

EXECUTIVE TALENT



AESc

*Dedicated to
Strengthening
Leadership Worldwide*

Volume Eighteen

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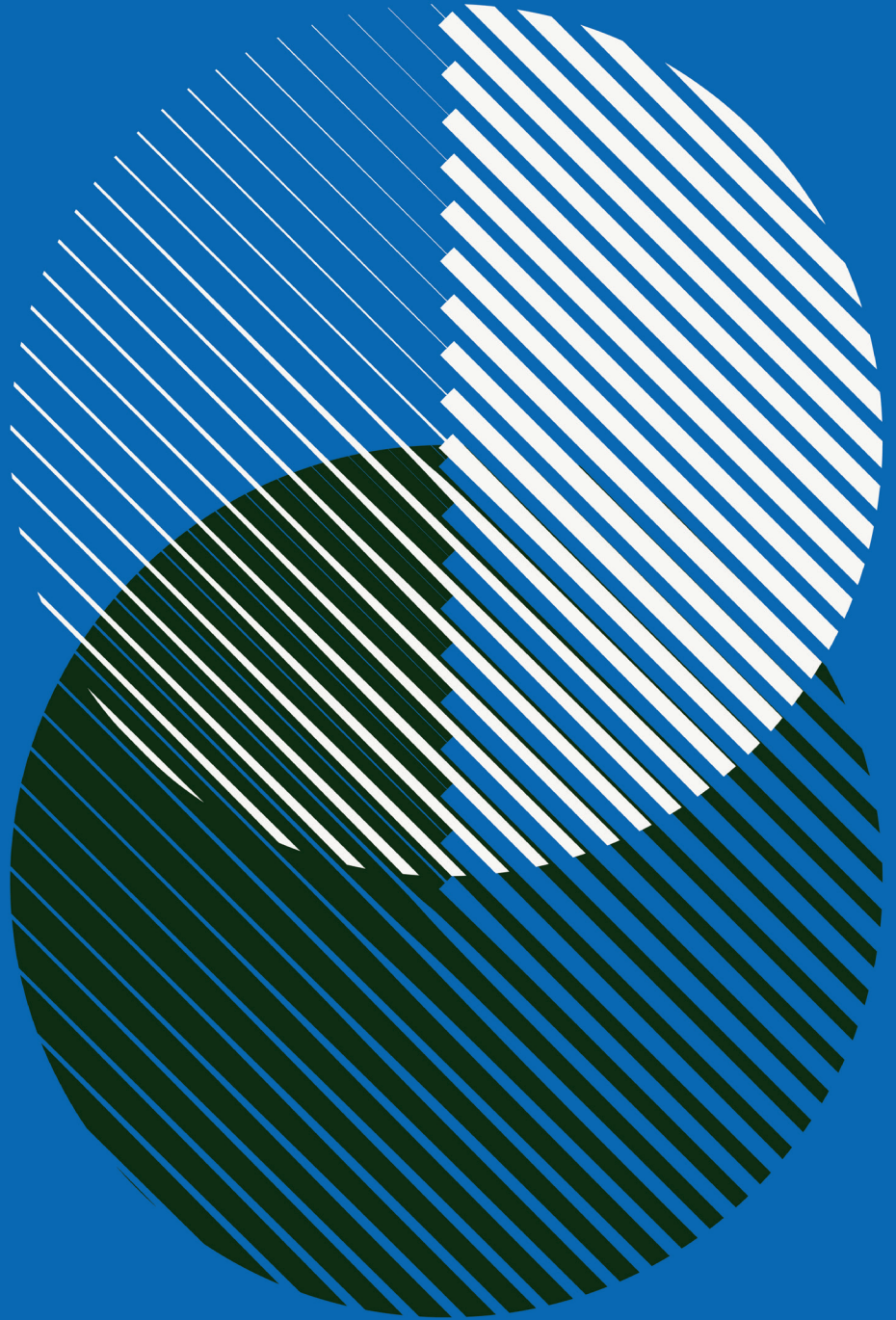
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THE BUSINESS OF BELONGING

How quickly the world can change.

In our last issue, we were concluding a year-long celebration of our association's 60th anniversary. And here we are now, not only in a new decade, but also navigating a new world.

As we at AESC have spent the past few weeks grappling with many of the sudden changes that many organizations worldwide have faced, from moving to an entirely virtual workforce to confronting a completely different business dynamic, I have been thinking a lot about culture. How culture shapes how we lead, how we connect, and how we serve.



Welcome to
Volume 18
from Karen Greenbaum,
AESC President & CEO

A strong culture will empower us to excel through the best of times and can open us up to unforeseen opportunities in times most challenging. As I speak with AESC Members around the world, it becomes quickly apparent how the cultures of their own organizations shape their adaptation to our new normal and allows them to move forward with agility.

As a profession, we have gained new perspectives over the past few weeks on knowledge long-held, while also discovering new insight:

LEADERSHIP

Agile leadership has never been more imperative for organizations to compete. The future is now and change is the only constant. As a testament to the rapid rate of change, we've all just experienced the whole world change overnight. Leaders must be able to fearlessly embrace whatever change is thrust before them, quickly adapt, and uncover the opportunities among the challenges.

CONNECTION

Soft skills rise to the top and empathy leads the way forward. We have ways to connect we could barely even imagine only a short time ago. Connection is fundamental for an organization to live its purpose, for leaders to unite and mobilize their talent and for us to leverage the power of diversity. Empathy is a superpower that the best leaders will have. They will understand how to use their superpower to foster inclusive and innovative cultures and lead their teams through challenges great and small.

SERVICE

The bottom line alone will no longer do. The best companies understand they are in service to their stakeholders, and that includes shareholders, employees, vendors, communities and our planet. The best organizations are serving an expanded idea of "customer" and delivering for their customers beyond the transactional to the transformational.

With new ways of seeing the world, we can better envision new possibilities for our clients. In this issue, we look at big themes shaping a new age of leadership and of leading organizations:

- **THE BUSINESS OF BELONGING: HOW LEADING ORGANIZATIONS TAKE CULTURE TO THE NEXT LEVEL**

To weather constant disruption and the accelerating pace of change, organizations fight for top talent, drive innovation, and focus on culture. So why talk about belonging? Belonging may be the key to retention, risk-taking, and engagement that launches an organization past the competition.

- **ESG: FEEL-GOOD OR GOOD FOR BUSINESS?**

Stakeholders including investors, clients, customers, employees and communities increasingly want businesses to focus on the environment, their social impact, and good governance. The organizations that focus on these "ESG" principles and measures are earning the trust and loyalty of those stakeholders, and are proving to be more sustainable, driving long-term, profitable growth.

- **COLOUR MATTERS: A Q&A WITH ANURANJITA KUMAR**

As we lead through troubled times, inclusion and diversity become even higher priorities. How we build a strong leadership team and how we truly listen and create an inclusive culture will allow the best organizations to more quickly pivot to a "new normal." Listed among the "Most Powerful Women Leaders" by *FORTUNE* India and ranked on *The Economic Times* "Women Ahead List 2018," Anuranjita Kumar is a recognized champion of diversity and inclusion. She spoke with AESC about her book *Colour Matters?* and the state of diversity and inclusion in organizations and the world, today.

- **CANADA: THE EXECUTIVE SEARCH AND LEADERSHIP ADVISORY LANDSCAPE IN AN EXPANSIVE COUNTRY**

In this atmosphere of rapid change, globalization, and digitalization, Canadian leaders can position themselves for the best opportunities by immersing themselves and their teams in environments where they can explore and live through change.

- **EXECUTIVE SEARCH IN 2020: A DEEPER DIVE INTO THE TRENDS**

We are living in an unprecedented time of uncertainty. As we navigate this challenging new terrain, running our businesses will require innovation, creativity, and increased efficiency, all with work and travel restrictions never before imagined.

We hope this issue brings you welcome insights in a new time. Thank you to the many individuals and firms who participated in the interviews and contributed to the research for this issue of *Executive Talent*. As always, I welcome your feedback on all matters relating to global executive talent.

We wish the safety and well-being for all our readers around the world in the wake of COVID-19. ■

EXECUTIVE TALENT

The Global Magazine from AESC

Volume Eighteen

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THE BUSINESS OF BELONGING

How leading organizations take culture to the next level



To weather constant disruption and the accelerating pace of change, organizations fight for top talent, drive innovation, and focus on culture. So why talk about belonging? Belonging may be the key to retention, risk-taking, and engagement that launches an organization past the competition.

Howard Ross describes belonging as a shared sense of identity, destiny and values, a sense of interdependence, all of which allow people to feel fully able to be themselves. He says, “When people ask me for definition of terms, I like to say that if diversity is being invited to the dance and inclusion is actually being allowed to dance, belonging is when you actually have some say about the music. In other words, you are so completely a part of the culture or the organization that your input matters. It’s not just that you’re allowed to be successful in my organization; instead, you actually have something to say about the culture of the organization, our way of being in the organization, the choices we make in the organization.”

Our need to belong may be rooted in our evolutionary biology. Researchers Roy Baumeister and Mark Leary wrote, “It seems clear that a desire to form and maintain social bonds would have both survival and reproductive benefits” (The need to belong: desire for interpersonal attachments as a fundamental human motivation. 1995). According to Stanford University researcher Patricia R. Barchas,

“Over the course of evolution, the small group became the basic survival strategy developed by the human species” (A sociophysiological orientation to small groups. 1986). And researchers Robert Boyd and Peter Richerson suggest that early humans who violated their group’s social norms “might have suffered ostracism, been denied the benefits of public goods, or lost points in the mating game,” (Culture and the evolution of social cooperation. 2009) suggesting that the propensity to get along in groups would become a favored trait through natural selection.

“Up until fairly recently in human history, we couldn’t survive by ourselves,” Ross explains. “If you got sick or injured you would die. So, people who got along with the people around them, people who were fully accepted into their community, had a far greater chance of survival.” A preponderance of research indicates that those kinds of survival behaviors have adapted over the course of human evolution. As a result, Ross says, “We are deeply influenced by people around us in ways that are quite powerful.”

Now more than ever, organizations are taking notice of how that basic human need to belong is at the heart of why culture matters and the fact that culture impacts their bottom line. Rose Gailey, Global Lead of Organization Acceleration and Senn Delaney Culture Shaping at Heidrick Consulting says, “Our firm began the work around organizational culture

“Basically, Maslow was saying if you’re starving to death, you’re not going to be sitting around contemplating life—you’re going to be out searching for food. But what we now know is that Maslow may have missed the mark, and that belonging, the human need to connect and be part of the group around us may be, in fact, our most critical need.”

Howard Ross,
Founder, Udarta Consulting



over 40 years ago, and what we've seen particularly in the last 10 years is that the concept of belonging has really hit a crescendo in terms of organizational focus."

Belonging connects an individual to the culture, and in the current global business environment, culture is key.

Why now?

The current organizational focus on belonging and culture can be viewed in the context of disruption, according to Gailey: "Political, socioeconomic, and digital disruptions."

K Sudarshan is Managing Director, EMA Partners, India. He describes the current, competitive argument for culture. "Organizational culture determines several outcomes which have a deep impact on business performance and shareholder value. In a competitive business environment where there is a war for talent, an organization that nurtures and genuinely cares for its people will win. A culture which fosters innovation, initiative and risk-taking is more likely to develop dynamic and agile leaders who will be more suited in today's demanding business environment. As a role model, it is the responsibility of every leader to truly believe and embrace a positive culture and ensure that the message permeates right through the organization."

Lynn Foster, Senior Client Partner for Korn Ferry explains, "In order to transform

digitally, for example, the culture itself has to support that transformation, which requires a different agility, a different mindset, and different leadership behaviors."

Foster identifies some common triggers that will also motivate companies to look at culture. "One is rapid growth, and the board, a leader or a leadership team will ask themselves, 'what's gotten us to this point, is it sufficient to carry us forward, and what do we need to change?' Scandal or bad behavior is another trigger. Then the question is 'what's going on within our company that's allowed X, Y and Z to happen?' Certainly mergers and acquisitions lead to a company to look at culture, as well."

Foster identifies an additional culture driver that is much more personal. "There is this idea of legacy. Leaders who truly embrace this understand that they are trying to leave behind an organization that is reflective of what they believe in, and what they're doing to help others be successful within the employee population, among their customers, and possibly even beyond the reaches of the organization."

Gailey adds, "Another critical point as it relates to the sense of belonging is the shifting demographics in the workplace, with five generations in the workplace today. Millennials represent about 48% of the workforce today, Gen X and Z represent about 30% of the workforce today. Less than 4% represent the Silent Generation and less than 20% represent the Baby Boomer population. The impact is challenging organizations in their desire to inspire inclusive cultures for all."

How is it possible that people from disparate experiences and backgrounds can all feel like they belong within the same culture? The answer may be found in creating the right culture.

Culture shaping

Foster explains, "Culture exists regardless of whether a company is actively seeking to shape it, tweak it, or transform it. Culture shaping includes understanding the current culture, the target culture, and identifying the gaps. It answers the questions: What do we need to change, based on our strategy? Do our practices really echo what we're saying?"

For example, a company with a strategic emphasis on M&A activity requires a culture that is accepting and open toward new people. An innovation-dependent organization would collapse without a culture that embraces risk-taking and tolerates the occasional failure.

