ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Chief Financial Officers for Sustainability Reporting

ISCA Sustainability Roundtable Report

Global Mindset, Asian Insights

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About the Institute of Singapore Chartered Accountants

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 32,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore's transformation into a global accountancy hub.

ISCA is the Administrator of the Singapore CA Qualification and the Designated Entity to confer the Chartered Accountant of Singapore - CA (Singapore) - designation.

ISCA is a member of Chartered Accountants Worldwide (CAW). CAW brings together 11 chartered accountancy bodies connecting and representing the interests of over 1.6 million members and students globally.

About ISCA's Corporate Reporting Committee

ISCA's Corporate Reporting Committee (CRC) is chaired by Mr. Tan Wah Yeow and comprises Sustainability Reporting subject matter experts. The terms of reference of the Committee is to promote quality Sustainability Reporting in Singapore. This is executed through the Committee with the support of two Working Groups – Sustainability Reporting Awareness Working Group and Sustainability Reporting Quality Working Group.

About ISCA's Corporate Reporting & Ethics Division

As the national accountancy body, ISCA is committed in supporting our members in their careers as they progress and rise to challenges faced along the way. The Corporate Reporting & Ethics (CoRE) Division provides technical support in areas of financial reporting, sustainability reporting, ethics and specialised industries such as capital markets, banking and finance, insurance and insolvency; and communicates insights and views to our members and the wider accountancy community. Through our specialised technical committees that comprise representatives from various stakeholders in the corporate reporting eco-system, we hear issues from the ground and conceive initiatives to promote and enhance quality, consistency and best practices to uphold technical excellence.

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Foreword

On 28 July 2017, ISCA held the ISCA Sustainability Reporting Roundtable – Chief Financial Officers ("CFOs") for Sustainability Reporting (the Roundtable), which was attended by participants from a diverse mix of organisations at different phases of Sustainability Reporting implementation. Some organisations had implemented Sustainability Reporting for many years while others had just commenced their Sustainability Reporting journey.

During the Roundtable, participants discussed about the role played by CFOs in spearheading/driving sustainability within their organisations. The Roundtable also served as a platform for participants to discuss the challenges faced in spearheading sustainability and how these challenges may be overcome.

As the Roundtable was conducted based on the Chatham House Rule, whereby neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed, this Report seeks to share the key takeaways from the Roundtable in a narrative manner, without quoting specifically the speaker.

To facilitate ease of reading, the key takeaways from the Roundtable have been arranged into the following seven sections:

1. CFOs are Well-Placed to Drive Sustainability;
2. Sustainability Enhances and Complements the CFO's Function;
3. Challenges to Sustainable Business Practices;
4. Breaking Down the Silos;
5. Sustainability is About Survival;
6. Education Is Crucial; and
7. What Makes a Good Sustainability Report?

As one Roundtable participant aptly described, starting on the sustainability experience is like a person's first time in the swimming pool. The person would not be able to tell if he likes it in the pool, without taking the first step of jumping in. However, after jumping in, he may discover that he likes the experience after all.

We sincerely urge all to take the first step of jumping into the sustainability pool by taking your first plunge into the Report.

1. CFOs are Well-Placed to Drive Sustainability

Due to the nature of the CFO's function and the responsibilities entrusted upon him, the CFO is in a good position to drive sustainability within the organisation.

The CFO has a bird's eye view of how monetary resources flow within the organisation, which gives the CFO a clear understanding of the costs and resources required for the organisation's different initiatives, including the sustainability initiative. Arising from this clear understanding of how resources flow internally, the organisation would likely entrust the CFO with the task of ensuring efficient ultilisation of its scarce resources. This would include utilising resources for the organisation's sustainability initiatives.

The CFO usually also functions as the organisation's Chief Risk Officer. Besides identifying potential risks, the CFO also analyses risks and explore ways to mitigate them, thereby ensuring the continued, long term success of the business. With a company's long term profitability and value becoming increasingly linked to the organisation's (or lack of) sustainable practices, the CFO would need to incorporate sustainability into the organisation's overall risk management process.

Key Takeaways

- The CFO is in a good position to drive sustainability within his organisation.
- The CFO has a bird's eye view of how resources flow internally, and would be called upon to ensure that the organisation's scarce resources are efficiently utilised.
- As the organisation's Chief Risk Officer, the CFO would need to assess sustainability risks as part of the organisation's overall risk management process.

