

Talking Climate and Sustainability – Episode 7: Culture can fix climate change

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SPEAKER: You're listening to Talking Climate and Sustainability, a podcast series from Willis Towers Watson where we explore why climate change and building a sustainable future is a responsibility we all share. From the complexity of shaping an effective ESG strategy to achieving an orderly transition to a sustainable, low carbon, climate resilient economy, organizations across the public and private sectors are grappling with the challenges of climate change and creating a more sustainable future for communities and society.

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LYDIA MESSLING: Hello, and welcome to our climate and sustainability podcast. Now, this time, we've got something a little bit different for you. In these next few episodes, we thought we'd chat some more about the themes that emerged at our climate risk and financial stewardship summit back May 2021 where we heard from industry-leading experts on the changes and challenges in stewarding the transition to a climate-resilient economy.

There's so much more to explore. And so we hope you'll enjoy the perspectives and insights from Willis Towers Watson's thought leaders as they further unpack climate risk resilience and sustainability and what organizations need to be thinking about.

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Hello, and welcome to this episode, The Talking Climate and Sustainability podcast. I'm Lydia Messling, your host. And today, I'm joined by Marisa Hall. Hi, Marisa.

MARISA HALL: Hi, Lydia. It's such a pleasure to be here.

LYDIA MESSLING: Thanks so much for speaking to us, Marisa. So, Marisa, at the Thinking Ahead Institute where you are, what is it that you do exactly? How would you describe your job?

MARISA HALL: Well, it's an interesting question. So I think I probably have one of the best jobs in the world. And it's just amazing because at the institute, we get to work with some of the world's largest asset owners and asset managers. We bring them together. And we do lots of cutting edge research. And so it's an innovation hub. It's really a space for collaboration, a space for new thinking.

And I spend, personally, quite a lot of my time looking at topics like sustainable investing, thinking about culture, diversity, and value creation. So really, it's a privileged

position to be able to just get a bit of an insight into what some of the best investors in the world do.

LYDIA MESSLING: Really, really interesting. And of course, the work that you've been doing recently, looking at climate change, I think it's crying out for that sort of thinking. So we are increasingly seeing how a strategic response to climate change is needed to handle both the emerging risks from climate and also the opportunities. So what would you say, from your work, which top one or three things, I'll give you three, do you think companies need to have as part of their strategy to make sure it works?

MARISA HALL: Well, that's a tough question. OK. Well, I'll start. And I'll see if I can make it to three.

I think, first of all, what we're seeing, particularly within the investment industry but actually in other organizations, is almost a paradigm shift in the way that these organizations think about how they invest. So we're moving from a world where, historically, everything was focused on risk and return and optimizing that equation, to actually bringing in this third dimension called impact. So understanding the impact of the activities that your organization is doing on wider society and the planet has changed everything. Because it changes the way that you approach decisions. It makes you think about, well, how connected am I to the wider society?

And I think that probably brings me to my second point, which is really, what we see as a need for an uptake in systems thinking. And systems thinking, I mean, it's a wide field. It's been something that's been talked about quite a lot in academic language. But it's really around this idea that everything connects. There's a flux in the flow between things. Things connect but nothing really adds up. It's a world where data is messy, collaboration incredibly important, behaviors matter, and it's also a world where there are associations and not causations.

And I think systems thinking, really, is something that is changing the way that investors think about things. Because really and truly, you need to be able to make these good decisions in the face of uncertainty. And I think, probably, if I'd come to a third, that links me to culture.

And when we talk about culture, we're talking about the collective influence of shared values and beliefs on the way an organization thinks and behaves. And we talk about culture because actually culture controls and almost dictates how an organization behaves. And so we're seeing organizations spending a lot more time talking about that as part of their strategic response to climate change.

LYDIA MESSLING: OK. So tell me a little bit more about this culture point because I think that's something, a phrase, that we kind of come across quite regularly in day to day activities like talking about our culture. How do you actually understand it in terms of like company or an organization or setting? Is it like how people talk to one another or is it something else, you talked about shared values. How do you go about identifying that and understanding culture in that context?

MARISA HALL: Yeah, no. It's a really good question. And culture, if you were just to ask somebody in the organization, what is culture, they'll probably just immediately respond and say, wow, oh, we've got a great culture, or we've got a terrible culture. And people just have a bit of a sixth sense about it. But it was Marvin Bower, he was the ex-McKinsey head. And he kind of succinctly put culture as, well as the way we do things around here.

What our research in the institute has led us to explore is, well, why do you do things the way that you do them? And how do you do things the way that you do them? And actually realizing that culture is so much more because, as I said, it affects behaviors.

