

CFO

The Superheroes of Tomorrow?



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CFO - The Superheroes of Tomorrow ?



Needless to say, we live on a planet facing a crisis on all fronts; food, water, energy, weather, employment, population and wealth distribution. Many believe the world is at a critical crossroads and urgent action is needed. If you consider that in 2012 more than half of the largest 150 economies in the world were not countries but multinational corporations, it is likely business and not governments will herald change. For the CFO, revolution is afoot. In fact, some would say the most significant transformation in accounting in 500 years. Arise the sustainable CFO, tomorrow's superhero.

The Sustainable CFO

At the risk of appearing overly simplistic, even if you are a climate change skeptic, using natural resources like water or fossil fuels more sustainably means they will be around longer. That, in turn, means your company might stay around longer because it has the resources to continue doing business. This is the concept of sustainability. Likewise, if companies invest in training for their employees or implement new technology platforms they are building a sustainable foundation for their non-natural resources and, again, hopefully extending a company's longevity whilst improving the company's value.

So why is a global search firm such as Odgers Berndtson so interested in sustainability?

The sustainability discussion is permeating across all areas of our client's businesses and is increasingly part of the dialogue when our clients articulate their requirements.

Take Human Resources for instance. What connects HR and sustainability is that they both value the role of the employee as central in creating value for the company. Like HR, sustainability addresses how an organisation treats their stakeholders. This includes their stance on employee engagement and wellness, worker safety, fair work practices throughout their supply chain, etc.

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From a technology perspective, if you look at many of the most successful corporate sustainability programs you will find that technology was central to change. Like the CFO, “the CIO works with almost all the functions of the business, so they have a unique understanding of how companies work from end to end — everything from the supply chain, to how you hire people, to real estate and buildings and travel” suggests Mark Greenlaw, former Global CIO with Cognizant and a champion of sustainability.

Mark took on the role of Cognizant’s first VP of Sustainability, launching their award winning sustainability program and developing their first annual sustainability and corporate responsibility report. Mark believes CIOs are “ideally placed to drive sustainability programs. Because we work across all areas we are able to identify pockets of inefficiency. A lot of it comes down to waste, whether that’s waste of electricity, paper or water. Efficient systems almost always consume fewer resources. CIOs are also accustomed to dealing with large cross functional initiatives and obtaining funding for them. Let’s say you want to invest in renewable energy. Cognizant, for example, is looking at wind in India right now. That’s a fairly substantial investment. Not every executive is familiar with how such a thing would be presented, let alone funded. What will the CFO and board need to see? How do you put together a business case? CIOs are adept at that.”

Whether it be a CEO, CIO, CFO, an HR Director or any other strategy focused role, having an understanding of sustainability and how to orchestrate better outcomes for all stakeholders appears to be a key factor in future talent acquisition initiatives.

However, sitting at the core of this critical corporate metamorphosis is the CFO. It is the CFO who will be called upon to drive the strategy; to fundamentally change the way the corporation reports to the market to account for non-financial assets; redefining reward systems; reporting on the corporations ecological footprint; leading for the long term and driving a culture of full transparency.

“...it seems ‘sustainability’ is the next ‘tsunami’ of change driven by a global recognition that ‘business as usual’ is not an option...”

At Odgers Berndtson we have witnessed a seismic revolution in the way we do business. Social media and communications technology has significantly transformed access to leadership across the globe. Whilst social media was once viewed as a potential mechanism for making head-hunters obsolete, now it is clear that social media has opened up infinite opportunities to add greater value to clients.

Just as technology has permeated all levels of society and profoundly changed the way we all go about doing business, it seems ‘sustainability’ is the next ‘tsunami’ of change driven by a global recognition that ‘business as usual’ is not an option.



Can CFOs save the planet?

An interview with acclaimed Australian author Jane Gleeson-White was recently aired on an in-flight business channel. Jane was discussing her most recent book 'Six Capitals', subtitled "Can Accountants Save the Planet".

