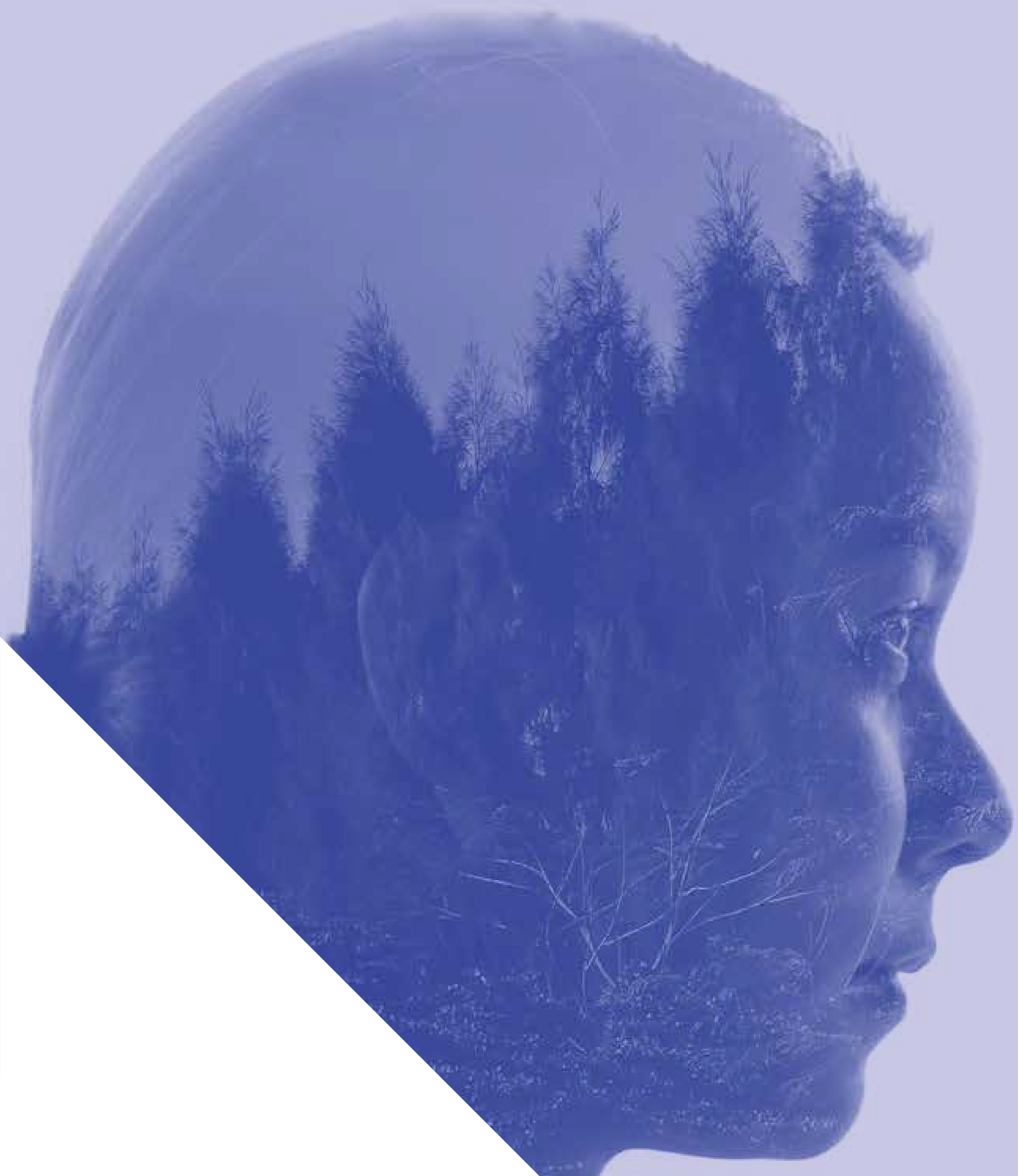
MOORE Intelligence



Sustainability

MOORE
GLOBAL SURVEY

Sustainability: from buzzword to business critical

46.5%
of ambitious businesses are geared up to meet higher levels of governance scrutiny

Ambitious mid-sized companies that embrace ESG principles have benefited financially but are nervous about a new wave of regulation that will compel them to vouch for the sustainability of every link in their global supply chains.

Almost half (46.5%) of businesses surveyed by Moore Global have implemented comprehensive governance practices to meet a higher level of scrutiny. However, they are concerned about external risks that could impact their efforts to comply with the new rules.

Business leaders are increasingly worried about the risks posed to their own sustainability by supply chain disruptions and cybersecurity attacks outwith their control.

The findings emerge from a long-term research project undertaken by Moore Global that has tracked the evolution of environmental, social and governance issues – the three pillars of ESG.