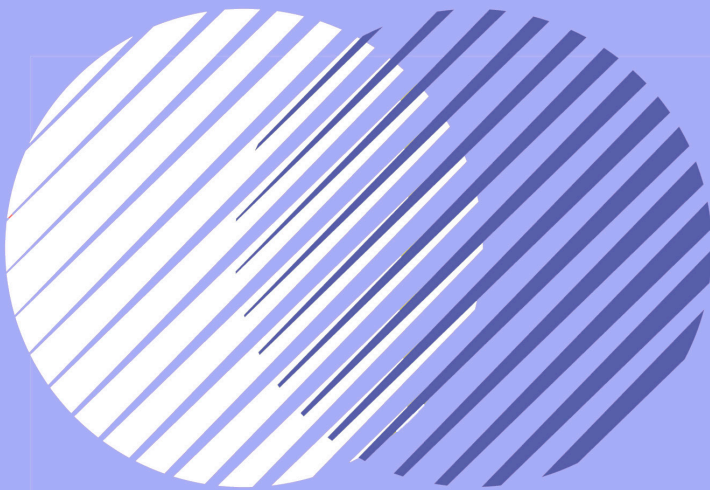
To get to the heart of a client's culture, Foster asks, "What are the unwritten rules?" She says, "We're trying to get to any contradictions; if the strategy says X, but the reality of how things are actually done within the organization is different. Because when people are left on their own to make those decisions, they're going to go with what they believe to be the underlying message the organization is sending."

"The culture is really what is shaping people's choices when no one else is telling them what to do," she says.

"For every employee to contribute 100% and stay engaged with the organization, it is critical that they have a strong sense of ownership and they 'belong' to the organization," Sudarshan says. "People have to feel emotionally invested and connected with the organization and the workplace is often an extension of their families. Leaders have to drive a shared vision where every employee feels important in the larger scheme of things and contribute their might to achieve organizational goals."

Organizations have come to understand that culture is within their realm of influence. "Look, every organization has a culture," Gailey says. "The question is, do you shape your culture or does the culture shape you?"

Gailey identifies four key principles required to shape an organization's culture: "First culture has to start with purposeful leadership, leaders who are committed to the organization and to casting a positive shadow. Second, those leaders have to model an openness to personal change. You've got to be uncomfortable at times to be able to say, 'let's do the right thing here' and leaders have to be able to take a hard look in the mirror to make an authentic commitment. The third principle is that the culture has to be lived across the organization. There has to be broad engagement to get to employees on the frontline who make decisions for every day for customers that either support the culture and values or defy them. And then the final principle is systemic alignment.



"Culture fit is a top reason employees will stay or go. We conducted a survey that asked participants if you're planning to take a new job in 2020, what's the top reason? About 38% said because the culture doesn't fit with my values."

—Lynn Foster,
Senior Client Partner,
Korn Ferry

This is where the culture and values have to be integrated in the systems of the organization."

And what are the outcomes? Gailey describes the difference between an employee really living the culture of customer-focus, versus what she calls 'ticking the box.' "Take an example with an airline that might espouse to be focused on the customer. You go to the ticket counter and the flight's been canceled and the rule says you're not supposed to make an adjustment for the customer if the flight is canceled due to weather. How do you respond, when you see somebody with an ill child, and they've got to get home? Would the culture dictate that you really step up and reasonably support that customer, or would the culture say tick the box when the rule says tell the customer no?' Those are the tough decisions that are really the test of the culture."

Bonding and bridging

How do individuals connect within a culture? How do they feel that innate sense of belonging? Ross describes modes of human engagement. "Robert Putnam was a sociologist at Harvard who identified that there are two main ways that we engage with each other. One is through bonding and the other is through bridging."

Ross describes bonding relationships as "the relationships we have with people who we feel we identify with in some way. So we might identify with our family, we might bond with a particular identity. For example, women may feel a sense of

bonding with other women, particularly as they deal with men. Sometimes African Americans nod when they're walking past each other, particularly in a predominantly white environment. It's almost like conveying 'we're in this together,'" Ross says. In bonded relationships, people have some sense of interdependence and shared destiny: what happens to you could very well happen to me.

"Then we also have bridging relationships that go across groups. They can be just as valuable and important, but they require us to extend ourselves a little bit. So what tends to happen at times of fear or tension is we tend to resort back to a bonded relationship," Ross explains.

Researchers who study social capital often look at bonding and bridging relationships in terms of trust, in which trust is assumed in a bonded relationship, and must be earned in a bridging relationship. True bonding exists within organizations that cultivate a shared sense of identity, purpose, common goals, and a sense of belonging.

Pitfalls

Shapers of organizational culture should consider and try to mitigate the many negative outcomes associated with the human need to belong, including silencing, tribalism, and otherness.

SOCIAL SILENCING

Silencing occurs when people who believe they hold a minority opinion or conclusion do not speak up because they fear being

excluded from the group. Ross describes the experience: "You feel like you're going to say something and then at some point you modify what you were going to say or don't say it at all because you're afraid that the group won't accept it."

"We've seen instances where whole groups of people have gone along with an idea, even though some of them weren't sure it was a good one, only to find out later that their instincts were actually correct. Consider the Space Shuttle Challenger disaster. A couple of people actually had serious questions about the O-ring but didn't say anything. The zeitgeist in the organization was to move ahead," Ross says.

The consequences of silencing can include dampened employee engagement, stifled innovation, and in the case of the Challenger disaster, unexpressed warnings that result in tragedy.

TRIBALISM

Tribalism can be understood as the tendency for humans to sort people into in groups and out groups, based on real or imagined similarities or differences. Experiments by Polish social psychologist Henri Tajfel prove that it takes very little for people to separate themselves into these groups, and act in discriminatory ways. For example, studies point to people being willing to punish those in out groups and forgive people from in groups for identical offenses.

Tribalism in the workplace can lead to hostile groups viewing others as inferior, rivalries that threaten cooperation, and

mistrust that can undermine a culture. Ross says, "Right now, more than I've ever seen it before, people's political identities are framing how they relate to each other in the workplace," adding a new threat to a cohesive workplace culture.

For Gailey, "Tribalism that is at its best can inspire a sense of affinity and connection, and even belonging. But at its worst, it absolutely creates separation and silos, and dissolves the power of diversity. It can quiet the voice of the unique perspective." She adds, "You want to be sure that you're guarding against some of the negativity and the unintended consequences of a tribe that becomes more exclusive than inclusive; that becomes more isolating than welcoming."

OTHERNESS

The isolation Gailey refers to is expressed in 'otherness.' "Oftentimes, 'belonging' can mean that someone is outside," Foster explains. "There are strong and positive senses of belonging that can help people

do great things together. There are other kinds of belonging that push some people outside."

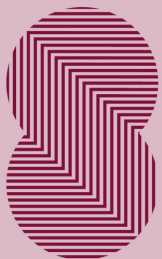
Organizations stand to lose a lot of value, if their people don't feel they belong. "When you have somebody who's an outsider in the group, somebody who can't find their way into a culture that they're supposed to be a part of, then that person may be impacted in any number of ways," Ross explains. "They can begin to question themselves and it can impact their self esteem, their sense of confidence, the ability that they have to function. When we feel like we're really valued, we perform at higher levels. When we feel like we're not being valued our performance drops."

Foster cites new research from Korn Ferry on employee retention. "Culture fit is a top reason employees will stay or go. We conducted a survey that asked participants if you're planning to take a new job in 2020, what's the top reason? About 38% said because the culture doesn't fit with my values."

If organizations work to mitigate the downside of belonging, there are vast benefits. Ross describes where "tribes can be quite healthy at times. The aftermath of the Boston marathon bombing is a good example of what happened in the city, how people really came together around their identity as Bostonians."

People who belong, who feel psychologically safe and connected to the organizational culture are more likely to contribute, take measured risks, and collaborate; they are better brand ambassadors and they are more likely to make strategically and culturally aligned decisions. And they are more likely to remain in the organization.

Psychologist Stevan Hobfoll writes, "The other side of tribalism is our positive sense of attachment and community. Tribalism can be about our common hope, our common dreams. What we share as people who seek justice. Tribalism can divide and conquer or build justice, build a new Camelot."

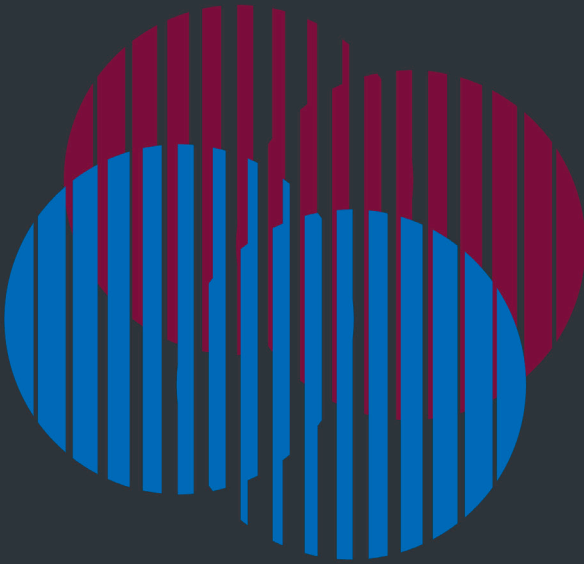


EIGHT PATHS TO BELONGING IN THE WORKPLACE

Ross identifies the elements necessary to create a healthy sense of belonging in the workplace. He says, "Let me preface this by saying that the organizational behaviors that we know build belonging are really the behaviors that build healthy organizations; they're not separate. As we've said for years around diversity and inclusion, good diversity management is really just good management."

- 1. A CLEAR VISION AND SENSE OF PURPOSE:** We know that human beings are inspired by building, they're not inspired by fixing. For most of us, we need to feel like we're building something in order to feel inspired.
- 2. CREATING THE CONTAINER** (mission, vision, values, purpose, goals, articulate understandings, agreements, norms, rituals and rules): Knowing that there are clear rules that we're operating under gives people a greater sense of psychological safety.
- 3. PERSONAL CONNECTION, VULNERABILITY, AND CONSCIOUSNESS:** Encourage people to connect personally and to get vulnerable with each other and be much more conscious about where they're coming from.
- 4. INCLUSION AND ENROLLMENT:** We must broaden our acceptance of ideas, and broaden our sense of what's allowed in the organization.
- 5. CULTIVATE OPEN-MINDED THINKING:** We have to cultivate consciously open-minded thinking to really get out of our own way of thinking; saying to ourselves, 'what if I were coming from that perspective?'
- 6. DEVELOP SHARED STRUCTURES AND FORMS OF COMMUNICATION:** Are we communicating openly and transparently to people as much as possible? Do we have a shared sense of what's accurate?
- 7. HONORING NARRATIVE:** Part of belonging is the art of sharing stories, where people feel known and can understand each other.
- 8. TOOLS FOR NEGOTIATION AND CONFLICT RESOLUTION:** Establish an agreed upon method for decision-making, otherwise every conflict can become a threat to belonging.

To these eight steps, Gailey would add "a shared language." She explains, "In a world in which organizations are massive, with hundreds of thousands of employees far-flung all around the world, I've seen where you walk into an office no matter where it is in the world and employees have a common language; you see the touchstones that connect all employees to the values."



"In an era of instant gratification, connected employees who have a strong sense of belonging are not swayed by short-term gains and are ready to invest time and energy for the long term."

—K Sudarshan,
Managing Director, EMA Partners, India

The triple bottom line

The triple bottom line is an accounting framework that evaluates performance from the broader perspective of people, planet and profit, adding stakeholders and the environment to the traditional financial performance metrics. Ross explains, "We make decisions based on what's going to move that metric. We can see at the end of every month and at the end of the year, how much money did we make? How much money did we lose? And so, because that number is right in front of us, it really drives our performance."

Organizations that commit to the triple bottom line are investing in their people, building a sustainable culture in which people feel they belong, and creating communities of employees and customers that are engaged and committed.

"What we're realizing is some of the best companies in the world have more than one metric," Ross says. "If we include financial performance as one metric, we might also say that employee satisfaction is another metric; another metric would be customer satisfaction. So we know that we're hitting our bottom line, and our employees are satisfied and our customers are also satisfied. And then add a domain of corporate social responsibility, that is, how do we contribute to our community? It might be issues of sustainability. And so if we begin to look at all of those together—if financially we're doing well, if we're

meeting the needs of our teams, if we're meeting the needs of our customers and if we've got a good relationship with our community and environment, there's a pretty good chance that that is a thriving organization."

Culture and belonging

Can an organization thrive without a strong culture, without creating a sense of belonging among stakeholders?

Gailey says, "In the past, there may have been a perception that culture is the soft stuff; belonging is the soft stuff. Today, what we recognize is our customer's experience is really inspired by our employee experience. And ultimately what we've been finding is that culture and belonging drive performance. It is a hard lever and it is at the root of innovation. It's at the root of the customer experience. It's at the root of employee retention."

For Ross, "If culture is the phenomenon of people coming together with a shared sense of commitment over time and the shared sense of values or practices to work together, belonging, we might say, is the connective tissue of that culture." He adds, "If I don't have a sense of belonging, I'm not likely to feel fully connected to the culture. So they're almost like different distinctions of the same thing. One is the phenomenon itself and the other is what holds that phenomenon together. It's hard to imagine having a vibrant culture without a sense of belonging."

In Gailey's experience, "belonging is really about community, and even micro-communities that feel part of a bigger community." And I think that's what inclusion is about. It's one of those shared moments that brings out the best in people."

"And how do we replicate that," she asks? "How do we, without the tragedy, how do we promote and support that bigger sense of community? So it's not really that tribalism is bad. We should focus on the notion that a sense of belonging can come through community and through shared culture. And then you don't have to worry about the silos and the potential negative effect of tribes."

