TIME TO THINK AGAIN ABOUT SOURCING ESG TALENT

Talent shapes the imperatives of ESG products and the fortunes of the firms that offer them. And right now, ESG is not at all well served by most executive search firms.

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One of the more tiresome genres of financial journalism is to do with environmental, social and corporate governance; fad or not fad? I will settle the issue for you: ESG will be a permanent feature of investment management from now on.

By the middle of 2021 asset managers had more than $35 trillion in sustainable investment assets under management; more than a third of all assets in five of the world's biggest markets[1]. Deloitte suggests that by 2024 this could more than double to $80 trillion[2].That is no fad.

Investment leaders are responding to what clients demand. More and more demand insight into the impact of their investment choices. What they do with that information is up to them. I will settle another issue for you: ESG is not at all well served right now by most executive-search firms.

Talent exerts a shaping impact on the products and services firms offer investors, and therefore on the fortunes of those firms. For C-suites, HROs, boards and compliance officers the necessity of getting the talent piece of ESG right is clear.

Finding the experts, first, to create ESG products and, second, to run them can feel like an impossible task; impossible because organizations cannot yet name with confidence the kind of talent they need.

The engagement advantage

Five years ago, an ESG manager might direct a team of three to five people. The job was as much about the gritty side of implementation and reporting as it was about being a function leader. The other part of the job was twisting the arms of portfolio managers to take ESG seriously.

For a long time, the backhanded compliment to ESG was that it was the defense active managers had against outflows to passive investments. The argument was that, given its imperfect data, passive could not compete with active if asset owners needed to measure the impact of their investments on social-risk factors.

Because the quality of nonfinancial data on which ESG relies is increasing exponentially, passive investments will soon be able to provide their own insight into the impact of their fund(s). And still ESG remains the strongest defense for active managers. This is because of what I term “the engagement advantage.”

The engagement advantage has often been overlooked in the pressure to prove the rigor of sustainable-investment analysis. Active managers, unlike a passive investment, can engage with the senior managements of portfolio companies. They can use this engagement to cause change and improve outcomes.

Now that ESG has established its credibility, we expect the ESG industry to focus their attention on engagement. This will—or should—create a host of talent challenges.

[1] Sustainable investments account for more than a third of global assets. Simon Jessop. Reuters Sustainable Business. 2021, July 19.
[2] Lauren Taylor Wolfe says it's just too risky for investors to ignore ESG amid recent pushback. Leslie & Ritika Shah. CNBC. 23 September, 2022.

More than mere 'candidates'

Before assuming my current role at Sheffield Haworth, I acquired considerable experience in the world of what was then called SRI (socially responsible investment). I like to think that this gave me deeper, more long-term relationships than my contemporaries at firms much larger than my own. I can say from experience that the search for ESG talent—the right kind of ESG talent—needs to be conducted at a strategic level, which is to say at a level dramatically higher than the conventional hunt for mere "candidates."

The idea of ESG has been with us not 20 years[3]. Talent strategy in this segment has yet to be standardized. The range of talent strategies, if they can be called strategies, has been so diverse that the sector was a little like the Wild West.

As the operational issues required to succeed become better defined a new talent discipline is taking shape. We are now seeing the beginnings of a broad convergence on an optimal approach to ESG talent strategy. Though by no means universal, the industry is gravitating toward separated ESG analyst teams and investment analyst teams. The trend is especially pronounced in bigger firms like BNP Paribas, Amundi and BlackRock.

Environmental	Social	Governance
Renewable Fuels	Health & Safety	Ethical standards
Greenhouse Gas (GHG) Emissions	Working Conditions	Board diversity and governance
Energy Efficiency	Employee Benefits	Stakeholder engagement
Climate Risk	Diversity and Inclusion	Shareholder rights
Water Management	Human Rights	Pay for Performance
Recycling Processes	Impact on local communities	
Emergency Preparedness		

To be blunt, executive search has still not fully wrapped its head around ESG talent strategy partly because of where compensation has been until recently. Many search firms are still learning that the ESG expertise I am describing is not necessarily drawn from the traditional pools of financial talent. It is more profitably drawn from data providers, banks, research houses and NGOs. It requires both industry expertise and ESG expertise. Most search firms which cover ESG have one or the other. We can cover both.

Consider it this way: in general, equity analysts are equity analysts. The ESG talents needed for the future fit no such box. The best will come with a portfolio of hard and soft skills, equipped to exploit the benefits of technology without losing perspective on the broad and often unsettled operating environment.

ESG relies on alternative data. An ESG analyst translates a qualitative measure—the health and safety record of a company, for example—into a number that a portfolio manager can use. Not many people in the world have the rigor to do this well. Most businesses are still learning how to report such nonfinancial information. This translation deficit remains a central challenge of ESG, and a high barrier to entry.

[3] "The Remarkable Rise Of ESG." George Kell. Forbes. 2018 July 11.

Facilitated with data analytics—AI and machine learning specifically—is extremely important and still only 20 percent of the talent equation. At least as essential to the ESG skill set is attention to the regulatory and political environments surrounding sustainable investment.

These environments are dynamic, to say the least. In some U.S. states for example, application of ESG investment criteria is, for now, banned among certain pension funds. Although this ban may be short lived it will surely have an impact on the fortunes of an asset-management team.

ESG talent acquisition needs broad, consistent approaches to hidden pools of qualified talent. Those pursuing ESG as a career demand purposeful and impactful work. An employer that meets this expectation will attract and retain a new kind of committed talent, and the rewards committed talent delivers. After all, if it is one of the critical defenses against passive, surely this should be a priority?

When the investment is talent

The role of a human-capital firm like the one I work for is, in a way, to be an investment advisor when the investment is talent. Like any good investment advisor, a search firm's job is to understand the client's goals in the context of the wider world in which they operate.

A good talent advisor proceeds in a detailed tactical way derived from what the client needs. Helping that client first understand its needs is the place to start. With respect to ESG, this understanding establishes the terms of a forensic investigation of the industry and the available pipelines of talent. It includes broad acquaintance with the styles of competitors as they seek to make their own ESG offerings distinctive.

There remain perhaps another three years for firms to shape the talent standards to their advantage. Financial services, is, ultimately, a copycat industry. If you have market-leading talent you can shape standards to your own strategic interests.

The time to get ESG talent right, as always, is now.

About The Author

Tom Eagar is a Consultant at Sheffield Haworth leading the cross-industry ESG practice.

In addition to Tom's global oversight of the ESG practice, he is a core member of the Asset Management practice; within which, he focuses on all aspects of talent acquisition, development and retention across financial services, working with Institutional Investors, Sovereign Wealth Funds and Asset Managers.

Post Covid, Tom has been instrumental in helping clients better position themselves against the threats and challenges facing the industry and helping to capitalise on structural changes in the overall marketplace and the opportunities that those changes offer. The profitability of financial services firms is under pressure on many fronts, not least of which now include rapidly advancing technology trends, and new and evolving customer and client behaviours. This is where Tom has also been heavily involved driving change and reengineering efforts.

Prior to joining Sheffield Haworth, Tom worked at Per Ardua Associates, where he was responsible for research across Asset Management, Real Estate, Insurance and Retail Banking. Before that, Tom was an Associate Consultant at a commodities specialist search firm, where he led the commodities lending, treasury and CFO portfolio for Europe.

Tom graduated from Sheffield University with a first in History.