THE CFO'S EVOLVING ROLE

Beyond Traditional Financial Stewardship

BY
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Sustainability has become an economic and strategic imperative that poses both opportunities and risks for businesses. Global megatrends such as demographic and social change, shift in global economic power and technological breakthroughs are influencing today's business environment. Following these megatrends, businesses need to understand how sustainability can create business value as well as deliver positive impacts to society.

The evolution of a triple bottom line concept further validates that investors, customers and other stakeholders are showing a growing interest in a company's holistic performance. They are seeking transparency over the environmental, social and governance (ESG) arenas of companies, which are essentially the elements of the triple bottom line covering the three pillars of sustainability: people, profits and planet.

The public at large are also becoming more aware of environmental issues which are intricately linked to sustainability that businesses need to embrace. With pressure building from the public, businesses are forced to relook at their business practices and incorporate sustainability into their strategy formulation.

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THE TRADITIONAL CFO

The primary responsibility of the Chief Financial Officer (CFO) is managing financial risks of the organisation to drive growth for the business. The CFO is responsible for areas of financial stewardship such as financial planning and record-keeping, that ensure assets are preserved and risks are minimised. The CFO supervises the finance unit and runs a tight finance operation that is efficient and effective. Traditionally, a CFO is viewed as a financial gatekeeper.

THE MODERN CFO

Over the last decade, the CFO's role has shifted from number crunching to co-driver of corporate strategy focusing on long-term growth strategies. These strategies are closely linked to ESG issues. A large portion of the CFO's role deals with planning the company's resources wisely to ensure its viability in the decades to come. This makes sustainability part of a CFO's remit.

In today's fast-paced environment, CFOs are gradually becoming more involved in the management, measurement and reporting of sustainability efforts of their companies. They are playing an increasingly vital role in overall business strategy, integrating financial and non-financial performance dimensions into managerial decision-making.

As stewards of capital, CFOs are in a unique position to engage in value creation beyond economic imperatives that will improve their company's ESG profile and their financial bottom line.

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UNDERSTANDING SUSTAINABILITY RISKS

One important part of a CFO's role is to assess and reduce long-term risks of the company. Looking through a sustainability lens presents a refreshing way of identifying potential risks and preparing strategies to meet long-term forecasts. Each company will have different sustainability issues that affect it, from water scarcity to climate change. Understanding these issues would enable the CFO to plan and prepare for such risks.

Compliance risk

Regulatory requirements around sustainability issues pose an area of risk that CFOs need to constantly be aware of. The new wave of regulations will provide a significant challenge for the CFO who helps define corporate business strategy. With the emergence of various legislations, companies need to assess and relook at their operations that have an environmental impact to ensure compliance with regulations.

Governments and regulators increasingly require or encourage companies to disclose sustainability information. As the sustainability report can be presented as part of the annual report – which the CFO is heavily involved in preparing – it is important that the CFO takes on a central role in managing the company's business performance; how it is measured, evaluated, communicated, and perceived by stakeholders. In Singapore, the Singapore Exchange (SGX) has mandated that SGX-listed companies produce a sustainability report from 2018, which creates a growing reporting pressure to include sustainability criteria.

Shareholder preferences

Another area that CFOs have to pay attention to is socially responsible investing, which is growing fast as compared with overall investments. Investors are looking for companies with responsible business practices that have a long-term perspective and at the same time reduce risks. They are starting to view financial and non-financial performance as a whole as they begin to understand the correlation between a company's environmental and social practices with its financial performance.

Investors consider how companies carry out their businesses in terms of the ethical, environmental and community goals in addition to making profits. Non-financial information that contains ESG factors are becoming more important in the decision-making of investors. This growing trend makes shareholder preference an area of risk that CFOs need to address in order to continue attracting investments and satisfy the stakeholders. Forward-thinking CFOs will reassess how they allocate shareholder capital and strategise their business models to manage the risks associated with the material ESG factors. As a result, CFOs must stay up-to-date on their companies' sustainability policies to address shareholder concerns.

Changing labour market

Strong sustainability values also take into account an employee's safety, welfare, development and retention. Millennials are starting to dominate the workplace, bringing a new attitude with them which is causing talent retention issues for many companies. Understanding what employees want is important to attract and retain the best talent. Many employees today not only consider the traditional benefits but are starting to look at the moral perspective, taking into account the company's environmental, social and ethical values when they choose their employer.

As a financial steward, the CFO has to consider investments in human resource and has significant influence over a company's talent strategy. High staff turnover can be expensive, stifles innovation and impedes company growth. Talent retention is critical for companies to remain competitive for the longer term. These considerations are important to CFOs as they can limit costs associated with finding and training new employees or losing talented ones.

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UNLOCKING SUSTAINABILITY OPPORTUNITIES

More importantly, the CFO should embrace sustainability and its risks, turning these into business opportunities for the organisation. The environmental and social risks that arise from sustainability can help organisations identify market demands for new products and services that address environmental and social sustainability. With a wealth of data, CFOs have the ability to visualise the bigger picture, make truer forecasts and pave a clearer path to value by connecting the company's financial performance to its environmental and social impacts.

Innovation

Sustainability can drive innovation in products and services, facilitating business processes and cost efficiency. Already, consumer behaviour is evolving as consumers begin to seek products and services of companies that incorporate responsible business practices.

With global trends such as urbanisation and digitalisation, the relationship between consumers and businesses is also fast changing. As consumers become more aware of various sustainability issues such as human rights, product origin, and other social and environmental matters, they play a vital role in influencing business models and, to a large extent, drive business behaviours. The changing consumer demand will have a direct impact on revenue and profitability which CFOs oversee.

Environmentalism is rooted in using resources wisely, which translates to cost reduction and improvement in efficiency. To the CFO, efficiency is paramount. The changing consumer behaviour has a direct impact on a company's supply chain management. Supply chain is one area that the CFO turns to for cost savings as the CFO has oversight in planning for efficient and productive use of resources. To achieve an effective supply chain management, CFOs need to collaborate closely with other internal functions and supply chain leaders, shifting their roles beyond the traditional financial remit. The synergies between CFOs and supply chain leaders can create alignment among operations, strategies, finance and tax, unlocking hidden value and strengthening financial performance. This could help to boost the company's brand which will provide a competitive advantage that translates to growth for the company.

TAKING THE NEXT STEPS

It is vital for CFOs to understand the sustainability issues that affect their company, identify the roots of the issues and manage them in a way that creates value. CFOs can only achieve this by working closely with stakeholders and other internal functions. These additional responsibilities are shaping the CFO's role to move beyond the traditional financial roles.

While sustainability creates risks from almost every angle, CFOs have the power to transform these risks into opportunities and value creation for the company. With the right strategy formulation, cost efficiencies can improve, thereby increasing profits and ensuring the viability of the company in the future.

Although sustainability issues and financial performance are intricately linked, managing these issues can prove to be beneficial for the company in the long run. They need to identify and create value across the broader enterprise and provide insights that will help the rest of the company improve performance and manage risks. CFOs can continue to deliver on their company's brand promise, and achieve their ultimate goal for the company which is financial viability. With the increasing trend of sustainability, CFOs will play a more multifunctional role and become surprising champions of corporate sustainability. ISCA

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