And culture isn't just a state in an organization. And this is why we tend not to talk about good cultures and bad cultures, we tend to talk about effective cultures and ineffective cultures. We see culture as an enabler. It has to run through the organization. It is something that allows you to be able to add value to your clients and add value to your employees. And so with culture, you have to think about, well, what does this culture allow you to do? And how effective does it allow you to be? And that's really, really very important.

LYDIA MESSLING: And I think that does sound like quite a powerful tool then in tackling climate change, with it being such a big and wide-ranging problem. Culture tends to spread and touch lots of different things as well. So it does seem quite effective. But if you're being honest, like how effective do you think culture can be? Is it a key thing? Or is it, like, a nice to have?

MARISA HALL: Well, in responding to climate change, Lydia, I would say it's critical. You know, it goes back to one of the first points that we were talking about, which is really around systems thinking. And it was a guy called Peter Senge. He was an American systems scientist who really moved on a lot of the work on systems thinking. And basically, if you think about our system, you can understand that it exhibits certain patterns or archetypes as he likes to call them.

And in the investment world, we see lots of patterns. And some of these patterns, particularly when it comes to climate change, are thinking about things like tragedy of the common. So investors are forgetting about others and just trying to pursue their own game. So basically over-exploiting the shared resources that we have as human beings like our planet.

And you also see other archetypes or other patterns. Like we have a kind of winner takes all mentality and free riding mentality where, actually, we're just waiting for others to do it. And the reason why it's so important to understand these archetypes and systems thinking is because investors and organizations as a whole, tend to use something that we call boltholes. And these are comfortable places where they avoid confronting the key challenges associated with climate change.

So some of the bolt holes that we're seeing are things like gaming where organizations are working on what is measured but not what is meaningful. And we see that which, particularly, when it comes to understanding metrics around carbon emissions and so

on. Are you really fondering the spirit of what this says. This isn't just about what your latest report needs to say.

And we also see this when it comes to greenwashing where there's this gap between what organizations are saying and what organizations actually end up doing. And this really comes down to weak accountability and ethics. And a host of other boltholes which, invested in a system, tend to kind of go to.

So things like pond skimming where, actually, there isn't sufficient thinking for really understanding how things connect. And really, there's a lot of simplicity in terms of actions being able to try and solve this problem. And we obviously talked about free riding where you've got investors who are just like, actually, let me just wait for someone else. Let me wait for them to do that.

So when I think about culture and why it's so powerful in responding to climate change, is because you can think about these safe spaces, these boltholes that investors like to move into and what stops them from moving into these bolt holes. What stops an organization from greenwashing, from trying to game the numbers, from free riding. It's actually having an effective culture, a culture that really focuses on purpose, on transparency, and good ethics, on diversity, on innovation. And that's why culture is really foundational to solving the climate change problem.

LYDIA MESSLING: I completely agree. I mean, I'm completely sold. And I think I see there's a lot in my work with communications as well where we're trying to-- I really liked what you said about it's not just about how do you better fit in with your [? current ?] measures and metrics. It's questioning whether they're even the right ones. And that really does need a big sort of mindshift. And so that's asking, what sort of culture should we have that will be effective for achieving the change that we actually really want to see. Not just effective at pursuing something right now, but what is it we really want.

So I think cultural change can sound like quite a daunting prospect and something that could seem to take a long time. And it's not really something you can control. It just sort of happens. But do you think there's anything we can do to help spark effective cultural change? And is it something you can actually measure and steer? Or is it something you can just kind of cross your fingers and hope the best for?

MARISA HALL: Well, we have this thing in the institute that culture is reflective of leadership, past and present. And really, when you think about the leadership of the organization, it's not just their job to kind of set the tone at the top in an organization, but to really walk the walk and to ensure that people in your organization really engage with the kind of cultural vision. And so when you talk about can you control culture or is it just something that sort of happens, actually, if you don't pay attention to the culture in your organization as a leader, it will revert. It will move to a state that is much lesser than what you are trying to aim for.

And so culture is something that we, as you said, very much believe it can be managed. And we do believe that you can go away towards measuring it. And so a lot of our work in the institute is working with these organizations that I spoke around about building

roadmaps, thinking about what the current culture is, and what is your target culture, and thinking about broad and the journey that you need to take to get towards it.

So when we talk about culture, we're not just talking about this kind of nebulous concept. The framework that we use in the institute which has just brought such insightful conversations with so many investors around the world has 10 factors. And some of the factors-- and I won't bore you with all the details, the [? pages ?] on our website are on culture.

But some of the factors are well, what is your client-focus culture? What is your people-focus culture? What is your innovation culture? Your culture on diversity and inclusion, and transparency, and your focus on the long-term. So that staying power that organizations need to have.

