

The challenge and opportunity for accelerating sustainability in financial services

The sustainability 'balancing
act' for financial services



Navigating the push and pull forces

Is there a correct answer to dealing with sustainability? Financial services are in the line of fire from mounting stakeholder demands on sustainability, including activist investors and engaged clients. So how can they rise to the challenges of creating an authentic sustainability approach and successfully embedding it throughout the organization?

In driving better outcomes for society and the environment, the role of financial services has become far more significant than governing and reporting on their own ESG performance. This sector needs to steer sustainable development by environmental and socially conscious financing, underwriting, claims management and investment decisions.



Yet the growth of sustainability has created a challenge for many leadership teams. The financial services sector is different from other industries: organic adoption of sustainability throughout an organization isn't innate. Regulation is pushing sustainability to the top of the agenda; in addition to increasing regulatory requirements, companies are being pulled to deliver an overarching, authentic, sustainable purpose by their own employees, and to deliver on clear sustainable benchmarks by customers, investors and other stakeholders.

To help, we've outlined next steps for organizations to operationalize sustainability and to achieve the benefits of a holistic approach. In this report we analyze the findings of our ESG survey interviews with leaders in financial services organizations. The majority of these organizations were headquartered in EMEA.

We found that many financial services companies struggle to translate the external pressures driving the sustainability agenda into tangible business priorities, and to create a credible sustainability story for their organization. Finding the correct answer on how to deal with this sustainability "push and pull" is proving a balancing act.

"It is in every company's interest to drive sustainability forward and embed it into their structure. They may say it's not part of their DNA- but they need to wake up because it's here to stay."

Who we spoke to



Insurance, reinsurance and banking organizations overseeing USD 25.000 bn in asset value



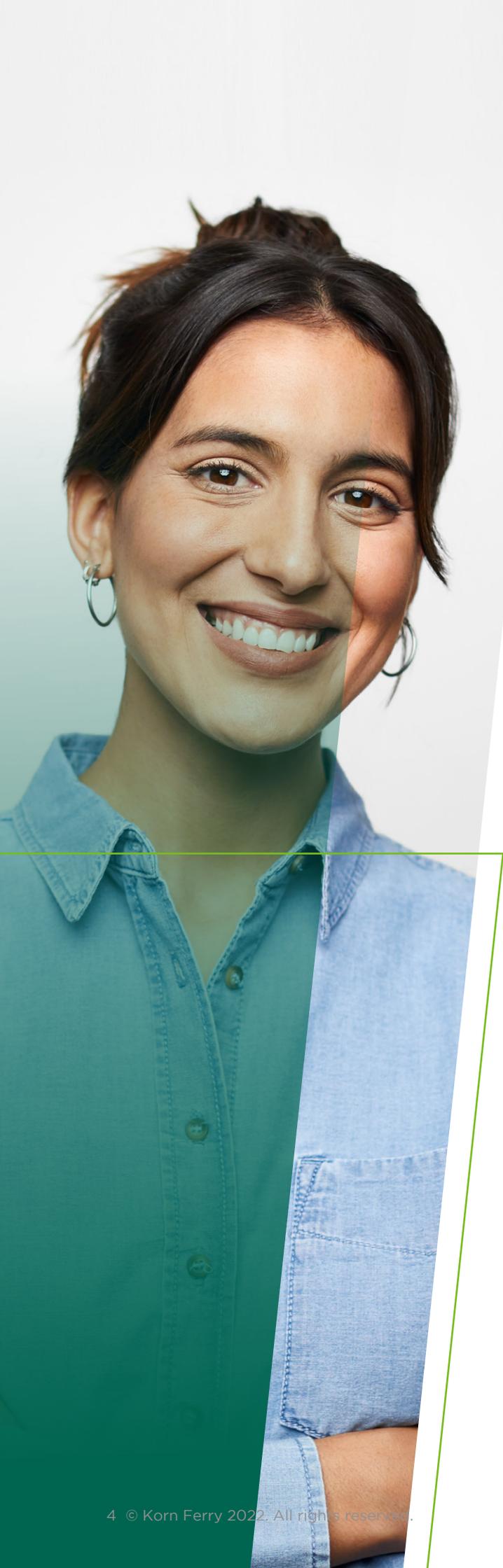
Covering 1 million employees across the globe



24 institutions, majority headquartered in EMEA



Survey-based, structured interviews, mainly with CSOs



Sustainability drivers – don't ignore the 'Ask.'

