The Emergence of the Chief Sustainability Officer

Topics Covered: The Origins of the CSO | The Activities of a CSO | The Skill Set of a CSO | The Appointment of a CSO | Typical Salaries | Future Direction
Foreword

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The role of Chief Sustainability Officer (CSO) is one of the hot topics in sustainability at the moment. It’s not the title that captures the attention, indeed many people we regard as CSOs are called something else – it’s the level of responsibility and the fact that it is a main board appointment.

The CSO puts sustainability alongside a select group of internal functions that make up the executive decision making team - which has a major impact on the strength of sustainability strategies. For all the candidates we work with at Acre, it adds a further layer of inspiration to those who want to get to the top of their profession.

I’m very grateful to Tony Henshaw, Chief Sustainability Officer at Vedanta Resources, and Jim Woods, Non-Executive Director at Acre, for the time they have put into this white paper. For me, the most striking insight is the broad skill set of the CSO and the parallels with the skill set of the CEO. I look forward to the time when a major company appoints their CSO as the new CEO; that may be the next defining moment in the progression of sustainability up the corporate agenda.
1. The Origins of the Chief Sustainability Officer

We use “Chief Sustainability Officer” (CSO) to cover a number of titles reflecting a main board director or officers whose prime responsibility is to integrate sustainability into the core strategy and operations of a company. This person usually reports directly into the CEO and is often a part of the Executive Management team, leveraging the opinions of those in the ‘sustainability function’ as well as the heads of other major operations within the company – notably finance, energy, property, transport and logistics and IT. The CSO title started to appear around 5 years ago in the US and is increasingly being adopted globally. We regard this as the key appointment as a company evolves from regarding sustainability as a corporate responsibility (CR) concern to a core strategic issue and a key driver of business innovation. It is often a disruptive but seminal appointment for a company.

Evolving from the corporate responsibility (CR) function

The arrival of the Chief Sustainability Officer role mirrors the evolution of sustainability as a strategic issue for a number of large corporations. Sustainability emerged as a significant business issue in the 1990s, when it was mainly the preserve of the CR function within a company. As the impact of business activities on the environment was increasingly recognised, the CR department was tasked with complying with relevant policy and communicating with key stakeholder groups. Its prominence was raised sporadically through environmental disasters where a company’s license to operate has been put at risk, but in general it is still largely regarded as a below board-level issue. Larger companies have employed a dedicated ‘sustainability function’, often headed up by the Head of Sustainability, a model that remains the case for the majority of companies in the US and Europe.

The development of sustainability as a strategic issue

As we move into the 21\textsuperscript{st} century, a small but increasing number of companies are seeing strategic opportunities in a sustainable planet, taking it up the corporate agenda and bringing it to the attention of the board. By 2050, with 9 billion mouths to feed and as the desire for a higher standard of living grows globally, the side effects of production on the environment and growing social pressures will mean that companies will have to operate in a complicated and limited space.

With every move watched, the risk of reputation damage leading to lost opportunities is growing exponentially, however, beyond the horizon lies even greater opportunities for those able to understand and operate in the new arena.

The number of major companies that are currently seeing substantial future opportunities and benefits remains the distinct minority – but does include some well known global companies. Almost without exception, these companies are led by a visionary CEO and main board; a key common feature is their appointment to the board of someone whose dedicated responsibility is making sure they can navigate sustainably in the new business environment. Below are three companies who have achieved significant commercial advantage through their understanding of this changing paradigm – all have a board level representative who is dedicated to understanding and delivering business sustainability. Some are called the Chief Sustainability Officer, whilst others have more creative titles such as Marks and Spencer’s ‘Director of Plan A’.

