

Developing the ‘S’ of ESG

How can CPO’s help build a culture of sustainability

As investors are increasingly using ESG (Environment, Social and Environmental) criteria to assess their investment decisions and governments are imposing ESG compliance measures on companies, business leaders need to actively develop ESG. In the Post we focus on the “S” (Social) of ESG, which we consider the next frontier in business sustainability.

In our [last post](#) we discussed the new and growing role of the Chief Human Resource Officer (CHRO) or Chief People Officer (CPO) in sustainability [1]. In this post we will examine the ‘how’ of this important change: how to lead and integrate HR policies and practices with the aim of creating a culture of sustainability – sustainability ‘within’.

We have identified four main domains that the CPO will need to pay attention to:

1. Align sustainability/ESG & People strategy,
2. Defining social/human sustainability
3. Sustainability leadership profile
4. Talent strategy & Purpose

1. Align Sustainability/ESG & People Strategy

Internal Stakeholder Management

Successful sustainability and ESG policies require not only external stakeholder management but also *internal stakeholder management* within organizations. The CPO plays an important role in this process.

By sitting down with leaders driving the sustainability agenda (including the CEO, CFO, and CSO), the CPO can help aligning sustainability strategies with overall business and human capital objectives. The first step for the CPO is to have a seat on the table with the sustainability leadership team. This team should develop a comprehensive understanding of the organization's sustainability strategy and how it integrates with the broader business strategy. This ensures that sustainability is not treated as a separate or isolated function but is instead embedded into the core of the business, including the human resource dimension.

Furthermore, recognizing that sustainability is a long-term change process underscores the importance of integrating sustainability into the company's long-term strategy. Sustainability is indeed a mega-trend that impacts all aspects of the value creation process, from financial performance to reputation and stakeholder relations.

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Emphasizing the human and social dimensions of sustainability, as reflected in the ESG framework, highlights the critical role of employees in driving sustainable behaviors and outcomes within the organization. Placing the CPO/CHRO at the heart of ESG initiatives acknowledges their expertise in managing the human dimension of the organization and underscores the importance of people in the value creation process.

Ultimately, by aligning sustainability strategies with business objectives and placing a strong emphasis on the human dimension, organizations can create a shared culture of sustainability that drives long-term value creation and positive impact for all internal and external stakeholders.

Honest assessment of gaps

When the business and sustainability strategies are not integrated, it creates significant challenges that the CPO/CHRO must address. One of the primary hurdles is the lack of alignment with financial incentives, which can hinder staff commitment to sustainability objectives. Without clear alignment between financial incentives and sustainability goals, employees may not prioritize sustainability efforts in their day-to-day work.

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In such cases, the CPO/CHRO plays a critical role in navigating these challenges. They must identify which sustainability objectives are mission-critical and align them with personal,

team, and company performance objectives. This involves conducting an honest and self-critical assessment to identify gaps in motivation and behavior related to sustainability.

It's essential to avoid assigning responsibilities for sustainability objectives that are not aligned with the business strategy or clearly stated in performance objectives. Doing so can create confusion and divided loyalties among employees, undermining the effectiveness of sustainability initiatives, including leading to credibility challenges with customers and shareholders.

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Furthermore, the CPO must recognize that sustainability encompasses behavioral change across the organization, involving employees and leaders at all levels. This requires a comprehensive approach to fostering a culture of sustainability that encourages and supports sustainable behaviors throughout the organization. By addressing these challenges and ensuring alignment between business and sustainability strategies, the CPO can play a pivotal role in driving meaningful change and fostering a culture of sustainability across the organization.

Materiality assessment

Under the new European Corporate Sustainability Reporting Directives (CSRD), companies must undertake a 'double materiality' assessment. The word 'double' refers to the fact that companies reporting on sustainability must consider the relevance of a sustainability matter from two perspectives. On the one hand, organizations have an impact on people and the environment (the inside-out view). Think of damage to nature or violations of human rights. On the other hand, sustainability-related developments and events create (new) risks and opportunities for organizations (the outside-in view). Examples of this are reputation risk in case of incidents of corruption, the introduction of new carbon taxes or opportunities for development of new circular and sustainable products.

The CPO will not only need to take part in this materiality assessment but also take ownership for the engagement in the process among key staff. In particular, the CPO needs to ascertain which key behaviors the critical staff functions need to change in order to meet the company's sustainability KPIs. If the objective is zero-carbon, for example, the CPO will need to create a list of all human behaviors that effect carbon emissions, from travel, facilities, energy and so on.

"A new paradigm of leadership is emerging that clearly recognizes profits, ESG, sustainability and compassion are not mutually exclusive and are more correlated than most believe." — Nathan Romano, President of Atalaya Capital Management.

