Over the past century, free-market capitalism has done much to raise the economic prosperity of citizens in developed nations. Now, capitalism appears to be accepting an advanced mission — to help and possibly save the planet.

Indeed, the focus on corporate social responsibility (CSR) and environmental management is no longer just an afterthought in an annual report or a public relations message. Terms like "sustainability" and "going green" have become fixtures in the business media.

These terms embrace environmental and climate change responsibility, as well as corporate social interests in consumer safety, health and poverty reduction. And, sustainability is a way of thinking and acting when making decisions, not just a reaction after wrong decisions have been made.

At a minimum, the CSR movement will involve external reporting that falls within the normal role of the chief financial officer. Reporting is one thing. Making positive changes is another. Through a series of questions and answers, the following attempts to discover how CFOs might be affected.

With a growing focus on sustainability and "green" initiatives, external reporting for such activities naturally fall under the CFO.

It's a good time for finance executives to consider the scope of their responsibilities now and into the future.
How do sustainability and green movements affect a CFO's responsibilities?

The issues of oil, greenhouse gas emissions, global warming and poverty affect every organization's social and environmental performance, as well as its financial health. This rather recent occurrence has led to variations of the term "triple bottom line reporting to encompass profit, people and planet.

The chief financial officer's organization traditionally has been responsible for collecting, validating and reporting data as information. The sustainability and green movement will extend this fundamental role to nonfinancial and nonoperational information as the business community redefines the term "resource."

For example, the economic dimension of sustainability deals with the organization's impact on both economic conditions for its stakeholders and on economic systems at the local, national and global levels. Therefore, an extended financial performance aspect involves sustainability measures that take reporting beyond the traditional measures of performance and quality.

In addition, greenhouse gas and energy reporting to satisfy the triple bottom line will introduce new data sources and data collection procedures, but reporting methods used by accountants will be similar to those already used.

What key issues and challenges face the CFO's organization?

A key challenge will be to balance new and unfamiliar compliance reporting activities while assisting the organization in making sound decisions regarding improvement efforts.

With accounting, CFOs balance external financial reporting for investors and regulatory stakeholders (mainly for economic valuation) with internal managerial accounting that is valuable to the organization for internal decision-making.

If CFOs primarily focus their energy on compliance reporting, then managers and employees alike are denied the managerial information needed to improve the organization's performance. Too much emphasis on compliance reporting can also have a negative impact on social and environmental reporting efforts. As a result, only minimal contributions are made toward finding ways for management to reduce the organization's carbon footprint.

Therefore, weighting the indicators that affect the triple bottom line reporting will become an important issue when optimizing organizational performance in the context of sustainability. In short, CFOs will need to encourage their organizations to formulate sustainability and green strategies at the same time they are supporting enterprise performance management initiatives. There is an emerging connection between adopting sustainability and green practices and successful, long-term economic growth.

What do sustainability and greening portend for the future role of the CFO?

CFOs may be concerned that their reporting workloads will increase. The Sarbanes-Oxley Act of 2002 — among other regulatory measures — has created additional work. However, as the CFO role has evolved from history reporter to strategic adviser, finance chiefs have become valuable members of the executive team.

The sustainability and green movements provide an opportunity for the CFO's organization to focus on more than just reporting; it can also provide the analysis needed to identify, in economic terms, how to better manage the organization's consumption of natural resources, such as carbon dioxide and power. Many organizations have little experience with such analysis.

CFOs are now gaining competencies with performance measurement scorecards and operational dashboards. They are recognizing that leading indicators measured during a time period have causal and correlated relationships with lagging indicators, such as the financial results, reported at the end of a time period.

Environmental reporting will result in the emergence of CSR and green scorecards, including measurements of key success areas, shortcomings, operational and organizational risks and their influence on economic performance.

Similar to business performance management reporting, the key will not only be monitoring the dials, but also the actions taken to move the dials on analyzing information, forecasting trends and identifying gaps, among other activities.

What skills and adaptive measures might CFOs need?

The monitoring of greenhouse gases, water and power usage will require accounting practices quite similar to monetary currencies such as expense reporting and product and customer-cost reporting. That's the good news. Obviously, CFOs must become competent in the accounting methods used for noneconomic resources, such as carbon footprint calculations.