2. Sustainability Enhances and Complements the CFO's Function

From the CFO's perspective, sustainability can serve as a springboard to enhance and complement the CFO's function.

Owing to the strategic nature of sustainability and its impact on the various facets of the business, the CFO's role within his organisation would become more strategic, as he would be required to work with the different departments to incorporate sustainability initiatives into the various business operations.

Besides, as sustainability impacts the organisation not only over the short and middle but also over the long-term, it facilitates strategic planning and decision-making over a longer time horizon and serves to frame the CFO's value proposition on resource ultilisation. The CFO would become more outcome focused and look towards making resource allocation decisions that matter in the long term, instead of allocating resources to "good to have" projects, which do not amount to much in the long term.

To the CFO, becoming the sustainability driver could be a precursor signaling that his role is about to evolve into a more strategic one. One that involves stepping up to become a co-driver in developing the business.

Key Takeaways

- From the CFO's perspective, sustainability can serve as a springboard to enhance and complement the CFO's function.
- Driving sustainability would evolve the CFO's role within his organisation to become more strategic.
- Sustainability facilitates strategic planning and decision-making over a longer time horizon.
- Sustainability Reporting also helps to validate the strategy of the organisation to ensure that the organisation is on the right track in the execution of its strategy.

3. Challenges to Sustainable Business Practices

It is important to note that sustainability goes beyond Sustainability Reporting, which by itself, is the “end product” presenting the outcomes from the organisation’s sustainable business practices. Good sustainable business practices which are aligned to the organisation’s strategies and embedded into the organisation’s operations would likely bring significant strategic value and benefits to the organisation’s business and long term value.

The Boards of Directors (BODs) and business owners of smaller listed entities tend to be more focused on “bread and butter” issues, such as those relating to the survival and continued profitability of the business. Sustainability Reporting could then be viewed as merely a compliance exercise stemming from the SGX Sustainability Guide. They struggle to envisage the strategic value and benefits that comes with sustainable business practices.

Besides, many BODs and business owners still cling onto an outdated mindset that over-disclosure is bad, because it could result in the leakage of trade secrets and loss of competitive advantages to competitors.

As a result of this wariness towards over-disclosure, many BODs and business owners do not see any point in becoming “more sustainable” or to disclose more than what is required to meet the minimum requirements in the SGX Sustainability Guide.

Further, different business units in an organisation are used to functioning separately and may in time to come, develop a silo mentality whereby they are only concerned about matters that have an impact on their own business units. This poses another challenge for the implementation of sustainable business practices, as it prevents the disparate parts of the organisation from coming together to work for the common cause of sustainability.

Sustainability’s greatest challenge comes in the form of unconvinced BODs and business owners. The second greatest challenge is the middle management’s entrenchment in its own silos. To successfully affect sustainable business practices, there need to be change agents within the organisations who work on bringing about a holistic mindset and culture change with respect to sustainability.

Key Takeaways

- Being focused on the “bread and butter issues”, many BODs and business owners of smaller listed entities struggle to envisage the strategic value and benefits of sustainable business practices.

- Many BODs and business owners are also wary towards over-disclosure, as this could mean leakage of trade secrets and loss of competitive advantages.

- The various business units may have developed a silo mentality which may prevent them from working together for the common cause of sustainability.

- Change agents are needed to bring about a holistic mindset and culture change with respect to sustainability.

4. Breaking Down the Silos

Good sustainable business practices should be aligned to the organisation's strategies and embedded into the operations of the various business units throughout the organisation.

In many organisations, different business units function quite independently from each other. Very often, these business units develop a silo mentality whereby they become inward looking and focused only on matters that concern their own business units. This silo mentality could impede an organisation's sustainability endeavours, which very often requires a coordinated effort towards a longer term business outcome.

Prioritising sustainability into long term business strategy requires change management throughout an organisation. The person driving sustainability within the organisation (or sustainability driver) would need to break down the silos in order to more effectively drive sustainability within his organisation.

The sustainability driver must be a change agent in bringing about culture and mindset change within the entire organisation. This paradigm shift in the mindset of top management and middle management about sustainability would usher in innovation in business practices and genuine commitment towards sustainability issues.

