

Delivering Sustainability Starts With an Integrated Mindset

by Kevin Dancey

IFAC recently issued a call-to-action titled *Championing an Integrated Mindset to Drive Sustainable Value Creation* encouraging business leaders to promote and enable an integrated mindset to drive trust and sustainable value creation. At its core, an integrated mindset is about improving the quality of sustainability information and processes and connecting these to financial reporting and the value of the business.

Why is an Integrated Mindset Important?

This is one of IFAC's most important initiatives this year on behalf of the profession. An integrated mindset is necessary to deliver high-quality and decision-useful information to management and boards and investors. It involves developing processes and systems to generate robust data, decision making by senior management, oversight by boards, trusted integrated corporate reporting, and ultimately assurance. If companies get this right, independent external assurance delivered by the public accounting firms becomes easier.

Today, sustainability and financial information are often dealt with in separate parts of an organisation. In a world where sustainability and financial risks are converging, these information silos are barriers to developing better systems to enhance the quality and reliability of data and advance sustainability and enhance corporate reporting.

To this end, we need to help companies to bring together sustainability and financial processes and information to enhance overall decision-making inside organizations and external corporate reporting. Maintaining these separate siloes does not reflect the reality of how companies need to think, measure, manage and report when making decisions about how to achieve their sustainability goals and the financial implications of doing so.

With the formation of the International

Sustainability Standards Board (ISSB) under the IFRS Foundation, there is a historic opportunity to embrace a coordinated approach to deliver a comprehensive global baseline of sustainability-related disclosures needed by capital markets and support connectivity between the reporting required by the International Accounting Standards Board (IASB) and the ISSB. Jurisdiction-specific reporting requirements can complement ISSB requirements, especially in providing information that addresses jurisdiction-specific policy goals related to sustainability.

These developments in reporting and disclosure are important to bring about a global corporate reporting system that delivers consistent, comparable, reliable, and assurable information providing all stakeholders with a clear and reliable picture of an organisation's ability to create sustainable value over time.

But ultimately sustainable value creation is not going to be achieved unless organisations work towards sustainable business practices, products and services. And as sustainability reporting moves into the regulatory space, it's important that compliance does not overtake real progress on sustainability within companies.

Without an integrated mindset inside an organisation, incorporating sustainability issues into the way companies think—in the board room; amongst senior management; in the way strategies, business models, and decisions are made; and the way both risks and opportunities are assessed—is not

possible. An integrated mindset is the pathway for delivering sustainable value creation.

How can Companies Achieve an Integrated Mindset?

The CFO and finance function's role in enabling an integrated mindset and overcoming the challenges to achieving sustainable value creation is critical. And there will be challenges.

In IBM's CEO Study this year, more than half cite sustainability as among their greatest challenges in the next three years. However, the results show that over three-quarters are not implementing sustainability investments because of unclear return on investment (ROI) and economic benefits and a lack of insights from data.

Therefore, management and boards need to be equipped to make informed decisions. This involves understanding what sustainability issues matter and what is material. This is the sweet spot for CFOs and their finance teams. They can leverage their central position and expertise in financial processes and information to enhance the connectivity and maturity of sustainability information ensuring it is on a par with financial information. They can consolidate and prioritise relevant issues and information from various corporate functions and external sources and ensure their integration into planning, financial analysis, and scorecards. Unlike today, where financial systems do not typically track the environmental cost of activities, and the financial benefits of changing practices.

Connecting information and reporting processes related to governance, risk, sustainability and financial reporting helps to provide a more comprehensive picture of value creation and will break down any existing information siloes between CFOs and Chief Sustainability Officers.

This integration and connectivity will allow sustainability initiatives to be objectively analysed and trade-offs reconciled. The CFO and finance team is ideally placed to focus the organisation on the key sustainability priorities and assess their financial benefits and relative contribution to value creation.

For example, the risks of climate change are primarily linked to emissions. The finance team can provide insights on the financial risk arising from the cost of emissions which provides an organisation's exposure to climate risk related to its assets and business activities. This information is needed to assess the financial implications of climate change such as changes in profitability and cash flows or impairment charges. It can subsequently provide the foundation for discussing a strategic response to climate change and assessing the benefits and

economic value of changing practices to achieve emission reduction targets.

The importance of professional accountants' expertise in ensuring high-quality and decision-useful sustainability information is critical to building trust in information. Accountants in director roles on boards and audit committees face an opportunity to take on broader oversight responsibilities for interconnected corporate reporting and material sustainability disclosure.

Accountants will need to use their foundational professional skillset and ethics to apply financial reporting principles and controls to sustainability disclosure so that is reliable, relevant, and timely. Today, given sustainability and financial information are often dealt with in separate parts of an organisation, financial and sustainability information and reports are often not connected and issued at quite different times.

Leveraging technology and digital solutions will also be needed to ensure sustainability-related information has confidence and to help break down information siloes. Fragmented information gathering and reporting systems across different functional areas

must be brought together to improve the quality of sustainability information and its connectivity to financial information to provide greater insights. Integrated information technology systems, automation and digital platforms have a key role in sustainability data collection, measurement, and monitoring. All of these are areas where CFOs and finance teams have expertise.

Taking the opportunity

There has never been a more exciting time to be a professional accountant. As sustainability shifts from being voluntary to becoming regulated, boards and CEOs are turning to CFOs and finance teams to deliver an organisation-wide approach to breaking down functional and informational silos and connecting information on sustainability, value creation, and financial performance.

The expertise of professional accountants will be critical in achieving an integrated mindset and thereby influencing the decisions companies must make to accelerate sustainable transitions within companies and the allocation of financial capital by investors. As the profession and accountants turn their attention to the adoption and implementation of ISSB and jurisdictional sustainability-related disclosure requirements, an integrated mindset can support better decision-making within organisations and drive more decision-useful corporate reporting not as a compliance exercise, but as reporting that reflects progress towards becoming a more sustainable company.



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