

The background of the cover features a dark blue, textured surface with a network of white lines and glowing nodes, resembling a digital or data network. A hand is holding a glowing lightbulb in the center, with the globe of the Earth visible inside the bulb. A solid green vertical bar is on the left side of the page.

FINANCE FUNCTION PARTNERING FOR THE INTEGRATION OF SUSTAINABILITY IN BUSINESS

ABOUT THE AUTHORS

Kristine M. Brands, CMA

Assistant Professor of Management,
United States Air Force Academy*

Shari Helaine Littan

Manager, Corporate Reporting
Technical Activities
IMA® (Institute of Management Accountants)

* The opinions included are those of the author and not necessarily those of the U.S. Air Force Academy, the U.S. Air Force, or any other federal agency.



The Association of
Accountants and
Financial Professionals
in Business

IMA® (Institute of Management Accountants) is a global professional association focused exclusively on advancing the management accounting profession.



For more information, please visit www.imanet.org.

© June 2020 // Institute of Management Accountants, 10 Paragon Drive, Suite 1, Montvale, NJ 07645

TABLE OF CONTENTS

Executive Summary	4
Background	5
Applying the Finance Partnering Framework to Integrate Sustainable Business	8
The Challenges to Effective Partnering with Sustainable Business Teams	9
Three Core Components and Nine Pragmatic Actions toward an Integrated Enterprise	9
Create a mandate for partnering on sustainable business activities	9
1. Drive the right culture	9
2. Secure buy-in	10
3. Highlight your proof points	10
Fix the information: enhancing quality of data insight	12
4. Measure what matters	13
5. Simplify the technology landscape	14
6. Sort the data	15
Deploy the talent: Financial professionals with the mind-set to meet challenges	16
7. Create effective structures	16
8. Plan for capabilities that matter	16
9. Change the finance mind-set	17
Conclusion	18

EXECUTIVE SUMMARY

Shareholders, customers, employees, policy makers, and communities are looking to businesses not only to produce profits but also to deliver progress on global economic, social, and governance issues such as climate change, corruption, deforestation, gender and ethnic diversity, and decent work for all. In response, companies are shifting priorities to meet these demands in a way that drives value.

CFOs and finance function professionals may perceive sustainable business initiatives and reporting as outside the scope of their external reporting responsibilities and too burdensome. As a result, this work has fallen on a separate, sustainable business or corporate responsibility team outside the CFO function. Members of the finance function, however, have unique and critical skills to contribute to make the work of the sustainable business team more complete, accurate, and business-relevant. Establishing an internal partnership allows the corporate finance and accounting team to serve as business partners for improved decision making across the enterprise.

The finance partnering framework described in the 2014 IMA® (Institute of Management Accountants) and Association of Chartered Certified Accountants (ACCA) joint report, *Financial Insight: challenges and opportunities* (IMA-ACCA report), can be readily applied to facilitate this partnering.¹ It was developed to overcome the typical challenges, such as leadership, time commitments, technology, terminology, and education, that hinder effective cross-functional collaboration. To surmount these hurdles, the framework encourages CFOs to consider three core components: mandate, information, and talent. Within each of these components, the framework provides three pragmatic actions that can be adapted by any organization to improve the partnering process.

No single “one-size-fits-all” or “check-the-box” approach applies to the larger question of how an organization progresses toward integrating sustainability into its business or the narrower question of how the finance function innovates to meet new internal and external stakeholder expectations. Yet considering the three components and the nine pragmatic actions is an effective catalyst for observation and building capabilities. Each point raises questions that result in new insights on how a CFO can lead beneficial innovation toward an enterprise-wide perspective on sustainable business endeavors, regardless of whether the organization is beginning its journey or already has years of progress. CFOs and their finance teams can use the framework to collaborate with their organization’s sustainable business function to enhance the development of an integrated enterprise, built for performance and long-term value creation, that can satisfy the demands of multiple categories of stakeholders. •



¹ IMA and ACCA, *Financial insight: challenges and opportunities*, September 2014, www.imanet.org/insights-and-trends/business-leadership-and-ethics/financial-insight-challenges-and-opportunities.

Background

Today, organizations are setting broad sustainable business goals based on their purpose, values, and strategy.

Many business professionals view the term “sustainability” through the lens of external demands for information on how a company affects society and the planet on issues such as climate change and deforestation. Numerous organizations have become members of the United Nations (UN) Global Compact, which expresses voluntary consent in aligning a company’s efforts toward improving our increasingly global society, as articulated in the strategic development goals (SDGs).

Full consideration of the concepts around “sustainable business,” however, reflects an understanding that a broad range of nonmonetary resources on which an enterprise relies, such as water, energy, and human talent, are limited and valuable. Business sustainability also means operating in a way that reflects an understanding that the Earth’s ability to reabsorb the wastes of modern production, such as greenhouse gas emissions and plastic waste, is also limited.

