How to empower CSOs from the boardroom

EY Center for Board Matters

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In brief

- Companies must embrace a coherent environmental, social and governance (ESG) strategy to meet increasing stakeholder expectations on ESG performance.
- Chief sustainability officers (CSOs) play a key role in driving formulation and execution of such a strategy.
- Mutual support between the board and CSO is critical for the organization to effectively move toward value-led sustainability.

ESG performance is becoming increasingly important, with chief sustainability officers (CSOs) and board support both playing vital roles.

As the global climate emergency reaches a tipping point, the world's ability to transition toward a decarbonized economy over the next 10 years will be critical. Businesses have a major part to play in making the transition to a net-zero world. Many businesses recognize the impetus for change, not least because consumers and investors are increasingly expecting — or even demanding — that companies look beyond generating profits to focus on environmental, social and governance (ESG) to drive sustainable businesses.

According to the *2021 EY global institutional investor survey*, 86% of respondents said that investing in companies with aggressive carbon reduction strategies is an important part of their strategy. From a consumer perspective, 58% of consumers in a recent *EY Future Consumer Index* global survey said they are willing to pay more for products if they believe they are produced in a more sustainable way.

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Companies that embrace a coherent ESG strategy and demonstrate tangible success may also benefit from lower cost of capital, given a mismatch between the growing amount of investment dollars looking for genuine ESG leaders and the limited supply of these companies. Further, an EY-Parthenon analysis, which measured the profitability of the top sustainable corporations globally based on Corporate Knights' 2020 Global 100 ranking, revealed that sustainable companies had outperformed their industry peers on gross profit, EBITDA, EBIT and net profit metrics.

There is therefore a clear business imperative for companies to embed ESG and sustainability practices across the entire business and refrain from token actions or greenwashing that will not stand up to scrutiny.

Role of chief sustainability officers

We are increasingly seeing sustainability becoming part of a value-based narrative, with the focus being how the business can create value for sustainability as well as how sustainability can create value for the business. Some companies have led the way by appointing chief sustainability officers (CSOs) who have become one of the newest members of the C-suite.

The CSO's remit is to drive formulation and execution of an organization's sustainability strategy and establish its level of sustainability maturity. This includes determining its carbon baseline and that of its suppliers as well as the extent to which its ESG efforts bring societal benefits. The CSO also helps to determine which ESG areas to prioritize and subsequently embed them into the business strategy.

In addition, the CSO is responsible for defining a sustainability action plan and overseeing its operationalization by every function. Such an individual also needs to understand where the organization's vulnerabilities lie and work with different functions to put mitigation strategies in place. The action plan should also include measuring the true cost and opportunities of ESG in a way that is financially relevant.

> CSOs are tasked with driving formulation and execution of the organization's sustainability strategy and establishing its level of sustainability maturity. They must also help prioritize ESG areas and incorporate them into the business strategy as well as define a sustainability action plan and oversee its operationalization by every function.

Board support is crucial

Board support is key to elevating and enabling the CSO's role for it to succeed. The board and CSO should support each other in helping the organization put ESG at the heart of how it creates and protects value for stakeholders. With this in mind, boards should reflect on several key questions:

1. Have you appointed a CSO to the C-suite? How is the CSO strategically positioned to help realize the opportunities of ESG and reduce its risks?
2. What governance is in place to reflect the importance of the ESG agenda and CSO's role? For example, have you assigned ESG oversight to a specific committee or shared it across committees?
3. What are the timelines and the organization's transition plan toward net zero? And what are the implications for building transition goals into executive remuneration plans?
4. Is your ESG reporting designed to merely meet regulatory expectations? How can you better align your CSO, finance function, and risk and audit committees to measure impacts with leading external frameworks, underpinned by better disclosure processes and controls?
5. Are you confident of the veracity of ESG information collected and reported by your organization?

In essence, the CSO and board must support each other in three ways: elevating the CSO role, prioritizing the ESG agenda and driving robust processes for disclosing data. Only then can the organization successfully make the transition to value-led sustainability, turning ESG into both a business and a moral imperative.

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