It's no secret that sustainability has come to many financial services institutions from outside. Sustainability approaches have not historically been subject to strategic processes. Yet the need to operationalize sustainability continues apace. As a result, companies have a strategic imperative to navigate the balancing act between juggling multiple sustainability demands of different drivers, from regulators to peer groups, clients, activist investors and employees.

Companies are facing increasing pressure to demonstrate and act sustainably from different groups. Different stakeholders influence sustainability take-up, although our research found more intense pressure from external stakeholders such as regulators (84%) and shareholders (59%).

Increasing pressures

Due to increasing regulatory requirements, many organizations have started down the route towards sustainability. However, from a cultural and mindset change perspective, the pressure from external stakeholders can be a limiting factor, as it prompts a reactive response to sustainability. Companies should address translating this reactive purpose into something more proactive.

Opportunity

Yet the growth of interest in pursuing sustainability presents an opportunity and can lead to multiple organizational benefits. EVP is one such opportunity. Employees increasingly want to contribute to a more sustainable world in every part of their lives. A responsible, authentic approach to sustainability will create an employer of choice: it's proven to increase employee retention as well as deliver a better work/life balance.



“From a cultural and mindset change perspective, the pressure from external stakeholders can prompt a reactive response to sustainability. But companies should translate this into something more proactive.”



Sustainability maturity – growing up in 2022

The sustainability maturity model

Our study found we can frame corporate approaches to sustainability in terms of four stages: basic, progressing, advanced and leading edge. We've combined Korn Ferry's corporate structure framework, which addresses five core dimensions: strategy, culture, mindset, business, operating model, with our sustainability maturity model to assess where companies are on the maturity stage.

01

Basic

- Regulatory enforcement
- Adherence to social, health and environmental standards

02

Progressing

- Operational eco-efficiencies
- Resource conservation, reduced carbon foot-print and waste management
- Maximizing reputation and shareholder value
- Continuous learning

03

Advanced

- Sustainability embedded in company values and practices
- Cleaner and eco-effective products (competitive edge)
- Sustainable economy

04

Leading Edge

- Industry disruption and transformation
- Alliances and partnerships
- Ecological re-design and biomimicry (societal impact)
- Business focus on profit, people and planet (triple bottom line)

Industry variations

Our study found that financial services organizations typically show different stages of sustainability maturity. Reinsurers focusing on commercial lines are ahead compared to primary counterparts, as their clients have a closer link to sustainability. Industries outside of banking and finance are often further ahead in thinking about sustainability as their business models are more directly linked to aspects of sustainability; from energy consumption to child labour, sustainable production and lower consumption of meat. For financial services, the impact and association with sustainability is to the largest extent indirect.

From focus to a broader lens

Korn Ferry's findings show there are many players between progressing and advanced maturity levels, although there is some variance in the influence of sustainability on the business model. Many companies struggle to operationalize strategic purpose and strategy into something tangible.

“One interesting observation is that companies at the early stage of sustainability tend not to have a focus. Instead, they often have a strategic picture around sustainability, which is sometimes linked to the overall corporate strategy. But the missing link is translating this into clear focus and connecting it with tangible goals such as the UN SDGs,”

explains Dominik Dreyer, Senior Client Partner at Korn Ferry.

Companies in the progressing and advanced stages are clear on strategy and generally link their sustainability strategy to corporate strategy - or part of it. As a result, they will focus on several sustainability topics and feel that they can't drive everything simultaneously. Conversely, leading-edge companies will often say they don't have a focus because the issue is so important that they need to throw as many resources as they can onto sustainability and drive everything. For less mature companies, this approach would be overwhelming.



“Is there a right approach? That's a good question. I think it should depend on the organization itself- what does leadership want to achieve and what can they sustain, and what is the credible positioning for each specific organization?”

Finding the right answer on how to deal with sustainability is a balancing act for many financial services companies.

