

Accenture defines SPM as the process of:

- Identifying social, environmental and economic drivers that influence the success of an organisation.
- Establishing a system to set sustainability goals, then measuring progress against those goals.
- Aligning sustainability goals with other markers of business performance.

Figure 2: Creating a virtuous circle for sustainability performance management



1. Make it strategic, not just tactical

A form of sustainability performance management is often adopted as a tactical response to ever-increasing demands for sustainability data – such as employee diversity or CO_2 emissions. But it is rarely made part of the strategic planning process. As early as 2008, CIMA was warning that taking a piecemeal and reactive approach to these issues as they emerge creates a major risk that organisations will be wrong-footed by potentially colossal external change.[34] In other words, they could suffer a massive strategic failure.

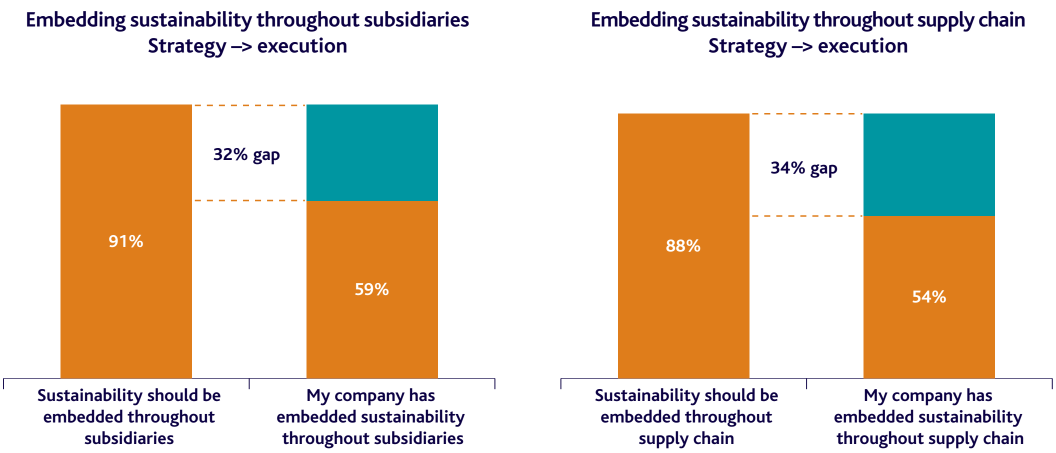
Many companies are starting to develop a more strategic approach to SPM. They are aligning sustainability activities with key business drivers and processes. That in turn means sustainability data can truly help management understand the levers that most influence business performance. The net result of this fully-fledged SPM is that sustainability becomes an integral part of strategic planning.

Unfortunately, in many organisations there is still a divide between good intentions and execution. Figure 3 shows the gap between CEOs who agree sustainability should be embedded within their organisation – and those who say that in their company, it already is – a classic 'execution gap'.[35] Making a commitment to sustainability is one thing but making SPM a strategic issue – in other words, having hard, relevant data and using it at every level of decision-making – closes that gap.

Where SPM reveals critical threats or opportunities, they can be addressed within the organisation's strategy and endorsed by its leadership. SAB Miller, for example, has ten clear sustainability priorities monitored through the corporate accountability and risk assurance committee (CARAC) of its board. These include general commitments to embedding sustainable behaviours. But it also details specific steps, such as discouraging irresponsible drinking and investing in local suppliers. These are designed to safeguard the company's 'ecosystem' – not its environment necessarily, but its supply chain and credibility with customers and regulators – and ensure its 'licence to operate' is never jeopardised.

But the best strategy in the boardroom means nothing if operational personnel feel disengaged or burdened by SPM. Woodbine Entertainment Group, a Canadian horse-racing operator, addressed this problem by setting up a team of managers and front-line staff to identify savings from environmental projects, such as waste reduction, the use of solar-powered lighting and rebates to fund energy-efficiency systems.[36] This empowers both management and staff, as well as making a contribution to the bottom line. It also shows how strategic commitment to gathering the right data and to managing outcomes benefits both the business and its sustainability profile.

