



Creating an institution fit for your ESG aspirations

A PwC publication on building an authentic identity and institutional resilience for your sustainability journey





As ESG continues to gain momentum as a top priority around the world and in our region, the spotlight is on how the organisations transform themselves to be fit-for-ESG.



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An imminent tipping-point?

World leaders will come together in the UAE later this year for the COP28 annual climate conference to discuss solutions and create tangible action plans to tackle climate change. This marks the second consecutive gathering of its kind hosted by a Middle Eastern country, thereby accelerating the focus of local governments and businesses towards ESG policies and strategies.

HE Mariam bint Mohammed Almhairi, UAE's Minister of Climate Change and Environment, recently stated that the UAE is ready to deliver a meeting that mobilises countries to boost their efforts to fight climate change.

The UAE has already promised net zero carbon emissions by 2050 and both Saudi Arabia and Bahrain have declared similar goals by 2060 - paving the way for a major turning point for progress on sustainability initiatives around the region as the build up of momentum on the road to COP28 continues.

Looking at ESG more broadly, our 2022 Middle East ESG Survey found that companies in the region see a range of potential benefits from performing well when it comes to ESG, including increased profitability and improved brand recognition (see Exhibit 1). Moreover, job seekers are increasingly factoring organisations' social values into their decisions when considering employment opportunities. Lastly, customers are beginning to demonstrate an inclination for sustainable products or services that bear favourable environmental and societal markings. All of these elements provide evidence for the advantages associated with strong ESG credentials.

The business case for ESG is clear.



Exhibit 1

Within the next 12 months, which of the following benefits does your organisation expect to achieve because of implementing an ESG strategy?



Source: Reimagining our region through ESG, PwC Middle East Report 2022



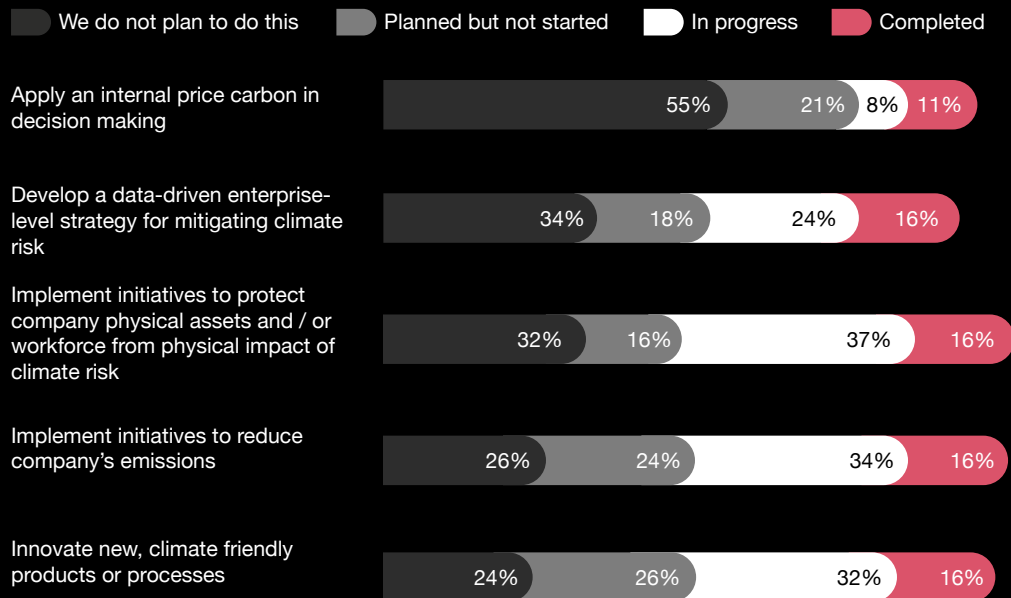
Bridging the gap between action and ambition



In our latest Middle East 26th CEO Survey, about half of Middle East CEO respondents stated that they have either taken steps to mitigate climate risk or are in the process of doing so (see Exhibit 2). The action is two-fold: they are innovating new and climate-friendly products and processes and are simultaneously implementing initiatives to reduce their company's emissions.

Exhibit 2


Below is a list of actions companies may undertake to prepare for the risk of climate change. Which statement best characterises your company's level of progress on these actions?