The genesis of her book was her observation that CFOs and accountants were starting to show up at environmental conferences, a rather new and startling phenomenon. The book's fundamental premise is that the traditional way we have viewed and valued corporations has not only been obsolete for many years, but the way we account for both financial and non-financial assets (or capital) is in dire need of a complete overhaul.

A couple of poignant facts:

Today, more than half of the world's population do not have access to clean drinking water

In the first half of this century, as the world's population grows to around 9 billion, global demand for food, feed and fibre will nearly double while, increasingly, crops may also be used for bioenergy and other industrial purposes.

Gleeson White believes a sustainability accounting revolution is upon us "representing the most significant change in accounting since double entry bookkeeping was invented by Luca Pacioli over 500 years ago", an event which Gleeson-White attributes to the beginnings of capitalism.

One of the initial catalysts for this revolution was the realisation of the failure of traditional accounting models to effectively value companies in this new world of technology enablement and social media. Financial accounts represent a minority of the value of modern companies. Popular information-age companies such as Google and Facebook are publicly floated and their share prices soar on listing despite them making little or no money. For example, at the time of writing, Facebook has a market capitalisation of nearly four times that of General Motors (GM), yet their 'assets' and revenue are many times lower than GM's, in the traditional sense.

The Billion Dollar Startup Club is a project started in January 2014. The Wall Street Journal and Dow Jones VentureSource are tracking 75 venture-backed private technology companies valued at \$1 billion or more. Take Uber for example; a company built around a smartphone app that could summon a private taxi with the press of a button. Launched in 2009 in San Francisco, the company is now valued at over \$41 billion (more than two thirds the value of GM) with just \$2.8b equity funding. In a traditional accounting sense the valuation could be considered ludicrous, which is evidence that traditional accounting methods are struggling to accommodate these information-age companies.



Transitioning to a new accounting model is not just tokenism to placate environmentalists or a movement of ideologies never to be acted upon, it is a revolution that has already taken hold. It has already brought about legislative change in the majority of states in the US, it has seen the rise of billions of dollars in new investments and changed the way global corporations are reporting to their shareholders. Importantly, it is quickly dictating a new modus operandi for financial managers and CFO's around the world.

This is the challenge to accounting in the 21st century. Six Capitals and the Integrated Reporting Framework tries to explain the dichotomy by considering the whole of a company's value rather than just its traditional financial and manufacturing capital.

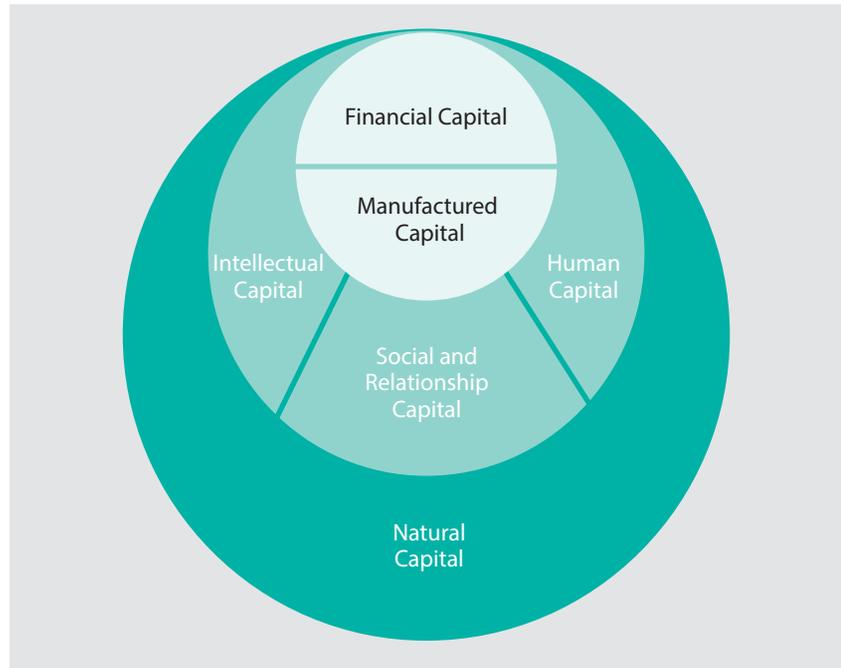
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What are the Six Capitals?