Figure 3: Perceived execution gap for sustainability performance management



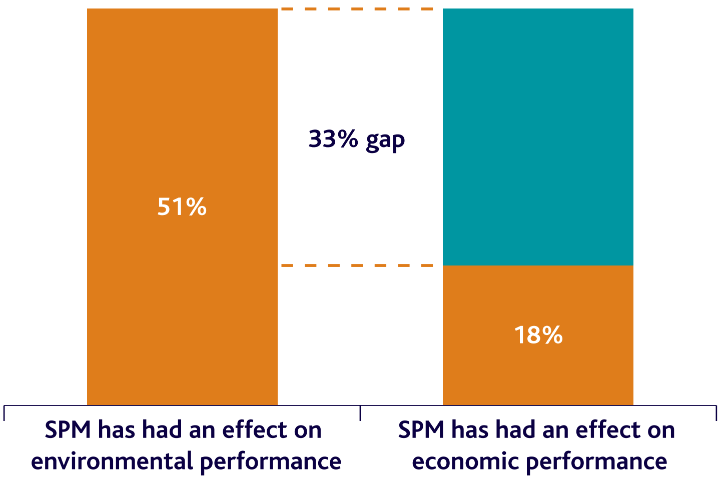
2. Apply a financial mindset – link sustainability to business performance

The most common barriers to incorporating sustainability into business decision-making are a perceived inability to quantify the effect of sustainability factors on financial performance and to measure the impact of sustainability initiatives on shareholder value. This explains the low proportion of executives we interviewed who believe SPM has driven economic improvements (Figure 4).[37]

Defining the link between sustainability and business performance becomes more important as investors start to look at the risks and value of sustainable products, services and behaviours. Although some investors are now asking hard questions about the long-term availability of essential resources such as water,[38] in general they tend to omit sustainability from their valuation models – 86% of CEOs see 'accurate valuation by investors of sustainability in long-term investments,' as important to reaching a tipping point in sustainability.[39] CFOs can bridge this gap by emphasising that the ability of a business to create and protect long-term value lies at the heart of any sustainability programme. Strong SPM tools make that link explicit.

Creating this link internally need not be overly complex. For example, Logica Benelux simply altered the way it reported overheads to business units and office locations. By billing them directly – rather than pooling energy costs – the company created a clear benefit for local managers to operate more efficiently. CFO Jan Piet Valk admits that pushing sustainability onto the agenda is not simple; however, when the finance function makes clear the effect on P&L performance at every level, the discussions become much easier.[40]

Figure 4: Perceived performance gap

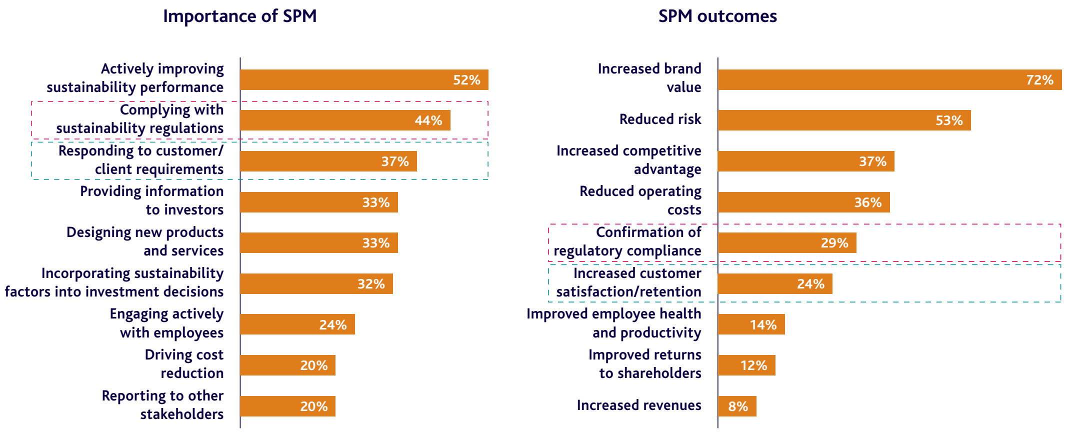


3. Use the right metrics, consistently

Once a link with performance becomes a priority, it is vital to use the right metrics – data that explains where and how sustainability is making a difference. Ideally, organisations should use the most important measures to avoid creating an information burden and to maintain the clarity of the link.

