

# The implementation of sustainability measures in the finance function

Survey results

**WU**  
VIENNA

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UNIVERSITÄT  
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## Executive Summary of the findings

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### The role of sustainability in the organization

- ▶ Approx. a third of the respondents publishes an **ESG report**. For 41% of them a separate **ESG department** bears the main responsibility for the report; for around 25% it is the **Finance & Controlling** department. In general, the majority deals with ESG topics in a cross-departmental manner
- ▶ While a large proportion believes that the **potential for ESG** measures in their respective main industry is very high, only a small proportion exploits this potential sufficiently
- ▶ The **proportion of time spent on various ESG activities** in the **finance function** is rather small. In most cases, these activities also did not lead to additional resources for the finance function (i.e., a reallocation of resources or the hiring of new employees)

### ESG perspective of the CFO and personal behavior

- ▶ The majority of CFOs are incentivized by **ESG targets** only to a very **small** extent
- ▶ Still, there is a strong belief towards the **compatibility** of **ESG** and **profit/strong performance**
- ▶ Also, quite high a degree of **environmental awareness** is anchored in everyday lives of the surveyed CFOs
- ▶ High performance companies attach significantly more importance to incorporate ESG performance indicators and long-term goals in the performance review & target agreements of CFOs

### The role of sustainability in performance management

- ▶ **Environmental issues** play a fundamental role in about 50% of the respondents' companies' strategies
- ▶ Energy usage, waste indicators, CO<sub>2</sub> emissions and water usage are the most frequently used **performance indicators**
- ▶ Concerning gender equality, one of the main goals is to **increase the share of women** not only in management positions, but at all hierarchical levels
- ▶ Companies that have a **KPI-system** integrate gender equality KPIs to a lower extent in the KPI-system (22%) compared to environmental KPIs (47%)

### Key data of the survey

- ▶ **242** large and medium-sized **Austrian** and **Swiss** companies
- ▶ Participating companies are from a wide range of **different industries** - "Manufacturing" and "Financial and insurance activities" are the industries with the highest share
- ▶ The majority of respondents are **CFOs**, a small proportion are in top or senior management and work in controlling, and/or finance/accounting
- ▶ The majority of the respondents identified as male and have a **long professional tenure** in the finance function

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ESG perspective of the CFO and personal behavior

# 151 Austrian and 91 Swiss companies participated in the study “The implementation of sustainability measures in the finance function“ in autumn 2021.

Conducted by an international research team, ...



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... the study reports the role of sustainability in corporate performance management.

## Online-Survey

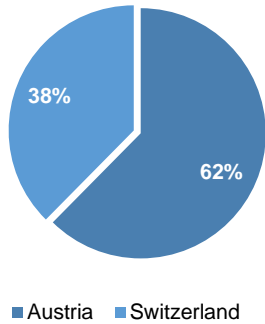
- ▶ 25 constructs (≈100 items) on the role of sustainability in corporate strategy, in the finance function, in performance management & the view and personal behavior of the CFO with a focus on the subtopics environment and gender equality
- ▶ Predominantly 7-point scale (1 – to no extent, 7 – to a high extent), but also categorical answers
- ▶ In order to be able to make summarizing statements, the scale points 1-3 (“low agreement”) and 5-7 (“high agreement”) are combined
- ▶ Pre-test of the questionnaire with both practitioners and researchers showed a response time of (Ø) ≈ 15min

## Data collection/Data set

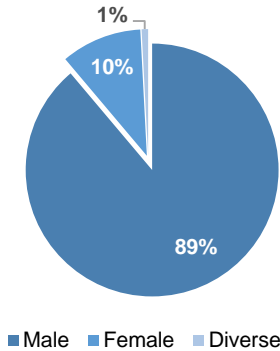
- ▶ 242 answers from large and medium-sized Austrian and Swiss companies (cross-industry)
- ▶ Respondents: CFOs, Senior Managers in the areas of controlling/finance/accounting
- ▶ Conducted by WU Vienna in cooperation with the University of Bern and the Austrian Controller Institute
- ▶ Timeframe: September-November 2021
- ▶ Participants remain anonymous

The majority of the respondents are male and have a long professional tenure in the finance function.

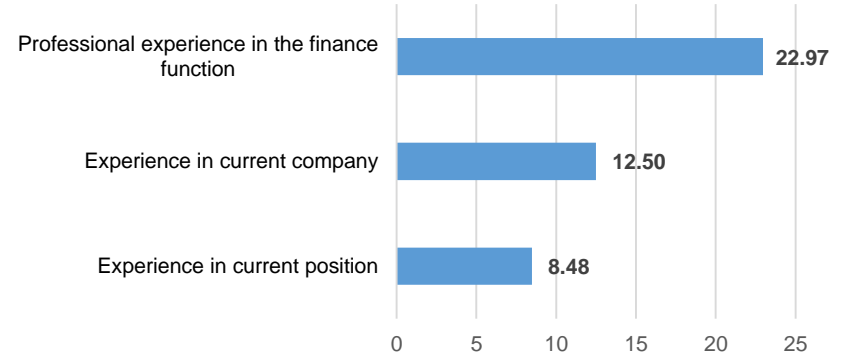
Respondent countries



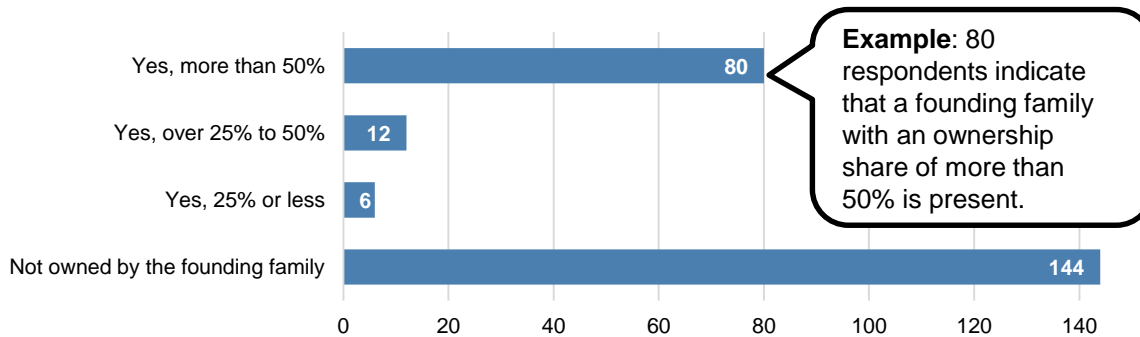
Gender of respondents



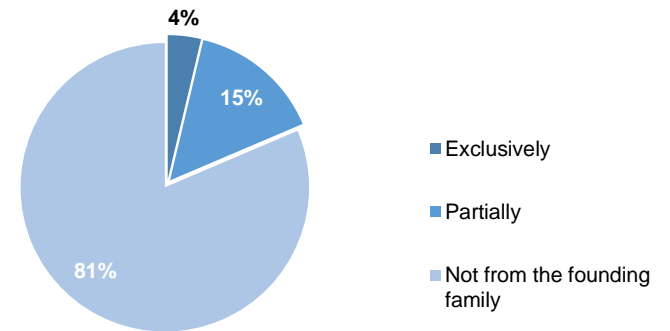
Tenure of respondents (in years)



Ownership of founding family

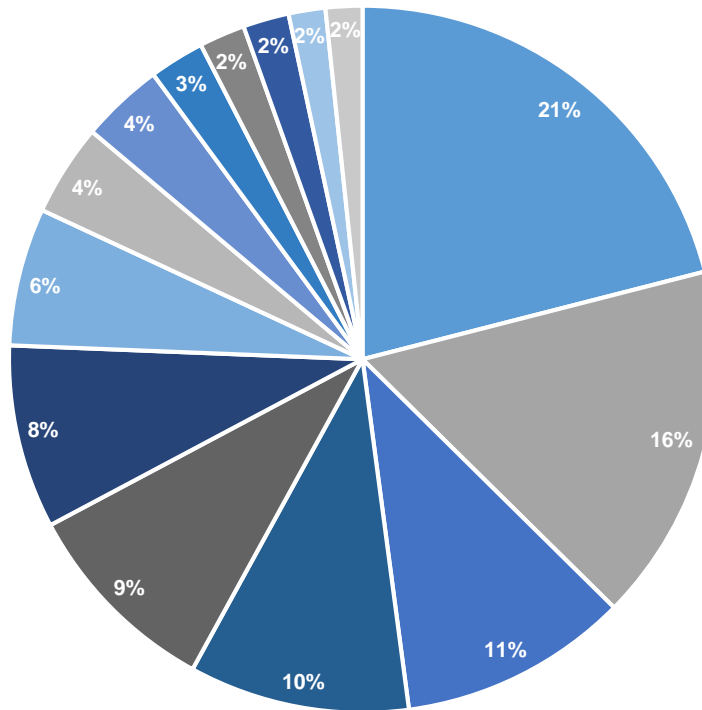


Founding family members as managing director(s)



The sample consists of companies from many different industries. The industries with the highest share are “Manufacturing” and “Financial and insurance activities”.

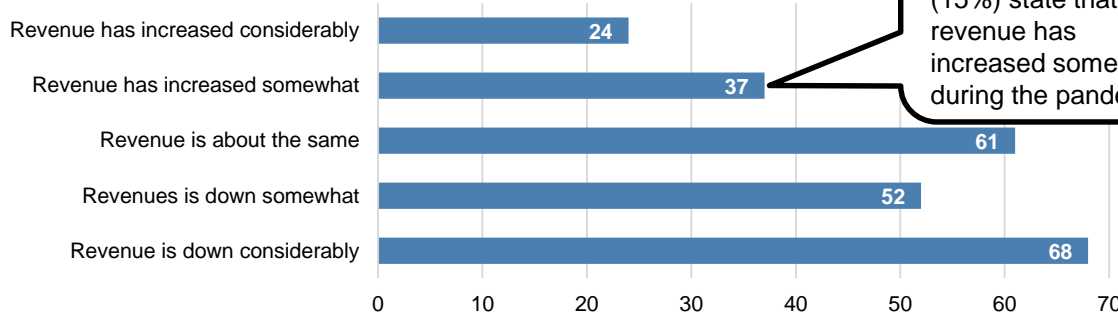
Industry composition



- Manufacturing
- Financial and insurance activities
- Human health and social work activities
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Professional, scientific and technical activities
- Transportation and storage
- Electricity, gas, steam and air conditioning supply
- Information and communication
- Real estate activities
- Construction
- Administrative and support service activities
- Education
- Accommodation and food service activities
- Other service activities

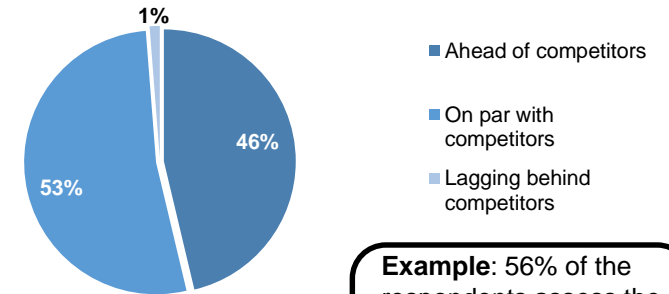
About 50% of the respondents report a slight to significant decrease of revenue due to the pandemic. Still, nearly all of them state not to have performed worse than their competitors.

