MOORE Intelligence

THE $4TRILLION ESG DIVIDEND

Bottom line benefits of adopting ESG practices

Executive Summary

Businesses globally are attempting to negotiate an unprecedented range of existential challenges from supply chain disruption to heightened geopolitical tension. Together, they have created a perfect storm of uncertainty and apprehension.

Meanwhile, they face ever louder calls to take responsibility for the impact their strategic decisions and policies have on employees, customers, the communities in which they operate and the environment we all share.

Environmental, Social and Governance (ESG) issues have never been so prominent. They influence the lending criteria of banks, investment sentiment of corporate financiers, spending decisions of customers and the ability to hire the most talented staff.

Covid has accelerated adoption of ESG principles ... and the positive impact on companies strongly committed to pursuing high standards in ESG has been dramatic, as this study by Moore Global reveals.

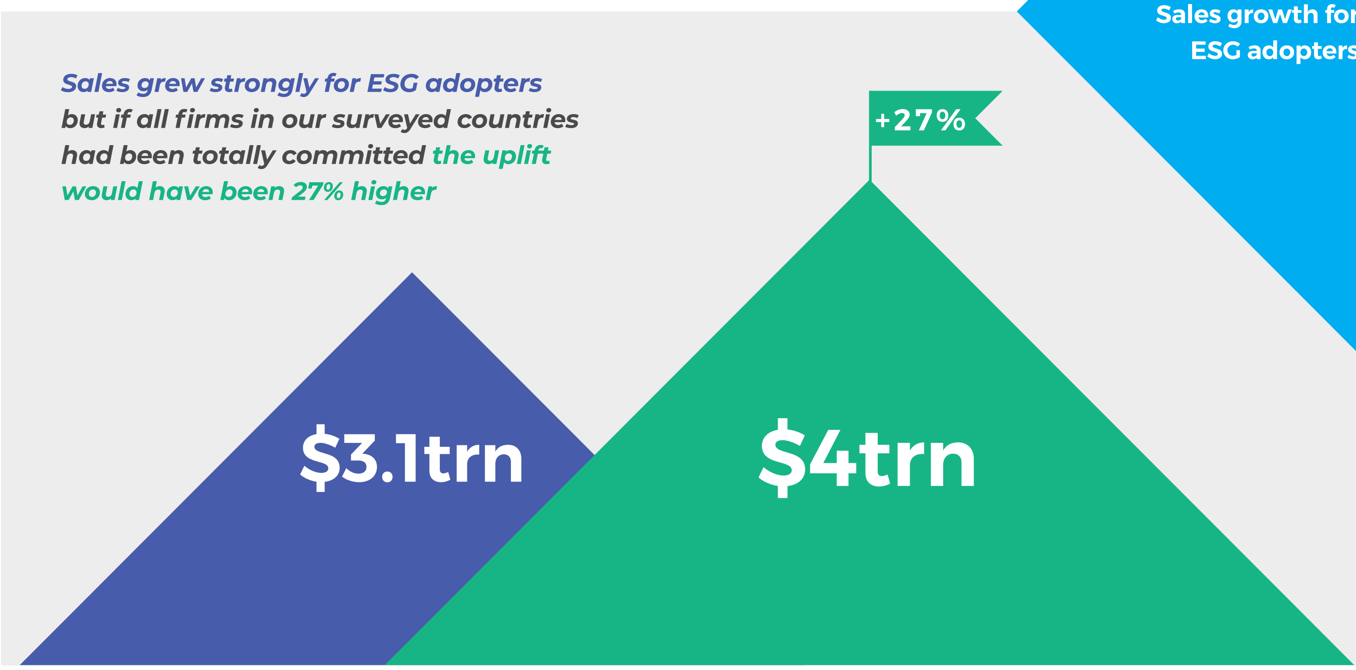
Moore Global commissioned the Centre for Business and Economic Research (Cebr) to investigate the rate of adoption of ESG principles in key economic areas – the United States, Europe and Australia. Cebr also analysed bottom line benefits recognised among the 1,262 large firms we surveyed.