- **Siemens identified the emerging markets in wind and solar products in the 1990s. Their environmental products division generated €28bn in revenue in 2010, or 37% of their total revenues.**

- **GE identified opportunities in environmental products from smart grid to nuclear technology. This forms part of their Ecomagination division that generated $18bn in 2010, or 12% of total revenues.**

- **Marks & Spencer introduced Plan A in 2009, which now generates 10% of group net profit - mainly through business efficiency investments.**
Parallels with the Chief Electricity Officer in the 1890s

Specialist board positions are often created during times of disruption, where they are associated with strategic opportunity and risk, to help senior management understand the changing landscape. There is a parallel in the emergence of the role of Chief Electricity Officer in the US in the 1890s in response to the invention of electricity. Then, the disruption to many sectors of the economy was profound, with factories that had hitherto generated their own energy through inefficient power generators or relatively expensive hydro energy schemes now able to buy in energy transported by wire from power stations. In a short period of time, many hydro wheels, steam engines and electric generators became obsolete. Companies that understood this change were able to seize major opportunities. The significance wasn’t in the title of Chief Electricity Officer, it was in the position it held in the firm. One can speculate that those companies that were able to quickly elevate the issue in their firm were those who prospered in the new environment.
2. The Activities of a Chief Sustainability Officer

The CSO, working with the main board, will typically focus on two areas of strategic importance: their remit will be to explore activities that will make a significant difference to shareholder value whilst at the same time reviewing the company’s management of its impacts and risks to reputation. On the opportunity front they will look for initiatives that, on their own or in total, represent a strategic opportunity. The relevant issues change from organisation to organisation, but the following can be taken as a generic framework within which they operate:

**Revenue generation:**

- Developing products and services for new markets associated with a sustainable planet e.g. Siemens, €28bn revenues in 2010 from environmental products.

- Improving the sustainability credentials of existing products and services that are demand-sensitive e.g. Phillip’s EcoVision – which generated €7bn in 2010 from consumer products which have a high levels of energy efficiency.

- Selling knowledge and expertise in how to operate in the future to other companies where they have developed leading expertise e.g. Siemens’ finance division, which lends to major corporations investing in renewable energy and energy efficiency.

**Other main strategic opportunities:**

- Acquisition of companies that already have developed a competitive lead in similar markets. This may focus on Chinese companies which are being built purely on a low carbon platform, such as electric car manufacturer BYD.

- New financing opportunities e.g. climate bonds, VCTs or Enterprise Investment Scheme funds that have a lower cost of capital than most companies, and also have government incentives to make low carbon investments.

- Achieving major cost-savings, particularly around energy efficiency. It is estimated that 15-25% of the average-sized European companies’ emissions can be removed by investments that have internal rates of return (IRR) of 16% or above - representing a substantial strategic opportunity. The Royal Mail in the UK, for example, identified in 2010 £38m of energy efficiency investments with a higher IRR than its core business.

**Business structure:**

- Separating out a ‘green products’ portfolio with aggressive goals. Some pioneers of this technique, such as GE with their Ecomagination program, have employed separate boards including leading venture capitalists and have invested abnormally high amounts of R&D to achieve their goals.

- Incorporating the drivers of change into an executive remuneration system. This is not always popular at the outset, but has been proven successful by companies such as Akzo Nobel in the Netherlands who have shown that this is one of the most effective ways of engaging key decision makers in the journey.

- Changing the reporting structure so that the ‘sustainability function’ reports directly to the CEO. The appointment of the CSO usually achieves this, but there is additional work required with regard to credibility needed to evolve the function from a strictly compliance unit to the hub of the innovations unit.
Employing the latest analytical tools to assess the company’s performance in the future business arena:

- Introducing a societal model for evaluating performance, e.g. Pepsi’s “Full Business Value”.
- Building a corporate Marginal Abatement Curve for all divisions of their business, e.g. the Royal Mail and Scottish Water.
- Working with the ‘finance function’ to build alternative financial statements with the price of carbon factored in.
- Employing life cycle analysis for goods and services.
- Measuring how brand trust and reputation is impacted by a company’s performance by changing stakeholder criteria.

Partnerships and collaboration

- Exploring the possibility of outsourcing energy management to an ESCO. As energy becomes more expensive and complicated to manage as a result of policy, the case for outsourcing increases.
- Partnering with Non-Governmental Organisations to give customers confidence in the supply chain, e.g. Lipton Tea and the Rainforest Alliance.
- Working with competitors in their sector to form a voluntary industry standard in order to reduce the business risks for the sector.
- Engaging in a constructive dialogue with policy makers to reduce uncertainty in the policy framework.