Revenue affected by Covid-19 pandemic



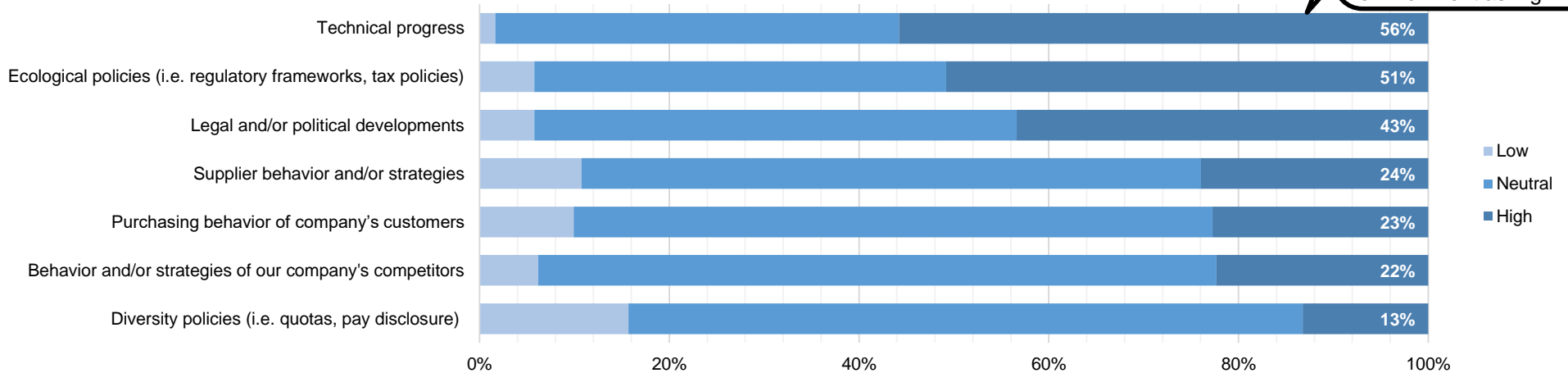
Example: 37 of the 242 respondents (15%) state that their revenue has increased somewhat during the pandemic.

Performance during Covid-19 pandemic compared to competitors



Example: 56% of the respondents assess the predictability of technical progress in their business environment as high.

Predictability of changes in the company's business environment in different areas



Respondents indicate that **changes in the business environment with regard to technical progress and ecological policies** are best predictable. The lowest predictability is ascribed to the **behavior of competitors and diversity policies**.

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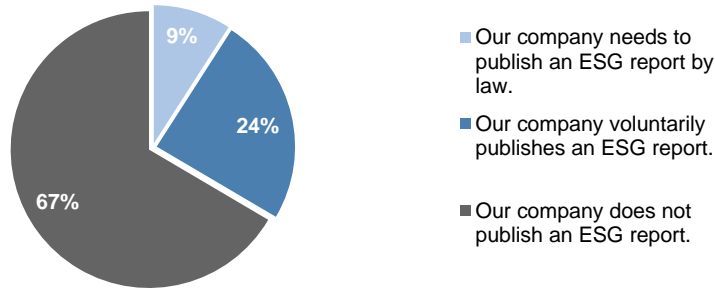
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ESG perspective of the CFO and personal behavior

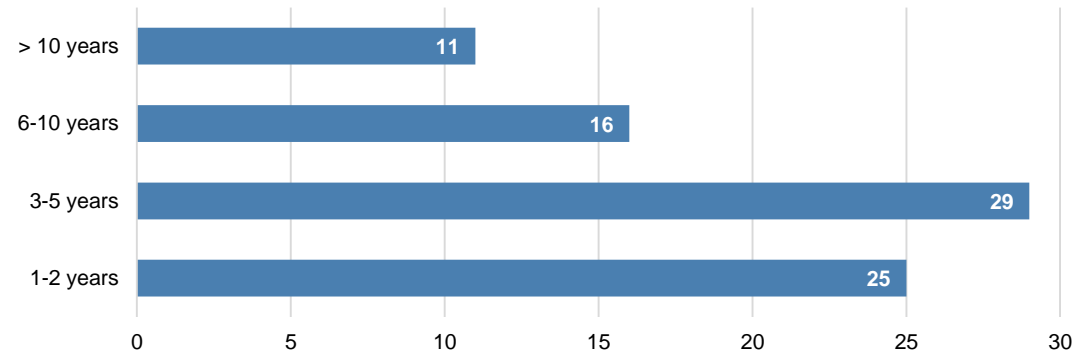


A third of the respondents are publishing an ESG report, most of them on a voluntary basis. More than 50% of those that publish an ESG report have some sort of assurance for their reports.

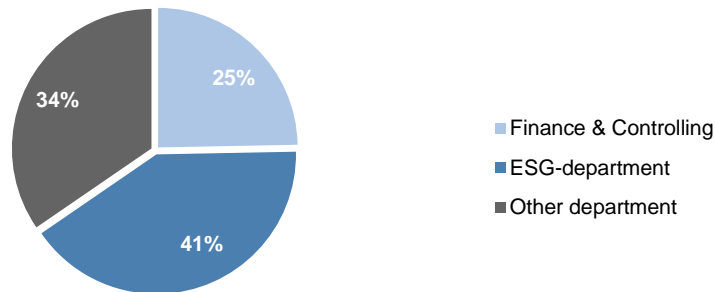
ESG-report disclosure



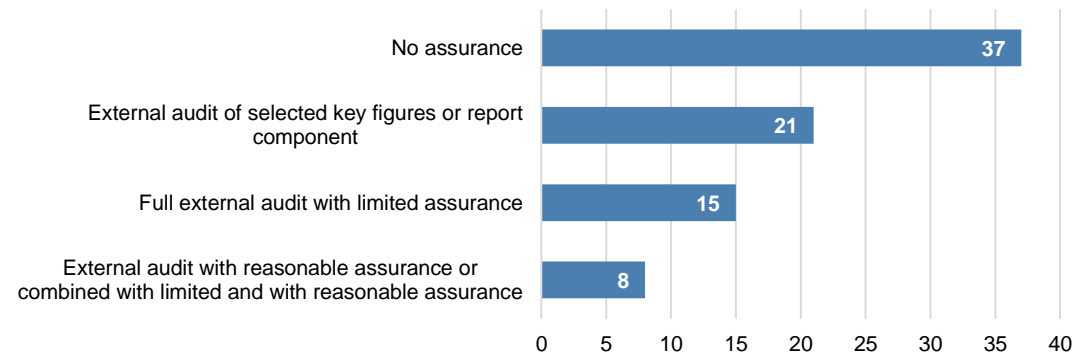
Disclosure of ESG report since...



Department primarily in charge of ESG-report



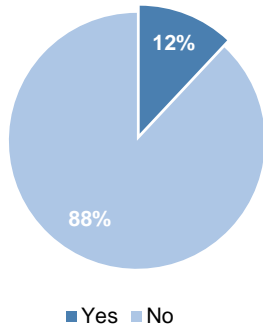
Assurance provided on ESG information reported



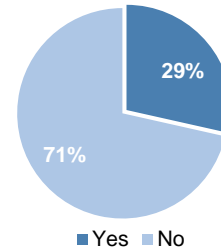
The majority of companies that publish an ESG report have only been doing so for a few years. 41% state that a separate **ESG department** bears the main responsibility for the report; for around 25% it is the **Finance & Controlling** department.

The overall picture shows that ESG indices and ratings are available for very few responding companies.