Belonging is also a two-way relationship. Sudarshan explains, "In an era of instant gratification, connected employees who have a strong sense of belonging are not swayed by short-term gains and are ready to invest time and energy for the long term. Employees who give their one hundred percent to organizations also have an unsaid and a fair expectation that the organization will step in to support them at times of their need. It is critical that the organizations foster a reciprocal culture which genuinely cares for the wellbeing of its people."

"Belonging, I think, creates a level of commitment that is beyond financial, beyond a promise, beyond your moral responsibility," Foster says. "It becomes personal. We're all looking for a sense of belonging."



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Colour Matters

A Q&A with
Anuranjita Kumar

Listed among the “Most Powerful Women Leaders” by *FORTUNE India* and ranked on *The Economic Times* “Women Ahead List 2018,” Anuranjita Kumar is a recognized champion of diversity and inclusion. She spoke with AESC’s *Executive Talent* magazine about her book *Colour Matters?* and the state of diversity and inclusion in organizations and the world, today.

Q What inspired you to conduct this research and write *Colour Matters?*

A To be honest with you, I think the genesis was my experience in different parts of the world and different parts of the country; the fact that I have two children, where one is very American and the other is very British; and having experienced the intersectionality of color and gender myself, having worked in some global organizations. I found colour an often neglected topic, which led to the almost normalization of victimization and racism at work.

People who are discomfited are too fearful to talk about it, lest they would be branded. As a result, everything that weighs on and pulls on people is just repeating.

Can you give us a trend-line of diversity and inclusion in organizations?

Unless we consciously strive and work towards changing attitudes, the well-known numbers around diversity in senior executive and board ranks are not going to change.

Whether it be executive leaders or HR, let’s first start with acknowledging that

we have a problem. But constructively, we have an issue that can be resolved. I still believe we do not see this as a serious enough issue. We think we have good policy frameworks, etc. and we should meet those diversity targets. [Many diversity] efforts are around scrambling to comply with these strictures. But compliance is not about inclusion. Compliance can be achieved in multiple ways. But to bring about a grass root level change, there must first be strong messaging from the top, acknowledging we have a problem.

How is the absence of genuine D&I influencing top talent’s decision to join or stay with an organization?

If I have been hired because I’m a woman of colour, but if within the organization, I’m not included, whether it’s a kind of behavior that I’m subjected to by my co-workers, or the manager, or it’s my day to day interactions, it is not sustainable.

Until and unless the culture is inclusive, diverse talent is not sticky. If you look at the data coming from any of the consulting firms including the McKinsey report, or the research that I have done, the attrition tends to take two or three years into the organization.

Because what we tend to find from diverse talent such as minorities, it is okay for them to do marginal roles, it is okay to stay at junior level jobs, but the moment they start to push HR, there is a pushback from the majority, which is ‘don’t over-reach.’ And I’m sharing that candidly, because I’ve heard so much about it from various people who left organizations where the culture just would not promote them, or created values that they were not able to stomach.

The decisions of minority persons, however talented they may be, will be driven by how successful they think they’ll be in that organization, which to a large extent is driven by how the top leaders are setting the cultural tone for inclusion. And the probability of an open and inclusive culture when there is a diverse team, is more likely than in a homogenous team.

How do we help people react to difference with curiosity and not fear? And can employers help people get there?

I think we all grow up with what we learn from our nearest and dear ones. These are our families, friends, and neighborhoods. We grow up assuming those are gospel truth, and all our actions and reactions are

governed by what we have learned as little children.

So I think in a way, when we are grownup and in organizations, in some ways we are quite hard-coded. And one way to, I won't say break it, but at least deal with it, is understanding the biases. And we've often talked about unconscious biases, bringing that to the forefront, being able to see them, makes us able to deal with them.

Here's an example from the Indian diaspora. My grandmother would not like a Muslim to cook her food, because she believed that they were not clean. Now there is absolutely no logic to this. And as we grew up as a generation, that belief was passed down to my mother, who kind of said it, but was not fully driven by it. It was passed to me. I couldn't care, and my daughter just thinks it's absurd.

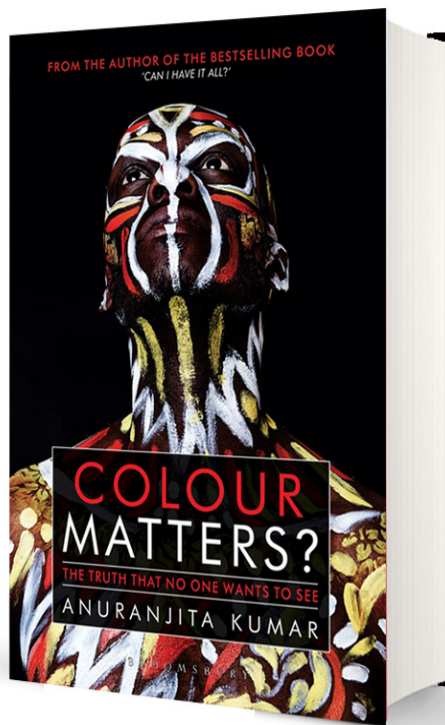
Those spontaneous reactions are governed by unconscious biases. And to crack unconscious bias, the only way to do it, is making it conscious. Because once you're conscious, you realize the absurdity of it.

So in organizations, employers like us, we tend to talk about bias in formal settings. There are trainings, there are sessions, there are networks. There's plenty of effort which goes on today to challenge people in terms of their mindset, especially in a working relationship. I'm not sure we can change all mindsets, but we can create platforms for people to understand each other better.

Another example I narrated in the book is about black people in India. They said when they're on the street, people look at them with disdain or with fear, even though we are brown people here, we're not white. And they've been quite fearful of going out in some places in India.

I'm afraid there is no shortcut to this. But it's conversations like these when we can challenge prior ideas, that helps. I think for me even writing the book was a journey. A lot of people told me don't do it, because 'Anu you will be branded as a troublemaker, or people will say you're playing the race card. Or they'll be fearful of even talking to you.'

So I think there are many others like me who will want to talk about it, and each little step makes a difference.



If even well-intentioned leaders and organizations are failing, what can AESC members and clients do?

Well I think two things. One is the AESC members work so closely with the organization, that redefining the paradigm of talent is important. Very often, if I was working with AESC members, and I was the client, I would ask, what does the specific group profile look like, and what is the persona attached to it? And then, what would diverse talent look like, and what are the values it brings to the table?

The second piece is the assessment process itself. We've often spoken about diverse panels. I have spoken to a couple of people who have said they are never getting a job because of the panel, who is completely from the majority group. So I think there is power in a diverse panel. Different kinds of people have a different way of expressing themselves. They have different value systems. If there is no one on the panel who can decode that in a reasonable way, it can become a bit of a handicap.

So one of the two things that would be very welcome for an organization, was defining what talent means, attributes, challenging any hidden biases. Second, the process of identification of placing that talent in the organization is completely color and gender agnostic.

What is the risk to organizations that fail to embrace diversity?

I think there's such a huge business case for diversity, that it will impact shareholder value. When I look at ambitious, global companies, I am looking at clients that are diverse. Not having a diverse workforce, it essentially doesn't make any business sense.

So the risk to the organization is financial returns if they do not embrace diversity. And I'm sure there's plenty of research on this. But to me it's a very straightforward business case, that if you don't do it, you can't go any further.

What is the risk to society?

In terms of what is the risk to the society, I think we're experiencing that. Failing to embrace diversity really tips the balance toward hard right activism, fragmentation and disintegration. My daughter is studying in the US right now. I do worry about it sometimes: is she accepted, is she safe? I actually like the place, but it just doesn't feel as joined up as it used to be when we were in the US a few years back. We're seeing that in India as well, and it is leading to a huge amount of insecurity.

And it's not just the US and India, it's happening all over. So at the end of the day we all want to live peacefully, we all want to lead a good life. And I think the whole game is about power, leading to insecurity, leading to disintegration, which is not necessarily a great life. It's certainly not a legacy I hope to leave behind for my children. Where they are insecure, they are unproductive, and they're living in a poorer world than we did.

Failing to embrace diversity undercuts the strength of humanity. That's the risk to society. ■

Anuranjita Kumar's latest book, *Colour Matters?* addresses the issues of race, ethnicity and color in society, from families and schools to workplaces and communities. Drawn on research, surveys and interviews, Kumar's work shines a spotlight on the experience of living and working in the minority. ■



ESG

Feel-Good or Good for Business?

Stakeholders including investors, clients, customers, employees and communities increasingly want businesses to focus on the environment, their social impact, and good governance. The organizations that focus on these “ESG” principles and measures are earning the trust and loyalty of those stakeholders, and are proving to be more sustainable, driving long-term, profitable growth. For a concept with a fluid definition and, as yet, no universally applied metrics, ESG draws increasing global attention from investors, corporate leaders, trade press and think tanks.

A Common Understanding

“ESG (environmental, social and governance) is a generic term used in capital markets and used by investors to evaluate corporate behaviour and to determine the future financial performance of companies.”

ESG factors are a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing the company’s carbon footprint and ensuring there are systems in place to ensure accountability.”

Ft.com/lexicon, Financial Times

So are ESG principles an emerging priority for investors, or an operational guideline for sustainability-minded companies? “Both, and that’s the beauty.” Kurt Harrison is co-leader of the ESG, Sustainability and Impact Investing team at Russell Reynolds

Associates. He says, “ESG has become increasingly relevant in both an investment and corporate strategy context.”

In broad terms Donna Zarcone, President and CEO of the Economic Club of Chicago, says investors are looking for transparency. “Investors are asking for a clearer picture on what corporations are doing around sustainability related questions, around customers, employees, suppliers, and communities. Ultimately, if corporations do the right things for these stakeholder groups, the shareholders will benefit in the long run. The investors are saying, you’ve got to be doing things right on all these other fronts so that you will have a long-term, sustainable corporation that benefits your shareholders.”

For example, Harrison says, “If you ask a fixed-income investment manager, they will say ESG is one of their core investment metrics. They look at companies from a cashflow perspective, a revenue perspective, and also how thoroughly they are incorporating sustainable investment principles into their business model. It’s just another part of their investment process.” He adds, “From a corporate strategy perspective, if you ask an oil and gas company how they think about ESG, they’re working on how to move toward carbon neutrality in a world that is pivoting aggressively toward a sharp reduction in carbon footprints and fossil fuels. For them, it is more of an existential question – ‘If we keep doing what we’re doing, we’re going to be out of business in 20 years.’ So let’s think about ESG from a corporate governance perspective and a long-term corporate strategy perspective; how we can actually change our business model to be more sustainable in the long run?”



ESG is about better long-term business decisions based on material factors that include more than traditional financial metrics. According to BlackRock, the world's largest investment manager, "Our approach to ESG integration is to broaden the total amount of information our investment professionals consider in order to improve investment analysis, seeking to meet or exceed economic return and financial risk targets." (*BlackRock ESG Investment Statement*, updated 29 August 2019)

And is ESG a global phenomenon?

Jason Johnson is Managing Partner at Johnson Partners. "Australia, happily, has been at the forefront in some respects of the ESG global movement. The enormous bushfires have catalyzed a tremendous, positive, constructive discussion. I think boards absolutely are now on notice. Most of them are naturally, appropriately moving the dial in their respective organizations to ensure that there is much better, a much more thoughtful approach to sustainability."

For Bill McNabb, former Chair of Vanguard, "ESG as a broad topic is actually getting significant attention in Europe, Australia and New Zealand."

"Everyone's definition of ESG really varies, especially the E and the S," McNabb says. For example, "What is a company's responsibility to the environment? What are a company's societal responsibilities? You can put a hundred people in a room and have a hundred different opinions."

In the broadest terms, the elements of ESG can be described as follows:

- **Environment**

How a company uses natural resources, how their operations impact the environment, and how the company manages climate risk.

- **Social**

How a company manages its impact on employees, supply chain, customers, and the communities where they live and work.

- **Governance**

How a company's board of directors leads, including board composition, executive compensation, and strategic alignment.

ESG ultimately reflects the expanding factors upon which a company is evaluated, and also illustrates the evolution of investor influence and priorities.

The Shift

McNabb describes a sea change in investor thinking. "To me, the real evolution has been the transition of short-term thinking to long-term thinking." McNabb explains, "You hear the term all the time in the public markets about managing to the quarter, making sure if you're a public company, you're meeting Wall Street's expectations about what your quarterly results are. But much of that kind of thinking leads to almost a rolling sense of short-termism. At Vanguard, so much of the investing is done through our index funds, which hold companies practically forever. So the quarter doesn't really matter. What matters is whether the company is creating long-term value. Because that's what our shareholders want."

To counter the notion that ESG is about putting public good ahead of financial returns, Harrison makes clear that is not the case. "The major private equity and investment firms are not going to accept below market returns and change their investment processes, which have been successful for 20, 30, 50 years, just to make the world a better place. Instead, the people who run these organizations have to embrace and understand the fact that employing a more sustainable and ESG-compliant investment process is going to improve financial returns in the long run."

For example, he says, "If you are a private equity manager and you're raising a new fund with a 20 year time horizon, you know that 20 years from now the world's going to be a very different place. You have to incorporate forward-looking sustainable metrics into your investment process if you're going to generate above-market, long-term returns. So we can't sit here and say you should accept lower returns just to make the world a better place, because that's just not going to work. No one's going to embrace that."

