

The C-suite Sustainability Struggle

An Amrop Report

PART 2 — DOWN TO BUSINESS



Amrop

Leaders For What's Next

The C-suite Sustainability Struggle

In Part One of 'The C-suite Sustainability Struggle' we examined the context of sustainability in business and the host of challenges it raises. One thing is clear — the Chief Sustainability Officer is only part of the answer. A recap.

Stakeholder groups are increasingly cynical about firms' sustainability declarations and in some quarters a political backlash is growing. The criticism runs deeper than cries of 'greenwashing' and is often provoked by the behavior of major organizations that should be trailblazers.

The backlash implies that share- and stakeholders will no longer settle with mere regulatory compliance. Firms are expected to raise the moral bar. Not only obeying the letter of the law but the spirit as well.

Achieving greater moral responsibility is however not helped by the heavy demands of ESG reporting; managing large volumes of data and complex reporting frameworks.


Given the revolution in sustainability, the pressure on organizations and the persistent ambiguity, it is hardly surprising that the role of the Chief Sustainability Officer (CSO) has swollen to almost unmanageable dimensions. It is marked by fuzzy mandates, crossed reporting lines and multiple demands.


In Part Two of our special report, we take the role as our starting point. If the CSO is only part of the answer to the sustainability challenge, it is still an essential part.





The C-suite Sustainability Struggle: down to business


Topline messages


-  The sustainability movement is a universal business concern.


Sustainability is no longer limited to large multinationals in high impact sectors. All firms have the potential to change the status quo and the responsibility to identify ways of doing it. ESG reporting now extends its metrics to mid- and small-caps, covering a wide spectrum of industries in developed and emerging markets.
-  The CSO is rising but still needs feet on the ground.

The positive effect of sustainability on the bottom line is reflected in the presence of the Chief Sustainability Officer (CSO) in boardrooms, and the strengthening links between CSO, CFO, investors, strategy and capital allocation. However, the CSO must also be present on the front lines of organizations. It takes navigating from macro to micro to be a real agent of change.
-  It is finally time for a clear CSO role description.

Designing a role architecture for the CSO (or equivalent) reveals a profile comparable to an octopus with a brain in each limb. The best are specialists in their own subject matter and deep generalists in getting to grips with their environment. They explore, evaluate and innovate. They speak the language of legal and finance, communications, HR operations and IT.
-  The CSO must personify wise and purposeful leadership.

The CSO hiring profile spans 3 dimensions: Tasks, Knowledge and Experience. To drive impact and long-term value creation, we need a fourth dimension: Purposeful Leadership. This is a holistic approach, balancing a leader's individual, socio-environmental, and business purpose. It is associated with five competencies and mindsets: vision, courage, integrity and authenticity, learning, empathy and accountability.
-  Sustainability is a world of paradoxes: purposeful leaders make better navigators.

The sustainability arena is full of tensions, dilemmas and paradoxes. Identifying and solving them is key to sense-making and priority-setting. Purposeful leaders have a guiding framework (business, socio-environmental and personal). This, plus their particular competencies and mindsets, equips them to reconcile contradictions and engage others around new solutions.
-  The CSO needs to be a high-level function backed by senior management support, resourcing and onboarding.

Not only because of the strategic importance of the role, but to attract candidates with gravitas and experience, the CSO should sit on the board or top management team, or report into these. Candidates also need to know that they can rely on leadership support, resourcing and robust onboarding. Vital for any senior hire, these factors are even more important if the CSO position is new for the organization.
-  Embedding sustainability in the organization takes careful engineering.

Embeddedness begins with organizational culture. It radiates outward to board evaluation and composition. It is reflected in C-suite compensation systems. It infuses talent hiring, development and retention. And as employees still meet pressure from cost-efficiency and sales targets, signal spotting systems and feedback loops need to be part of the fabric of the organization.





Until recently there were gaps in the literature about the exact relationship between social responsibility and corporate performance. The authors of an academic paper wanted to put the question to bed. So they analyzed 53 articles and concluded that social responsibility “directly and positively affects financial performance, and this impact increases as a company’s ESG scores improve.”¹

Sustainability For All

How the movement is democratizing

Sustainability conversations typically circle around large-caps with a heavy financial, social or environmental impact in sectors such as banking, big pharma, social media, FMCG or energy. However, all organizations, irrespective of their footprint or sector, have a responsibility.

Consider Salesforce, an American software company. Its 1-1-1 philanthropic model gives 1% of product, 1% of equity, and 1% of employee time to communities and the not-for-profit sector. Its employees have logged more than 5 million volunteer hours. The company has awarded \$400+ million in grants and donated to more than 40,000 not-for-profit organizations and educational institutions.

As a leadership advisory firm, Amrop has also identified clear areas of intervention. Its carbon footprint consists mainly of Scope 2 and 3 greenhouse gas emissions. The Amrop EarthWise climate initiative includes tangible steps to reduce its impact worldwide. Amrop's commitment to ESG principles spans the global partnership, encompassing local social actions, diversity, equity and inclusion initiatives, community volunteerism and charitable activities.

ESG reporting now concerns growing numbers of organizations. Coverage used to be patchy when it came to lower-profile firms, less regulated industries, and emerging markets. The number of companies covered by major ESG score providers tended to range between 1,000 and 10,000.

In 2021, Moody's Analytics moved to close the gap by launching its ESG Score Predictor, an analytical framework able to expand coverage by generating a wide spectrum of ESG and climate risk metrics across large-, mid-, and small-cap firms. The tool, it says, spans a wide variety of industries across both developed and emerging markets.

Smaller, local players also have significant potential to improve the status quo. According to the World Bank, SMEs account for 90% of businesses, 60 to 70% of employment and 50% of GDP worldwide. As the "backbone of societies everywhere they contribute to local and national economies and to sustaining livelihoods." They stand at the forefront of the sustainability movement. Furthermore, some of today's smaller players have the potential to become the growth champions of tomorrow.

IMPLICATION 1

Sustainability is no longer the unique preserve of large multinationals in high-impact sectors. All companies have the potential to change the status quo and the responsibility to identify avenues. ESG reporting now extends its metrics to mid- and small-caps, a wide spectrum of industries in developed and emerging markets.





