



EXCEL Q3 Spotlight

Defining the role of Chief Sustainability Officers (CSOs)

Updated December 2018

Since 1996, EXCEL has been a Partnership bringing Canada's corporate sustainability leaders together to learn from each other. This white paper is focused on helping EXCEL member companies generate higher value for shareholders, stakeholders and communities.



The EXCEL Partnership is an initiative of GLOBE Series. The Delphi Group is the secretariat of the Partnership.

Defining the role of CSOs

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1. Introduction

This update brief builds on the initial analysis released in September 2018 and has been enriched with the knowledge and experience of EXCEL members.

For 2018, the EXCEL Partnership's program theme is 'deeper integration of sustainability.' It is in recognition of the fact that corporate sustainability leaders are now entering a phase whereby integrating environmental and social issues into business decisions and processes needs to go further than ever before. This milestone is reflected in the fact that leading companies have had for many years now, roles, strategies, and processes in place related to sustainability. Given this passage of time, it is important for corporate leaders to, well, *lead* on how to integrate these concepts further in their organizations in ways that directly contribute to business value.

An area in need of further understanding based on discussions with EXCEL Partnership members, and other corporate sustainability leaders, is the executive sustainability role. The degree to which this role is given *organizational authority* varies dramatically amongst companies. Titles are also an issue – in some companies, the Chief Sustainability Officer (CSO) name is used, in others it is embedded in existing titles such as VP of Environment, or Citizenship. Regardless of the actual naming convention used, the corporate role at the heart of this function needs to be better defined in order to enable deeper integration of sustainability and better alignment with business value.

Similar to other relatively new C-suite positions, such as Chief Technology Officers or Chief Information Officers, the CSO role is evolving. For example, the CIO position used to be viewed as primarily a support function. Information management was initially seen as a back-office tool for automating accounting and other financial matters. Later, when computers become more sophisticated and took on additional tasks throughout business, the title changed to Director of Management Information Systems. The breakthrough came in the mid-1980s, when chief executives increasingly invited their IT professionals to sit at the table with other C-suite executives. The role of the CIO is now more integrated into the innovation and transformation part of the business. With technology embedded in every facet of business, and data becoming a necessary asset in order to obtain a competitive advantage, the CIO's role is more necessary to a business today than ever before.

Given how well understood other C-Suite roles are, we are going to use them as a guiding light for this analysis. Thus, an objective for specifying the Chief Sustainability Officer role could be to achieve a functional definition that is as widely understood as it is for Chief Legal Officers, Chief Operating Officers, Chief Information Officers, and so on. These comparisons will also help us assess the *organizational authority* options on hand for CSOs.

Before we make suggestions on how to better define the role, we must first consider the symptoms of the problem.

2. Symptoms

As any good corporate manager knows, organizational roles and responsibilities are critical to achieving success for a particular function in a company. Sustainability functions, in this regard, unfortunately, have suffered from being ill-defined. This has led to confusion amongst colleagues in organizations and can hamper cross-functional effectiveness for those carrying the sustainability flag. The symptoms of the problem tend to be based on the following issues:

- Ill-defined list of issues/topics that fall under sustainability.
Despite over 25 years of using the term sustainability, many people remain confused about what it covers, or what is included under it. At times, sustainability is associated exclusively with environment issues, or ‘environmental sustainability.’ In those cases, it will then be thought of as either solely environmental compliance, or in more advanced organizations it will also be thought of as a way to proactively build environmental value into a business’ decisions or offerings to its customers. At other times, sustainability is associated with corporate social responsibility, and more specifically social issues. This can intertwine with corporate charitable giving, or community and stakeholder engagement. At companies that are advanced in their consideration of sustainability, it will be demonstrated by incorporating social issues and social purpose into business strategy for enhanced value, not simply for compliance or charitable purposes.

Delphi defines sustainability as “the integration of social and environmental issues into business decision making and processes”

This confusion creates very different impressions of how a sustainability function is interpreted in an organization, and thus reinforces the importance that the terminology, and the role, be well defined and clearly communicated widely.