Company included in any kind of ESG index

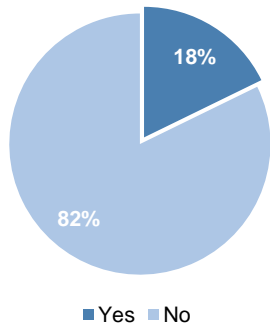


Separate department for ESG related issues

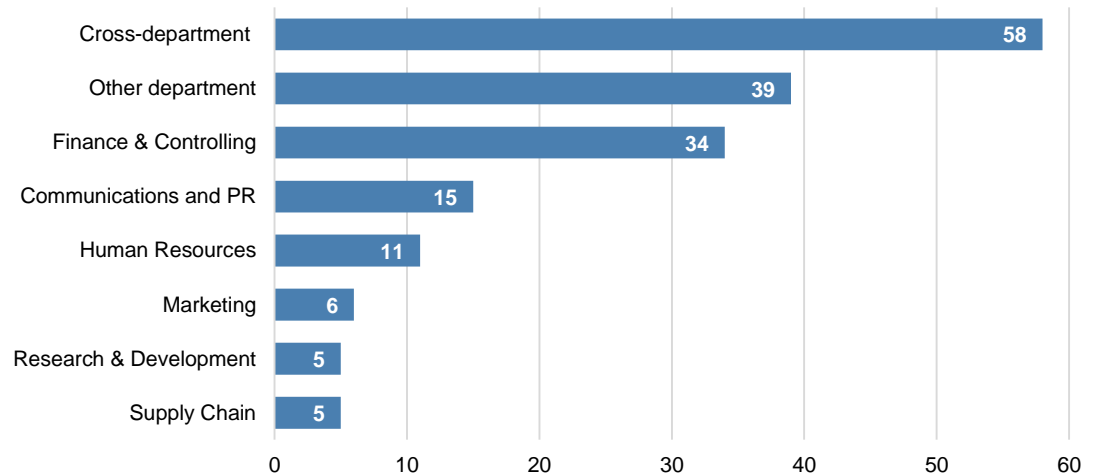


**Example:** 58 companies (34%) deal with ESG topics in a cross-departmental manner.

ESG-Rating is reported



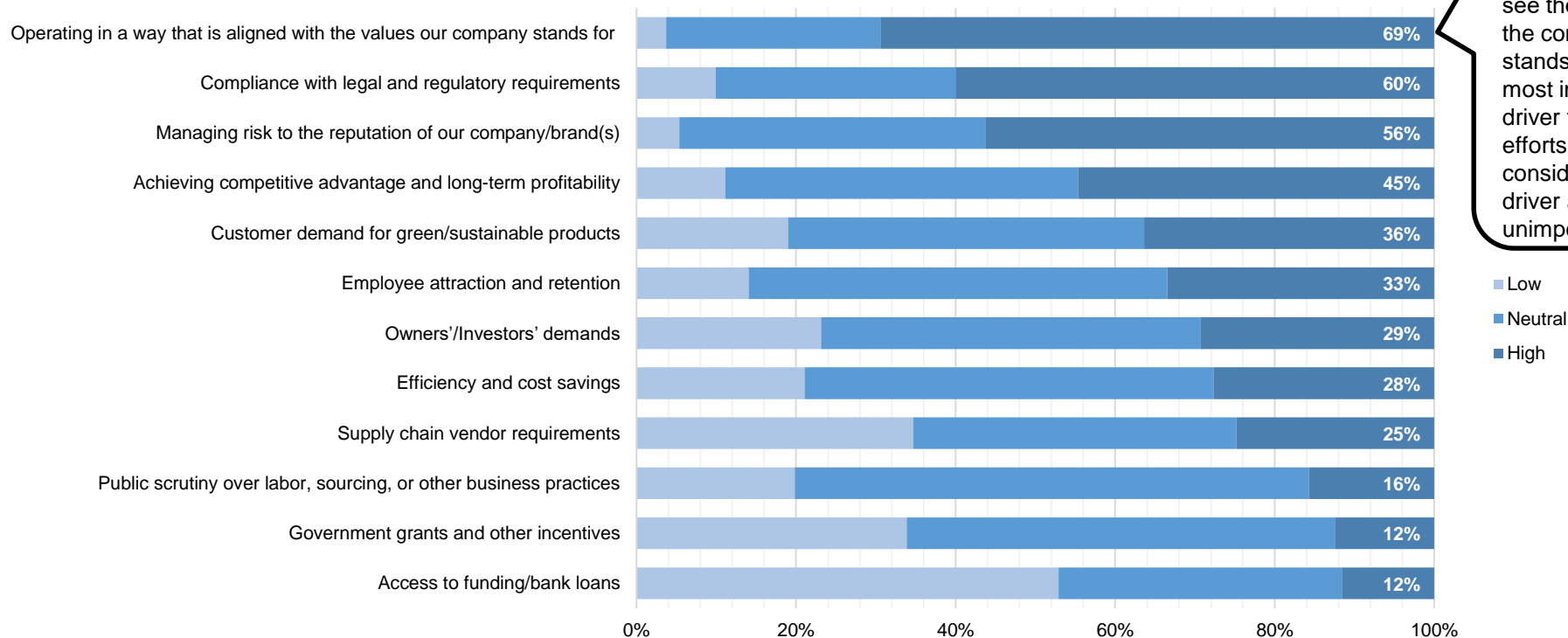
Department primarily responsible for ESG-issues



Responding companies most often **assign responsibility for ESG issues cross-departmentally** (34%). **Finance & Controlling ranks third** (20%) behind other departments (23%) and behind cross-departmental responsibility.

The three most important drivers for corporate ESG efforts are corporate values, compliance with new regulations and risk management with regard to reputation.

### Drivers of a company's ESG efforts

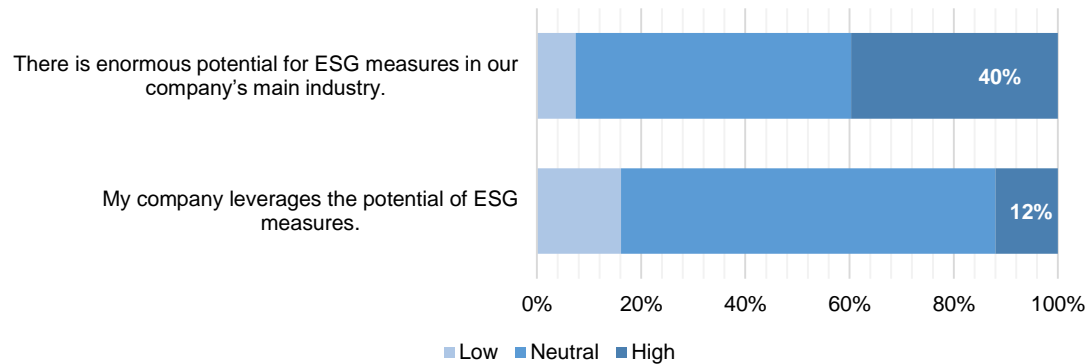


**Example:** 69% of the respondents see the “values the company stands for” as the most important driver for ESG efforts. Only 4% consider this driver as unimportant.

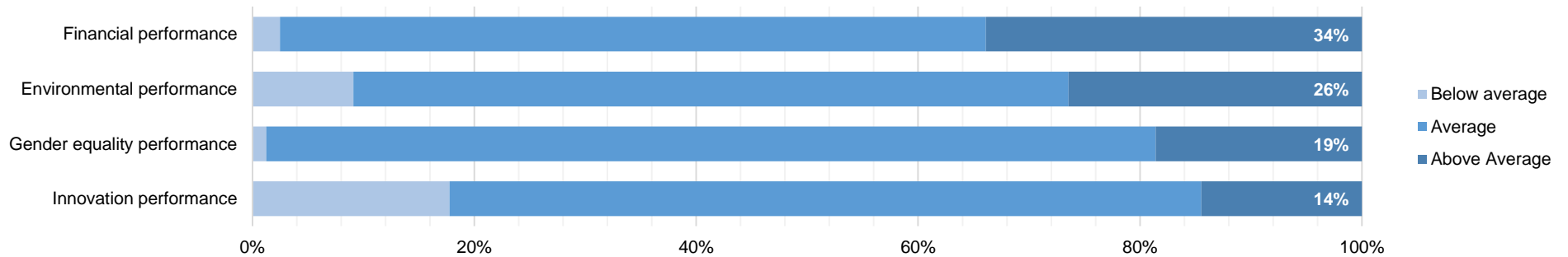
**Achieving competitive advantage, customer demand for green/sustainable products and services as well as employee attraction and retention are also important drivers of corporate ESG efforts. Respondents assign the lowest relevance to governmental drivers and access to funding/bank loans.**

Although a large proportion believe that the potential for ESG measures in their respective main industry is very high, only a small proportion exploits this potential at the moment.

Potential for ESG measures



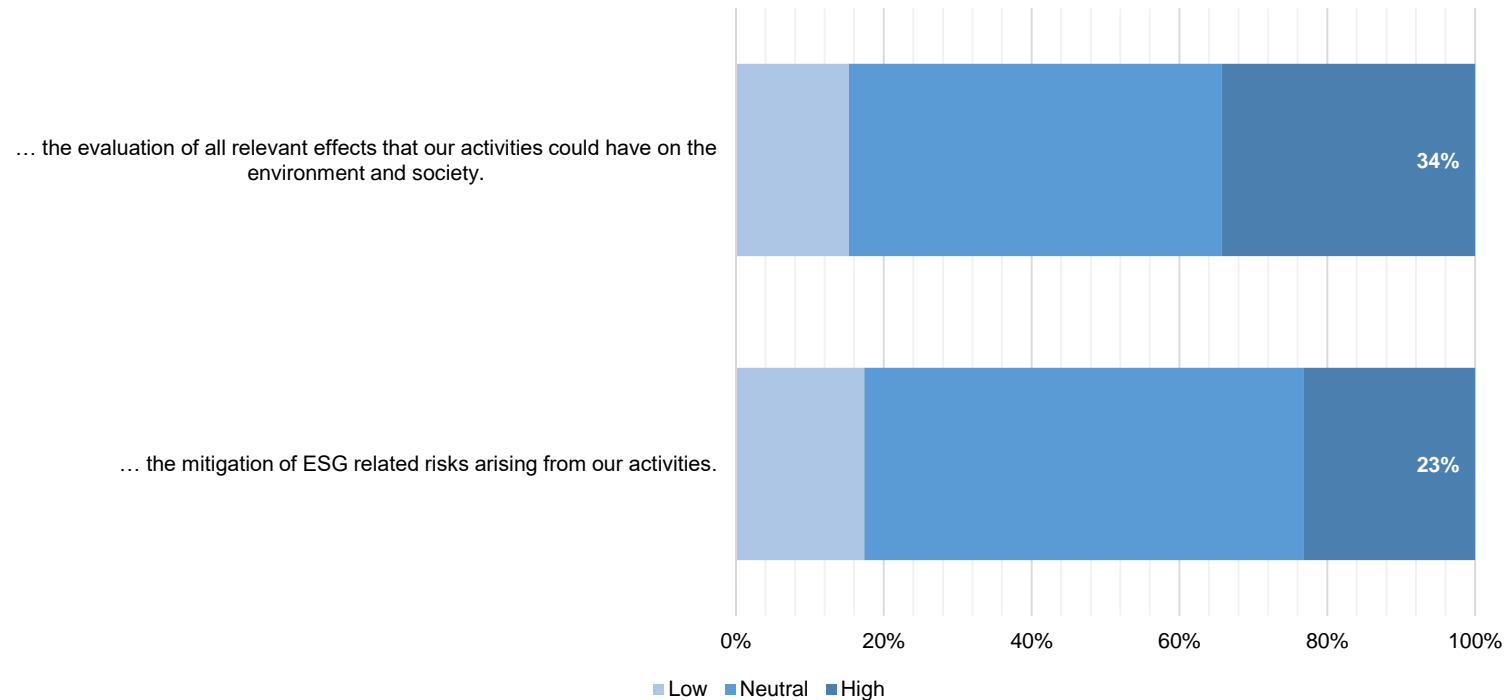
Perceived ESG performance compared to the industry average within the last 3 years



Almost all respondents rate themselves **as good as, or better than the industry average** in the various performance dimensions within the last 3 years. Companies assess their **environmental performance higher** than their **performance in the realm of gender equality**.