1. *Financial Capital*
2. *Manufactured Capital*
3. *Intellectual Capital*
4. *Human Capital*
5. *Social & Relationship Capital*
6. *Natural Capital*



Together with the traditional two capitals (Financial and Manufactured Capital) four new additional measures of capital; Human Capital, Intellectual Capital, Social and Relationship Capital and Natural Capital make up the basis of the “Six Capitals” accounting model which is also referred to as integrated reporting, and is driven by the International Integrated Reporting Council (IIRC).

Author Raj Patel discusses in his book “The Value of Nothing” the true cost to the planet of producing a hamburger. He suggests it is around \$200, once you consider the cost in terms of environmental degradation and biodiversity loss of felling a forest to graze the cows, the cost to communities of cheap or slave labour, as well as the multitude of societal and health costs that ensue from the consumption of the hamburger. This can best be explained using the Six Capitals model. Although we are not paying that \$200 now, Raj suggests that there is no doubt that somebody will be paying that cost in the future.

For a more complete overview of the Six Capitals philosophy, what each Capital represents, the context and the implications you can refer to Jane Gleeson-White’s book (Allen and Unwin).



Plan B

For those who doubt the global momentum of the sustainability shift, you need look no further than former client, Keith Tuffley. Keith was Managing Director Australia and Head of Investment Banking at Goldman Sachs before he relocated to London to lead their Industrials Sector Group for Europe. Soon after the Global Financial Crisis, Keith left Goldman Sachs to establish his own investment firm, NEUW Ventures, based in Lausanne Switzerland. NEUW is focused on the creation and financing of new businesses which reduce the human ecological footprint and accelerate the world's transition to a sustainable economic system.

Along with NEUW, Keith is a Director of the Great Barrier Reef Foundation and a Member of its Chairman's Panel, a Director of Bush Heritage Australia, a Governor of WWF-Australia, and Co-Chairman of Galactic Unite.

The B Team work on the premise that Plan A, or business as usual, is the fundamental cause of the sustainability issues facing us all today. Plan B is an evolving blueprint for business that prioritizes people, planet and profit.

Keith has also recently joined an organisation called The B Team, as Senior Partner. The B Team was established by a number of the world's most influential business leaders, including Sir Richard Branson and former Chairman of sporting-goods company Puma, Jochen Zeitz. The B Team work on the premise that Plan A, or business as usual, is the fundamental cause of the sustainability issues facing us all today. Plan B is an evolving blueprint for business that prioritizes people, planet and profit.

The B Team have committed to 10 imperatives:



Meeting these imperatives would require inspired leadership and a significant change in mindset, as well as unprecedented collaboration. Also, this transformation in thinking should not be viewed as a burden on industry but one which will open up a myriad of opportunities to the benefit of a far broader demographic than simply a corporation's main stakeholders.



Keith tells Odgers Berndtson “At The B Team, we are very focused on developing and scaling better accounting systems. Social and natural impacts and dependencies cannot remain invisible and this applies to both corporate and national accounts. This requires a revolution in accounting methods, but this will also result in a change in the way companies are valued, a clearer understanding of environmental and social risks, greater disclosure and transparency for investors, customers and consumers, and smarter regulation to ensure those who cause the damage pay for it. It will also open up a new horizon of opportunity for progressive companies and forward-thinking countries who can see new ways to thrive on a finite, resource-constrained planet.”

“... a new horizon of opportunity for progressive companies and forward-thinking countries who can see new ways to thrive...”