- Confusion on how sustainability applies to both operational compliance issues, versus new business opportunities and defining market/product offerings.
Building on the example from above, each organization with sustainability roles will have an evolving relationship with how close those functions are to the revenue generating profit centers of the company. For some, it will be well understood how good sustainability performance attracts and retains customers. For others, the connection will be less well understood. In the case of the former, the sustainability function will usually not provide the necessary input to revenue generating opportunities as they aren’t situated in a position to be a part of business decisions. As such, the business may not integrate the insights of the sustainability function into developing new markets/products, leading to a late or missed opportunity.

This confusion will also directly relate to the stage the company is at vis-à-vis sustainability. If the company has moved to the point where sustainability strategy plays an established role in value creation, innovation, and investor relations then the CSO role will be recognized as a complex undertaking. In contrast, if sustainability is seen as compliance only, then the CSO role will be defined narrowly, and attempts to push it into other areas will be received with resistance. Analytical research proves this point, showing that when companies have a compliance attitude towards sustainability they are less likely to have a CSO position¹.

- Cross-functional or horizontal nature of sustainability issues creates confusion on integration and executive oversight.

Sustainability issues span across multiple business functions, making it challenging for organizations to create cohesive efforts. For example, a company's social license to operate is tied to numerous functions, such as a company's health, safety and environment compliance; how it operates and contributes in communities; how it treats its employees; how it markets itself, its governance and ethics structure; and more. Sustainability functions that have the authority to work across business units and connect siloed efforts on sustainability issues will be more effective at addressing the issues. Other companies that define sustainability more narrowly may find it much more difficult to tackle sustainability issues, and may rely on their own personal connections/network to do so. Given the cross-cutting reach of sustainability, it makes it hard for executives to manage sustainability, especially if this is an area that is new to them. The onus is on the sustainability function to help executives understand the enhanced value of sustainability functions if they are about to work across company units. The difficulty is to gain this executive sponsorship.

Support from the CEO is understood to be critical for sustainability success at a company. Given that the concept is often misunderstood and if the most senior members of the executive team do not recognize its value and support it overtly, it is highly difficult for others in the company to do so. Thus, having a CSO role that reports (at least in part) to the CEO is critical, but is often not the case.

Connectivity to the Board of Directors is a related area that requires great clarity as well. Many board committees will be ill suited for the inclusion of sustainability in its entirety. There is often an EHS compliance committee of the Board, yet it has a very different mandate than the investment committee, or governance committee, all of which will cover areas related to sustainability. It is the job of the CSO to try and bridge those gaps at the Board level and communicate directly with as many members as possible.

3. The role of the CSO



The role of the CSO has evolved from more tactical to strategic. Years ago, the CSO was thought of as the head of Environmental, Health and Safety, whose main role was focused on audit and compliance. Now, we are seeing CSOs take the role of strategic thinkers, innovators and leaders, who are driving business value and interacting regularly with executives and Board members. We will discuss some of the key functions that are part of a CSO's role described in three categories – reaching 'up' to the Board – connecting with C-Suite colleagues, and – reaching 'down' into the organization.

Briefing the Board of Directors on sustainability issues

The CSO is responsible for regularly communicating to members of the Board about key sustainability issues and their potential (or realized) business impact. To do this effectively, the CSO must be able to:

- **Communicate effectively, succinctly and persuasively.** This is a critical skill that the CSO must possess in order to make an impression on the Board in the brief allotted time he/she may have at a meeting. Furthermore, as this is a topic that many Board members are not familiar with, the CSO should plan to present a convincing case for any questions, or hesitations, they may have.
- **Translate sustainability issues into risks or opportunities.** The CSO must have business acumen and be able to synthesize sustainability into terms and language that the Board understands – business risks and opportunities.
- **Relay the potential business impacts to costs and revenues.** Understanding the cost and revenue drivers of the company and industry will allow the CSO to state what the impact may be in both quantitative and qualitative terms, if the issue is not appropriately managed. Given the Board's mandate to care for the longevity of the company and that many sustainability issues have long-term impacts, such as climate change, the CSO has a significant opportunity to appeal to the Board.
- **Create a strategy to manage the issues.** Beyond briefing the Board about an issue and its impact, the CSO needs to be able to form and present a strategy for how the company is, or will, manage this issue in order to reduce its risks and/or catalyze on opportunities. This may mean presenting and justifying plans for possible capital expenditures and/or increased costs in the short-term.
- **Establish a monitoring plan to see if risks and opportunities are managed appropriately.** The Board will want to be updated on how these sustainability-related risks and opportunities are being addressed, and so, the CSO will need to establish baseline metrics and set KPIs to show that company's progress on these issues.

Engage executives

As part of the executive team, the CSO will need to be the voice of sustainability and be able to use sustainability to connect business units. The following describes the CSO's role in engaging senior management:

- **Educate executives about sustainability issues and their impacts in business terms.** Similarly to briefing the Board, the CSO will need to be able to inform other executives on key sustainability risks and opportunities and their potential impacts both in financial and more qualitative terms, such as reputational risks.
- **Create a common vision for the company.** The CSO has the unique role and ability to be the visionary at the executive table. By envisioning the future success of the company and its ability to contribute to society and the well-being of the environment, the CSO can motivate others and build support for sustainability issues. Given sustainability issues tend to cut across business

units, creating a unifying vision for the company is not only a way for the CSO to inspire – it is also a way to build buy-in for sustainability, as others are able to see how their role and responsibility relates to that vision. This is similar to the visionary role a CEO plays.

- **Identify opportunities that span across the business / demonstrate how sustainability creates competitive advantages.** With sustainability issues being relevant across business lines, the CSO can identify opportunities that can benefit multiple executives and can build internal collaboration. For example, if the CSO's team has identified an opportunity to eliminate toxins in a product, this will require support from the product design team to design the product; procurement and operations to make the product; and from the marketing team to communicate to customers about the new product. The sales team may have an easier time selling a product, especially if competitors' products all contain toxins. Thus, it can create a competitive advantage for the company. Lastly, it can help reduce the liabilities and warnings the company may have on that product, creating less concerns for the Chief Legal Officer.
- **Providing executives with a more fulsome picture of the consequences (both negative and positive) of a business decision.** The CSO can play a key role in informing other executives about the potential environmental and social issues and impacts of a business decision. By bringing these issues to light early on in the decision-making process, the executive team is better informed to make a decision, and understands the underlying associated risks associated. In addition, by discussing these issues at the forefront, the company will be better equipped to answer to stakeholders, including investors, who are increasingly becoming interested in how companies are integrating Environmental, Social and Governance (ESG) risks and opportunities into their investment decisions, and can be seen as a company who is adequately managing these risks, increasing investors' and other stakeholders' confidence in the company.

Drive and manage sustainability throughout the organization

As mentioned earlier, sustainability issues touch many different aspects of a business, and so, the CSO is able to integrate sustainability across the business. As part of this, the CSO will:

- **Collaborate with business units to identify sustainability opportunities that create value.** As the CSO has insight into the strategy and priorities of the company, as well as a holistic view of sustainability issues and how they touch different functions, he/she has the ability to understand priorities for business units and collaborate with them to use sustainability to achieve their objectives. For example, if cost reduction is a focus for the company, then the CSO can work with the different units to find ways to create efficiencies and use less resources (e.g. energy and raw materials).
- **Partner on innovation.** Depending on the organizational structure, the CSO and his/her team can also serve as an innovation center and convener for functions to collaborate on finding new ways to tackle sustainability-related issues, such as energy and/or water usage. EXCEL members in our Fall Roundtables discussed how innovation also includes social innovation which can enable new partnerships and community engagement models. Compliance and innovation also can work together to help companies create new models of business value.

“Understanding and engaging Business Units to create shared value is a key component of the role.”