The Changing Face of the CSO

A macro to micro navigator

Since the turn of the millennium the quest for sustainability has evolved from a tactical menu of pollution and energy-use initiatives to a pivotal concern. So has the role of the CSO and equivalent functions. Once a lone silo operator, we're more likely to meet today's Chief Sustainability Officer in board, investor and key account meetings. A third now report directly to the CEO.²

Today, it's generally accepted that supporting a sustainable world can improve the bottom line. Boards increasingly view social responsibility as an investment rather than a cost and are balancing 'cash' with 'continuity'.

In other words, many are maximizing short-term profits and obeying shareholder primacy at the same time as optimizing longer-term earnings and respecting the wider stakeholder community.³

Money matters

Olivia Whitlam, Head of Sustainability of Siemens PLC, confirms the shift: "How do you ensure sustainability makes money? Once that happens it really takes off. And that's probably the biggest change that's occurred over the last ten years."⁴

In Part One of our report, we visited the rise in ESG reporting and its link with the finance function. Dr. Terry Yosie, President and CEO of the World Environment Center explains that the monetization of particularly climate change has generated whole new data sets. As a result, corporate data collection, analysis and transparency have evolved, and the oversight of external stakeholders (especially investors) has expanded.

"As companies make major investments to incorporate data digitalization into their operations, enormous new amounts of data will emerge that companies will have to manage and report."⁵

Writing in the Harvard Business Review⁶, Robert G. Eccles and Alison Taylor argue that whilst the sustainability function has undergone a shift in authority and focus over the past five years, it still needs fuller engagement with investors, strategy and capital allocation.

Given all of this, the relationship between the sustainability and finance functions is strengthening and is not set to weaken any time soon. As we'll see, this raises another challenge.

From the boardroom to the front lines

Not only do today's CSOs need a head for numbers, they need the grit and gravitas to operate confidently in the C-suite, hardwiring sustainability into organizational strategy and corporate governance.

Deliberations include "briefings and policy decisions on new public commitments, expanded transparency, environmental sustainability performance reviews and new external collaborations."⁷

Amrop's CSO mandates have risen 211% in the past four years and our interactions with the market confirm that candidates increasingly report to, or sit on, the Board. But as we'll argue, integrating the CSO into top table discussions also demands a shift at board level.

But the newly elevated CSO role must not swing too far from its origins: it cannot be run from the boardroom or corner office. Macro to micro navigation is needed to be a systemic force for change. As well as a head for heights the CSO needs feet on the ground; facilitating conversations with functions and divisions to capture the modus operandi of the business and its culture. Moreover, for sustainability to become part of the organizational mindset, strategies and initiatives need to be developed with and for end users, rather than imposed from on high.

Digitization is central to this. Knowledge systems are not just vital for ESG reporting but for change and project management. Yet sustainability leaders need more than technical literacy to leverage the power of apps and platforms. Solid emotional intelligence, (including analytical and communication skills) are needed to convert raw data into the kind of information and messaging that different user groups can really understand and identify with. People need to be engaged and federated. Digital is a channel, not a destination.

This top-down and bottom-up alignment is akin to circulating water in an aquarium – a constant feedback and refreshment loop. As Alberto Lopez Valenzuela, founder and CEO, Alva and author of *The Connecting Leader* puts it: "ESG is no longer a mere tokenistic, annual box-ticking exercise in the annual report; it's becoming interwoven into everyday corporate reality."⁸

The newly-elevated CSO role must not swing too far from its origins: it cannot be run from the boardroom or corner office.

IMPLICATION 2

The positive effect of sustainability on the bottom line is reflected in the CSOs presence in boardrooms and the strengthening link between CSO, CFO, investors, strategy and capital allocation. However, the CSO must also be present on the front lines. It takes navigating from macro to micro to be a systemic and accepted agent of change.

The Life of the Octopus

Towards a role description for the CSO

In Part One we saw that the CSO role suffered from fuzzy mandates, crossed reporting lines and demands from multiple stakeholder groups. An over-arching role architecture is also lacking. One that is adaptable to business size, maturity, ownership structure, sector and strategy.

As Eccles and Taylor put it, the lack of serious discussion regarding the CSO role has serious consequences: “The CSO has [thus] been charged with being all things to all people, and expectations about the role are both incoherent and grandiose.”

Is it possible to package the overall responsibilities of the CSO? The authors of another recent HBR article⁹ organize the job into eight categories:

1. Ensuring regulatory compliance
2. ESG monitoring and reporting
3. Overseeing the portfolio of sustainability projects
4. Managing stakeholders' relationships
5. Building organizational capabilities
6. Fostering cultural change
7. Scouting and experimenting
8. Embedding sustainability into processes and decision making

They invite organizations to inventorize their performance in these eight zones and prioritize the areas that matter most for them.

How can we translate these categories into a role profile?