In some organisations, there is no immediate connection between the drivers of sustainability and the outcomes that are measured. Figure 5 shows that two of the most important drivers for SPM are 'complying with regulations' and 'responding to customer queries and requirements,' according to survey respondents. Despite this, only 29% feel that SPM contributes to compliance and 24% to customer satisfaction and retention.[41] It is perceived as contributing value – but not in the ways expected.

Figure 5: Discrepancy between sustainability performance management drivers and outcomes



One solution would be commonly accepted metrics and methodologies for reporting on sustainability both internally and externally. One in five respondents to the Accenture survey does not know on what basis they report sustainability data. There are many competing frameworks – such as the Global Reporting Initiative, DEFRA's Environmental Reporting Guidelines, or the Global Environmental Management Initiative – all with different metrics. Organisations such as The Prince's Accounting for Sustainability Project,[42] the World Business Council for Sustainable Development and the Carbon Disclosure Project are also working on ways to make sustainability data and reporting more consistent.

Even when a business is armed with accurate and relevant data, there is rarely a framework in place to ensure it is used to make better decisions. In some cases, the problem is one of too much information. As Chen Ying of the Beijing Rong Zhi Institute of Corporate Social Responsibility explains, 'Measuring these outcomes is difficult. You either are too broad or too narrow in what you measure. Striking the balance is the challenge.'[43]

Finance functions are used to prioritising information to help effective decision-making and they understand the difference between 'must-have' data (on regulatory compliance, for example), 'want-to-have' information that will drive better performance and extraneous material that serves no real business purpose. So they are well placed to select and explain the right metrics to show performance over time.

> *Finance is embedded into each of our operations – product development, marketing and sales, purchasing and manufacturing, administration and so on. This gives us a strong cross-functional stance and corporate viewpoint that ensures finance is not only welcomed but invited into the core of our project teams.*
>
> **Richard Shore, Controller of Global Marketing and Sales, Jaguar Land Rover**

4. Develop robust systems and processes for sustainability performance management

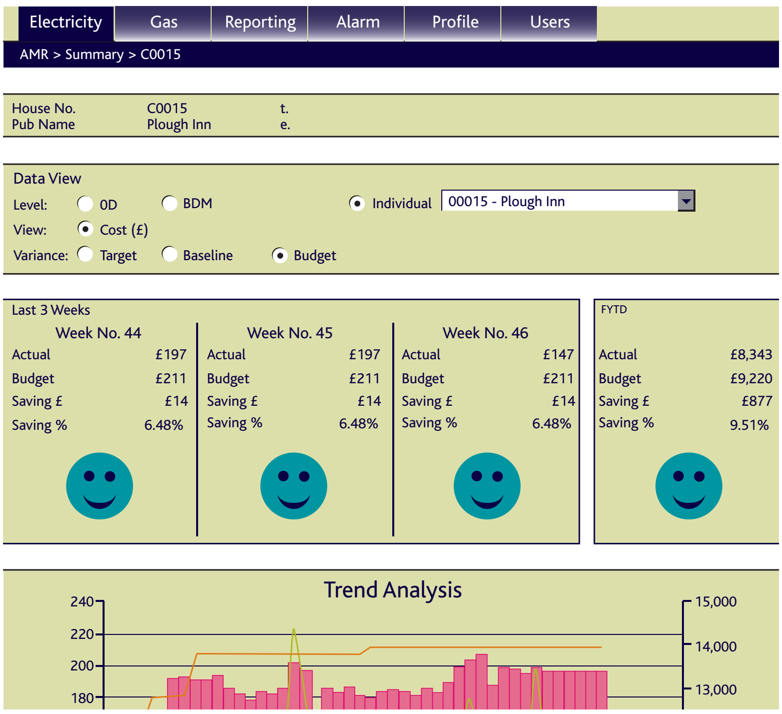
Even with the right metrics – showing an explicit link to business performance, in line with a holistic strategic plan – SPM still demands meticulous organisation. At the moment, the process of collating SPM information in many companies is manual, inefficient and prone to data quality issues.