- Toronto Fall Roundtable

- **Oversee (potentially) EHS and voluntary compliance.** The CSO may be responsible for ensuring that excellent EHS performance is established and may work with various groups, such as HR, Legal and Operations to create EHS engagement programs and equipment. Furthermore, the CSO is now being seen as the leader on voluntary commitments, such as the TCFD or emission reduction targets, that are not required, but are binding in that companies want to uphold their reputation and commitments.
- **Manage (potentially) social areas.** Social issues, such as community and Indigenous engagement and community investing may fall under the responsibilities of the CSO. Creating a comprehensive strategy and business case for initiatives focused on social issues will help shift the idea of social initiatives as merely charitable contributions to strategic business drivers.
- **Act as a change agent and catalyst to drive employee engagement.** Employees are a key constituent for sustainability performance information. The issues that fall under sustainability often matter deeply to employees and they need to see that the organization is authentic in its concern for them.

Engaging external stakeholders

The CSO is responsible for engaging external stakeholders and gathering their input. He/she must then bring this outside view internally and play the role of a connector and translator. To do this effectively, the CSO must be able to:

- **Listening and empathizing.** To build trust and understanding with stakeholders, CSOs need to be able to listen and empathize with stakeholders to understand their viewpoint and concerns. This will help CSOs create effective engagement strategies and build relationships with stakeholders, which can be extremely valuable over time. In addition, he/she can learn about potential new sustainability risks and opportunities from stakeholders.
- **Develop and execute an effective stakeholder engagement strategy.** Companies impact a wide range of stakeholders, including, but not limited to: communities, customers, regulators, NGOs, industry associations, investors, suppliers, and governments. Indigenous Peoples are also often an important external group for engagement. Given the range of interests and expectations, the CSO must work with their teams to identify key priority issues and group, plus define different engagement methods. Furthermore, he/she needs to understand stakeholders' concerns, motivators and drivers, and build these into an engagement strategy.
- **Ability to have the difficult conversations.** Speaking to external stakeholders, especially those who may be more challenging and/or have less than positive views of the company is difficult. The CSO and his/her team must be able to engage in these tough conversations with an openness and calmness in order to understand the concerns. Internal conversations may also be challenging. The CSO will need have a robust approach and be courageous to challenge BOTH external stakeholders as well as internal groups in the company who don't see the value in listening to outside voices.
- **Translate and elevate external concerns to strategy.** As mentioned above, the CSO will receive a great deal of feedback from external stakeholders. The ability to synthesize this information

Sustainability has the ability to deepen relationships with stakeholders, such as clients and suppliers.

- Toronto Fall Roundtable

and identify potential business impacts is critical. The CSO will have to translate and elevate these concerns into strategic conversations about potential business impacts and opportunities.

4. State of CSOs today

Data analysis shows that the number of large companies with **CSOs has been roughly doubling** every five years², but there continues to be many companies that do not appear to have a senior role with this kind of responsibility.

Below are the results of research conducted for this Spotlight that shows seven out of the 20 top Canadian firms (by market capitalization) have CSO positions.

Company	Titles
RBC	VP Corporate Citizenship
TD	Chief Environment Officer
BMO	Chief Sustainability Officer
CN	Chief Safety and Sustainability Officer
BCE	EVP Corporate Services
Suncor	Executive Vice President and Chief Sustainability Officer
Enbridge	Chief Sustainability Officer
Brookfield Asset Management	SVP & Chief Sustainability Officer
Cdn. Natural Resources	SVP of Regulatory, Stakeholder and Environmental Affairs
Thomson Reuters	Global Head, Corporate Responsibility, Sustainability
CIBC	Senior Director, Environmental Risk Management
TransCanada	Executive Vice-President, Stakeholder Relations and Technical Services and General Counsel
Manulife Financial	Director of Global Corporate Citizenship
Great-West Lifecot	Unknown
Imperial Oil	Policy & Advocacy Manager
Alimentation Couche-Tard	Unknown
Loblaw	Sr. Director, Corporate Social Responsibility & Industry
Barrick	Chief Sustainability Officer
CP	AVP Safety & Sustainability