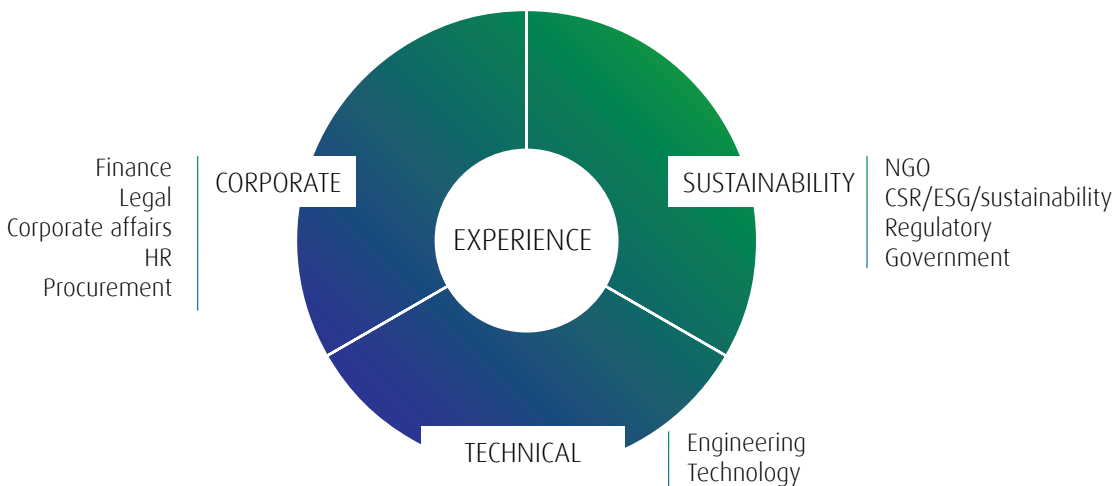
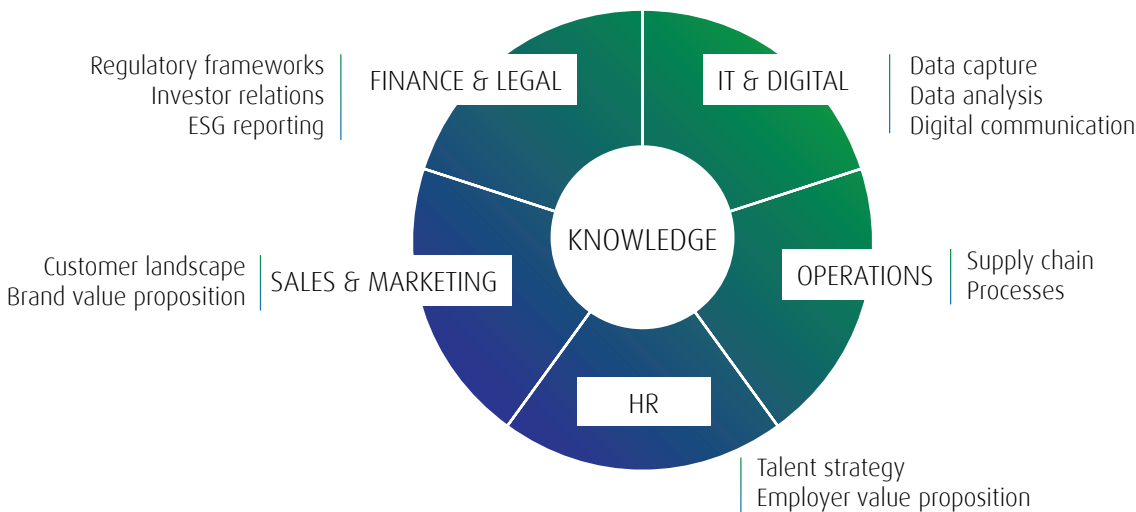
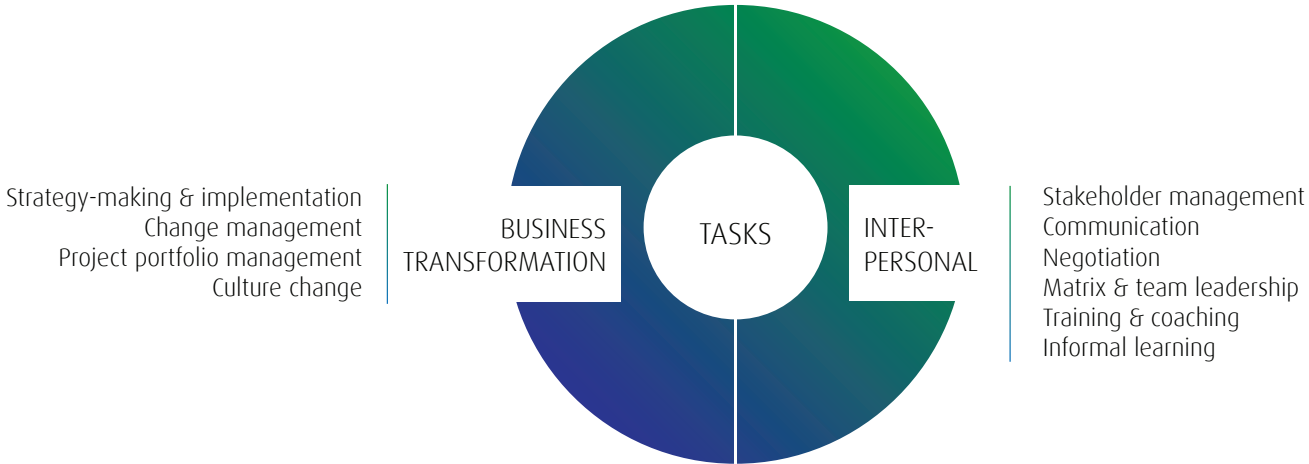
On the next page, based in our analysis of current thought leadership and Amrop mandates, we unpack three role dimensions that hiring organizations need to consider:

Tasks: the most relevant leadership activities in two core, inter-related areas: business transformation and inter-personal leadership.

Knowledge: domains requiring first-hand subject knowledge or an ability to talk credibly with departments for whom this knowledge is core.

Experience: the most common provenance of sustainability executives (previous corporate, technical and sustainability roles), and sub-areas.

Designing a role architecture for the CSO reveals a profile comparable to an octopus with a brain in each limb. They are specialists in their own subject matter and deep generalists in getting to grips with their environment. They explore, evaluate and innovate. They speak the language of legal and finance, communications, HR operations and IT. To this we can add the spectrum of external stakeholders illustrated in Part One of our report.



The Soul of the Octopus

From smart, to wise and purposeful leadership

The CSO role is ambiguous and complex. It therefore needs a fourth dimension: purpose. Mastering the key leadership tasks, content knowledge, and role experience are all essential. But they are not enough to help sustainability leaders navigate today's ambiguous and contradictory environment and drive long-term value creation.

For several years, Amrop has been researching and innovating in the domain of wise and purposeful leadership. Our work began in 2018 with a landmark study: "*Wise Decision-Making: Stepping up to Sustainable Performance.*" Focusing on the factors within a leader's scope of control, we proposed that sustainable performance required a shift in attitudes and behaviors.

From smart to wise leadership

Smart decision-making may be commercially viable in the short term. But it will not meet the needs of future generations. Over recent years, breakdowns in thinking have caused widespread damage: financial, reputational, societal and environmental.

Smart leaders will not assure deep sustainability.

Wise decision-making raises the game. Smart leaders become wise when they address business dilemmas in a holistic way, taking a broader socio-ethical and environmental perspective. Wise leaders do not just create vital *economic* value, they also build more *sustainable* and legitimate organizations. They do not just make *smart* or *reasonable* choices; they make *responsible* choices. They foster shared value in line with a clear organizational purpose.

What are their vital indicators? Wise leaders exercise better *self-governance* in terms of reflective, affective and cognitive intelligence, guided by a clear personal mission and ethical framework. They are *motivated* by the greater good rather than simply personal gain. They *mindfully* seek out feedback to nourish their decision-making health.

Thanks to these attributes, leaders are better at overcoming harmful thinking biases. At navigating ambiguity and complexity. They take actions in a context-sensitive yet pragmatic way.

