



The future of the Chief Sustainability Officer Sense-maker in chief

Foreword

Sustainability is the crisis of our generation. It is not possible to live sustainably if we erode and deplete our capital—whether that be economic, social or environmental. The financial services industry sits firmly at the epicentre of this crisis and has a unique perspective on both the risks and opportunities of the sustainability challenge. Not only are financial services firms exposed to the physical, transition and liability risks from climate change; they also have a critical role to play in transitioning the global economy to a low carbon reality through systems of sustainable finance.

In response to these risks and opportunities, some financial services firms have chosen to appoint a Chief Sustainability Officer (CSO). The Institute of International Finance (IIF) and Deloitte wanted to explore whether CSOs might have a significant role to play in further managing opportunities, not just risks. The global survey we jointly commissioned examines the nature of the role, the people who typically fill it and what we can realistically expect them to achieve. Our results make fascinating reading for those firms who already have a CSO and for those still considering their options.

One of our central findings is that the firms which have appointed a CSO (and given them strong executive support as well as a broad, strategic mandate) see benefits from having at the top of their organisations a “sense-maker in chief.”

In a world where the speed, volume and complexity of change can threaten to throw organisations off their stride, there is a pressing need for strategic thinkers who can clarify the issues at stake, mobilise their colleagues and orchestrate purposeful change.

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Introduction

This report summarises the findings of a global survey conducted by the Institute of International Finance (IIF) and Deloitte. Our goal was twofold. The first was to understand how financial services firms are mobilizing to address the environmental, social and governance (ESG) imperative. The second was to learn how these firms see the role of the chief sustainability officer (CSO) in fulfilling their aspirations. Specifically, we wanted to explore:

- Why some firms have CSOs and others do not;
- What mandate firms typically give to their CSO;
- Which skills sets and leadership attributes are necessary to deliver that mandate;
- How CSOs contribute to governance; and
- How the role is likely to evolve.

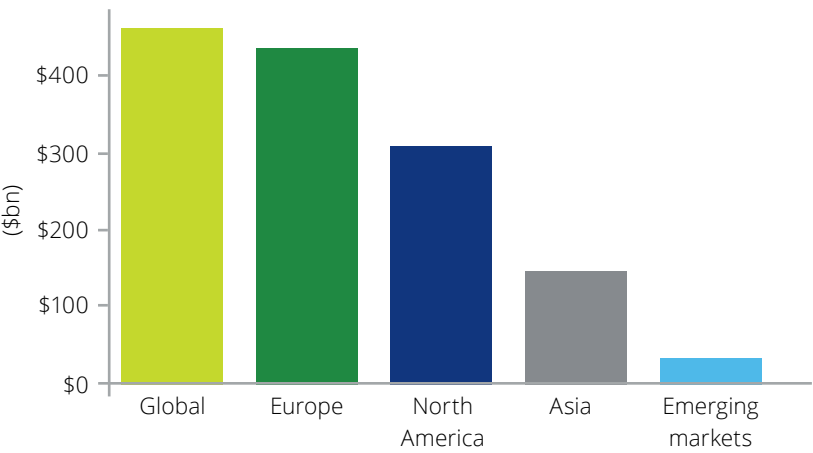
More than 80 sustainability professionals working in over 70 different organisations contributed their perspectives. They include CSOs, chief executive officers (CEOs), and chief risk officers (CROs), along with heads of sustainability, ESG and strategy. Respondents represented asset managers, insurers and banks in Europe, North America, Asia and Emerging Markets. We also drew on the shared experience of Deloitte professionals who are working with clients on sustainability projects around the world. Much like today's generation of CSOs, their specialties span ESG, business strategy, financial transformation, risk management, board governance, integrated disclosures, compliance, talent and compensation.

In total, the sustainability professionals we spoke to work in organisations with a combined market capitalisation of \$1.4 trillion. Together, these companies finance nearly \$16 trillion of economic activities through their loan portfolios, with combined assets under management of over \$19.7 trillion.

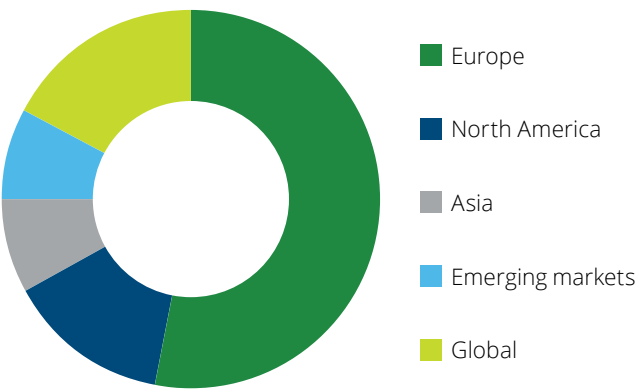
As you read this report you will find data from the Deloitte/IIF survey and fieldwork which was conducted between July and September 2020, noted as "Deloitte/IIF Survey." Quotes from interviews with industry professionals are noted in large green text. Information gathered from Deloitte subject matter specialists is sourced as "Deloitte insights."

Figure 1. About this survey

Market capitalisation of respondents (\$bn)



Participants by geography (Main area of operations)



Source: Deloitte/IIF Survey

Executive summary

We expect the role of the CSO to gain prominence over the next two years. The mandate is now clearer than ever. So is the skill set needed to deliver it.

The CSO is emerging as the organisation's "sense-maker in chief." Understanding and predicting changes in the external sustainability environment has become essential to the role. So has navigating, influencing, and cutting through organisational complexities to allow the organisation to deliver on its ESG commitments for commercial gain.

Fewer than 15 percent of survey respondents reported having a CSO in place, although nearly half had a Head of Sustainability or equivalent and a further 12 percent had a Head of ESG. Less than one quarter reported no equivalent role in their organisation.

When does it make sense to have a CSO?

Our research finds three conditions seem to prompt organisations to appoint a CSO:

1. The external environment is changing more quickly than the interior of the organisation, so it needs someone to help it adapt
2. External stakeholder scrutiny is intensifying as are expectations on the organisation and it has not yet found a way to deliver within its current structure, executives, and governance frameworks
3. The firm acknowledges that ESG risks are substantial enough to be strategic

The CSO mandate

While the detailed mandates of CSOs are as varied as the firms they work for, our survey found three core themes to the CSO's general responsibilities:

1. Make sense of the external environment and bring insight back into the firm
2. Help the organisation reconfigure its strategy
3. Provide thought leadership and help align teams by engaging, educating and connecting

"The O in CSO could just as easily refer to orchestration, as a lot of what we do on a daily basis is to ensure alignment across disparate teams and departments to ensure we all share a common vision and are moving toward a common goal."

The CSO skill set

CSOs see their skill set as primarily linked to strategy, influencing, raising awareness, and making the repercussions of ESG concerns tangible for the people in their business. They need to network extremely well and to partner with those across the business with specialist skill and experience. Organisational knowledge and a thorough grounding in the business are also essential attributes. As one CSO put it, "you have to know how the product works."

At any one time, a CSO may need to adopt different management styles, using ‘agitator’ or ‘executor’ for some parts of their business, and ‘facilitator’ or ‘steward’ in others. Successful CSOs require a healthy mixture of each of the four styles, plus an ability to dial them up or down depending on the situational need and the maturity of the organisation.

As if these skills were not enough, CSOs also need superlative communication skills and organisational ability. The range of stakeholders the CSO needs to influence is wider than that for almost any other role within the firm.

Reporting lines and relationship with the CEO

One-third of our survey respondents report to their respective CEOs, although we also found substantial variation. Reporting to the Head of Communications or Marketing was the second most frequent reporting line, with lines to the Heads of HR and Strategy also relatively common. The CSOs who say they report directly to their CEOs also say this relationship is the cornerstone of effectiveness in the role. However, there are also examples of CSOs who prioritise access to a committed CEO ahead of formal reporting lines.

The CSO’s contribution to governance

CSOs have a fundamental role to play in the governance of sustainability through:

- Establishing ESG governance structures to ensure the proper consideration of risks
- Ensuring checks and balances in decision-making so that stakeholder interests are appropriately represented up, down and across the organisation
- Contributing to governance bodies across their organisations—from advising the board, chairing ESG sub-committees, participating in taskforces and helping to shape the agenda on risk, audit, compensation and major change committees

As for the structure of the CSO’s team, our research indicates that currently a relatively modest staff size tends to be the norm—but the CSO’s extended team spans the organisation and beyond, putting a premium on their ability to run agile, multidisciplinary teams and network well outside of the organisation.



The future of the CSO

As CSOs succeed in their roles—establishing and then helping to deliver integrated sustainability objectives—the question will then become what should happen to the CSO's role?

Some respondents tell us they can see a time when the role is no longer needed. When that happens, they think the role will be subsumed within business as usual or migrated to the CEO. For the time being, though, these are still minority views. Nearly all of the professionals in our survey (99 percent) think the role of the CSO will grow in prominence over the next two years. Even on a five-year view, 70 percent think the CSO's role will continue to be distinct, making a unique contribution to the sustainability challenges we all face.

“You just can’t influence unless you’re credible on management strategy.”



When does it make sense to have a CSO?

The CSO title has been in use for over a decade, but it means different things to different people.¹ Over the past 18 months, we have seen a notable increase in financial firms appointing a CSO. Why now? And why some but not all?

Perspectives from organisations without a CSO

We asked survey participants, “Does your organisation have a CSO/head of sustainability/head of ESG?” If they answered no, we asked: “Why do you think your organisation doesn’t have a CSO or equivalent?”

From these answers it is clear that even when the organisation does not have a CSO, there is a view that the organisation will likely have one in the future or that other executives already have CSO-like responsibilities.

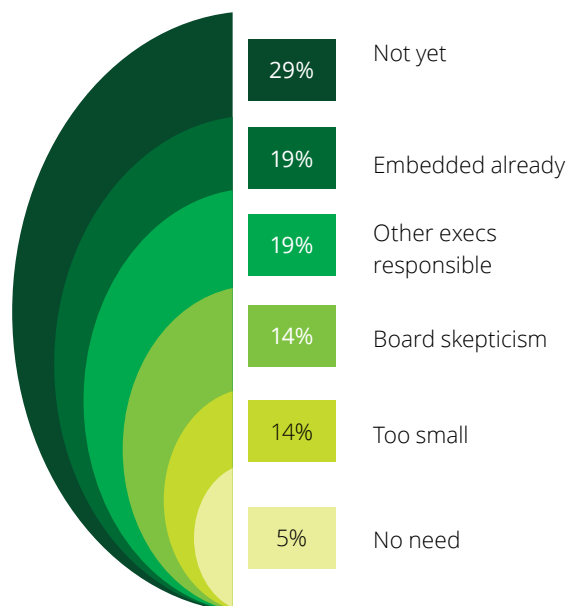
In only 19 percent of cases do respondents say there is no need for the CSO, or that the board is sceptical of the role. Some respondents say that their organisation is too small to justify a CSO; however, this implies that a CSO may become relevant as the firm grows.

“Our organisation doesn’t yet have a CSO, but it is likely to in the future.”

Three tipping points

Based on our interviews and workshops with survey respondents, and our observations of market dynamics, there appears to be three tipping points that explain when a firm will appoint a CSO—whether by promoting a head of sustainability or by carving out a specific new role from a range of existing responsibilities.

Figure 2. Reasons given by organisations that do not have a CSO or equivalent



Source: Deloitte/IIF survey

Tipping point #1: External change exceeds internal change

When the world outside an organisation is changing more rapidly than inside, there's a need for somebody to make sense of it and help the organisation keep ahead of—or at least match—this pace of change.

The bigger the quantum of change—in terms of pace, volume, magnitude, complexity, and ultimately transversality (the linking of ESG issues)—the bigger the need for an individual to exert more influence. That bolsters the case for a higher position in the organisational hierarchy.

Both within and outside of the financial services industry, we see organisations making appointments to their senior leadership ranks with a mandate to interpret this change.

The pace of change with respect to sustainability is increasing. International standard setters, national legislators, and industry-specific regulators are all reflecting this changing reality. The CSO as a “sense-maker” needs to bring insight into the organisation, triage external initiatives, and make connections among different developments. They also need to prioritise the urgent and the important, and act as a catalyst for change.

Firms sometimes expect their CEO to perform this role. However, as one CSO puts it, “We sometimes put CEOs on a pedestal. They can't know everything about everything.” The CSO is there to help the CEO navigate the ESG environment.

To illustrate the scale of the challenge, Figure 3 shows some of the developments that emerged during a two-week period.

“The pace of change with respect to sustainability is greater than at any stage in my career to date. My job is to make sense of all this change.”

“One role of the CSO is to help CEOs to navigate the ESG environment.”



Figure 3. Two weeks is a long time in sustainability

The pace of change in sustainability is so great that a two-week break can mean missing out on seismic shifts and far-reaching developments. Summarised below is a selection of news stories taken from a two-week period in January 2021, shortly before publication of this report.

Week one

- Following calls from the United Nations Chief to stop treating the earth “as if we have a spare one,” French President Emmanuel Macron joins world leaders in making commitments to protect biodiversity and ecosystems at the One Planet Summit.
- The Investor Forum (whose members own a third of the FTSE All-Share) call for shareholders to have a vote on businesses’ responses to global warming. The suggestion for “say on climate” votes would be similar to the advisory “say on pay” votes held at shareholder meetings in the United States and United Kingdom.’
- New research on over 8,000 companies in the MSCI ACWI Investable Market Index find that only 16% are aligned with the Paris Agreement’s goal of limiting the rise in global temperatures to 2° – while just 5% are aligned with the more challenging limit of 1.5°.
- European energy firm Total becomes the first oil major to end its membership of the American Petroleum Institute (API), citing the API’s stance on climate change, the Paris Agreement and methane emissions. Two days later, Total buys a 20% stake in the world’s biggest solar energy developer.
- British lawmakers call on the Bank of England to align its corporate bond portfolio with its commitments on climate change, describing the bank’s holdings of high-carbon assets as a “moral hazard.”
- New research into exchange traded funds (ETFs) invested according to ESG principles reveals assets under management grew exponentially last year – although “greenwashing” remains an issue.