It is often difficult to make the business case for sustainable business initiatives unless they are linked to financial results. While there are challenges to measurement, significant research



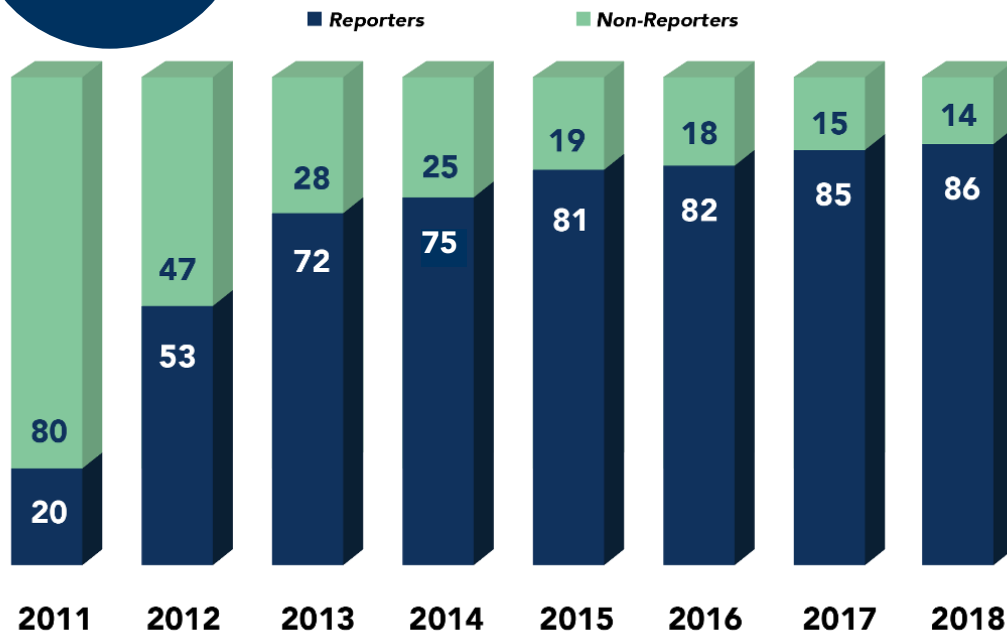
in recent years by leading financial institutions, consulting firms, and academics has established connections between following sustainable business practices (also referred to as ESG for environmental, social, and governance) and better performance; fewer bankruptcies and the cost of debt; improved top-line growth, lower costs, and fewer regulatory inquiries; market value; liquidity; and expected future cash flows.² Therefore, an entity's careful attention and planning around how it utilizes all available, valuable resources enables

it to realize benefits expressed in the value of intangible assets, long-term performance, and long-term organizational value.

As a result of increased attention to ESG issues, more companies are issuing external reports to meet the demand of investors and other stakeholders. For example, in 2019, the Governance & Accountability Institute reported that between 2011 and 2018, the percentage of S&P 500 companies preparing sustainability reports increased from 20% to 86% (see Figure 1).

FIGURE 1:
Percentage of S&P 500 Companies Preparing Sustainability Reports, 2011-2018

Governance & Accountability Institute Research Results
S&P 500® Companies Sustainability Reporting



Based on work by the Governance & Accountability Institute, 2019 (see ga-institute.com/press-releases/article/flash-report-86-of-sp-500-indexR-companies-publish-sustainability-responsibility-reports-in-20.html).

² Robert G. Eccles, Ioannis Ioannou, and George Serafeim, "The Impact of Corporate Sustainability on Organizational Processes and Performance," *Management Science*, February 2014, pp. 2,835–2,857; Johan Trocmé and Kristina Kruse, *The Death of Dirty Investing*, Nordea on Your Mind, Nordea Markets, Corporate Research Report, October 9, 2017, nordeamarkets.com/da/nordea-on-your-mind-the-death-of-dirty-investing; "ESG Matters - US: 10 Reasons You Should Care About ESG," Bank of America Merrill Lynch, 2019, bofam.com/content/dam/boamlimages/documents/articles/ID19_1119/esg_matters.pdf; Witold Henisz, Tim Koller, and Robin Nuttall, "Five ways that ESG creates value," *McKinsey Quarterly*, November 14, 2019, mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value; Douglas Beal, Robert Eccles, Gerry Hansell, Rich Lesser, Shalini Unnikrishnan, Wendy Woods, and David Young, *Total Societal Impact: A New Lens for Strategy*, Boston Consulting Group, October 2017, media-publications.bcg.com/BCG-Total-Societal-Impact-Oct-2017.pdf; Mary E. Barth, Steven F. Cahan, Lily Chen, and Elmar R. Venter, "The Economic Consequences Associated with Integrated Report Quality: Capital Market and Real Effects," *Accounting, Organizations and Society*, October 2017, pp. 43-64.