A global Amrop study conducted in 2018 found leaders were struggling with many of these indicators.

Wise Decision-Making – the road less traveled

Our research found that only a third of leaders could be relied upon to stop or adapt a decision if evidence indicated it was flawed. Tools and techniques to overcome bias were under-used. Only half combined system 1 (fast, intuitive) and system 2 thinking (slow, rational and analytical). Only 23% systematically based their decisions on the input of diverse stakeholder groups. Under half could easily describe their own mission. And if leaders placed a high premium on ethics, 71% were encountering blockages.

Whilst 86% strove to fulfill organizational objectives, even if this didn't benefit them, 63% were still motivated by a Need for Power. And only around half actively sought feedback on their attitudes and behavior. Given the rising focus on sustainability, we suspect that matters have improved since. Still, the size of the gaps between aspiration and reality were so significant that we can still assume there are shortfalls in performance.



45%

of leaders are clear on their personal purpose

63%

of leaders are still motivated by the Need for Power

23%

of leaders systematically base their decisions on the input of diverse stakeholder groups

From wise to purposeful leadership

Building on this extensive groundwork, Amrop has developed a Purposeful Leadership Model.

Preserving the core aim of helping leaders drive impact and long-term value creation for people, the planet and profit, this sets out a holistic approach to leadership: three pillars to solve sustainability challenges and drive a future-proof business model.

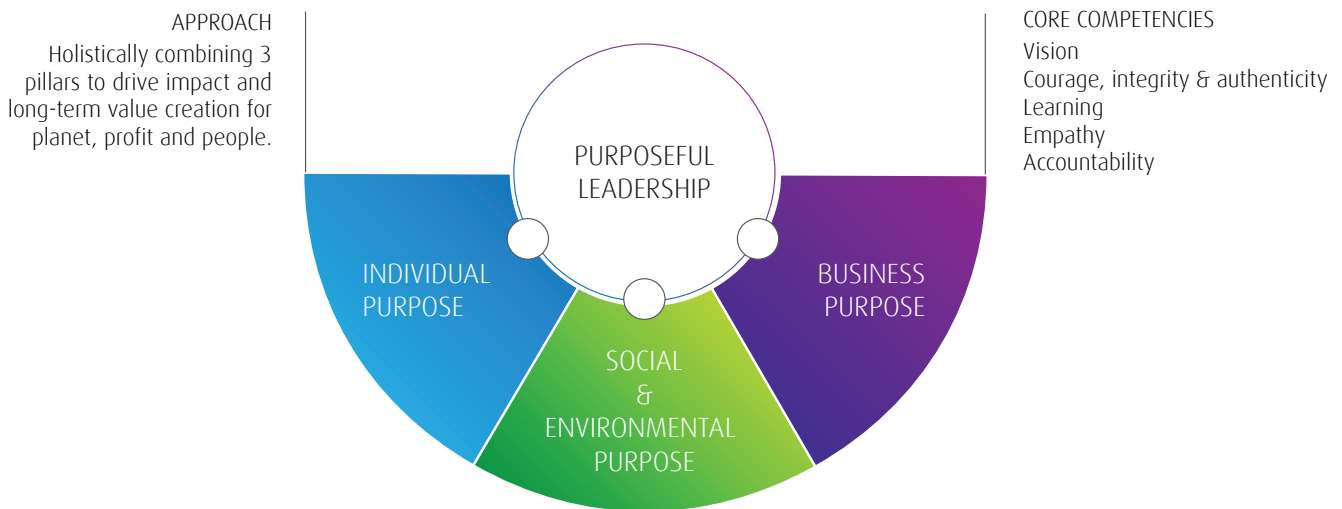
A Purposeful Leader balances all three with a commitment and authenticity that inspires others to follow suit.

IMPLICATION 4

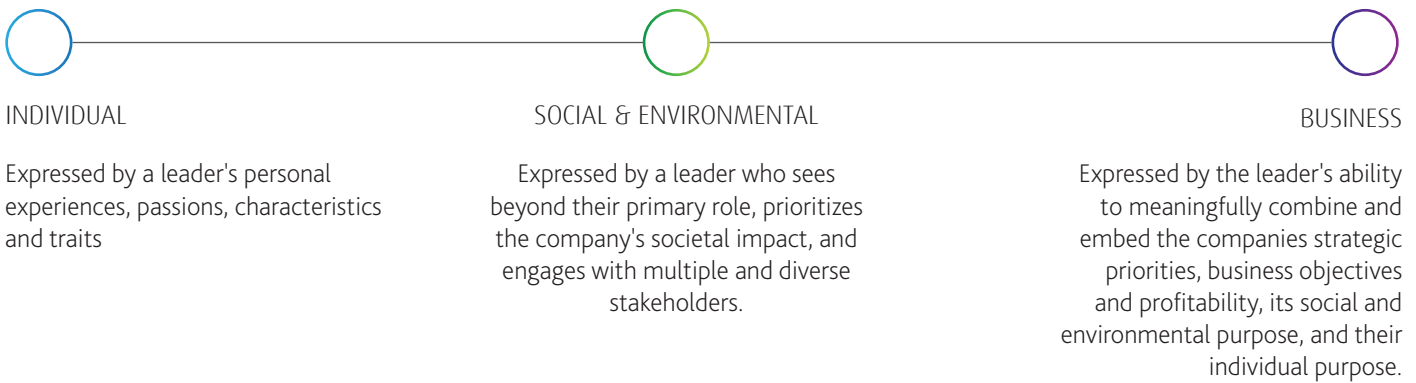
The CSO hiring profile spans 3 typical dimensions: Tasks, Knowledge and Experience. To drive impact and long-term value creation we need a fourth dimension: Purposeful Leadership. This is a holistic approach balancing individual, social and environmental, and business purpose. It is associated with five competencies and mindsets: vision, courage, integrity and authenticity, learning, empathy and accountability.