Businesses placing greater emphasis on ESG over the last three years have seen revenues increase by almost 10% in that time. This compares to revenue growth of just 4.5% for businesses that demonstrated a comparatively lower commitment to ESG.

Across our sample countries, this revenue uplift is estimated at $3.1 trillion for businesses placing greater importance on ESG.

10%

Sales growth for ESG adopters



Indeed, if all large businesses 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 is equivalent to a $45 million uplift for each large business.

Companies placing greater emphasis on ESG over the last three years have seen income rise by almost 10% – more than double the rate of those companies that have not given it as much prominence.

The rate of profit growth among keen ESG adopters slightly lagged income growth, at 9.1% versus almost 10%. However, it still represented significant outperformance. Their profit growth over three years was almost three times greater than ESG laggards which achieved an uplift of 3.7%.

Revenues and profits are related to the strength of the underlying business and one key metric for most companies is the level of repeat business from customers. Some 83% of firms placing greater importance on ESG principles reported that their actions had improved customer retention.

Of course, committing to high ESG standards does not come without costs and a majority of business leaders said they had to commit financial resources in order to take full advantage of the potential ESG dividend. This may explain the slight differential between revenue and profit growth.

While the overwhelming majority of companies had to invest to improve their ESG performance, the costs appear to be offset by improved access to sources of finance. Some 84% reported that their ability to attract external investment had improved slightly or significantly.

84%

of firms report improved access to external investment

Adopting ESG has been good for employment as well as revenue and profits, with firms placing greater emphasis on ESG seeing headcount grow more than twice as fast as those less committed. This is particularly impressive given the effects of the so-called Great Resignation – millions leaving their jobs during Covid, never to return.

ESG principles are widespread in corporate strategy documents, and more than half (51%) of large firms now have a dedicated ESG job role.

The US has a higher share of ESG jobs than other countries while Australian companies, operating in an economy heavily reliant on natural resources, are the most engaged in putting ESG principles in to practice.

However, as this study proves, ESG is not about making sweeping statements in corporate brochures or tick-box "benchmarking" surveys.

Companies that have diversity of thought among their leadership teams and embrace ideas from traditionally underrepresented populations are able to adapt to market changes quicker – and are more profitable.

For companies that are ESG laggards, the future is less certain: one of sluggish growth, continued staff shortages and market share ebbing away to more committed competitors.

51%

of large firms have dedicated ESG job roles

The state of ESG adoption

ESG principles have become more important over the last three years for almost 80% of large businesses, with evidence that Covid has been the biggest driver of this change.

In Italy nine out of ten businesses said that ESG adoption has become more of a strategic business issue, the highest level in the survey. Comparatively fewer businesses in the Netherlands believe this – but at 65% it is still a substantial majority.

Outlining ESG principles in a formal document is widespread across large businesses, however the extent to which each of the principles have actually become more important to companies varies.

Across the sectors we studied, IT led the way with 86% of respondents reporting greater emphasis on ESG. That was slightly ahead of accounting and finance alongside manufacturing and distribution but well ahead of other sectors including marketing, retail, hospitality, property and education.

ESG is made up of the three "pillars" of environmental, social and governance – and not all are rated equally by organisations.

There are also notable geographic differences in how firms view these pillars of ESG.

While the US, Australia and UK all saw a similar percentage of businesses judging at least one ESG pillar to be very important (between 80-82%), the figure for the European Union was lower, at 68%.

UK businesses were the most likely to judge all three elements to be very important, slightly ahead of the US and Australia. Once again, their views contrasted sharply with the EU where less than one-fifth of business leaders agree that all three elements are very important.

80%

of business leaders believe ESG had become more important over the last three years

Differences across industries

The survey results also show variation in the importance attached to ESG by different industry sectors.

Manufacturing firms are among the most passionate about environmental and social principles.

Around 65% of them are most likely to judge environmental considerations as very important – and it is a similar response for social issues.

That was higher than in other sectors, yet manufacturing had the lowest number of firms viewing governance as a very important issue.

It was almost a mirror image of the public sector, which led the way on governance concerns but did not feature strongly on environmental and social.