In August 2019, more than 180 U.S.-based CEOs, committing to the Business Roundtable Statement on the Purpose of a Corporation, stated that the future success of their companies, communities, and nation depends on a fundamental commitment to deliver value to each of their stakeholders. In January 2020, BlackRock’s CEO, Larry Fink, further endorsed sustainable business performance by indicating that the world’s largest asset manager would incorporate ESG into its investment decision making.

In response to these evolving demands, companies are taking steps toward incorporating sustainable business activities and adopting an integrated enterprise approach to their governance, strategy, and operations. Yet as many finance professionals observe, over the last several decades, the finance function has become burdened by reporting, governance, and compliance matters, which continue to increase in both volume and complexity. At many companies, this has limited the ability of the finance team to take on these evolving

corporate informational demands. Depending on the industry and corporate structure, the professionals leading the organization’s sustainable business activities and external reporting typically sit outside the CFO unit in a variety of business units such as corporate social responsibility (CSR), public policy, integrated reporting, corporate communications, or sustainable business. Some companies look to outside accountants and consultants to address sustainable business issues. Regardless of the terminology, these corporate professionals can be referred to as a company’s “sustainable business” team.

Despite these relatively siloed functions, organizations can evolve toward an integrated enterprise approach by improving their capabilities and processes toward shared objectives. Specifically, applying the partnering framework described in the IMA-ACCA report can facilitate effective cross-functional collaboration between the finance function and an organization’s sustainable business teams. •



Applying the Finance Partnering Framework to Integrate Sustainable Business

CEOs in many organizations have been reaching out to functions outside the finance team to build capabilities for responding to the increasing demand for sustainable business initiatives and performance information. This includes project oversight and external reporting. The IMA-ACCA report established an approach to help corporate finance functions meet the objective of partnering with other business functions throughout an enterprise to achieve shared objectives. This finance partnering framework provides specific guidelines to facilitate cross-functional collaboration between the finance function and other business units. In this way, the finance partnering framework embodies many of the capability-building techniques for process management described in the Capability Maturity Model Integration (CMMI) (cmminstitute.com).

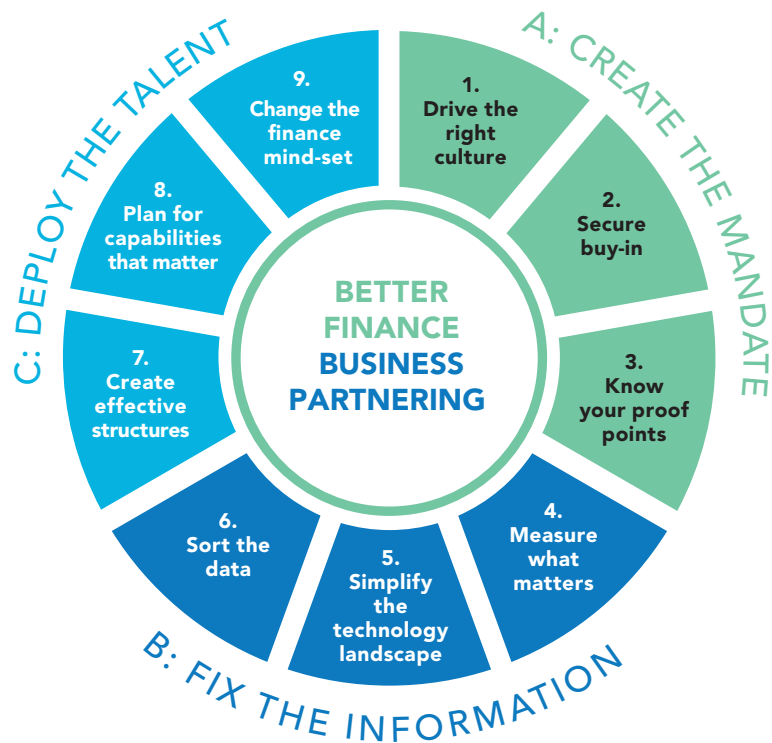
The IMA-ACCA framework provides three components, each of which contains three pragmatic actions, as depicted in Figure 2.

As detailed in this report, the finance partnering

framework is used to identify steps, and the ideas behind them, that CFOs and professionals in the finance function can use to overcome challenges and serve other teams in the organization as an instrumental partner toward setting and achieving enterprise-wide strategies, tactics, and objectives. These suggested action steps include

avoiding overly technical language and acronyms; creating infrastructure, policies, and processes; and enhancing capabilities. These pragmatic points can improve structures and incentives that support leadership and the development of internal strategic alliances between the finance function and the sustainable business function.

FIGURE 2: FINANCE PARTNERING FRAMEWORK



Source: IMA-ACCA report.