Amrop's Purposeful Leadership Model



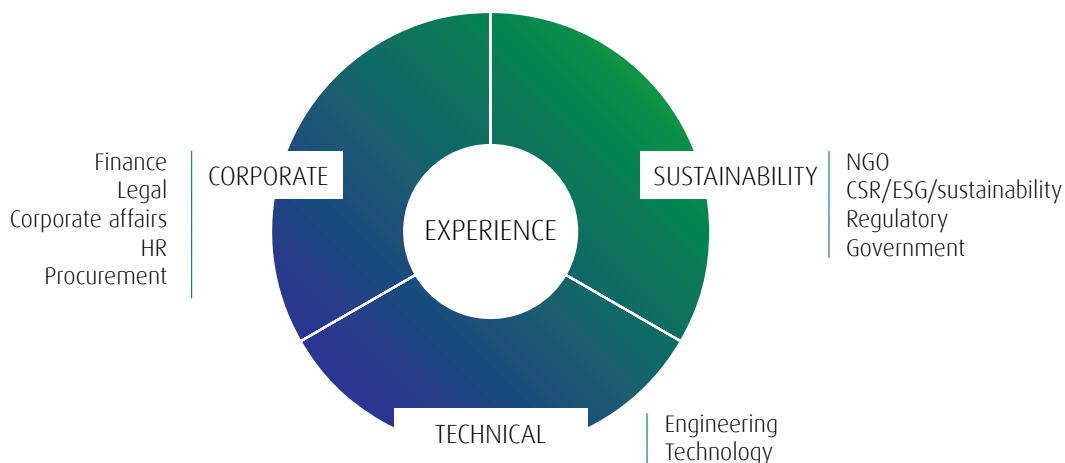
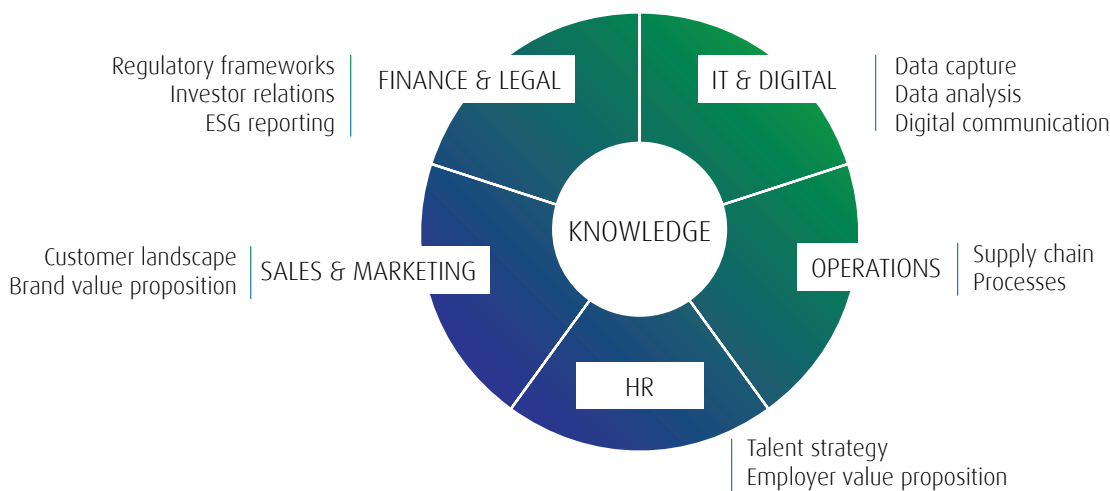
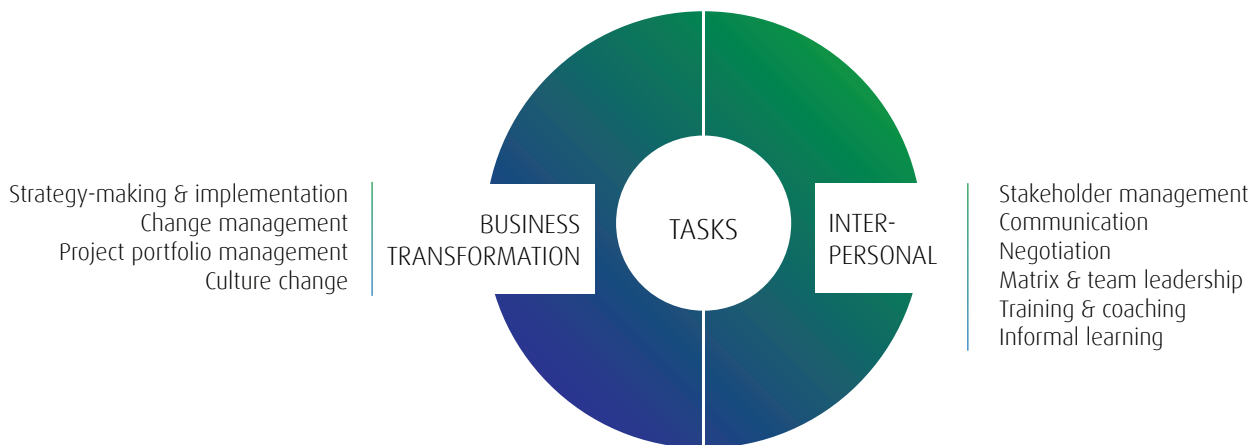
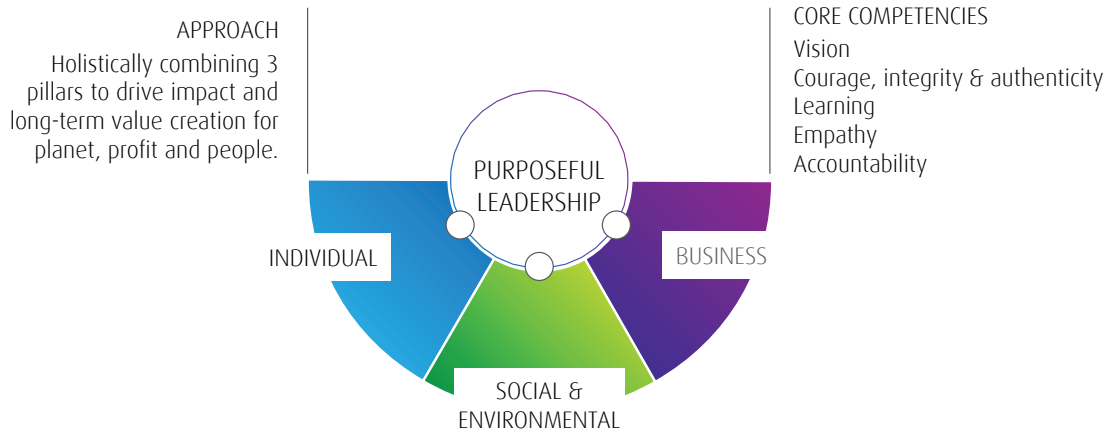
3 dimensions of purpose