2. Defining Social/Human Sustainability

Aligning HR functions with sustainability

Aligning HR functions with sustainability objectives is indeed crucial for fostering a culture of sustainability within an organization. The CPO plays a pivotal role in this alignment by leveraging HR functions to further sustainability goals, that way the HR function can lead by example and become the steward for change.

For example, in the hiring process, the CPO can promote internal mobility to support value creation within the organization, building talent from within can enhance engagement and drive successful succession planning. Additionally, when hiring externally, preference can be given to candidates who live close to their workplace, reducing the need for commuting and aligning with sustainability objectives related to reducing carbon emissions and respecting bio-regions.

Sustainability culture

Furthermore, fostering a sustainability culture involves addressing collective behaviors, symbols, and leadership behavior. The CPO can work to ensure that collective behaviors are supported by structural incentives such as rewards and incentives, reinforcing desired sustainability outcomes.

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Publishing success stories of sustainability champions can drive healthy competition across the organization, speed up buy-in and anchor lasting change.

Role modeling

Role modeling behavior is also essential for driving culture change, and this responsibility extends to all senior leaders, including the CPO. By demonstrating a commitment to sustainability in their actions and decisions, senior leaders set the tone for the organization and create an atmosphere where sustainability is prioritized.

Collaboration with corporate communications is key in creating a shared language and narrative around sustainability initiatives. The CPO can work closely with corporate communications to ensure that messaging around sustainability is clear, consistent, and aligned with organizational values and goals.

Transparency of (all) key performance indicators and goals of the entire C-suite is key to ensure a trickle-down effect.

Underlying baseline of health and well-being

As mentioned, prioritizing staff and employee well-being is crucial for fostering receptivity and engagement with sustainability initiatives within organizations. Sustainability encompasses not only environmental concerns but also social and ethical dimensions, and this includes creating a supportive and healthy work environment for all employees.

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By committing to a baseline of health and well-being practices, organizations demonstrate their genuine care for their employees and their broader social responsibility. This commitment can take various forms, including:

1. Diversity, Equity, and Inclusion (DEI) initiatives: Promoting diversity and inclusion fosters a culture of respect and equality within the workplace, ensuring that all employees feel valued and included.
2. Maternity leave and family-friendly policies: Supporting employees through family-related transitions demonstrates a commitment to work-life balance and employee welfare.
3. Sustainable workplace practices: Implementing environmentally friendly practices within the workplace, such as energy efficiency measures and waste reduction initiatives, aligns with sustainability goals and demonstrates a commitment to responsible stewardship of resources.
4. Flexible working hours and remote work options: Providing flexibility in work arrangements acknowledges the diverse needs of employees and promotes work-life balance, which can lead to higher job satisfaction and productivity.
5. Continuous listening and learning: Actively seeking feedback from employees and providing opportunities for professional development and learning fosters a culture of continuous improvement and innovation.

6. Safeguarding policies and transparency: Implementing clear policies and procedures to ensure employee safety and well-being, as well as maintaining transparency in decision-making processes, builds trust and credibility within the organization.
7. Whistleblower protection and business ethics: Establishing mechanisms to protect whistleblowers and uphold ethical standards demonstrates a commitment to accountability and integrity in business practices.

By prioritizing these aspects of employee well-being, organizations can create a positive and supportive work environment where employees feel valued, respected, and motivated to contribute to sustainability efforts. This, in turn, enhances overall staff morale, reduces the risk of accusations of greenwashing, and strengthens the organization's credibility and reputation.

Compensation / Reward structure

Aligning sustainability objectives with compensation and reward structures is essential to ensure that employees are incentivized to prioritize sustainability goals and behaviors. Financial incentives play a significant role in driving employee behavior, and aligning them with sustainability objectives helps reinforce the importance of sustainability within the organization.

However, it's not just about what objectives employees contribute to; it's also about how those objectives are achieved. Behaviors that contribute to creating a sustainable culture, such as innovation, collaboration, and ethical decision-making, should be rewarded alongside achieving specific sustainability targets.

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Collaborating with the finance function is crucial in this regard. The finance team can provide valuable insights into designing compensation and reward structures that incentivize sustainable behaviors while also ensuring alignment with the organization's financial goals and constraints. By working together, the CPO and the finance function can develop balanced incentive schemes that drive both sustainability performance and financial success.

Moreover, integrating sustainability criteria into compensation and reward structures sends a powerful message throughout the organization about the importance of sustainability and aligns incentives with the organization's long-term vision and values. This helps create a culture where sustainability is embedded into every aspect of the business, driving positive outcomes for both the organization and society as a whole.

