

ESG – Transforming a complex topic into practical actions

ESG is of increasing importance to governments, businesses, and the wider society, with significant efforts being made globally to tackle the complex subject. What is clear is that we can no longer look at ESG as a hygiene factor and the expectation is that organisations, across the globe must lead by example. There is a myriad of ways this may be done, such as decarbonising their own activities, through diversity and inclusion, by respecting human rights, and being mindful of its supply chain, to name a few. But as a starting point, organisations now must have a clear strategy in place, or risk being left behind.

Increasingly investors are favouring sustainable businesses, with Blackrock's CEO, Larry Fink, famously writing that 'a climate risk is an investment risk' in his annual open letter, to CEO's. We are seeing trends within the investor market, particularly with European investors asking more questions about sustainability and ESG, with US investors following suit. We've also seen investors across China and Japan recently increase their focus on the topic.

This coincides with consumers questioning the sustainability of their products, and associated Scope 3 emissions, caused throughout the value chain.

However, a desire to act sustainably does not come without its challenges. Globally, businesses of varying size, face the challenge of converting ambitious targets into clear actions, with no silver bullet or clear roadmap. So, what practical steps can be made to translate commitments into reality?

A seat at the table

A clear sign of intent is creating a subject matter expert role at Board level. As organisations face a sustained period of disruption (Energy transition, Electrification, Decarbonisation, Digitisation), this is a perfect opportunity to understand the synergies that can be achieved at a group level, with a focus on sustainability/ ESG. Ensuring that sustainability is embedded across all business strategies and activities will drive a common purpose, allowing the Board to take advantage of the huge opportunities and business advantages ahead.

Like any senior leadership position, those in post must be able to incorporate ESG/ sustainability into their organisation's corporate objectives. Executive sponsorship is essential if high-level targets are to translate into tangible activities, outcomes, and behaviours.



Science Based Targets

Having a clear governance framework in place is important and working to science-based targets is the gold standard of accreditation. This should be monitored, and independent audits are important to understand where you are against your ESG strategy. Such audits undertaken by the likes of MSCI should be transparent and made publicly available to ensure no stones are left unturned.

This is more complex when it comes to Scope 3 emissions, and organisations need to work closely with their strategic suppliers to understand their indirect carbon emissions from their supply/ value chain. It is crucial that larger organisations collaborate and offer support to their suppliers as they also start their ESG journey. This may be financial, or it may be sharing ideas and best practices, but it is the responsibility of all businesses to work to the same common purpose, rather than seeing this as a competitive advantage.

Repositioning ESG from cost to benefit



Whilst there is likely to be an initial capital investment, with time, businesses will see both savings and broader strategies succeed. It will not be long before the wider business buys into acting sustainably, experiencing benefits that impact themselves and wider society. We may not be seeing this tipping point in terms of behaviours yet, but this is rapidly approaching. If employees see that actions are aligned to the values and mission, it can galvanise an organisation, however conversely those that misalign and are seen as propaganda, may run into issues.

Some organisations are now linking individual's long-term incentives to ESG performance, which is clearly a lever to pull, while others recognise that they must act now, to avoid being left behind.

In addition, by setting an internal cost of carbon, you can then help set a budget for executives around that and reward carbon reduction targets to offset financial performance that may be impacted by the necessary investment.

There is no question that ESG and sustainability is of increasing importance to consumers, stakeholders, and executives and whilst navigating through the topic's complexity can seem problematic, practical steps can be made to shift the dial. There is no specific roadmap or one way to succeed, but there are some clear strategies in place and levers to pull to drive change.

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