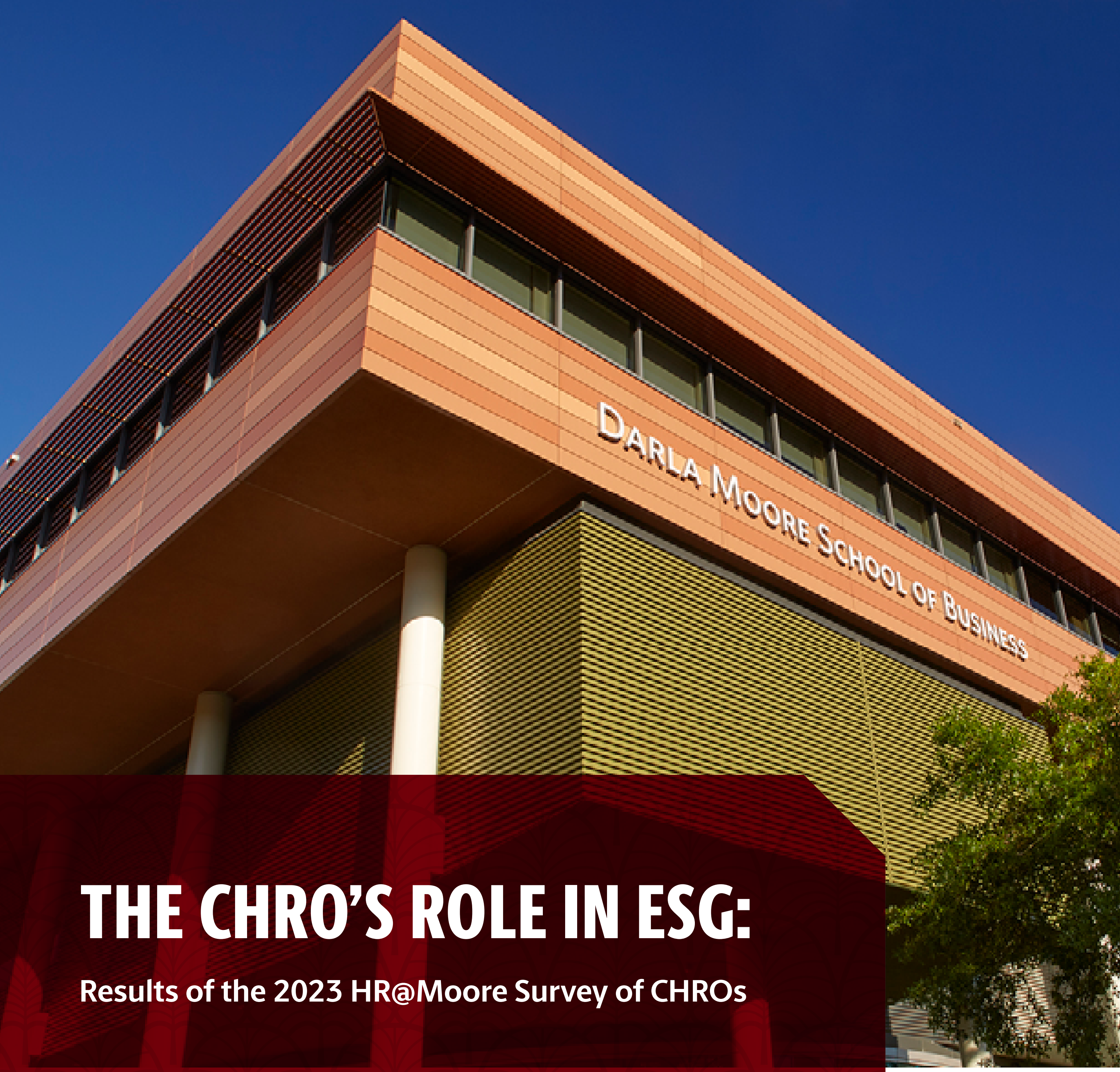


# THE CHRO'S ROLE IN ESG:

## Results of the 2023 HR@Moore Survey of CHROs

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*Many thanks to the Center for Executive Succession partner CHROs for their support of our research*

# EXECUTIVE SUMMARY

There is little question that companies are collectively devoting more time and resources towards Environmental, Social, and Governance (ESG) issues than ever before. But there is still much to learn about how companies are approaching these issues and where in their organization they are allocating responsibility for their ESG efforts. In the 2023 HR@Moore Survey of CHROs, we asked our respondents who in their company has primary ownership over each of the ESG domains, and where the CHRO and their HR function fits in these efforts.