4000

business leaders have been surveyed across 12 economies

55%

Just over half of businesses surveyed are confident in awareness of upcoming regulatory changes

45%

of decision makers reported that supply chain disruptions pose more risk now than they did five years ago

63%

reported that previous regulatory changes positively impacted finances

38%

expressed concern over a lack of clear information or guidance on regulatory changes

85%

of companies worry about cyber attacks having negative financial impacts

"This is one of the most comprehensive studies of ambitious, mid-sized companies' attitudes towards ESG, risk management and governance," says Moore Global CEO Anton Collela. "It shows that sustainability has moved from being a buzzword in boardrooms to business critical."

"These businesses are the engine of the global economy, so how they view the future is incredibly important for all of us. They are tackling complex issues and may have to make significant changes to the way they have operated for decades."

The study was conducted for Moore by the Centre for Economic and Business Research (Cebr) and reflects the changing attitudes and concerns of almost 4,000 business leaders in 12 key economies spanning the Americas, Europe, Asia, Africa and the Middle East.

Over the three years of our research, ESG has risen up the agenda of investors, banks, regulators and customers. Many banks and investment funds have adopted rules forbidding them to invest in projects that are linked to fossil fuels, for example.

These rules are ad hoc and arguably arbitrary – however, there is a new regulatory framework emerging that will increase due diligence and require companies to audit their activities in order to adhere to a tougher governance regime. Much of the preparatory work has been done in the European Union and UK but the effects will ultimately be felt globally.

"These businesses are the engine of the global economy – they are tackling complex issues and may have to make significant changes to the way they have operated"

39%

of businesses surveyed are struggling with the complexities of future regulatory changes

The EU's Corporate Sustainability Reporting Directive (CSRD) requires companies to report on the impact of their activities on the environment and society and requires the audit of reported information. Meanwhile, the International Sustainability Standards Board aims to deliver a global baseline of sustainability-related disclosure standards, focused on the needs of investors.

In the US, there is a proposed rule change to the Federal Acquisition Regulation that would require certain federal contractors to disclose their greenhouse gas (GHG) emissions and climate-related financial risk. They would also have to set science-based targets to reduce their GHG emissions.

The final part of our investigation has revealed that only 55% of businesses surveyed are completely confident in their organisation's awareness of upcoming regulatory changes. The IT industry is best prepared, with 94% of companies understanding what is required to comply.

Among business leaders that are not completely confident in their organisation's awareness of impending regulatory changes, the most common reason for doubt was the complexity of regulatory requirements, according to 39% of respondents.

Other reasons included: a lack of clear information or guidance on regulatory changes (38%); limited internal resources or expertise to keep up with updates (36%) and previous experience of difficulties in compliance with regulatory changes (30%).

More than 80% of businesses have already adjusted their operations in response to upcoming regulatory changes, although the contrast between the world's largest economies is stark. In the US, 42% of surveyed businesses – the equivalent of 22,000 individual companies – have already significantly altered their operations in response to upcoming regulatory changes. Mobilisation rates among European members of the G7, France, Germany, Italy and the UK, are between 30% and 35%.

Japan, the world's third largest economy, is lagging with only 11% of companies altering business practices in response to upcoming regulations. Japan is both a major exporter and foreign investor and the new rules will impact companies that trade across borders.

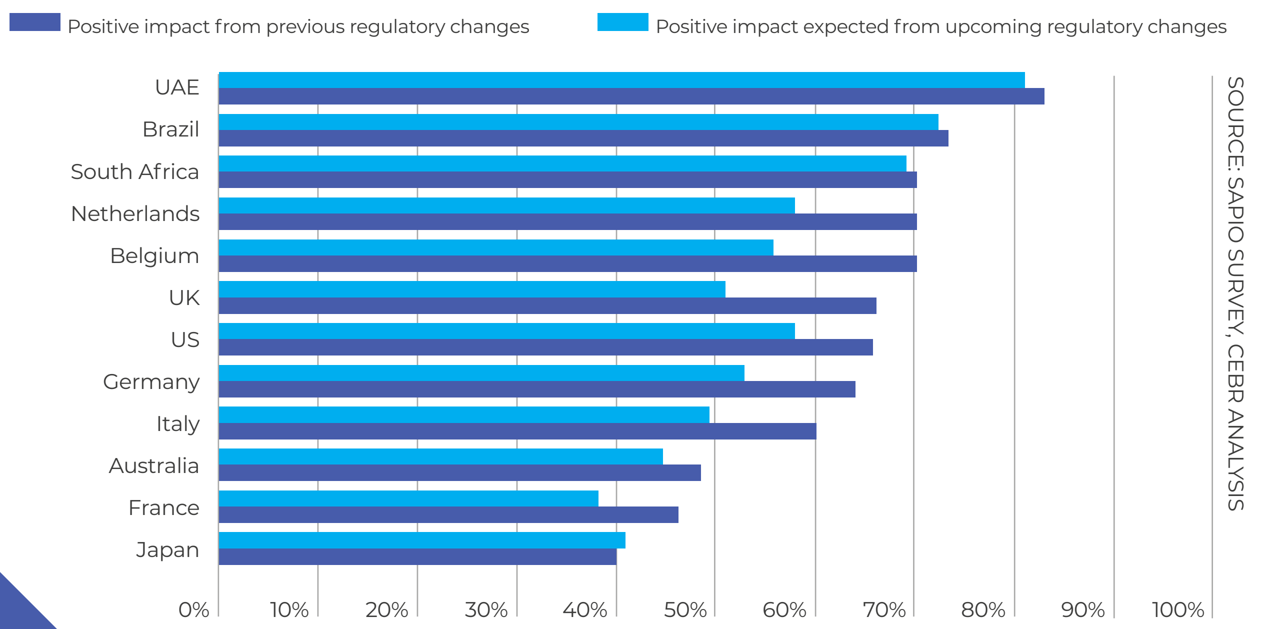
The bureaucracy of further regulation is often cited as a drag on business and economic growth but our survey shows that those that have embraced the emerging new regime have enjoyed financial benefits.