THE PURPOSE QUESTION

To a large extent, the **pressure on sustainability** is coming **from outside** of the organization. The **strategic purpose** is often **rather reactive** than proactive

THE GRASSROOT CHALLENGE

Sustainability initiatives started where **individuals felt a call for action** - not necessarily **consistent** and with a **joint ambition**. Now, CSOs often need to **"backward engineer"** a **strategy**

THE BALANCING ACT AROUND REGULATION

Regulation **promotes** sustainability. At the same time, it creates a **sense of "have-to"** and **"potentially harmful"**. Getting **out of the reactive corner** is a **prerequisite** for **mindset change**

THE TONE FROM THE TOP

The **ExCo** is crucial in **translating** the outside asks into **strategy** & executable **business priorities**. A **clear, credible** and **observable positioning** creates **"aha-moments"** & **shifts mindsets**

THE SHARING OPPORTUNITY

Everyone has an **opinion** about sustainability and many **want to be involved**. Creating these **opportunities** within a clear **purpose unleashes** the **potential** and **creates identification**

THE POWER OF THE "INFORMAL"

Informal networks of **promoters** of sustainability are **crucial** - also for the impact of CSOs. **Development** of **talent** and **leadership** continuously **grows** the **"fan base"** of sustainability

Challenge and opportunity

Finding the correct answer on how to deal with sustainability is a balancing act for many financial services companies. ***"There is significant pressure on companies from different dimensions to embrace sustainability, which means pursuing a sustainable agenda can become a risk and a challenge. But sustainability should be more than a reaction - it's about developing a positive approach that is everywhere of an organization and part of its DNA."*** explains Patrick Maeder, EMEA Financial Services Consulting Leader, Korn Ferry.

We identified critical challenges of external pressures, an initial grassroots approach to sustainability and regulatory demands. These multiple drivers to sustainability often result in a broad and disjointed network of sustainable activities that need to fit together.

Most organizations started to address sustainability years ago and now typically have many ongoing initiatives - yet these aren't necessarily organized into a cohesive shape, nor are they fully linked to a corporate strategy. Leadership and management teams will often face the task of 'backward engineering' a strategy around different sustainability initiatives to ensure a consistent approach that's aligned with the corporate strategy, purpose and growth path.

A question of purpose

It's key to avoid regulatory-driven, reactive positioning and instead look to create a story with a common strategic theme that is clearly articulated and goes beyond the organization. With a strategic purpose and clear positioning, it's far easier to start shifting mindsets and building a sustainability culture.

Internal Structures

We found that internal sustainability structures can vary significantly, including distinct sustainability teams and sustainability experts in the communications team. Whatever the structure, the key to being successful is ensuring the support and the priority of the senior management.

“How many companies actually have CSOs? Almost all of them have someone who’s responsible for sustainability, but they have very different titles. Our research showed it doesn’t matter whether you call them CSO or another title that directly reports to the CEO; it’s more important to have the internal mechanics and the support of Executive Committee members to drive the sustainability agenda,”

explains Dominik Dreyer.

Tone from the top

Our findings also show that the role of the Executive Committee is crucial. Setting the right tone from the top is vital to succeeding in sustainability: organizations that deal successfully with sustainability use informal networks of promoters, with an organizational ‘fan base’ to drive the topic forward.



“It’s less about institutionalizing it, and more about formalizing sustainability. Having the people that understand this topic, and drive it with the support of senior management or the Executive Committee.”

What’s stopping you?

There is no single challenge in activating an organization to sustainability. Instead, our findings showed that **time and budget** are the leading individual challenges, mainly related to the effort to meet regulatory requirements and fulfill reporting standards.

50% of organizations see challenges around **trade-offs, mindset and resistance** and that sustainability is “taking something away” as significant barriers. Many players still see business-related trade-offs as “yet to come”, and the full implications of decisions made now will take some time to come through.

Translating sustainability into an internal purpose and establishing it within an organization’s mindset can be a vital issue for many companies, as sustainability is associated with regulatory and reporting requirements and not with aspiration and purpose.



Dimensions of sustainability

	Environment	Social	Governance		
Purpose & strategy	Vision and purpose	Ambition	“Right to play”		
Culture & mindset	Mindset and behaviours	Diversity and inclusion	Movement		
Business & operating model	Products, services, markets	Growth path and distribution	Asset management	Alliances and partners	Risk management
Governance	Organisational embedding	Targets and KPIs	Compliance with standards	Reporting and transparency	
Leadership & talent	Talent acquisition, pipeline and management	Leadership and team development	Individual success profiles		

“Beyond mindset change, investment in talent and new skills is crucial to operating an environment where sustainability plays an elevated role.”

