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Australian companies are falling short on ESG reporting

Corporate Australia has become very fluent in discussing the key elements of environmental, social and governance issues, but companies around the world are doing more as they tackle climate change and the global economy moves away from fossil fuels. Australian directors are falling behind their global counterparts in the ESG space. To keep up, they need to be more than just fluent and should aim for measurable outcomes.

30%

think they fall short on ESG reporting and performance

FTI Consulting Resilience Barometer™, September 2021

40%

strongly agree that their company is shifting its approach to ESG

FTI Consulting Resilience Barometer™, September 2021

"Whilst increased investment is a good sign, how Australian companies are managing ESG risks remains a concern. UK and US markets are more advanced in their appreciation of ESG risks and the importance of businesses measuring and reporting their performance against those risks."

Renée Law Bertuch, FTI Consulting

That is just one key finding from the latest FTI Consulting Resilience Barometer™, an annual, global survey of executives and directors from public and private companies across the G20.

Almost a third (30%) of Australian companies think they are "falling short" on ESG reporting and performance, according to the report, compared to only 20% in the United Kingdom and 22% in the United States.

While the research doesn't ask why those companies think they are "falling short", it's not hard to make some educated guesses. The first is simply that the UK and US markets are more advanced in their appreciation of ESG risks and opportunities and the importance of measuring, reporting and addressing impacts associated with them.

Globally, the drive to make ESG a part of standard reporting practices is being driven by governments and regulatory bodies, particularly in Europe and in the US under the Biden administration.

In the UK, the Financial Conduct Authority (FCA) is seeking to make reporting on these issues mandatory, according to the Taskforce on Climate-related Financial Disclosures.

In the US, the Securities and Exchange Commission (SEC) is working on similar policies to mandate disclosures on climate risk and human capital. In Europe, the European Commission is, amongst other initiatives, pursuing the Renewed Sustainable Finance Strategy, which provides a clear roadmap for action on international sustainable finance initiatives.

However, similar progress is not being made in Australia. While the Australian Prudential Regulation Authority (APRA) has made some recent, and welcome, moves to introduce prudential guidance on climate-related financial risks, Australian policy makers and regulators are falling behind their international counterparts and risk becoming global laggards.

In Australia, any drive to treat ESG reporting and disclosure seriously is largely driven by investors, who seem to know exactly which way the world is heading and expect everyone else to be fully on board, rather than the government, making it more difficult to get companies to agree and adopt any new rules.

Again, more than a third of Australian companies say that an ‘’inconsistent or uncoordinated approach to addressing climate change” is a “concerning scenario” for our country, compared to just 22% in the UK and 27% in the US. Despite this uncoordinated approach, more than 33% of respondents in Australia say they expect to be investigated by a government or regulatory body about their sustainability and ESG practices.

With that, Australian businesses are taking some steps to address ESG outcomes within their companies. Close to 85% of Australian businesses are reporting they spent more resources on ESG and sustainability over the past year, while a similar number of respondents said they have shifted their approach to ESG from managing risk to identifying new business opportunities.

That increased investment is a good sign, but how Australian companies are managing ESG risks remains a concern, as it looks to be done on an ad hoc basis. Almost half of Australian businesses say they manage ESG and sustainability developments reactively rather than proactively, and they take a similar lackadaisical approach to responding to managing operations disrupted by climate change issues.

There are some positive findings in the report. Perhaps not surprisingly, Australian companies are good at managing risks associated with activist threats, and more than half of them do so proactively. On that score we compare well to the G20 countries, where less than 40% companies approach such issues proactively.

Still, Australian companies will have to get more comfortable and knowledgeable about managing long-term risks associated with ESG, particularly climate change. This requires a shift in thinking to a whole-of-business approach to risks, something that has previously not been considered by all businesses.

Lack of management of ESG risks exposes a company to loss of capital and its social license to operate. Local investors, policy makers and regulators will continue to react and adopt global developments on ESG issues, but companies must adopt a proactive approach to management of such risks to get ahead of their competition and future proof their businesses.

Otherwise, they will fall further behind their global counterparts.

Resilience Barometer™

FTI Consulting’s Resilience Barometer™ is an annual, global survey executives and directors from public and private companies across the G20. This year’s research incorporates the views of 2,869 decision makers (senior management, board member or C-suite) in large companies (turnover of >$50m and/or headcount of >250) in G20 countries across all industries. Executives from 107 companies in Australia took part in the survey. Research was conducted via online survey from 7-20 July 2021.

See key Australian findings and download report at ftiresiliencebarometer.com/featured/details/australia

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