We first asked CHROs open-ended questions regarding who in their company has ownership over each component of E, S, and G. Responses indicate that the legal function is overwhelmingly responsible for companies' governance efforts, with 81% of CHROs including legal in their response, often specifically referencing their General Counsel or Chief Legal Officer. Similarly, HR is often primarily responsible for social efforts, as indicated in 60% of responses, many of which also specifically included the CHRO. Environmental efforts, however, are more split, with ESG-specific functions leading the way in 42% of responses, followed by operations and/or business segment leaders with 31% and legal with 23%.

Similar dynamics emerged regarding board committee ownership over each ESG domain, with most boards giving responsibility for governance to Nom/Gov (71%), and many giving social responsibility to Comp/Human Capital (49%). For environmental issues, Nom/Gov also typically has primary responsibility (49%), although it is worth noting that 19% of companies give environmental responsibility to an ESG-specific committee. Overall, 20% of responses included an ESG-specific board committee for at least one of the three ESG domains.

CHROs are most heavily involved in their company's social efforts, with 71% of respondents indicating this to be a major or one of their top responsibilities. CHROs are mixed, however, in their involvement in environmental and governance efforts, with only 26% indicating this is a major or top responsibility for each domain. The environmental domain particularly stands out, as 35% of CHROs responded that this is a minor responsibility or not one of their responsibilities at all.

Finally, we asked CHROs about a series of critical HR-related ESG activities. Of the five activities, CHROs were most likely to report being "extensively involved" or playing "a critical role" in using their HR function to accelerate ESG goals (66%), but by far the least likely to do so regarding governance processes and board engagement around ESG (38%). In general, only 20% of CHROs are extensively engaged in all five critical ESG activities, with many of them engaged in few if any, suggesting the vast majority have opportunities to increase their HR function's contributions to their companies' ESG efforts.