Despite this difference in emphasis, our study found the majority of large businesses have included ESG in some of their corporate strategy documents – with social pledges being the most widespread.

Some 68% of firms included social factors within their strategy documents, while the equivalent figures for environmental and governance pledges were 62% and 57% respectively.

Australia leads on practical action

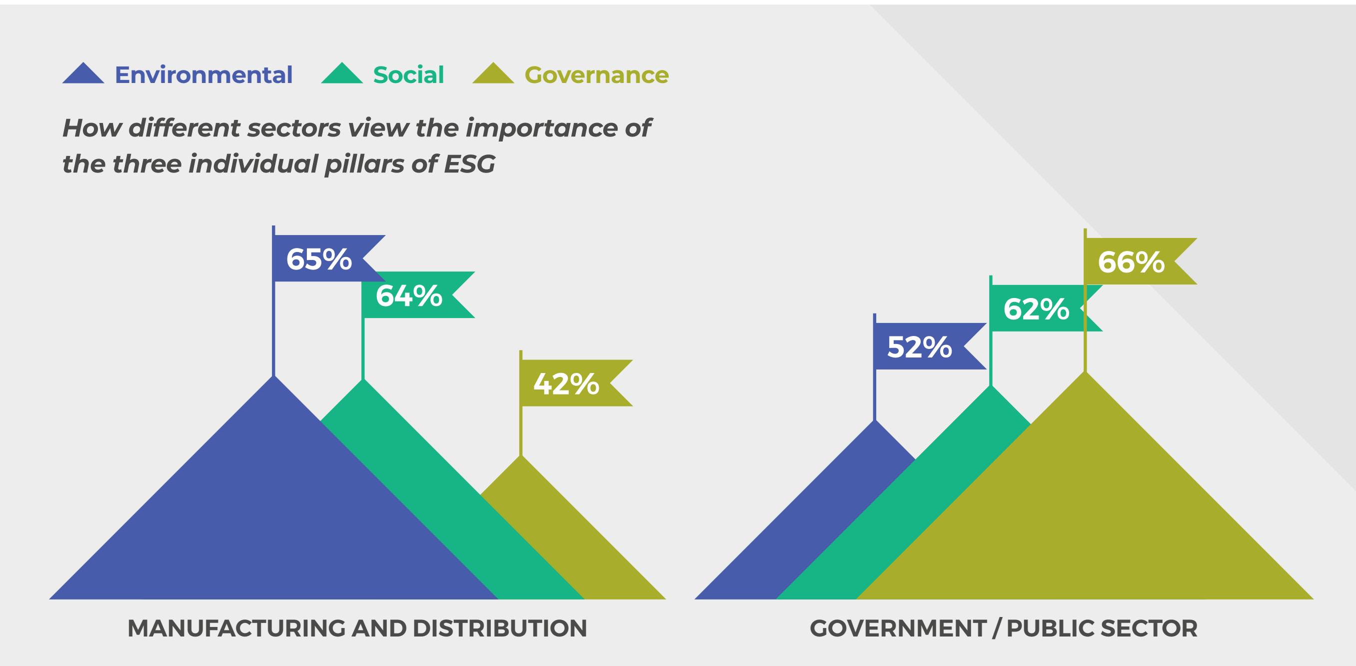
Making ESG pledges is relatively easy, following through and putting principles into practice is what really begins to make positive change – and it is here that Australian business stands out.

We examined the extent to which businesses had embraced the three main elements of ESG and Australia had the highest average score, ranking each at 90% or above.

At the other end of the spectrum, the EU had the lowest average score on practical engagement, especially on environmental considerations.

Across the world, ESG is becoming embedded in company culture, with only 6% of companies in our study not having a dedicated ESG staff member or employees with responsibility for promoting it internally.

The US has the highest share of businesses with dedicated ESG personnel, at 61% almost 1.5 times the level seen across the EU.



Leading the way is the IT sector, with almost two-thirds of respondents committing staff to handling and promoting ESG.

Marketing has slightly fewer full-time staff dedicated to this area but actually has the highest workforce-driven promotion overall as there are more employees involved informally.