**34% of the responding companies indicate that they emphasize the evaluation of ESG effects of their corporate activities in their risk management processes.**

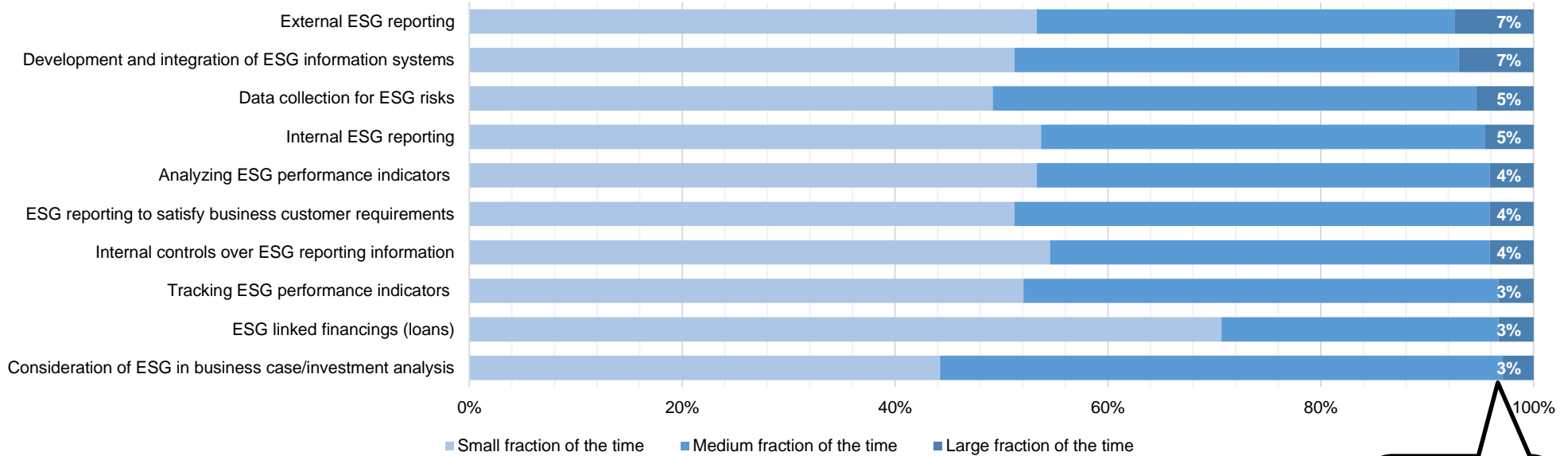
### The risk management includes...



Companies also integrate the **mitigation of ESG related risks arising from their activities** in their risk management processes but less so compared to the **evaluation of the ESG effects of their activities** (23% vs. 34%).

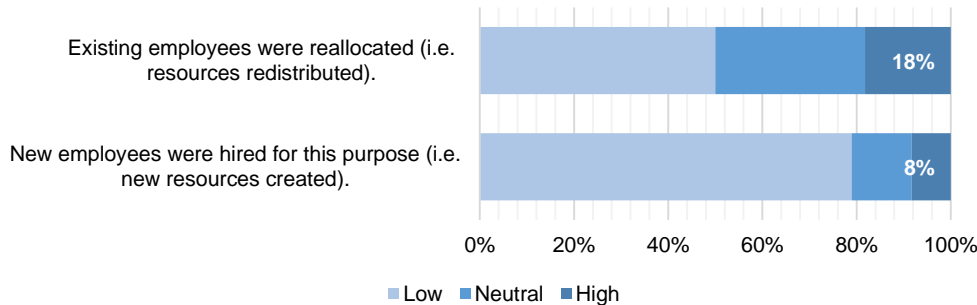
The time spent on ESG activities is rather small. In most cases, these activities also did not lead to a reallocation of resources or the hiring of new employees despite growing ESG importance.

### Time resources spent on ESG activities in the Finance Function

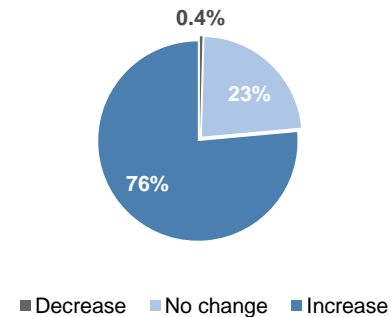


**Example:** 3% of the respondents spend a large fraction of their time on the consideration of ESG in business case/investment analysis, about 50% a medium fraction, and 45% a small fraction of their time.

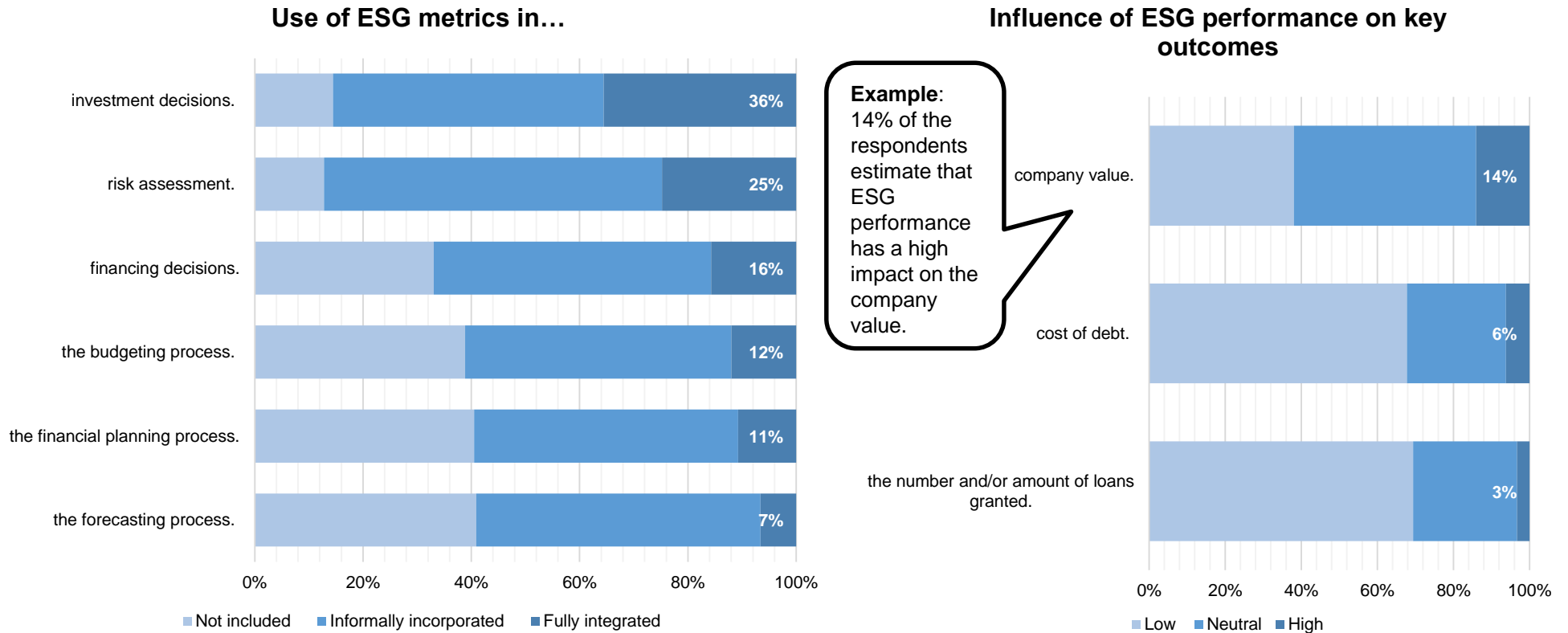
### Changes in resource endowment for ESG aspects



### Predicted importance of ESG activities



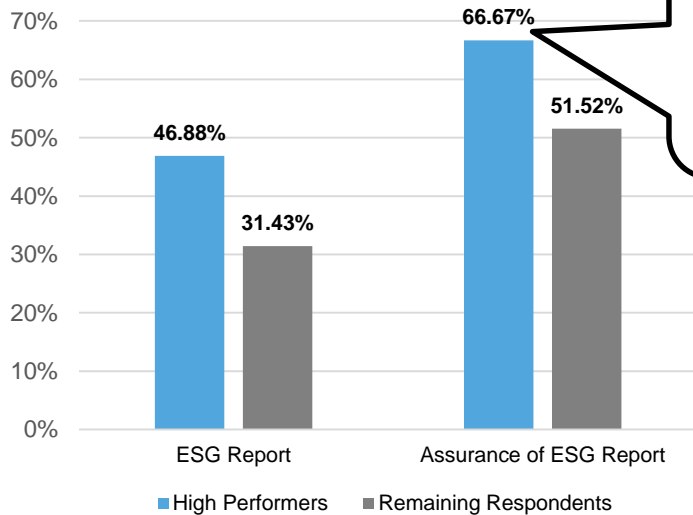
ESG metrics already play an important role for investment decisions and risk assessments. The use of ESG metrics in the financial planning and forecasting processes is of the least importance.



According to the respondents, **ESG performance** displays the biggest influence on **company value**. **14%** of the respondents state that ESG performance exhibits a **high influence** on company value. Conversely, only **3%** indicate that ESG performance influences the **number and/or amount of loans granted**.

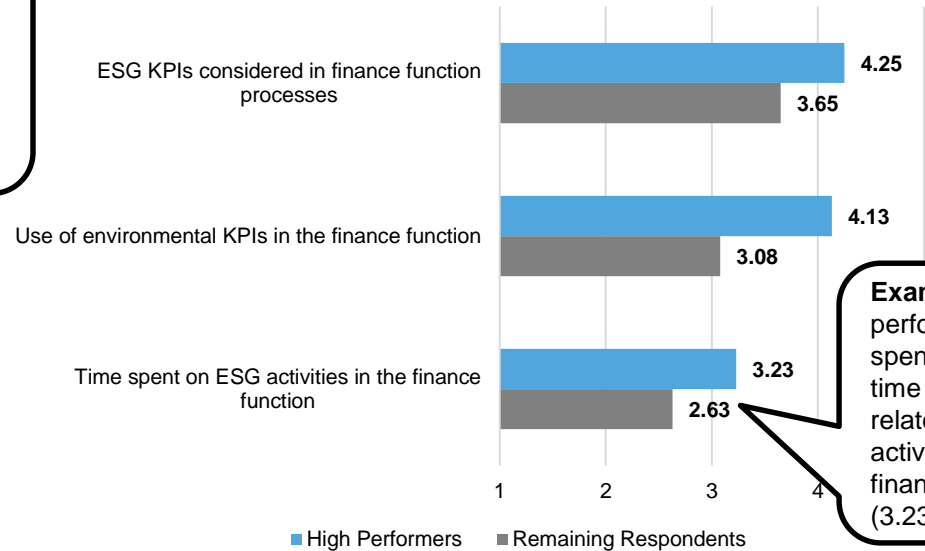
High performing companies (in the areas of financial and innovation performance) score above the median value of environmental and gender-equality performance.

**Reporting and the Role of the Finance Function in ESG - High Performers vs. Remaining Companies**



**Example:** High performers get more often assurance on their ESG reports compared to the remaining respondents (66.67% vs. 51.52%).