Week two

- The new US President, Joe Biden, rejoins the Paris Agreement. He also re-establishes a working group that determines the “social cost of carbon” for use in government cost-benefit analyses. Market commentators suggest the cost of carbon is set to rise dramatically.
- China reaffirms its climate pledge to reduce carbon emissions by 65% by 2030 and achieve carbon neutrality by 2060.
- The biggest ever poll on climate change finds that 64% of the world’s population agree climate change is a global emergency. Countries with particularly high scores include Italy (81%), Japan (79%) and Australia (75%).
- The IMF announces it is placing climate change at heart of its work. Its research suggests combining steadily rising carbon prices with a green infrastructure push could boost global GDP and generate work for millions.
- The US Chamber of Commerce revises its position on man-made climate change and calls for tougher action through carbon taxes, emissions caps, or other “market-based” policies that embrace technology and are informed by “the best science” available.
- Larry Fink, CEO of the world’s largest fund manager BlackRock, urges companies to set out credible strategies to tackle carbon emissions, stressing that there is “no company whose business model won’t be profoundly affected by the transition to net-zero.”

Source: Wall Street Journal, Bloomberg, Financial Times, US Chamber of Commerce, United Nations (12-26 January 2021)



These are only a sample of external developments, and not all will require a response. However, taken as a whole, initiatives such as these are changing organisations' operating environment.

Amidst so much change, there's a role for a senior individual to navigate this complexity, set a clear strategic direction for the organisation on sustainability matters, and reconfigure the business model for long-term success. We call this role the "sense-maker in chief."

Tipping point #2: Stakeholder expectations run ahead of realities

The second tipping point can occur when, from a sustainability perspective,

stakeholders expect things from the organisation that are not yet engrained or embedded.

Developments in corporate governance—from the Business Roundtable in the United States⁹, the EU Directive on Non-Financial Reporting¹⁰, the King Code in South Africa¹¹ or Section 172 of the UK Companies Act¹²—have tended to move in one direction. Directors now need to consider a far wider set of externalities and stakeholder interests than they've been used to doing in the past. And those expectations are not just wider, but deeper.

Figure 4. Example stakeholder map

Stakeholder	Examples of increased expectations
Prudential and conduct regulators	<ul style="list-style-type: none"> • Climate scenario analysis exercises in several countries • ESG risk management assessments (as part of supervisory review and evaluation process) • Quality and accuracy of disclosures, including under the Task Force on Climate-Related Financial Disclosures • Green bond compliance and mitigants against 'greenwashing' • Sustainability risk amendments to the Markets in Financial Instruments Directive (EU) • Climate risk roadmap from the Commodities and Futures Trading Commission (US)
Investors and rating agencies	<ul style="list-style-type: none"> • 'Dear Chairman' letters from investors seeking clarity on ESG risk exposures and the company's plans to manage them • Targeted questions from rating agencies that focus on sector-specific ESG themes—for example, asking banks about the transparency of fees and charges or asking pension funds about their path to net-zero carbon emissions
Customers and suppliers	<ul style="list-style-type: none"> • Consumer preferences favouring brands that make a positive contribution • Procurement teams' addition of ESG filters to requests for proposals • Organisations' refusal to tender services to particular customers if they fail to make ESG disclosures
Industry lobby groups and associations	<ul style="list-style-type: none"> • Recommendations for 'common capital' accounting from the Capitals Coalition • Suggested framework from the World Economic Forum to help identify ESG factors for long-term resilience
Non-governmental organisations (NGOs)	<ul style="list-style-type: none"> • Engagement approach from NGOs: requests for face-to-face meeting with the company to discuss concerns • Confrontational approach from NGOs: staged events, campaigns, or direct action to publicise particular positions
Current and prospective employees	<ul style="list-style-type: none"> • Greater interest in ESG impact, corporate purpose, and life at work • Climate change is the number one concern of people aged 26–36¹³

Source: Deloitte insights

These new expectations from stakeholders are redrawing the boundaries of the company. And as the perimeter becomes more permeable, some companies have reached a tipping point where they recognise stakeholder expectations, but don't yet have a plan to act on them.

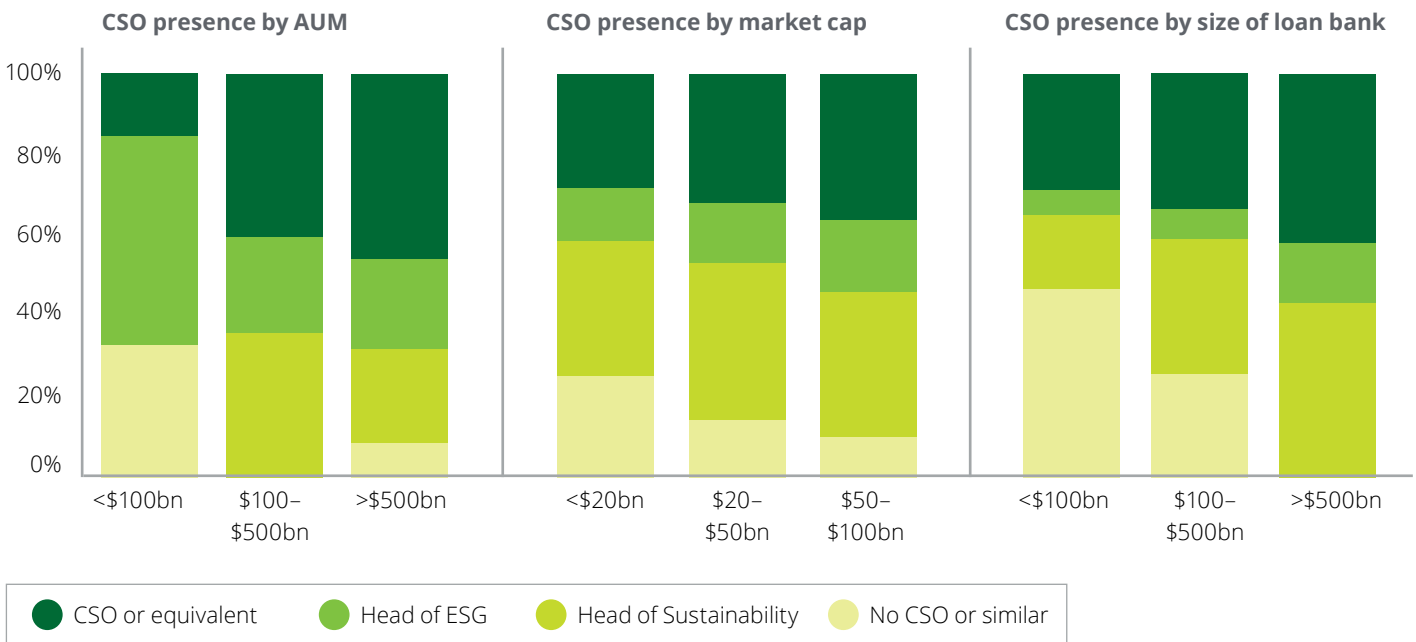
As organisations grow, their footprints and market values tend to increase, which increases the scrutiny from a wider range of stakeholders and raises internal complexities that needs to be addressed.

The appointment of a CSO therefore makes sense and allows organisations to manage this wider spectrum of stakeholders—who may well want different priorities in terms of action and urgency.

CSOs are often chosen for their backgrounds in public policy and related fields where people work in a cross-cultural environment and need to break down rigid silos. That kind of experience equips a CSO with the skills to manage the dynamics of engagement and debate, which is increasingly useful in modern corporate affairs.

Why? Because once a firm starts to make public commitments about its purpose, goals, or beliefs (even to the point of confirming which climate scenario it thinks most likely), it sets off a chain of expectations in which its activities are shaped by public expectations.

Figure 5. Analysis of organisations with a CSO or equivalent



Source: CSO data from Deloitte/IIF survey; AUM, market cap, and size of loan bank gathered by Deloitte from annual reports and accounts, company websites and investor presentations in October 2020.

A “sense-maker in chief” is again required as each of these public commitments (financial and non-financial) need to be translated into a business strategy, embedded into business-as-usual processes, and then monitored and managed across a wide range of departments. This level of complexity, coordination, and change requires a dedicated resource. Increasingly, this is the CSO.

This tipping point is also supported by our survey results, which reveal that the CSO title is more common in larger organisations, which are likely to have a greater number of disparate stakeholder groups. We also found that the title was more common at banks than at asset managers or insurers. Over a third of banks in our survey reporting having a CSO or equivalent compared with only a quarter of asset managers and insurers. In contrast, asset managers and insurers were more likely to report having a Head of Sustainability than banks (40 percent vs. 31 percent) or a Head of ESG (20 percent vs. 9 percent).

“My interactions with the CRO have increased exponentially as the impacts from climate risk are shaping the firm’s future strategy.”

Tipping point #3: The organisation recognises ESG risks as strategic

There comes a time when an organisation has completed the climate scenario workshops required by corporate governance and its regulators. The firm may also have thoroughly reassessed its exposure to ESG risks—from biodiversity and financial inclusion to modern slavery and the future of work. The next step is appreciating that risk is a probabilistic science and requires us to act without certainty.



There is, however, a very clear trajectory implied by existing and draft regulations along with stress test scenarios and the many emerging (and sometimes voluntary) codes. The direction of travel suggests that financial services firms will be expected to disclose more, account for their wider impacts on common capitals, and hone their sense of purpose. Innovation in financial products is essential, both to meet anticipated demands and remain compliant with emerging regulations.

When ESG risks are prompting major market shifts and extensive responses from regulators, organisations' strategies need to adapt. For some, this still won't be enough to appoint a CSO because their

ESG impact may be relatively modest, their product suite comparatively simple, and their stakeholders content for them to follow the pack and not lead.

Larger firms, however, have the power to shape the markets and communities in which they operate. For them, sustainability is a challenge that is simply too big to ignore. Reimagining the firm's business model—and with it the wide value chain—is an exacting task that involves dozens of functional areas. This is where the systems thinking experience of many CSOs can help.

Figure 6 shows the CSO in the middle of the organisation's sustainability efforts—not because they are responsible for all the detailed work that's needed, but because in a transformation this large there's a role for a senior executive to educate colleagues, orchestrate change, and join the organisational dots.

A "sense-maker in chief" can translate strategy into practice and bring co-ordination where there would otherwise be chaos.

Figure 6. Interactions of a CSO in a typical organisation with respect to sustainability



Area	Role
Strategy	<ul style="list-style-type: none"> Shaping innovative and brand-enhancing sustainable finance strategies which successfully capture (and even create) attractive market demand Designing future-proof strategies which meet the evolving needs of clients and deliver competitive advantage through ESG—creating sustainable value and driving the low carbon transition
Front Office	<ul style="list-style-type: none"> Identifying client, counterparty and transactional ESG risks, and integrating these into investment, underwriting and lending decision-making Understanding customers ESG preferences and incorporating into these into the sale of products, and provision of advice, in a rapidly-developing regulatory environment
Products	<ul style="list-style-type: none"> Designing new and innovative products to support sustainability, green bonds, carbon-linked notes, etc.
Risk	<ul style="list-style-type: none"> Identifying, quantifying, managing and responding to latent and emerging ESG risks Integrating ESG (and particularly climate) capabilities into existing risk frameworks Enhancing existing risk modelling and stress testing capabilities, for climate risk
Finance	<ul style="list-style-type: none"> Incorporating climate-related financial risks into pricing, forecasting and budgeting, financial reporting and capital-allocation Accounting for climate risks requires updates to the implementation of existing standards, for example, liabilities under insurance contracts (IFRS 17), or in the impairment of assets (IFRS 9)
Data & IT	<ul style="list-style-type: none"> Designing and implement a revised data mode for ESG risks and opportunities Deploying data and IT assets to help the rest of the firm develop innovative ESG products
Compliance & Legal	<ul style="list-style-type: none"> Maintaining currency with the rapidly evolving, and complex, regulatory climate risk and sustainable finance landscape Preserving the integrity of businesses control frameworks to support compliance around climate risk and sustainable finance requirements Understanding and managing liability risks from climate change—from inadequate or inaccurate disclosure of material financial risks
Human Resources	<ul style="list-style-type: none"> Align incentives, remuneration and the overall employee proposition with the company's stated values and public stance on ESG issues
Procurement	<ul style="list-style-type: none"> Managing supply chain ESG risks and ensuring firms do business with suppliers with consistent values and standards
Communications	<ul style="list-style-type: none"> Communicating credibly and effectively to the market the sustainability of the firm's operations and financing, ESG impacts and the resilience of firm strategy to climate change Providing transparency over firm's product offering to avoid risks from green and impact washing
Change Management	<ul style="list-style-type: none"> Implementing a change management and business case evaluation process that fully considers ESG impacts and strategy
Internal Audit	<ul style="list-style-type: none"> Setting appropriate audit programmes to focus on material risks to firms climate risk identification and management Developing expertise to constructively challenge and add-value to firms climate risk and sustainable finance programmes of work and ESG disclosures

Source: Deloitte insights

The CSO mandate

To understand what a CSO does, do not look at where they came from. Do not even look at their job titles. Instead, look at where they are heading, and the problems they are trying to solve.

When firms appoint a CSO, there is seldom a simple job description. The role may never be as well defined as the CFO or CRO because it will depend on too many variables:

- The organisation's particular business and operating model may expose it to more ESG risks than other organisations
- The particular skill set of the CSO may need to be reflected in their mandate (since very few candidates are likely to possess every desirable skill)
- The organisation's history, culture and existing executives may shape how responsibilities are assigned

In other words, few CSOs have the same background and mandate.

“The position on the business card doesn’t always accurately reflect the role we perform or the exceptions of the recipient.”

In our survey we asked: “Can you tell us some more about your background? What roles have you worked in? What led you to this role?” Their prior professional experience spanned nearly two dozen occupations, from biology to branding to law.