The Challenges to Effective Partnering with Sustainable Business Teams

At many companies, members of mainstream finance and accounting functions have been either remotely involved or completely uninvolved in the development of their organizations' sustainable business activities. Finance unit professionals often cite practical challenges that hinder effective internal engagement:

- **Leadership and strategic alliances:**

The perception that the finance function is overextended with regulatory and compliance responsibilities often makes these professionals reluctant to take on new duties, such as participating in sustainable business projects and reporting.

- **Ineffective tools:** Typically, sustainable business teams lack formal processes and adequate infrastructure, such as resources and standardized tools, policies, platforms, and data collection and analysis software, that is available to the finance function. The finance team may find the sustainable business function's lack of infrastructure and formalized policies frustrating.

- **Technical language:** Many finance team members use "finance-speak," that is, shorthand, acronyms, and technical language to describe regulations, mandatory financial reporting guidelines, market expectations, and measurement techniques. Further, much of the work of the sustainable business function typically rests on the same terminology, such as "disclosure," "materiality," and "capital," as the financial reporting teams, but they use these terms with different interpretations or implications.

- **Talent, education, and capabilities:**

Although integrated enterprise concepts seem novel to many finance professionals, the sustainable business arena has had several years of development as a discipline. Therefore, finance function members may feel ill-prepared to partner with the sustainable business team.

Three Core Components and Nine Pragmatic Actions toward an Integrated Enterprise

The finance partnering framework provides three components, each of which contains three pragmatic actions. Applying these action points can facilitate the finance function's partnering with other functions to champion integrated collaboration for sustainable business.

Create a mandate for partnering on sustainable business activities

The evolving business climate presents the opportunity for the finance function to help the business create and sustain value. More than ever, finance can provide the enterprise with great decision support that makes a real difference to business performance (IMA-ACCA report, p. 8).

1. Drive the right culture. Companies that have successfully established and integrated sustainable business all report that governance, that is, senior leadership through words and actions, has been the catalyst for change. The tone at the top expresses and demonstrates a culture that balances ethics and values with performance. As a member of the senior leadership team with responsibilities for direct board interaction, risk management, and strategy setting, the CFO is in a strong position to drive the culture toward business sustainability by articulating and embodying the organization's purpose and values. The power of bold leadership and a single, innovative idea can prove transformative.

The CFO, serving as a critical link between the organization's executive suite and the finance function's day-to-day performance, has unique expertise and capabilities to serve as a successful, hands-on champion. The CFO sets the tone within the department and therefore can drive the culture in a way that permits finance function professionals to serve as change agents within the organization. That is, through leadership and mentoring, the CFO encourages the finance function to view an integrated approach as important for business success.

? **Questions that provide insight for action:**

Does the organization's stated values and ethical policies reflect the CFO's input?

Does the organization provide incentives to senior executives to achieve sustainable business objectives? Does it provide incentives to middle management?

Does the organization peg the CFO's compensation not only to achieving financial goals but also to meeting sustainable business targets?

Does the CFO serve as a role model and mentor to members of the finance function regarding ethics and values?

2. Secure buy-in. Effective partnering requires the finance function to develop structures (ranging from informal to formal) that invite the sustainable business team or other relevant teams to seek them out. Interviews by IMA reveal that companies that are successfully integrating sustainable business initiatives have established vibrant collaboration between their finance teams and their sustainable business teams (see "IMA White Paper" sidebar on p. 12). In summary, at several companies, the CFO has facilitated this partnering process through several steps:

- Initially, connecting through introductory meetings.
- Over time, continuing the information exchange through educational, knowledge-sharing sessions on the fundamentals.
- Eventually, establishing an integrated task force that includes members from finance and accounting, sustainable business, investor relations, treasury, and other relevant functions, such as human resources, facilities, and engineering. This cross-departmental task force holds regular meetings, typically led by the CFO.

Developing this cross-functional process creates an invitation for other teams to pull in the finance team as they plan and execute sustainable business projects. Creating structures facilitates buy-in across the organization. Once the team is created, it can be formalized to promote accountability and measure progress toward shared goals.

? **Questions that provide insight for action:**

Has the CFO initiated an introductory meeting between the finance function and the organization's sustainable business professionals?

If so, has the cross-disciplinary discussion addressed common goals and responsibilities? A shared vision regarding the organization's business model and strategy?

Do the organization's sustainable business professionals feel welcome and comfortable reaching out to and engaging the finance unit to consider new projects and ideas?

Has the CFO encouraged members of the finance function and the sustainable business function to engage in a knowledge-sharing session to address the latest matters that affect the organization?

Has the organization formed a multidisciplinary task force to handle sustainable business initiatives and reporting? Are there regularized communications? Have they formalized into an ongoing or permanent task force or cross-functional team?