Two-thirds of respondents to Accenture's survey use Microsoft Excel to collect sustainability data, with 57% using it for data analysis.[44] Excel can be a powerful tool but it does not have the same level of robustness as the commonly used financial reporting systems. Companies such as SAP,[45] Oracle,[46] Enablon, IHS and SAS are selling dedicated SPM functionality – exploiting the fact that ERP systems automatically gather and share data across the enterprise.

It is also essential that the process of collecting SPM data be as invisible as possible to front-line users. If it is dependent on discrete systems or multiple additional procedures, there is a risk the data will simply not be collected. Equally, internal SPM reporting should be part of the standard business systems to ensure the data is used consistently as part of decision-making, not simply tacked-on as an afterthought.

One common and often very successful approach is to incorporate sustainability metrics into the management dashboards used to monitor real-time performance or support day to day decision-making. At Punch Taverns for example, monitoring more than 6,700 pubs' sustainability performance would be incredibly difficult without a systematic approach to the data. In this case, it is presented in an easy to understand format on a management dashboard (see Figure 6), which also makes it simpler to spot exceptions and problem areas so they can be addressed quickly.

Figure 6: Punch Taverns's dashboard system allows decision-makers to quickly drill down into complex data for individual operating units.



5. Integrate SPM with business planning and reporting

Applying robust systems and methodology to SPM data leads naturally to the final step: complete integration with business planning and reporting. That means bringing two disciplines closer together. At the moment, finance professionals say a lack of relevant data is a significant barrier to SPM. Meanwhile sustainability professionals cite inadequate resources, such as expertise, money or people.[47]

If sustainability data and analysis has to meet the same collating, analysis and auditing standards as financial data, the external investor community might also begin to factor it into valuations.

At the same time, finance professionals tend to lag behind sustainability experts in their understanding of the opportunities in this field.[48] SPM is a major help in allowing them to evaluate sustainability initiatives with the same diligence as other financial investments and to demonstrate their effect on the top and bottom lines. This also generates the insights that can guide future sustainability investment decisions.[49] With SPM, management can focus on the right activities and explain to stakeholders why they make sense.

This is a clear opportunity for the CFO. Collating and discussing rigorously assessed sustainability performance alongside other business metrics, especially when quarterly and annual results are communicated to the market, raises their profile and credibility. By working SPM insights into the planning and budgeting rounds, CFOs and their teams can embed sustainability much more meaningfully into an organisation than simply calling for business units or departments to follow, for example, a code of conduct.

Investor communications

Case study: Novo Nordisk

Since 2003 Novo Nordisk has introduced an explicit discussion of sustainability at investor meetings and road-shows. This has been a key to aligning its sustainability and financial reporting.

'We have done a lot in terms of investor education,' says Susanne Stormer, Vice President, Global Triple Bottom Line (TBL) Management. 'We have investor meetings where our mainstream analysts sit next to external environment, social and governance analysts. Cross-cutting conversations mean that the mainstream investors build understanding about what the ESG investors are looking for and ESG investors sharpen their way of thinking and learn about nailing sustainability down into something that can go into their analysis.'