5. Where is the role headed (hint...change agent)

Of particular interest in the research study that has been cited throughout this Spotlight is the fact that once companies are in an advanced stage of seeing sustainability as a strategic business issue, the CEO is less often cited as holding the ultimate responsibility for sustainability. This implies that once the CSO role has evolved and matured, this responsibility shifts from the CEO to the CSO, and Board reporting is also likely more clearly understood (and expected). It is at this stage that the multifaceted aspects of the role are valued by the organization.

In order to anticipate where the function and title is headed, let's use the previously cited Chief Information Officer role as an example. That function has historically been involved in operational issues but is now being brought in to both compliance and governance issues and is also critical for business optimization and innovation related to revenue and product / service ambitions. The person with this role

now will need to be dynamic, and someone who can provide valuable contributions across an enterprise's multifaceted needs.

Defining the Role – What is the job description and its performance assessment elements?

Connector and Communicator

Requirements: The CSO has the important role of being able to listen, connect, and translate the needs of different stakeholders into business opportunities and risks. This includes bringing outside points of view internally, and being able to speak to the multiple facets of the business from investor relations to operations. He/she will need to understand the different factors of business success, and the role that the sustainability strategy plays in all of them. In this regard, the person in this role needs to be an effective communicator who can explain complex concepts in a straightforward, compelling manner across different audiences both inside and outside of the business.

The CSO needs to be the “Chief Storyteller” and create narratives that resonate to both internal and external stakeholders.

- Calgary Fall Roundtable

Sustainability reporting is a requirement at any leading company, and the CSO's role would need to include this reporting, public disclosure, and any reporting to third party initiatives. Contributing to an integrated report, or the MD&A sections of annual reports, would be another role for CSOs in publicly traded companies.

Performance Assessment: The success of the CSO's communication skills could be evaluated through either employee/Board surveys, or through some type of sampling with focus groups across the organization. Similarly, sampling external stakeholders on the company's sustainability efforts can be conducted. If the company's sustainability strategy is well understood by stakeholders, then the CSO has been successful.

With regards to reporting, the performance assessment could focus on the publication of sustainability reporting material, responding to third parties successfully, obtaining high scores or rankings in sustainability performance indices, and ensuring sustainability information is contained in integrated reports or annual reports.

Compliance ‘Officer’

Requirements: The CSO needs to ensure the company is in compliance with environmental requirements and voluntary commitments, as well as social/community issues that are not covered by HR. These can include community stakeholder or Indigenous issues that might be the responsibility of the business units. However, it is the job of the CSO to ensure the business units are in compliance.

Performance Assessment: To measure a CSO's success in this area, compliance results can be used. In addition, for areas such as Indigenous issues, which may not have a specific regulation, the CSO can be assessed based on the number of complaints and the level of challenges the company faces with permitting.

Sustainovation Officer

Requirements: The CSO needs to ensure sustainability considerations are integrated into the company's innovation and R&D efforts. These can be product related (i.e. products with less environmental impact, greater social value) or process related (i.e. integrating clean tech or creating closed loop products). CSOs are also in the unique position to create social innovation, which can be as simple as championing employees' ideas, but can be as valuable as other types of innovation through things such as unique business partnerships with external groups.

Performance Assessment: This aspect of the role may require a qualitative performance assessment whereby the CSO needs to show that they have been contributing to the innovation process and that there have been measurable outcomes. If there is a way to quantify the financial 'upside' from the sustainability elements integrated into innovation than those could be absolute figures reported.

Social innovation is as important as technological innovation.