Long-term investors do embrace sustainable business practices that align with their investment horizon. McNabb is quick to remind us, "It's not Vanguard's money. We're speaking on behalf of 30 million investors around the world," he says. "I think that matters to board members, as well."

McNabb says, "This has been a very rapid evolution over the last decade or so. If you went back, 15 years, no one was talking about governance in these terms. Part of what's happened is the nature of the largest shareholders has changed quite a bit."

Zarcone explains, "When you look at large corporations and they disclose their largest investment holders, Vanguard or BlackRock will often be number one or number two, and they can hold anywhere from five to seven percent of a particular corporation. These major institutional investors have been long-term, permanent investors and they had been taking very much of a passive investor role, investing in the companies that fulfilled their index strategy."

Kit Bingham is a Partner in the Board Practice at Odgers Berndtson. He explains the shift toward ESG investor priorities over time. "Towards the end of the 80s



we had the takeover wars, the concept of shareholder primacy and shareholder value, and that really began to dominate as the basis on which companies should be run, slightly different to Friedmanesque notion of all we care about is profit, but it incentivized management to run the business in the interest of shareholders. That was when you really started seeing CEO pay climb like a rocket and the beginning of big option schemes and all those sorts of things. And I think the philosophy was perfectly sound, which is we the shareholders want you to run our company in our interest, not yours. And I think we're coming to the end of that sort of super cycle. So I think we've had a 30-year trend of shareholder primacy and I do see that significantly under assault. Why is that? I think because share to value isn't the same as societal value, and in fact executive pay is often used as the sort of signature issue, the sort of litmus test issue."

"What I've seen is a real shift," Zarccone observes. "Vanguard and BlackRock have become more 'active passive' investors because now they are seeing the impact they can have in their long-term permanent investment portfolio. And they are recognizing that ESG issues such as climate change, diversity and inclusion, and a clearly articulated long-term strategy with a focus on innovation and growth must be there for the long-term benefit of the company and the long-term return on their investments."

How does an organization like Vanguard leverage that influence? McNabb explains.

"In the investment world, if you look at fund managers with a very short-term focus that make bets on one company versus another, their motivation is quite different than ours and sometimes it's going to be in conflict. To be overly simplistic about it, you may have a situation where a group of shorter-term oriented investors say to a company, we think you should sell these three divisions in order to maximize profitability and maximize your share price. Our view on that may be, well, what if that actually harms the company in the long run? Even though the stock price might go up in the short run, we're there forever. We may be negatively impacted. So, again, as an indexer, we can't sell the stock, but we can certainly vote and we can have conversations with directors and management teams on these kinds of issues. And if we find that we come to very different conclusions than the board, for example, then we can express ourselves through a vote against those directors when they stand for reelection. That's an extreme case that doesn't happen all that often, but we do have that ability."

The Engine for Change

An important question is whether this shift is just about changing perspective

from a short to a long horizon, or is it something more?

"It's more than that," Bingham explains. "It's a recognition that businesses don't exist outside of society. I remember Richard Lambert of the *Financial Times* saying a healthy society needs a flourishing business sector. And I think that is true. This notion that we have business and society as two separate things, we now understand it's just not the case. Capital is mobile; we can't just lift our companies and stick them in a far part of the world and ignore the communities in which people work or the environmental impacts of that company, and just say, 'don't worry, you'll thank us one day when you're cashing your pension.'"

Pressure to consider environmental and societal factors in corporate decision-making comes from more than the Vanguards and the BlackRock's of the world.

"There are multiple stakeholders actually driving the movement: employees, customers, and increasingly owners, which is therefore making boards of directors sit up and take notice," McNabb explains. "We don't look at it (ESG) as a separate thing; we look at it as a way of doing business. The whole idea here is: does a company serve a broader role than just creating profits and driving a stock price? Employees think about what kind of company they want to work for. Customers think about who they want to buy things from. And the owners,

which would be your big investors, want to make sure that companies are thinking about these factors in a reasonable way.”

Dr. Bjorn Johansson is founder of Dr. Bjorn Johansson Associates – Global Board Advisors. “It is a combination of many things. First of all, it has become required. So you have no choice. You have to be part of this and you cannot hide and step aside. And then of course it’s pressure from politicians because politicians are looking at this as a way for them to position themselves in today’s world, and it’s pressure from the investment funds and the pension funds. If you would take my home country, if you look at the Norwegian state pension fund, which is the largest in the world, you know, they are placing enormous importance on the ESG question.”

ESG is a matter of metrics, as well as message. Those who seek the advantages associated with ESG will have to quite literally measure up.

Measurement

“The National Business Council, incorporating 140 of the world’s largest companies, agreed to support efforts to develop a core set of common metrics and disclosures that could be used to measure private sector progress against key environmental, social and governance goals.”

Børge Brende, WEF President
Closing Remarks
World Economic Forum 50th Annual Meeting

As an advisor to organizations seeking to establish best-in-class ESG frameworks, Harrison observes, “There are a lot of initiatives being put forward about how to create reliable standards or metrics, there are a lot of opinions about how to do that and what those standards and metrics should be, but there is a lack of unanimity around that. So there’s not one definable standard you can point to and say, here’s what ESG means because PIMCO has their version of what they think ESG means and BlackRock has a different version and KKR has a different version. So nobody’s right, nobody’s wrong. It’s going to take time and eventually the standards and metrics will become more institutionalized and formalized and agreed upon. But right now we’re still in the early phases of defining

what it is and what it means and how we incorporate it within an individual business or investment model.”

There is considerable pressure to quantify ESG-related efforts. Bingham points to “broad social pressure, media pressure, public pressure, political pressure on business leaders, and also shareholders saying ‘we demand evidence that you are doing this.’ And that’s where I think we’ve got to is a sense of... remaining accountable to shareholders for something broader than pure shareholder value.”

For example, he says, “I’ve had it described as the company report using 19th century tools to look at a 21st century business. Financial accounting is very, very old now, and it’s only ever a snapshot. The annual report says this is the financial condition of the business on the 1st of January, 2020 and it’s entirely retrospective. This is what happened in the course of last year.”

“I think where investors are is, ‘can we develop a suite of measures that tell us what’s going to happen in the future?’ And I think that’s around more engagement and strategy, but also some of these risk metrics or warning metrics. If a company is regularly failing the regulator or has a deeply unhappy workforce or has its local community up in arms or is dumping pollution in overseas markets, whatever it might be, those are all things that may not cost today and they may not have cost anything last year, but you can be pretty sure in today’s world that it’s going to catch up with you,” Bingham says.

McNabb says “We’d certainly like to see more reliable metrics in these categories. The flip side is you don’t want to create so much bureaucracy and so many reporting requirements that companies wouldn’t want to be public anymore.” He points to the Sustainable Accounting Standards Board (SASB), as one organization driving sensible progress on this front.

According to SASB’s *ESG Integration Insights* 2019 Edition, “A significant challenge to integrating ESG considerations in mainstream investment processes is the ESG data available from companies, which varies in quality, quantity, and investment relevance. Much of that problem is attributable to the fact that ESG disclosure standards lack consistency across global jurisdictions, where they may not exist at all.”

An important question is whether this shift is just about changing perspective from a short to a long horizon, or is it something more?

While the lack of consistency is a challenge, the volume of ESG reporting is on the rise. A 2019 World Economic Forum white paper highlights the growth-trend in ESG reporting. “In 2017, 78% of the world’s largest companies integrated non-financial information in their annual reports, up from 44% in 2011.” (“Seeking Return on ESG: Advancing the Reporting Ecosystem to Unlock Impact for Business and Society.” January, 2019)

ESG Meets Search and Leadership Consulting

Helping companies integrate ESG into their corporate culture is an opportunity for the Executive Search and Leadership Advisory profession. Harrison says, “Because it is still being defined in real time, we can be very helpful from an advisory perspective to our clients. We are in a position to help our clients think about and define how to integrate and implement ESG into their culture, into their corporate strategy and into their investment philosophy if they happen to be a financial services firm. There’s a lot of chatter in the investment management world about how to incorporate ESG into investment processes. Everyone’s talking about ESG, but no one has developed a universal industry standard. We’re helping our clients to define that, and implement that within their own corporate strategy and investment processes in a way that is consistent with their culture.”

Search firms are also positioned to help clients looking to build leadership teams that can drive ESG priorities in their organizations.

McNabb believes, “In terms of the characteristics and responsibilities of the

Does the rise in ESG mean that companies are going to make business decisions that run against their financial interests?

future CEO, the ability to think long-term is going to be key.”

How does the ability to think long-term align with the tenure of organizational leadership? McNabb explains, “We’ve seen a shortening of tenure among CEOs over the last 20 years. I actually don’t think that’s a good thing.” He explains, “If the average CEO tenure is less than five years, that’s not enough time to implement a viable strategy that’s going to put the company on a good long-term path.”

In addition, organizational leadership must choose to execute a shift to long-term thinking, and consultants can only help a client when the clients are ready. For example, Johansson says, “Our Firm today executes 60% of our work in the area of Non-Executive Directors (2019 and 2020). ESG is in the majority of our searches, is one of the top priorities for selecting a new board member and is part of adding value to the board. All our clients provide a yearly ESG report, either separately, or integrated in their annual reports.”

However, Johansson says of the selection criteria, “It is not at the bottom of the agenda, but it is not one of the top three areas for selecting a new CEO or a new Chair. But that might change in five years from now.”

Johansson also warns, “Meeting the ESG expectations and at the same time delivering profit, growth, market share and shareholder value, and whatever it is that you’re measured on, that’s a tough balancing act.”

An observation regarding why board directors and CEOs *should* care about environment, social, and governance comes from Bingham. “It’s you and your reputation,” he says. “If something goes horribly wrong, people like me stop

calling you. There are any number of people that I can think of, outstanding directors and they’ve had bad luck to be on a board of a company that has gone horribly wrong, or there’s some financial scandal or other kind of scandal and that’s it. They know perfectly well that people like me can never put them on the long list again.”

Search and leadership consultants who advise on culture have an opportunity to help organizations drive ESG principles deep into their organizations, and perhaps mitigate that risk.

Zarcone describes how these principles can become embedded in an organization. “In my mind, it’s not any different than asking what are the corporation’s strategic initiatives, what is the mission, what is the purpose of a corporation? And then how does that corporation take the higher level-goals and operationalize them through strategic initiatives and an operating plan that’s executed and held accountable for within the organization?”

She says, “It has to start from the top down, it has to be embedded in the vision and the mission of the organization and it has to flow through the operating plan, be baked into the goals of the leaders, and leaders need to be held accountable for driving the results. The CEO has to be in the position to say that *this* is how we are going to act as an organization and how we’re going to exist within society. And it has to be supported by the board, as well.”

What does it look like, when ESG principles are so embedded in an organization that they are as important as financial ones? Bingham provides an example. “There is a big, multinational Danish company that as part of its internal audit team now audits culture. If there’s suddenly a problem, say hypothetically there are six sexual harassment accusations in Minneapolis, they’re on the next plane and they’re right there, as they would be if there was a financial problem. So the moment they see a black hole, whether culturally or in financial terms, they pull in the SWAT team.”

Is ESG Here to Stay?

“In 2006, when the UN-backed Principles for Responsible

Investment (PRI) was launched, 63 investment companies (asset owners, asset managers, and service providers) with \$6.5 trillion in assets under management (AUM) signed a commitment to incorporate ESG issues into their investment decisions. By April 2018, the number of signatories had grown to 1,715 and represented \$81.7 trillion in AUM. According to a 2018 global survey by FTSE Russell, more than half of global asset owners are currently implementing or evaluating ESG considerations in their investment strategy.”

Robert Eccles, “The Investor Revolution,” *HBR* May-June 2019

So is ESG a trend? A fad? The future? “One way to think about ESG is that it is a thematic wave, and it’s very similar to prior waves,” Harrison explains. “Think back five or six years ago. Digital transformation, was the buzzword du jour. Every company was going to transform digitally. Every company was going to be a FinTech company and every board had to have digital technology expertise to adhere to good governance principles. Two or three years ago, you saw the same thing around diversity and inclusion. Diversity and inclusion was a thematic wave. It swept over companies across industries, across geographies. You had to have a diverse workforce, you had to have an inclusive work environment and every board had to have a significant diversity component to it. So those are two thematic waves that are still with us to this day and never really stopped. ESG is the current thematic wave. It transcends industry, sector and geography. And every company is going to have to have an ESG-compliant or sustainable long-term corporate strategy. Every investment firm is going to have to have ESG metrics permeate every strategy that they invest in. And every corporate board is going to have some resident ESG domain expertise, sustainability expertise to be viewed as a credible board.”

There is no disputing the rise of ESG funds, which invest in organizations aligned with ESG principles. According to Johnson, “We’ve seen a tremendous inflow of funds towards those ESG funds,



and I think that will only become a tidal wave as retail investors start to think about where they want to direct their monies. I think there'll be an absolute increasing focus from the mom and dad pension investments as they think about driving better outcomes for the future."

"I believe that this decade will be a true tipping point for ESG," he says. "We in Australia have the third largest pension scheme in the world. And so our superannuation funds, as we call them, carry enormous influence over the organizations that operate in Australia. And for them, ESG has become a top tier issue as I think about investment allocation."

