



ESG snapshot: Sustainable transformation

We asked 800 mid-market business leaders about their ESG strategy and how close they are to achieving their ambitions



Grant Thornton

Welcome

Setting and achieving ESG goals for your business can be seen as a burden – but it shouldn't be. ESG is good business practice and a must do for businesses looking to enhance value and resilience.

Our clients have told us that ESG is something they want to address, but they need to understand how to focus their efforts. To build this understanding we've gathered insight from 800 business leaders across six key areas of focus and are delighted to share it with you.

53% of businesses we spoke to are committed to ESG and have started to implement some initiatives. Our research shows perhaps unsurprisingly that the importance businesses are placing on matters is very closely linked to their likelihood to prioritise them. And while businesses are showing an ambition to take steps with their ESG strategies, nearly a quarter are still experiencing challenges when trying to do so.

When aligning ESG goals to their stakeholders' needs, business leaders told us that employees (22%) and customers (23%) were at the bottom of their priority list. Failing to engage these stakeholders could mean that people won't want to work for or buy from you.

In the face of rising cost pressures and continued economic turbulence, you need to remain as attractive as possible to your entire business ecosystem. That means keeping ESG at the top of your agenda. Not putting a strong strategy in place and gaining support for it could mean you lose access to capital, talent and the ability to have a sustainable supply chain.

Engaging early with your people, customers, lenders, investors, and suppliers will give you the best chance to understand their ESG priorities and help you to align your strategy for success in 2023 and beyond.



Scott Wilson

Head of ESG and Sustainability
at Grant Thornton

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Who did we talk to?

We surveyed 800 mid-market business leaders to understand their outlook on ESG, how engaged their stakeholders are, and how confident they are in realising their ESG ambitions.

Respondents

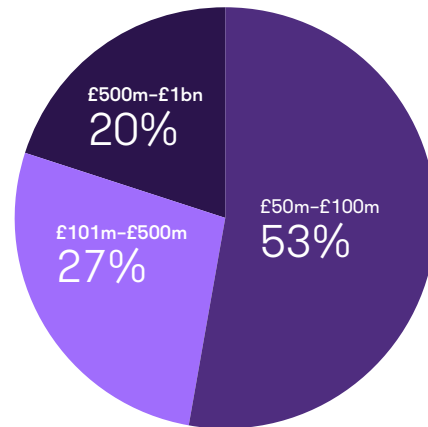
Only companies over 50 people

Across 18 industries

An even split across all job titles:

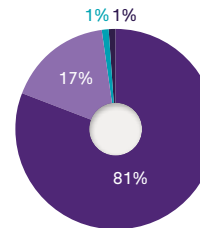
- business leaders
- finance leaders
- procurement leaders
- people leaders
- sustainability leaders

Annual turnover

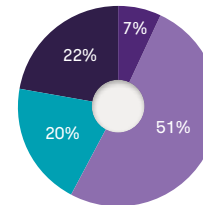


ESG accountability by job role

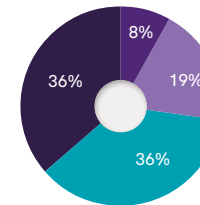
Business leader



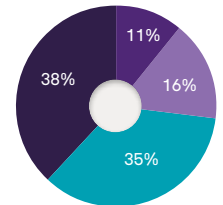
Finance leader



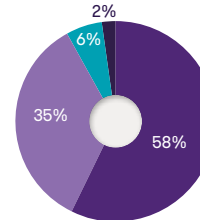
Procurement leader



People leader



Sustainability leader



- Responsible for designing and driving the ESG agenda
- Key contributor to the ESG agenda
- Part of a collective effort to drive the ESG agenda
- Limited contributor to the ESG agenda

ESG pillars

We look at ESG through the lens of six key themes that we know are vital to achieving a successful ESG agenda

ESG strategy

To shape your ESG strategy, you need to identify the priorities most relevant to your organisation. These decisions will be based on both stakeholder expectations and your view of the importance of these areas to the success of your business. Actions should be embedded into your wider business strategy and systems used to monitor progress.

Your ESG strategy should be aligned to your purpose and become part of your culture, including engaging current and prospective employees, potential investors and customers.

“As ESG moves up the boardroom agenda, there is a growing need for it to be addressed holistically and integrated into strategic choices, business plans and management information. Developing and embedding a detailed ESG ambition into your long-term strategic plans in a way that builds trust and creates lasting value, is a common challenge for all types of organisations.”