Source: Looking to the future with confidence, 26th CEO Survey: Middle East findings 2023

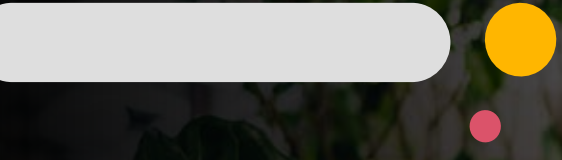
Not all figures in charts will add up to 100% as a result of rounding percentages and the decision in certain cases to exclude the display of "neither/nor," "other", "none of the above", and "don't know" responses.

However, a gap still exists between ambition and action when it comes to ESG transformation efforts - so why are corporates lagging behind? The answer lies in recognising an important fact: that an effective ESG transformation program requires substantial organisation-wide commitment over the long term that includes:

-  Defining an ESG vision and strategy;
-  Setting accountability for ESG action;
-  Developing an ESG business case and financing strategy;
-  Developing a product and services strategy;
-  Transforming the supply chain and developing an ecosystem of collaborators;
-  Recalibrating the operations model, processes, and technology; and
-  Defining an innovation roadmap.

Progressing on the above will require companies to relook at their purpose, culture, and capabilities - and this is not an easy task.

So how can the HR function taking a prominent seat at the table help accelerate the ESG agenda?



A culture that provides a voice to your ESG aspirations





“The biggest ESG enabler is company culture ... and that is also the most difficult one to change.” says the chief HR officer of a financial services company cited in PwC’s recent [survey](#) on ESG-related pay structures.

This is where HR teams probably have the potential to make or break the internal ESG agenda. Wherever the strategy comes from - whether it is the chief executive officer, the chief sustainability officer, or even government mandates - it is HR that must provide the delivery framework for incorporating a culture change.

Building an ESG culture is far from easy. HR professionals should recognise that ESG values ought to form the resilient core - the defining doctrine of their organisation – across multiple generations of employees, driving purpose, engagement, and productivity.

Culture change begins with a company’s authentic identity. Their narrative on ESG cannot be based on borrowed cliches. Each company’s response to the ESG agenda should be unique and embedded in its own context of its ambition, regulations, investors, and stakeholders’ expectations.

Individual organisations themselves should decide how aspirational they want their ESG outcomes to be and what the right strategy is to achieve these. Is their ambition to be an ESG pioneer in their industry with ESG being the litmus test of what they do and how they do it? Or do they wish to be a pragmatist and let regulations drive their response?



Either way, defining and clearly communicating a convincing long-term plan as well as short-term actions and performance expectations is critical. Companies should set the tone at the top – a ‘drumbeat’ to build excitement and communicate the urgency. They can do this by leveraging formal and informal channels of communication – by building communities of interest, facilitating informal networks, and via peer-to-peer interactions on the ESG agenda.

Baker Hughes’ path to decarbonisation, ‘Carbon Out’, a company-wide [initiative](#) that was conceptualised in 2021, and PwC’s ‘Acting on Carbon’ [program](#), are both good examples of culture defining programs that include big-bets towards a net zero future, but also connect with employees at a very personal level. These initiatives do this by offering environmental volunteering opportunities and by reducing their own carbon impact by minimising business travel, and other avenues.

To successfully transition to an ESG-centric culture, it’s essential that a few crucial behaviours are ingrained throughout the organisation. This includes adopting characteristics of ‘long term orientation’, a ‘collaborative mindset’ within the company and, externally, a sense of ‘personal ownership’ of actions, as well as ‘agility’ with respect to responding to the evolving priorities. Identifying the behaviours that ring true to an organisation’s transformation and embedding them in leadership attributes, people practices, performance metrics and employee motivators is key.






As an example, Salesforce has endorsed 'sustainability' as a core company value, joining its values of trust, customer success, innovation, and equality. This has helped employees appreciate that sustainability is 'part of everyone's job' and incorporates it into the company's vision, methods, and measures. This change was accompanied by extensive awareness campaigns on how this impacts not only Salesforce services (e.g. Net Zero Cloud 2.0) but also leadership conduct, employee behaviours and decision making.

A company's corporate culture can be the catalyst for sustainability in their employees' lives and their communities. As a business, empowering people to make personal commitments to reduce their carbon impact, such as taking public transport or reducing food waste, is important. These are also integral steps towards enabling a company to achieve its ESG goals. Showing support by offering IT gadget recycling programs or providing reusable water bottles are examples of small gestures that will go a long way to foster sustainable practices in day-to-day operations.

