A Case of Sustainability in Leadership

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Leaders For What's Next

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The financial services industry plays a pivotal role in the economy and society: facilitating access to capital and spending. Its activities deeply affect the lives of people, businesses, government and civic institutions. When it comes to sustainability, financial services has a key role to play, and the journey has just started.

In a 2013 landmark declaration[1] defining the financial sector's role and tasks, the World Economic Forum warned that trust between the industry, its clients, regulators, investors and society remained fragile. All stakeholders must work together to ensure the financial system fulfilled its economic and societal role, it signaled.

Nearly ten years on, the Edelman Trust Barometer[2] reported that trust in the financial services sector stood at 56%. This puts it close to the bottom of all the sectors surveyed, (only social media scores lower).

Nowhere is the imperative for sustainability stronger than in this wide-spectrum industry, and its leaders are striving to raise the bar.

But as a recent Amrop report reveals[3], any firm seeking to improve its sustainability performance must address an array of difficulties and strategic tensions. The role of the Chief Sustainability Officer (or equivalent) has become pivotal and multi-faceted. And financial services leaders face a particularly stringent regulatory and ESG reporting environment.

How does all of this play out in practice? Read on to discover how Amrop helped a major financial services player secure a sustainability leader with business acumen, domain expertise and passion.

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A legacy organization with eyes on the horizon

Active since the mid-19th century, our client is a large insurance and banking group serving several million customers with an emphasis on long-term relationships.

When it comes to sustainability, the organization takes a leading position. It emphasizes sustainable value creation, with long-term commitments to its owners, customers and society. Sustainable business is a core value.

Multi-dimensional compliance

The group adheres to the UN Global Compact and the OECD Guidelines for Multinational Enterprises, including the UN Guiding Principles on Business and Human Rights, and the Paris Agreement on Climate Action.

It supports the UN Principles for Responsible Investment and the UN Principles for Responsible Banking. It also supports the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) regarding accounting for climate-related risks and opportunities (details in the Appendix). It recently launched an ambitious climate road map. Its activities feed the UN's 17 global sustainability goals.

The group prioritizes four strategic sustainability axes, related to customers and the way in which it conducts its own business.

“We have worked with the client for many years,” says the Amrop Partner who led the assignment team. “We recently supported them with NEDs for subsidiaries and for executive and senior specialist roles. Amrop has demonstrated an ability to operate within different functional areas such as IT, Finance, and HR. We present a team that combines an understanding of our client and their industry, with functional expertise.”

A shifting position

The question of reporting lines is key to designing the role profile for a sustainability head, and no simple matter. The role was once typically part of the communications or HR team or a lone silo, but it is changing. Reflecting the migration of sustainability into the very heart of business decision-making and corporate strategy, today’s Chief Sustainability Officer (or equivalent) may well sit on, or report to, the top management team. But not always.

“We see an opposite trend in some organizations. As sustainability becomes more integral to the business, management appoint dedicated sustainability leads within each business area to have an impact on the ground,” says the lead Amrop Partner on the case.

In a further global trend, the CSO may be formally part of the finance team. This reflects two shifts: sustainability is today viewed as an investment rather than a cost. The second concerns the forensic demands of reporting; meeting these is a core competence of finance specialists.

The context

In the case of Amrop's client, the sustainability role had moved several years ago from Corporate Communications to Asset Management. The decision was made that the function should keep reporting into one specific business area, despite its group wide responsibility.

The new sustainability head would lead a dedicated team of four people, collaborating closely with a separate team of ESG analysts.

To compensate for not being part of the Executive Management Team, the Sustainability Head would also run a Sustainability Committee. This body is composed of all the group's business line heads (members of the Executive Management Team). As such, the attention of top management is secured and the role mandate is supported when it comes to driving the sustainability agenda. The Committee also ensures that the role stays plugged into the business, the organization's long-term perspective and its ambition to be a role model within sustainability.

A further shift concerned the components of ESG. E (Environment) and G (Governance) are now running trains in many organizations. Indeed, our client's focus is sharpening on the S (Social). Candidates would therefore be sought with experience working with the societal aspects of sustainability.