So we break down culture into 10 factors. And we work with leaders and we say, well, let's talk about how your leadership team sees the culture. Because it's really important to remember that in the leadership team, you want diversity. You want that diversity of thought. And so everybody will have a different view of what the culture of the organization is.

And so the aims of the aim of this conversation is to actually bring people closer together. How do we, as a leadership team, see our culture collectively, and socialize that view, and come up with a definition that is meaningful to that organization so that they are able to start this journey towards having a better cultural framework. So definitely, it's something that we think leadership needs to prioritize as part of building a stronger and more effective organization.

LYDIA MESSLING: Do you ever find that people's opinions on culture of their organization is really quite different? Like, does that ever become a real sticking point? How do you navigate that?

MARISA HALL: Yeah, absolutely. I mean, and this is why that bringing in leadership together and really trying to understand what each person's perspective on culture is such an important first step. So you've got leaders where, actually, particularly in our industry, it's all about the performance. It's all about the clients. And this is what our culture is focused on. And that matters. But then, you've got other leaders where they say, well actually it's all about the people. It's all about diversity inclusion. It all about transparency and openness.

And the one thing you have to recognize about culture is that when I talk about those 10 factors that we look at, it's really an impossible job to try and max out on any one of those factors because there are trade-offs. So for instance, if I'm thinking about the trade-off between clients and people. So what is the point of saying, well, actually our clients get everything if your teams break down, and if people don't feel valued, and people feel overworked and overrun. And so there has to be a balance between each of these cultural factors because you're trying to make an organization that is coherent and that works.

Now, there are lots of win wins. There are lots of wins for instance, between an organization that is open and transparent and organization that really has inclusiveness at the core. And so having kind of a good metric within, things like transparency, is something that is definitely supplemental to diversity and factors like that.

But I just wanted to make the point that, actually, leaders will have different views on what the culture of the organization is. And actually, it's around bringing people together and recognizing the balance between different cultural factors and thinking, well, which factor do we actually need to work on now? And which factor do we think actually is great and we need to maintain what we have?

LYDIA MESSLING: That's really interesting. And so when it comes to having an effective culture for climate, I mean, as you've just outlined different organizational cultures will be different for different reasons. But in your work, have you found that there's any sort of common barrier that comes up that is preventing organizations from having a culture fit for taking effective action on climate?

MARISA HALL: Yeah. So I think one of the things that we come across quite often is around interpretation of fiduciary duty particularly, when it comes in UK institutional investors. And actually, what we tend to speak about and what a lot of commentators are starting to embrace is this concept of a fiduciary window where trustees are responsible for their policies. They are bound by a number of obligations. But there are set of investment policies that are acceptable from a fiduciary perspective given the current interpretations that we have.

And so what the fiduciary window does is, it describes two spectra. So one spectrum where you are stretching from kind of thinking about short-term finance is sustainable long-term value creation. And the other side is where you're ranging from a kind of pure member financial interest to thinking about other considerations and thinking about multiple stakeholders.

And what we're finding is that, current fiduciary interpretation allows for a measure of stretch in terms of what you focus on. So thinking about long-term value creation, thinking about multiple stakeholders. And it's really for trustees to kind of be brief and make the decision about what they do and to ensure that their policies fit in line.

So we do see kind of the current interpretation of fiduciary duty somewhat restrictive, but we're encouraged to see that actually investors are still within the constraints of that restriction, within those current interpretations, thinking about ways that they can do well while also doing good.

I think the other barrier that we tend to see is just coming around to this idea of purpose, which is tied to the fiduciary argument. And historically, if you go back in our industry, it was really all about performance. Let's just focus on performance. Let's think about how we can beat particular benchmarks. And actually, what we're seeing is, we're seeing a widening of purpose to incorporate people. So thinking about the strides that organizations can make when it comes to diversity, equity, and inclusion. We're also seeing a focus on multiple stakeholders, so [? wider ?] society and the planet.

And obviously, we're seeing capital flowing into net zero, or sometimes we call it the net zero tsunami. So basically, capital flowing into that field. And this is because investors believe that, as I said, you can do well while you're also doing good. And that they can make a difference and have an impact while also serving the needs of their clients. So I'm glad to see the change. I'm glad to see the movement and thinking. But there's still a massive way to go. And I think there's more to be done on this.

LYDIA MESSLING: I think we can have board-level folk sort of maybe understand fiduciary duty in a particular way. But then, for that to trickle down to the rest of staff and for it to truly be part of the organizational culture, it's a different kettle of fish. Do you have any tips or things that you see for practically helping that change of culture filtrate through. Like how does one do that?

