



# CRF DIGITAL COMMUNITY: HR DIRECTORS HR'S ROLE IN SUSTAINABILITY

On 24<sup>th</sup> March, members of CRF's HR Directors Community gathered for a Peer Exchange Forum, hosted at Shell. At the session, members discussed HR's role in sustainability. This summary shares some of the key insights from the discussion.



## SUSTAINABILITY WITH PROFESSOR MAURIZIO ZOLLO

**Maurizio Zollo**, Founder and Director of the Leonardo Centre on Business for Society at **Imperial College London**, kicked off the discussion with an overview of the issues.

### WHAT IS A 'SUSTAINABLE COMPANY'?

A sustainable company is one that attempts to create value for all investors of capital, not only financial but also human, social, and natural forms of capital. After all, all of these stakeholders contribute to the growth and success of a company.

The main stakeholder categories are financial investors, employees, customers, suppliers/partners, and the local communities that provide natural and social capital.

A significant cognitive shift is required of those that are serious about creating a stakeholder company that creates value for all investors. The shift is around understanding how competitive advantage is built and sustained. There is a fairly common misconception that shareholders want profit but other stakeholders don't. But this isn't necessarily true. Everyone has an interest in profit – the question is, is profit the end, or a means to an end? To shift to a stakeholder company, there has to be an understanding that profit maximisation is important, and that this is the same for other (non-financial) stakeholders – it's just that others have different definitions of returns (quality of products, wellbeing, etc.).

At the same time, there is an idea that financial investors have primacy compared to other stakeholders. This made sense in an earlier era of capitalism because financial capital was the bottleneck for achieving growth; but in the last 50 years of capitalism, that has shifted because of efficiency in financial markets. Now, money follows ideas and relationships – human capital. Thus, the real source of competitive advantage now is human capital.

- Sustainability is about the **lasting interests** of these stakeholders, and the extent to which they confer or conflict is at the heart of the issue. How do we transition toward a model of enterprise that *really* puts all of these stakeholders at the centre of activities, managing and balancing the tensions in order to create value for all?
- For any organisation that is serious about sustainability, the HR function, alongside the Strategy function, has a fundamental role to play in the process of assessing the challenge, and then driving the transformational change that is necessary to meet that challenge.
  - What about the sustainability/CSR function? Isn't this their job? Experience and evidence thus far show

BRIEFING PAPER



Ahead of the session CRF released an exclusive briefing paper **HR's Role in Sustainability**, which introduced some of the issues that are arising as HR Directors seek to help their organisations to understand and address the challenges around sustainability. The purpose of the paper was to support the debate and discussion at the roundtable meeting on 24<sup>th</sup> March 2022. You can access the briefing, [here](#).



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that sustainability/CSR alone hasn't been able to drive transformational change, despite being the subject matter expert. Sustainability/CSR lacks the budget, capacity, and change skills. But when sustainability is positioned within HR with support from Strategy, or vice versa, organisations have a chance to create a change strategy that can really move the dial.

### WHAT, THEN, DOES HR NEED TO DO?

HR's first task is to understand the challenge facing the organisation, and to assess that challenge along all the core elements that constitute any organisation – for example, leadership models, culture, governance, and incentives. In some organisations, HR has a narrower remit, while in others HR is more strategic, but generally speaking these things fall clearly under the remit of an HR function.

HR's next task is around content and process. How do you integrate and leverage social and environmental impact for competitive advantage? What is the content and what are the processes? For example, how do you integrate the voice of stakeholders into decision-making processes for strategic decisions? How do you foster a culture of innovation? What roles does governance play?

In short, moving from the 'what' to the 'how' requires rethinking the role of HR, increasing its focus on how to drive transformational change throughout the business, its strategy, and value chain.

### WHAT COMPANIES ARE DOING THIS WELL?

Truly centring the views of and driving value for all stakeholders is a completely different way of thinking about the business. The mindset shift this requires, and thus the challenge, is not to be underestimated.

Over the past couple of decades, no company has really transformed itself from a standard business model to an organisation that centres on the interests of all stakeholders. Sustainability in this sense is a collective journey that will take a generation, not a couple of years.

But it is a journey that is essential, and it largely presents an innovation and experimentation problem – innovating governance, leadership models, incentive models, and so on. HR can do this, but even innovation requires experimentation, and both require a mindset shift.