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Searching questions

"The fact that the role was not part of the Executive Management Team would certainly have an impact on candidate interest — especially seniors with leadership weight." says the lead Amrop Partner. "We had an open dialogue with the client concerning the pros and cons but in this case they confirmed that the business would be better served with sustainability as part of Asset Management.

"Our task was now to present the role in a way that would attract senior candidates. For example, we presented the Sustainability Committee and the positive reasoning behind this.

"The second argument concerned governance. Many organizations have seen a proliferation in specialist roles. This has led to an expansion in the number of people sitting on executive management teams. As a response, many are deciding as part of their governance to keep the top team compact. Our client was no exception.

"Another attraction point is that the group's sustainability team is building (even if it will remain centrally tight, as the business ultimately owns decision-making and implementation).

"Finally, and irrespective of where it sits in the organization, this remains a high-profile leadership and change management position. It is a heavyweight role that is anchored in the business. The head of sustainability runs a strategic committee and drives change across different divisions. Even if the role holder has expertise in sustainability and regulatory frameworks, he or she must also transcend this niche."

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The trust of the general population in the financial services sector stands at 56%. This puts it close to the bottom of all the sectors surveyed.

Nowhere is the imperative for sustainability stronger than in this wide-spectrum industry, and its leaders are striving to raise the bar.

Edelman Trust Barometer 2022: Global Report. Trust in Financial Services Sector. 36,000 respondents across 28 countries

The search strategy and process

Initial market insight

"It was critical to demonstrate Amrop's market insight and perspectives on the candidate pool to the client, where the best candidates tend to come more from core business than from group functions.

Yet we still meet a bright-eyed population with a sense of wanting to save the world. This risks a disconnect between eco-warriors and the daily business. It is in the business that one builds the trust and ownership needed to generate strategically relevant action, rather than goodwill tactics.

The candidate pool is quite young; many only started to work ten years ago and have spent their whole career in ESG and sustainability. It is difficult to find individuals that can step up to being part of a management team where they will face pressure to understand and develop a firm's business model."

Search universe and role profile

In addition to experience and expertise within sustainability and the relevant regulations, the candidates needed to demonstrate:

- Business understanding
- Project management and Stakeholder skills

Attracting the candidates

In the process, candidates sought reassurance on a number of factors:

- Strategic direction and ambition with regard to sustainability
- Resources to build a core team to drive implementation and assure monitoring
- Buy-in from senior management

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Delivery

The client met with several candidates representing different backgrounds, perspectives on sustainability, and seniority. Personality, cultural fit and senior presence were key — most candidates were quite young.

Success factors

CLARITY
Ensure candidates understand the organization's sustainability agenda and their potential role, with a clear view of the work and the commitment of the business to its execution.

ENGAGEMENT
Involve key client stakeholders in the process, including the CEO.

EQUILIBRIUM
Identify candidates who balanced business and product understanding, operations and strategy.

REASSURANCE
Answer concerns regarding the reporting lines and positioning of the role in Asset Management rather than Executive Management.

EVALUATION
Conduct a rigorous leadership assessment of the candidate.

FLEXIBILITY
The client adapted during the process: developing a view on how to structure and scope their sustainability work in function of the selected candidate. This openness proved a significant advantage.

FOLLOW-UP
Post-hire, check up on the candidate's integration into the organization and new role, supporting if necessary.