**ESG in the Finance Function - High Performers vs. Remaining Companies**



**Example:** High performers spend more time on ESG-related activities in the finance function (3.23 vs. 2.63)

High performers put significantly more emphasis on the **publication of ESG reports** as well as **obtaining assurance** on the information published in ESG reports. Furthermore, high performers assign overall **ESG responsibility** more often to the **finance function**. High performers also devote **more time** to ESG activities in the finance function compared to the remaining companies.



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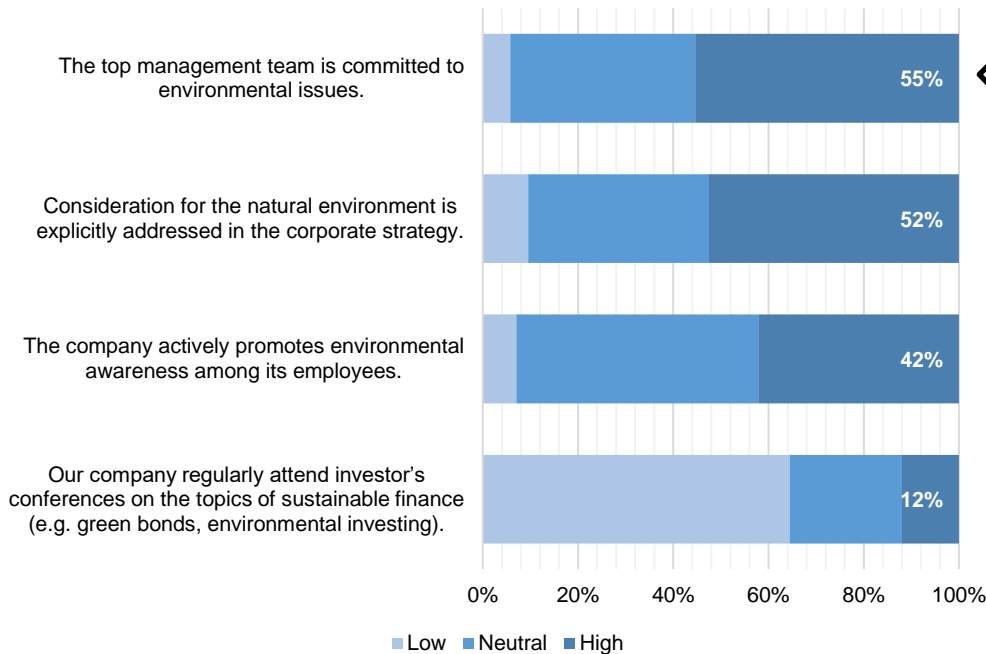
The role of gender equality in performance management

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ESG perspective of the CFO and personal behavior

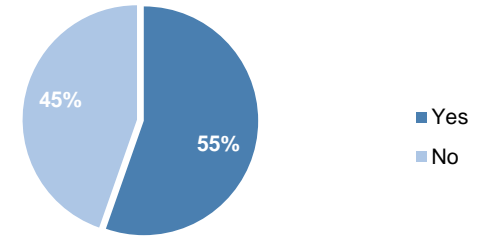
# Environmental issues play a fundamental role in about half of the respondents' companies' strategies

## Attitude towards environment in the corporate strategy

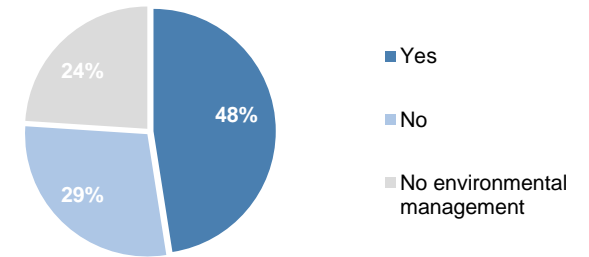


**Example:** 55% of the respondents state that the top management team is highly committed to environmental issues.

## Integrated policy to reduce emissions and waste



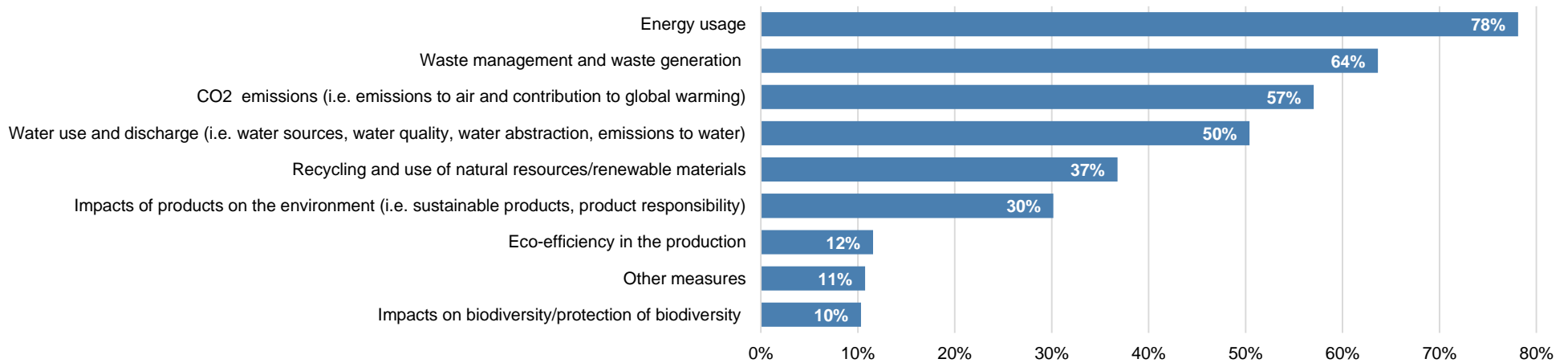
## Certified environmental management



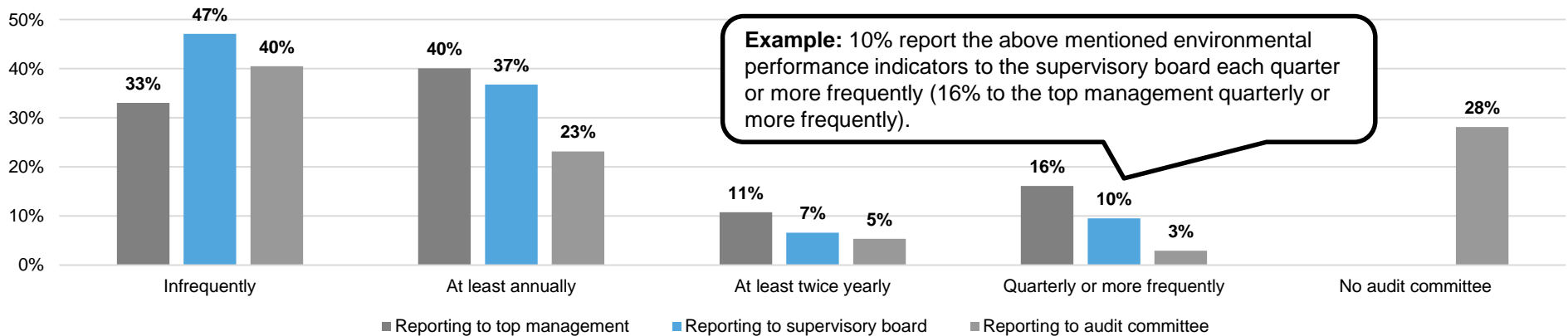
The important role of the environment in the corporate strategy is also reflected in the high proportion of **integrated policies** to reduce emissions and waste (55%) and the existence of **certified environmental management** (48%).

Energy usage, waste indicators, CO<sub>2</sub> emissions and water use are the main indicators used. These are reported infrequently, sometimes annually, to the top management and the supervisory board.

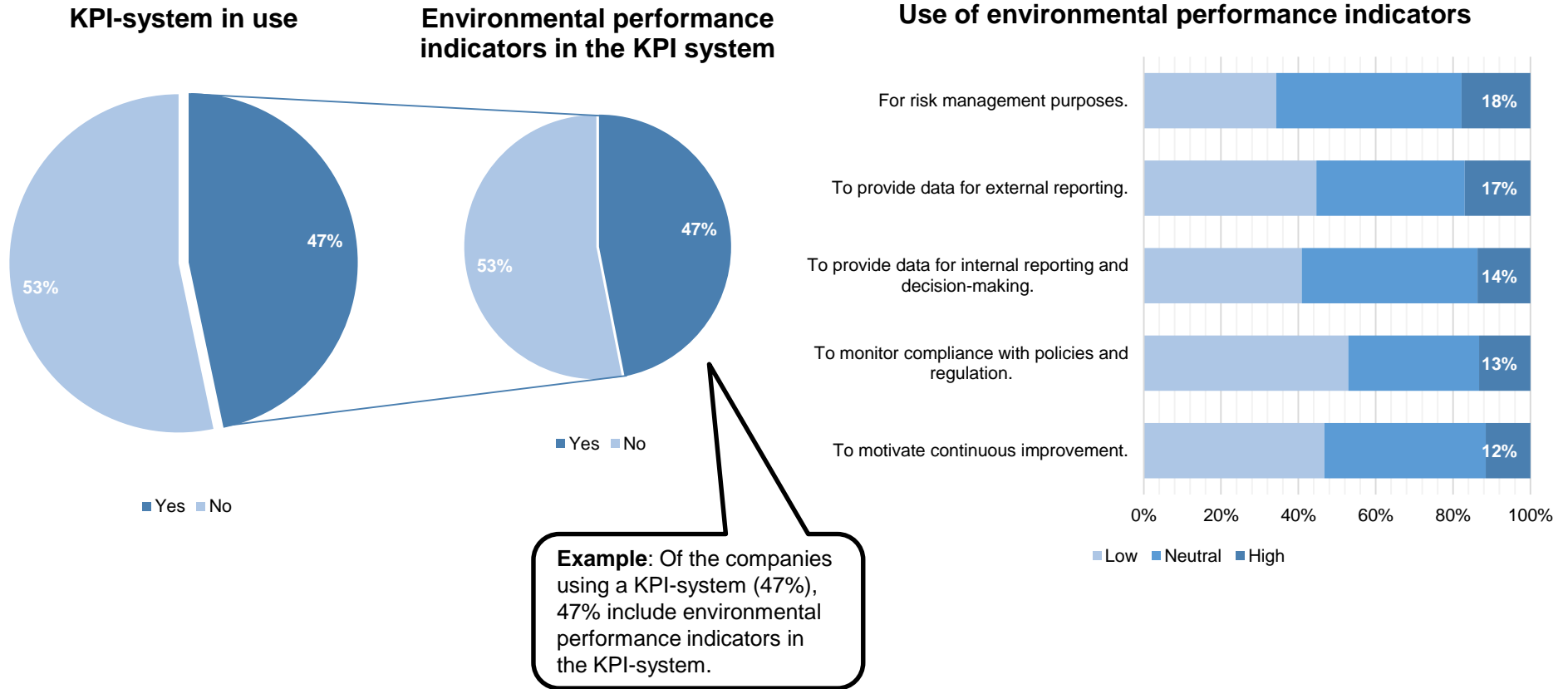
Percentage of companies using the following environmental indicators