We also asked respondents to describe their formal title. Whilst the most common titles were CSO and head of sustainability, there was a long tail of other descriptors (Figure 7). CSOs (and their equivalents) told us that “title inflation” sometimes adds to the problem, creating confusion among stakeholders about what someone in the role really does.

Beneath the apparent diversity, however, there are emerging themes or mandates that appear to define the role.

“I meet lots of other CSOs—none of us have the same job.”

Core mandate #1: Make sense of the external environment and bring insight back to the firm

In any financial institution there should be somebody, somewhere, whose role it is to track developments in the outside world. We know from developments in climate science that national and international standard setters are increasingly formulating their responses. This institutionalisation is already impacting firms and is likely to increase.

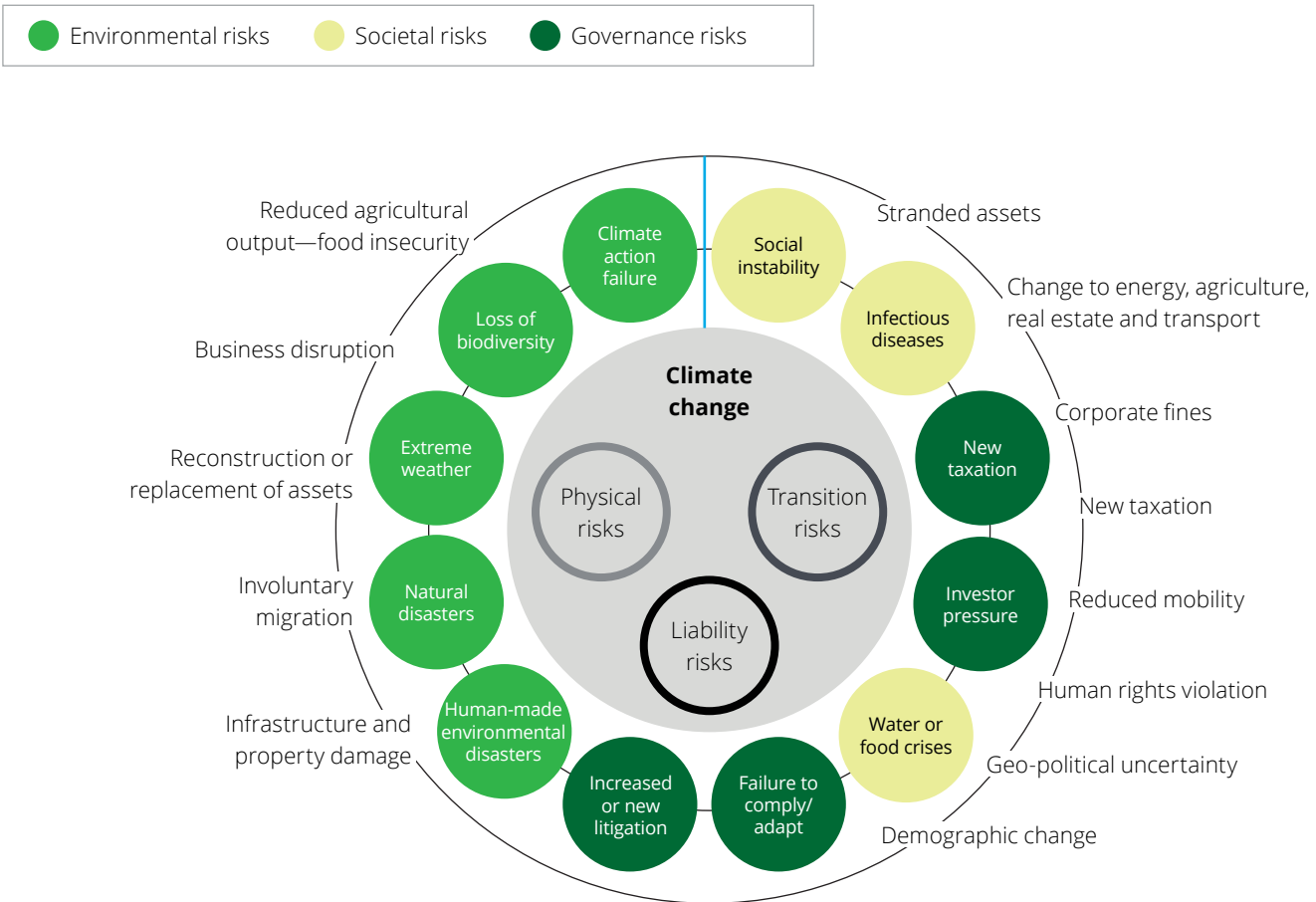
Five of the World Economic Forum's top 10 risks for 2020 are environmental.¹⁴ However, while climate is foundational, the mandate is broader than the environment. This is one reason why the CSO's mandate is so wide. One CSO suggests the role is focused on the intersection between business, governance and science. Another respondent stresses the holistic nature of the mandate.

Now that ESG concerns have gone mainstream, the CSO as "sense-maker in chief" helps navigate this world. CSOs connect the dots, looking in both directions from their position on the organisation's perimeter. They look outside to see how the world is changing and how others are responding. They also look inside to see how well the firm is prepared for the changes on the horizon (Figure 8).

Figure 7. Word cloud of survey participant job titles



Source: Deloitte/IFF survey

Figure 8. A view of the ESG climate risk universe

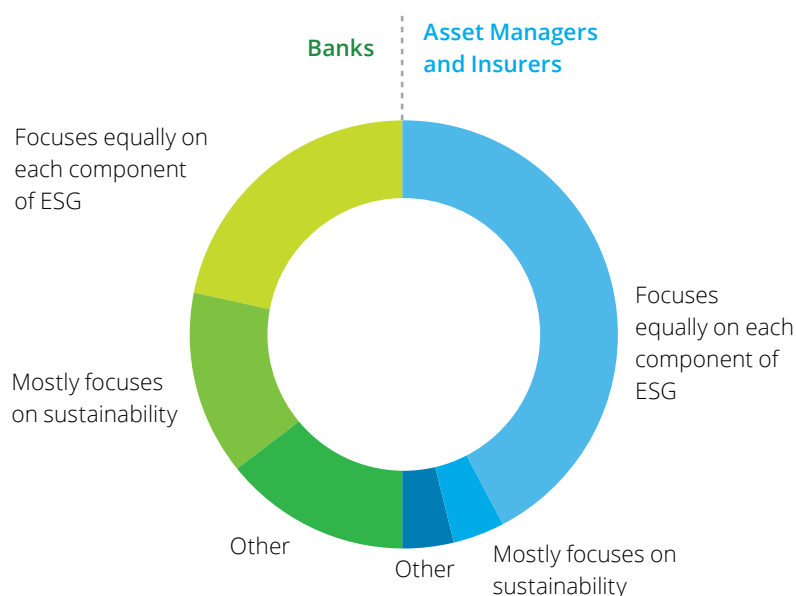
Physical risk—The risk of loss caused by the environment as a result of climate change, such as flooding, drought, wild-fires, etc.

Transition risk—The risk of loss caused by transitioning to a low carbon economy in response to climate change, such as government action, technology disruptions or changing investor and customer expectations, etc.

Liability risk—The risk of loss caused as a result of re-dress or court action from marketing of products or public disclosures in relation to climate risk that were not as clear or transparent as required.

Source: World Economic Forum Global Risks Report 2020

Figure 9. Broad function of the role of CSO



Source: Deloitte/IIF survey

Survey responses support this broader interpretation of the mandate (Figure 9).

When asked which statement summarises their role with respect to the wider ESG agenda, nearly two-thirds of respondents say their role focuses equally on the three components of ESG. That figure rises to 85 percent among assets managers and insurers; 44 percent for banks. None of our respondents say that sustainability is their only focus.

A fifth of all respondents say their role covers one or more of the following activities:

- Professional investment
- Management of social issues
- Impact measurement
- Human rights
- Disclosure and regulatory reporting
- Implementation of the United Nations Sustainable Development Goals (UN SDGs)
- Environmental risk assessment for largescale projects

Core mandate #2: Help the organisation reconfigure its strategy

Develop a market in which you're going to succeed—that's the goal for the most ambitious firms, and it should be a natural part of a CSO's role.

CSOs are often system thinkers with the skills to make sense of complexity and balance the short term with the long term. Unsurprisingly, many CSOs have a strategy background.

To start with, though, the CSO's mandate at its broadest is to help their organisation navigate the tensions between:

- Sources of sustainable competitive advantage
- Publicly articulated purpose-led goals
- Regulatory obligations and responsibilities

There will likely need to be more than one strategy, as organisations work out how to generate profits in this rapidly changing environment whilst contributing to other goals. En route, they likely will need to strategise what sustainability means for each of their businesses and business areas.

It's unlikely that many organisations will get their strategy right the first time. Firms' initial revisions to strategy can sometimes be overly simplistic. So the CSO's role is also to keep up momentum, should the first wave fail to work as planned. They will need to set up feedback loops so that the second and third waves of sustainability and sustainable finance strategies can be more considered and nuanced as the organisation learns what works and how to build governance and buy-in around evolving strategies.

Some CSOs' mandates can extend to designing sub-strategies connected with their articulated purpose. For some organisations, this may be one or more of the UN SDGs.¹⁵

For others, it may reflect an impact theme that the organisation itself has identified. Using their stakeholder engagement skills, it can be a natural extension of the mandate.

However, caution is well advised. If the CSO's primary mandate is seen to be voluntary philanthropic campaigns, they may struggle to gain traction when trying to motivate far-reaching change.

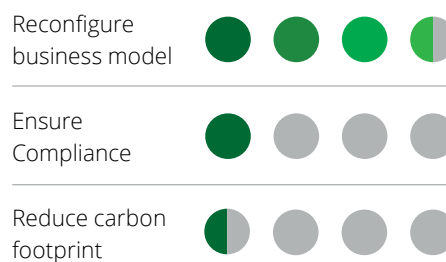
“Strategic thinking is critical to my role. My peers want to know more than just data points, they want to know what it means for them and their business and how they should respond.”

In our survey we asked respondents to rank several priorities for the CSO role in their organisation. The results reveal a broad consensus on what the CSO should be trying to achieve.

Reconfiguring the organisation's business model is by far the most popular answer, ranked first by nearly 70 percent of respondents. It's seen as an essential priority of the CSO, far more so than overseeing compliance or reducing the firm's carbon footprint (Figure 10).

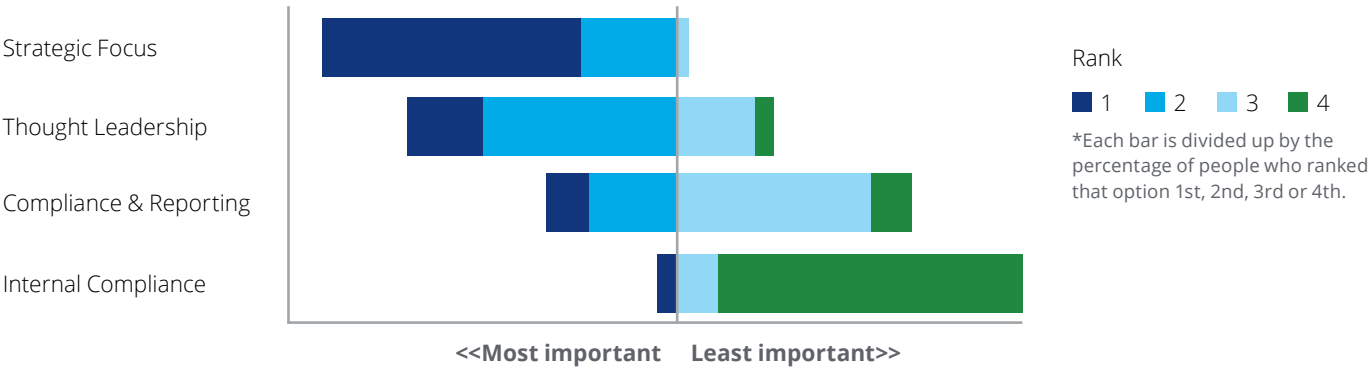
Figure 10. Ranking of priorities of the CSO

Weighted scores (max=4)



Source: Deloitte/IIF survey

Figure 11. Categorisation of role of CSO or equivalent analysis



Source: Deloitte/IIF survey

A follow-up question asked respondents how they would categorise, in priority order, the role of their CSO or equivalent (Figure 11).

Once again, the clear priority is to provide strategic focus.

Finally, we asked respondents what factors are driving the increased importance of the CSO role (see Figure 12). For banks, strategy is the top pick, closely followed by regulatory and compliance and pressures from investors. For asset managers and insurers, the emphasis is on regulation and compliance, with pressure from investors and strategy not far behind.

Figure 12. Factors driving the increased importance of the CSO role

Weighted scores (max=4)



Source: Deloitte/IIF survey

“My mandate right now is to engage the whole of our workforce and get them thinking about strategic direction.”

If regulation and compliance are behind the growing importance of the CSO role, this doesn't seem to translate into a belief that regulatory compliance per se is a key responsibility. During follow-up interviews and workshops, many CSOs confirmed that a key responsibility is to work with the organisation's regulatory teams to assess, interpret, and internally communicate the most important regulatory developments.

Core mandate #3: Engage, educate and connect

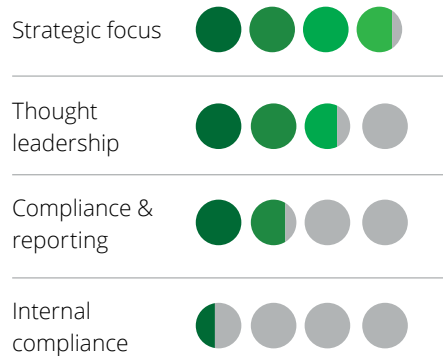
Some of the CSOs we interviewed drew parallels between their mandate and that of chief digital officers from 10 or more years ago. Now—as then—success depends on having a free rein to work in every part of the business. In this view, no area should be off limits and nobody should believe they can safely ignore the CSO.

The pace and scale of change, along with the ESG agenda and its implications for longer-term success, requires effective communication and knowledge transfer across the organisation.

This conclusion is also borne out by the survey, which finds that after strategic focus the next most important role for the CSO is thought leadership (Figure 13).