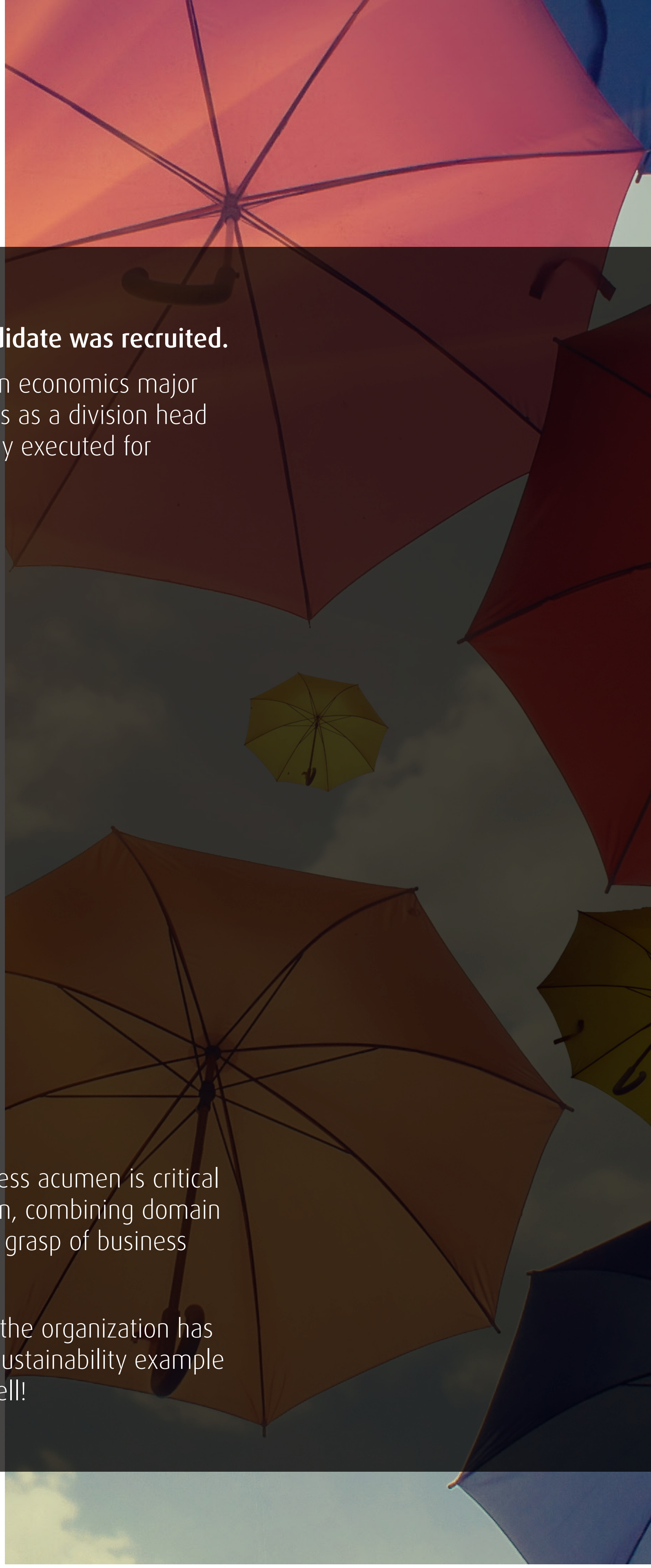
The solution

Following a ten-week process, the successful candidate was recruited.

The new Head of Sustainability for Amrop's client is an economics major with board experience. Their most recent position was as a division head of ESG for a leading corporate bank, a role successfully executed for several years, resulting in:

The successful candidate strongly believes that business acumen is critical to integrating sustainability into a mature organization, combining domain expertise with change management skills and a firm grasp of business dynamics.

Our client's new Sustainability Head is confident that the organization has the momentum to navigate the waves and act as a sustainability example in their industry. Amrop wishes the new executive well!



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Appendix

Principles for Responsible Investment (UNPRI or PRI)

This is a United Nations-supported international network of financial institutions collaborating to implement six aspirational principles.

Developed by investors, for investors, the Principles offer a framework of possible actions for incorporating environmental, social and corporate governance factors into investment practices across asset classes. They are designed to be compatible with the investment styles of large, diversified, institutional investors operating within a traditional fiduciary framework. As of March 2022, The Principles have more than 4,800 signatories from over 80 countries representing approximately US$100 trillion.

The Principles assume that environmental, social and governance (ESG) issues, can affect the performance of investment portfolios and should therefore be considered alongside more traditional financial factors if investors are to properly fulfill their fiduciary duty. They provide a global framework for mainstream investors to consider these ESG issues.

The Principles for Responsible Investment

Where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles.

Source: adapted from Wikipedia and www.unpri.org

UN Environment Programme Finance Initiative

With over 300 signatory banks (almost half of the global banking industry), the Principles for Responsible Banking are the world's foremost sustainable banking framework for banks to align their core strategy, decision-making, lending and investment with the UN Sustainable Development Goals, and international agreements such as the Paris Climate Agreement. The Principles for Responsible Banking include the climate-focused Net-Zero Banking Alliance.

