

CGMA TOOLS

How to drive value from
sustainability performance
management and
the CFO's role

INTRODUCTION

This guide is intended to assist Chief Financial Officers, and their finance teams, to define their role in managing the sustainability performance of their organisations. It is based on a report produced by CIMA in association with Accenture: *Sustainability Performance Management: How CFOs can unlock value*, 2011.

Sustainability performance management (SPM) creates a system that ensures an organisation is sustainably managed and reaps the maximum business benefits from its sustainability efforts.

Sustainability merits the same robust performance management as financial performance does, so the CFO is in the best position and has the requisite technical skills to improve SPM and ensure it is better integrated with the strategic performance management of the organisation.

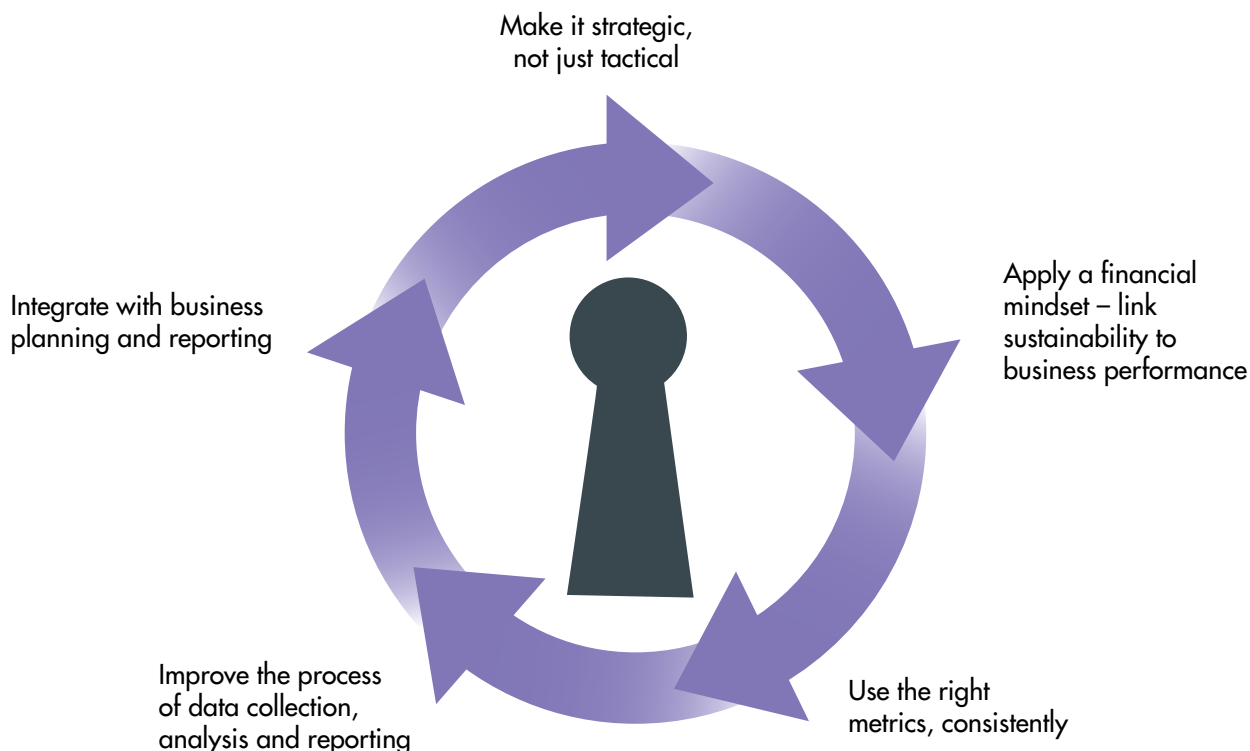
This tool outlines five key steps which users should take to set sustainability goals, to measure progress against those goals, and to ensure those metrics are integrated into business planning and reporting.

The tool is intended for organisations and individuals who have already accepted that:

- sustainability can create value
- sustainability can help preserve value in the long term for stakeholders and shareholders
- organisations need to discover, measure and maximise that value
- organisations need to manage their sustainability performance.

CFOs can use this tool to help define their role in SPM and to guide the resourcing of their finance functions. The tool can also be a catalyst for discussions about key issues between finance and the rest of the organisation and other stakeholders.

The approach taken by this tool is not tied to any specific regulatory requirements, and is intended to be sufficiently generic to be applicable to a wide range of organisations.