Reporting frequency of these environmental performance indicators



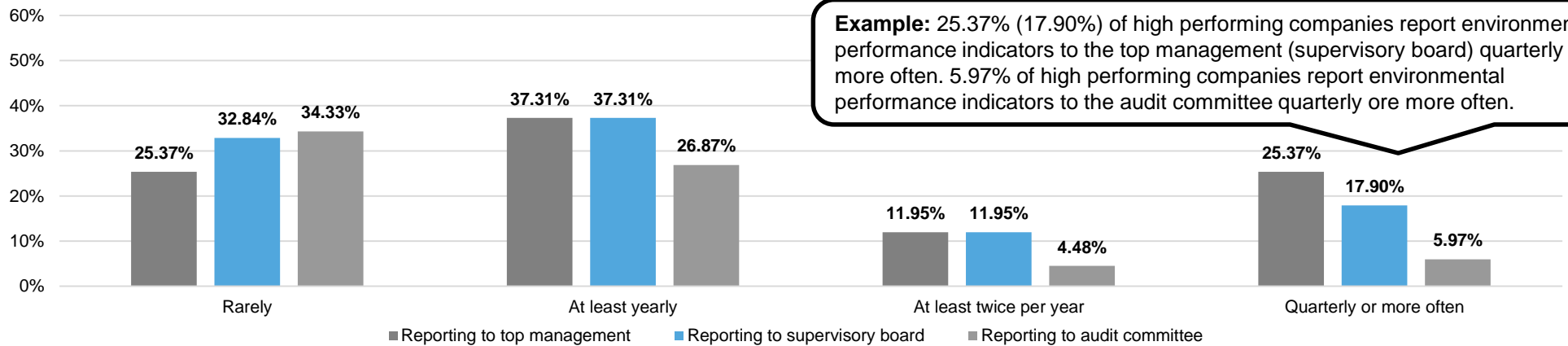
47% state that they have a KPI-system in place (e.g., Balanced Scorecard). In less than 50% of the cases, the KPI-system also includes environmental KPIs.



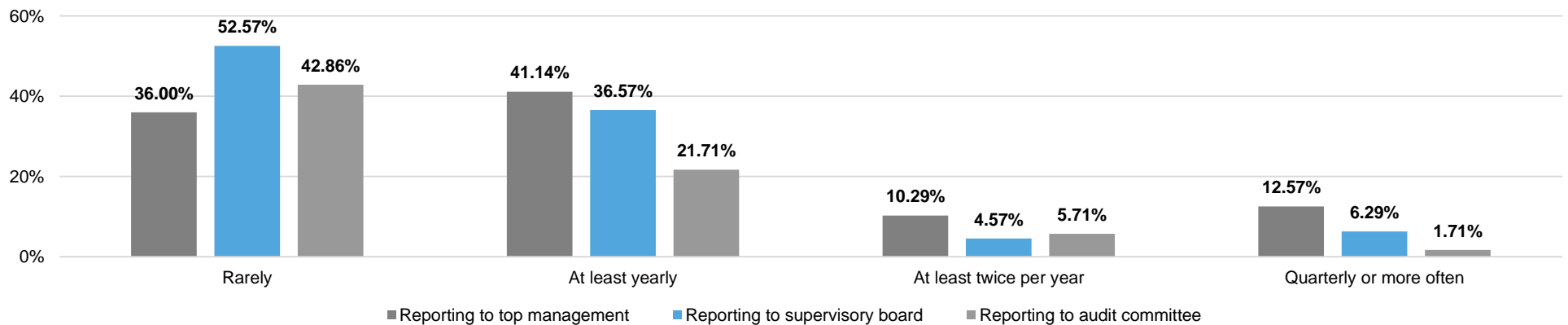
**Environmental performance KPIs** are most often used for **risk management purposes** and to **provide data for external reporting**. Nevertheless, there is still **significant potential** for using environmental KPIs that is **currently not exploited**.

High performers report the information derived from environmental performance indicators significantly more often to the top management, the supervisory board, and the audit committee.

Reporting frequency of environmental performance indicators for *High Performers*



Reporting frequency of environmental performance indicators for *Remaining Companies*



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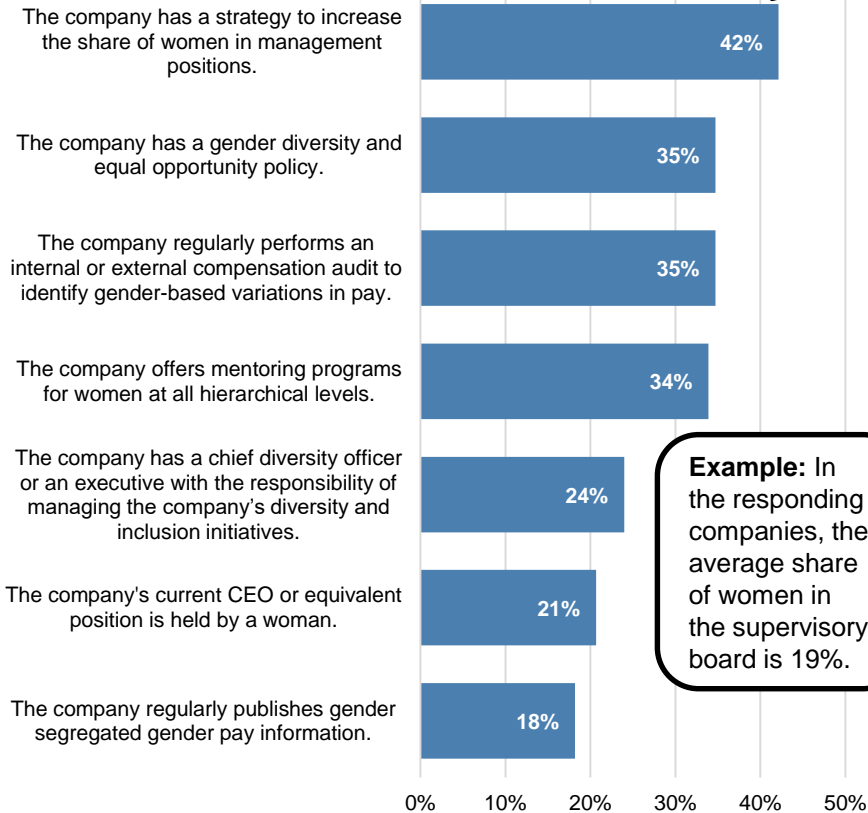
**The role of gender equality in performance management**

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ESG perspective of the CFO and personal behavior

One of the main goals is to increase the share of women not only in management positions, but across all hierarchical levels.

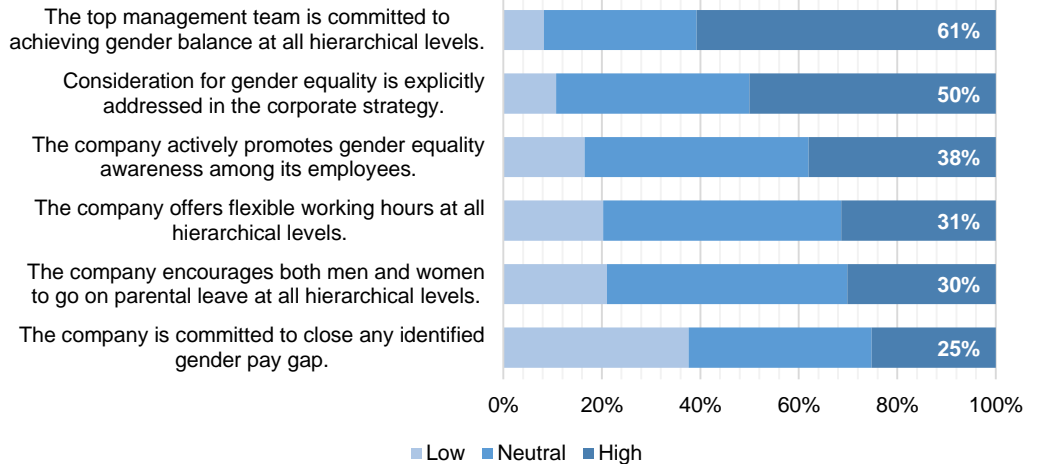
**Gender equality in the workplace**



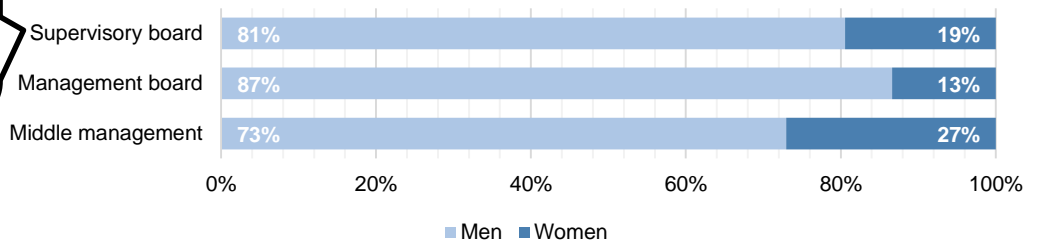
**Example:** 42% indicate that they have a strategy to increase the share of women in management positions.