Section 4:
The role of finance professionals in SPM

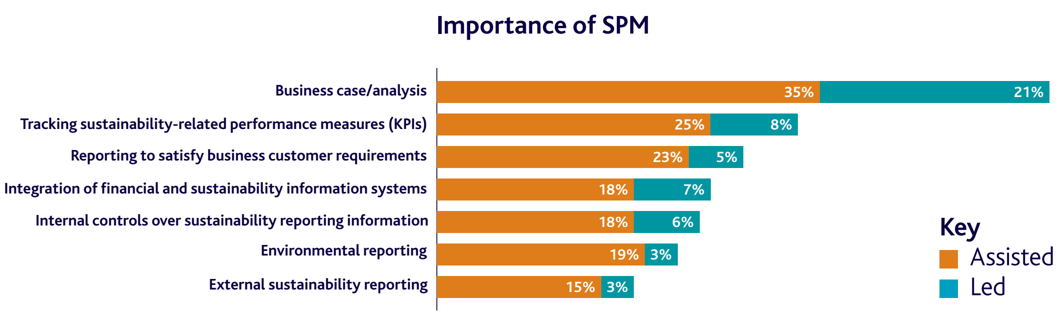
In a recent CIMA survey, the top three sustainability roles for the finance function were investment analysis, tracking KPIs and reporting metrics to meet business and customer needs (Figure 7).[50] Interestingly, other reporting activities remain somewhat lower down the list. In each case, the CFO is helping fulfil the three main business drivers for sustainability – efficiency, compliance and supporting revenue generation.

As we have seen in section 3, these are all important aspects of a functioning SPM programme. SPM cannot work effectively unless finance's role is made broader and more defined than the results of the two surveys suggest.

Interestingly, The Prince's Accounting for Sustainability Project (A4S) lists ten elements for embedding sustainability within organisations (see callout box). The CFO, as a leader and key strategic decision maker; and the finance function, as a central department, have roles to play in all of them.[51] However, there are three critical areas for the CFO and finance function that are under their direct control. They are entirely consistent with our own findings about successfully delivering value from sustainability:

- Integration with business planning to support targets and objectives (element 5) – to embed sustainability within the core decision-making fora of the organisation.
- Improving the process of data collection, analysis and reporting (element 10) – making the value from sustainability explicit.
- Linking sustainability to business performance systems (element 6) – to drive better decisions and then applying financial expertise to ensure they create more value.

Figure 7: Finance function involvement in sustainability projects



The Prince's Accounting for Sustainability Project (A4S): 10 steps to embed sustainability within an organisation

Strategy and oversight

1. Demonstrate board and senior management commitment.
2. Understand and analyse key drivers for the organisation.
3. Integrate the key sustainability drivers into strategy.

Execution and alignment

4. Ensure sustainability is the responsibility of everyone in the organisation, not just one team.
5. Break down overall sustainability objectives into meaningful targets for individual divisions and departments.
6. Ensure sustainability is taken into account consistently in day to day decision-making within routine business performance systems.
7. Provide sustainability training.

Performance and reporting

8. Include sustainability targets and objectives in performance appraisal.
9. Use champions to promote sustainability and celebrate success.
10. Monitor sustainability performance; integrate it into the existing data collection, analysis and reporting processes; and apply the rigour used in financial reporting for sustainability data and information.

How finance's role in SPM is evolving

Figure 8 shows that 66% of CFOs expect to play a leading or substantial role in SPM over the next three years.[52] Heads of sustainable development expect to maintain and even grow their own role in sustainability performance management too.

At present, finance plays a formal role in developing, implementing, monitoring and/or reporting on climate change in around only one third of global organisations.[53] Their most common role is in whole-life costing and they appear to be less involved in newly emerging areas such as tracking carbon footprints or climate change KPIs.

That will change. For example, accountants have a key role in assessing the financial impact of CO_2 reduction schemes, such as the UK's Carbon Reduction Commitment Energy Efficiency Scheme and carbon trading.[54] A recent study by CIMA showed that over half of companies do not estimate the carbon pricing implications of business decisions. 'We do a return on investment analysis with any capital project,' says a sustainability manager at a global consumer goods company. 'The cost of carbon does not get factored in, except maybe in a few ad hoc cases.'[55] As it becomes increasingly material to investment performance, companies like this will have to do so.