Touching the DNA of the entire organization

Sustainability should involve a whole organization and its ecosystem, although we found that it's not yet embedded in the DNA of many financial services companies. So, the imperative is to take a holistic view, and organizations to become fully "ESG-enabled" by answering five critical people questions that provide a robust framework for setting a sustainability strategy.

The five dimensions of sustainability

1. Purpose and strategy

From a purpose and strategy perspective, companies need to be proactive. Avoid regulatory-driven, reactive positioning, and create a purpose and vision that goes beyond the regulatory culture. A consistent voice will help shape your organization's understanding of its approach sustainability but requires communication and persistence.

2. Culture and mindset

Tone from the top, bottom-up identification can support a sustainability mindset, and it's essential that advocates of sustainability Executive Committees at a leadership level send the right tone right back into an organization. This attitude plays a crucial role in translating what comes from stakeholders into sustainability strategy and business priorities. **"I'd want to see a change in culture and mindset if a company is serious about embedding sustainability,"** says Patrick.

3. Business and operating model

Products, services, and markets should all form part of your sustainability approach, embedding ESG standards into advisory services, as well as products. Clients increasingly want sustainable advice and new sustainable products and services - a drastic shift in financial services over just a couple of years.

4. Governance

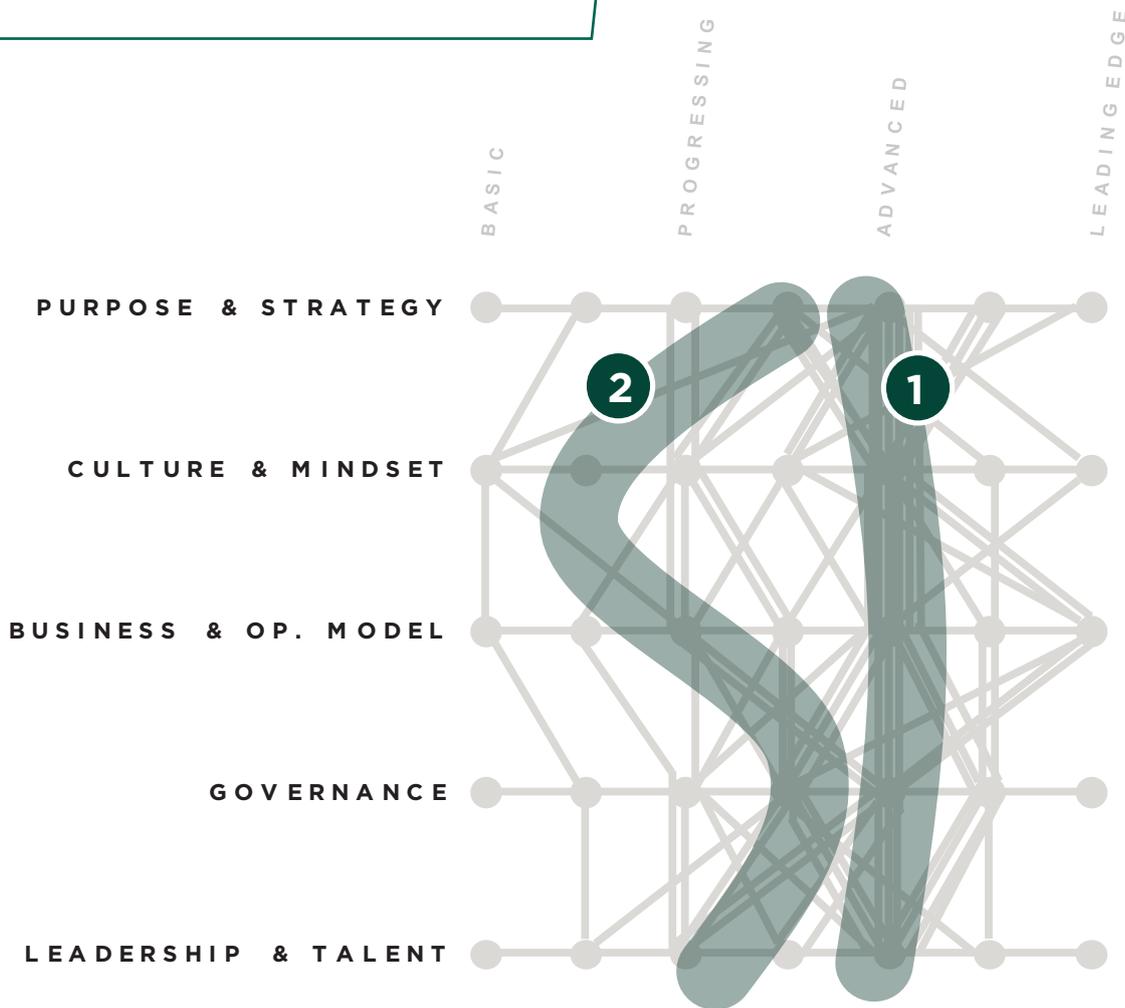
It's more important to have a robust external driver supporting the sustainability team than a predefined setup in terms of role or structure. Key also is having the proper mechanics in place so the sustainability team can drive everything forward. While the board is typically pushing for sustainability, the Executive Committee is the 'make or break' that enables the CSO and sustainability team.