Employees who believe in sustainable living personally, will drive the change at work as well.



**Institutional coherence – a ‘fit-for-ESG’
operating model**

Companies on their ESG journey will be required to fundamentally rethink their unique value proposition, product and services portfolio, operational footprint, supply chain and partners' network. This requires discussion on changes to their 'ways of working', or in other words, to their operating model itself.

How do we achieve a 'fit-for-ESG' operating model?

The HR function has a dual role to play in developing a 'fit-for-ESG' operating model. HR should be the seasoned organisational architect and change catalyst - a capable thought partner to the chief Executive Officer, chief Operating Officer, or the chief Sustainability Officer.

Firstly, HR should clearly define the governance for a company's ESG strategic roadmap and ensure that ESG is the standing agenda item at executive committees and leadership meetings. HR can also set up collaborative cross-functional steering groups to review and evaluate ESG performance and programs.

Secondly, it is crucial that HR conducts a comprehensive impact assessment of the ESG strategy on the roles and remits across the organisation.

As the company defines its net zero goals and refreshes its product and services portfolio, and business operations, HR should consider corresponding changes to the organisational architecture. This should map out clear responsibility for how the company plans, innovates, funds, produces, assesses, reports, and communicates any resulting new products and services.



Reinventing the organisational architecture from ESG lens can be particularly challenging because it needs to be developed in consideration with the wider ecosystem. It is likely that the bulk of the carbon footprint is in the supply chain, not within the boundaries of the company itself, and changes to the operations of the company alone may not yield the desired results.

As the HR function goes back to the drawing board to define the new organisational architecture to transition to a more circular business model, companies should think about making a successful ecosystem play. A 'fit-for-ESG' business model is the one that will lead to closer, interdependent relationships with suppliers and customers, and forges capability alliances to develop an effective circular ecosystem.



Green talent transition – training for the race to net zero



A proactive HR function can ensure that a green transition of business is also a successful transition for the employees.

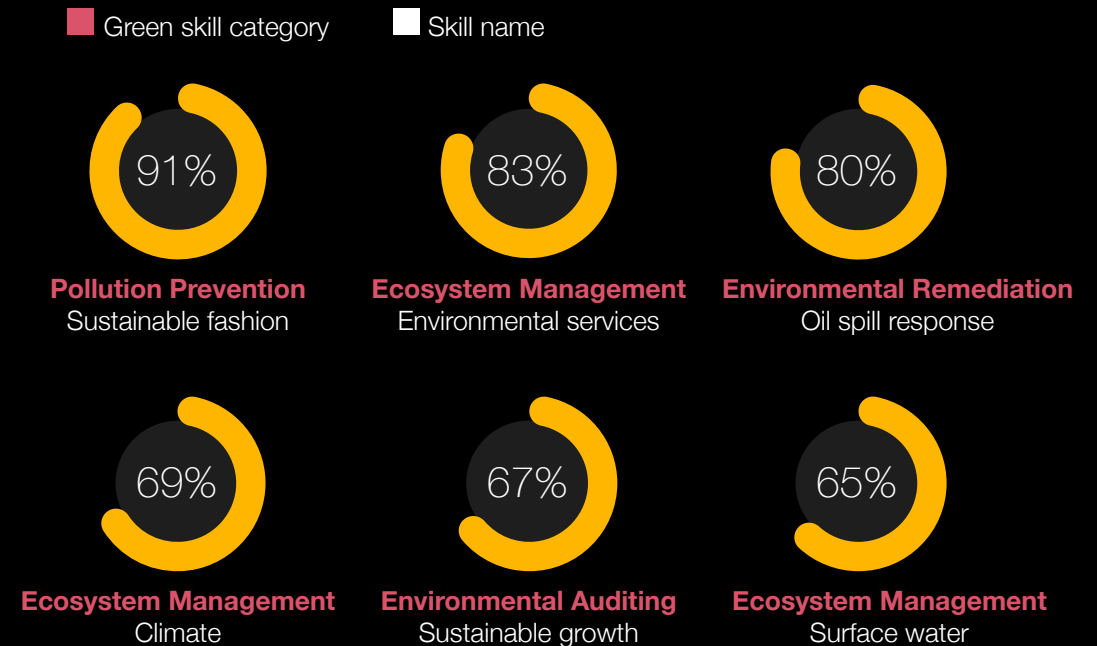
The greening of the economy already has, and will continue to have, a profound impact on employment and skills. Investment in green skills is critical to supporting the transition to low-carbon, resource efficient and sustainable operations.