# INTRODUCTION

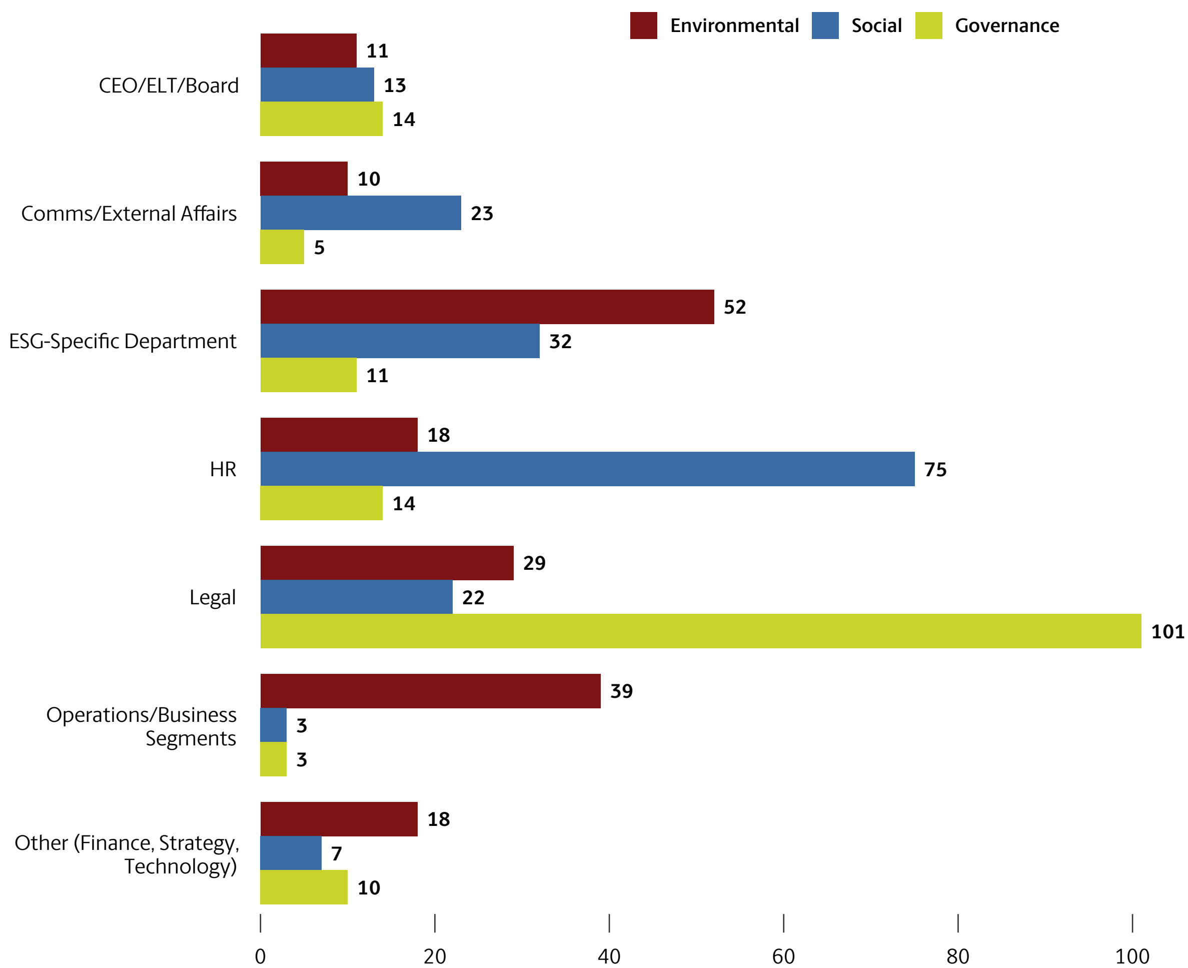
As part of the 2023 HR@Moore Survey of Chief Human Resource Officers, we asked our respondents a series of questions about their company's ESG efforts, including who in the company has primary responsibility over the three ESG domains, the level of involvement the CHRO has in each domain, and the extent to which the CHRO has engaged the HR function across a variety of critical ESG activities. We received responses on these items from 140 CHROs.

# Who is Involved in ESG?

We first asked our CHROs an open-ended question regarding who in their organization has primary responsibility over each of the three ESG dimensions. We took their responses and coded them for the functional areas indicated by their responses, which is featured in Figure 1. Many answers invoked specific individuals or roles, the majority of which were C-suite or other high-level executives, indicating that accountability for ESG efforts truly lies at the top of the majority of our respondent companies. We also note that we received responses from 125 CHROs for these questions, as some responses (36%, 38%, and 20% of E, S, and G, respectively) included multiple individuals across different functional areas and therefore are accounted for multiple times in the data depicted in **Figure 1**.

**Figure 1**

Who in your company bears primary responsibility for your ESG efforts?



The responses show that governance and social efforts are overwhelmingly led by legal and HR functions, respectively. This is an understandable division of responsibilities given the respective expertise of these functions, although it does raise two related potential concerns, especially as it pertains to HR and the social domain. First, evidence from research and our prior surveys suggests that many companies essentially equate the S of ESG with diversity, equity, and inclusion (DEI), but this may be an overly narrow pursuit. In addition to DEI and other employee-related issues, many community and broader societal issues should be on the table for companies' social pursuits. As such, companies may want to consider other functional leaders (e.g., external affairs) to complement HR in these efforts.

Second, while it makes sense for HR to take the lead in this area, it does raise concerns that some companies may be siloing their social efforts within HR with little integration across other functions. Doing so without integrating these efforts within the business segments, for example, is likely to be less impactful on its intended goals than a more integrated effort. While many companies in our data are taking such a cross-functional approach (38% cited more than one function in their responses), some may benefit from further integration of their social efforts.

In contrast to governance and social domains, environmental efforts were split more evenly across different functions. ESG-specific departments (often led by a Chief Sustainability Officer or equivalent) led the way with mentions in 42% of responses, followed closely by operations and/or business segment leaders with 31% and legal with 23%. All other categories garnered at least 10 mentions in our responses. Ideally, this is reflective of a more integrated approach in our companies' sustainability efforts than in either the social or governance domains.