**Example:** In the responding companies, the average share of women in the supervisory board is 19%.

**Gender equality approach**



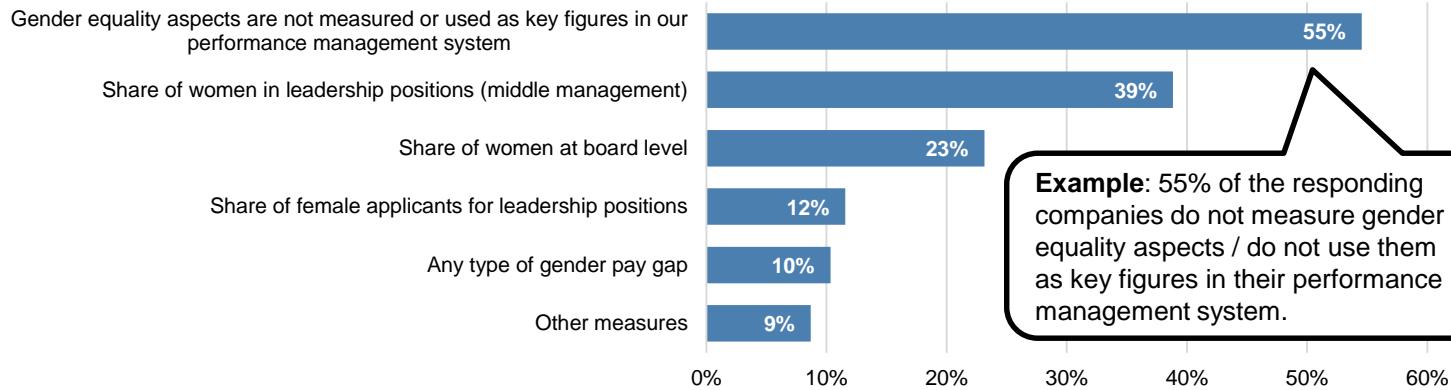
**Share of women in supervisory board/management board/middle management**



The responding companies state to have implemented **gender equality policies** (e.g., strategy to increase the share of women in management positions, closing gender pay gap). Yet, the **leaky pipeline problem** can be seen. The percentage share of **women working in middle management (27%)** is significantly higher than in **top management (13%)**.

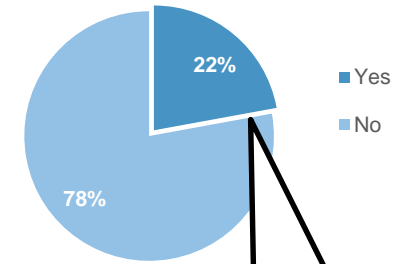
Companies that have a KPI-system integrate gender equality performance indicators to a lower extent in the KPI-system (22%) compared to environmental performance indicators (47%).

Percentage of companies using the following gender equality performance indicators



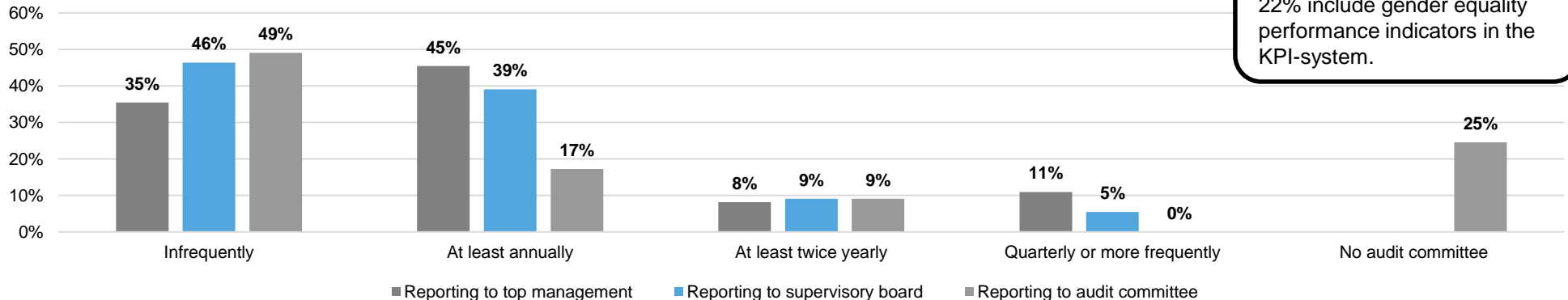
**Example:** 55% of the responding companies do not measure gender equality aspects / do not use them as key figures in their performance management system.

KPI-system includes gender equality performance indicators



**Example:** Of the companies using a KPI-system (47%), 22% include gender equality performance indicators in the KPI-system.

Reporting frequency of these gender equality performance indicators

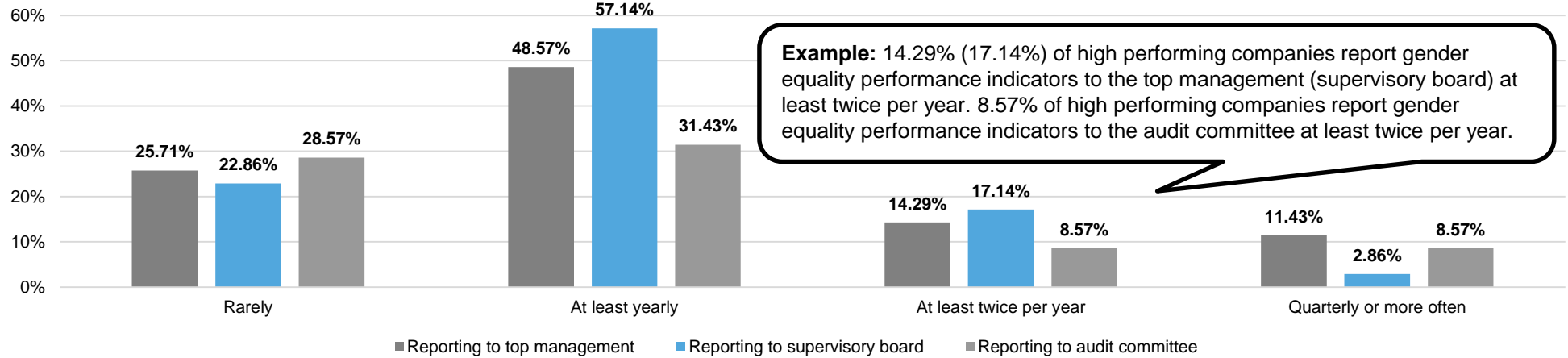


When included, the gender equality performance indicators are **reported** mostly **infrequently** (e.g. 46% to supervisory board, 49% to audit committee), sometimes **annually** (e.g. 45% top management) and rarely more often.

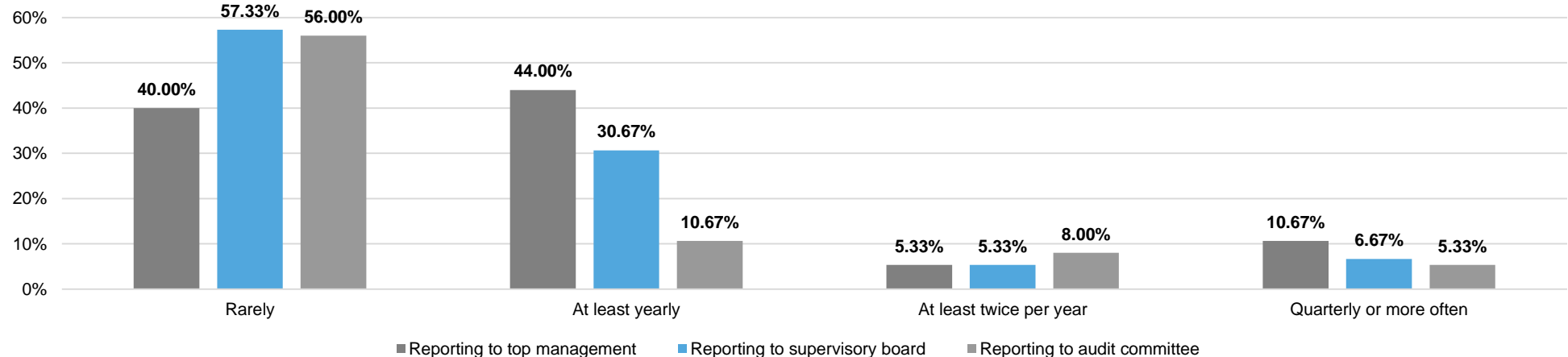


High performers report the information derived from gender equality performance indicators significantly more often to the top management, the supervisory board, and the audit committee.

Reporting frequency of gender equality performance indicators for *High Performers*



Reporting frequency of gender equality performance indicators for *Remaining Companies*



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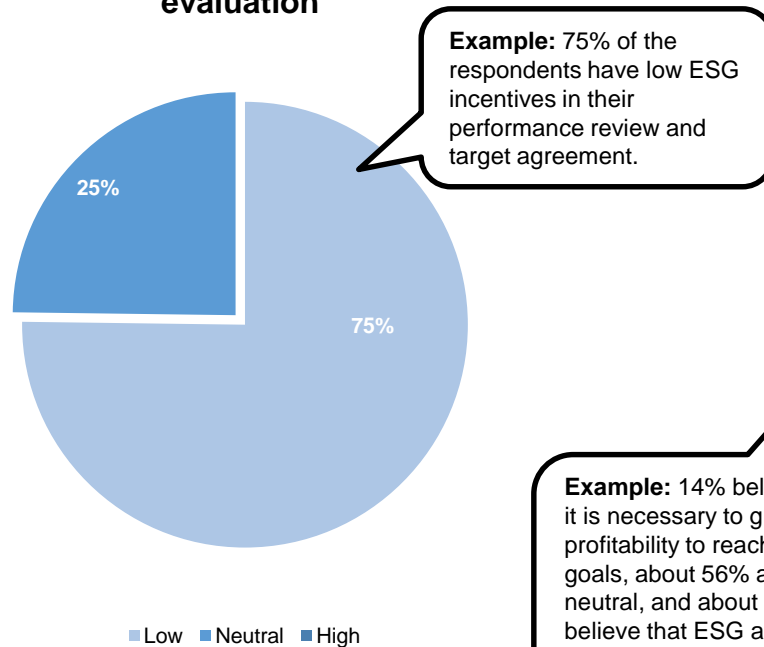
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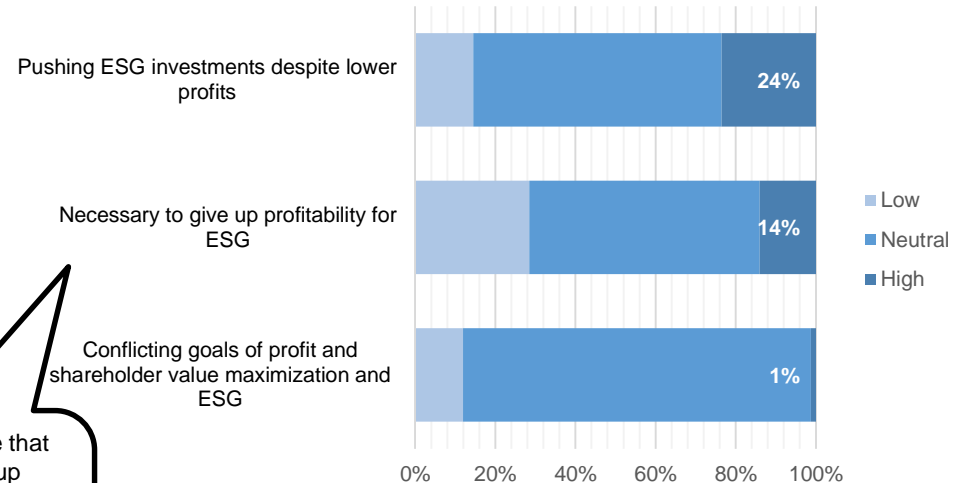
**ESG perspective and personal behavior of the CFO**

The majority of CFOs are incentivized by ESG targets only to a very small extent. Nevertheless, they show a positive attitude towards ESG and performance.