“At Unilever we assessed all our leaders on their contribution to sustainable value creation, as described in this masterful book Triple Value Leadership. Financial performance is necessary but not enough. In fact, if you want sustainable success, you cannot drive business results without taking care of the planet and society, as well as your own people.” — Alan Jope, former CEO Unilever

3. Create a Sustainability Leadership profile

Not just green skills

Sustainability behaviors extend far beyond just technical “green skills.” While aspects like recycling, energy efficiency and green purchasing are important components, true sustainability leadership encompasses a much broader set of principles and practices.

Effective sustainability leaders understand the complexities of the modern world and are adept at navigating through them. They possess a high level of self-awareness, recognizing their own impact on the environment and society, and they lead with integrity, aligning their actions with their values.

Moreover, the most successful sustainability leaders are holistic in their approach. They not only manage the business effectively but also prioritize sustainability objectives, foster a culture of sustainability within the organization, and invest in growing talent that is committed to sustainability goals.

By embodying these qualities, sustainability leaders inspire others to adopt similar behaviors and attitudes, driving positive change throughout the organization and beyond. They understand that sustainability is not just a checklist of tasks but a fundamental mindset that guides decision-making and actions at every level of the organization.

In essence, sustainability leadership is about more than just “going green” – it’s about leading with purpose, integrity, and a deep commitment to creating a better future for all.

Alignment of Brand with Purpose and Engagement

Aligning sustainability leadership with the company’s mission, values, and brand profile is essential for maintaining authenticity and building trust with stakeholders. When leaders demonstrate a genuine commitment to sustainability that aligns with the company’s overall ethos, it reinforces the organization’s credibility and strengthens its brand reputation.

If leaders fail to uphold sustainability values in their actions, it can lead to accusations of hypocrisy or greenwashing, eroding trust among internal and external stakeholders. In today’s transparent and socially conscious landscape, stakeholders are quick to identify inconsistencies between stated values and actual practices.

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Conversely, when leaders lead by example and practice what they preach in terms of sustainability, it fosters a culture of trust, transparency, and accountability within the organization. Employees are more engaged and motivated when they see leadership actively living out the company's values, leading to higher levels of employee satisfaction and retention.

Similarly, customers are increasingly drawn to brands that demonstrate a genuine commitment to sustainability. When they see alignment between the company's sustainability efforts and its brand identity, they are more likely to become loyal advocates for the brand.

Overall, aligning sustainability leadership with the company's mission, values, and brand profile not only mitigates the risk of greenwashing but also enhances employee engagement, customer loyalty, and stakeholder trust. It creates a shared sense of purpose and reinforces the organization's commitment to making a positive impact on society and the environment.

4. Talent strategy & Purpose

Purpose and meaning

Having a clear and authentic sustainability leadership profile and culture not only enhances purpose and meaning in the workplace but also serves as a powerful talent attractor. In today's world, where the next generation of workers is increasingly driven by a desire to make a positive impact, organizations with a genuine commitment to sustainability stand out.

Authentic leaders who embody the values of sustainability inspire their teams and create a sense of purpose beyond just the bottom line. Employees are more engaged and motivated when they feel their work contributes to something meaningful and impactful. This sense of purpose not only fosters a strong sense of belonging but also cultivates a high-performing culture where individuals are empowered to bring their best selves to their work.

Moreover, when organizations prioritize sustainability in their leadership profiles and culture, they are more likely to attract like-minded individuals who are passionate about creating positive change. This alignment of values leads to greater employee satisfaction, retention, and overall organizational success.

By fostering purpose and meaning through authentic sustainability leadership, organizations can not only attract top talent but also cultivate a workplace where people are deeply fulfilled and motivated to drive sustainable impact.

Talent selection and development.

Sustainable value creation requires a multi-dimensional approach to talent acquisition and nurturing. Traditional top-down hiring processes might not suffice in the dynamic landscape of sustainability.

By integrating both top-down and bottom-up approaches, organizations can ensure they're not only bringing in experienced talent at the leadership level but also empowering emerging talents from within the organization. This holistic approach facilitates a diverse pool of perspectives and skills crucial for driving sustainable initiatives effectively.

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Engaging next-gen high potentials in sustainability transition teams not only accelerates their learning curve but also fosters a culture of innovation and inclusivity. These teams can serve as incubators for new ideas and methodologies while providing valuable hands-on experience to future leaders.

Overall, by rethinking talent selection and development processes to include and align with sustainability goals, organizations can better position themselves to thrive in a rapidly changing world while nurturing the leaders of tomorrow.

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[1] We prefer to speak of CPO rather than CHRO as the word 'people' is more respectful than 'human resources', which we believe represents an outdated view of human beings at the workplace.