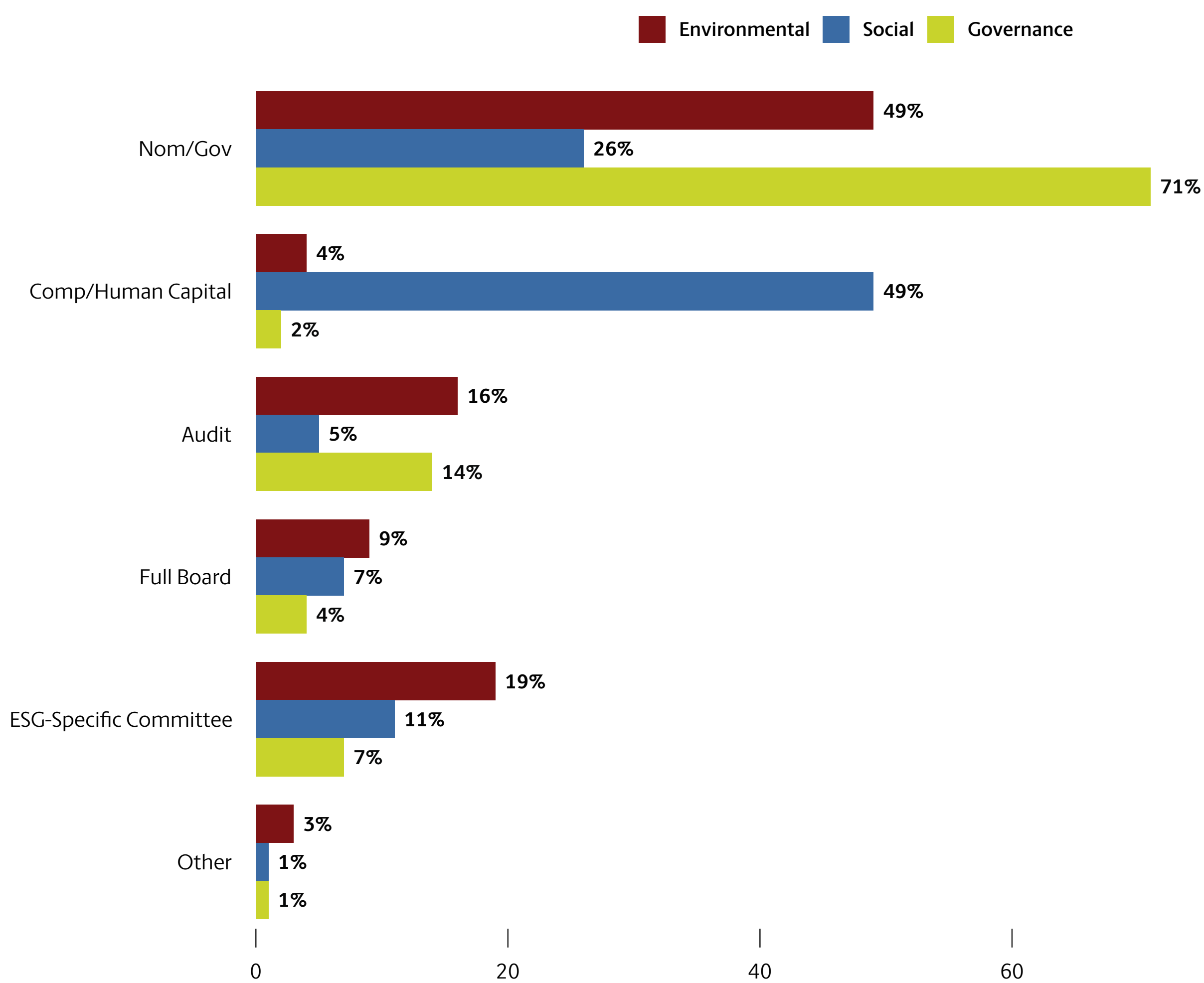
That said, the implications of the proliferation of C-suite positions and departments dedicated to sustainability are not entirely clear, as our survey did not explicitly address this particular trend. It may be the case that, for example, the creation of a Chief Sustainability Officer position suggests a level of seriousness to a company's sustainability efforts, particularly if that individual reports directly to the CEO and works closely with the ELT to advance sustainability efforts. If, however, the position is not a direct report to the CEO or is otherwise relegated to the background of the C-suite, it may not be a significant driver of sustainability efforts within the firm.

