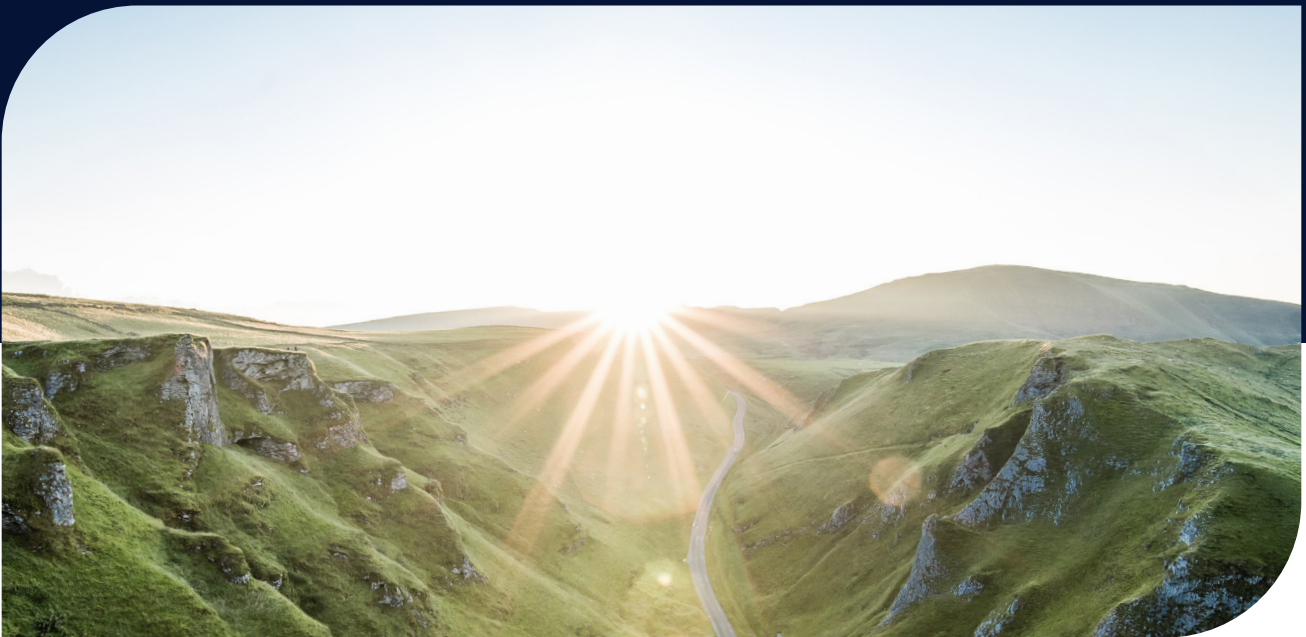


The Evolving Role of the Chief Sustainability Officer

Teneo Insights / April 2023



Given the speed at which ESG's influence is increasing in policy agendas, capital flows, civil activism, litigation and customer choice, it is unsurprising that the role of Chief Sustainability Officer is evolving at pace.

Business leaders have an increasingly mature understanding of the purpose of the sustainability function, and in many companies, this has created pressure to accelerate progress across multiple agendas. Over the past year, Teneo has spoken in-depth with over 20 Chief Sustainability Officers in multi-national organisations and found that many are revisiting how they define their roles, measure their impact and set their teams up for success.

We found that the purpose and role of the function mirrors the maturity of the business on its sustainability journey. Those in the early stages rely on the function to educate stakeholders and make the business case for change. Businesses that are further along in their sustainability journey expect the function to play more of an advisory and embedding role. There is no one right model, though there are some common best practices.

However, the area of real interest to us is the direction of travel for future best practice. The function is evolving to become transformation focused, leading lasting and wide-ranging change in business strategy and operations.

The transformation mindset demanded by net zero ambitions

While we recognise the breadth of the sustainability function, the move to net zero is a formidable task that dominates the agenda for many Chief Sustainability Officers and is therefore the lens that we have applied to the views set out below. The net zero task will require a transformation mindset. We see this falling into three main areas.

1. Equipping staff with new skills and ways of working (broad across the business)

Net zero will require small (and sometimes big) changes in almost every part of a business. The prerequisite to this is a workforce equipped with new skills and knowledge to make changes to daily working practices. Most staff will need to understand and be able to act on sustainability-related data. Deep expertise will need to be integrated into teams, which will need to be able to enact operational shifts and influence changes to mindset and behaviours.

“Being successful as CSO ultimately is about driving transformation. Knowing where you need to go as an organisation, and the culture of your company – so how you drive change is tailored to the environment you are operating in.”

CSO, Multinational banking and financial services company (1)

For the Chief Sustainability Officer's function...

The function is required to understand and manage the people side of transformation, which is rooted in a deep understanding of the company's culture. The Chief Sustainability Officer needs to understand that the tone is set at the top and that they must support leaders in mobilising people and sustaining change across the business.