3. Highlight your proof points. The finance function can demonstrate how its insight on sustainable business creates value. It is beneficial to identify and tout the success points of collaboration. The finance team has the training and expertise to make the business case for sustainable business initiatives and link project

expectations to financial performance. In many companies, the finance team has not participated in this role; however, team members are well-suited to evaluate the contribution of sustainable business initiatives by estimating financial effects, such as the value of:

- Customer retention
- New customer relationships
- Supply chain relationships
- Predictable overhead costs
- Employee commitment
- Transparency with regulators and policy makers
- Lower financing costs (through reduced risk).

The value that results from successful partnering with the sustainable business team allows the organization to share enhanced benefits with multiple stakeholders, including investors, employees, customers, and policy makers.

Showcasing success points brings beneficial recognition to the finance function, particularly if the CFO and senior members demonstrate the ongoing value they bring to the enterprise. Highlighting and showcasing proof points enhances the finance function’s partnership role by identifying additional resources and opportunities for success. In summary, market the finance function’s contribution to the business by capturing and sharing successful, value-added initiatives.

HIGHLIGHTING PROOF POINTS: A CFO’S ROLE IN A SIMPLE DECARBONIZATION PLAN

A technology company’s head of sustainable business observes that CDP, a well-respected ESG rating organization, has awarded the company a C grade based on its greenhouse gas emissions. The company’s closest competitor has outperformed the company for the last seven years and received a B+ during the last reporting cycle.

She reaches out to the CFO and finance team with a plan for reducing the company’s carbon footprint (greenhouse gas emissions) related to the electricity used to power its data centers by purchasing renewable energy certificates (RECs). The certificates are issued by renewable energy companies, such as solar and wind-generating companies, to represent the renewable qualities of the energy that they deliver to the electrical system. Once a user buys a certificate, it cannot be resold. In effect, RECs allow a company to purchase the green aspects of energy separate from the energy itself.

Although initially hesitant, the CFO learns that the cost of RECs is modest, and there are demonstrable benefits. By putting a price on the greenhouse gas emissions aspect of electricity, the facilities and operations teams begin to pay detailed attention to energy usage, cost,

and alternative sources. The CFO foresees the program leading to innovative changes in the location and efficiency of the company’s data operations, which will cut energy costs by one third and net carbon emissions to zero.

These steps raise the company’s ESG rating on carbon emissions from a C to an A–, which allows it to catch up with its peers. It allows the company to place the phrase “carbon-neutral” on its content. And, as another intangible benefit, the finance function’s internal communications about this initiative raise the workforce’s appreciation of senior leadership and the finance team.





? Questions that provide insight for action:

Does the finance function work collaboratively with the organization’s sustainable business team to quantify the benefits of initiatives and projects on performance and value?

How does the CFO highlight and tout the finance function’s partnering successes to the CEO, board, and key internal or external stakeholders?

Fix the information: enhancing quality of data insight

How a business uses the data at its disposal to make more effective decisions will be the make or break of corporate success (IMA-ACCA report, p. 4).

Companies that are just beginning their journey into sustainable business initiatives perceive a vacuum of information to get started. Companies a bit further in their journeys, however, report that their most significant challenges are around data collection and processes. Finance function partnering can enhance the effectiveness of several high-priority applications:

- Selecting, interpreting, and implementing a recognized framework or set of standards—or the most relevant aspects of different frameworks and standards—for internal analysis and external reporting. Today, several alternative models exist to help companies use an integrated mind-set and identify the most relevant sustainable business indicators for their industries and that correspond to

their businesses. The most widely known are the International <IR> Framework of the International Integrated Reporting Council; the UN SDGs; the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); the Sustainability Accounting Standards Board (SASB) standards; and the Global Reporting Initiative (GRI) Standards. Generally, reporting companies are guided by these frameworks and standards, but they selectively apply the features of each.

- Deciding which major informational surveys (CDP, Sustainalytics, or MSCI) to complete and how to respond to requests for proposals (RFPs) that demand sustainable business information.
- Assessing ratings awarded by data aggregators and agencies.
- Conducting peer-to-peer analysis on relevant ESG data points and indicators.
- Financial planning and analysis for reducing the company’s carbon footprint.
- Assessing the financial risk of climate change and other ESG factors.
- Measuring the value of human capital resources.
- Measuring how key performance indicators (KPIs) correspond to long-term performance and value.

In interviews with IMA (see “IMA White Paper”), practitioners reported that finance function leadership on a variety of sustainable business and reporting activities is instrumental to understanding the connection between various metrics and the company’s business model.

IMA WHITE PAPER

For background on the perceptions of corporate professionals, see IMA’s white paper, *CFO as Value Creator: Finance Function Leadership in the Integrated Enterprise, 2020*, which summarizes interviews with more than 20 experienced professionals from among the corporate finance, accounting, investor relations, and sustainable business teams at major global companies.