Figure 13. The role of the CSO or equivalent

Weighted scores (max=4)



Source: Deloitte/IIF survey

A deputy CSO for a large European insurer explains that the team had recently run an event “to upskill 300 underwriters on the climate science understanding they’ll need. But we can’t be an internal university of sorts—we’re too small for that.”

Many CSOs also observe that they “join the dots.” Since they work at so many intersections, they have a natural advantage in that task.

The size of the teams they work in may be small, but their networks help them compensate for that and leverage their clout to best effect. “You act as a fulcrum,” says one CSO, “so it’s not about size per se.”

“So far this year, I’ve done over 30 webinars and teach-ins to educate the first line staff on the frameworks and tools that now exist. We’re building toward a system of accreditation.”

The CSO skill set

A clear picture has emerged of how the broad mandates detailed previously translate into the required skills of the CSO as “sense-maker in chief.” The skills fall into two categories: technical and managerial.

Technical skills

We asked survey participants to identify, in priority order, the key technical skills required of a CSO. Consistent with what we see elsewhere, strategy skills are the most important. Influencing skills come second.

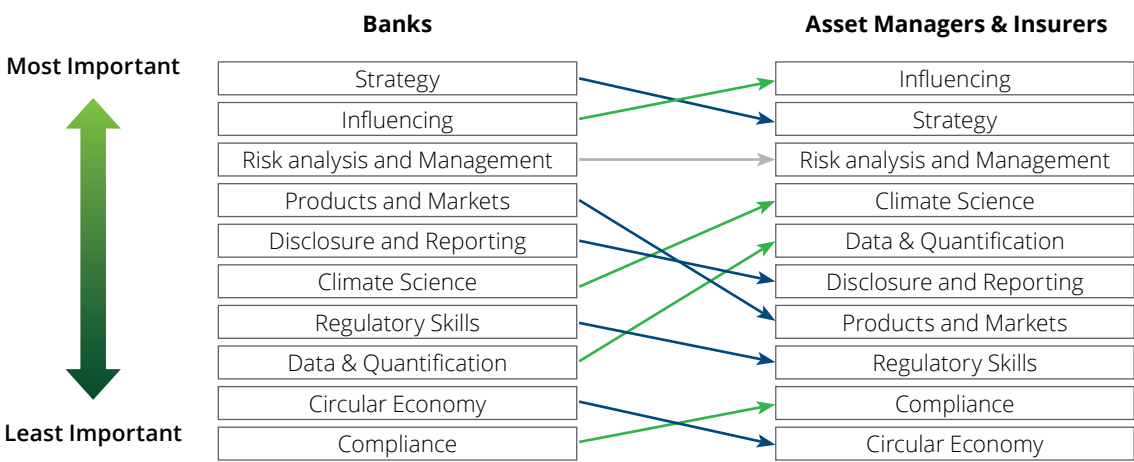
Strategy and influencing are rated much more highly than more technical skills like data and quantification, climate science, regulatory skills, and compliance. This is not to downplay the importance of these skills, but to acknowledge that successful delivery requires a level of domain expertise that the CSO may not always have.

And yet, strategy without technical content makes it hard for the CSO to persuade. At a minimum, they have to know how the product works and how the related risks are managed.

The challenge is that any one financial product could fall under multiple, domain-specific, sustainability frameworks. Beyond the UN Principles for Responsible Investment or Banking, there are dozens of sector-specific frameworks for mining, telecoms, real estate and pharmaceuticals, just to name a few.

“You broker conversations, you help set targets and you definitely need to speak the language of the business. But to succeed you also need to recognise that you can’t do it all on your own. Smart business partnering is crucial.”

Figure 14. Technical skills required of a CSO



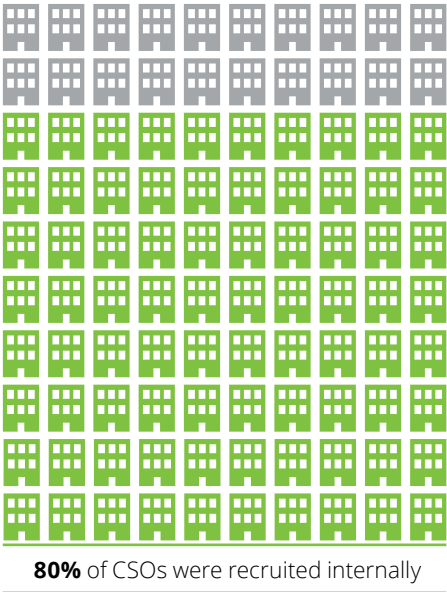
Source: Deloitte/IFF survey

→ Decreased importance → Increased importance → Equal importance

The need for the CSO to know their organisation explains two notable survey findings. Namely, CSOs are very likely to have been personally approached for the role and recruited from within their firms (Figures 15 and 16). Both findings reflect a premium on organisational knowledge and access to effective networks. This was especially true for the asset managers and insurers in our survey, where 93 percent of respondents said they had been personally approached to take up their role.

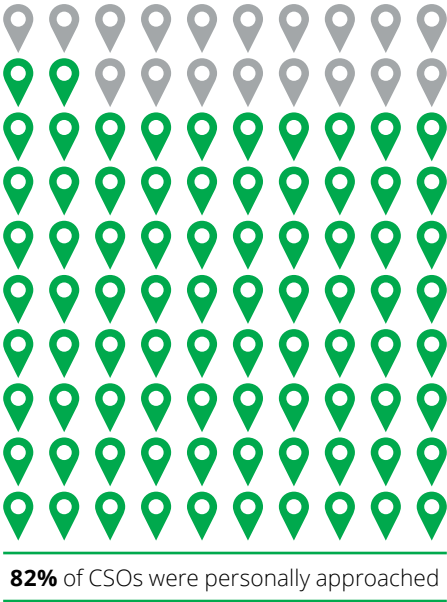
“You need a mosaic of knowledge to be successful in this role.”

Figure 15. CSOs’ routes into their roles: Internally recruited



Source: Deloitte/IIF survey

Figure 16. CSOs’ routes into their roles: Personally approached



Source: Deloitte/IIF survey

The CSO has to help their colleagues understand what sustainability means to their organisation, and where addressing ESG issues could have the most impact. None of this is possible without superlative communication skills because the CSO's sphere of influence is wider than for almost any other role. Consider the spectrum of communication skills shown in Figure 17.

“We have to help people translate vision into reality for each and every desk.”

Figure 17. Examples of how a CSO may need to communicate in a firm

- **Persuade** the board that the sustainability agenda presents strategic opportunities—and is not just about risks
- **Inspire** the executive to set a bold ambition. Present the company's stance on biodiversity at an international conference
- **Convince** the front office that while climate science is probabilistic, action must be taken now
- **Translate** the latest in Taskforce on Climate-Related Financial Disclosures developments into a presentation for compliance and risk
- **Nudge** the director of internal audit into hiring specialist resource
- **Empathise** with relationship managers whose business network may be skewed toward “brown” industries
- **Explain** to a firm's customers its stance on climate change and what that means for them

Source: Deloitte insights

Management skills

To assess the management skills that effective CSOs need, we asked survey respondents to rank the following four “faces” of the CSO role:

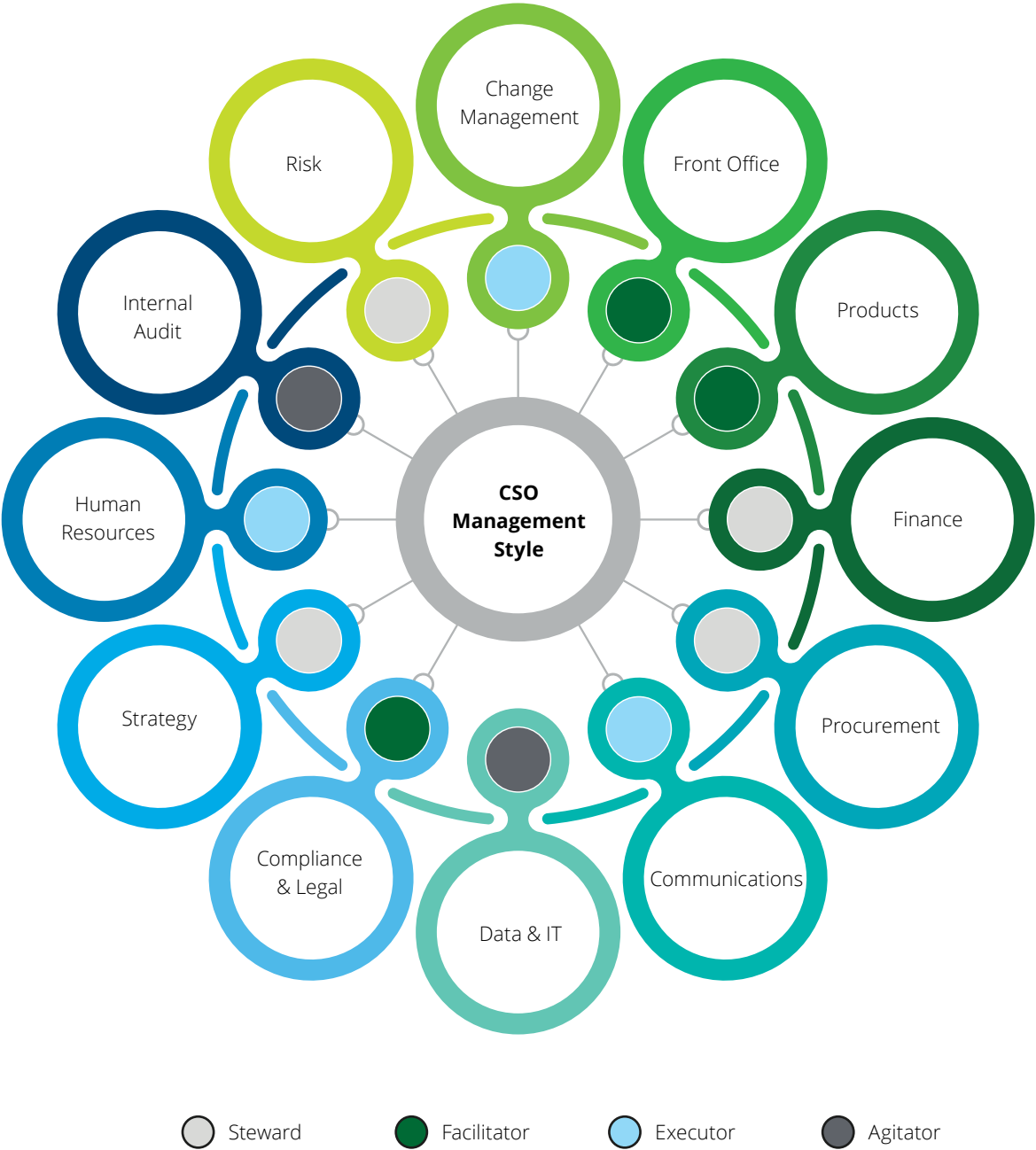
 <p>Agitator</p>	<ul style="list-style-type: none"> • Challenges the status quo and calls for change • Often acts as an outsider • Brings in a range of different perspectives • Provides more questions than answers • Has a license to disrupt but uses it wisely
 <p>Facilitator</p>	<ul style="list-style-type: none"> • Brokers conversations • Mediates conflicting claims on scarce resources • Synthesises different fields of knowledge (science, business, and governance) • Resolves trade-offs concerning timeframes (short term vs. long term), objectives (profits vs. purpose), strategy (risks vs. opportunities), stakeholders (internal vs. external) and priorities (urgent vs. important)
 <p>Executor</p>	<ul style="list-style-type: none"> • Takes the lead in delivering change • Accepts the final design of a solution • Implements the agreed-upon solution, with the authority to solve day-to-day problems • Instructs others and manages their performance in the delivery of the change
 <p>Steward</p>	<ul style="list-style-type: none"> • Contributes to the governance of established processes • Assesses the design or operating effectiveness of the organisation's controls • Checks that progress toward goals remains on track • Keeps watch on the wider business environment • Uses their independence to raise concerns at an early stage

Our survey, workshops, and follow-up interviews revealed a consensus that successful CSOs require a healthy mixture of each of the four, plus an ability to dial them up or down depending on the situational need and the maturity of the organisation.

Newer CSOs are more likely to lean into the agitator role. In contrast, established CSOs report using a variety of management styles depending on who they're dealing with.

CSOs may also show different faces to different individuals within their own organisation, depending on the maturity of the function, the focus on ESG, or personality styles (Figure 18).