The 6 Principles are designed to bring purpose, vision and ambition to sustainable finance. They were created in 2019 through a partnership between founding banks and the United Nations. Signatory banks commit to embedding these 6 principles across all business areas, at the strategic, portfolio and transactional levels.

6 Principles for Responsible Banking

1. Alignment: We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.
2. Impact and target setting: We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end we will set and publish targets where we can have the most significant impact
3. Clients and customers: We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations
4. Stakeholders: We will proactively and responsibly consult, engage, and partner with relevant stakeholders to achieve society's goals
5. Governance and culture: We will implement our commitment to these principles through effective governance and a culture of responsible banking
6. Transparency and accountability. We will periodically review our individual and collective implementation of these principles and to be transparent about and accountable for our promotion positive and negative impacts and our contribution to society's goals

Source: adapted from www.unepfi.org

Task force on climate-related financial disclosures (TCFD)

The Financial Stability Board (FSB) created the TCFD to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks related to climate change.

The TCFD recommendations on climate-related financial disclosures are widely adoptable and applicable to organizations across sectors and jurisdictions. They are designed to solicit decision-useful, forward-looking information that can be included in mainstream financial filings.

The recommendations are structured around four interrelated thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets.

Recommendations

Governance: the organization's governance around climate-related risks and opportunities.

Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

Risk Management: Disclose how the organization identifies, assesses, and manages climate-related risks.

Metrics & Targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Source: www.fsb-tcfd.org

New EU rules on corporate sustainability reporting: The Corporate Sustainability Reporting Directive

On 5 January 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force. This new directive modernises and strengthens the rules concerning the social and environmental information that companies have to report. A broader set of large companies, as well as listed SMEs, will now be required to report on sustainability.

The new rules will ensure that investors and other stakeholders have access to the information they need to assess the impact of companies on people and the environment and for investors to assess financial risks and opportunities arising from climate change and other sustainability issues. Finally, reporting costs will be reduced for companies over the medium to long term by harmonising the information to be provided.

The first companies will have to apply the new rules for the first time in the 2024 financial year, for reports published in 2025.

Companies subject to the CSRD will have to report according to European Sustainability Reporting Standards (ESRS). The standards were developed by the EFRAG, previously known as the European Financial Reporting Advisory Group, an independent body bringing together various different stakeholders. The standards will be tailored to EU policies, while building on and contributing to international standardisation initiatives.

On 6 June 2023 the Commission opened a four-week public feedback period on a first set of sustainability reporting standards for companies. These draft standards take account of technical advice from EFRAG in November 2022.

Following the feedback period, the Commission has considered the feedback received and adopted the ESRS as a delegated regulation. The Commission will submit the ESRS delegated act to the European Parliament and Council for scrutiny.

The CSRD also requires assurance on the sustainability information that companies report and will provide for the digital taxonomy of sustainability information.

Rules introduced by the Non-Financial Reporting Directive

The rules introduced by the Non-Financial Reporting Directive (NFRD) remain in force until companies have to apply the new rules of the CSRD. Under the NFRD, large companies have to publish information related to

- Environmental matters
- Social matters and treatment of employees
- Respect for human rights
- Anti-corruption and bribery
- Diversity on company boards (in terms of age, gender, educational and professional background)

These reporting rules apply to large public-interest companies with more than 500 employees. This covers approximately 11.700 large companies and groups across the EU, including

- Listed companies
- Banks
- Insurance companies
- Other companies designated by national authorities as public-interest entities

Source: www finance.ec.europa.eu

Sources

[1] *The Role of Financial Services in Society: A Multistakeholder Compact.* (2013). World Economic Forum and Oliver Wyman.
[2] *Edelman Trust Barometer 2022: Global Report. Trust in Financial Services Sector.* 36,000 respondents across 28 countries.
[3] *The C-suite Sustainability Struggle.* (2023). Amrop.

Further Reading

www.amrop.com

About Amrop

The Amrop Partnership is a premium leadership and executive search consultancy with 68 offices in 55 countries and a global team of more than 500 professionals.

We help our clients find and develop Leaders For What's Next.

Shaping sustainable success is our mission, craft and passion.

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