A challenge for the finance chiefs will be to shift their thinking from debit and credit issues to modeling. For example, activity-based costing (ABC) is widely accepted as consistent with the cause-and-effect accounting principle to transform resource expense spending into calculated costs of outputs, such as a product cost, that consume resources. Costing is basically modeling.

However, many CFOs retain the traditional practice of allocating indirect expenses, using cost allocation factors with broad averages that produce misleading costs. Advanced organizations have already demonstrated that their ABC modeling software can substitute carbon dioxide equivalents for money and quantify how much and where their energy inputs convert to specific outputs, such as buildings or products.
Carbon footprint modeling provides organizations with visibility and transparency for the carbon footprint quantities of their products and services back to the sources. Other CSR methods include life-cycle assessment and design for environment, used for performance and process evaluation. CFOs will need to adopt these types of progressive methods, or else their managers and teams will have to guess where the best trade-offs lie.

Are CFOs “embracing” the sustainability and greening movements?

The answer depends on the interpretation of the term “embrace.” Most CFOs are personally cognizant of the new era. But truly embracing sustainability and greening will likely require regulations, standard reporting and cap-and-trade market forces to bring traction.

Market-based capitalism can be mobilized to facilitate greenhouse gas management, monitoring and reduction. There is a price that can be placed on carbon dioxide and other environmental factors. This needs to be done and put in a market context. The current climate-energy-pollution situation is an opportunity disguised as a problem.

These methods are in their infancy. In the U.S., by presstime, the House had passed its version of the American Clean Energy and Security Act and climate change legislation was making its way through the Senate.

What advice is offered for CFOs dealing with the growing sustainability and green landscape?

CFOs need to accept that this movement is here to stay. Their challenge is to start thinking of the organization’s social and environmental responsiveness as an asset and opportunity, not as a liability and extra costs.

Implementing CSR must take the important step from a cost focus to a value-creation focus, where life-cycle assessment, energy/carbon management and design for environment become strategic tools for managing the bridge from cost to value. This will be a strategic process challenging CFOs to support their organizations in making new types of decisions based on new information.

Not all of this information will be conventional numbers that can be consolidated easily. Therefore, the CFO should help build a knowledge management organization that can calculate company performance, including unstructured environmental, climate and social parameters.

Reasoned actions can favorably result in improved processes, innovations, reputations and increased financial profitability. Investing in sustainable practices can deliver a positive financial return for shareholders.

Ultimately, the sustainability movement is about looking at the business across a longer time horizon, and identifying long-term risks and opportunities before one’s competition. It’s about a fundamental shift from short-term growth to strength and long-term viability. The earlier the CFO is able to master this transition, the better off the company will be.

What resources are available to get up to speed?

An Internet search will produce a landslide of information. For starters, to understand sustainability reporting, check out the guidelines of the Global Reporting Initiative, which are said to be voluntarily followed by more than 1,000 organizations in 60 countries.

GRI is a nonprofit network-based organization (based in The Netherlands) that produces one of the world’s most prevalent standards for sustainability reporting — also known as “ ecological footprint” — guidelines and aims to make sustainability reporting by all organizations as routine as and comparable to financial reporting.

Value reporting (as noted on GRI’s Web site) is where organizations publicly communicate their economic, environmental and social performance.

Among past supporters listed on GRI’s site are: European Commission, UN Foundation, World Bank, Bill and Melinda Gates Foundation, Rockefeller Brothers Fund, the Soros Foundation and governmental bodies from the United Kingdom, Sweden, Germany and Australia.

Another good source is the book, Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage, by Daniel Esty and Andrew Winston. It contains examples where organizations have affected their bottom line with sustainability improvements and innovation.

Sustainability Can be Profitable

Organizations face the perceived paradox of simultaneously trying to manage social performance for the “ betterment of the planet,” while maintaining financial performance for shareholders. This creates challenges to develop information systems to identify opportunities and support decisions.

Through innovative thinking, they can develop new methods that both increase revenues and reduce costs. And higher profits provide executives discretion to divert some of the increase in retained earnings to more environmental investments.

Understanding the cost-versus-benefit ratio of sustainability initiatives will involve analytics similar to those used in performance management. The better an organization understands the ratio, the better its financial performance.

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