For McNabb, "I think the reality is, there needs to be an array of investment products available so that people can reflect their own interpretations of what ESG means. And they can pick and choose. And in a sense the marketplace will determine whether or not those choices are fruitful in the long run. And again, interestingly, there are some investors who believe that by focusing on these factors they'll actually create more outstanding returns. Some of that is time-dependent and we don't know yet; we haven't been through enough cycle. The flip side though is that there are some investors who say, 'I don't care. I'm willing to sacrifice returns if that's what it takes in order to express my personal beliefs.' So what we're already seeing

is that proliferation of ESG-oriented product that tries to cater to different values, different perspectives."

Zarcone might argue that ESG is neither a trend nor is it new. "Some of the best corporations have been doing this for many, many years. I think what's happening now is the expectation that companies and CEOs are going to become the primary force for change around the globe. CEOs are focused on geopolitical issues, sustainable economic development, the threats posed by climate change, and the need to address environmental issues with a high sense of urgency. Businesses have the agility to respond quickly where governments cannot or have not chosen to address these issues."

"We'll see how that all evolves," McNabb says. "We think being a good citizen on these topics creates a better long-term business. And then very importantly, the 'G' is the thing that we keep coming back to because it's the most practical thing that investors can impact. Good governance by a board will actually reflect the appropriate 'E' and 'S' considerations for a company that pertain to its employees, customers, communities, and ultimately its shareholders. And how that's being managed is certainly part of a board's responsibility."

If ESG principles are good for business, the environment, and society, how long

before these elective measures become mandated?

"I think there may be new regulation around disclosure requirements," Zarcone says. "It's not unusual for the government to jump on the bandwagon after some things are already initiated. But I don't think that government regulation is going to be as demanding as the shareholder and investor influence. Think about how long it takes to get regulations and government changes through the full process. Institutional investors can move at a much faster pace, and political will is much more short term than Vanguard or BlackRock, which take the longer view."

For Bingham, "It's an argument going on here for 20 years, what your companies disclose and how. We are still in pretty hardcore 'accounting wins,' which isn't to say that companies shouldn't take their own steps as the triple bottom line and all of that, but it hasn't really taken off. And whether the government can intervene in that, I'd be pretty wary. I don't think that's likely."

That would be good news for Johansson. "I'm a believer in the Swiss system of democracy and of freedom to operate with less bureaucracy, but unfortunately I see tendencies certainly in Europe where I'm worried about regulations coming up, more on the environmental side, but also the social and governance side."



Impact

“There is a growing body of data showing that companies adopting sustainability practices outperform their peers. In one study, Harvard Business School research found a \$1 investment over 20 years yielded \$28 in return in those companies focused on ESG versus \$14 for those without the focus.”

Silda Wall Spitzer and John Mandyck, “What Boards Need to Know About Sustainability Ratings.” *Harvard Business Review*, May 30, 2019

From mitigating risk, driving high performing cultures, attracting and retaining talent, earning committed customers, and capitalizing on new business opportunities, ESG appears to be good for business.

“Clearly, ESG is expected today by most of all stakeholders including investors, analysts, customers and employees,” Johansson says. “ESG is part of a company corporate culture and values; you have no other choice. I am of the opinion that it will have an impact on the bottom line and share price mid- to long term.”

Environmental impact awareness and mitigation is no longer optional in publicly traded companies. Harrison warns, “If companies cannot credibly articulate how they have amended their corporate

strategy to be more carbon neutral and more sustainable in the long run, then companies like BlackRock, which is the biggest asset manager on the planet, are going to divest of their shares of those companies, the stock price will go down, and the CEO will be under pressure. So CEOs are feeling the pressure to make sure that they are developing a sustainable, long-term corporate strategy and reducing their carbon footprint going forward.”

Corporate ESG-based environmental considerations are not exclusively about resource usage and pollution. They also include seeing the opportunities an environmental mindset presents. Johnson says, “I went to the Australian private equity conference in Melbourne last year and a number of global major private equity firms were there. So private capital were focused on green energy, wind, solar, and a whole bunch of the new technologies as well,” Johnson says. “And when private equity or private capital starts investing in green tech, it gives me a lot of comfort because they are incredibly rational, economic drivers. And they now believe that there is an economic case for green investment, which will drive strong economic outcomes.”

Much has been written about diversity driving financial performance. According to Johnson, “ESG-minded boards play a very key role in Australia now in ensuring diversity. We have a culture in Australia

now which is sometimes framed through a gender lens, sometimes framed through a cultural lens, sometimes framed even more broadly than that to ensure that boards are representative of society and of their customer groups. Companies in Australia are under increasing pressure to ensure that they have highly diverse boards, with diversity in its broadest sense: diverse thinking, diverse experiences.”

Johansson describes some of the most successful companies in Switzerland committed to ESG principles. “Here in Switzerland you have Novartis, a big pharmaceutical company, you have Nestlé, the largest food company in the world and the largest company in Europe in terms of market cap. You also have companies like Swiss Re, the largest reinsurance company also based here in Switzerland. They are all investing a lot of time and energy in ESG reports.” Johansson cites the leadership of Andre Hoffman, of Roche Group. “He more or less forces the Roche group, the largest pharmaceutical company in Europe in terms of market cap, to move in this direction. And in the US there is Ecolab group up in St. Paul where Doug Baker, the Chair and CEO there is leading tremendous improvements when it comes to environmental and good corporate governance issues. These are companies that stand out in the crowd when it comes to responding to the changing world and the importance of the environmental,

social, and governance questions.”

Talent is a key driver of financial performance, and next gen top talent is looking for employers who align with their values. For example, Bingham says, “A lot of business leaders will tell you that they’re in a room full of 20 graduate recruits who either work for the company or are thinking about it, historically they always asked, ‘how do I get your job?’ and now they say, ‘what are the values of this business? What are you doing about climate change? Why is there so much plastic?’ And so I think the Millennial focus is critical. Every organization says its people is its most important asset and that they will struggle to recruit if they operate by a set of values that don’t subscribe to how people think and what they want.”

“Next gen” also applies to the upcoming generational transfer of wealth. Zarcone explains, “This next cohort is going to drive the change in investment expectation and I can tell you that they’re not going to have a tolerance for some of the ways that we have been choosing to do business. Their expectation is much more of a purpose driven organization.”

Zarcone’s observation is supported by recent reporting from *The Economist*. “Young investors are driving the surge in interest: more than three-quarters of high-net-worth millennial and Generation Z investors have their assets reviewed for ESG impact.” (“American Sustainable Funds Outperform the Market,” March 1, 2019)

For McNabb, ESG priorities combined with purpose are a winning combination. “Purpose answers the question of why a company exists. As an investor, we’re not going to get in the business of telling companies how to shape their mission statement and strategic themes. But if I’m asked, I’m always going to encourage them to be thinking about that ‘why.’ I just think it’s a better way to frame your own strategy and attract the kind of talent, investors, and customers that you want.”

The Big Picture

“The number one question I used to get from investors is aren’t you limiting your options and sacrificing returns by doing ESG?” said Karina Funk, a one-time civil and environmental engineer who runs the Brown Advisory fund. “I don’t

get that question anymore.”

From “The Biggest ESG Funds Are Beating the Market”

By Mathieu Benhamou, Emily Chasan and Saijel Kishan
Bloomberg Green, January 29, 2020

Will the demand for ESG guided corporations change outcomes for the environment and society, and lead to greater business success? Will we go back to business as usual? Harrison argues, “Boards and C-suite executives will need to fully embrace how pivoting toward a long term-oriented sustainable business strategy will be crucial to their continued corporate success. Failure to do so runs the risk of fundamental underperformance and investor backlash.”

Johnson sees these demands catalyzing meaningful environmental innovation. “I’m optimistic that technologies that don’t exist today will be providing the platform for profoundly different mechanisms for power, for energy, for all sorts of things in the near term. That’s exciting, and that requires companies to have the culture, the courage, and the confidence *and* the support from their boards and investors. As an optimist, I have my fingers crossed that in 10 years we look back and say, ‘you know, this really was a profound inflection point.’ I really hope that’s the case. I believe that’s the case.”

In terms of the social element of ESG, “All of our employees and our suppliers and our customers live within a community,” Zarcone explains. “It’s such an integrated existence, that you can’t really just walk out of the corporation and go home. And if things are not good in your hometown or your greater community, then, can you close your eyes to it? Can you ignore it? I don’t think so. It’s part of the ecosystem within which we live; leaders have to have that awareness.”

Zarcone recalls, “When I became president of a financial services group in Chicago, I had a mentor who said to me, ‘not only do you have to be really good at running your business, taking care of your employees, and doing all the right things for your customers, you have to be engaged in the community in which

Talent is a key driver of financial performance, and next gen top talent is looking for employers who align with their values.

your employees live and work. Your responsibility is to be an outstanding business leader, and an outstanding civic leader as well.’ I definitely think that there’s a shift underway, and that the CEOs and the business communities are going to get in front of disruption rather than observe it, and really be a positive driver for change. And I think that’s what the next generation of employees are expecting from their leaders.”

From a governance perspective, McNabb explains, “In the *Wall Street Journal* and the *New York Times*, there’s been this whole ‘stakeholder capitalism’ versus ‘shareholder capitalism’ debate. I think it’s just missing the mark. The big shift here is that we are on a path to redefine timeframes and that companies should be managed for the long run. It doesn’t mean that they’re any less accountable for creating good returns for their owners. It’s not their capital—hundreds of millions of hardworking global citizens around the world are entrusting their capital to these companies to do something with it: deploy it, grow the business, create profit and return some portion of that to the providers of capital.”

How much does all this really matter, in the long run? For Johansson, “I do see the topic of ESG increasing in importance, dramatically. And I think that’s a good sign. It is at the top of the agenda in many companies, but it’s not on the top of the agenda when I’m looking for a CEO, or a new Chair. There are other elements in the ideal candidate profile that have higher priority. But as I said, 10 years ago, it wasn’t even a topic. So we are making progress. And I’m sure if you and I would talk five years from now, we would definitely have another conversation than we are having today.”



Expectations are indeed on the rise. For example, Bingham says, “I’ve had it put to me by a company Chair here, who was wearing a lapel badge. I didn’t recognize and I asked him what it was and he said, ‘What do you mean you don’t know? It symbolizes the UN sustainable development goals!’ It was in the same week that I saw a presentation that said, ‘if your business is not either trying to advance one of these goals, or on the converse, if you’re actively doing the stuff that the sustainable goals are trying to prevent, you’re going out of business.’ It won’t be tomorrow, won’t be next year. But if you’re not in tune with this direction of travel, your business model is ultimately doomed. And I think both business leaders and the next generation of the workforce certainly think that.”

Companies are finding that they can operate with ESG principles without sacrificing long-term financial success. McNabb points to Vanguard Group as an example. “I use the framework that Vanguard serves three constituencies: our clients, our crew (that’s our employees), and our communities. Without vibrant communities you don’t have vibrant employees and without vibrant employees, you don’t serve your customers or clients. So those three Cs to me are inextricably linked are not an either/or. And I’d humbly submit to you that if you looked at our track record over the last

10 years in terms of delivering value to the end investor, we did okay.”

“The trend toward more corporate transparency will continue as investors across a wide range of asset classes show a growing interest in ESG issues. For example, the UN Principles for Responsible Investment has now been signed by 345 large asset owners, credit ratings are accounting for ESG considerations, and Amundi, Europe’s biggest asset manager, has pledged to fully screen for ESG in 100% of its investments by 2021. Social and human capital issues are also on the rise, as diversity, data privacy, and the treatment of labor in supply chains are being looked at with a closer lens. It is clear that company disclosure on ESG issues will be very important now that 49 stock exchanges have committed to publish ESG disclosure guidelines. Companies in the U.S., where there are no mandatory disclosure requirements, will be in the curious condition of competing for capital with companies located in emerging economies that have better ESG disclosure.”

From “2019 ESG Trends – What to Watch,” by Libby Bernick
S&P Global Market Intelligence,
March 18, 2019



Postscript:

As *Executive Talent* magazine goes to print communities, employers, governments and world markets are reacting to the threat posed by and uncertainties regarding the COVID-19 pandemic. It is a unique moment where the vital interests of individuals, families, neighborhoods, workplaces, and economies converge. What role does corporate leadership have to play in this crisis? McNabb says, “It’s been terribly sad to witness the widespread effect of the virus. The crisis has reminded us of some basic lessons in leadership. The most important is that people come first. Prioritizing the health and safety of employees, customers, and our broader communities is always paramount, of course, but it becomes crystal clear in the weight of every decision made during a situation like this. The crisis is also a very tangible reminder of our global interconnectedness. Through technology, travel, migration, information flow, supply chains, and financial markets, we are connected in more ways—and more quickly—than at any other point in our history. Finally, the best leaders approach major crises with humility, knowing that they can’t know the all answers, but will learn from successes and mistakes, and will work to act on the best possible information. We’ve seen some great examples of that in the past few months.”

Congratulations to AESC Award Recipients, honored in November 2019.
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CANADA

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"AESC has had members in Canada since the very early days of search, and that membership can be a meaningful differentiator. I think it's a benefit to the industry and to all the organizations competing in the industry. It provides validation of a firm's mission and approach. The firm's credentials and capabilities will ultimately carry the day, but membership with AESC is an important credential."

-Carl Lovas, Chair & CEO, Odgers Berndtson Canada

Worldwide, the profession of executive search and leadership consulting reflects the economy, culture and characteristics of each market in which it operates. To understand the profession in Canada, one must first consider its geography.

Canada is vast, crossing six time zones and bordered by the Arctic, Atlantic, and Pacific oceans. English and French are the official languages, as well as Inuktitut, the official language in Nunavut. Keith Sinclair, President and CEO at Harris Leadership Strategies in Winnipeg, Manitoba explains, "Because Canada is the second largest geographic country in the world (10 million square kilometers), we are spread apart, and we have multiple centers of economic activity."

