FOM-Conference

FOM International CSR Research Conference

Implementing Sustainable CSR Management Solutions

Track 2, Session 3
Governance / Finance

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„Sustainability in Finance – Can finance practitioners be held accountable to a sustainability agenda?“

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Sustainability in Finance

Can finance practitioners be held accountable to a sustainability agenda?

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Köln, DE

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The Finance Dilemma

Finance practitioners are accountable for a traditional set of outcomes, governed by a traditional set of norms.

The Finance Dilemma

- ***Shareholder value theory***
  - *“Maximize shareholder value”*
  - *Diverse shareholder priorities*
  - *Shareholder concentration of power*
  - *Strive to “unlock value”*

The Finance Dilemma

- *Shareholder value theory*
- ***Asymmetrical objectives among market participants***
  - *Margins & pricing power vs. Sustainability agenda*
  - *Short term gains vs. Long term value*
  - *Harvesting current assets vs. Cultivating new businesses*
  - *What is the market-clearing mechanism?*

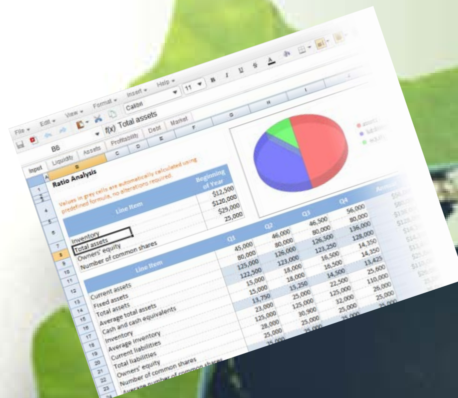
The Finance Dilemma

- *Shareholder value theory*
- *Asymmetrical objectives among market participants*
- ***Entrenched quantitative methods***
  - *Historical data collection and measurement*
  - *Legacy reporting structure and decision tools*
  - *Difficulty in valuing (or selling) externalities*
  - *Profit vs. Profits*

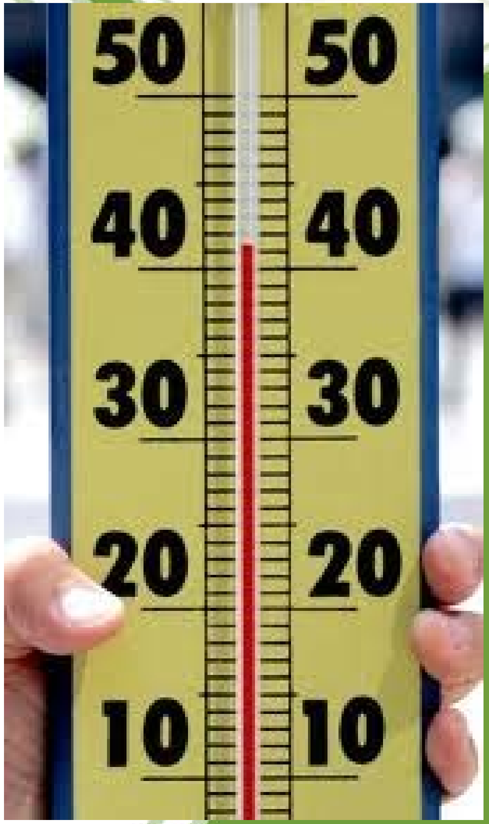
The Finance Dilemma

- *Shareholder value theory*
- *Asymmetrical objectives among market participants*
- *Entrenched quantitative methods*
- ***Political and Policy conflict***
  - *Incentives and subsidies create “noise”*
  - *Lobbying and political agenda interferes*
  - *Regulation stimulates “loophole” mindset*

So how can the finance discipline progress beyond traditional thinking and support a sustainability agenda?



The temperature is already rising… and I am not talking about global warming!



A Second Dilemma

Finance practitioners must step up to meet new market demands. Failure to act will be perilous to the firm!

A Second Dilemma

- ***Market expectations***
  - *Consumers: rapid changes in who they are and what they expect*
  - *Trading partners: feeling the heat and passing it along the value chain*
  - *Investors: looking towards the Integrated Bottom Line via CSR Investing and Shareholder Activism. Transparency is not negotiable*
  - *Society: attentive to stakeholder theory evolution*

A Second Dilemma

- *Market expectations*
- ***Risk management protocols***
  - *Enterprise risk management: resource costs and constraints have taken center stage in many industries*
  - *Public relations: environmental and social impact whistle-blowing has had a profound impact*
  - *Financial risk assessment: not only impacts capital allocation decisions and M&A, but also influences the flow of capital to environmentally risky projects*

A Second Dilemma

- *Market expectations*
- *Risk management protocols*
- ***Regulatory response***
  - *Global “eyes and ears” required*
  - *Managing the impact of policy change: Nuclear regulation, Hydraulic fracturing (fracking), Interest rate and exchange rate manipulation, Taxes and subsidies*
  - *Influence: participation in the dialogue and focus on fairness and consistency*
  - *Is law always the answer? Is that what we have asked for?*

Engaging the financiers

Six ways the finance team can make an impact

Engaging the financiers

- Evaluate the returns, combining traditional and non-traditional views.
- Audit the numbers. Transparency will prevail.
- Tap into environmental market opportunities and threats. Build or evolve your strategy.
- Manage risks at an enterprise level.
- Engage the shareholders and stakeholders.
- Participate in the public process with a consistent and well reasoned agenda.

Thank You!

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