Key stakeholder engagement

- Introducing enhanced training for managers across the business.
- Communicating the benefits of the company’s forward-facing strategy to financial analysts who may not yet realise the commercial benefits of the program.
- Building reputational capital with a wide range of stakeholders.
3. The Skill Set of a Chief Sustainability Officer

The CSO will typically have an unusually rounded skill set with significant parallels to the skill set of a CEO. They are hired for their combination of knowledge of operational and business issues, their understanding of change management and their ability to make things happen within an organisation. This is a defining difference from the traditional role of Head of Sustainability where an understanding of sustainability is typically the key criteria. The CSO will typically have a number of sources for knowledge of key issues, going beyond their direct reports in the ‘sustainability function’ to consultants and renowned experts. As it is essential that they have the ability to quickly gain the respect and trust of the board, it will help immensely if they have already had exposure to senior management/board members. As such they may well come from another division within the organisation such as finance, operations or strategic planning.

Typical skills are as follows:

Strategic skills

- The CSO will have the ability to analyse operational and product risk as well as consumer and shareholder drivers leading to new opportunities in changing markets. They will be able to understand technology innovation, knowing how and when to take advantage of it.

Commercial understanding

- It is essential that the CSO can express a vision that articulates the impact on the company’s financial statements and is able to relate that knowledge to the business in key areas. They will be well versed in commercial language and analytical tools. They can expect to be able to form a close relationship with the FD/CFO.

Policy engagement

- Government policy will be a key driver for the future. The CSO needs to be effective at engaging with policy makers to shape policy and understand how policy frameworks will unfold. Being able to see the big picture is a key skill.

People skills

- The ability to take the organisation ‘with them’ is a critical skill. As in all businesses the financial success of a strategy to navigate into the future cannot be guaranteed. The CSO, like the CEO, will need to be able to inspire the organisation to travel on a brave new voyage.

Communication skills

- To manage a company’s reputation, the CSO must know how to communicate with stakeholders and be able to tailor messages specific to shareholders, lenders, employees, neighbours, governments and members of the value chain.
4. The Appointment of a Chief Sustainability Officer

Companies that appoint a CSO envisage substantial strategic and commercial advantage through their sustainability performance as well as wanting change within their organisation. By elevating it to board level it sends out a message that the company no longer wants sustainability to be viewed as a ‘business silo’ within the organisation but instead, that they want it to impact the major budgetary areas of the business.

As with any change, there are those who embrace it and those who fear it. One thing that is absolutely necessary is the CEO’s vision, understanding and support of the need for a transition. How businesses change the way they do business, minimising their impacts on the planet whilst at the same time rapidly reaching out to find new opportunities, will be a major shift that will determine their ability to compete in the future. There will be a considerable ‘first mover’ advantage to those who get it right.

Where are they appointed from?

To date, the majority of CSO appointments have been internal. The appointment process is usually inspired and led by the CEO, and the tendency is to look for people who will gain traction within the organisation quickly. Typical of this was the appointment of Richard Gillies, the Director of Plan A at Marks & Spencer, who was previously Construction Director and one of the 26 members of the main board. His strong working relationship with the other directors, and his reputation as a commercial decision maker have been integral to the traction that Plan A has generated within M&S.

Evolution of the CSO role

The evolutionary trends for the CSO role are likely to continue. As an increasing number of firms recognise the strategic risks and opportunities associated with creating a sustainable planet, we can expect to see more firms wanting to take sustainability out of a ‘vertical silo’ and embed it in core strategy. An important first step is the appointment of a board-level representative who understands the future issues that will face the company. This will mean more demand for CSOs, and it will also increase the opportunities for people in the CSO role to use it as a springboard to the CEO role. This mirrors trends in politics – the current leader of the Labour party in the UK was previously the Secretary of State for Energy and Climate Change.