4. Measure what matters. Many practitioners are familiar with the phrase “what gets measured gets managed.” This adage applies equally to traditional financial information and sustainable business information. The identification of the most relevant sustainable business information serves internal assessment and decision making and external reporting under new regulations, frameworks, and standards. The finance function can bring tremendous expertise to the sustainable business unit because its stock in trade is measurement and reporting. Determining what to measure, however, is not a compliance exercise; it requires business know-how and novel, enterprise-wide assessments. The finance function, partnering with the sustainable business team, makes the process of identifying the right metrics highly effective.

“Very often, we see that CSR teams are collecting large amounts of data on the company, but they don’t have the training or understanding

to connect this data in business terms,” said Aila Aho, an experienced green finance banker with Nordea. “The CFO and finance team automatically bring this perspective; this is what they’re trained to do.” The finance function’s core competency is to develop and apply measurements situationally. These professionals provide oversight on the integrity and usefulness of information to the company even for new business areas.

The finance function brings valuable insight to sustainable business teams that may not have experience identifying the most important metrics reflecting the underlying business’s financial point of view. For example, water is an important resource for a beverage company, but not for a financial services entity. Greenhouse gas emissions may be highly relevant for a vehicle manufacturer but less relevant for a professional services company. Moreover, although some indicators are expressed in financial terms, others are expressed as nonfinancial metrics, such as

MEASURING WHAT MATTERS: WATER-DEPENDENT OPERATIONS

In response to investor inquiries during a market slowdown, a consumer products company evaluates its long-term strategies for resilience. As part of this assessment, the CFO needs to understand how the company compares to its peers on ESG factors that the investors are accessing through commercial platforms. She holds a cross-departmental working session with members of her finance and accounting team, the CSR team, and the investor relations team. Together, they walk through all of the ESG factors on which the company reports vs. its peers in the industry. They target relevant aspects of the company’s rating, including packaging, health and safety metrics, water usage, greenhouse gas emissions, and the hiring and promotion of women and ethnic minorities to its management team. After an in-depth discussion led by the CFO, the team understands the most relevant ESG metrics for the business. During its next investor meetings, while addressing the short-

term downturn and demonstrating attention to risks, the CEO and CFO highlight the company’s long-term strategy with concerned institutional investors.

In addition, the analysis of ESG factors reveals that the company needs renewed attention to its water management because its operations rely on water sourced from water-scarce and water-stressed regions. Disruptions in available water could force the company to curb or discontinue production for extended periods. As a result, the company plans to prioritize new investments around water conservation. When implemented, the initiative will greatly improve the company’s efficient use of water resources and reduce future dependency on finding new sources. The initiative, moreover, will enhance the company’s relationships with its employees, its global customer base, and the communities in which it operates.

carbon emissions, gallons of water, or employee turnover. Identifying the most important indicators to the particular business—and monetizing them, whenever possible, to facilitate analysis—helps the entire enterprise become more focused and more sustainable. Leading companies are converting their carbon emissions usage, a nonfinancial measure, to a monetary cost. Using this data has resulted in millions of dollars saved through reduction initiatives. This targeted approach also helps the organization communicate its sustainability stories in a way that reflects the most relevant aspects of the business.

? **Questions that provide insight for action:**

Has the finance function counseled the sustainable business team to help it identify the most material ESG areas to the business?

Has it identified the most informative KPIs from a financial point of view?

Has the CFO and senior management used the analysis of the most material ESG factors as part of setting long-term strategy? As part of capital budgeting? To evaluate acquisitions or divestitures?

5. Simplify the technology landscape. The finance function can partner to incorporate sustainable business information into internal management reports and external financial reports. As companies mature in integrating these reporting systems and processes, sustainable business data is included in ongoing analysis of the organization’s financial and nonfinancial performance dashboard. The sustainability team prepares sustainable business performance data, which is reviewed by the CFO and the chief sustainability officer, for inclusion in external reports. An effective partnering model, however, allows for gathering, analyzing, and reporting on the most important sustainable business metrics for decision making.

Importantly, the CFO can coordinate the development of new processes and systems into existing governance and oversight. The finance function can partner to assess the big picture and help integrate sustainable business data into the company’s enterprise resource planning (ERP) system. Some companies may consider blockchain technologies to access ESG data on inputs from suppliers and provide it to customers. Blockchain is particularly useful for compliance with sourcing regulations, such as conflict mineral rules and modern slavery acts. Becoming a business partner to support sustainable business integration means evaluating the technology infrastructure, data sources, and systems used by the sustainable business function. This integration can free up resources by alleviating the challenges of reconciliations, global data collection, and the myriad of data streams.

? **Questions that provide insight for action:**

Does the finance function collaborate with the organization’s information technology team to improve the accumulation of relevant sustainable business information from other business units, such as human resources, facilities, engineering, and production? From operating units, globally?

Have the most important sustainable business performance indicators been integrated onto the primary decision-making dashboards?