The public sector saw the lowest degree of workforce-driven promotion. Just one-third of organisations reported having a dedicated ESG role, with almost one-fifth (19%) saying that they had no staff members responsible for promoting it in any capacity.

In those companies that do not have dedicated staff, promotion of an ESG mindset is still largely top-down rather than happening organically from below.

Our survey highlighted that boards and management teams are most frequently tasked with promoting environmental, social and governance issues within organisations that do not have a dedicated ESG function.

Just under 40% of businesses without a formal role promoting ESG gave the job to HR departments, while a quarter made finance responsible.

That lack of specialist focus may prove an issue in the future – especially as potential returns on ESG investment are so significant.

$4 trillion business benefits identified

Companies that have implemented ESG principles in recent years have enjoyed significant business benefits in terms of higher revenue, stronger profits growth, better customer retention and greater access to finance.

The challenges since 2019 have been considerable but companies across our surveyed countries placing greater importance on ESG have seen their revenues pick up by a collective $3.1 trillion since the period immediately before the emergence of Covid. This is despite the fact that the pandemic seriously disrupted economic activity across the globe.

Using the same methodology we calculated that if all large businesses in our surveyed countries had seen the same rate of uplift as ESG adopters, the aggregate revenue increase would have been even higher – at $3.9 trillion.

This is equivalent to a $45 million revenue boost for each large business.

US firms alone saw a collective $2.1 trillion uplift – significant as it is the country with the most widespread adoption of ESG principles.

The combined figure for Europe covering the UK, Germany, France, Spain, the Netherlands and Italy, was $930 billion.

In Australia, the estimated figure was $59 billion.

To put this in context, the equivalent revenue uplift figure for businesses that did not focus on ESG over the past three years was much lower – $402 billion across the eight major economies studied.

In short, companies focusing on ESG are growing sales at twice the rate of those that are not as committed. Businesses placing greater emphasis on ESG over the last three years have seen their revenues pick up by 9.7% over that time horizon. This compares to growth of just 4.5% for businesses that have not been as committed.

$45m

average sales boost amongst firms adopting ESG

89%

of retailers said adopting ESG improved customer retention

The scale of potential benefits to world trade of a more rigorous focus on ESG are obvious.

If the positive revenue growth figures found in our survey were replicated across every large business in the world, it would make a significant difference to global GDP growth.

While revenue has grown by nearly 10% across companies adopting ESG principles since 2019, profits have not yet caught up across the board – rising slightly lower at 9.1%.

The exception is the US, where the profits rise was 11%. ESG has been a focus there for longer than elsewhere so it may be that similar results will start filtering through in other major economies as principles and practices become embedded.

Slightly weaker profit growth is also most likely a reflection on the extra costs associated with implementing ESG principles and practices.

Amongst respondents stating that the importance of ESG principles has increased over the past three years, almost all (97.7%) noted that they have invested financially to improve their performance.

Customers responding positively

It is clear from our study that customers approve of companies that place more emphasis on ESG – and are more likely to stay loyal to them.

Of the large businesses placing greater importance on ESG, 83% reported that doing so had improved customer retention slightly or significantly.

The sector showing biggest increases in retention was retail, which arguably has the closest day-to-day engagement with customers. Almost 89% of stores groups reported an improvement in customer retention.

As well as retaining customers, companies with stronger ESG credentials have witnessed more positive reactions to their brand.

More than 86% reported that their brand image had improved, either slightly or significantly, since putting stronger emphasis on ESG. The sector showing biggest improvement in brand image was IT. Some 93% of IT firms said their brand was viewed more positively.

Better access to finance

ESG is not a free ride and it often requires additional funding to change business models which have served companies well for generations.

New staff with specific skillsets may be required as well as upgraded manufacturing facilities and IT systems.

However, it seems the money is available to those who decide to make the necessary investments.

Among respondents stating that the importance of ESG principles has increased, 84% reported that their ability to attract external investment had improved slightly or significantly.

The greatest perceived uplift was in IT, closely followed by accounting and finance: no surprise as these sectors are undergoing rapid digital transformation and facing tough recruitment challenges.