Typical salaries

CSOs can expect to command close to or the same salaries as other C-suite executives. In the UK typical CSO salaries are £180 - 350,000 per annum, or $290 - 570,000. This represents a substantial step up from the leader of the HSE function which is positioned as a cache within an organisation and where the salary range is typically £70-120,000. The difference between the salaries comes down via the level of commercial opportunity added to creation of brand value and management of risk associated with the new positions.

Companies that have CSO positions:

- AT&T
- Covanta Energy
- DuPont
- Google
- SAP
- Siemens
- Sun Microsystems
- Alliance Boots
- Johnson and Johnson
- IKEA
- Vedanta Resources
- Rio Tinto
5. Future Direction

Whilst the carbon agenda is currently the only environmental issue to have become a strategic one for companies, there are a number of other issues that are rising in prominence and will likely add to the CSO’s responsibilities. Key resources such as water and rare earth minerals will start to influence the strategic agenda in the coming years - and the pricing of biodiversity is likely to impact corporate valuations. In August 2010, McKinsey & Co reported in their global survey (titled “The Next Environmental Issue for Business”) that the issue of biodiversity now occupies a similar position in the public debate as climate change did in 2007. At the time of their survey, 59% of executives said they saw biodiversity as more of an opportunity than a risk for their company. In comparison 29% of executives viewed climate change as more of an opportunity than a risk in 2007. McKinsey & Co predict that over the coming years, biodiversity will reach the same strategic position that climate change has reached in the corporate strategy.

In short, the CSO is unlikely to have any shortage of important environmental and stakeholder management issues and as the population of the earth rises from 6.8bn today to 9bn in 2050, the relevance of the social space and social contribution will continue to grow.

We predict that the life of the CSO role will be substantially longer than the 20-year span of the Chief Electricity Officer. In addition we expect that the teams managed by the CSO will grow as they become more specialised - looking at the industry leaders that trend has already started. We expect to see a high correlation between the early appointment of a CSO, sector leadership and business returns in the future.
6. About the Contributors

Tony Henshaw, 
Chief Sustainability Officer, 
Vedanta Resources

Tony is a Chartered Electrical Engineer and spent his early working life building subway trains in South Korea, Portugal and for the London Underground.

He received his MBA from the Manchester Business School in 1988, graduating with a Distinction. After introducing Japanese management techniques into three different manufacturing companies, saving two from closure, he left manufacturing for a new life in Bolivia where he joined, Transredes – Bolivia’s oil and gas pipeline company and a Shell joint venture, as Vice President of Corporate Planning and Analysis. In 2000, Transredes suffered a 29,000 barrel oil spill on the high altiplano of Bolivia and after 8 months as Incident Commander in charge of the clean up and compensation of 126 indigenous communities, Tony returned to head office and created the Vice Presidency of Health, Safety, Environment and Social Affairs with a mandate to improve the company’s performance in these areas. Transredes became the first company in Bolivia to have an integrated Business Management System certified to ISO 9001, 14001 and OSHAS 18001 in 2003.

Appointed Vice President of Sustainability for CEMEX SA in 2007, he was instrumental in developing the company’s sustainability model and strategy whilst improving stakeholder engagement through new NGO partnerships based around the company’s Conservation Book project. CEMEX achieved the GRI A+ reporting standard in 2008. He recently joined Indian mining company Vedanta Resources as Chief Sustainability Officer where he is leading the company’s sustainability programme.

Jim Woods, 
Non-Executive Director, 
Acre Resources

Jim works across a number of businesses engaged in the low carbon economy and has been a Non-Executive Director at Acre since 2007. His main responsibilities are in helping clients to form strategies at the pre-hiring stage, the evolution of climate markets and mentoring the management team on climate policies.

The founder of Malthus Capital, Jim invests in and advises management teams in the space. He is the event chairman of Green Mondays, the regular networking event for the sustainability community and is an Executive Director for the company behind Green Mondays and Green Strategy. Jim works closely with climate policy makers and was previously MD of the RPS London Office - and CEO of the YO! Group (YO! Sushi and YOTEL!).

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