Has the finance team, along with the organization’s sustainable business professionals, assessed its external reporting under standards and guidelines such as GRI, SASB, or the TCFD?

Has the finance function participated in preparing or reviewing the company’s responses to the major ESG rating organizations such as CDP, Sustainalytics, or MSCI?

SORT THE DATA: CREATING PROCESSES AND POLICIES TO LOWER FINANCING COSTS

In 2019, a global agricultural company and a financial institution executed a seven-year \$1 billion sustainability-linked financing arrangement. Unlike a green bond, which would have required the borrower to use the funds for specific sustainable business projects, the company can use the borrowed funds for any corporate purpose. In the loan agreement, the lender promises to reduce the interest rate if the borrower satisfies certain performance criteria: specified ratings by Sustainalytics (an independent rating company) and key indicators related to water use, greenhouse gas emissions, and deforestation. The lender believes that the borrower's attention to these targets will lower risks related to the financing. Aiming to meet

the incentives, the CFO, along with members of the treasury, sustainable business, and information technology departments, develop internal reporting policies and processes to gather the relevant data to report on compliance with the loan incentives.

The new processes will allow the company to reduce its borrowing costs. In addition, the processes will give the company new information about critical resources, enhance its management oversight, and improve its reputation. That is, the company not only gets a tangible benefit—reduced cash outflows for financing—but also enhances intangible assets: customer relationships, employee commitment, and community acceptance.

6. Sort the data. The CFO and members of the finance team are experts in designing and implementing governance and oversight structures that are effective and appropriate for the organization. This includes applying the Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control—Integrated Framework* and principles to ensure the relevance and integrity of sustainable business data and the translation of this data into meaningful financial information.³ The CFO and members of the finance team also provide leadership on the entity's risk management function by implementing well-accepted risk management frameworks and techniques, such as the COSO *Enterprise Risk Management—Integrated Framework*.

This raises a critical question: Which team should provide oversight of reporting processes and methodologies? Using their expertise, the finance team can further the value of sustainable business data, for example, by setting up coding practices, policies, taxonomies, and

systems that allow both the finance function and the sustainable business team to identify and capture the information so that it is useful for enterprise decision making. In partnering with the sustainable business function, the finance function can instruct and direct how relevant data can be accessed. These policies affect the sustainable business function as well as other business units that have relevant data that feeds sustainable business reporting and assessment. These include human resources, facilities, operations, engineering, legal counsel, policy, environmental health and safety, marketing, or corporate communications. It also encompasses establishing new policies with vendors to obtain relevant ESG data through the procurement process.



Questions that provide insight for action:

Has the finance function partnered with the sustainable business team to develop internal reporting policies for relevant data?

³ Robert H. Herz, Brad J. Monterio, and Jeffrey C. Thomson, *Leveraging the COSO Internal Control—Integrated Framework to Improve Confidence in Sustainability Performance Data*, IMA, September 2017, imanet.org/insights-and-trends/external-reporting-and-disclosure-management/coso-framework-and-sustainability.

Has the finance team used its expertise in corporate governance and internal controls to improve the quality, timeliness, and reliability of sustainability-related information?

Has the finance function (and legal team, as relevant) established systems to ensure compliance with new reporting mandates, such as European Union directives on nonfinancial reporting and modern slavery acts?

Has the finance team directed the sustainable business or integrated reporting team on obtaining assurance on its external reports?

Deploy the talent: Financial professionals with the mind-set to meet challenges

The finance function demonstrates its commercial acumen, its entrepreneurial spirit, and its willingness to take calculated collaborative risks by cross-departmental connecting, learning, and adjusting (IMA-ACCA report, p. 10).

7. Create effective structures. Finance function partnering with sustainable business teams requires effective departmental structures, roles, and responsibilities. Typically, members of the finance team are hesitant to participate in meaningful collaboration with the sustainable business team because they perceive their workload, focused on external reporting, is the

immediate priority. At the same time, CFOs seek to streamline the various demands and avoid overextending their teams. In order to facilitate finance function professionals to engage in cross-functional collaboration, the CFO can create structures that bring the finance function members closer to the sustainable business teams. As we have observed, this often means regular meetings by established, cross-functional teams. Many CFOs are implementing matrix reporting lines between the finance department, the sustainable business team, and other relevant disciplines, such as human resources, engineering, and investor relations.

Questions that provide insight for action:

Has the CFO, supported by the organization, created ongoing oversight of the sustainable business function?

Are members of the finance function assigned to support the sustainable business team as part of their responsibilities?

What is the reporting structure between the finance function and the sustainable business team?

Are measurable goals established for the collaboration?

8. Plan for capabilities that matter. CFOs must consider the evolving needs of their businesses and build finance functions with the right capabilities to respond. Companies are reporting that the CFO's participation in establishing business strategy is crucial. Effective business partnering requires the finance teams to deploy the essential skills of analysis, communication, and deep business understanding. This means developing the capabilities to balance the responsibilities of controllership, reporting, and compliance with participation as full partners for business strategy, long-term planning, and innovation.



