Today's CFO:

The Connector Between Sustainability Practices & the Digital Transformation

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Late last year, Janus Henderson, a British-American global asset management group, announced the appointment of six new members to its Environmental, Social and Governance (ESG) Investment Team. Only a few weeks earlier, the Borsa Italia and EuroNext jointly launched the MIB® ESG Index (MIBESG), which combines measurement of economic performance with ESG alignment of the United Nations Global Compact principles.

As legal requirements to integrate ESG considerations into business practices expand worldwide, so does the need for accelerated implementation of these guidelines. Pandemics, wars, inflation, supply chain difficulties and financial markets in turmoil bring an unprecedented urgency to adapting business practices to these new realities.

The CFO is uniquely positioned to play a central role in developing and implementing these practices. Their deep understanding of the company's business model, their connection to all departments and their insights into virtually all of the data streams enable them to effectively drive ESG changes.

This involves leaving behind the focus on purely financial matters and integrating ESG data, such as environmental metrics, sustainable supply chain dynamics, and carbon accounting spreadsheets into the reporting structure. Having a thorough knowledge of the regulatory environment, being involved in the alignment and implementation of the company's ESG programmes and communicating and acting as a link between the various stakeholders in the company is the constantly evolving new role for a CFO.

Rethinking the business model

The demand for ESG practices requires a reassessment of what business growth actually means. These pressures come from all sides: Customers are increasingly demanding sustainably and ethically sourced products. One recent example of consumer pressure includes a U.K. parliamentary committee initiating investigations into Amazon, Nike and Ikea for forced labour of the Uighur people in China.

Even long-standing business partners are turning up the dial demanding accountability. Sometimes this even culminates in cutting long-established ties: For example, PricewaterhouseCoopers has recently expressed concerns about fast-fashion online retailer Boohoo's "weak corporate governance" regarding alleged slave labour practices at its factories, ultimately resigning as their provider of auditing services[1].

With insights into operations and data streams, the CFO is uniquely positioned to drive ESG implementation

Shareholders and investors, too, are beginning to take a close look at how sustainable their investments are, both environmentally and financially. French Investment Bank BNP Paribas, for example, will no longer finance companies developing coal-fired power plants, because these are compromised activities, where banks are beginning to see bankruptcies[1].

Job seekers and employees are screening for sustainability practices as well. French multinational energy and petroleum company TotalEnergies SE, which used to select their employees from only the top universities in France, is now struggling to recruit.

Avoiding even the appearance of greenwashing is, however, essential. It is not enough to give money to dubious tree-planting or carbon offset schemes that don't really do what they advertise[3], and setting up a foundation has never prevented pollution. It is therefore the business model itself that has to account for making a true impact.

Positioning ESG at the core of operations

In a context where transparency is no longer just a marketing claim, this is where the CFO comes in. Their job involves not only the manipulation of figures but also the structuring and communication of information. Of course, much of the ESG reporting is not that different from traditional financial reporting with shared basics such as data analysis, consolidation and reporting, but many of the standards are new and often still subject to change. Keeping up and applying these new standards involves quite the learning curve for the entire Finance team. Nonetheless, with their focus on value creation and profound understanding of the business model, they are perfectly positioned to drive ESG changes.

Integrating ESG measures into the day-to-day means rethinking the way company performance is measured

Building ESG actions into everyday business operations will inevitably result in a reassessment of what the word "success" actually means for your organisation. This includes creating a whole new business model that prepares for a variety of different situations. Even high-profile companies such as fast-fashion retailer H&M are taking steps in the right direction. Managing Director and CEO Karl-Johan Persson, pointed out that the fashion industry needs to move away from a linear model to a circular one on a large scale. For H&M this means offering recycling for end-of-use products, rental models and the integration of recycling into the value chain wherever possible.

This positive-sum growth model serves all stakeholders in a business ecosystem. The CFO office with its strategic placement in the organisation and deep understanding of the value chain is optimally equipped to implement these kinds of structural changes. To make the ESG-centred changes work — and stick — for the long term, reliable data is indispensable. With a comprehensive tech stack that makes use of artificial intelligence, machine learning capabilities and workflow optimisation, it becomes possible to monitor and adapt to new requirements as they come along. By creating efficient processes and in-depth visibility into the data flows of an organisation, the digital transformation can drive ESG initiatives and goals forward.

1. Butler, Sarah: "PwC Stepping Down as Auditor of Boohoo Amid Governance Concerns", The Guardian, Oct. 16, 2020 Guardian:.

2. Beaujon, Agathe: "Finance verte: Les banques françaises veulent sortir du charbon", Challenges, Aug. 24, 2020.

3. Meyer, Robinson: "The Weekly Planet: The Best Way to Donate to Fight Climate Change (Probably)", The Atlantic, Dec. 1, 2020.

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