5. Leadership and talent

Communication, stakeholder and leadership alignment are essential to infuse your organization with sustainability. Executive Committees should make the first step - particularly the CEO. Emphasize the need for skills and training: there's a vast talent scarcity in sustainability, and it's only going to get bigger. Plan how to find people with the right sustainability mindset, together with expert industry knowledge and experience. Hiring someone from an NGO isn't good enough.

When we overlay the four stages of sustainability maturity with the five organizational dimensions, we find financial services companies show two distinct maturity patterns. No two players are positioned precisely the same way. Instead, players are either consistently advanced in the five dimensions; or 's-shaped' players, who are well-positioned regarding their purpose and strategy, however with a correlated weaker focus on the cultural, mindset, leadership and talent direction.

1. Companies consistently in an "advanced" stage
2. Companies well positioned in their purpose and strategy, however with a weaker focus on the culture, mindset, leadership and talent dimensions dimension



One Korn Ferry client explained that creating a new role of Chief Sustainability Officer had a pivotal impact. The function provided market insight in terms of strategy, operating model, design and talent. In turn, the person influenced decision making and senior appointments across impact investing, sustainable financing and the broader portfolio.

Key takeaways – how to shape your sustainability model

How can you manage the balancing act and navigate that push and pull between reactive and proactive? Organizations must take a holistic view and address each of the five dimensions in detail, starting out with realistic aims and a longer-term plan. **“It’s also really important to establish some priorities and not start to run before you can walk: what is realistic and achievable now, and where would you like to be? What do your clients want to see?”** asks Patrick.

10 aspects that can help shape the way towards sustainability

Purpose and strategy	<ol style="list-style-type: none">1. Review your purpose around sustainability. Is it ambitious? Proactive? Concrete?2. Articulate your sustainability vision/strategy that goes beyond regulatory requirements and reporting standards
Culture and mindset	<ol style="list-style-type: none">3. Set a proactive tone from the top, beyond regulation, and communicate persistently4. Create room for your employee-inspired landmark projects that foster identification with sustainability
Business operating model	<ol style="list-style-type: none">5. Get the focus right: with credibility and products and services, capabilities and resources6. Pro actively balance trade-offs and create commercial impact
Governance	<ol style="list-style-type: none">7. Make the most of the Executive Committee to strengthen the impact of your sustainability team on the organization8. Strengthen your informal network and promoters of sustainability within the organization – and start institutionalizing
Leadership and talent	<ol style="list-style-type: none">9. Grow the mutual influencing top-down/bottom-up - align performance management and rewards10. Address the skills and talent gap to get to a growing ambassador base

“It’s in every company’s interest to drive sustainability forward. It adds significant value and provides more opportunity for growth.”

Final thoughts

Many companies struggle to operationalize sustainability into a strategically cohesive framework. But wherever you are on your sustainability journey, the key to your success will be creating moments of identification with sustainability that all your stakeholders - from customers, to shareholders and investors, community and employees - can identify with. This will ensure authenticity, generate internal and external trust, and build support across the entire ecosystem.

There is no single correct approach to embedding sustainability; whatever route you choose will fit the level of sustainability your business has already reached as starting point. What is clear is that regulatory push and the investor and client pressure aside, the benefits of embracing sustainability far outweigh the challenges. All organizations should see investing in sustainability as an opportunity and not a threat.

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