Another foundation member of the B Team is Unilever CEO, Paul Polman. In 2012 Paul received both the Atlantic Council Distinguished Business Leadership Award and the CK Prahalad Award for Global Sustainability Leadership. Paul was also recognised by Investor Magazine as 2007 CFO of the year. Paul was quoted as saying “I saw some statistics recently which said 75 per cent of American CFOs would not take the right decisions if it would result in missing the quarterly guidance. That’s why you see that average lifespan of a listed company is only 18 years”. Paul’s comment is what the 1st B Team imperative is all about, leading for the long term, and it is at the heart of how the modern CFO needs to operate in the future.

The B Team has also recently teamed up with another global sustainability movement. Since 2007, a non-profit organization called B Lab has been certifying for-profit companies that demonstrate sustainable business practices, termed ‘B Corps’. Amongst other things, B Corp certified companies believe they have an edge when it comes to talent acquisition. Recent studies have shown that people between the ages of 21 and 32 place especially high value on the chance to make a social impact through work.



Conscious Capitalism

John Mackey is Co-Founder and Co-CEO of Whole Foods Market in the US, an organic grocery business he grew to be a Fortune 500 company with turnover in excess of \$13b. The company was voted 'Best Company to Work For' by Fortune magazine for 16 consecutive years and the #1 Most Admired Food and Drug Company in 2012. Mackey has also received a number of accolades such as 'World's Best CEO' and 'Most Inspiring CEO' from various sources.

Whole Food's foundation was built on a number of core values extending beyond simply maximising profits. The core values are: selling the highest quality natural and organic products available, satisfying and delighting their customers, supporting team member happiness and excellence, creating wealth, profits, and growth, and caring about communities and environment. Mackey suggests "Although it may seem counter intuitive, the best way to maximize profits over the long-term is to not make them the primary goal of the business". Whole Foods Market is a shining example of how a focus on sustainability can make such a positive impact.

Mackey has focused on building a more conscious way of doing business. He was the visionary for the Whole Planet Foundation to help end poverty in developing nations and the Local Producer Loan Program to help local food producers expand their businesses. A strong believer in free market principles, Mackey co-founded the Conscious Capitalism Movement, a non-profit organization of successful business leaders dedicated to cultivating the theory and practice of Conscious Capitalism. The Directors believe there are four pillars underpinning a business practicing Conscious Capitalism; Conscious Leadership, Conscious Culture, a Higher Purpose and Stakeholder Orientation.

"...Although it may seem counter intuitive, the best way to maximize profits over the long-term is to not make them the primary goal of the business..."

Building sustainable businesses with the desired foundations, customer focus, the right leadership and goals is a key starting point. The next challenge is understanding on how to put a value on these things and how to report it to stakeholders.



Integrated Reporting

Professor Carol Adams is a Research Professor at the Sustainability Institute at Monash University and is an internationally renowned author in integrated reporting, sustainability accounting and reporting and sustainability performance management. Carol suggests “Integrated Reporting promotes long term thinking about value-creation and stewardship across the Six Capitals.

On CFO’s, Carol said, “Having reached the pinnacle of their career claiming the cherished CFO title, most feel professionally fulfilled and mentally stimulated, but the role is far wider reaching than when they assumed it. It requires involvement in governance, IT, risk and strategy and an understanding of how non-financial performance and a broader set of ‘capitals’ influence value creation”. Carol believes the CFO title is a misnomer, “today’s demands are such that maybe alternative, different titles are appropriate. Perhaps Chief Governance Officer (CGO) or Chief Value-creation Officer (CVO)?”

Paul Druckman, CEO of the International Integrated Reporting Council (IIRC), in an interview with Carol, said “Integrated reporting explains how a company will be a viable thriving entity in the short, medium and long term. It is not just about financial profit. Companies cannot think of themselves as apart from society – they are part of it. And that needs to come through in their communication on value”. Paul is also quick to point out that integrated reporting is not just another report but “a revolution in corporate reporting”. It is also not sustainability reporting as such, but it is the ‘integrated thinking’ that brings sustainability reporting into mainstream corporate reporting.