Maurizio's work at Imperial's Leonardo Centre is about trying to create this innovation process. The capacity to innovate and experiment is fundamental because it builds the culture an organisation needs in order to transform, while also producing the evidence needed to convince others that the type of change you are advocating produces the type of results that you are seeking.

But few companies have a culture of experimenting in a serious way; few truly look for alternative ways to solve a problem. Typically, organisations simply go the way they think makes sense, or they call a consultant who by definition doesn't offer an experiment. Thus, the HR function and organisation, in most cases, have a significant challenge ahead in making this shift.



### ROUNDTABLE DISCUSSION

The remainder of the session featured a roundtable discussion among attendees. Key points are summarised below.

### HOW IS HR HELPING THE ORGANISATION TO ASSESS ITS SUSTAINABILITY CHALLENGE(S)?

- With respect to engaging and listening to stakeholders, it was concluded that this is happening in pockets but not end-to-end; one challenge is 'where do you start?' with such a complex, 'Gordian knot' type problem as shifting to a sustainable business model.
- While it's possible to start by 'cutting the knot' – in effect, recreating the company from scratch and then growing the 'NewCo' bit by bit, this is probably not the best or most efficient way forward. After all, the fundamental process of learning how to change is really important, and you only learn through application.
- For some organisations, purpose – 'who are we and what does that mean from an ESG point of view?' – has been a very helpful, and unifying, place to start.
  - Defining purpose has helped some organisations assess what the challenge is for their business, and has enabled the business to better navigate its sustainability journey. (Although it was also noted that the sustainability 'journey' is probably one that no organisation ever quite finishes).
  - At some organisations, purpose has been a powerful tool for driving internal and external engagement and ESG strategy more broadly.
- But, others argued, the idea that 'we (the organisation) decide what our purpose is, how it influences ESG, and then tell our stakeholders' is part of the problem. If the organisation is going to centre stakeholders, doesn't the whole cultural mindset and decision-making process have to dramatically change? Shouldn't relevant stakeholders be part of decision-making processes, from defining purpose to how the organisation engaged with suppliers, and beyond?



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- The counterargument was made that if purpose is about who you are as an organisation, certain stakeholders simply cannot contribute. External stakeholders should have a say not in the 'who' (you are), but in the 'how' (you do it).
- It was then argued that purpose is up for grabs in companies that are publicly owned. Because your investors own you, they have a big say in your strategy, deliverables, purpose – all aspects of the business. And activist stakeholders, who are very concerned about their own reputation, are becoming more vocal about this. In fact, reputation as much as profit may drive long-term investors.
- It was posited that purpose is about values and thus emotions; if stakeholders see a conflict between an organisation's stated purpose and its strategy/delivery, that will be a problem.
- At some organisations, combining the people and ESG agendas has really simplified things.
- There was discussion of whether we are seeing a convergence of stakeholder interests. Five years ago, perhaps, stakeholder interests were more scattered, but now they are converging. For example, sustainability is now often the first thing financial investors ask about, and this is a real change.
- Scarce resources for innovation and experimentation is a challenge at some organisations. It is useful to have a structure around experimentation in order to better focus limited resources.
  - One attendee shared a story of a co-created, iterative, employee-led sustainability programme, with regular feedback mechanisms to evolve the programme, as a successful experimental, innovative approach that contrasts sharply with traditional, static corporate programmes. The new approach is dynamic and flexible, and closely linked to both ESG strategy and broader purpose at the company.
- It was argued that one of the benefits of experimentation and learning is that it allows organisations to 'get to their truth', to be authentic, and to keep speaking to all of their stakeholders truthfully, including when the organisation tries something and it doesn't work.
- At some organisations, the embedded view that 'we are experts and so we have to get it right', can translate to reluctance to admit when the organisation gets something wrong.
- In highly regulated environments, experimentation can carry a connotation of risk, which can make it difficult to drive experimentation. In these environments, experimenting with employee involvement rather than more structural experimentation can be a good place to start.
- There was discussion about how HR goes about involving stakeholders. The first step is to identify stakeholders, ask about their expectations, and form an idea. Then sense-check your conclusions with those stakeholders, involve them in your decision-making process, and only after that should the organisation publicise their commitments.
  - The advantages of genuinely involving stakeholders in your decision-making processes include: faster implementation, because they already know what they have to do; greater support, because the stakeholders have bought into the decision; and being able to tell your story externally in a more unified and effective way, because it will be corroborated by diverse stakeholders.
- One attendee highlighted the importance of governance. It is important for businesses to focus on governance because doing so demonstrates authenticity as well as meeting compliance requirements. For example, responsible sourcing is a key governance topic – it can be quite resource-intensive and requires core corporate policies to be in place; in some organisations, HR may be responsible for or be required to support the education, training and capability-building of employees.