The ability to communicate, influence and convince is necessary to be a change agent. But a more important ingredient is the passion and belief of the change agent in the critical role that sustainability has in the long term success of his organisation. One CFO at the Roundtable shared that if Sustainability Reporting is relegated to being just a "compliance requirement", it will be a checklist exercise and fizzle out with no real benefits. However, for those who really believe in it, are really good at it and see the value brought to their organisations; they go the extra mile, deliver more things that they never knew they had the ability to and go beyond themselves.

The breaking down of silos and mindset/culture change is a continuous process which the sustainability driver needs to persevere on.

Key Takeaways

- The process of involving different business functions and units in the preparation of a Sustainability Report can in itself be used as a communication tool to break down silos across the organisation.

- It is important for the sustainability driver to have passion and belief that sustainability is critical for the long term success of his organisation. Only then will they be able to go the extra mile and deliver more things that they never knew they had the ability to.

- The breaking down of silos and mindset/culture change is a continuous process which the sustainability driver needs to persevere on.

5. Sustainability is About Survival

Many BODs and business owners do not see the linkage between sustainability and the "bread and butter" of their organisations. The sustainability driver would need to first convey to them the strategic importance and value of sustainability. And also of the potentially devastating consequences arising from failure to address sustainability.

Following the ratification of the Paris Agreement by many nations around the world, more and more stringent sustainability-related regulations are implemented to drive businesses towards sustainable business practices.

Breaching sustainability regulations could be costly for some organisations. Take for example, a construction company which is slapped with a "stop work order" for breaching environmental regulations. Besides the fine, the company may be penalised by customers for "breach of contract" and even be subjected to subsequent legal action. Potential costs may run into the millions.

Adding to regulatory pressure, organisations would also need to manage the expectations of an emerging breed of consumers, who are conscious of sustainability issues and refuse to purchase from businesses with dubious sustainability practices. This is not only limited to sustainable practices from the end producers from whom they directly purchase their products. As sustainable business practices becomes synonymous with branding, many consumers also insist that the end producers take responsibility in ensuring that their raw materials are sourced from suppliers with sustainable business practices. To meet their customers' expectations, a number of end producers are taking steps to ensure that their suppliers also meet certain sustainability standards. Organisations which fail to meet these expectations often find themselves out of the competition – disqualified by their own inaction in adopting sustainability practices.

The impact of the above on long term profitability is not lost on investors, many of whom are making it an investment strategy to invest in sustainable companies or at least, companies which demonstrate as such in their Sustainability Reports. Taking the cue from this trend, banks are having more and more investment portfolios comprising of only sustainable companies. Further, today's investors are more willing to fund green initiatives through the purchase of green bonds, which are bonds issued by companies to fund projects that deliver environmental benefits.

As "investing in sustainability" becomes increasingly mainstream, companies ahead in the areas of sustainability and Sustainability Reporting would be able to secure funding more easily, while companies which are lagging may face increased challenges in securing funding or increased costs of capital.

To future-proof their businesses, some organisations are considering the adoption of new technologies required to adapt to climate change. By seizing these sustainability-related opportunities, they would have likely put themselves in a good position to steal a march on their rivals.

5. Sustainability is About Survival

Throughout this, a common theme resonates: Being quick to adopt sustainable business practices would mean an edge over competitors. Conversely, being slow on the uptake may adversely affect the sustainability of the business.

Sustainability is now about survival.

The better the sustainability drivers are able to drive home this point to the BODs and business owners, the more likely they would be able to obtain the mandate to drive sustainability within their organisations.

Key Takeaways

- Failure to address sustainability risks may lead to potentially devastating consequences for organisations.

- As sustainable business practices becomes synonymous with branding, organisations which fail to meet the sustainability expectations of consumers often find themselves out of the competition – disqualified by their own inaction in adopting sustainability.

- As more and more investors are making it an investment strategy to invest in sustainable companies, companies lagging behind in the areas of sustainability and Sustainability Reporting may face increased challenges in securing funding or increased costs of capital.

- By seizing sustainability-related opportunities, organisations would have likely put themselves in a good position to steal a march on their rivals.

6. Education is Crucial

For sustainability initiatives to be successful, it is important for all stakeholders involved to be able to see the importance of sustainability in order to better contribute towards the initiatives. To do so, education of the various stakeholders is crucial.

Internal stakeholders, such as the BOD, the business owner and other employees in the organisation may not appreciate the value of sustainability to the business. Education is crucial in enabling them to better appreciate how sustainability links back to profitability and how it is vital to the continual survival of the business.