? Questions that provide insight for action:

In adding new members to the finance function, what strengths and skills of the overall team are enhanced? Is the finance function bringing on professionals who express a long-term perspective, show strong intellectual curiosity, and embrace innovation?

Does the finance function provide ongoing training to develop the team’s knowledge and skills so it can effectively support the organization’s sustainable business initiatives?

Are efforts toward cross-functional collaboration part of the job description of finance team members? Are they supported and rewarded for participating in cooperative initiatives and activities?

9. Change the finance mind-set.

To meet the demands of full participation as a business partner in building a sustainable business, the finance function must be an active partner. The CFO and finance function’s leadership can promote the finance team’s role in sustainability initiatives by providing the means for professional development and encouraging cross-functional outreach through goal setting and other incentives. The CFO can deepen the team’s appreciation of its contribution: delivering appropriate analyses and measuring outcomes for wider, enterprise-wide decision making. In this way, the CFO and financial unit leaders encourage the finance team to serve as an able business partner by endorsing its skill sets.

? Questions that provide insight for action:

Is the finance function willing to learn and understand the responsibilities that sustainable business teams are undertaking?

Is the finance team supported in obtaining additional education—formal or informal—on sustainable business issues?

Is the CFO supporting development of finance function professionals to serve as business partners with the sustainable business team? Is time dedicated to building the relationships? Is the CFO rewarded for encouraging cross-disciplinary partnering? •

PLAN AND BUILD CAPABILITIES THAT MATTER: DIVERSIFYING THE FINANCE AND ACCOUNTING TEAM

The CFO of a professional services firm is concerned about finding the right people for her department. Several senior professionals in her department are part of the Baby Boomer generation and nearing retirement. She reads news reports that Millennials and members of Generation Z view accounting and finance less favorably than other generations. They seem to be seeking careers that not only provide financial rewards but also satisfy a larger purpose. In addition, the CFO recalls research that showed that companies in the top quartile for gender diversity are 15% more likely to have financial returns above their respective national industry medians.⁴ Companies in the top quartile for ethnic diversity are 35% more likely to outperform their peers.

This information influences the CFO’s hiring decisions over time. She observes that new hires to her department invigorate the team’s perspective, and they bring inquisitiveness and understanding of the changing role of corporate finance and accounting. Among these activities, team members are using their skills to help the head of sustainable business develop and monitor key metrics on the company’s most valuable relationships: clients and employees.

⁴ Vivian Hunt, Dennis Layton, and Sara Prince, “Why Diversity Matters,” McKinsey & Company, January 2015, www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters. For more recent, similar results, see Vivian Hunt, Lareina Yee, Sara Prince, and Sundiatu Dixon-Fyle, “Delivering through Diversity,” McKinsey & Company, 2018, www.mckinsey.com/business-functions/organization/our-insights/delivering-through-diversity.

CONCLUSION

A key global trend of the 21st Century is the call for business to operate sustainably. Multiple corporate stakeholders are demanding corporate governance that aligns with an organization’s stated purpose and values. They are also demanding effective management that strategizes around sustainable business risks and opportunities with the goal of enhancing intangible assets, long-term performance, and value for multiple stakeholders.

These demands require the leadership and expertise of the CFO and the finance function. As the IMA-ACCA report indicates, this partnering allows finance and accounting professionals to return to their historical role as key enterprise-wide leaders for business decision making. In recent decades, compliance with increasingly complex standards and regulations has resulted in an emphasis on the preparation and dissemination of financial information. This is a significant impediment for finance teams to partner in a way that promotes a holistic, enterprise problem-solving approach to sustainable business initiatives. Yet, the objective of enhanced performance and value creation by integrating sustainable business practices is creating a call to action for CFOs and their finance teams.

Responding to evolving demands on the CFO and finance function does not mean taking over the entire responsibility for implementing new areas. There is great value in utilizing the finance team’s specialized skills to demonstrate and monetize the benefits of sustainable business initiatives. Applying the partnership framework developed by IMA and ACCA, CFOs and other members of senior management can facilitate effective partnering between the finance function and the sustainable business function by focusing on three components: mandate, information, and talent. Applying this framework guides CFOs to lead the integration of relevant capabilities for sustainable business strategies in their companies.

The CFO and the finance and accounting teams of the future will continue to serve in their stewardship roles for their organizations. This expertise and training positions finance teams beyond their current compliance work for a far broader and increasingly valuable role in their organizations—becoming strategic partners to add value. CFOs and their teams must play an active role in driving their organization’s sustainability culture; providing leadership, oversight, and decision support; and setting the tone at the top by embodying ethics and values. •



For more information, please visit imanet.org/thought_leadership.