### ESG incentives in CFO performance evaluation



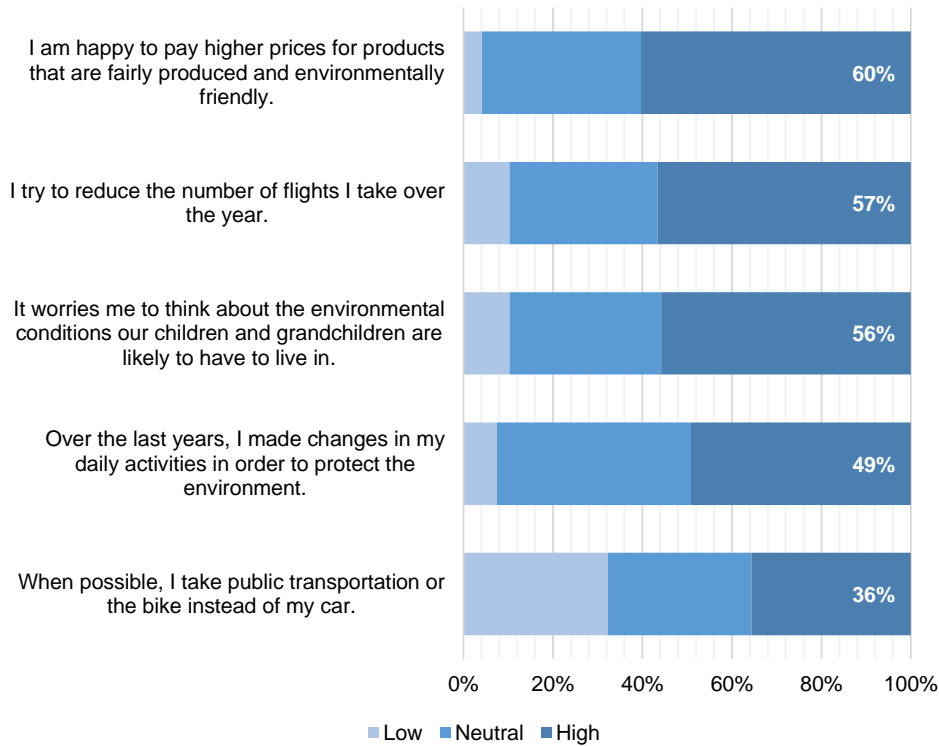
### CFO attitude towards ESG and performance



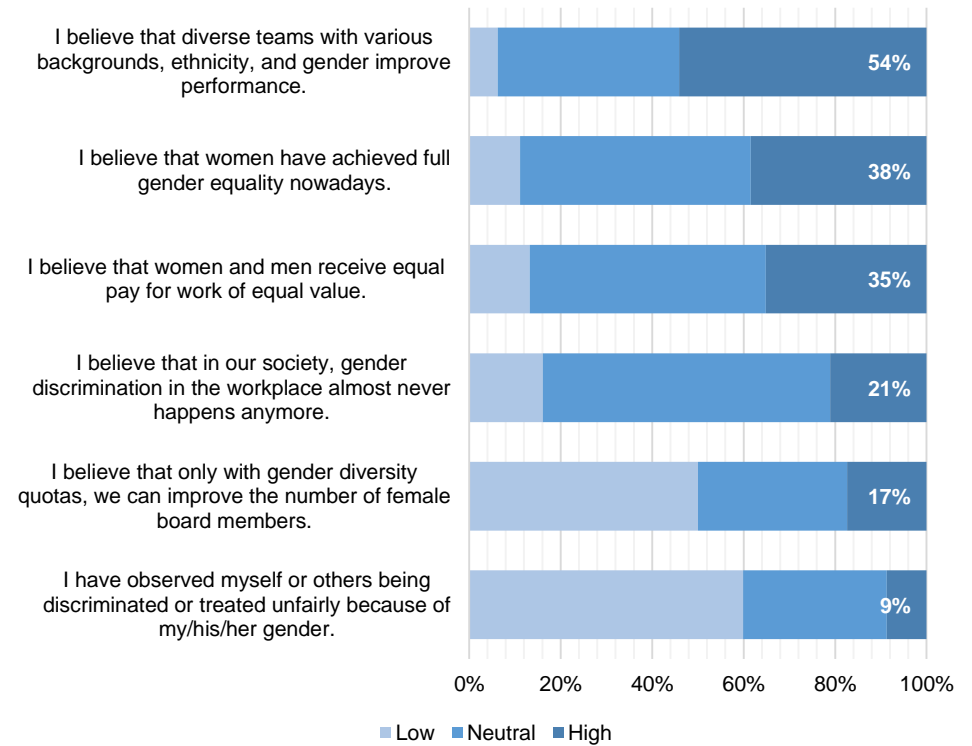
24% of the surveyed CFOs agree with the statement that **ESG investments should be pushed even at the expense of lower profits**. Interestingly, **only 1%** of the responding CFOs see a **clear trade-off between profit and shareholder value maximization** on the one hand **and ESG** on the other hand.

# Environmental aspects are more present in CFOs' everyday lives' compared to gender equality aspects.

## Environmental aspects in everyday life



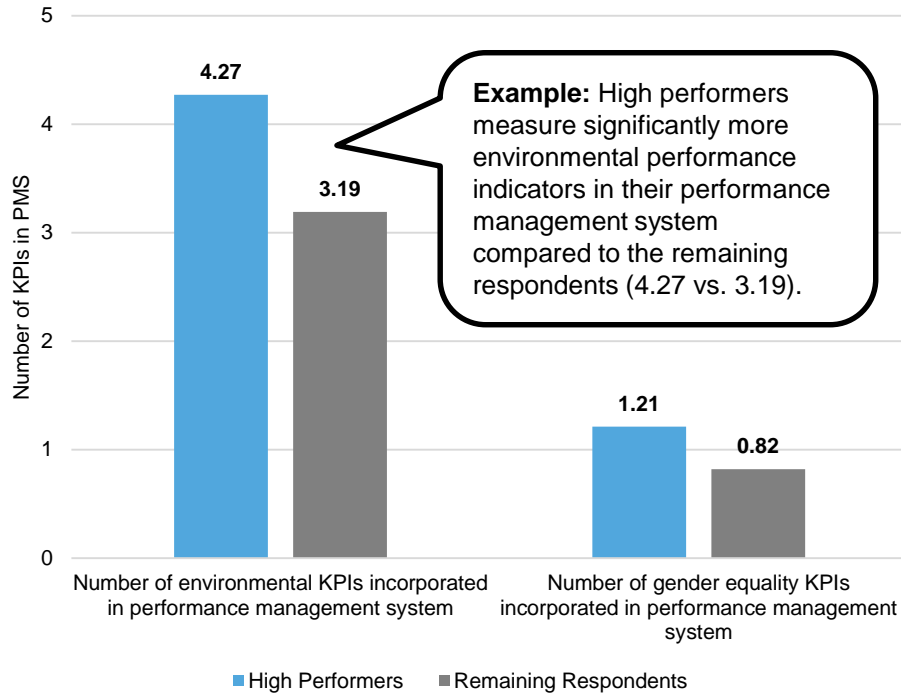
## Gender equality aspects



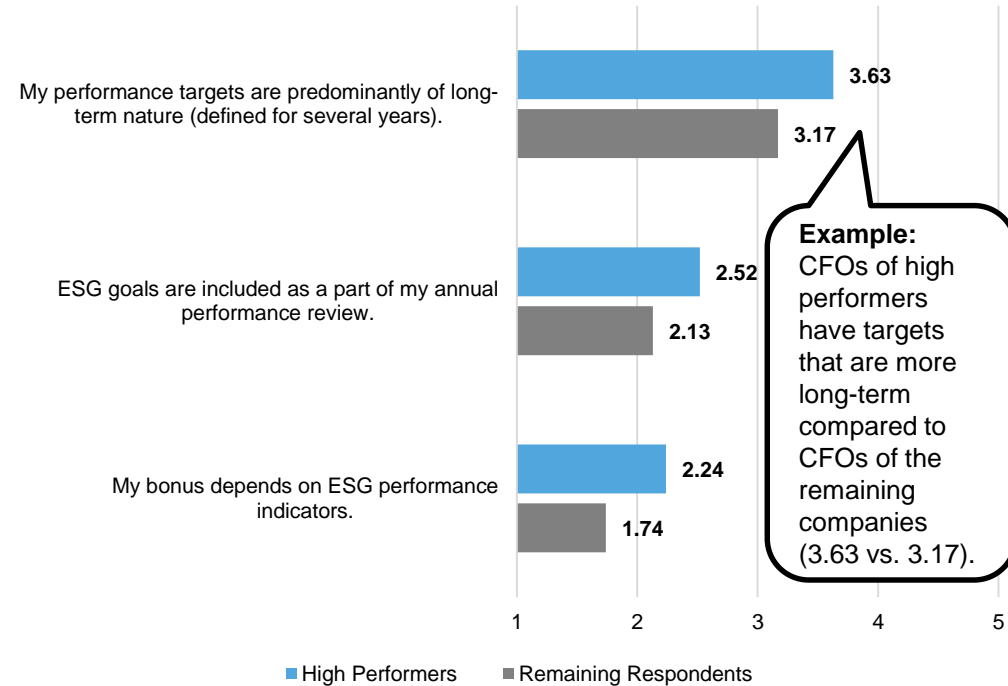
The survey findings show that a medium to high degree of **environmental awareness** is also anchored in the everyday lives of the CFOs. Also, the **advantage of diverse teams** in terms of performance is widely recognized.

High performing companies attach significantly more importance to incorporating environmental and gender equality KPIs into their performance management systems.

Environmental and gender equality KPIs - High Performers vs. Remaining Respondents



ESG relevance for the performance evaluation of CFOs - High Performers vs. Remaining Respondents



Consistent with **more reliance on environmental and gender equality performance indicators**, the performance review and target agreements for CFOs of high performing companies are more **long-term**, include more **ESG goals**, and are characterized by **stronger bonus sensitivity** with regard to **ESG performance indicators**.

# Thank you for your participation!

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The research team appreciates the opportunity to collaborate with companies to examine sustainability-related questions. If you are interested in sharing your insights or discussing a potential collaboration, please do not hesitate to reach out!