We also asked CHROs about their board's responsibility over the ESG domains (**Figure 2**). We see a similarly logical division of labor in the board committees, particularly with Nom/Gov taking the lead for governance (71%), and Comp/Human Capital (49%) doing so for social efforts. The environmental domain is also primarily led by Nom/Gov (49%), although it is worth pointing out that 19% of respondents indicated the existence of an ESG-specific board committee that leads their environmental efforts.

In total, 20% of responses include an ESG-specific board committee across the ESG domains, and it bears monitoring whether these types of board committees will be a growing trend moving forward given the increasing centrality of ESG to many companies' strategies. Given current risks associated with ESG and an increasing investor focus on company ESG activities, the creation of a specific committee to monitor potential ESG risks seems a prudent means of achieving effective board oversight in this area.

**Figure 2**

Which board committee has primary responsibility for your company's ESG efforts?

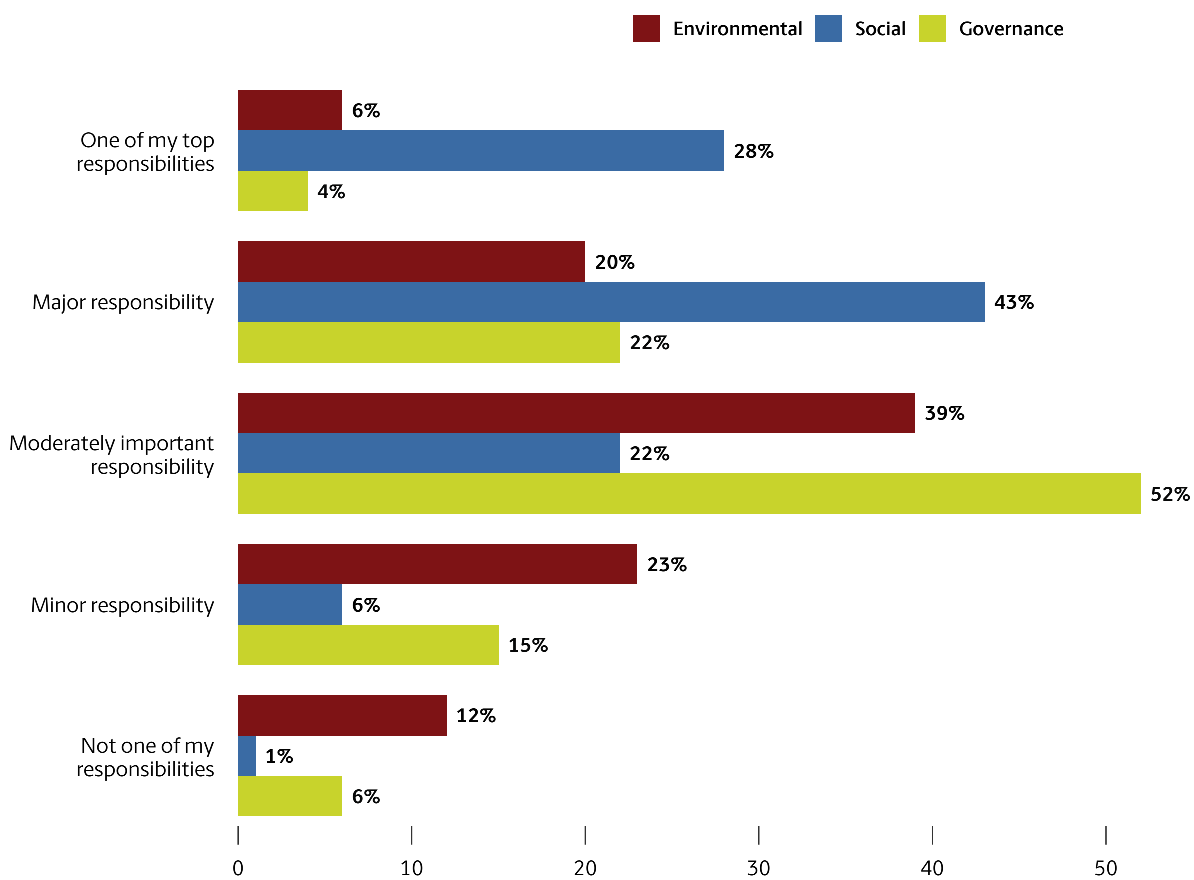


## CHROs' Responsibility Over ESG Efforts

We also wanted to know specifically how CHROs view their own level of responsibility over each of the ESG domains to gauge the extent to which HR leaders and their functions are involved across the range of their company's ESG efforts. Their responses for each of the three ESG dimensions are depicted in **Figure 3**.

**Figure 3**

To what extent do you view your company's ESG efforts as a core part of your responsibilities as CHRO?



Consistent with the responses described earlier, CHROs view social efforts as more core to their responsibilities than either environmental or governance efforts. 71% of respondents list the social domain as a "major" or "one of [their] top responsibilities", compared to just 26% for both the environmental and governance domains. Environmental responsibility particularly stands out, as 35% of CHROs responded that this is only a "minor responsibility" or "not one of [their] responsibilities". These latter findings regarding CHROs' more ancillary involvement in environmental and governance efforts stand out and perhaps merit additional reflection as companies continue to ramp up their ESG efforts.