### HOW DOES HR DRIVE THIS TRANSFORMATIONAL CHANGE?

- It was generally agreed that it is easier for HR/ organisations to experiment during times of crisis, such as the pandemic.
- At one organisation, one key challenge – and opportunity – is around how the organisation identifies those projects/initiatives that can deliver benefits in the short- to medium-term, while also delivering value for all stakeholders. Short- to medium-term delivery is important because the lifecycle of an HRD and other senior leaders is much shorter now, and top teams are not only judged on long-term goals but also on what's delivered in the next few years. How to foster the creativity to develop those projects, how to bring in the right skills and capabilities to deliver those projects, is a challenge this organisation is grappling with.
  - For example, this organisation uses a lot of water, so a question it is asking is, 'Right now, how do we get the engineering skills to do better drip irrigation and the technology skills to work out how to use technology to identify better yields from fertiliser?' Delivering projects that provide solutions to these questions would be really good for the local communities in which the organisation works, good for employees because of how it connects to purpose, and good for shareholders. But the organisation has to both identify the projects and get the skills, capabilities, and project management in place that will allow those projects to deliver benefits within the next few years.



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- One attendee stressed the importance of having an ecosystem to support this work – one company can't do it on their own. Organisations have to work with customers and partners to really think through the technological piece. But shareholders want to see results very quickly, which creates tension. It is not easy work.
- Organisations can experiment really well during times of crisis or externally, but outside of crisis times, internal issues can get in the way of experimentation. It takes a lot of time and energy and has lots of friction because of internal governance and boundaries. For example, if you are trying to incentivise your sales force to increase sales of low-carbon products – how are you going to do it? What's in it for them? You may find that you have to turn your sales incentive scheme upside down – what are you trying to do and how do you drive that behaviour?
- It was noted that the core of experimentation is in eliminating internal barriers to creativity, ownership, and around change initiatives. How do we select the projects? What is the appropriate project evaluation system, performance system, incentive system to align to a culture of experimentation? How will employees and middle managers be empowered to experiment? However, there is no systematic evidence of what works well under what conditions (no universal rule); each organisation has to figure it out for their context.
- The question was asked, whether organisations are finding that things are falling away – as in, 'sorry but we can't deliver this after all'.
  - One organisation has been able to avoid this because it is taking more of a 'pivoting' approach, as opposed to 'stopping x and starting y'. It is about shifting emphasis. At the same time, the business is stopping projects that are not purpose- or ESG-aligned. People are encouraged to keep their innovative spirit but to focus it on aligned projects.
  - But for many organisations, this is a challenge. Sustainability is broad, it takes time to embed and sustain, and to do it right (doing it right means it's more than just a bunch of initiatives).
- One organisation stopped trying to create strategy on things (D&I strategy, etc.), instead asking 'what are the one or two things we can do to get going and build momentum?', then doing them. At the same time, this organisation is dialling down time-consuming, HR process stuff. Going with an idea, and seeing if it lands or doesn't, is helping to create space. But with this approach, it is crucial to activate the employee base rather than telling them what to do. When you do put out ideas that land, and over which employees have direction and ownership, the degree of energy and self-organisation is much greater than what could have been created through a top-down organisational approach.
- It was observed that the 'social' is easier to realise, while the 'environmental' is much harder and more technical.
- One small organisation has created a grassroots agitation community. There is no asking permission, no initiatives; instead, employee groups are galvanised – the message is, 'if you care about this stuff, we can help you with the tools and resources to make it happen'. Can experimentation be integrated into this style? It depends on the boundaries set and the level of risk tolerance in the organisation.
- It was debated whether HR, in many organisations, needs to do a bit of letting go. Is HR holding on too rigidly to processes? Does HR need to be more flexible, accepting that things won't be fully formed? (Which is, after all, what the business has been asking HR to do for years).
  - But not everybody is ready to let go of process, and this true of both HR and employees (particularly middle managers). For example, one organisation tried to keep the new hybrid approach to working light touch, but then people wanted the granularity.
- Middle managers present a challenge in many organisations. To really transform, the new behaviours have to be part of the manager's role, but one immediate challenge is that not everyone feels equipped to be comfortable with ambiguity, with less structure and process; equally, the company has to tolerate the risk of that level of freedom. Many organisations have identified a need to invest more in equipping managers for this work, and to align their objectives and incentives accordingly. Context and environment are also important – for example, employee activism is heightened at the moment which can make conversations even more difficult for managers – but then again if organisations don't start taking action now, when will they?
- It was argued that the level of investment – of time, money, or quality of people – in sustainability is not keeping pace with the scale of the challenge that faces organisations and society. The level of investment is insufficient, and this is a matter of choice. At many organisations, there is no lack of capital, so a shift is needed in the willingness of senior executives and Boards to front up with investors that 'we are doing this now' and to lay out what some of the trade-offs might be.
  - Can HR influence these decisions? Yes, some argue, there is room for redirection from HR. How do we flatten organisations to lower costs, how do we create a culture that will get more out of people, what are the trade-offs and priorities – these are questions HR can offer redirection and activation on.
- There was discussion of the challenge of prioritisation. What will make a big difference in the next five years, have we got the right skills capabilities, have we identified