1. Make SPM strategic, not just tactical

Critically consider your organisation's SPM practices, and how you can make SPM strategic.

Have your sustainability strategies been developed in a similarly robust manner as your other business strategies? Or have they arisen piecemeal, perhaps in response to ad hoc demands from stakeholders to report on diversity or CO₂ emissions etc?

SPM can be considered genuinely strategic if:

- Good quality data on sustainability issues are collected and analysed to generate relevant insights, which are incorporated into decision making at all levels.
- Sustainability activities are aligned with key business drivers and processes.
- Managers understand how sustainability issues – performance, risks, limited resources – influence business performance.
- Sustainability is embedded throughout the organisation, so that performance against sustainable issues is reported and managed as effectively as is performance against other business critical issues.

2. Link sustainability to business performance

Think about what might inhibit decision makers from considering sustainability when reaching decisions within your organisation.

Providing that your organisation has collectively accepted that sustainability can create value¹, the obstacles are likely to be measurement issues, such as:

- Managers' belief that it is difficult to quantify the effect of sustainability factors on financial performance.
- Difficulties measuring the impact of sustainability initiatives on shareholder value.
- Perception that investors seldom incorporate sustainability risks, or resource constraints into their valuation models.

Organisations might accept in theory that sustainability contributes to revenue generation, cost control, risk management and long-term value creation; but individuals may need to see the impact on their business unit performance before they genuinely commit to incorporating sustainability into their day to day decision making. Finance has a role as a catalyst in this process.

Consider how your finance function can provide reassurance and proof that sustainability performance can be measured and monitored; and how you can encourage managers and the board to explicitly and consistently take sustainability issues into account in strategic and operational decisions.

3. Use the right metrics, consistently

Evaluate the metrics which your organisation is currently using to measure and report sustainability performance.

- Do these adequately explain where and how sustainability is making a difference to business performance? Are the measures the appropriate ones to help effective decision making?
- Does the number of measures impose an information burden on the organisation? Individuals or teams can effectively monitor and be held accountable for only seven or eight measures.
- Consider the obligatory performance measures to satisfy regulations, customer or other stakeholder demands, or sustainability frameworks such as the Global Reporting Initiative or the Global Environmental Management Initiative. Are you aware of all these measures? Accenture research suggests that one fifth of those making decisions relating to SPM are not aware of what basis their organisation reports sustainability data on.²
- Is there potential to use these measures to report both internally and externally; without compromising the information needed to make decisions? This would avoid creating different frameworks and collecting parallel sets of data for different purposes.

4. Develop robust systems and processes for SPM

Consider how the SPM information is collected, analysed and presented within your organisation.

Accenture's research suggests that organisations typically use Excel spreadsheets to collect and analyse sustainability data. This suggests that sustainability reporting systems have not been integrated, but have been created alongside pre-existing operational or financial reporting systems; and that such organisations are missing the analytical functionality offered by more sophisticated reporting software. If spreadsheets are used, are the same good practices used for these spreadsheets as would be expected for the financial spreadsheets created by your finance function?

Has the collection of SPM data been made as easy as possible within your organisation? Do front line staff who provide sustainability data see this task as an additional extra burden to the normal operational and financial reporting? There is a risk that the data will not be collected carefully and in a timely manner, which means it becomes less frequently used for decision making, and might reinforce negative attitudes amongst managers about the relevance of sustainability information.

If the sustainability reporting system is separate from other reporting systems, how does it interface with those systems? How is sustainability information connected to the core decision making process? As a result of ad hoc requests, or as part of a systematic process?

How is qualitative sustainability information captured and kept? Is it recognised and retrievable? Has it been analysed to generate insights into opportunities and risks?

Does your SPM system meets basic requirements which are to:

- monitor and report on sustainability performance
- set sustainability goals and objectives
- manage risks associated with sustainability

- reduce the time and costs of collecting and analysing data
- produce timely and decision relevant reports which can be customised to stakeholder needs (including disclosures required by external frameworks).

5. Integrate SPM with business planning and reporting

Review the sustainability reporting and analytics solutions in the market; giving special consideration to solutions from your existing business system providers.

These may represent the simplest way to ensure that your sustainability performance management system will be integrated into existing business systems, thus aligning sustainability issues with financial and operational performance. Buying a proven solution minimises risk; should ensure that the application is easy to use; and that user documentation and training are already available.

Footnotes

- ¹ See introduction
- ² *Sustainability Performance Management: How CFOs can unlock value*, CIMA/Accenture 2011, www.cimaglobal.com/CFOsustainability

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