Our survey results demonstrate that a significant upside benefit for businesses focusing on ESG improvements is more interest from investors, who are keen to advance the necessary funding required.

ESG = easier to hire

As the battle for talent rages and companies complain about staff shortages, ESG has a part to play in easing recruitment strains.

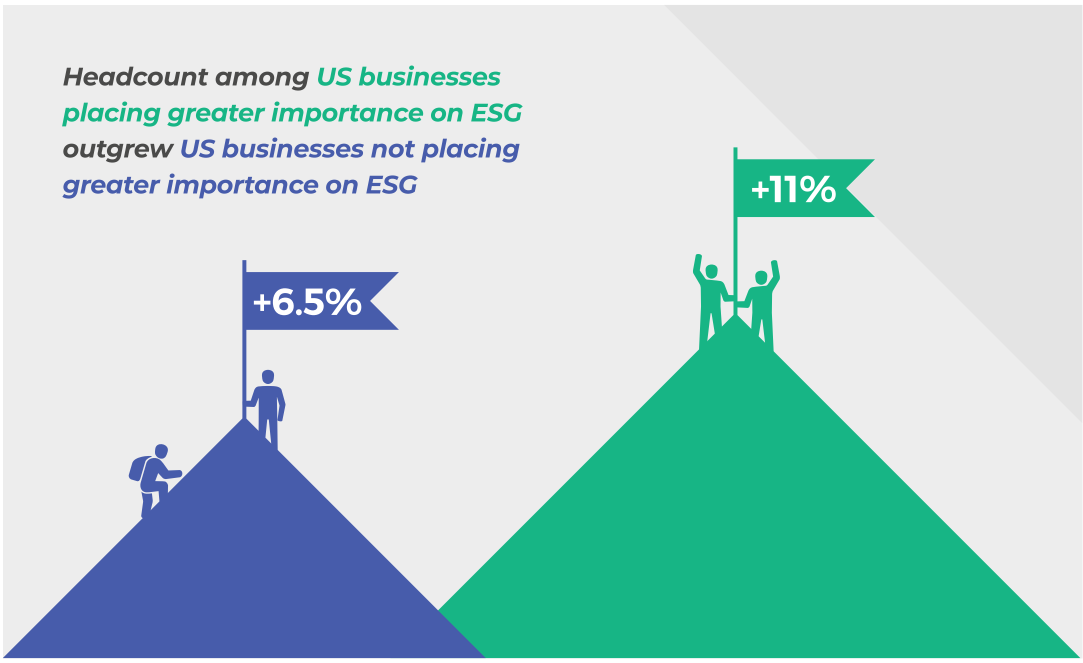
Headcount growth was stronger amongst businesses that have embraced the importance of ESG – at 10% that was twice the pace of those that did not give it the same priority.

This is consistent with many industry surveys that show Covid has led many workers to rethink their priorities and question whether the values of companies they work are aligned with their own.

The so-called Great Resignation was seen most starkly in the United States in the immediate post-Covid period as millions of jobs remained unfilled and companies scrabbled to fill vacancies.

However, the United States is also among the most advanced nations along the road to embedding ESG – and there is an interesting correlation from our study that suggests companies committing to ESG are more attractive to today's potential workforce.

Headcounts among ESG-focused firms in the US rose 11% since 2019, compared to only 6.5% for all other businesses.



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Methodology

Moore Global commissioned the Centre for Economics and Business Research to consider the adoption of ESG (Environmental, Social, and Governance) principles amongst large businesses. Primary research was conducted by Sapio to consider the adoption of ESG principles and how this has impacted businesses in three key international markets: Europe, Australia and the US.

The survey was conducted among a representative sample of 1,262 senior decision makers in organisations with more than 250 employees in the US, Australia, UK, Germany, France, Italy, Spain and the Netherlands. The interviews were conducted online in May and June 2022 using an email invitation and an online survey panel.

The estimated revenue increase figures combine the average revenue uplift reported by our survey respondents and the reported prevalence of ESG adoption with official data on the number of large businesses per market, and the average turnover level amongst these businesses.

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