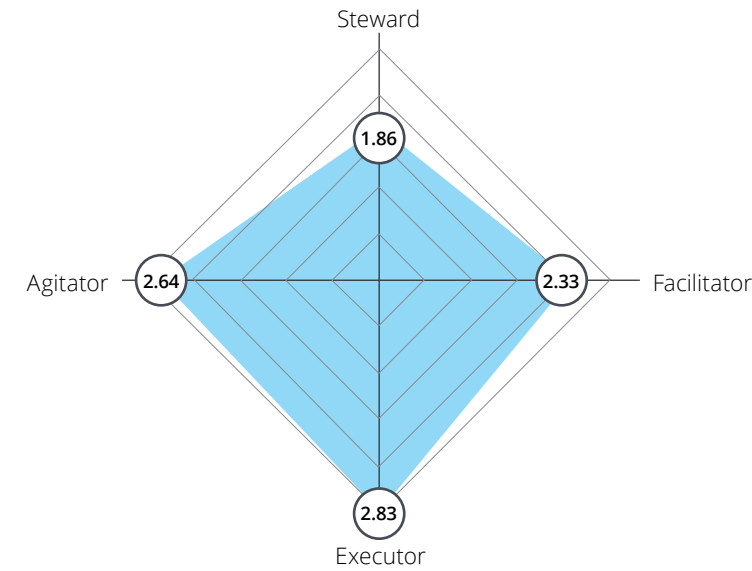
Figure 18. The 'Four Faces' Management Model: Illustrative



Source: Deloitte insights

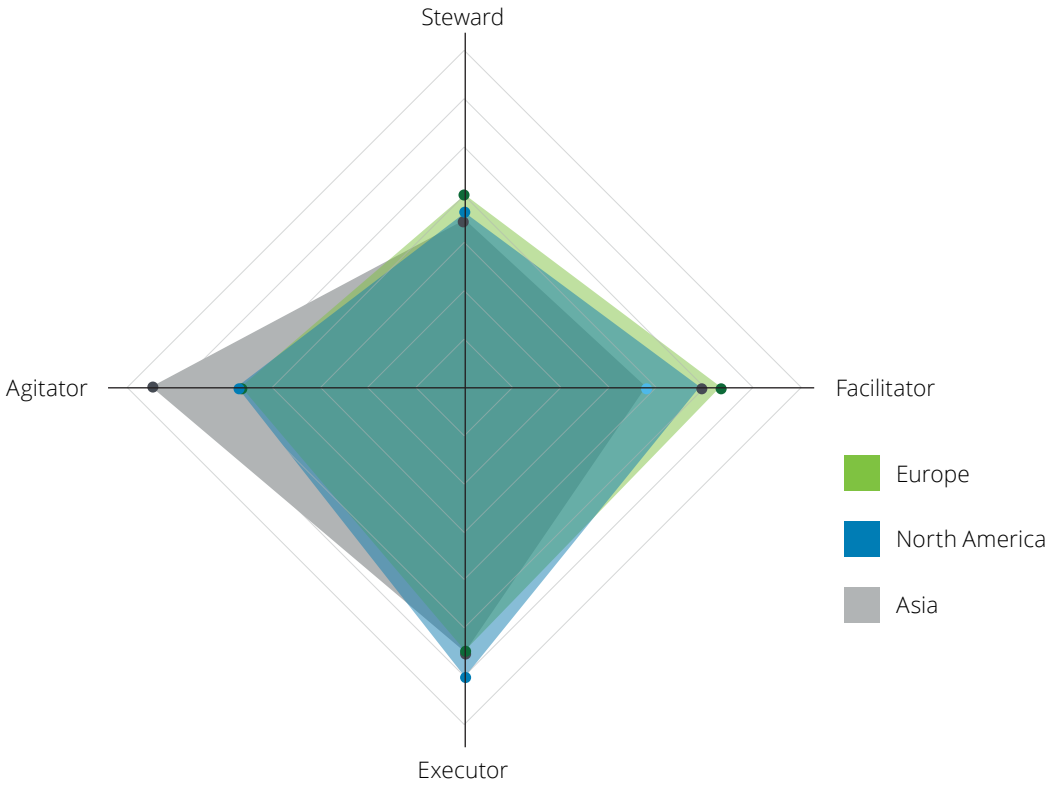
Overall, though, the most frequently cited skill in our survey is executor. That suggests for some organisations (or at least some functions within organisations) the early work to ‘agitate’ or ‘mobilise’ has been a success and they are moving more toward execution. This was particularly true for asset managers and insurers.

Figure 19. Management skills required in the role of CSO
Weighted scores (max=4)



Source: Deloitte/IIF survey

Figure 20. Management skills required in the role of CSO by location of headquarters
Weighted scores (max=4)



Source: Deloitte/IIF survey

However, there are some notable differences. The executor role is the top role in North America and tied with facilitator in Europe, while in Asia, the most popular role is agitator.

The steward role generally ranks fourth among respondents. One interpretation of this result is that sustainability strategies are not yet sufficiently well developed and embedded for there to be a clear role in stewarding them.

Pitfalls of the role

Clarity of ambition by the organisation will help a CSO to succeed. But even with a clear tone from the top, a long and bumpy road may lie ahead. Here are some of the pitfalls that our network of CSOs has run into:

- Being perceived as an internal activist.
The CSO needs to be an astute business person who can help executives make difficult decisions. Humility, modesty, and empathy are important traits to display. They should avoid being portrayed as the internal lead philanthropist.
- Relying on one person's patronage. Halo power from proximity to the CEO can certainly come in handy. And many CEOs are keen to make sustainability part of their enduring legacies. But don't rely too closely on the CEO—CEOs can come and go. They sometimes run out of energy for a topic or get ambushed by events that are beyond their control. Staying close to any single individual is not as effective as forming relationships with board members and collaborating effectively with senior executives and middle managers.
- Burnout through impatience. Many CSOs will say that things don't move as quickly as they would like. There is a risk that CSOs who lack stamina can burn out or become disillusioned. Courage and a thick skin are needed because progress can seem painfully slow.
- Riding on the coattails of a message.
It is part of a CSO's role to exhort and to communicate with exceptional skill. But a CSO who cannot talk strategy and numbers will find their influence curtailed. There needs to be substance, evidence, and analysis underpinning every key message or the risk is that colleagues may see your efforts as a temporary, transient campaign.

“Unless you’re politically savvy, you’re going to get eaten alive.”

“Patience can also be seen as a skill. If you knock on the door too early or too loudly, the door can close forever. You also have to know which door to knock on and when.”

“It takes persistence and time to move the needle. If you get a ‘no’ once, you have to keep trying.”

Reporting lines and relationship with the CEO

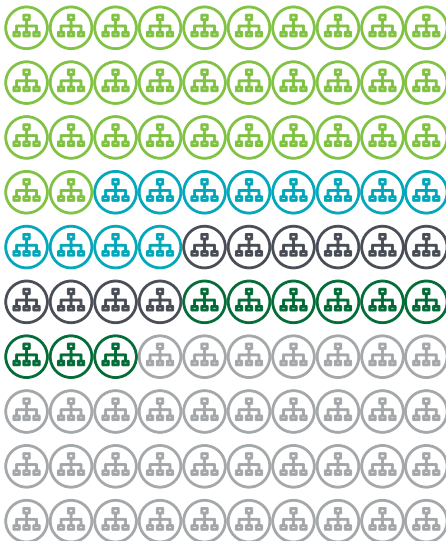
Should the CSO report to the CEO?

We asked survey participants about the CSO's reporting relationships. One-third of our survey respondents say they report to the CEO, with such a direct reporting line more common in banks than in asset managers and insurers (34 percent vs. 23 percent). The next most frequent reporting line is to the head of communications or marketing. Reporting lines to the heads of HR and strategy are also relatively common.

However, 37 percent indicate their reporting line is none of the above. This group has reporting lines to the head of public affairs, chief risk officer, general to the management board, director of corporate development, corporate secretary or deputy general counsel.

There are strong arguments in favour of the CSO reporting directly to the CEO. The CSOs we interviewed who do have a direct reporting line all say it is significantly beneficial.

Figure 21. Who does the CSO report to?



CEO: 32%

Head of Comms/Marketing: 13%

Head of HR: 9%

Head of Strategy: 9%

Others: 37%

But that doesn't mean every organisation needs to follow their lead. Other CSOs stress that the key to success is access to the CEO and having their vocal support. That can happen without the CSO having to report to the CEO.

The right answer for any given firm will depend on its culture and business model—as well as the mandate and drive of existing executives. As such, the following comments are intended to help each firm decide for itself which approach will work best.

The case for direct reporting lines

Some of the strongest arguments for direct reporting lines to CEOs are made by CSOs themselves:

"If I didn't have a direct link to the CEO, as well as to the ESG Committee and the strategy process, my job would be much harder."

Source: Deloitte/IIF survey

“If you’re reporting to the head of marketing and you’re trying to influence someone in risk, you’re pushing a boulder uphill. They’re going to perceive what you do as a marketing campaign, when really you’re aiming for strategic transformation.”

“You need a straight line or dotted line to the CEO. It’s mandatory to have this line.”

A CSO with authority is an effective CSO. Setting up a direct reporting line to the CEO helps with nearly all of the sources of authority summarised earlier in this paper—from hierarchy and halo power to network, reward, interrogation, and disruption.

Moreover, in the years ahead, companies face historic decisions that may shape their futures for decades. Responsibility for these decisions should be with the executive because that’s the level at which strategic decisions occur. A CSO that reports to the CEO helps broaden the ESG debate from risk or compliance to strategy and capital.

If the sustainability leader lacks seniority, it can be difficult to engage and influence effectively, let alone get the right voices heard or secure meaningful amounts of investment. Organisations need someone with a rare combination of skills and the clout to get things done. Giving a CSO a reporting line into the CEO—on a par with the other C-suite executives—not only establishes their internal credentials, it sends a message to the market and wider stakeholders that the organisation is taking sustainability seriously.

The case for ‘do what works’

It’s easy to say that in the future all CSOs will report to the CEO, but does this equation have just one solution? Many of the organisations we surveyed explain their CEOs are ‘mega-sponsors’ of sustainability. These CEOs have taken to heart the message that the only good strategy is a sustainable one. As such, they’re best placed to decide who should report to them, and how to distribute accountabilities across their management teams.

Then there is the question of maturity. If the ESG strategy is well thought out—if the CFO, CRO, and business unit heads are all implementing the plan—then the role of the CSO may revert primarily to communication and stakeholder management. In those circumstances, a direct reporting line between the CSO and CEO may not be required. Some CFOs in financial services organisations are well ahead of their peers in rethinking performance reporting and solving the data needs of sustainable finance models. Provided the CSO has access to a CEO who sets the tone from the top, there may be no need to be prescriptive about reporting lines.

If organisations decide they either do not want or cannot afford another C-suite executive, then workarounds are available. The audit and risk committees can widen their mandates and tasks. The CEO, CFO and CEO can take on additional roles, or the board can bring in business partners to solve particular problems as they arise.

There is currently no clear link between CSO reporting lines and the level of maturity, level of sophistication, or level of commitment to sustainability of the organisation in question. Much seems to depend on the deal that was negotiated when the individual accepted the role. However, as demand rises, clarity and accountability will increase. It may not have to translate into an official hierarchy or reporting line change as long as it is possible to meet expectations.

Making room on the executive committee

Even if the lead executive for sustainability is given the title of CSO and reports to the CEO, there is a separate issue concerning whether they also sit on the CEO's executive committee.

Here again, opinions vary. While some CSOs value the exposure and the parity of roles it displays, others take a more nuanced view of the organisational dynamics. They indicate that not being part of the executive committee relieves them of jockeying for favour and offers some buffer from the pressures of the quarterly earnings cycle. It also allows the flexibility to step back and take a long-term strategic perspective.

"I never wanted to sit on ExCo. I want to be seen as an ally to everyone, helping them address their issues."

How the CEO can help the CSO

Financial institutions tend to be hierarchical, which means that CSOs need vocal support. Among respondents, the universally echoed sentiment is that "CEO backing is essential. Without that huge support, it's really hard to push."

The CEO can help by visibly taking their CSOs seriously, helping colleagues to understand the importance of the role. They need to make time and space for debate—whether formally as an agenda item or informally through listening and asking questions when other executives are around.

The CSO also needs air cover because results are seldom instant. By working in sync, setting up broad objectives while the CSO handles the details, CEOs can sponsor far-reaching change. The message to emphasise is that everyone must engage with the topic of sustainability.

"We need buy-in from top management to say this is important. They need to be outspoken on sustainability issues."

How the CSO can help the CEO

Maximising economic value is hard enough. Most financial institutions struggle to deliver a stream of rising profits, even without paying close attention to their second and third-order impacts.

Moving away from that model to embrace sustainability may at first appear a risky strategy. But corporations sometimes need courage and there is now a general consensus, both practical and theoretical, that negative externalities are here to stay. Therefore, integrating externalities could boost profits via efficiency gains and new product development.

Big corporations have large workforces which make this task more complex and diffuse. Progress requires acceptance and buy-in among larger groups. On the other hand, the larger the organisation, the stronger the potential pressure from within (i.e., employee activism).

The CEO needs a thoughtful ally to help make sense of it all. The necessary transformation that sustainability ultimately entails is likely broader than many in the organisation realise. The CSO can help the CEO make the case for change by drawing links between risk and opportunity:

- Which products and markets are set to grow?
- Where is the untapped customer base?
- How do we need to influence our supply chain?
- What is coming down the line from our stakeholders?
- Which aspects of ESG should we focus on?
- What will investors be expecting next?
- As stewards of long-term value, what's the best way to allocate scarce capital?
- When should we act on particular opportunities to maximise our chances of success?

Some CSOs take this “sparring partner” role one notch further. “It goes along with the education role. We want to excite and inspire them—we’re not just there to make them happy.”

Having said that, CSOs do need to look out for their CEOs.

CEOs must strike a fine balance. They need to position the organisation for the future while delivering sufficient returns in the present. From presentations at annual general meetings to engaging with NGOs and regulators, not everyone will be sympathetic. A CSO can help the CEO to prepare for what might come next and help them strike the right balance of priorities.

Finally, a CSO can help their CEO stay on topic, pushing them to go further, higher, faster. Balancing profit and purpose is never a straightforward job.

“I think that my relationship with the CEO brings value to both of us.”

The CSO's contribution to governance

Governance can seem a tough nut to crack, especially given the complexity of change and the extent to which every business area is affected. Our survey reveals a wide range of governance arrangements across the global financial services industry.

At the lower level of maturity, there are firms with little more than a steering group dedicated to sustainability. At the higher end are firms with an established board-level ESG committee, formal sustainability mandates, common capital value accounting systems, and an ESG strategy signed off by the board.

From discussions in the market, here are the major governance changes that are taking place that either directly involve the CSO or require the CSO as “sense-maker in chief” to help navigate and co-ordinate for alignment.

“We know only having a sustainability steering group is not enough.”