MARISA HALL: Yeah, no. Another good question [? idea. ?] So I think we see a number of initiatives where organizations are really trying to up that cultural engagement. And part of it is obviously communicating with employees about what culture means to the organization or what it is, and how it's shaped and managed.

And just to give you a simple example, we can see, as a result of the pandemic, actually, the better organizations were the ones that increased their communication. They upped the ante when it came to that. They started spending more time thinking about and caring about the well-being of their employees, and thinking about the things that they could do to help them.

And so leadership, upping the communication and thinking about how they can connect with people was definitely a silver-lining that we saw in a few organizations around trying to improve culture. I think the other thing that organizations are doing is just sharing and starting to talk to each other about what better cultural practice can look like. And so, at the institute, we spend quite a lot of time connecting investors together, talking to them, and they talking to each other about some examples of best practice.

So things like, where you capture these unique personal stories from people within your organization. And you start using that storytelling to say, well, this is what the organization means to me. This is my experience. And you do that across the level. You think about that from new graduates to the more senior employees. You think about your diversity policies and having explicit KPIs. So thinking about gender, and ethnicity, and having that executive accountability.

And I think you think about your people managers. And you think about, well, actually our industry has a habit of having people managers who are incredibly, technically competent. And being a people manager is almost seen as a reward for that technical prowess. But actually, what about hiring people who genuinely are interested in people and have a knack for caring and kindness, and have a knack for showing that consideration, and making sure that the individual is at the core of the organization's values.

So I think what we're seeing is we need to just start sharing of best practice. Well, what are you doing? What are you doing? How are you really getting that culture to filter

throughout the organization? And thinking about how can leadership learn from all levels in your organization to improve better practice.

LYDIA MESSLING: Absolutely. Music to my ears, Marisa. Because with the work that I do with climate communications, like climate in particular, it's hard for people to get their heads around. It's what we call-- it's psychologically distant. Like you can-- it's in different places, different times. It's just a really hard issue for us to cognitively engage with.

So I always say the best thing that we can do is to talk about it. Because the more that we talk about it and understand how people think and feel about it, I suppose kind of what cultural context they are thinking about climate and the solutions to it, the better we can understand like our overlaps and see what different opportunities and actions are there for different people, their conceptions about climate, its impacts, and therefore what actions they can take is so strongly linked to their culture and their own personal views and values. But I could go on for that for ages.

MARISA HALL: I love that point because one of my colleagues, Tim Hodgson he co-heads the institute with me. And he's writing about the difference between head knowledge and heart knowledge. And that connection where, when does climate change move from something that is just, OK, I know the data, I know the statistics, it's all technical, to something where you feel that passion. You say, actually, I can't let this go. I need to make a change. I need to make a difference. And that comes out in investors' beliefs and their principles.

And so I think just moving it on, the change that I would like to see, I think. And I completely agree with you. It's that move from it just being a head knowledge concept to being something that made you all connect with. So absolutely, on the same boat.

LYDIA MESSLING: Yeah, absolutely. And then being able to move from the, I've got the head and the heart and now I need to act. And that can be so frustrating when you can't feel like you act in the way that you want to, which comes full circle, where it's really important to look at the effective culture of your organization. Is it facilitating people to take meaningful action or is it meaning that actions are being left by the wayside because you've not got the right measures and metrics? Or it's all related.

So OK. Marisa, final question. I love asking this one of people because we all need a little bit of climate hope as well. Has there been anything in particular that you've seen recently that has really encouraged you or given you hope that we can have a climate resilient future?

MARISA HALL: Well, you know what? I think I'm going to make this personal. Because for me, I've got a daughter who's 8 and a son who's 6. And the school that they go to is a wonderful, incredibly pastoral school. But the thing that gets me is just how much they seem to share that passion around the climate change and having that sustainable future. You know, somebody litters and my son is just like, what's going on? We need to get an electric car.

And I think the next generation, but we obviously need to do it faster, I see hope in that. I see a world where our children and our children's children are saying, well, you know what? This is enough. We can't build this future for ourselves. So what I feel is that I've got a responsibility to them to help create the world that they, themselves want to live in. And that gives me hope that we'll have a better future. So definitely a personal topic for me, I think, Lydia.

LYDIA MESSLING: I love that. No, it's good to have that. Well, Marisa, thank you so much for being with us for this episode of the Talking Climate and Resilience podcast.

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MARISA HALL: Brilliant. It was lovely to be here. Thank you, Lydia.

LYDIA MESSLING: Thank you. And thank you all for listening. And I hope you'll join us next time. Bye for now.

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