There was inevitably initial resistance to integrated reporting from various sectors. Many believe an annual report is more of a marketing document than a repository of the truth and that it was unrealistic to expect companies to reveal publicly what was really important to strategy beyond statements of the obvious. However, this attitude is rapidly changing as more and more companies adopt integrated reporting.

In 2014, Westpac Bank ranked number one in ‘Global 100 Most Sustainable Corporations in the World’ at the World Economic Forum in Davos, Switzerland. Westpac Chairman, Lindsay Maxsted, suggested “the point of integrated reporting is integrating not just sustainability reports, but all market updates, investor disclosures and so on, into one place”.

“...integrated reporting is not just another report but a revolution in corporate reporting...”



What next?

The IIRC recently completed a pilot integrated reporting programme which included over 100 companies worldwide, including Stockland Australia and National Australia Bank (NAB). We spoke with Mark Joiner, former Group CFO of NAB and Chairman of JB Were. Mark is one of the CFO champions of integrated reporting. When Mark first proposed to the NAB board the adoption of integrated reporting he was told by his peers that he was 'brave' and he was taking 'great personal risk'. Now, NAB is leading the way and there is irreversible momentum.

Mark said "companies of the future can no longer do whatever they like on one hand and then spread goodwill on another". For example, "how can you continue to have positive relationships with your customers whilst you are issuing them with dishonour fees, etc." The logical evolution is that "sustainable thinking will work its way into the banks' risk filters. It is already influencing who we do business with. For instance, NAB has the lowest exposure to coal mining of all the Australian banks".

"....The new generation don't want to work for companies that do good things, they want to work for companies that do good..."

Mark suggests that "many traditional businesses believe their only priority is to maximise profit, even to the point of bending the rules. I think companies that stay in that mode will struggle. There is a paradigm shift between the way my generation thought about business and the new generation coming through. They think more carefully about who they work for. They don't want to work for companies that do good things, they want to work for companies that do good. The focus of a CFO has changed from getting the numbers right to influencing big decisions then to leading strategy. The next step should be to get them to think about a business model that will be robust over a decade".

Speaking with Carol Adams, she is confident there is significant global momentum with companies incorporating sustainability into their annual reports. "Many companies have been doing this for a while but not calling it integrated reporting". Carol believes the next step in the revolution is "more experimentation around putting a realistic value on social impacts from a corporation's activities". Shareholders are already beginning to make investment decisions based on positive social and environmental impacts and not purely short term financial strategies.



Hearing the thunderous stampede of potential CFO superheroes ready to climb into the phone booth to save the planet, consider this as you don the cape; don't ask what is the true cost to the planet of manufacturing that phone booth, as Raj Patel would ask, but consider what the true cost to the planet would be if you don't climb into the phone booth.

It is clear now that sustainability and accounting are closely intertwined and this will be the norm for the future. At Odgers Berndtson, an understanding of sustainability reporting is beginning to appear on our client briefs for CFO searches.

Odgers Berndtson has recognised a significant opportunity for CFOs to better equip themselves for the challenges ahead. To that end, we are collaborating with leading management schools around the world, such as Rotman School of Management at the University of Toronto, to design CFO Leadership courses that will prepare CFO's and future CFO's for the new age.



About the author



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Phil McCann is a Partner and Head of the APAC CFO & Financial Management Practice for Odgers Berndtson. Phil has more than 15 years' experience recruiting financial leaders across all sectors in Australia and the region. Phil is also Head of the Sustainability and Renewable Energy Practice and has conducted many regional searches in the solar sector.

He is viewed as a thought leader across both these sectors and so the sustainable reporting agenda is of particular interest to him.

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