Figure 22. The emerging role of the CSO in key governance forums

The board

- Approves the sustainability strategy, ensures its integration across the enterprise, and monitors performance against plan (including targets and budgets)
- Oversees ESG-related risk ownership and ensures there's an effective programme in place to identify, assess, manage, monitor, and disclose ESG-related risks

The risk committee

- Establishes the direct oversight of enterprise risk management, assessing the firm's exposures across all risks compared with its stated risk appetite
- Assesses the quality of ESG risk management and the extent to which specific risk management strategies are working as intended

The audit committee

- Assists the board of directors in fulfilling its corporate governance obligations and overseeing responsibilities in relation to the entity's financial and performance reporting, common capital and value accounting, systems of internal control, and external disclosures—including those related to ESG

The compensation or remuneration committee

- Designs and implements reward structures, motivating employees in ways that foster long-term value creation across the value chain and work to reinforce the organisation's ability to achieve its ESG goals

The governance and nominations committee

- Appoints directors and senior management with the right skills and experience to advance the ESG strategy

Some organisations have additional board committees—such as a specific sustainability committee separate from the risk and audit committees—with cross-functional representatives to identify, monitor and review ESG-related risks.

Source: Deloitte insights

The CSO interaction with the board

CSOs engage with boards most often when it comes to helping the CEO formulate and present strategy. The board needs comfort that the organisation has the right plan in place to drive ESG performance across the value chain and the business.

Many organisations are still only partway through the process of working out what this means for their board-level reporting. Recent developments in corporate guidance concerning stakeholder engagement have yet to fully permeate the board room. Over the next few years, though, it seems likely that boards will need to scrutinise a much broader array of information in order to discharge their duties.

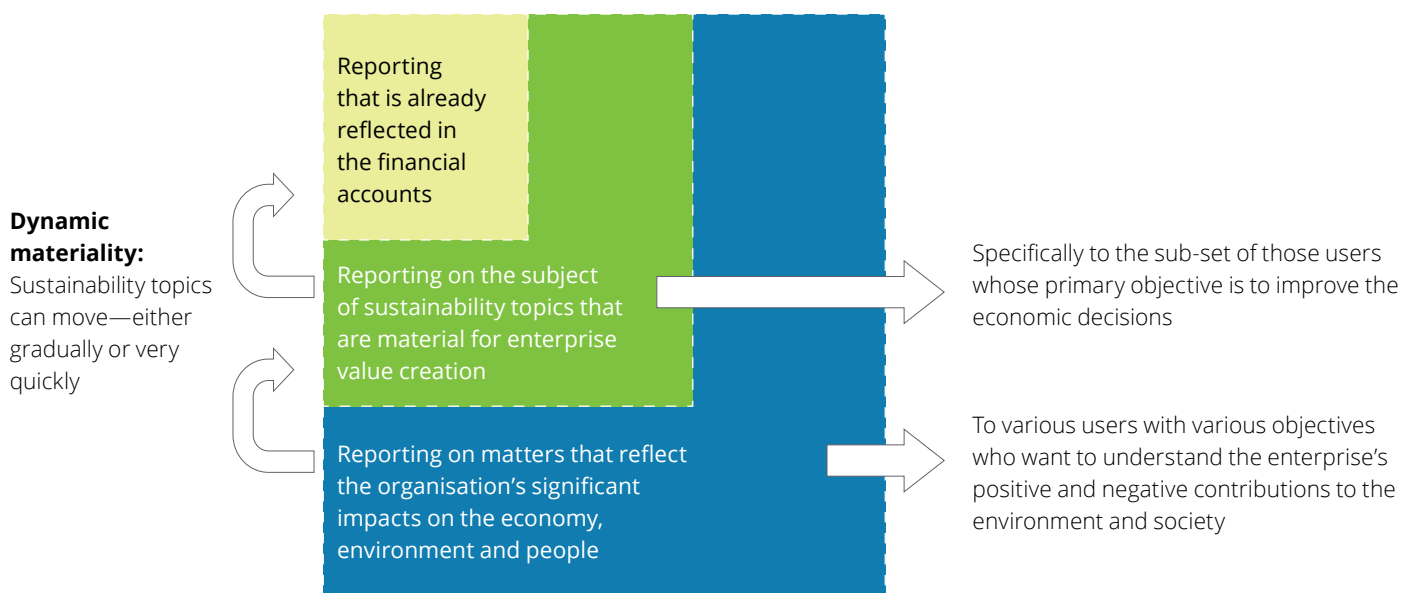
Traditional suites of financial reporting (top-left box of Figure 23¹⁶) will come under pressure to include reports on sustainability topics (middle box) and

the sort of fully integrated reporting that captures the full range of material ESG impacts (largest bottom box). CSOs as “sense-makers in chief” can help their boards prepare for the changes that revised expectations may bring.

The board will likely need to track performance in between reporting periods. The CSO has a role in helping them design what kinds of management information they should receive. In doing so, they can help spread the board’s perspectives across the firm.

CSOs can also play a role in advising boards on specialist ESG topics, with some boards reporting they have struggled to bring ESG expertise on board. Being an authority on climate science doesn’t equip someone to sign off on technical accounting disclosures any more than a qualified accountant can safely interpret climate science data on their own.

Figure 23. The flexible scope of board-level management information



Source: Statement of Intent by CDP, CDSB, GRI, IIRC and SASB

Main board or ESG sub-board

From our interviews with CSOs and our conversations around the industry, we've noticed two main schools of thought when it comes to ESG governance and the board.

On the one hand are those who say the scale, complexity, and speed of change means the board must set up a sub-committee. On the other hand, many of the CSOs we spoke to are wary of making sustainability a side-room conversation. Viewed at its broadest, the fundamental mandate of many boards includes strategy and capital allocation. A thorough discussion of either topic without a clear view of sustainability is beginning to look like an uphill task.

The CSO and the audit committee

What organisations disclose about their activities is about to change. Here again, CSOs as "sense-maker in chief" have a crucial role. First and foremost, they should be helping ensure climate and ESG risks are included in principal risk considerations.

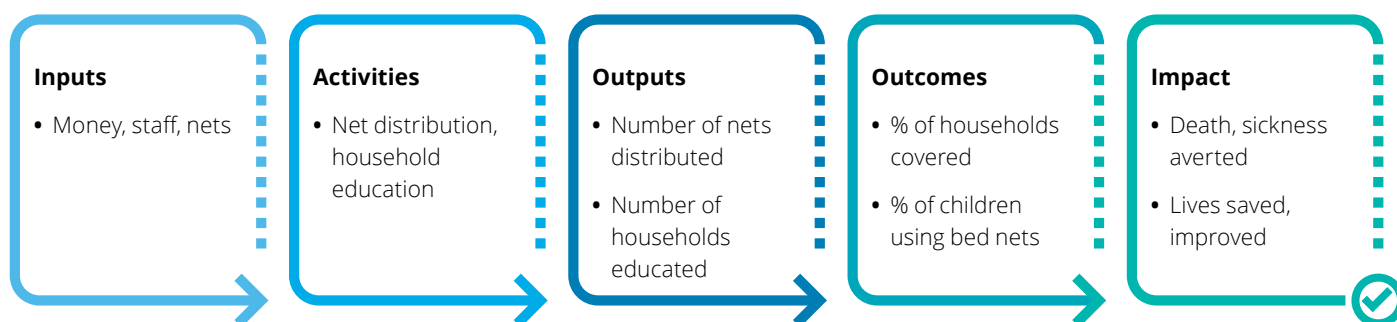
Non-financial disclosures are an intense focus of discussion between regulators, lawmakers, and accounting bodies. CSOs can help their audit committees navigate this evolving landscape.¹⁷

While financial institutions are well accustomed to disclosing the results of their financial activities, it is increasingly important to make high quality disclosures on the material impacts they have across financial and non-financial capital. Moreover, any purpose-driven organisation needs a clear vision not just of what it hopes to achieve, but the mechanism through which it will achieve it. That implies a greater role for the audit committee in scrutinising non-financial disclosures and the measurement of impacts as well as outputs. In other words, the audit committee of the future may have to follow all five steps in Figure 24, not just the first three.



Figure 24. Theory of change causal model from input to impact

An example of a “theory of change” applied to combatting malaria. The reporting model covers not just the inputs, activities and outputs (the first three steps of the change model shown below) but also the outcomes and their impact (the fourth and fifth steps).



Source: Deloitte insights

“If we push this into a sub-board too soon, there is a higher chance that board members and executives will miss the importance of the endeavour. Our goal should be to give executives and board members as little opportunity as possible to avoid understanding the scale of the task ahead of them.”

The emerging regulatory approach to sustainability involves encouraging firms to disclose more non-financial information—such as greenhouse gas emissions, purpose statements, and diversity statistics. Where this becomes directly relevant for audit committee members is when they’re asked to sign off on disclosures from ESG risk management frameworks or ‘nature capital’ accounts. These are novel areas for existing frameworks of verification and assurance to consider.

The CSO and the remuneration committee

Increasing attention is being paid to how firms can reward high ESG performance and institutionalise a culture that supports risk-taking in the context of wider societal impacts.

Remuneration committees are unlikely to find this an easy topic. There are inherent challenges in measuring and comparing the contributions of employees who have delivered different kinds of impact. What’s more, ultimate impacts may have to be measured over one or two decades, not one or two years.

Committees will need to come up with pragmatic, scalable solutions that pass muster once publicly disclosed. If ten-year plans are unrealistic for CEOs and executives, then there is a need to set milestones and interim goals that put the company on the right trajectory. Here, too, is an area where the CSO as “sense-maker in chief” can come into play.

It may not be easy to modify a culture that rewards short-term profits although an effective CSO will emphasise that this isn't all about pay. Offering a place to work in with strong ESG credentials can be seen as part of an organisation's overall employee proposition.

The benefit of including the CSO in these discussions is the linkage they can make with other issues—what one CSO termed “transversality.” The reason is that talent attraction and retention require more than favourable working conditions and a competitive compensation scheme. It also requires a business model that generates the kinds of roles that people want to take.

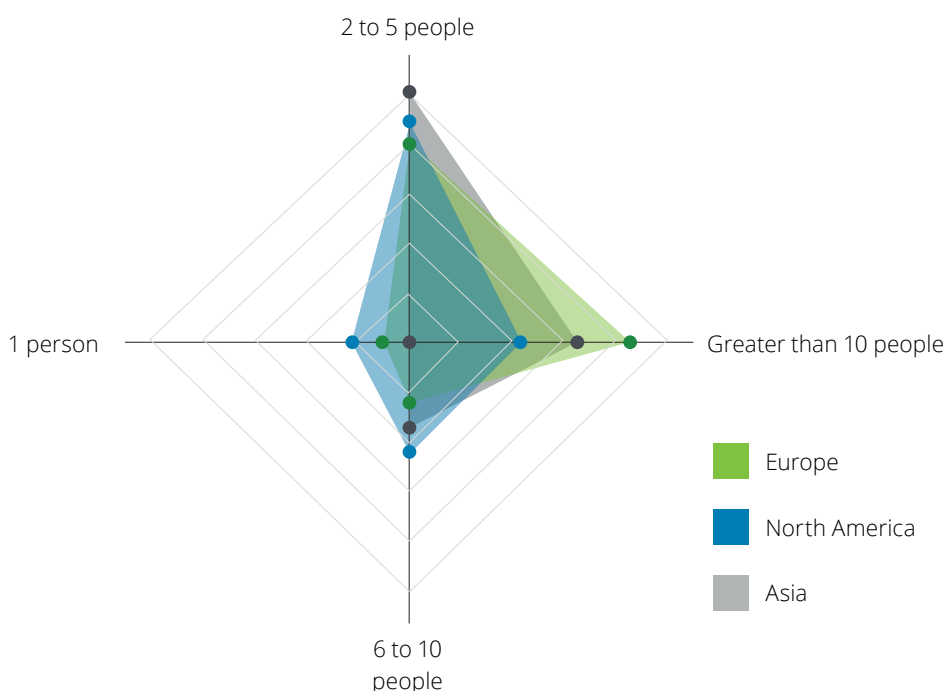
“In order to move the dial on the organisational culture, I have to influence one of the key drivers of culture: compensation and reward.”

The size and structure of the CSO's team

CSOs face a balancing act as they build out their team and assign responsibilities.

If the team is too small, they may struggle to carry out the CSO's mandate with sufficient credibility and pace. It takes time to scan the environment, track all relevant developments, and then—in their “sense-maker in chief” role—digest all this to update the knowledge that makes the CSO credible in the first place. Without the capacity to do this, the CSO team risks being perceived as a remote centre of excellence that issues theoretical guidance but lacks the scale to engage with the business.

Figure 25. Size of CSO functions



Source: Deloitte/IIF survey

If a CSO's team is too large, however, it risks being seen as an alternative delivery team. Yet the task of embedding sustainability cannot be delegated to the CSO. As some chief digital officers realised in years past, it's hard to sell a digital transformation strategy on top of the overall transformation strategy. There should be only one transformation strategy—of which digital is a large part. The same logic applies to sustainability.

Among survey participants, the CSO teams range in size from just one person to more than 10 (Figure 25).

“Although my team is small, I’d like to think it punches above its weight when it comes to impact.”

While the relative size of the survey participants’ organisations may partially account for these results, there may be other dynamics at play.

We found that team size tends to be larger at banks than at asset managers and insurers. Nearly half of the banks in our survey report team sizes of more than ten, while 60 percent of asset managers and insurers say their teams are between two and five. One explanation may be that the role at banks is more likely to overlap with delivery and implementation tasks—

which require bigger teams. However, we also discovered from our follow-up interviews that some CSOs still have the responsibility for responding to credit rating agency surveys. That demands an extensive amount of information, along with supporting evidence and signoff. The upshot is that responding to all of those surveys requires a modestly sized team in itself.

What seems to be emerging is a consensus around a relatively modest team size. It should be big enough to support the CSO in the following key processes:

- Interpreting the regulatory landscape (risk, technical accounting, disclosures)
- Engaging with the landscape of material stakeholders
- Helping to formulate strategy and contribute to business planning
- Providing thought leadership and education up and down the organisation
- Engaging and influencing leaders and teams in functions and business units
- Helping to formulate requirements for ESG data and management information
- Contributing to the organisation's core governance bodies and boards

Whatever the precise mandate of a particular CSO across these fronts, one thing appears clear. It's going to need a flexible team structure that is skilled at business partnering and can get people on board for agile projects on demand. That places a premium on the ability to network well and run multidisciplinary teams. A successful stint on a CSO project should upskill every member of that team and help to create 'change champions' who can return to their departments with enlarged perspectives and knowledge.