Green skills (See exhibit 3) impact a broad set of existing jobs, whether management, retail, architecture, and engineering, or in areas such as construction, installation, maintenance and repair. We are witnessing a ‘green enrichment’, with the need for skills related to sustainable products, energy efficiency, and environmentally friendly technologies becoming a requirement for a wide array of jobs.

At the same time, new jobs are emerging as a response to specific needs of the circular economy, like ESG data scientists and sustainability auditors.

Exhibit 3

Fastest growing green skills (2016 – 2021)



Source: LinkedIn, Global Green Skills Report 2022

In addition to green skills per se, more generic skills like resilience, cognitive adaptability, and problem-solving are also important for a successful green transition.

Not surprisingly, there is a chasm between the demand and supply of green skills, and it is growing wider. While the number of ‘green jobs’ grew globally at a rate of 8% per year over the last five years, the number of people listing green skills in their profiles only grew by 6% per year, according to a LinkedIn analysis of its nearly 800 million users.



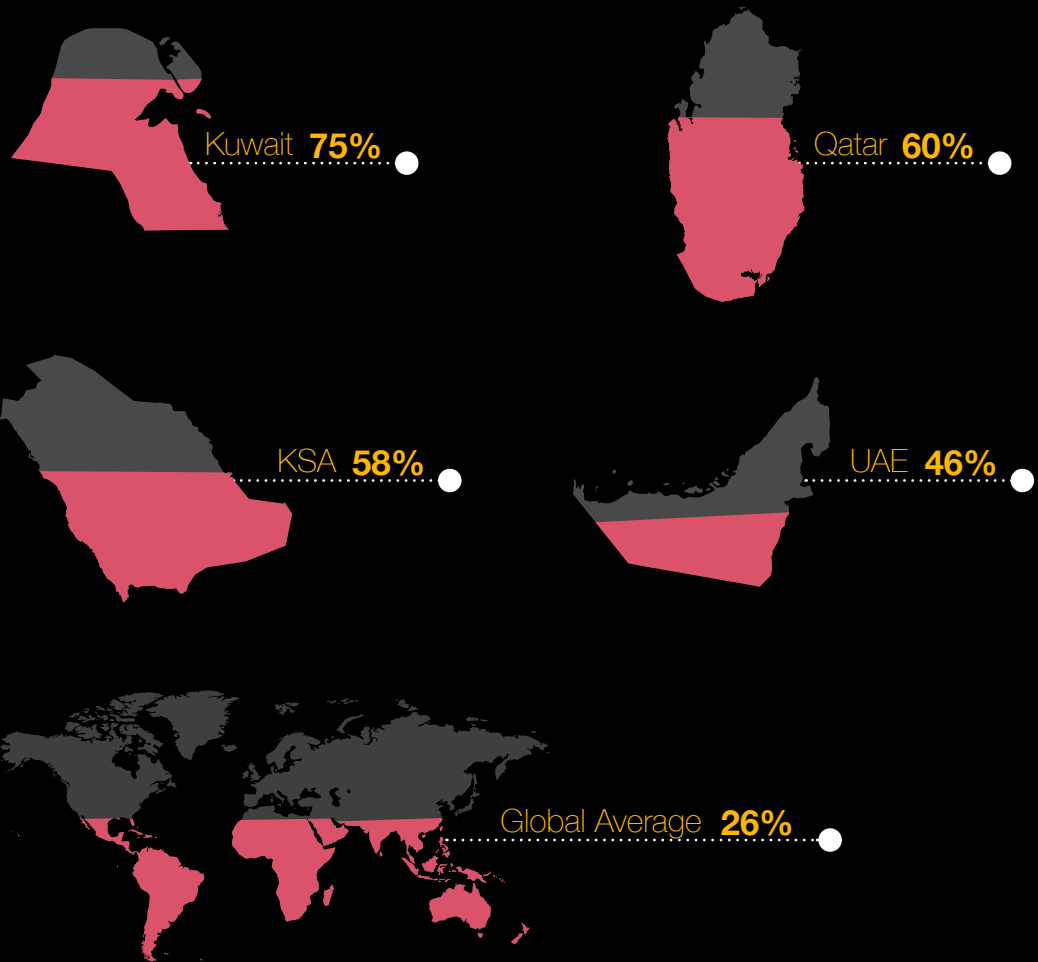
PwC's Green Jobs [Barometer](#) indicates that the number of green jobs advertised in the UK has almost trebled in the last year and is growing around four times the rate of the overall employment market.