Working with finance

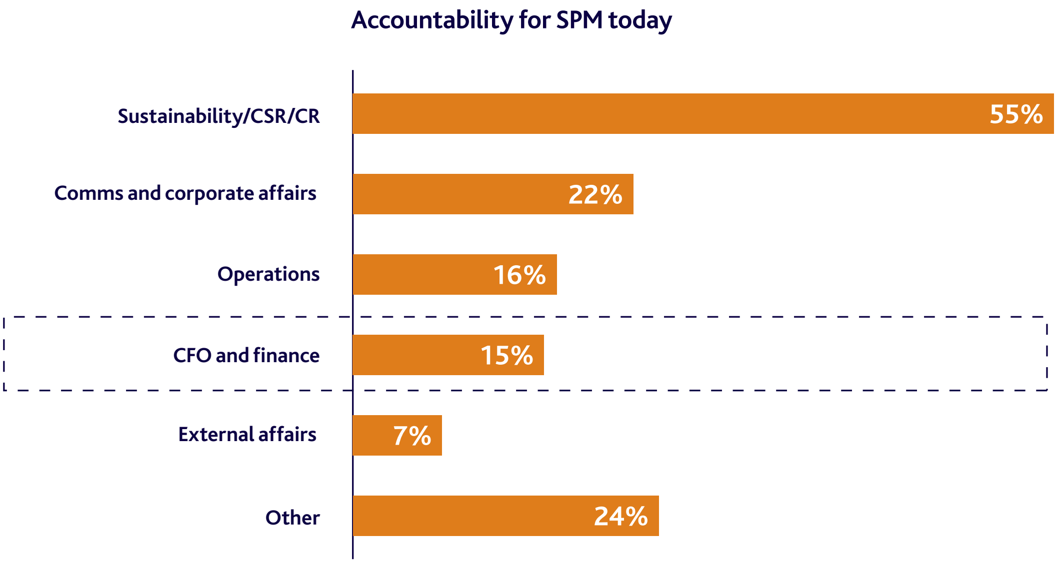
Case study: Standard Chartered

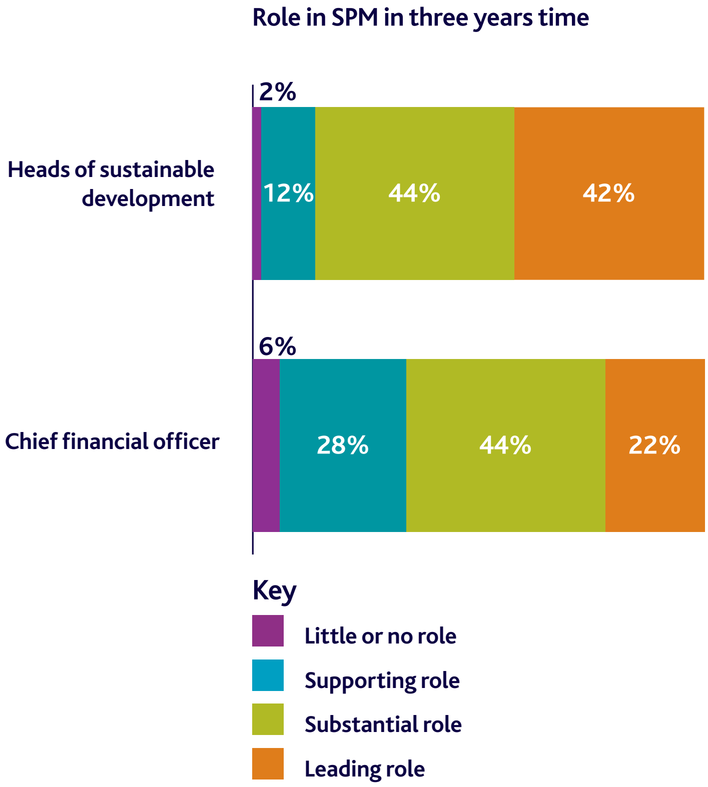
Standard Chartered has stringent environmental and social (E&S) policies for all its lending, debt, capital markets activities, project finance and advisory work. Frontline employees are provided with specific guidelines to identify E&S risks and are supported by the bank's Sustainable Finance team, who provide technical advice and assistance to ensure compliance.