External stakeholders such as customers and suppliers may regard the organisation's sustainability efforts as being contrary to their interests. After all, the sustainability initiatives may lead to increased costs in the form of higher prices charged for "green products" to customers, or more stringent sourcing requirements resulting in higher operating costs for producers. Likewise, these external stakeholders would need to be educated and made aware that by playing their part in the organisation's sustainability initiatives, they are laying the foundations for a long, trusting business partnership for the future.

Further, given the increasing importance of sustainability in Singapore, consideration could be given to incorporating sustainability into courses/modules of tertiary institutions, in order to help build up the future competency in relation to sustainability.

Key Takeaways

- Education is crucial in enabling internal stakeholders such as the BOD, the business owner and other employees, to better appreciate how sustainability links back to profitability and also how sustainability is vital to the continual survival of the business.

- External stakeholders, such as customers and suppliers, need to be engaged and educated to be made aware that by playing their part in the organisation's sustainability initiatives, they are laying the foundations for a long, trusting business partnership for the future.

- Consideration could be given to incorporating sustainability into courses/modules of tertiary institutions, in order to help build up the future competency in relation to sustainability.

7. What Makes a Good Sustainability Report?

During the Roundtable, discussion was made as to whether an organisation would appear unflattering against its competitor in the area of Sustainability Reporting if it produces a significantly shorter Sustainability Report as compared to its competitor.

A thick Sustainability Report does not make it a good Sustainability Report. Nor is it meant to be a diary. Chronicling all the organisation's sustainability activities in the year does not necessarily make it a good Sustainability Report.

A good Sustainability Report is one that properly focuses on the material factors relating to the organisation's sustainability practices. While all factors may appear material at first assessment, an organisation could more stringently assess materiality by asking itself the question if the organisation could be sustainable with/without the factor. Material factors are the ones the organisation cannot survive without.

Further, a good Sustainability Report does not only tell the story of the key focus of the organisation's sustainability practices over the past year. There must be substance behind the story. It is not enough to report the material factors. The organisation should also explain their impact or why it cannot survive without these factors.

The story should also be properly backed up with data and trends, so that the reader is able to make both business and financial sense of the organisation's sustainability practices.

Key Takeaways

- A good Sustainability Report is one that properly focuses on the material factors relating to the organisation's sustainability practices. Material factors are the ones the organisation cannot survive without.

- A good Sustainability Report is one with substance. Besides reporting the material factors, the organisation should also explain the extent of the materiality, or the reason why it cannot be sustainable with/without these factors.

- A good Sustainability Report is one which is properly backed up with data and trends, thereby enabling the reader to make both business and financial sense of the organisation's sustainability practices.

Conclusion

In 2016, the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development came into force. With the SDGs, countries around the world would work together to end all forms of poverty, fight inequalities and tackle climate change.

In the same year, the Paris Agreement, which was an agreement whereby countries pledged to tackle climate change by reducing greenhouse gas emissions, was ratified by many countries throughout the world.

The developments underline a common theme – sustainability is becoming increasingly important to businesses. Organisations would need to take heed of this trend and work on incorporating sustainability into their businesses and also be seen to be doing so – or risk the very survival of their businesses.

While CFOs are well-placed to drive sustainability within their organisations, and driving sustainability both complement and enhance their functions within their organisations, the road towards sustainability is not necessarily a smooth one. There are many challenges to overcome, as BODs and business owners are unlikely to fully support sustainability unless they see the linkage between sustainability and profitability. Further, there are silos within the organisation which would serve as obstacles preventing the different business units from working together towards the common cause of sustainability.

In the face of all these challenges, sustainability drivers would need to keep their passion for sustainability burning bright as they work to overcome the different roadblocks placed in their way and continue to spearhead their organisations' drive towards sustainability.

With passion, sustainability drivers would be able to convince both internal and external stakeholders of the importance of sustainability and bring about positive transformation for their organisations.

Sustainability Reporting adds value by heightening an organisation's awareness to remain robust and resilient through deployment of sustainable and efficient processes. This is achievable through committed organisation-wide goals to manage profitability, invest in human capital and reduce damages to the environment.

We end this publication with a quote from one CFO at the Roundtable – "Sustainability Reporting heightens the awareness for businesses to remain robust and resilient through deploying sustainable and efficient processes. This is achievable through committed company-wide goals to manage profitability, invest in human capital and reduce damages to the environment".

Acknowledgements

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