HOW CAN FINANCIAL SERVICES ORGANIZATIONS AND EXECUTIVES RESPOND TO THE ESG CHALLENGE?

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PREFACE

In this article, we examine the following:

- The existing social, geopolitical, and demographic realities of ESG and the challenges of adapting to ESG in a competitive financial services market
- How executives can define a realistic ESG strategy
- Key competencies executives must possess to navigate ESG implications
- How organizations can solve the ESG talent equation

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Massey Henry is a leading Canadian executive search and board advisory firm, offering faster, smarter solutions to today’s complex executive recruitment challenges, with a focus on senior leadership within the financial services sector.

FROM OUR ADVISORY BOARD

"ESG considerations have become dynamic, as organizations are challenged to meet the demands of technology transformation, commitments to carbon net zero, and employee physical and mental health issues.

Underlying the above is the pressure for wealth redistribution, as well as limited capacity to support change from governments and regulators.

Traditional approaches to ESG will continue to be challenged both strategically and operationally and made more complex as the definition of ESG expands.

As decision makers balance the need for timely and profitable execution, a responsible approach to ESG takes on new meaning – and if in place – creates tremendous opportunity."

George Cooke
Chair of the Board, OMERS Administration Corporation, and Advisory Board Member of Massey Henry

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ESG IS NOT A NEW CONCEPT, BUT ITS VISIBILITY AND URGENCY HAVE DRASTICALLY INCREASED

The scope and scale of ESG compliance and measurement is growing in importance and complexity. Organizations across all sectors are facing profound decisions that will impact employees, customers, and society at large. However, the concept of adopting an ESG approach is not new; many of its principles have roots in earlier initiatives such as 3Ps, CSR, and sustainability. These approaches were earlier attempts, often piece-meal, to manage the broader environmental and socioeconomic consequences in a for-profit and competitive business system.

It is fair to say that many elements of the current ESG framework are not new to organizations, businesses, or governments; rather, the visibility, urgency and breadth of these issues is new. The powerful catalysts of **climate change, technology adoption, and the intensification of global economic pressures have accelerated the need for change.**

In short, the demand for the adoption of ESG principles reflects a monumental shift in the global production, distribution, and consumption of goods and services. On the other hand, common sense suggests the pace of change will move at different speeds around the world, shaped by cultural norms, politics, economics, and technology adoption.

HOW CAN FINANCIAL SERVICES ORGANIZATIONS RESPOND TO ESG DEMANDS?

While investment mandates and disclosure guidelines such as the Task Force on Climate Related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board Disclosures (SABB) ask organizations to report on ESG performance relative to established standards, it is a complex and difficult process to undertake. Even organizations within the same vertical can and do have substantially different structures, processes, and approaches to the marketplace. As such, organizations must find a way to promote sustainable change within the context of their own reality—undoubtedly a challenging task.

As organizations and nations adapt to rapidly changing business, financial, and environmental dynamics, a few factors are likely to remain constant for the foreseeable future, all of which financial services executives must adapt to. The social, geopolitical, and demographic realities of ESG are underscored by the considerations outlined below.

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KEY ESG CONSIDERATIONS

1) By 2025, **13 trillion USD will shift within the asset management community** to companies and portfolios that activity promote ESG as a primary objective *(2020 Deloitte Asset Management Study)*

2) Standards and **regulations will be difficult to establish** and are readily changing, not withstanding initiatives such as TCFD and SABB

3) By 2029, **Millennial and Gen Z cohorts will make-up 72% of the workforce**, up from 52% in 2019 *(2021 Marsh McLelland Study)*

4) Some of the world's global powers may have little incentive or capability to implement ESG standards, which present **economic and societal risks** they are not willing to entertain

5)The complexity of business operations, markets, products, and services makes the **adoption of universal solutions challenging and costly**

6) Even in advanced 'progressive' economies, **warp speed ESG adoption will be difficult to achieve** in a short period of time

7) Relevant **ESG skills** and competencies will continue to be in **high demand and short supply** for a long period of time

EXECUTIVES MUST ADAPT TO ESG IMPLICATIONS

The balance of this discussion will focus on the implications for executive level leaders given the context outlined above. The talent implications within the corporate environment principally impact three distinct parts of the organization: the Board, C-Suite, and senior level executives.

DEFINING AN ESG STRATEGY

To succeed in a landscape where ESG considerations affect the bottom line, executives will need to:

1) Level-set to understand where the organization resides on the spectrum of sustainable ESG practices

2) Assess the risks and opportunities unique to the organization's operating environment

3) Determine realistic priorities, objectives, and targets

4) Identify talent gaps needed to enable the organization to deliver on targets and commitments

KEY COMPETENCIES TO NAVIGATE ESG IMPLICATIONS

We see four distinct competencies that are required within organizations, and at the executive level, to better adapt to ESG considerations.