Stakeholder alignment to ESG strategic goals by turnover

	Most aligned	Least aligned
£50-£100m	Investors (68%)	Employees (54%)
£101-£500m	Shareholders (69%)	Employees (62%)
£500m-£1bn	Suppliers (68%)	Employees (60%)

Stakeholder types

- Employees
- Board members
- Lenders
- Customers
- Investors
- Shareholders
- Suppliers
- Regulators or industry specific bodies



Casper Kaars Sijpesteijn
Associate Director, Consulting



35%

agree that their stakeholders are 'engaged' with their ESG purpose



53%

are committed to their ESG strategies and have started to implement some initiatives



44%

have a dedicated member of the board responsible for ESG



63%

are aiming to achieve their ESG goals within the next two to three years

Sustainable, ethical and secure supply chains

Supply chain ethics, sustainability and security are core risk considerations for organisations, particularly where critical aspects of the supply chain are based overseas.

Ethical risks are heightened as the complexity and reach of a supply chain increases.

Some key sustainable supply chain considerations are:

- physical climate risks
- modern slavery and working conditions
- geopolitical risks
- sanctions
- bribery and corruption
- trade compliance and export controls
- access to and the sustainable use of natural resources
- changes to the focus of taxation
- economics of the supply chain footprint

You need to ensure that suppliers and partners involved in your supply chain are transparent, adhering to good international practice and legislation, and that you have early visibility of potential cost increases. Legislation is growing and the reputational consequences of not being compliant can be even more significant than, say, additional taxes suffered.



93%

said that having a sustainable, secure and ethical supply chain is important to their stakeholders



94%

said that their organisation is likely to prioritise having a sustainable, ethical and secure supply chain



68%

said that financial and operational risk assessment is the most important supply chain issue to stakeholders



Business leaders tend to place importance on the impact of ESG strategies on profitability above all else, and more than other leaders

Climate strategies

Climate change and Net Zero is a major market issue, and regulators and standard setters are aligning around common reporting standards as agents of change.

In response, we are seeing mandatory climate-related reporting for larger sized businesses, funding targeted to tackle climate change and organisations of all sizes being required to transition to a low carbon footprint as a condition of doing business.

Having a climate strategy is no longer just the right thing to do, it is a necessary consideration when meeting regulations and stakeholder expectations. Excluding this area from an ESG strategy could have costly repercussions.



90%
said that climate change strategies, data and reporting are important to their stakeholders



88%
said that their organisation is likely to prioritise climate strategies, data and reporting



21%
said that their management are proficient at reporting on climate change strategies



66%
said that carbon offsetting initiatives are the most likely aspect of ESG strategies to be prioritised

“In response to increasing energy costs and regulatory reporting pressures, all businesses will need a well-defined environmental strategy, one which allows the business to grow and provide confidence to customers and stakeholders. Demonstrating the development and execution of these strategies, showing real tangible deliverables with meaningful outcomes which are aligned to the environmental business goals, will provide opportunities for both growth and cost reduction.”



Raj Kumar
ESG and Sustainability
Associate Director,
Business Consulting

ESG and tax



For some organisations, tax policy will itself be a driver behind ESG-related business change. Taxes on the use or production of commodities and products viewed as having negative externalities, such as carbon, non-recyclable waste and plastics, are increasing globally.

For other organisations, tax considerations are part of the broader ESG agenda but can add or erode value depending on how proactive an organisation is.

Non-compliance leads not only to costs in dealing with tax authorities but also potentially significant reputational damage with stakeholders and customers.



85%
said that their organisation is likely to prioritise ESG and tax



87%
said that ESG and tax is important to their stakeholders



66%
said that their management are most proficient at implementing tax incentives



73%
of finance leaders said that fully costing future tax risks is their top priority

“Tax will impact on all ESG driven business changes and should be considered early to avoid surprise costs, and to identify incentives, credits and tax efficiencies that will maintain or improve return on investment. Tax transparency and good governance has never been more important, with increased scrutiny from all angles.”



Dan Dickinson
Partner, Tax

People and social impact

Evidence shows that being inclusive and purpose-led with strong values around ESG are important factors for many people in deciding where they want to work.

To keep yourself as an employer of choice and retain your talent, you need to think strategically about:

- inclusion and diversity
- equal pay
- human rights and working conditions
- labour standards

Neglecting any of these areas could mean that talent may not want to work for you.



62%

agree that their employees' contribution towards ESG goals is an important performance indicator and is linked to their pay



23%

of organisations say their strategic goals are least aligned with the interests of their employees



71%

People leaders are most likely to report their ESG goals externally, more than any other job role



74%

of business leaders say prioritising their employees is their top priority

“Inclusion and diversity, equal pay, human rights and working conditions, labour standards, and attracting and retaining talent have never been more important. For organisations wanting to retain competitive advantage, their people and social impact agenda should be a key strategic consideration.”



Jacky Griffiths
Lead - People, Culture and
ESG, Business Risk Services

Sustainable financing

A growing number of borrowers and sponsors are seeking to access ESG-linked financing. This encourages companies to enhance their ESG commitments, allowing them to achieve better pricing on their loans or bonds.