This scarcity is across all sectors. In financial services, for example, a recent [survey](#) from Funds Europe shows that more than two thirds (72%) of financial services firms think they are facing a critical ESG skills shortage, and only a small minority of firms (13.5%) are providing training on the risks resulting from climate change, which exacerbates the challenge.

Furthermore, data from our [2022 Workforce Hopes & Fears Survey](#) shows that a higher percentage of employees in the Middle East believe there is a shortage of specialised skills resources in their region compared to responding employees in other parts of the world (see Exhibit 4). For HR functions in the region, this means an even clearer mandate to work towards bridging the green skills gap.

Exhibit 4

Respondents who believe their country has a shortage of people with specialised skills



Source: PwC Middle East Workforce Hope and Fears Survey 2022



It is incumbent upon HR to treat skills development as a cornerstone of the green transition and try to mitigate potential risks to employees' careers. Skills development also serves as a buffer against the effects of transitory disruptions and can be tackled in a number of ways as we outline here:



Conducting a green skills impact assessment

Conducting a strategic green skills impact assessment means identifying jobs that require green skills enrichment, and additional jobs that need to be defined. It also involves identifying jobs at risk of being eliminated in the new business model.



Designing upskilling pathways

Defining a resourcing plan including talent upskilling pathways for impacted employees and going beyond your traditional talent hubs to attract new skill-sets is critical.



Developing a green curriculum

Making use of vocational education and training as well as other forms of on-the-job learning to build a talent pool or leverage online/blended learning certificate programs with a sustainability specialisation.



Leveraging learning interventions

Defining learning interventions for different employee groups is one way to develop sustainability skills - for example, offering short courses and micro-credentials from universities, colleges or professional bodies for mid-career employees who don't have the time to reinvest in full-fledged degrees.



Developing recognition programs

Incentivising learning through rewards and recognition programs, even simple programs can - if tailored well - make a difference in creating excitement around green skills.

There are many companies who are progressing well on the green skills transition. Whilst organisations such as HSBC, Coca Cola, Visa, Lidl, Henkel are focusing on core skills and providing extensive certification courses accredited by CMI, SASB and others, companies like Starbucks are offering a combination of learning and recognition programs. These include the Greener Apron program, in partnership with Arizona State University, where the successful Starbucks employee participants get a free pin to proudly show that they are a part of the Greener Apron community!





Looking within - building HR's ESG capability



The background image shows a professional meeting in a modern office. A woman with long dark hair is seated at a table, looking towards a man with a beard and glasses who is pointing at a document. Other people's hands and arms are visible around the table, which is cluttered with laptops, papers, and a glass of water. The office has a white brick wall, a large clock, and a whiteboard with some writing.

The ESG agenda for corporates should align economic gains to societal progress; it ought to demand that corporations look beyond traditional financial measures to establish their value and aim to direct focus firmly back into the social, economic and environmental ecosystem.

HR is at the heart of this shift. But what will it take for HR to win this generational strategic transition? How should HR transform itself to be fit-for-ESG?

01. Drive a HR green skills transition - change begins at home, and this could not be truer for the HR function. Build your own capability – educate yourself on ESG agenda and create expertise on ESG driven transformation and policy change. While the HR function is responsible for the green skills transition, it is equally important that HR invests in acquiring green skills itself to be a credible ESG business partner.

02. Be a steward of the green agenda - whether HR views itself as a strategic partner or an employee champion, it needs to add another dimension to its traditional role – stewardship of the green agenda. HR's functional plan should include clear initiatives on green strategy, culture, and capability. Create accountability within the HR function, be an integral and valuable member to the sustainability agenda, create employee engagement and drive execution.

03. Adopt a collaborative mindset and an outward focus - look beyond the boundaries of your organisation. Collaborate with your competitors. Forge industry relationships and alliances for coordinated efforts on green upskilling and people practices. Serve as a valuable partner to policy makers so that the transition to a green future is just and inclusive for employees in the region.