Cathy Logue, Stanton Chase Managing Director, Toronto, adds "Canada is certainly vast, but we also can't ignore the vast border we share with our closest neighbor and trading partner, the US. We share a border from coast to almost coast, and are further united through the Great Lakes and the Saint Lawrence River."

Canada is comprised of ten provinces and three territories that can be grouped into five distinct regions: The Atlantic Provinces, West Coast, Northern Territories, Central Canada and the Prairie Provinces. The economy of each region is directly tied to its resources.

- **Atlantic Canada** includes the provinces of Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick. The east coast of the country thrives on fishing, forestry, ship building, shipping, oil and gas, and mining.
- **Central Canada** includes the provinces of Quebec and Ontario, and is the country's most populated region. Due to its proximity to the US and the Saint Lawrence River, the region is a financial, industrial and manufacturing center, producing about three-fourths of the country's manufactured goods.
- **The Prairie Provinces** include the provinces of Alberta, Manitoba, and

Saskatchewan, which are resource-rich with abundant farmland, large cattle ranches, minerals, and oil and gas.

- **The West Coast** region is the province of British Columbia, which includes a massive forestry industry, a large park system, and the country's largest and busiest port. Tourism is a growing industry in the West Coast region.
- **Northern Canada** includes the Northwest Territories, Nunavut, and Yukon Territory. The region is the most sparsely populated, has significant mining and fossil fuel resources, and is rich in aboriginal culture.

Canada is known as a net exporter, with a strong resource and agriculture economy, a robust high tech and manufacturing economy, and a growing service and technology economy. "We're tenth in the globe in terms of economic production, and we're 38th in population. So we do punch above our weight," Sinclair says.

Cleo Kirkland, Senior Client Partner



with Korn Ferry in Toronto observes, “We tend to be far broader and absolutely more regionally focused. So for instance, Calgary is an oil and gas town and so all of our search partners in that market work in and around oil and gas. Vancouver is a bit of a split between tech and mining. In Montreal, there will be generalists. They do a bit of everything. So Toronto is the biggest city in the country and the biggest search market in the country. We are the most specialized and our major practices there are financial services.”

From Logue’s perspective, “My observation is that in Canada, industry expertise definitely matters. True, it doesn’t necessarily trump regional expertise and knowledge of the local market. Clients want to know that as a search partner, in addition to experience relevant to their industry, you also have experience and an understanding of their specific province, region or city. Maybe that’s because historically, Canadians have been less transient and an appreciation of the cultural differences from sea to sea is incredibly valuable.”

“While I agree that there are many regional differences across the country, one thing that is consistent is the need to provide clients with the right team of experts to meet their specific needs,” says Carl Lovas, Chair and CEO of Odgers Berndtson in Canada. “For instance, we may be working on a technology search in Vancouver that brings together a local partner on the ground, our CFO practice leader and our National Diversity Leader. The marketplace is more competitive than ever so generalists need to be working with specialists to attract the best talent for each mandate.”

An additional layer of complexity for the profession in Canada is that some placements require candidates to be bilingual. More than 20 percent of the population of Canada speaks French as their first language. In the province of Quebec, that percentage rises to 77 percent. Many provinces have francophone populations, with sizeable communities in Ontario, New Brunswick, and Manitoba. Roger T. Duguay is a Managing Partner of Boyden Canada based in Montreal. He is the Global Leader of Boyden’s CEO & Board Services Practice. He says, “Many of the high profile positions we complete—the government positions, large national institutions like Bank of Canada, they need executives to be bilingual.” He adds, “Montreal is a bubble. In my view it is the most perfect bilingual city in the world, and bilingualism here is 5-10 times more important than it is in Toronto or any other city.”

The Welcome Sign

Like much of the developed world, declining birth rates have the potential to impact economic growth in Canada, which relies on immigration to off-set the trend.

Sinclair explains, “In many provinces, our net population growth is immigration, as in most places our birth rate is not replacing the population. We’re about neutral. But we continue to bring in over 200,000 immigrants a year and we’ll continue to do that. Immigration masks, in some ways, the productivity challenge we have.”

Canada’s reliance on immigration, according to Sinclair, “means our economy and our population are only going to become more diverse. And, as

we have learned in OECD studies, the first two generations of immigrants (at least) tend to be more productive than the people on the ground. And so we’re benefiting from that.”

What does this mean in terms of top talent? “There’s no question that we are very pro immigration, and we do get a lot of phenomenally bright candidates that are looking at Canada as an appealing place to be because of our acceptance, diversity and inclusion,” says Shaun Carpenter of PFM Executive Search/ Panorama Search in Vancouver. “It doesn’t come without challenges, but there is a win that we get in terms of the quality of people that come this way. Canada ranks very high as having some of the best places in the world to live: our healthcare, our social services, those things. Our taxes are very high, but as a result there are really phenomenal social services that are provided.”

The State of the Profession

Twenty-three Canadian executive search and leadership consulting firms are members of AESC. Across Canada the profession is mature, sophisticated, and evolving.

Amy Reid is Partner and Vice President for Recruitment at Royer Thompson in Halifax. “In Atlantic Canada we feel that the profession is healthy and it’s

“Higher immigration has the potential to increase the growth of Canada’s labour force over the long term and generate higher economic growth. A larger Canadian population cannot completely offset the effects of an aging population on the Canadian economy, but it does help soften the impact.”

—Julie Ades, Daniel Fields, Alicia MacDonald, and Matthew Stewart.

A Long-Term View of Canada’s Changing Demographics: Are Higher Immigration Levels an Appropriate Response to Canada’s Aging Population?

Ottawa: The Conference Board of Canada, 2016.



Shaun Carpenter
PFM Executive Search/
Panorama Search - Vancouver



Roger T. Duguay
Boyden - Montréal



Cleo Kirkland
Korn Ferry - Toronto



Cathy Logue
Stanton Chase - Toronto



Carl Lovas
Odgers Berndtson - Toronto



Amy Reid
Royer Thompson - Halifax

growing. Obviously we're all in new territory with the impact of COVID-19 on businesses. We really believe that there's a lot of opportunity for the profession here."

Do Canadian organizations recognize the value of the profession? "We are seeing that clients are really intrigued and attracted to the trusted advisor relationship, and the rigor and the diligence that we offer in our process," Reid says. "There are many organizations here that do yearn for that. We haven't had any challenges maintaining a healthy repertoire of assignments. We see the C-suite, we see the VP levels, Director and board searches."

Duguay has witnessed the increasing sophistication of the clients of search and leadership advisory services. "Clients today are much sharper, more aware, and educated on talent; the pressure to be effective, efficient, and relevant is extremely high," he says. "You cannot conduct a mandate the way it was done 20 years ago. If we're being honest—back then you land the assignment, you go to your list, and come back with three names. Now, clients want to see everything you've done. They know the market, they expect transparency and they ask such good questions you cannot improvise. You cannot be just a surfer and be successful. You need to be smart and relevant because your clients are smart and relevant. The business is fantastic, there's room for everyone, a lot of mandates are out there, and the firms are busy. The profession is evolving like never before."

The demands of clients are changing, as well. According to Kirkland, "The executive search offering is morphing into something else." For example, regarding psychometric assessment she says, "We always use that in the context of our searches, but there's been a real demand for bringing it into high potential assessments for internal succession planning. The other demand that our search partners are responding to is more around market intelligence and market mapping." Kirkland explains, "There seems to be an almost insatiable appetite for clients to understand what competitors are doing, how they are organized, and what their org charts look like. What are their pain points? And so, in the context of doing searches and getting to know any particular space,

you accumulate a ton of intelligence that clients find really interesting."

Another trend we're seeing in the Canadian marketplace is the growing need for agile on-demand talent. "Organizations are feeling a growing

pressure to rapidly respond to market conditions and increasingly disruptive forces," says Lovas. "We are working with our clients to rapidly deliver highly-specialized executive talent and interim solutions that can help organizations execute the transformations required to compete globally."

On whether Canadian executives appreciate the value of retained executive search, "I would say that's true in the major centers. As you move out across the country, there are pockets that I would say are highly evolved and appreciate the value (of retained search), and then there's still some educating to do," Sinclair says.

Carpenter sees a competitive but growing marketplace. "The executive search businesses are still expanding and hiring people and growing their practices. There certainly is a diversification happening into other professional services, based on client demand, for example consulting and advising, board assessment and board recruitment work."

Why is Canadian search expertise so important? Logue explains, "Ultimately, clients want to partner with executive search consultants who understand their business, their leadership needs and their corporate culture. In Canada, much more so than the US, we truly are a 'distinct society', and unless you're immersed in that, you can't fully understand it. So that is where Canadian firms, with 'boots on the ground,' and deep local market knowledge, can add value."

The state of the profession is also relative to the state of Canada's clients and their unique challenges.

Client Challenges

While many challenges that clients face are global, firms are helping clients with matters more specific to Canada.

DEMOGRAPHIC TRENDS

Reid sees that, "In the next two years we are going to need over 84,000 new workers in Atlantic Canada, including people for leadership and managerial roles. Organizations are really taking ownership over succession planning and the development of their future leaders. They are attracting immigrants to the province. We're seeing record numbers, but even at the pace it's moving today, one of the big concerns is that we can't keep up. It's a very tight labor market."

Perhaps a redistribution of the Canadian labor force would address that need, but mobility is also a challenge in the broader Canadian talent market.

MOBILITY

Duguay says, "It's very hard to move people in Canada. I see it all the time and it's supported by data. It's a challenge and a risk—challenge



“Clients want to partner with executive search consultants who understand their business, their leadership needs and their corporate culture. In Canada...we truly are a ‘distinct society’, and unless you’re immersed in that, you can’t fully understand it. So that is where Canadian firms, with ‘boots on the ground,’ and deep local market knowledge, can add value.”

—Cathy Logue, Stanton Chase

because you need more effort to convince the candidate and their family. The risk is a higher rate of failure. This is why we spend so much time with candidates.” He adds, “People from one coast are often not interested in moving to the other coast. If you’re from Montreal, you’re very European—you want to stay there.” In terms of moving people from outside of Canada, he says, “We have a strong technology play in the Quebec (Montreal) market. We connect with a lot of talent from Silicon Valley but the language, government, taxes, weather make it complicated. If a candidate is alone and young—okay, but with children and a spouse who cannot work, we see a higher rate of failure.”

Carpenter agrees. “One thing I think that’s unique to Canada is that candidates aren’t as willing to move from one place to another. It is challenging to get people to move across the country. And there are two markets in particular that are hard to recruit into, and that’s Toronto and Vancouver, just because of the cost of living.”

This may be changing, according to Logue, “as a new generation of leaders recognize the opportunities that come with the willingness to be more mobile. But the reality is, Canada’s economy is still focused on three major financial centers—Toronto, Calgary and Montreal. Vancouver and Ottawa

are secondary players. So anytime an executive contemplates a move to a smaller market, say Vancouver or Ottawa, he/she has to consider, what’s next? That’s when we can truly add value as a search professional, understanding and being able to tell our client’s story and communicate the unique value proposition.”

COST OF LIVING

Carpenter explains that in Western Canada, “The biggest city that’s closest to Vancouver is Calgary, and the cost of a home for somebody moving from Calgary to Vancouver is almost double. In the US there are a few markets where we’ve had success recruiting: San Francisco, New York and Boston, some of the more expensive cities to live in. But if we’re looking at a low cost of living city or state in the US, it’s really challenging to move that individual into Vancouver.” To put the cost of living in context, after Hong Kong and Sydney, Vancouver is the third most expensive city in the world. For clients trying to recruit candidates from the US or Europe, an added cost is the exchange rate. Carpenter explains, “For any American who’s looking at a role here who then plans to move back to the US, there is that loss of 32 cents on the dollar for a position that pays the same. So that’s a big challenge that we face.”

LANGUAGE

A challenge for clients in the province of Quebec is the bilingual requirement. “We often have to have every document in two languages!” Duguay explains, “They have to be bilingual. When firms are searching for high profile roles, the bilingual mandate is difficult. But it’s important, and this is what makes the work so interesting.”

HEADQUARTERS MIGRATION

Sinclair identifies the challenge of access to top talent. “There appears to have been a net reduction of head office opportunities overall in Canada. Since the early 2000’s, Canadian corporations have slid in the Fortune Global 500 rankings, with only 12-13 companies making the list and only one company cracking the top 200. So that means to access to some of the top talent, we have to go outside the country.”

REGULATORY ENVIRONMENT

A specifically Canadian challenge for clients of search is the requirement to try to hire a Canadian first. Kirkland explains, “It’s always difficult when we are doing global searches. There is a very high regulatory burden in Canada that essentially requires us to satisfy the government that there is not somebody in this country who could do the job, which is why we are going outside. That



“We see the growing importance of digital innovation in the executive search world. The profession is doing as much as we can to experiment with different platforms and networks to help improve our efficiency and speed, and access talent pools.”

—Amy Reid, Royer Thompson

is a labor-intensive process both for clients and for the search firms. You add in the exchange rate, you add in the tax burden, you add in the cost of living in Toronto...” It adds up to a challenge.

