

# KEYNOTE INTERVIEW

## Changing of the guard



*With \$30 trillion due to be inherited by mission-driven millennials, smart organisations are prioritising ESG, says Anthony DeCandido, partner and financial services senior analyst at RSM*

**Q How have attitudes towards environmental, governance and social issues evolved in recent years?**

There has been a growing recognition that ESG provides an opportunity for organisations to connect with their stakeholders. It enables them to showcase a commitment to organisational values at a time when investors, employees and consumers are increasingly concerned with a company's mission and purpose – the reasons why it does what it does.

The second important point to make regarding the evolution of ESG is transparency. The idea of a justified level of transparency began with the Dodd-Frank Act in 2012. Today, stakeholders and investors expect to be able to look at the mechanics of a business,

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to understand its “why”, and to get a sense of its corporate culture.

Finally, while opinion remains divided, a growing proportion of the business world does now believe that adopting ESG behaviours drives superior financial results. The empirical data is there, and although some are still unconvinced, this is an area where we are seeing real progress.

**Q What are the underlying drivers behind ESG's rise to prominence?**

First and foremost, it is about demographics. In 2019, millennials overtook older populations in the workforce and

the spread between millennials and boomers is only going to grow over the next few years. That is important because millennials are far more mission-focused than their predecessors. They are also likely to inherit approximately \$30 trillion over the coming decades.

Those in c-suite positions need to be cognisant of the fact that these individuals will be the ones driving corporate change going forward. They will be your employees, they will be your customers, and they will be your investors. All these things combined are creating real momentum behind the demand to see good done in the world, and not just financial returns.

**Q What impact has covid-19 had on the ESG narrative?**

ESG was already becoming an important agenda item before the virus, but covid-19 has certainly enhanced the investment case for addressing non-financial risk. There is more emphasis on elements of ESG, such as disaster preparedness, continuity planning and the treatment of employees, in particular. Companies today should expect to be asked more questions about resilience and contingency planning as a way of assessing long-term performance.

### **Q Why was the US election result so critical for the future direction of ESG?**

A Biden victory will clearly accelerate enthusiasm for ESG. Unlike his predecessor in the White House, the US president-elect is highly focused on mitigating climate change and has stated his desire to see the United States shift away from fossil fuels to green energy. We have also seen a lot of discussion around economic inequality from the Democrats. I think those issues are set to gain traction in the political and corporate world.

### **Q Does climate change remain the number one focus given today's other social challenges?**

Biden has been vocal in saying he views climate change as the greatest threat to US national security today, so while there has been a lot of focus on social challenges in the news, climate remains the more pervasive of the two.

I also think Biden's national plan around the environment is a bit more robust. There are concrete plans around reducing emissions and investment in clean energy technologies and infrastructure.

Granted, in some areas, that will play into advancing social justice – but the two are not mutually exclusive – but I do think the emphasis remains on climate-related issues.

*“[Millennials] will be your employees, they will be your customers, and they will be your investors”*

### **Q What about recent events highlighting racial and gender equality? Are those shaping perceptions within private equity?**

Private equity is a vertical where the representation of women and people of colour in senior roles is pretty dire. The asset class is a long way behind in that regard. Work from home mandates following the covid-19 outbreak may play into caretaker skillsets, and we may see some increase in female leadership as a result.

However, the problem is that private equity is a scaled business – by which I mean you could be managing over \$1 billion but still only have a team of 25 professionals or fewer. It can be challenging to solicit the right talents you need as a firm and to address diversity when you are working with organisations of that size. Larger corporations have far more infrastructure around marketing, communications, and HR with which to attract diverse talent and then to ensure all individuals are empowered to be successful.

### **Q What role will the availability of data play in the future of ESG?**

Groups that have done the best with ESG have been those that have been

able to assemble, organise and then evaluate data. But it is not straightforward. We see a constant struggle between data abundance and a lack of data availability. We also see issues around data type and data quality. For example, should an organisation self-report, or leverage external data? Should it use publicly available data or private data?

Covid-19 has highlighted just how critical the answers to these questions can be. For example, World Health Organization reports on disease spread are likely to be outdated by the time they are produced, when compared to what subway travel or OpenTable reservations can tell us about socially distanced consumer behaviour almost immediately. This emphasis on data will be important for the future of ESG because, ultimately, what the market wants is to be able to trust what it is told. In that way it is no different to financial performance.

### **Q Is the mid-market lagging behind when it comes to ESG?**

ESG is still underdeveloped in the mid-market. Education is very important. Clients want to understand what frameworks they should be using and what key performance indicators they should be evaluating. But, more than anything, what our mid-market clients want is some form of radical simplicity.

There is so much information out there that it can be challenging to assess what is right for you. What I would like to see is more companies adopting enhanced risk management practices and then implement ESG into corporate strategy as a way to achieve better financial and non-financial performance. They can then move on to absorb these practices as part of their mission – to appreciate that we are all better served when companies align their goals with the goals of society. ■