"Having a small team teaches you to fully leverage your network and influence others to achieve your goals."

Team structure

The CSOs we spoke to who work in larger, multinational firms also make the point that a hub-and-spoke model appears preferable to a large, centralised team. Sustainability drivers and ESG issues may vary greatly from country to country or across business units. That means local teams need the flexibility to react appropriately and at pace.

Networks and collaboration

Finally, a number of CSOs note that their extended or virtual teams stretch well beyond the confines of any single firm. Through academic, university and alumni groups, as well as business or governance forums, many CSOs are plugged into a grid of supportive virtual colleagues. By collaborating to solve parts of the problem, CSOs can dip into pools of shared resources.¹⁸

"This is not a zero-sum game, and it's too big for us all to do alone. It's like the formula for net present value. The formula itself can be shared, it's not a secret; it's how you create value that's confidential."

Sources of authority for a CSO

Why should anyone listen to their organisation's CSO? They typically don't run big departments or control budgets of any size. Traditionally, they spend considerable time talking to people outside the organisation, not managing those within it. But there are plenty of levers for a good CSO to pull. Depending on the organisation, we see nine major sources of authority, each of which can help the CSO succeed in their role.

This checklist can also help firms decide how to recruit a CSO. No single candidate is likely to score highly across every dimension of power, so choose CSOs with the best all-round ability to exercise the authority of the role.

"As the role of the CSO is increasing, so is their power base and authority."

Figure 26. Sources of power available to the CSO

Source of authority	Applied to the CSO's role
Hierarchical power	CSOs are typically perceived as being more powerful if they report directly to the CEO and are on an equal footing with other C-suite executives
Halo power	If there is no direct reporting line to the CEO, the CSO can still have authority if they have easy and regular access to the board members, the CEO, or other senior executives
Network power	CSOs who can leverage their networks—inside and outside the organisation, informal and formal—may be perceived as having greater authority
Knowledge-based power	Authority comes with credibility, which in turn comes from domain-specific knowledge (both ESG related and from a deep familiarity with the organisation's products and services)
Allocative power	CSOs can exert power by reshaping the process used to judge the merits of major investments and change programmes
Rulemaking power	CSOs may be given the responsibility to draft organisation-wide policies or standards on ESG themes
Reward power	Though still not widely used, CSOs could have considerable authority if they began to shape their organisation's measures of performance and reward
Disruptive power	As a disruptive force, the CSO may be able to challenge, delay, or even veto certain activities or plans
Interrogative power	An organisation can give their CSOs considerable authority by establishing their right to ask questions, request rationales, and solicit follow-up information
Voting power	CSOs can have formal authority through specific decision-making mandates or through their voting rights as members (or chairs) of committees

Source: Deloitte insights

Future pathways for the role

As we discussed, training and knowledge management are key CSO responsibilities. Therefore, to understand the CSO's future role we should size up the task ahead of them in repositioning the business model and embedding sustainability in each function of the organisation.

As part of our survey, we asked CSOs to assess their colleagues' views.

Who thinks sustainability is important?

We asked survey participants the following questions: "For each of these business areas and functions, how important is sustainability currently?" and "For each of these business areas and functions, how important is sustainability likely to be in the next two years?"

The results show some variation between Europe, North America, and Asia (note: the higher the score, the stronger the CSOs' belief that a particular team takes sustainability seriously). Looking at Figure 27 there are some clear differences between business areas and the three "lines of defence" in the organisation.

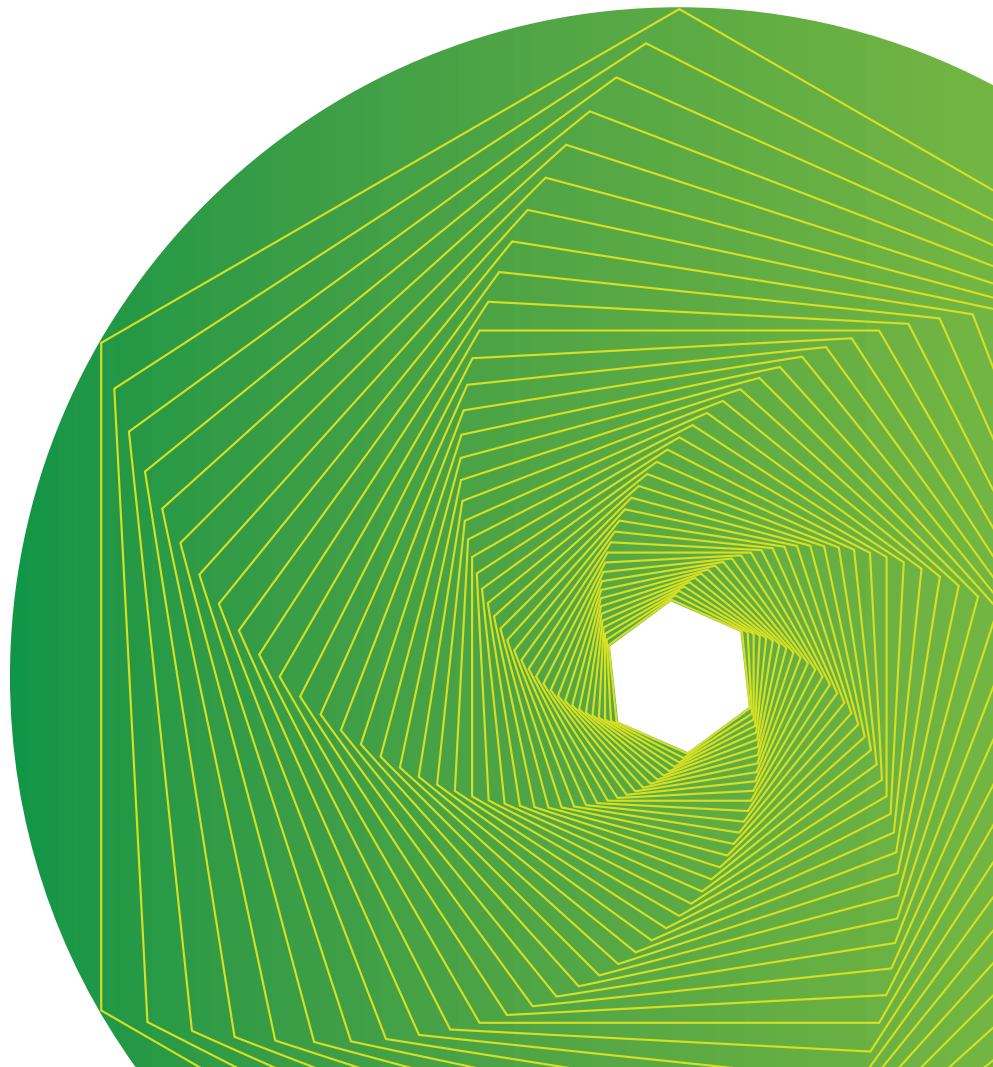
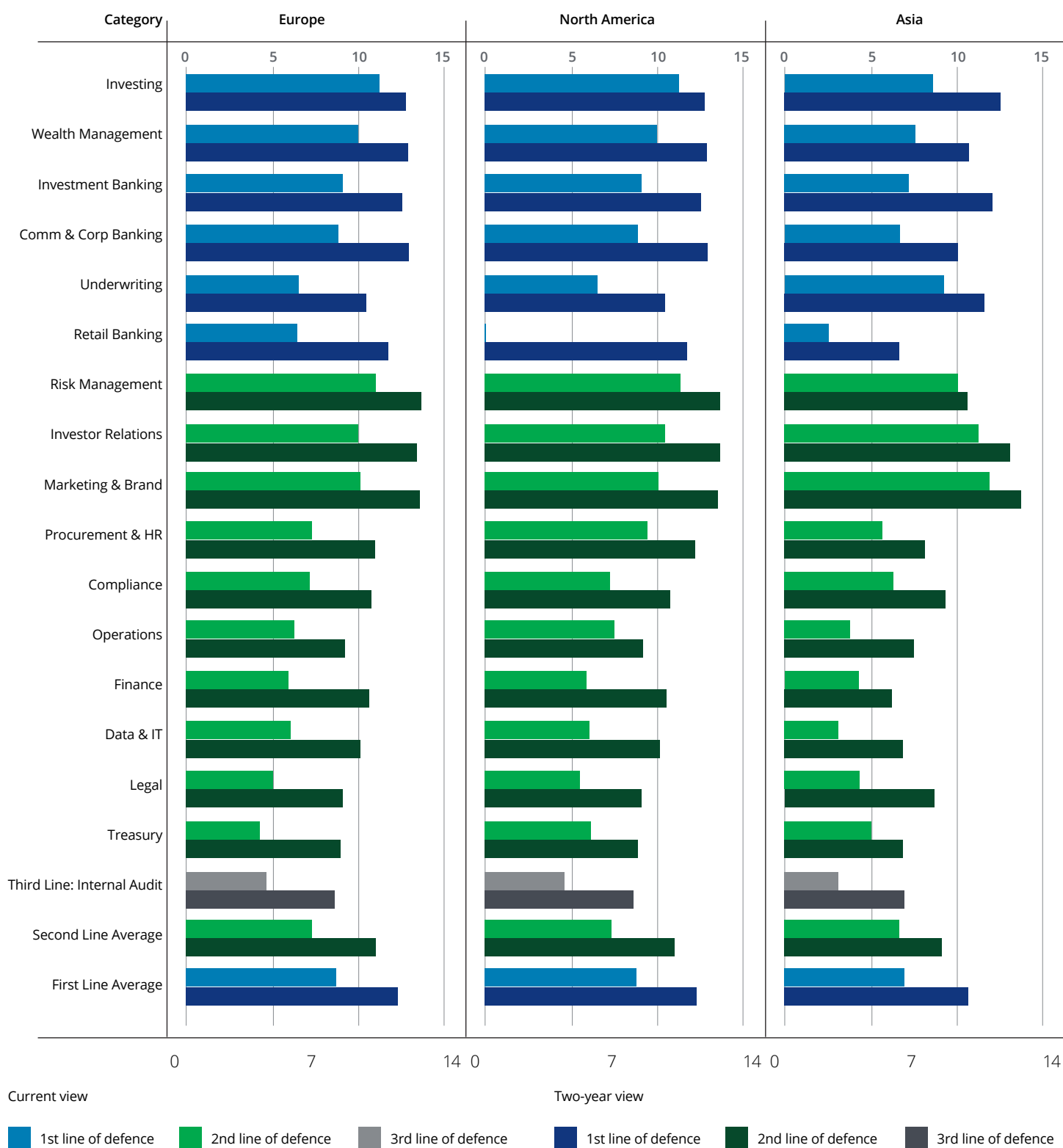


Figure 27. Perceived importance of sustainability (CSO's assessment)
Current view and two-year projection; weighted scale (max=15)



Source: Deloitte/IIF survey

Within the first line, those business areas perceived as focusing on the importance of sustainability are investing, wealth management, and investment banking. Within the second-line oversight functions, there is a clear divergence between functions such as risk, investor relations, and marketing toward the high end and finance, treasury, legal, data, and IT toward the low end.

Third-line internal audit teams are seen to lag behind every other division or department. This possibly reflects that sustainability frameworks may be absent or immature in many organisations (meaning that there may be little formal governance for internal audit to examine).

In every geography, for every team, and extending across every function, our CSO survey reveals that the importance of sustainability is projected to grow. Some of the biggest rises are expected in the divisions where it isn't considered particularly important today. These include retail banking, underwriting, finance and treasury, and data and IT.

Survey results suggest that in two years' time, sustainability may be well-established as a central concern in the following divisions and functions: investing, wealth management, risk management, investor relations, and marketing and branding.

“Embedding sustainability skills across the entire organisation is one of my medium-term targets. There are those functions that are pulling for knowledge, whilst others we have to push materials and training.”

Figure 28. Perceived importance of sustainability (CSO's assessment)
Current view and two-year projection; weighted scale (max=15)
A drill down on front office/first line of defence



Source: Deloitte/IIF survey

Given the importance of this capital deployment role and the breadth of the CSO's existing role, some larger organisations have started to appoint a chief sustainable finance officer (CSFO) in addition to the CSO.