The regulatory environment is also impacting the number of head offices in Canada, from which to recruit. Carpenter says, “Several Canadian oil and gas companies are relocating their head offices into the States for different tax and regulatory regimes that are more beneficial to them. It is a really challenging thing for those firms that are not only directly in the oil and gas business, but those that support them. Calgary’s market is largely based on oil and gas. Toronto is more diversified, but the Prairie provinces: Saskatchewan, Manitoba, Alberta and the Maritimes are very focused on oil and gas.” As reported in *The Economist*, “Office vacancies in downtown Calgary, Alberta’s business capital, have jumped from zero in 2007 to over 25%. International oil companies such as Exxon, Total and Royal Dutch Shell have either delayed projects or are pulling out.” (Special Report: “The environment is Canada’s biggest wedge issue,” July 25, 2019)

One way firms address many of their clients’ challenges is through innovation.

Innovation

The business environment is one

of constant change, and the search profession changes with it, adapting and innovating to meet clients’ emerging needs.

Around compensation, Kirkland says, “In some cases, a client says, ‘we don’t know the space very well,’ or ‘we’re new to this function,’ or ‘we haven’t hired a CFO in 20 years. Help us think about comp.’ Our executive pay and governance partners do this for a living and they have databases with hundreds of thousands of data points.”

From a digital perspective, “Certainly you’re seeing a leveraging of technology both from a research, data-mining point of view as well as the fact that LinkedIn has emerged as a tool,” Sinclair says. “The need to be connected digitally is critical. We are seeing the expectation that we’re going to do video interviews before we fly someone across the country. Technology has enabled us to do a more efficient job of reaching and connecting with people who are not readily available.”

Reid adds, “We see the growing importance of digital innovation in the executive search world. The profession is doing as much as we can to experiment with different platforms and networks to help improve our efficiency and speed, and access talent pools.”

“There is an interesting shift happening at the Board level, as

directors face greater scrutiny and a broader range of responsibilities than ever before,” says Lovas. “This has put a fresh spotlight on board composition and the talent around the table, and an even greater focus on talent planning for the organization. While CEO succession is not new, Board oversight of the talent agenda has become much more critical to ensure the long-term success of the business strategy, which means that boards are looking to us much more for support on how to plan for their future.”

Diversity

Kirkland describes how the profession has been broadening the service option. “We’re getting a lot of questions around diversity and inclusion. For example, I’ve done searches that range from wanting 50% women on a long list to where they only want to see women—a 100% female search. Providing data on the demographics of a particular candidate pool can really help educate clients at the outset. In some cases, for example private equity or mining, there are certain industries that are not reflective of the general population. The whole firm goal should be having a short list that is more diverse than the general population, but in some cases it may not be realistic. So, we provide as much as we can around the demographics of particular candidate populations. And

if in fact, if it's still a very white male-dominated industry, we think creatively with the clients about tangential candidate populations that may have transferable skills."

Reid agrees that "an important piece is supporting employment equity, diversity, and inclusion. "We have on our team a subject matter expert in the area of unconscious bias, diversity and inclusion. We can offer our search committees and clients unconscious bias facilitation sessions at the onset of an engagement, to educate the committees and to elevate their awareness."

Some of the opportunity in the marketplace lies in the demand for gender balance in organizations. "Canada is truly diverse by virtue of our population and geography," Logue says. "When we talk about 'diversity' in an executive search context, it's more about gender than ethnicity. Ethnic diversity is simply the reality of our populations, so from that standpoint, diversity is an afterthought. But gender diversity remains an issue, on Boards as well as senior leadership roles. We still have a long way to go, and I firmly believe that as search professionals we are uniquely positioned to 'move the dial' in advancing this important issue."

For example, Logue adds, "In Toronto, we have witnessed certain key sectors—financial services for example—to achieve gender balance on both their leadership teams and boards, through a concerted focus on these issues. It's a mindset shift, and the reality is some traditionally male-dominated industries just aren't there yet. Remarkably, even emerging, disruptive industries like technology and cannabis are very male dominated. But the tides are turning... and I'm optimistic we'll see some significant progress over the next three to five years. We've witnessed some meaningful wins in 2019, and I look forward to what the future brings."

Bright Spots in the Canadian Economy

While the country's economy has been growing at around 2%, information-technology services have been expanding at triple that rate since 2016.

ATLANTIC CANADA

"There's a real entrepreneurial vibe and buzz in the innovative tech sector," Reid says. "The technology sector is important to our region, and we're seeing a lot of progress with wonderful success stories coming out of our startup communities." Reid cites "clean tech and the ocean sector as examples locally, nationally and globally."

"One thing we're keeping an eye on is environmental sustainability," she says. "If you look at what's happening with the current climate emergency, I don't think any organization is ignoring how that affects them today. We are definitely seeing boards taking increased responsibility for environmental and climate matters, and it's now becoming central to how organizations operate. That goes back to that technology sector, the innovation sector, and an organization's ability to work in that circular economy and have that component of sustainability, to have that corporate competitiveness. That's table stakes today, quite frankly."

CENTRAL CANADA

Quebec is enjoying a resurgence. Duguay says, "In the technology sector, Montreal is now a big hub. It attracts a lot of students, so the city is very young and vibrant, and it attracts startups so that vibrant circle is very bright right now. Young people are talking about how it is more exciting to work for a tech company that has young people as opposed to old retail and manufacturing sectors." It's good news for the tech and creative enterprises in Quebec, however, "The war for talent doubles the complexity for traditional organizations dealing with attracting top talent."

From her perspective in Toronto, Kirkland

observes, "We have been overwhelmed with cannabis work over the last 18 to 24 months. We did have a bit of a battle with our US-based parent company to get that kind of work. We fought to have that happen, and it's been an absolute boom. Organizations are building from the ground up, staffing executive teams, and our recruitment process has been heavily leveraging candidates where we're staffing entire plants and call centers, etc. It has been really exciting. We have a tech practice not just servicing technology, but tech proper, and consumer retail as well. So those have been the major buckets in Toronto." Central Canada is also a hub for financial services. "We have big, very strong banks that weathered the financial crisis extremely well. They are increasingly global and we're proud of them," Kirkland says.

THE PRAIRIE PROVINCES

Sinclair recognizes sustainable practices as a particularly bright spot in the region, specifically "the resourceful utilization of our natural resources." He explains, "We're producing what we need with a lot less waste. In Winnipeg, we have a Composite Innovation Center that uses flax to produce composites that go into buses and airplanes and on cars and in other uses, where they're using the waste from the flax, not just the fiber itself. It's the same thing with pulp and paper. We used to throw out the waste, which was quite harmful. We're now utilizing 99% of what we take, rather than taking the 60% that we need and throwing out the rest." Sinclair adds, "The fact is that, 90% of the solutions that we need to ensure a sustainable environment

"In 2017, Toronto created nearly 29,000 technology jobs, more than Silicon Valley, Seattle, New York and Washington, DC, combined, according to CBRE, a property-services and investment firm. Canada's lower costs and relatively liberal immigration regime help. A "global talent stream" programme allows firms to bring in a foreign worker and family within two weeks. Yung Wu, CEO of MaRS Discovery District, calls it a "game-changer". American tech giants such as Uber and Microsoft have boosted their research and development activities in Canada."

Special Report:
"Redistribution and innovation drive Canada's changing economy"

The Economist, July 25, 2019



“The Canadian talent pool is incredibly deep and it is a dynamic and changing economy. The talent we have in the financial services, industrial and technology sectors is really world class and second to none.”

—Cleo Kirkland, Korn Ferry

and economy are actually either in research or have been developed. They just need to be applied. I think that that goes back to recruitment. If we’re recruiting leaders who think long-term and want to build a sustainable business, that can also be a sustainably profitable business.”

WESTERN CANADA

In British Columbia, the bright spots according to Carpenter are many. “Green energy, green technologies, tourism, film and TV, agrifoods, those are the areas that have the biggest growth in the last couple of years. Clean energy is in there with technology and it’s all moving away from fossil fuels. Forestry will always be a big part of BC’s economy, but it is also struggling with fiber supply issues and other places where there are lower costs. That’s historically been a really significant part of our economy and it’s waning. So, the diversification and strength of other industries has to make up for those fossil fuels and those natural resource industries. And here in Vancouver, tourism is huge. The Canadian dollar is not worth as much as the Euro or the US dollar, so we’ve got a lot of tourists who come here to experience the mountains and the natural resources.

CANNABIS IN CANADA

No overview of the Canadian economy or current search landscape would be complete without some perspective on

cannabis. Logue says, “By the end of last year, the contribution of the cannabis industry to Canada’s GDP eclipsed every other major category of the Canadian economy (Statistics Canada).” She adds, “Almost two-thirds of my own practice last year was focused on the cannabis industry, with half of that resulting from working with cannabis clients to bolster their boards. Just like the tech startups in the 1990s, cannabis has had its growing pains, and part of its evolution has been strengthening leadership teams and governance to position it for the next stage of growth. It’s tremendously rewarding to be part of that.”

For example, Carpenter adds, “We did some recruitment for a company that is in the controls business, so they manufacture control systems for greenhouses. Historically their business has all been in the hot house business for tomatoes and other vegetables, and lately, their biggest growth area has been in cultivating marijuana plants; using their control systems for those greenhouses that are just there for marijuana plants. So, it’s a massive boom area.”

Logue says, “Legalization has legitimized it and the stigma has slowly dissolved, so perhaps the cannabis industry’s revenue projections are not that farfetched after all. Will it really be a \$200B industry by 2027? I think so. To think that Canada is the global leader, at the forefront of this highly

disruptive industry, is pretty exciting,” Logue says.

Alliances

In a globalized world, virtually every market depends on relationships with other markets. Canada is tightly connected to its neighbor the US culturally as well as economically. Logue says, “This is a critical North American trade corridor, with over \$75B of goods flowing through these lakes and waterways each year.”

“The US is such a big partner,” Duguay says. “We are also connected to Europe, especially the France-Quebec relationship is very strong. We have a strong relationship with the Paris office; it’s a natural gateway. In terms of banking and finance, the New York—Montreal—Toronto corridor is a strong connection. Boston—Montreal—Silicon Valley is a new gateway of talent transfer for people in tech that didn’t exist ten years ago.”

For the Prairie Territories, according to Sinclair, “We are net exporters, so regional and bilateral trade agreements will always be important.” He says, “Our largest trading partner is the US, and vice versa. That continues through the US-Mexico-Canada Agreement (USMCA). Europe has always been an important market for Canada. We’ve had less interaction and involvement with South and Central

America, although I think our trade with Mexico has grown through the USMCA, and we've done less in Africa. Asia has become an increasingly important market for Canada, though we were late into China and India."

Carpenter agrees, "Canada is definitely a strong resource-based economy, largely for export. Our trading partners are critically important for us, the US being our largest partner in trade." He adds, "The US for sure is number one, and China and other Asian countries are huge, especially for the province of British Columbia because we're the gateway for goods coming in and going out. So, our ports and the container traffic that goes through them is massive for us. Australia and New Zealand, the UK and Europe to a slightly smaller scale."

The State of Talent

According to Reid, "For us here in Atlantic Canada, to retain our great talent or to attract talent who have left the region and who we would love to see come back, we have to ensure that leaders in this region (and across Canada) are creating workplaces that will attract and truly engage and inspire these new generations of employees. In my mind, that requires a caring, thoughtful, and purposeful leadership approach."

"Canada is a very stable, liberal country, so executives born here are multicultural, and we have so many multinational corporations," Duguay says. "Canada is very liberal, open-minded, and multicultural. Our homegrown talent is ideal for international assignments."

Speaking from Toronto, Kirkland observes, "The Canadian talent pool is incredibly deep and it is a dynamic and changing economy. The talent we have in the financial services, industrial and technology sectors is really world class and second to none."

"What makes a great leader is changing, and not just in Canada," adds Lovas. "A recent study we conducted with Harvard Business Review Analytics, which surveyed close to 2000 global executives, confirmed that the mindset and traits required for strong leadership is quickly shifting. Organizations must seek out and develop leaders who can thrive despite uncertainty; leaders who are adaptable, curious and have the courage required for

continuous change. This requires a shift in how we recruit and assess talent."

How Can Talent Position Themselves?

With this perspective on Canadian talent, then, how would search and leadership consultants advise candidates to position themselves for new opportunities?

Reid says, "In this world of everyday change, globalization, digitalization, Canadian leaders can position themselves for the best opportunities by immersing themselves in environments where they can explore and live through change. That is an increasingly sought-after competency, that ability to adapt and lead through change and uncertain environments. The ability to lead and develop through uncharted waters is not going away."

In terms of hard skills, Sinclair says, "One of the most important needs going forward is the ability to understand and utilize artificial intelligence and machine learning. Partnering with artificial intelligence still trumps either artificial intelligence alone or people alone."

He adds, "I don't think we can continue to expect that English is going to be the language of commerce forever. It's a benefit for people to be not just bilingual, but multilingual, if you're working internationally. Many of us in Canada did take French in school such that we can communicate, and that's really beneficial. Are you going to work internationally? It's

helpful, but I think being both culturally and linguistically multilingual is helpful if you want to work internationally."

"The caliber of Canadian leadership is truly outstanding," Carpenter says. However, he adds that "Canadians have to be more mobile. When I meet people from the US, it astounds me how much they've moved all around the country. I think Canadians could benefit from doing that a little bit more. Just taking on more international assignments and getting that global scope of experience would really be beneficial to them and would make them more marketable candidates."

The Last Word

Canada is vast—in terms of landmass, resources, and possibilities.