As ESG momentum is building for the mid-market, businesses must pay attention to their ESG credentials to maintain cost-effective access to capital, potentially as soon as their next financing round.

We surveyed over 40 UK-based lenders (from the large clearing banks to smaller alternative lenders) to understand their ESG lending to mid-market firms.

“Sustainable Finance has been the standout development in debt capital markets over the past two years. Investors and lenders can reward companies with ambitious and meaningful ESG commitments. This can be in the form of better pricing and continued access to capital. Importantly, sustainable finance is increasingly available to companies of all sizes, not just the preserve of large, listed firms”



Christopher McLean
Partner, Advisory



57%

of lenders surveyed have an ESG lending strategy



85%

said that a firm's ESG status, or its ability to transition to Net Zero, influenced the credit risk assessment



93%

expect ESG-related lending in the mid-market to increase in next few years. Half of these lenders believe it will increase significantly



Only 21%

of the 800 mid-market businesses we surveyed said they align their strategic goals to the interests of lenders



ESG maturity index

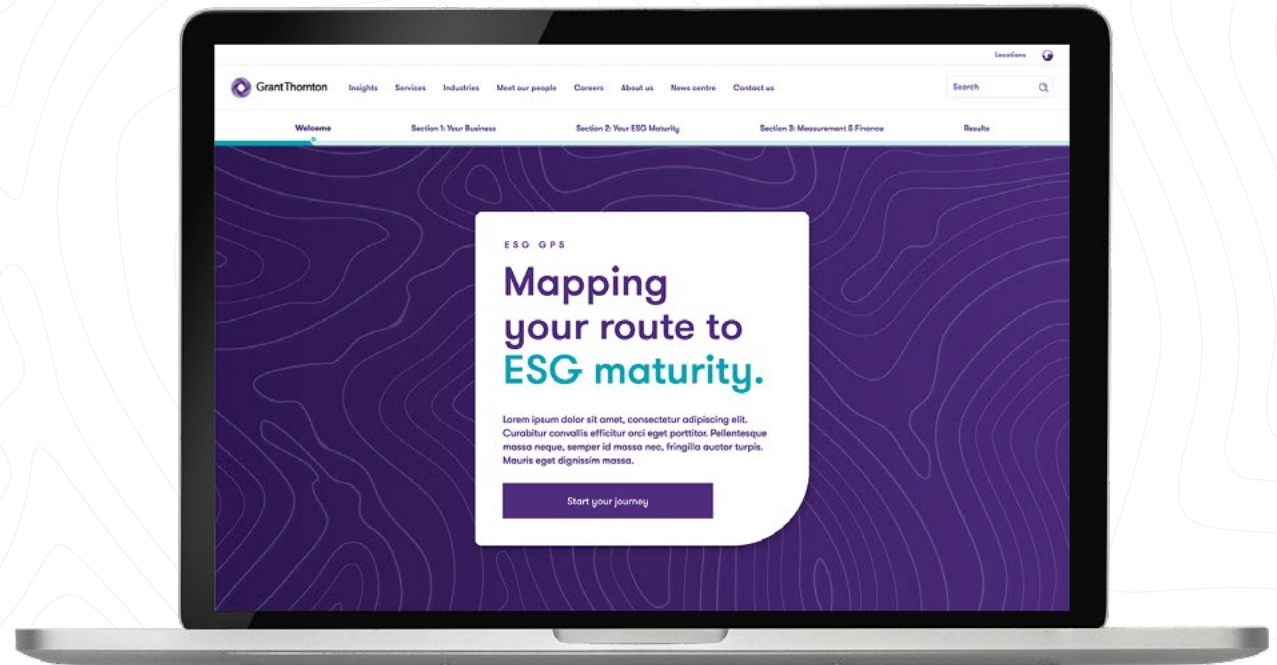
Your roadmap to sustainable transformation

We've built a maturity index to help you understand where you can focus your ESG investment for impact.

Our maturity index consists of 42 questions and will help you to understand your perceived ESG maturity on key pillars of the ESG agenda: ESG strategy, climate strategies, supply chain, people and social impact, ESG and tax, measurement and reporting and sustainable finance.

While 53% of businesses we spoke to are committed to ESG and have started to implement some initiatives, nearly a quarter are still experiencing challenges when trying to do so. Businesses that prioritise their strategies will remain resilient and attractive to their stakeholders, while continuing to do good.

To start investing in an agenda that will drive impact, complete the maturity assessment and talk to us about your own ESG approach.



Our ESG approach

Growing sustainably on solid foundations

At Grant Thornton, long-term sustainability is at the heart of our strategy as a responsible business. We are a combination of our people, our purpose, our culture, and our brand.

ESG is the framework we use to define and measure the key issues around this. When making decisions about ESG, our firm's purpose is our guide: we do what's right, ahead of what's easy.



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