'It's about bringing the rigour of running a business to running sustainability,' says Gill James, Head of Sustainability.

Standard Chartered's financing decisions are guided by a set of position statements, covering key sensitive issues and business sectors. The aim of the bank's sustainability risk management approach is to ensure that E&S assessment is part and parcel of the financial transaction process.

Figure 8: Role that CFOs are expected to play in sustainability performance management over next three years





Deploying the most appropriate skills

The absence of finance professionals from significant business decisions in areas such as carbon trading and compliance with new climate change regulations could result in higher costs, lost opportunities and reduced competitiveness.[56] Just as SPM can fail if it is not treated strategically and sustainability projects become expendable without a well articulated business case, failure to use the full range of skills within the finance function can damage an organisation's ability to uncover the real value of sustainability.

CIMA has identified eight core areas where management accountants can add the most value, bringing these concepts into their 'business as usual' accounting practices:[57]

- **Investment appraisal** for climate change initiatives
- **Whole-life costing**
- **Sustainability reporting**
- **Monitoring compliance** with climate change policy and regulation
- **Carbon accounting** and budgeting
- **Performance management** of environmental and social KPIs
- **Systems integration** and information flow between financial and environmental management systems
- **Carbon footprint** calculations.

A host of other management accounting skills are central to the integration of SPM with overall business performance management – such as cost-benefit analysis; environmental cost accounting; use of the balanced scorecard and activity based costing techniques; and transfer pricing.[58]

Finance robustness applied to sustainability

Case study: Novo Nordisk

Sustainability reporting at Novo Nordisk became more rigorous as a result of a close partnership between the finance and sustainability teams.

'We had to learn the dominant grammar of financial reporting and to speak more precisely, to be clearer in our definitions and to identify the sustainability drivers,' says Susanne Stormer, Vice President, Global TBL Management. 'We need to boil down these drivers to those of growth, return on investment, management quality and risk management. We are then speaking a language any CFO would understand.'

The sustainability team has learnt how to apply concepts of materiality to its reporting – a vital step. 'One of the big challenges is that non-financial metrics are missing the common denominators and we have therefore had to develop ways of collecting them which are more robust,' says Stormer.

'What we include in the financial report has to be material to investors. It's a way of weeding out some of the sustainability narratives, stories and examples. Your sustainability reporting has to be comprehensive, which is part of the robustness; and it has to cover the whole organisation.'

Blending financial and sustainability expertise

Even where the finance function is deploying these new skills – properly accounting for sustainability initiatives, modelling the risks and designing new techniques that account for real long-term value creation – it cannot successfully deploy SPM on its own. That demands a shared mindset and dialogue between sustainability and finance professionals.

Finance professionals need to develop a strong working knowledge of sustainability, its drivers and benefits. Sustainability professionals must learn to use the rigour of financial management to make their contributions to creating business value more obvious and credible (see Figure 9). There are a number of ways this can be achieved:

- Advise or lead on how to structure and integrate sustainability measurement and management to deliver results.
- Train heads of sustainability with appropriate financial skills.
- Build knowledge, skills and attitudes of finance professionals in sustainability and approaches to linking sustainability to business value.
- Assign finance professionals to sustainability, building a cross-functional SPM team.
- Integrate sustainability and financial reporting with the support of external advisers.
- Strengthen finance's business partnership role with heads of sustainability.

Why is combining finance and sustainability so important? Our research brings up a good reason. Half of the organisations we surveyed do not yet factor in carbon prices into business decision-making – although nearly two-thirds of finance and sustainability professionals believe that doing so would have an impact on key decisions. The problem is that 45% of finance professionals are unaware of how the price would affect their scenario analysis. So they need the expertise of sustainability professionals with their more informed understanding about the price of carbon.[59] Dialogue is essential.