From Reid's perspective in Atlantic Canada, "We are not bound by geographic barriers, but because we are a smaller firm, we can't specialize. Our specialty is supporting organizations with high stakes, complex mandates. Canada is facing labor shortages, and organizations need to focus on their employer brand and their culture. They need to understand what is required to build a healthy organization that will both attract and grow a future generation of talented leaders." She says, "We see opportunity everywhere."

For Duguay, Canada holds ample opportunity for clients and candidates, as well. "If you think about our international leadership, thinking and creativity, Montreal is an epicenter of creative talent that can bring your organization to



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a different level. We have demanding, game-changing clients who think out of the box—for those clients, Canada has extremely good talent. And for candidates, Canada has extremely good opportunities. We have strong business talent and creative artistry, together. That's our portrait of Canada."

Sinclair reflects, "We've gone through a major review of our continued poor treatment of indigenous peoples. So, we're not perfect by any means, but generally our society is inclusive and accepting. We still continue to bring more immigrants into the country while other parts of the world are turning a different corner. I would say we're an example of how a society can be inclusive and accepting and collaborative. And I think that in the long run, that's what we need for the global economy and society to function. It's not just about tolerance, it's more about acceptance, and I think we can be a role model for collaboration and acceptance and inclusion."

Getting candidates to consider Canada requires a calculation beyond the math. Carpenter explains, "Look at it from a candidate's perspective. Unless you have family in Canada or you plan to move to Canada for good, if you come here and let's say you work for five years and you earn the same amount of money that you would be earning for the same job in the US and then you return to the US, you're moving back with basically 32% less money when you do the exchange rate. So, it benefits our companies being an effective trade partner because it's basically a deal to do business with Canada. It's a deal for people to come here and be tourists and enjoy hotels and restaurants and entertainment and adventure. Looking at it from a business standpoint, it makes it very challenging to recruit people here, especially those who are only looking at Canada temporarily." A top search firm is able to help candidates look beyond the exchange rate and identify the intangibles that make being in Canada so attractive.

Ultimately, Canada is a pretty nice place to be.

"We make a point of keeping fairly accurate lists of highly talented Canadians that have gone off to do

X, Y or Z, and we check in with them periodically," Kirkland says. "In many cases, we'll be able to repatriate them. That's always a factor of timing. But eight, nine times out of 10, they will find their way back to Canada, eventually. Almost everybody does come back. And in the case of executives who have been very hard to recruit here, more often than not, once they get here they don't want to leave. It can be a tricky thing to transition and you've got to have a lot of conversations in order to find the right person who will work. But when it does, it works beautifully." ■

Context: COVID-19

This is truly an unprecedented time for all organizations and industries—including our own. Few leaders have ever dealt with this much ambiguity and they are looking for support in figuring out how to both pivot and continue moving forward. This pandemic has organizations across Canada and globally rethinking their talent needs, but many still need to fill critical leadership roles. We are working with them to identify top needs—like finance, risk, supply chain and IT—while evaluating which growth roles will be necessary on the other side of this. Interim executives are also filling gaps in areas like crisis communication, HR and digital transformation and provide a quick, low-risk solution for organizations facing growing uncertainty. We've moved to conducting 100 per cent virtual interviews and are helping boards and executive teams make the shift to online recruiting with clear processes and enhanced referencing to help organizations feel confident about bringing on new executives. Leaders are also looking for support on how to build resilience for themselves and their teams, so they can successfully manage through the crisis. Executive search firms need to be more nimble than ever in adapting to this new reality, so we can provide thoughtful, expert guidance to our clients where they need it most, and ensure they have the talent to weather this storm, and to come out strong and healthy at the other end.

-Carl Lovas, Chair & CEO, Odgers Berndtson Canada





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Executive Search in 2020: A Deeper Dive into the Trends

By Christian Coley
Invenias by Bullhorn

Over the years, executive search has seen shifts and changes, but never at the pace, or unfortunately, with the global impact that we are experiencing today. We are living in an unprecedented time of uncertainty and economic upheaval. As we navigate through these difficult waters, running our businesses will require innovation, creativity, and increased efficiency, all with work and travel restrictions never before imagined.

These challenges impact all stakeholders in a search engagement: the consultant, the candidate, and the end-customer. This has search leaders thinking, “How do we adapt to and support the terms of engagement to compete and stay productive during this ‘new normal?’”

In February of 2020, Invenias by Bullhorn released its annual [Executive Search Trends Report](#) surveying 400 executive search professionals for the year ahead. While this survey was conducted long before the COVID-19 pandemic had spread globally, the key issues elucidated will impact executive search in all business environments. While respondents are excited about the possibilities provided by technology, they are anxious about how to maximize use of it. Digital transformation and candidate engagement all play significant roles in the day-to-day lives of their teams.

Let’s take a few moments to dive into the key takeaways and challenges that

were highlighted in the trends report, and, hopefully, add more insight and ideas to help navigate them.

Getting the right people

The top priority of respondents for 2020 was candidate acquisition and 77% listed it as their top hiring challenge.

“Find someone with all of the hard skills, soft skills, and leadership experience our client needs, including leading a company through IPO and currently be a sitting CEO in a business with \$100-\$500M Revenue.” Sound familiar?

Based on the initial criteria of some searches and the state of today’s talent market, the candidate pool can be much too small while the client pushes for a longer longlist. So successful search firms are diversifying. They are going outside the client’s main industry for fresh perspectives on talent pools and functional expertise. Also, firms are searching beyond the realm of specific position histories and targeting people with strong competencies that align with the client goals and requirements. They may not be sitting CEOs, but they would make a significant impact in the client’s organization.

The question to ask is how are search firms systematically tracking that high value information—insight into the strongest candidates based on an assessment of their competencies? How are they systematically tracking and differentiating

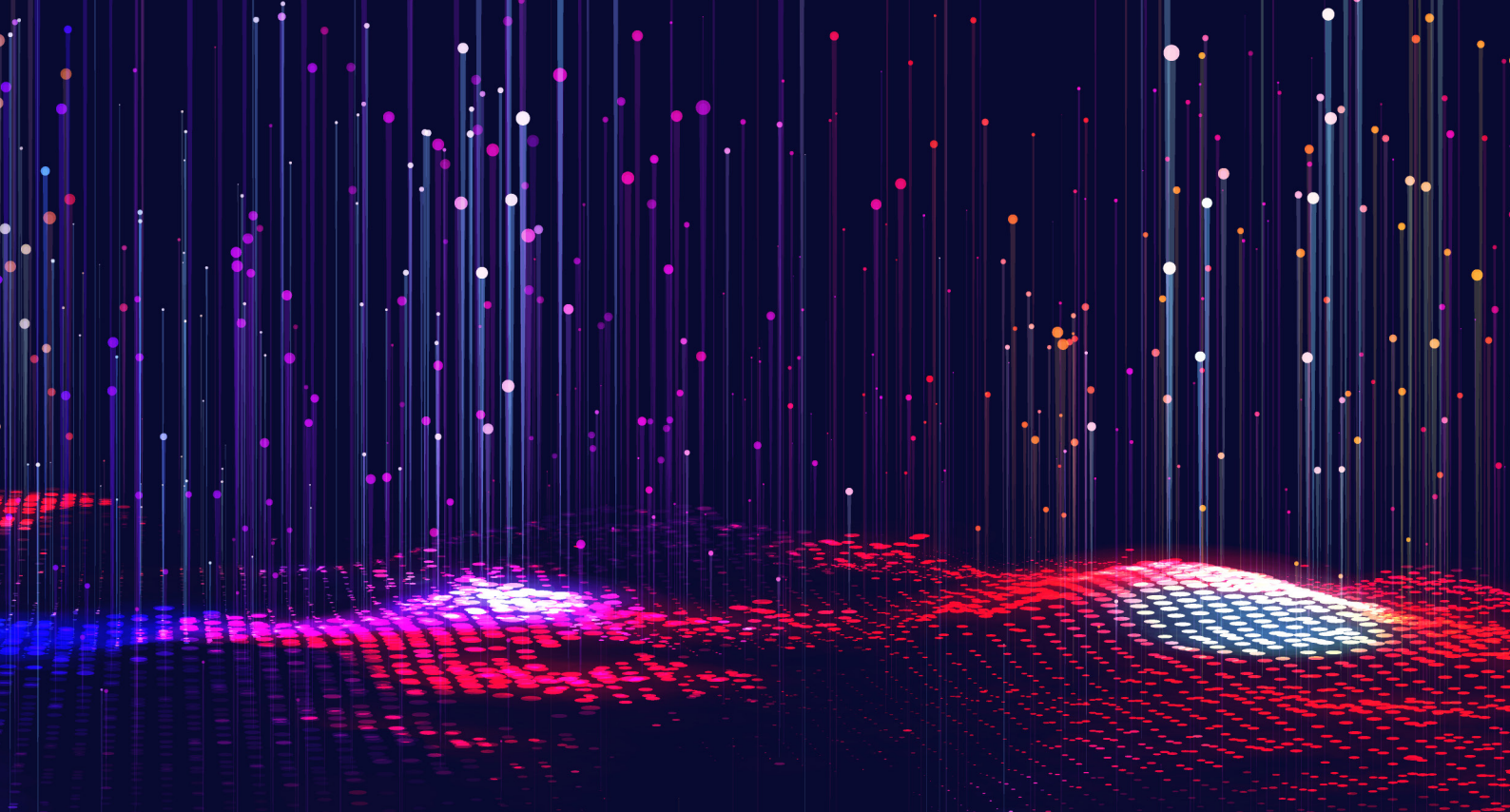
between the relevant and great talent? It’s not uncommon for a company to get stuck in a hiring pattern, so it is up to a client’s trusted advisor (their search partner) to bring them a broad and diverse candidate slate.

The idea of doing this remotely in a “work from home” environment common with so many corporations will be especially difficult, as face-to-face interviewing and interaction has traditionally been a cornerstone of engagement. That being said, embracing video interviewing strategies and solutions can help mitigate this hopefully temporary arrangement.

Digital Transformation:

I’ve decided to address digital transformation second, because while it is usually overlooked as a priority, it can actually help with almost all of the challenges and issues in the report and that we’ve touched on thus far. As an outsider who’s now become entrenched in the intriguing world of search, I appreciate that search businesses are businesses that have been built on people relationships and, in some ways, technology has been viewed as relationship kryptonite.

While the element of having a great network and developing relationships will never change, the reality is that in order to compete at the highest level, firms are being forced to address digital transformation to extend their expertise



by digitizing their knowledge with intuitive technologies shy of plugging USBs in the back of their consultants' heads.

Unfortunately, our current reality of dealing with the business and societal fallout of COVID-19 underscores this to an extreme degree. Every company that can still do business in this environment is now, by definition, a technology company—providing services and products and interactions over the internet. Embracing digital transformation and formulating a digital strategy isn't just a matter of future-proofing your business—it's about immediate sustainability.

58% of respondents say the top operational challenge they'll face is how to embrace digital transformation to improve operations.

85% agree that digital transformation will help their business, yet adoption remains a major hurdle.

Those firms who are prioritizing their technology approach have an edge on those who don't. The processes they've set up for their teams is allowing them to capture all necessary data on all the candidates and clients they speak to more quickly than others—and it's allowing them to better leverage that data for future searches. Candidate acquisition is among the top priorities and challenges faced and these firms have a leg up because the likelihood of them forgetting highly qualified candidates that they have talked to before is much

lower due to the quality and quantification of high value data.

How else can digital transformation help take a firm to the next level?

- Powerful reporting (like pipelining, forecasting, and financial modeling) can help make data-driven decisions. This is valuable at any time but especially at a time of economic uncertainty when diversifying the portfolio of services should be considered.
- Client management and customer experience is a top priority for 2020. Well guess what? Technology/data should help promote the firm's brand in a fresh way to stay ahead of the competition. Are clients having a memorable digital experience, for example?
- Data privacy regulations: technology helps automate processes and helps firms stay compliant.

2020: A Year of Uncertainty and Challenge

While at the time of the survey more than 72% of firms expected revenue to increase in 2020, the economic landscape has changed dramatically given the economic impacts of COVID-19. However, the spread of the pandemic doesn't need to interrupt your migration to a digital-first strategy and continuing to focus on delivering value to clients, helping them meet their changing

business needs. Engaging with clients and candidates will plant the seeds for a future harvest, when companies begin to focus on growth again. ■



Christian Coley
Account Executive
Invenias by Bullhorn

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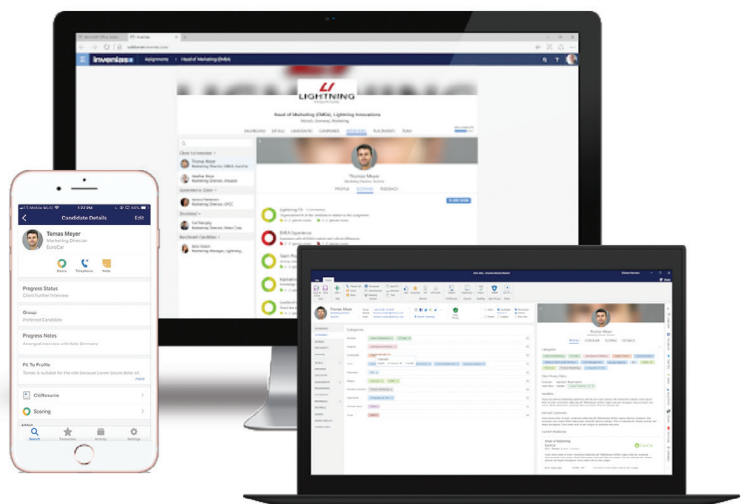
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