The green transition requires innovation. Not just innovative products and services, or an agile supply chain, but innovation in ways of working and engaging with a broader ecosystem of partners, suppliers, and academia. HR functions with an innovation mindset, open to reimagining what they do and how they do it will create winners of their organisations in their ESG ambitions.

Get in touch

At PwC, we can partner with you on your strategic ESG people agenda - helping you define your ESG people strategy and reconfigure people practices from an ESG lens.



Creating an **ESG people strategy** - aligning people objectives and practices to the ESG agenda.

Establishing an ESG conscious organisational **culture**; engaging, influencing and inspiring action.



Assessing people practices across an entity and its supply chains from an ESG lens to identify key risks and gaps.

Redesigning 'S' practices on **executive performance**, rewards, diversity and inclusion, employee wellbeing and others.



Defining a **green skills transition plan** - assessing, identifying, and developing ESG capabilities.

Supporting **mergers and acquisitions** through due diligence of ESG people practices.



Establishing clear governance with structure, responsibilities and **accountabilities** to deliver an ESG agenda.

Establishing **ESG people analytics** including transparent reporting on progress and challenges.



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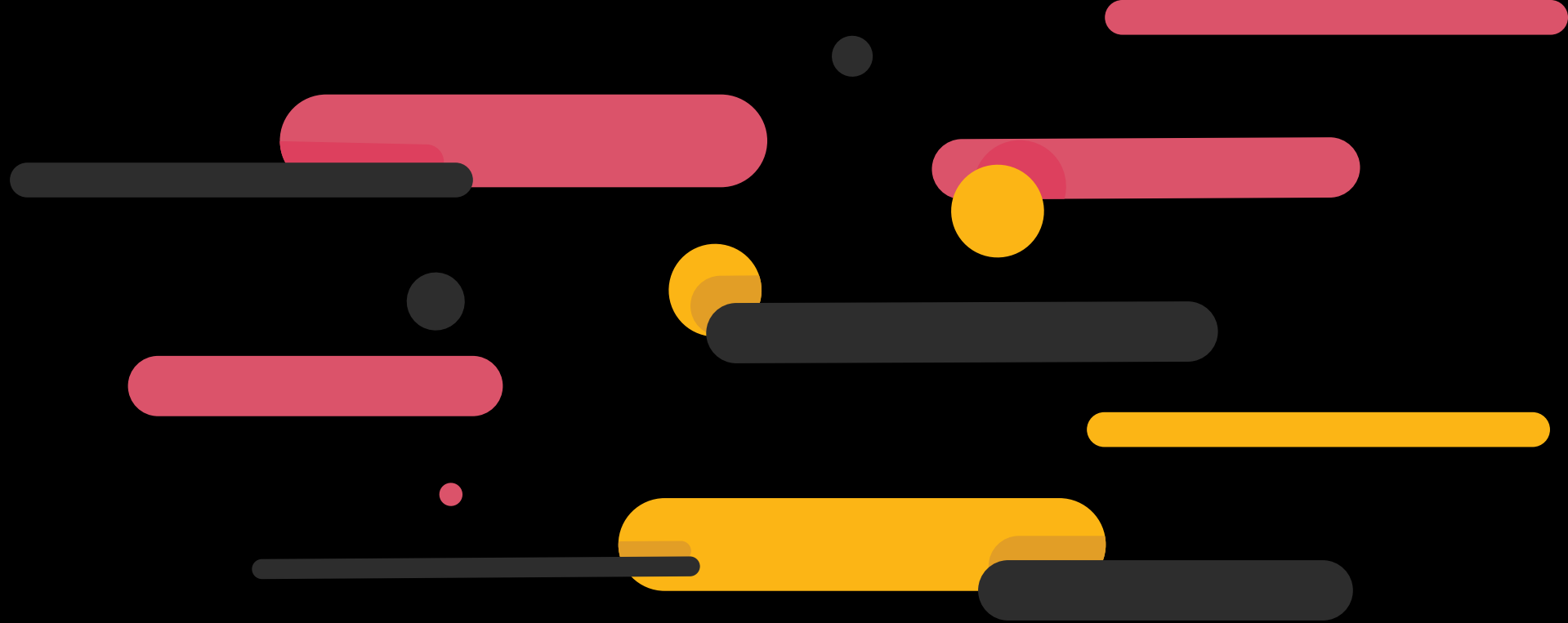
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