For example, research shows many companies lack the "green skills" necessary to pursue their sustainability strategies and otherwise struggle to integrate their sustainability visions throughout their organizations. CHROs and their HR functions may very well need to play a more central role in their companies' environmental efforts to close these skills gaps, build cultures that support environmental sustainability, and create company-wide accountability towards sustainable goals to truly elevate their environmental performance.

Similarly, it is easy to imagine the value CHROs offer to their companies' governance efforts that may merit more central involvement. Our own survey has demonstrated how CHROs are becoming more heavily involved with their boards over time and increasingly spend their time acting as a liaison between the board and ELT. This unique position, combined with their expertise in areas relevant to most companies' governance efforts (e.g., DEI, compensation, performance management), again suggest that a more central role for HR leaders may be instrumental in enabling companies to achieve better governance.

We also examined the potential for differences in CHROs' involvement in ESG across industries, specifically comparing manufacturing firms and professional service firms (including financial services), the two biggest categories in our sample. CHROs of manufacturing firms were more likely to rate both environmental (27%) and governance (32%) efforts as a major or one of their top responsibilities than those at professional service firms (21% and 15% for environmental and governance, respectively). In contrast, however, CHROs of professional service firms were more likely to rate social efforts as a major or top responsibility (70%) than those at manufacturing firms (62%). These strike us as material differences between these industry categories, in some ways reflective of the different natures of their work (e.g., environmental efforts being more central to manufacturers) but perhaps surprising in other ways (i.e., professional service firms having more HR-centric social efforts).