Collection of accurate quantitative data is at the core of the integration process between financial and sustainability reporting. As well as the availability of more sophisticated software tools, as discussed above, organisations such as The Prince's Accounting for Sustainability Project are helping drive the standardisation of data that stakeholders such as investors can use.

Integrated financial and sustainability management systems

Case study: Novo Nordisk

Novo Nordisk has integrated sustainability information into its annual report by appointing a joint editorial team – with representatives from finance, investor relations, legal and operations – which has a common understanding of triple bottom line reporting. However, as Susanne Stormer, Vice President, Global TBL Management says, 'This is not the end result for us. The end is an integrated management system to develop this common understanding and framework. This applies not only to internal sustainability and finance professionals but also to the independent external verifiers.'

Given the current lack of internationally recognised standards in sustainability reporting, Novo Nordisk has worked with the external audit and assurance teams to explore how to develop a meaningful and value-adding assurance for its non-financial reporting. 'They have tried to stretch the boundaries for what is included in audit and assurance, which is necessary given the lack of sustainability reporting standards.'

Figure 9: Finance's contribution to the key steps around SPM

Conclusion

The UN Global Compact-Accenture CEO study shows the vast majority of CEOs are convinced that good performance on sustainability is good for business overall.

But as this report shows, obstacles remain which prevent sustainability initiatives from fully realising their potential benefits. There are dedicated software solutions to ensure data collection, analysis and reporting is easier and more effective than labour intensive manual or spreadsheet efforts. However, few companies have integrated sustainability into normal business systems and processes. It therefore does not routinely become part of business planning and reporting, which in turn makes it harder to demonstrate the business benefits to executives.

Although SPM is still at an early stage, we can illustrate the impact on the top and bottom lines through the results of some sustainability initiatives (Table 1) and the experiences of some early adopters that have been undertaking SPM long enough to provide useful case studies (Novo Nordisk and Standard Chartered).

The trend towards integrated reporting and the work of The Prince's Accounting for Sustainability Project, will help to accelerate the embedding of sustainability into organisations by providing a necessary and overarching reporting framework, as well as practical 'how to' tools and guidance.[60]

By employing integrated reporting and robust, practical tools and following the steps suggested in this report, finance professionals can play a pivotal role in ensuring that sustainability is routinely included in business decision-making and that the value it adds is identified and reported.

> *The finance team brings the right rigour to ensure that we are not just doing it because it feels like the right thing to do. It means we can't get carried away by a wave of populism or the latest trends. These guys can ground us: is it actually delivering what we think it's meant to be delivering?*
> **Dominic Burch, Head of Corporate Communications, Asda**

About us

About CIMA

The Chartered Institute of Management Accountants, founded in 1919, is the world's leading and largest professional body of management accountants, with 183,000 members and students operating in 168 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector and not-for-profit organisations. CIMA works closely with employers and sponsors leading edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employer's choice when recruiting financially-qualified business leaders.

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Accenture Sustainability Services helps organisations and governments achieve substantial improvements in performance and value while striving for a positive economic, environmental and social impact. We work with clients across industries and geographies to integrate sustainability approaches into their business strategies, operating models and critical processes. Our holistic approach encompasses strategy, design and execution to increase revenues, reduce costs, manage risks and enhance brand reputation and intangible assets.

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About Novo Nordisk

Headquartered in Denmark, Novo Nordisk is a global healthcare company with 87 years of innovation and leadership in diabetes care. The company also has leading positions within haemophilia care, growth hormone therapy and hormone replacement therapy.

www.novonordisk.com

About Standard Chartered

Standard Chartered is a leading international banking group. It has operated for over 150 years in some of the world's most dynamic markets and earns more than 90% of its income and profits in Asia, Africa and the Middle East. Standard Chartered PLC is listed on the London and Hong Kong stock exchanges as well as the Bombay and National Stock Exchanges in India. With 1,700 offices in 70 markets, the Group offers exciting and challenging international career opportunities for around 85,000 staff. Standard Chartered's heritage and values are expressed in its brand promise, 'Here for good'.

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Footnotes

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