- Calgary Fall Roundtable

Business strategy input, investment decisions and sustainability strategy direction

Requirements: The CSO is required to both drive the sustainability strategy and show how it supports the overall business strategy. The sustainability strategy will need to incorporate input from across the organization and external stakeholders and be communicated widely. The CSO would be expected to contribute to the enterprise risk assessment. Furthermore, similar to how a Chief Legal Officer would be required to have a 'review' role on investment decisions, the CSO should be required to ensure any major business investment decisions have been evaluated critically using a 'sustainability lens.' Lastly, Board reporting would be another requirement related to this aspect of the role.

Performance Assessment: This would also likely be a subjective performance assessment and focus on whether the strategy was implemented as intended. With regards to the other functions with investment decisions and business strategy, the CSO performance would be measured by how sustainability is integrated into these processes. The same evaluation could be made with regards to Board engagement – the proper functioning of those updates would be an evaluation metric.

Investor and shareholder engagement

Requirements: The CSO role needs to include engagement with investors and shareholders to proactively demonstrate how the company's sustainability strategy is reinforcing the business strategy. The CSO needs to be able to show investors/shareholders how sustainability is driving value, share price, profitability, brand/reputation, reducing credit risk, and any other indicator of financial success. The CSO would also be called upon in circumstances where investors seek information related to Environmental, Social, and Governance issues (ESG) or a shareholder resolution is submitted that focusses on a sustainability issue.

Performance Assessment: The existence of an investor/shareholder report from the CSO, with evidence of engagement quarterly and annually. Successfully resolved shareholder questions and resolutions could be another performance measure.

6. Challenges to overcome

Being the CSO, is not an easy role, and there will be challenges that he/she will have to overcome. While challenges may vary by industry and company, some common ones are:

- ***Embedding sustainability across an organizations' multiple operations*** – No matter the breadth of the company, there will be certain functional groups or locations that will be harder to integrate and will take time to accept sustainability initiatives. This may be for a number of reasons, such as scarce resourcing, lack of understanding, generational divides, and more. This is why the ability to communicate the value of sustainability to different stakeholders is a critical skill.
- ***Matrix reporting*** – Many CSOs work across an organization, but report to the CEO/President or other C-suite executives. This is in many ways beneficial and necessary for the person to be able to engage internal stakeholders, identify sustainability opportunities and risks, and integrate sustainability across an organization. However, this type of matrix reporting also means that the CSO may be reporting to functional unit heads for projects, which may or may not be reported to the CEO. Communication is again very important to ensure that the CSO is reporting on how he/she is working across the organization.
- ***Tying disparate initiatives together*** – There are numerous initiatives that sit under the CSO, such as Indigenous engagement, Sustainability, social initiatives, reporting, and more. As the CSO's portfolio can be diverse, he/she will face the challenge of connecting and tying all these initiatives into one strategy. This will require knowledge of the strategic business value for each initiative. Furthermore, the CSO will need to be able to effectively, and succinctly articulate how these initiatives connect and support the company's strategy.
- ***Influencing decision makers*** – CSOs may or may not have a large budget or be included in investment decision making processes. Thus, the ability to influence other decision makers is key to the CSO's role and success in embedding sustainability. Depending on the decision makers and the company's adoption level of sustainability, this may be extremely difficult. It requires CSO to have patience, be persistent, and find ways to connect sustainability to decision makers personally.
- ***Difficult conversations*** – The CSO will likely have to have difficult conversation with external and internal stakeholders, including senior management. For example, senior management may not want to investigate and discuss climate change risks because their Board lacks expertise and knowledge on this topic. This may mean that the CSO has to have a difficult discussion with management about how to effectively address climate change risks. To overcome challenging conversations, CSOs will need to prepare the business case for sustainability issues and be able to effectively communicate them.

While there are many other challenges that CSOs will face, these common ones highlight the importance of the CSO to be able to communicate. This is one, if not, the most important skill required to be an effective and successful CSO.

Endnotes

¹ Miller, Kathleen and Serafeim, George, Chief Sustainability Officers: Who Are They and What Do They Do? (March 20, 2014). Chapter 8 in *Leading Sustainable Change*, Oxford University Press, 2014. Available at SSRN: <https://ssrn.com/abstract=2411976>

² Ibid.