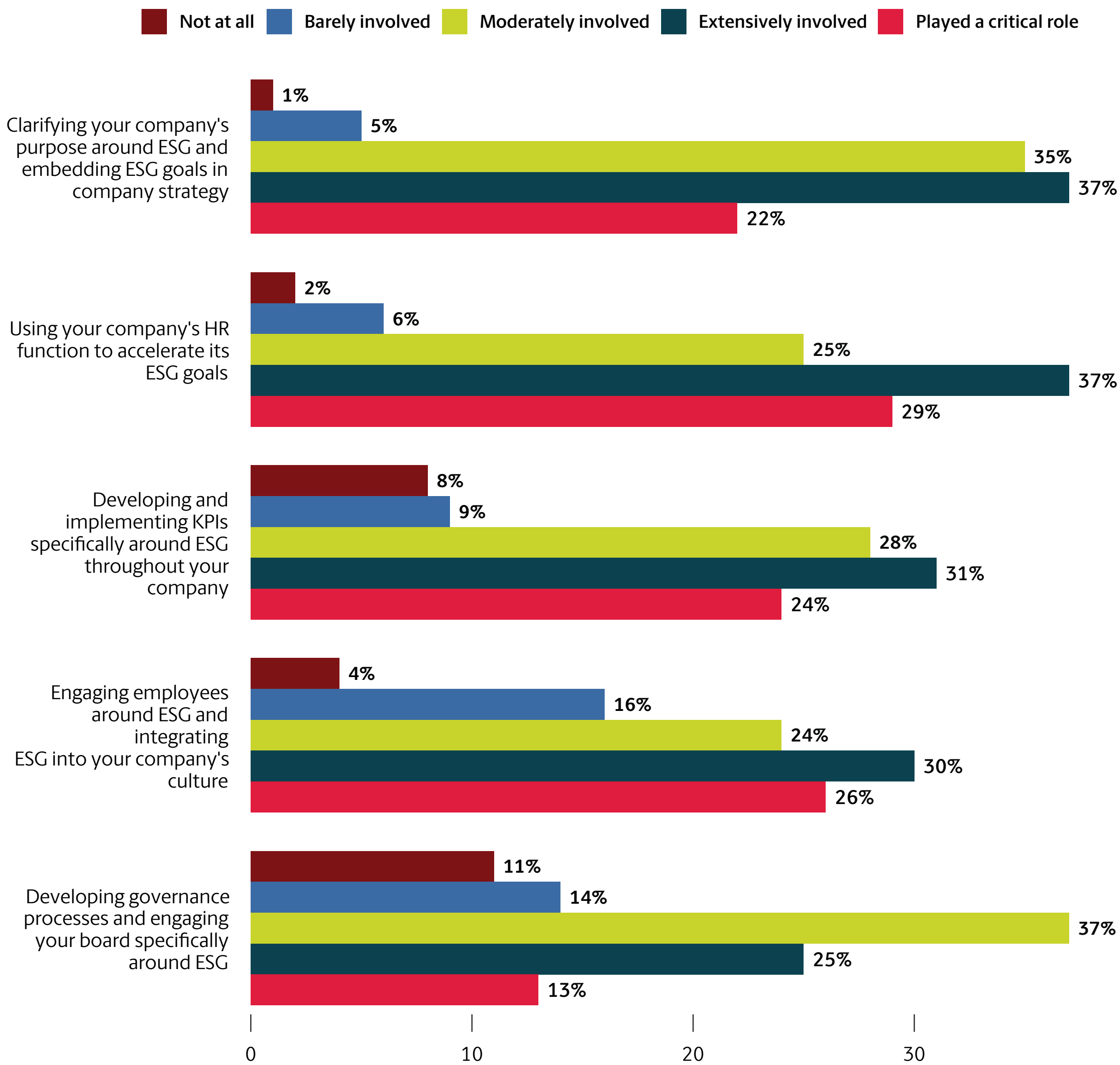
# Role of the HR Function in ESG

Finally, we asked CHROs more specific questions about the degree to which they utilize their HR function across five HR-related ESG activities. These five activities (listed in **Table 1**) were adapted from a report from the HR team at General Electric (GE) entitled, "Shaping the Employee Experience: Exploring the Intersection of ESG and HR". For their report, the GE team consulted with several HR leaders at other companies and were able to identify five key roles that the CHRO and HR function should play in ESG. We depicted their responses in **Figure 4**.

| Table 1 Five Insights Regarding the Role of the CHRO and HR Function in ESG – Adapted from GE Report |
|---|
| **Ensure clarity of organizational purpose:** use company purpose as guiding force for developing ESG goals and embed those goals into company strategy |
| **Understand how HR can accelerate ESG priorities:** use function to embed ESG priorities throughout the company's people, programs, practices, and policies |
| **Drive accountability through priorities:** develop and implement KPIs specifically around ESG where they are necessary throughout the company |
| **Build a shared narrative:** engage employees around ESG and integrate ESG commitments into company culture |
| **Ensure active board involvement:** develop governance processes and engage board to ensure oversight over ESG |

**Figure 4**

To what extent have you as CHRO been involved in...