Business Knowledge & Experience

Executives will need to possess a deep understanding of specific skills in product development, supply chain management, finance, marketing, and human resources. They will also need to have a broad-based understanding of how organizations evolve and adapt to changing markets, product demands, competitors, and new regulations.

Younger and highly motivated ESG specialists often have specific technical skills but their experience with different market cycles and the impact of change is limited by time in the field.

Conversely, experienced business professionals with many field cycles need to be able to adapt and leverage their experiences and learnings in new ways. The potential shortage of not only ESG-specific skills but also experience with multiple business cycles is highlighted by a MMC study which projects that by 2030, nearly 80% of the workforce will be comprised of Millennials and Gen Z. It will be very important to for organizations to provide frequent opportunities for this cohort to gain exposure to different business situations and challenges.

Agility & Critical Thinking

The adoption and implementation of ESG principles will require major strategic, operational, and structural change. These changes will impact employees, customers, and the organization's competitive landscape. The speed of change will increase the chance for both strategic and tactical errors.

Leaders, from management to the Board, will need to think critically, with emphasis on the second and third order consequences associated with such change initiatives.

ESG adoption is not a single-instance business challenge with a finite time horizon, such as the implementation of a software program, or the launch of a new product. Rather, it is many business challenges linked together across different timeframes.

Difficult business conditions have always existed for managers and executives, but the simultaneous demand from business, government, advisory, and non-governmental organizations for these intangible but important skill sets is unprecedented.

A talent strategy that seeks to source and develop agility and critical thinking at all levels of the organization will be better positioned for ESG adoption.

Multi-Disciplinary Backgrounds

The high demand and limited pool of ESG competencies will require organizations to think broadly about the types of backgrounds and experiences that can be helpful in navigating ESG adoption.

Selection committees, as well as in-house and external recruiters, will need to broaden their searches to include non-traditional skill sets and backgrounds that can bring different perspectives, approaches, and solutions to tackle ESG challenges.

In addition to multi-disciplinary skillsets, it will be important to identify leaders that have had a healthy dose of failure in their careers. Some of Silicon Valley's most successful entrepreneurs and business leaders believe that experience with "failure" is an important component in achieving breakthrough innovation.

Organizations will need to harness the benefits of innovation and non-traditional thinking by creating supportive internal environments.

Innovation Mindset

Leaders and managers will also need to possess a positive "innovative mindset" approach to better adapt to the challenges they will face. This is more than a surface-level passion or emotional zeal for ESG adoption.

Executives need to be resilient in the face of uncertainty, complex initiatives, shifting goal posts and contradictory perspectives among key stakeholders.

Achieving meaningful progress on challenging objectives will require a sustained, focused commitment to change, with progress measured at times in millimeters rather than kilometers. Leaders will need to adopt a mindset that looks at objectives with different lenses and timeframes, but with a broad understanding that incremental progress is necessary to achieve mission-critical objectives.

SOLVING THE ESG TALENT EQUATION

Ultimately, it will become very important for organizations to understand how to bridge the gap between a finite supply of ESG-specific skills and the need for more complex strategy development and decision making. We see the following as some of the most critical elements needed for executives and organizations to successfully adapt:

1. **Establish clear mandates** which clearly outline the required competencies and attributes

2. **Ensure consensus** among executive selection committees and/or HR leaders about the types of background and attributes required

3. **Interview and rigorously test** for agility, critical thinking, and growth mindset competencies

4. **Be honest internally** about whether the organization has the right environment to harness the required competencies and make necessary changes

5. **Create development opportunities** for younger employees to experience unique business situations and enhance their critical thinking and agility at an earlier stage in their careers

CONCLUSION

In this article, we discussed the following insights:

- While ESG is not a new concept, **the scope and scale of ESG compliance is growing** in importance and complexity.
- There are **several considerations that will continue to increase the demand for the adoption of ESG principles**, including shifting portfolio strategies, a changing workforce, and the short supply of ESG skills and competencies—especially at the executive level.
- **Talent implications** within the corporate environment principally impact three distinct parts of the organization: the Board, C-Suite, and senior level executives.
- There are **four competencies required to adapt to ESG** implications: adapting business skills and experience; focusing on second and third-tier consequences associated with ESG change initiatives; broadening search criteria to include non-traditional skill sets; and adopting a growth mindset in the face of uncertainty.
- In the selection processes for mid-career and later-stage leaders, it will become increasingly **important to evaluate soft skills**, as well as the ability to influence, deal with ambiguity, and promote consensus rather than conflict.

ESG adoption will draw on and demand skills from executives in ways not yet seen, but adopting the principles outlined will allow for a much smoother transition.

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