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the right projects, can the organisation absorb that change with all the other things going on in the world? How much change can an organisation really absorb in one relatively short time frame? It has been relentless for a long time, in terms of geopolitics, global health, and economic challenges.

- It was suggested that applying a sustainability lens is key to prioritising work; but is the application of a sustainability lens a reality or a dream at most organisations?
- The HR function needs to figure out some fundamental pieces of the puzzle in their remit (performance models, leadership mindset/models, incentive systems, tolerance for ambiguity and change, effective idea generation, how to bring down barriers to cross-functional collaboration). For example, who is going to design and implement change for multiple levels of the organisation? It's not going to happen by itself! So the HR function, at the very least, needs to prioritise what's within their domain/control, and then hone in with other key functions such as strategy/CSR.

### FURTHER READING

CRF. 2019. **Responsible Business – How Can HR Drive the Agenda?** Speed Read. <https://www.crforum.co.uk/research-and-resources/speed-read-responsible-business-how-can-hr-drive-the-agenda-2>

Reitz, Megan, John Higgins, and Emma Day-Duro. 2021. **The Wrong Way to Respond to Employee Activism.** Harvard Business Review. <https://hbr.org/2021/02/the-wrong-way-to-respond-to-employee-activism>



 EMAIL

**MAURIZIO ZOLLO** is Scientific Director of the Leonardo Centre on Business for Society at Imperial College Business School. He is Professor of Strategy and Sustainability and Head of the Department of Management & Entrepreneurship at the Business School. Maurizio's research aims to understand how business organisations learn to grow and adapt to environmental turbulence, and how managers can guide these evolutionary processes through the combined use of strategic growth initiatives and organisational change, innovation and learning processes. He focuses on the management of complex strategic initiatives, from M&A and partnerships to sustainability-oriented innovation and organisational change efforts. He directs two research programmes: the GOLDEN (Global Organizational Learning and Development Network) for Impact programme and a programme on the neuroscience of innovation and sustainability decisions. Both involve the active engagement of corporations in design and execution of field experiments focused on innovation- or sustainability-oriented organisational change challenges. Before joining Imperial College in 2019, Maurizio served on the faculties of Bocconi University and INSEAD. He is a Visiting Professor at the Sloan School of Management of MIT and has a similar position at Bocconi University. He holds a PhD in management from the Wharton School of the University of Pennsylvania and a laurea degree in monetary economics from Bocconi University. Before starting his academic career, he was a strategy consultant at McKinsey & Co. and investment banker at Merrill Lynch in New York.

SPEAKER

### crf SAVE THE DATE



*The next session for the HR Directors' Community:*

**Tuesday 12 July at 12.00 BST**

Register your attendance [here](#). Also please get in [touch](#) with any topics that you would like to discuss and feature at the next session.