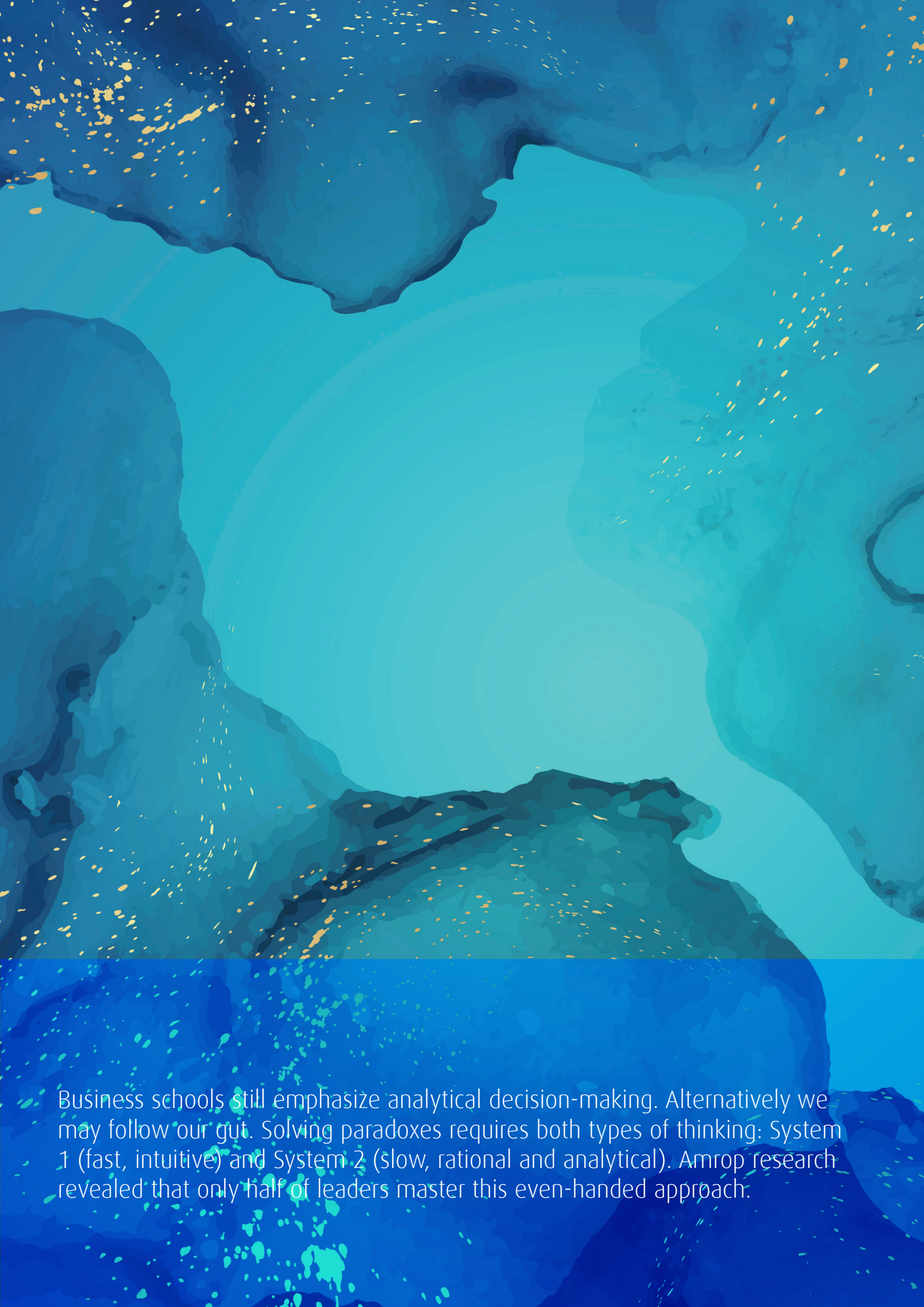


5 competencies and mindsets

VISION	COURAGE, INTEGRITY & AUTHENTICITY	LEARNING	EMPATHY	ACCOUNTABILITY
The leader steps back from daily routine, is ambitious, explores and focuses on the broader long term context	The leader understands the objectives and results of risks and is willing to venture untried and unconventional solutions, to commit to innovative and feasible products, services, solutions and processes and make decisions that elevate the organization's image.	The leader absorbs complex information about technology, trends, competitors and stakeholders and integrates it into the mission of the company. They are disciplined, motivated to learn and perseverant. They actively seek out potentially useful technical, operational and functional information.	The leader genuinely seeks to understand and respect others' perspectives and emotions and encourages a culture of diversity and social awareness. They can sense how others see things and refrain from judging, with a capacity to take someone else's perspective.	The leader takes responsibility towards stakeholders for actions: personal, the business unit and the entire organization. They understand the business context: new regulations, environments and their business impact. They support colleagues and acts as a role model for reliability and integrity.

This leads us to a four-dimensional leadership profile, as we see on the next page. But as we'll argue, purposeful leadership is not just for CSOs. For an organization to be truly sustainable, it is a matter for all leaders.





Business schools still emphasize analytical decision-making. Alternatively we may follow our gut. Solving paradoxes requires both types of thinking: System 1 (fast, intuitive) and System 2 (slow, rational and analytical). Amrop research revealed that only half of leaders master this even-handed approach.

A World of Paradoxes

Why purposeful leaders make better navigators

Handling strategic complexity is key to deciding what to do, and what not to do. As any leader knows, priority-setting is essential to get the work done. In the sustainability domain, this means identifying the lead ESG indicators, the responsibilities to emphasize, the stakeholder groups to target, and the internal departments to involve.

As Eccles and Taylor put it in the Harvard Business Review ¹⁰: “Today CSOs help identify and direct attention to the ESG issues that have a substantial impact on an organization's financial performance and risk profile. This approach aligns with broader corporate strategy making, as it helps organizations focus on what matters most to long-term value creation.”

And so we arrive in the uneasy yet exhilarating world of the strategic paradox. A paradox contains two contradictory elements. As we've seen, sustainability is riddled with them. Managing and resolving paradoxes (tensions and dilemmas) is a fundamental skill. Not just for sustainability leaders, but for the leaders of sustainable organizations.

The first question top management teams and boards need to ask themselves is what kind of organization they envision. At what moral level should it operate?

