1 FUNCTION DESCRIPTION

The Finance and Accounting (F&A) function oversees a company’s long range strategic financial planning and budgeting by preparing, analyzing and reporting financial transactions and positions. Finance has typically focused on regulatory compliance and financial reporting but increasingly plays a key role in setting corporate strategy and providing analysis that supports long-term investment and capital allocation decisions.

2 VALUE PROPOSITION

Integration of sustainability into the F&A function is key to support the company’s sustainability objectives. Fostering a better understanding of the financial value drivers of sustainability and “true cost” accounting that incorporates ESG factors and externalities will be conducive for greater long-term investments in sustainable business products and practices.

For F&A, the primary appeal of integrating sustainability into finance and accounting processes are the opportunities to cut costs and mitigate risks, which will be communicated through the quantification and valuation of sustainability initiatives. A Finance function that fully integrates sustainability will be better positioned to make strategic decisions on capital allocation, risk management for sustainability initiatives that incorporates and values ESG information for long-term value creation.

3 STRATEGIC INTEGRATION

Integration of sustainability begins with a decision and commitment to account for and communicate the value generated by ESG activities fully aligned with and integrated into traditional financial performance reporting.

It should be a priority for F&A to understand how investments to better understand and manage of sustainability-related risks can be used to support long-term stability, risk mitigation and growth and in an effort to improve the balance between long-term and short-term gains. To that effect, F&A should actively engage with the sustainability function in assessing the materiality of sustainability (ESG) issues, seeking to the extent possible to quantify the financial value drivers, and thus improve the understanding of the value that is potentially protected and created through sustainability strategies.

A strategic priority for Accounting should be to estimate the “true cost” of material, intangible sources of capital, including natural and human capitals, to adequately capture and report their role in the company’s value creation story.

4 OPERATIONAL INTEGRATION

Finance can integrate sustainability into its routine operations by managing investments, operating budgets and performance reviews in a similar format to other cross-functional, strategic initiatives of the company that have both tangible and intangible components.

For example, Finance should engage with other key functions in assessing materiality to help them estimate the financial value of sustainability. They should work with Strategy, Public Relations and Legal functions to develop disclosure policies that balance building trusted relationships with the protection of proprietary information. F&A teams should explore adapting internal accounting and control processes to emerging sustainability accounting standards.

Ultimately the F&A function should work to incorporate material sustainability issues into financial modeling and planning in the near- and long-term. It should actively consider sustainability criteria in all major investments, including acquisitions. The function plays a vital role in translating and integrating different sources of capital (e.g. human, natural, social, intellectual) into models and planning processes.

5 CULTURAL INTEGRATION

The F&A culture is dominated by analytical rigor, a tough-minded focus on the numbers, and strict adherence to accounting and reporting standards. As such, linking sustainability to quantifiable financial performance and long-term risk mitigation
will be necessary to achieve integration into the function. Long-term risk mitigation may be a useful entry point to begin to engage F&A teams into sustainability as a precursor to efforts to fully tie financial performance to sustainability.

Analysts and accountants may not be comfortable with disclosing information that is not mandated; therefore transparency should be positioned to create the governance processes needed to reduce future risk and to prepare for future reporting expectations. Pointing to the trends towards increasing regulation and standardization of both sustainability and integrated ESG reporting, whether demanded by stock exchanges or growing shareholder demand, will serve to increase the ownership that F&A have in establishing and tracking sustainability metrics, KPIs, and tracking systems.

Emerging Trends and Innovations

Emergence of CFOs as drivers of sustainability
CFOs, who in many cases play an important role in defining corporate strategy, are emerging as a positive force for sustainability integration within leading companies. To play this role, a CFO will understand that the trends of increasing transparency and regulatory demand for ESG information are bound to increase, both from cultural expectations and voluntary ESG reporting requirements from stock exchanges. Through the efforts of the Prince’s Accounting for Sustainability Project and others, CFOs are more willing to recognize and embrace the important role that sustainability can play in mitigating risks and enhancing long-term performance and productivity.

Integrated reporting and sustainability accounting
Efforts to create new frameworks to support companies’ efforts to integrate ESG information into standard reporting and accounting practices have emerged in the last five years. The International Integrated Reporting Council (IIRC), for example, aims to facilitate a process of integrated thinking within companies that help them communicate their unique value creation story to providers of financial capital. Organizations like the Sustainability Accounting Standards Board (SASB) are working to map the material sustainability issues by industry in order to facilitate reporting on sustainability performance in a way that is decision-useful and in line with regulatory reporting requirements.

Abolishment of quarterly reporting
In the 2013 Accenture-UN Global Compact CEO survey, just 15% of CEOs viewed quarterly reporting requirements as a barrier to long-term investment, but the abolishment of quarterly reporting is increasingly viewed as a way to signal to investors a company’s willingness to resist short-term pressures from investment markets. Leading companies may find that halting quarterly earnings guidance would allow managers to focus on building a successful sustainable business over the long-term instead of bending to pressures to meet earnings goals every 90 days.

Quantifying financial value drivers of sustainability
One of the biggest challenges for investors who aim to incorporate sustainability information into their investment decisions is the perception that sustainability performance is either immaterial or unlinked to financial performance directly. Emerging frameworks, like the Value Driver Model, attempt to quantify these direct impacts of sustainable business strategies. It is recommended that companies begin their efforts to communicate business value with simple metrics that reflect how a sustainable business strategy bears directly on three key concerns of investors: 1) current and future revenue growth, 2) the organization’s overall productivity and operating margin and 3) the firm’s exposure to risk.