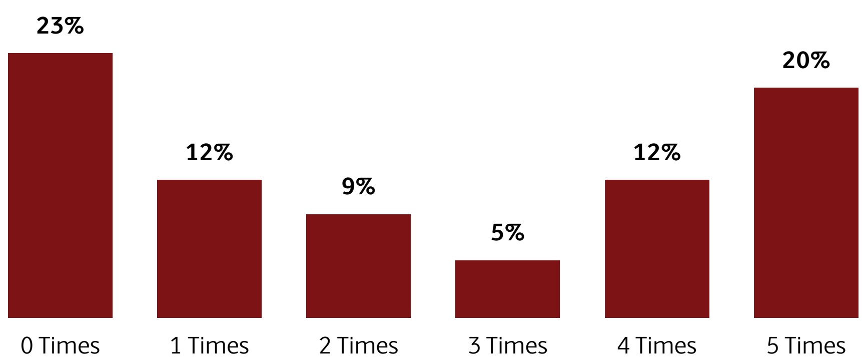


CHROs were most likely to report being "extensively involved" or playing "a critical role" in using their HR function to accelerate ESG goals (66%). Slightly fewer (59%) reported as such for clarifying ESG purpose and embedding goals in company strategy, followed very closely by developing and implementing ESG KPIs (56%) and integrating ESG into culture and employee engagement (also 56%). Only the item around governance processes and board engagement around ESG lagged considerably behind the others (38%).

The responses indicate that while many CHROs are heavily engaged in these ESG activities, a significant number (at least one-third) of CHROs are not involved in each activity. We looked into the data further to see if it was the same CHROs who were extensively involved in all or most ESG activities. We tabulated the number of activities each CHROs rated as "extensively involved" or "played a critical role", and in **Figure 5**, we report the percent of CHROs who did so for all five activities, for four, and so on down to zero activities.

**Figure 5**

Percent of respondents who answered "Extensively Involved" or "Played a Critical Role" to CHRO role in ESG questions



Interestingly, the most common group were those CHROs who are not extensively involved in any of the five activities (23%), slightly more than those who are involved in all five (20%). Next, an equal percentage (12%) are extensively involved in one activity as are involved in four, followed by those involved in two activities (9%) and those involved in three (5%).

Clearly, many CHROs are at best moderately engaged in key HR-related ESG activities for their companies. This could be because 1) ESG is less important to their company strategies, 2) ESG is important but HR is not well integrated into those ESG efforts, or 3) the CHROs are too narrow in their ESG focus and therefore have yet to engage in the broad set of activities that would constitute best practices. Those who have not fully engaged in all five activities, which is the large majority of CHROs we heard from, may be able to incorporate some of these best practices they are currently missing or perhaps even advocate for their function to have a bigger seat at the ESG table at their company.

# Translating Research into PractiCES

- ESG responsibilities are often allocated logically along functional lines, but companies must be careful not to let those efforts be siloed in individual functions. Instead, companies should engage multiple functions to ensure each ESG dimension is sufficiently integrated throughout the company to achieve their desired environmental, social, and governance goals.

- Board committees are similarly assigned ownership over ESG responsibilities largely along logical lines, but it is noteworthy that 20% of respondent companies have an ESG-specific board committee (e.g., Sustainability; Social Responsibility; Environment, Health, and Safety; etc.). It bears monitoring whether such board committees become a larger trend in the coming years and how they approach their roles in assessing and managing risk related to ESG activities.

- Unsurprisingly, HR plays a leading role in many companies' social efforts, but very few companies' environmental and governance efforts. That said, HR should ideally have a significant (if not leading) role in sustainability and governance given the value of the function's capabilities and expertise towards those efforts. It is surprising, in particular, how ancillary or uninvolved many CHROs are in their companies' environmental efforts given the prevalent push for "green skills" in today's economy, as a centrally involved HR could accelerate the hiring, training, and culture-building necessary to ready workforces to meet companies' sustainability goals.

- The vast majority of CHROs have yet to extensively engage themselves or their function in at least one of the critical HR-related ESG activities identified by their peers (e.g., developing KPIs around ESG, integrating ESG into company culture), and many reported not being extensively engaged at all. While some of this may be driven by their company's ESG strategy, or the relevance of certain aspects of ESG to their industry, the data suggests most CHROs have opportunities to further engage in ESG best practices, thereby enhancing their function's contributions to company ESG efforts.

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