Next, how will the balancing act between short and long-term perspectives, profitability and responsibility be managed? What permutations of Planet, Profit and People are most relevant for the organization? Tabling and debating these questions is an essential part of corporate strategy-making. It is also vital when it comes to defining the context in which the CSO (and team) operate.

Meet the paradoxes

In 'Strategy Synthesis' ¹¹ authors Bob de Wit and Ron Meyer identify and map ten core leadership tensions. Three are particularly relevant in the fast-moving sustainability domain.

Deliberateness vs. emergentness: In the face of unknowns, how can we benefit from the sustainability transition without clarity on how to get there? To what extent are we satisfied to move incrementally, discovering the path step by step, even if we and our stakeholders are more used to planning?

Competition vs. cooperation: How much collaboration with competitors or substitutes is needed to move the needle in our sector? Who will benefit, who will lose? Indeed, how can we move from a zero-sum game to a win-win? Which new alliances are needed for the sustainability transition? How do we balance our position as a discrete, versus an embedded organization?

Revolution vs. evolution: How can we integrate lasting change, especially when this is difficult, costly or time consuming? How far do we have to go to be sustainable and create impact across the organization? How can we continue our legacy while incorporating change? What do we keep or lose? How do we balance discontinuous and continuous change?



A personal struggle

As a leader, you will likely face personal paradoxes, too¹². In the way you motivate people, do you emphasize a *virtue-driven* approach, emphasizing meaning, or a *value-driven* approach, emphasizing economics and competition? Do you prefer an *entrepreneurial* style, exploring what could be, or an *executive* style, preserving and optimizing what is? Should you adopt a *sovereign* leadership style, motivated more by self-interest, or a *servant* leadership style, motivated by the good of the organization? How could these different poles be reconciled to create a new reality?

The horns of a dilemma: from trap to launchpad

We tend to react anxiously and defensively to a two-horned problem — seeking relief by ignoring its complexity and gravitating towards one aspect. But like sitting on one seat of a seesaw, this only pushes the other seat higher. Yet we should not be anxious, because paradoxes are a natural part of reality.

Why purposeful leaders (and boards) make better navigators

It takes a special mindset to move from typical 'either/or' thinking to letting 'both/and' unfold into something new. In 2021 Amrop published an article drawing on academic research to unpack paradox resolution, which we invite you to visit.¹³ It explains why Purposeful Leaders are better equipped to work with tensions, dilemmas and paradoxes than their peers. Why?

Purposeful leaders are helped by the clear guiding framework that we set out earlier; a combination of three kinds of purpose: *business, environmental/social and personal*. They naturally consider moral and ecological values in their decision-making, freeing the debate from purely financial objectives. This holistic vision helps them to step back and reflect, liberating them from the horns of a paradox.

Courage, integrity and authenticity give purposeful leaders the credibility and perseverance to help stakeholders understand the innovative (and sometimes disruptive) solutions that arise from skillful paradox synthesis. Thanks to these human qualities, purposeful leaders are better able to transform resistance into engagement. An open-minded learning attitude allows purposeful leaders to take inspiration from innovative insights, easily and often. Their empathy enables them to embrace multiple perspective and use dialogue to reconcile information and positions.

We tend to react anxiously and defensively to a two-horned problem - seeking relief by ignoring its inconsistencies and gravitating towards one aspect. But like sitting on one seat of a seesaw, this only pushes the other seat higher. And yet we should not be anxious, because paradoxes are a natural part of reality.

IMPLICATION 5

The sustainability arena is riddled with tensions, dilemmas and paradoxes. Identifying and solving these is key to sense-making and priority-setting: vital if organizations are to achieve goals in a manageable way. Purposeful leaders have a guiding framework combining three pillars of purpose: business, socio-environmental and personal. They also have a particular set of competencies and mindsets. Put together, these attributes equip them to reconcile tricky contradictions in innovative ways, and engage others around atypical solutions.

Into the Gold Rush

Insights for a Sustainable Hire

CSOs are in hot demand and as we have seen, the best need an enviable portfolio of competences. On the basis of your organizational strategy, and equipped with a role profile adapted to the needs of your firm, what hiring strategy will best position your organization to identify, attract and onboard a sustainability Leader For What's Next?

"We were recently asked by a global financial services firm to seek a head of sustainability," says one Amrop Partner. "Whereas the role was formerly part of communications, the new executive would report to the Head of Asset Management, with responsibility covering the whole group. In fact, our clients regularly debate whether sustainability heads should be part of the management team. We warn them that if this is not the case, it can affect candidate interest.

It also raises a dilemma: younger candidates with content knowledge may be happy not being part of the management team but lack leadership experience. A more senior leader with the experience wants a more heavyweight role level, scope and mandate."

The case highlights a core issue that must be settled by the leadership team before a hire. As we've argued in Part One, it is essential to be clear on the terminology (distinguishing between corporate social responsibility, ESG and sustainability). This in turn affects the role mandate — its scope and fit with organizational strategy.

We argue that a successful sustainability role has to be high profile. If it is not foreseen by a hiring organization to be board or top management position, there are two implications.

Firstly, the reporting line must make sense for the business in its current state of evolution. Should evolution in the role be foreseen, then this should be planned and communicated.

Secondly, if the executive is not on the top team, he or she must report directly into it. We have discussed the links between the CSO position and finance (or in this case, Asset Management). However, we've also seen that the CSO position has to be about more than numbers.

In Part One of our report we also saw that many CSOs inhabit a matrix. Should the new role be a matrix function, the reasons should again be clearly articulated and comfort with multiple reporting lines built into the role description. But this is not all.

For Part One visit www.amrop.com

Welcome on board

Drop an octopus into an aquarium without food or oxygen and it will either escape or expire.

“Candidates for sustainability roles raise similar questions,” the Amrop Partner continues. “The first concerns buy-in by the CEO and senior management. Is the role fully understood and supported? The next is about resourcing: sustainability heads are expected to ensure that both the strategic and operational work gets done, to drive business implementation and monitor developments. In response they need full reassurance that they will be given the manpower and data access to deliver.”

Recent Amrop research revealed that the trust and support of top management or other hierarchical superiors was important for 90% of senior executives and candidates were conducting a 360° analysis of the back-up they could expect when joining their next organization. Around 50% said they quit their last company because of a lack of support.¹⁴

Next, a clear internal communications plan, visibly backed by the Board or Top Management Team, must support the CSO's entry. This needs to clearly establish the position, the strategy, the business and moral case. It should include a slot on conference agendas, virtual or live, and other channels.