Of decision makers surveyed, 63% reported that previous regulatory changes positively impacted their organisation's finances and a similar number (57%) expect upcoming changes to also have a positive impact on the bottom line.

However, this optimism is not universally shared. Emerging economies, like the UAE, Brazil and South Africa are very positive but that optimistic mindset is shared by less than half of the respondents in more developed economies that have already had to adapt to many changes of regulatory regimes.

A raft of new regulations brings a need for greater oversight – once again, readiness is patchy across the globe. Some 46% of business leaders have already implemented comprehensive governance practices but almost as many – 42% – say they have introduced some measures "but there is room for improvement".

CHANGE IN IMPACT OF REGULATORY CHANGES TO FINANCES



Among the most far-reaching of the impending regulations are requirements on companies of all sizes to be able to demonstrate the sustainability of their entire supply chains, no matter where their suppliers are based.

Around 45% of decision makers reported that supply chain disruptions pose more risk now than they did five years ago.

More than half of businesses expect to conduct supply chain audits more frequently in the future – with the frequency highest in banking and finance.

In Brazil, a country that is seeking to attract investment from the US, Europe and Asia, 56% of firms conduct audits at least four times a year against the global average of 3.6 per year.

An increasingly important aspect of risk management – both within the confines of individual companies and throughout their supply chains – is combating cyber attacks.

This issue has leaders of mid-market companies extremely worried, perhaps a reflection of the fact they may lack the cyber security sophistication of multinational corporations.

Business leaders are equally concerned about financial and operational impacts caused by cyber attacks. Around 85% of companies worry about cyber attacks having negative financial impacts on their organisations and more than half (55%) believe cyber attacks pose more risk now than they did five years ago. Nine-out-of-ten construction firms, banking and financial institutions and IT companies rate it as a major concern.

85%

of companies worry about cyber attacks having negative financial impacts

79%

reported that customer retention improved compared to 47% of ESG laggards

"What we have shown over the course of this three-year study is the rapidly changing regulatory landscape for mid-sized companies across the globe," says Mark Stewart, Moore's global ESG leader.

"Many mid-market companies are becoming more aware of the impact ESG risks can have on their operations, especially in terms of reputation, regulatory compliance, and access to capital."

The first part or our investigation found businesses that placed greater emphasis on ESG since 2019 saw revenues increase by almost 10% over the following three years. This compares to revenue growth of just 4.5% for businesses with a lower commitment to ESG.

Across our sample countries, this revenue uplift was estimated at $3.1 trillion for businesses placing greater importance on ESG. However, if everyone in our surveyed countries had witnessed the same rate of growth as the most committed ESG adopters, the total revenues across all businesses in the survey would have been 27% higher at almost $4 trillion. That equates to $39 million per company.

Last year's study highlighted the emergence of a "new normal" for doing business that is significantly different to practices over the past 40 years.

Among businesses more committed to ESG, for example, 79% reported that customer retention improved over a four-year period – compared to just 47% of ESG laggards achieving better customer retention.

Meanwhile, eight-out-of-ten organisations committed to ESG practices last year reported an improvement in attitudes towards their brand, more than 65% higher than all other businesses.

In a post-Covid world of prolonged labour shortages, adoption of ESG has played a crucial part in recruitment. Headcount growth among businesses where the importance of ESG increased was four times higher than those less committed.

Moore Global's research provides a unique snapshot of an unprecedented period in history. It spans the benign economic conditions of 2019, followed by the bust-and-mini boom of the pandemic period that has now given way to a world of tighter financial conditions and heightened geopolitical tensions.

Throughout it all, ambitious mid-sized companies have remained flexible and alive to changing circumstances. The most successful have reinvented themselves, the way they operate and the way they treat employees and customers.

Those that have made the hard decisions are already reaping the benefits and a more sustainable future awaits.

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