They also increasingly need to work closely with HR and business leaders on strategic workforce planning by advising on the new types of capabilities and expertise that are required in key parts of the organisation (Finance, Operations, IR, Purchasing and other functions). This human capital will either need to be acquired or built internally, and the sustainability function will play a key role.

“Our next step as a function will be around driving wider integration – making sure sustainability is part of everyday decision making, part of our culture, part of our processes and training... being clear on what the sustainability capabilities are we need across the organization to succeed. Something we're working on with select members of our management team, including from commercial, HR and operations.”

CSO, Multinational energy company

2. Systems integration at scale across multiple functions

Alongside the people and skills challenge is an operational one – to systematically embed sustainability into new parts of the business. Functions including R&D, procurement, supply chain, sales and marketing will need to make fundamental changes. Some of these changes are already well under way. For example, businesses are already integrating sustainability or carbon accounting into their financial reporting to demonstrate core value creation/performance metrics expected by investors as well as other stakeholders. The integration of sustainability and financial data, and a seamless way of knowledge sharing and working together between sustainability and financial experts, is a critical success factor.

Adding more stringent supplier codes is another area where people feel progress has been made, often resulting in a much smaller universe of approved suppliers for companies to tap into.

Priority areas for future focus include business and product development, sourcing, and business fundamentals such as how goods and services are delivered to customers both physically and in virtual models. This is especially important in the journey to reduce Scope 3 emissions.

For the Chief Sustainability Officer's function...

CSOs, working alongside BU or functional leaders, will need to be the key architects of this change, which will need to be closely tied to the human capital role. The bar is high when it comes to the necessary depth of understanding about how different parts of the business operate, and CSOs will need new capabilities that allow them to co-create solutions with the business (e.g. operationalising tracking of supplier performance on carbon into procurement systems).

In the recent past, some functions have operated as internal pressure groups, as they educate stakeholders and make the case for change. Increasingly, we think CSOs will need to challenge outdated views that they are idealists agitating for change and demonstrate deep levels of maturity in understanding the trade-offs that businesses need to make around sustainability decisions. People in the function will need pragmatism, patience and the ability to adapt strategy and plans against the reality of the uncertainty and disruption business is facing.

“There is change afoot in terms of the people and approach you need in a function to be successful. Some people quite like to be almost activists within their organization – but then suddenly being accountable for scale and strategic business decisions they find difficult. Now that the consequences of what you're doing have far reaching impact on the business – people need to grow differently in parallel with the ESG agenda.”

CSO, Multinational bank

3. Long-term strategic bets

Companies will need to not only deliver operational change, they will also need to radically rethink long-term strategy in order to maximise the opportunities net zero presents. This includes everything from disposing of assets and exiting service lines to major new acquisitions or technology investments. They will need R&D expenditure to be directed towards sustainability.

For the Chief Sustainability Officer's function...

We are seeing a much closer integration of this function with strategy. It is not uncommon for the reporting line to sit here. More than ever, the function requires the capability to contribute diverse, lateral and creative thinking to strategy conversations. The nature of the sustainability agenda means long-term thinking has always been part of the job. This is now critical, alongside the ability to interpret data to support decision-making on those big bets. We are also seeing a closer relationship with the board than CSOs have had in the past, meaning that the CSO needs to be ready to present their data and strategic advice to the board.

“I was recently chatting to our Chief Strategy Officer about how similar and different our roles are at the same time. Their role focuses on how to best respond to issues and capitalize on opportunities in the next 3-5 years. I'm basically doing the same – but looking at the next 10-30 years.”

CSO, Multinational banking and financial services company (2)

The future of the CSO function

We do not see the CSO's role as redundant in the future. The key shift will be thinking of themselves as a driver of transformation. This applies equally to their own functions, which will continue to change rapidly. The ability to constantly reinvent their roles, structures and ways of working based on the specific needs and stage of the business in its journey to net zero will be critical.

The questions we suggest might be front of mind as CSOs navigate this challenge:

- **What skillsets and mindsets (on top of sustainability expertise) will my function need as our role within the business evolves in the next 3-5 years, and how do I build them?**
- **What does the organisational design of sustainability look like across the whole business – not just within my function but across the dotted lines branching out and across all BUs and functions?**
- **How does the business start to surface and test different scenarios when it comes to the big strategic shifts that might lie on the horizon if we are going to achieve our long-term goals?**
- **Which management information systems do we need to put in place to make sure we get a good grasp of progress on execution? How do we ensure that these systems are closely integrated with financial performance management setups?**

Teneo has the expertise to help our clients with the evolution of their sustainability functions and the role of the Chief Sustainability Officer. We do this through combining our deep experience in the sustainability discipline with our expertise in organisational design and culture.

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