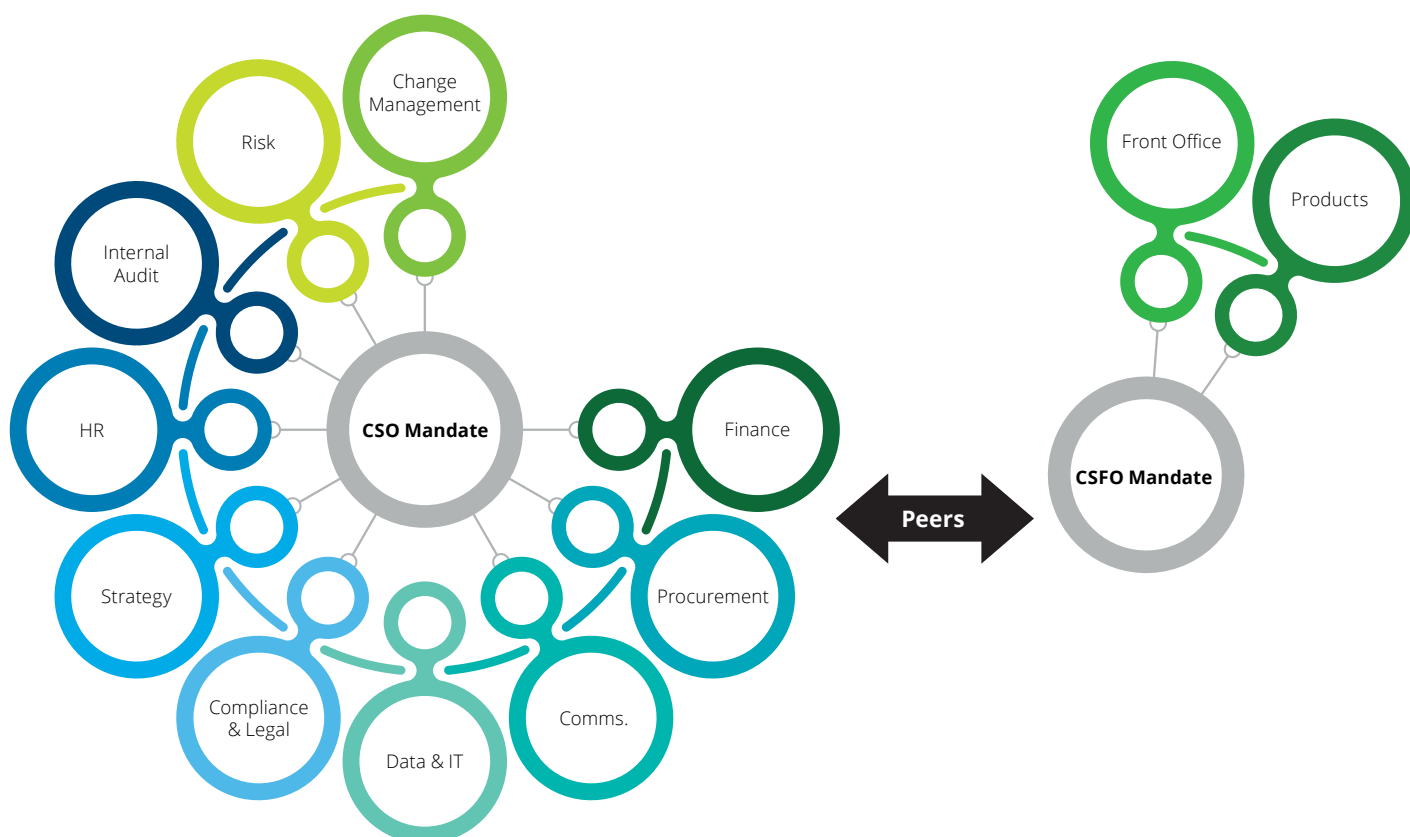
Recalibrating mandates: the CSO and the CSFO

The mandates of the CSO and CSFO are complementary. They are both there to help make sustainability an integral part of the organisation's strategy and remodel the business to deliver that strategy.

The CSFO's mandate, however, is focused on realising the opportunities of sustainable finance. For example, the transition of energy markets from brown to green fuels is bringing about a fundamental redeployment of financial capital. Banks, insurers and asset managers all need to make investments in front office infrastructure and data to seize the opportunities (and not get left behind).

"We're seeing a lot of people coming into sustainability from finance and the front office. And that's great, because they're bringing fresh perspectives," says one head of sustainability with a background in public affairs.

Figure 29. Typical areas that the CSO and CSFO must influence in the organisation



Source: Deloitte insights

A respondent working in a global investment bank and running a front office team tells us that their first action upon being given the role was to recruit a team of quants. “They had no targets except to figure out the data landscape to help design the sustainable finance products of the future.”

Participant interviews indicate that the CSO and CSFO are typically peers with complementary objectives and a close working relationship. The respective seniority of the roles is unclear. Still, it's a sign of progress that firms are now recruiting for their CSFO with a mandate for delivery and innovation, along with oversight of front office and products teams.

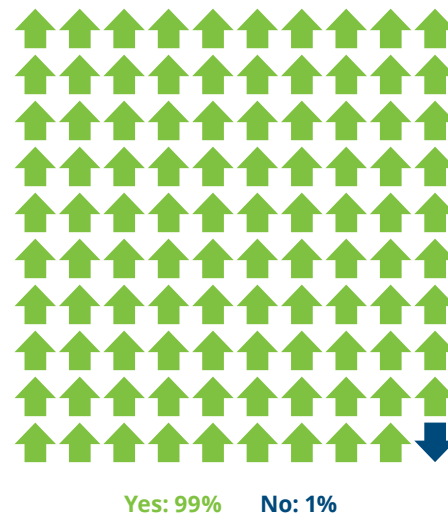
The importance of the role in the future

Even as CSOs work to embed sustainability across their organisations, new challenges are emerging. For that reason, it's too soon to say what will happen to the role when the existing challenges have all been met.

We asked survey participants, “Do you think the role of a Chief Sustainability Officer/Head of Sustainability/Head of ESG or equivalent is likely to become more important over the next two years?”

All but one survey respondent agrees that the CSO's profile will likely grow. The sole dissenter justifies their opinion with the hope that by 2022, sustainability would be part of the every day business of their organisation.

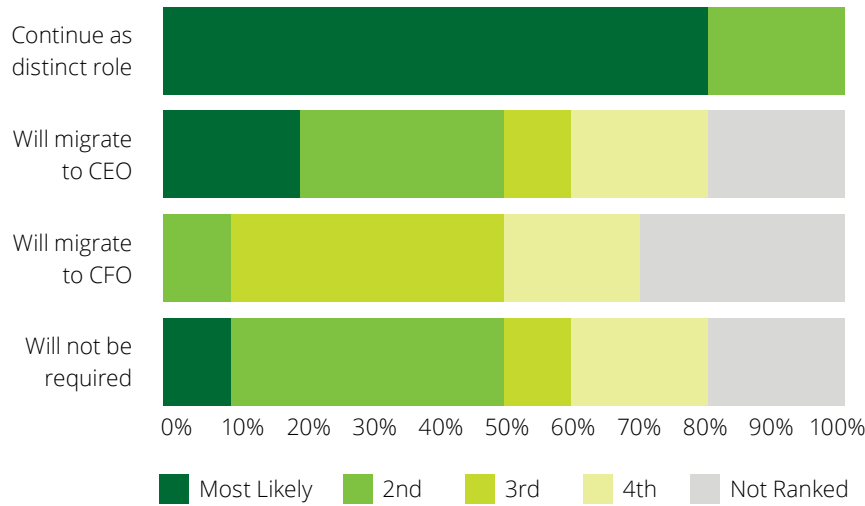
Figure 30. Will the role of the CSO become more important?



Looking ahead five years, three-quarters of respondents predict that CSOs will continue to play a separate role within their firms. Only 14 percent believe that the role will no longer be required—the same percentage who think the role will migrate to the CEO (Figure 31).

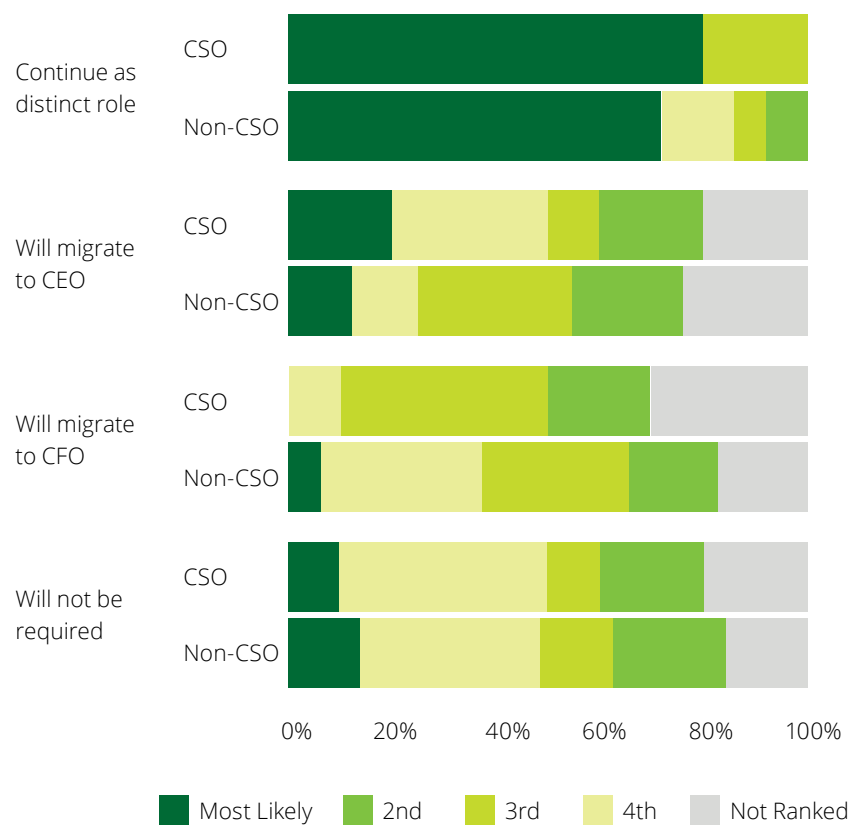
To check whether CSOs may be biased in favour of retaining their own roles, we compared results provided by CSOs and non-CSOs. We found only modest differences (80 percent of CSOs thought it would continue as a distinct role compared with 72 percent of non-CSOs).

Figure 31a. Likeliest evolution of the role (Five year view)



Source: Deloitte/IIF survey

Figure 31b. Likeliest evolution of the role (CSOs vs Non-CSOs)



Source: Deloitte/IIF survey

To explore these and other possibilities, we asked follow-up questions during our interviews and workshops with CSOs.

The CSO continues as a distinct role

It is not hard to understand why this is the most popular view. CSOs' in-trays are groaning with work to do. External stakeholders—including regulators, investors, and customers—are still changing firms' operating environments to a profound degree. Since none of these drivers looks likely to diminish over the coming years, nor does the CSO's role. We do not yet know where the next equilibrium point will be with respect to:

- What lawmakers and standard setters will force companies to do (or stop doing)
- How they will be charged for externalities
- What they will need to satisfy stakeholder demands
- How other companies' behaviour will shape what's considered acceptable

Moreover, purpose will continue to evolve as organisations grow. Between a rapidly changing external environment and the greater importance that purpose is taking on in the organisation, the need for a "sense-maker in chief" will likely remain.

The role is not required

As the CSO's colleagues make progress in working out what sustainability means for them, embedding top-line strategies via implementation plans, the orchestration role of the CSO should gradually fall away.

Whilst the clear majority see a distinct role for the CSO over the next five years, a small number of respondents are more optimistic that the pace of change will quicken, especially in their younger workforce and as a result of COVID-19.

"Although the role of the CSO may have evolved from the corporate social responsibility officer, it is now as far away from that role as it is from the chief technology officer. It will continue to change in the future, ensuring a discrete role for the CSO for the foreseeable future."

"There will always be a role for a centralised point-person to orchestrate sustainability."

"Sustainability now is like risk. Everyone manages risk, but you still have a CRO."

A CSO from an emerging market bank says younger colleagues are “more royal than the king” when it came to sustainable issues. Moreover, the COVID-19 pandemic has shown everyone how quickly working cultures can change. The CSO of a large commercial bank cites the case of relationship managers who would never have imagined they would stop flying across the world to meet their clients in person. They happily acknowledge those days are now over and that business travel in the future will be a fraction of what it was in the past.

“I could be redundant quite soon. With younger employees, sustainability is a given. They’re already fully bought in. We’ll be at a turning point quite soon.”

The role migrates to the CEO

There are two ways the CSO could migrate to the CEO.

Firstly, a CSO who makes a success of their role—helping to formulate strategy and embed systemic change—could be a prime candidate for promotion to CEO.

Secondly, if the CSO does such a good job that the level of integration with respect to sustainability skills and co-ordination across functions is high, then the need for a CSO is diminished and the role could then migrate to the CEO.

“Ultimate success will be if CSOs are no longer needed.”

The role migrates to the CFO

While it was a minority view, some of our CSOs thought the likeliest evolution of the role was for it to merge with the CFO. This was not on the basis that the typical CFO excels in stakeholder management or communication campaigns. It is because some in the industry think the CFO’s role will morph into the CVO: ‘Chief Value Officer’. The argument goes that organisations are fast learning how to account for other capitals beside pure financial capital.

As CFOs take on more responsibility for disclosing a wider range of non-financial metrics (see our earlier comments on ‘dynamic nested materiality’ and ‘performance’), it is likely they will also want to start managing those metrics, not just reporting them.

“We really want others to have ownership to present the agenda,” says one CSO, citing as a small mark of progress that at a recent committee meeting “we barely opened our mouths.”

Making sense of it all

For now, there is no clear answer to the question of how the role might evolve or even whether the role might disappear. As far as timing, however, the consensus is clearly “not yet.” Before we can make way for the CSOs of the future, the CSOs of today still have many challenges to address. By then, many firms may have come to realise how much they value their “sense-maker in chief.”

Conclusions

The CSO role is becoming more and more common in financial institutions. Not only is the external environment shaping firms' room for manoeuvre, their responses to it are maturing. Often a CSO's appointment follows at least one of three tipping points: when external change exceeds internal change, when stakeholder expectations run ahead of realities, and when the organisation recognises ESG as strategic.

The mandate for the role is becoming clearer: to align the organisation's business model with its sustainability strategy and to help embed that strategy. Putting this mandate into action requires collaboration, orchestration, knowledge management and communication.

A key skill of the CSO is exceptional communication, in order to persuade and influence a diverse range of internal and external stakeholders with different perspectives and objectives.

For the CSO to be effective they need the backing of the CEO, whether that means reporting directly to the CEO or simply having good access. The CSO also has an increasingly critical role in the governance of financial institutions across a spectrum of senior governance forums.

Although the role of the CSO is evolving, we still see a role for the CSO in the near future, recognising that organisations still have a long way to go before sustainability is fully embraced by every function, process, and stakeholder.



Glossary of terms

Acronym	Description
AM & I	Asset Managers and Insurers
BAU	Business as usual
CDP	Not-for-profit organisation called Carbon Disclosure Project before 2012
CDSB	Climate Disclosure Standards Board
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CRO	Chief Risk Officer
CSFO	Chief Sustainable Finance Officer
CSO	Chief Sustainability Officer
CVO	Chief Value Officer
ESG	Environmental, Social, and Governance
EU	European Union
ExCo	Executive Committee
FS	Financial Services
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
IIF	Institute of International Finance
IIRC	International Integrated Reporting Council
IOSCO	International Organisation of Securities Commissions
ISS	Institutional Shareholder Services
MiFID II	Markets in Financial Instruments Directive
NGO	Non-Governmental Organisation
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goal
TCFD	Taskforce on Climate-Related Financial Disclosures
UN	United Nations

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