Any new executive needs a solid onboarding program. Especially if the CSO is a new position, this needs to be rigorously designed and implemented.

Onboarding must include the classic areas: insight into the organization's history, strategy and current challenges, its main cultural characteristics (and pitfalls), and introduction to key stakeholders (individuals and groups).

Younger candidates with content knowledge may be happy not to be part of the management team but they will lack leadership experience. A more senior leader with the experience wants a more heavyweight role in terms of level, scope and mandate.

IMPLICATION 6

Not only because of the strategic importance of the role, but to attract candidates with the gravitas and experience to perform, the CSO should sit on the board or top management team, or report into these. Candidates also need to know that they can rely on the support of the organization's leadership, with guaranteed resources and a robust onboarding program. Vital for any senior hire, these factors are even more important if the CSO position is new for the organization.



Metrics binding ESG into executive pay are becoming more commonplace. Law firm Macfarlanes recently reviewed the FTSE 100 companies and found that 35 said ESG had a tangible impact on executive pay. ¹⁵

We are Spartacus

Embedding sustainability in the organization

The attributes of the CSO cannot be restricted to a single individual or function. For sustainability to infuse and vitalize organizations, all influential executives need to walk the talk. From the organization's sustainability purpose, more perspectives flow.

Culture

The organization's DNA will make or break its sustainability agenda. For the mindset and practice to flourish it needs to be linked to the vision, values and principles that employees are expected and helped to follow.

All leaders and managers (not just the CSO) must set the tone. Not only exemplifying wise and purposeful attitudes and behaviors, but facilitating the way in which socio-environmental dilemmas are surfaced, discussed and resolved.

How does the operating environment help people to move beyond mere compliance with regulatory frameworks to moral excellence? What signal-spotting is in place to alert to risky behaviors such as the exploitation of legal loopholes? What value is really attributed to purposeful leadership characteristics: courage, integrity and authenticity, learning, empathy and accountability? What feedback loops promote these values and the people who act as exemplars?

Board/C-suite

How well does your board embrace diversity of thought? What value do its members really attribute to sustainability and ESG criteria? What beliefs underlie their position (for example, "the primary objective of business is to satisfy shareholders"). It is important to identify zones of tension and/or consensus. Questions also surround how purposeful leadership or equivalent indicators are built into board evaluation and hiring.

Reward systems

C-suite compensation and KPIs deserve keen attention. In the case of the CSO, KPI-setting should reflect their wider strategic role.

Eccles and Taylor again: "To set compensation appropriately, the CSO needs to work with the CEO and CFO to determine which sustainability issues are crucial to value creation. Then they need to determine whether it is adequate to simply incentivize executives to drive overall long term value creation or whether additional goals and targets are needed. The compensation of the CSO needs to change as well. It should be based on the same KPIs that are applied to the CEO and CFO instead of being largely based on achieving certain ESG targets."

Alberto Lopez Valenzuela, author of *The Connecting Leader*, draws a line directly from ESG reporting to executive pay:

"...just one of the many likely manifestations of the ESG Risk Gap — that often wide gulf separating what's said from what's done. As metrics evolve, expect to see ESG become more embedded into financial reporting. As the pressure mounts, and as more investors demand greater ESG accountability, it'll become harder for businesses to justify refusals to bind ESG rhetoric to action — and action to executive pay."



He warns: "Investors will not back businesses whose boards reward themselves seemingly arbitrarily...And now, executive pay is also being tied into ESG reporting, linked to a growing clamour around how a strong ESG strategy can contribute to a business's financial fortitude. Companies which take ESG interests more seriously will be more conscious of risks that, while they don't necessarily wield an immediate direct financial impact, down the line could pose a reputational (and ultimately financial) threat."¹⁵

Leadership talent strategy

How can the Board develop its coaching and advisory function to optimize the quality of leadership of its top executives and CEO, managing the balance between understanding their deeper motivations, and micro-managing?

Sustainability efforts encounter numerous blockages in practice. Even the Board has noble ambitions, employees on the front lines can come up against pressures surrounding cost efficiency and profitability, in their sales targets, local business culture and practices, and the demands of influential colleagues. The hidden traps are everywhere. CHROs should embed Purposeful Leadership (or equivalent criteria) into the selection, assessment and development of talent. Beyond formal structures, informal learning is cultivated by healthy feedback loops. But giving and receiving feedback (especially on personal attitudes and behaviors) is not easy and this, too, can be incorporated into training and coaching programs.

Just as for boards, employee performance measures and KPIs need to be integrated into goal-setting — reflecting sustainability strategy beyond short term, commercial considerations.

Existing and potential employees also place high value on sustainability. To attract and retain them, the Board needs to take measures to anticipate looming problems and repair any damage that is already tarnishing the organization's reputation.

"Investors will not back businesses whose boards reward themselves seemingly arbitrarily...And now, executive pay is also being tied into ESG reporting, linked to a growing clamour around how a strong ESG strategy can contribute to a business's financial fortitude."

IMPLICATION 7

Sustainability needs careful engineering. It begins with the culture: 'the way we do things around here.' It needs to be reflected in board evaluation and composition. It extends to C-suite compensation systems: share- and stakeholders are keenly scrutinizing how these support long-term value creation.

From here, sustainability measures need to be integrated into wider talent strategy: hiring, development and retention. At operational level, employees may well encounter pressure from cost-efficiency and sales targets. So signal spotting systems and feedback loops need to be part of the daily fabric of the organization.

Where Do We Go From Here?

Every organization now has the responsibility to install a culture of sustainability. More than simply paying lip service to a department carrying its name, sustainability is in the DNA of today's best leadership teams. They provide the frameworks to integrate it into the way their organizations think, decide and behave.

At Amrop, we have long believed that today's ethical, ecological and societal challenges call for executives who are not just accomplished and smart, but wise and purposeful. Using our Purposeful Leadership approach, we help our clients to build sustainable organizations. We advise CEOs and Boards and provide coaching and mentoring programs to help you deliver on ESG objectives.

Let's talk about how we can help you create a culture of sustainability and wise leadership.



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About Amrop

The Amrop Partnership is a premium leadership and executive search consultancy with 68 offices in 55 countries and a global team of more than 500 professionals.

We help our clients find and develop Leaders For What's Next.

Shaping sustainable success is our mission, craft and passion.

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