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Bridging ESG awareness and preparedness

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It is important for APAC companies not to have a disconnect between the two.

The debate is surely over about the importance of sustainability to business success as the world increasingly accepts the fragility of the planet in the face of escalating evidence of climate change and society's vulnerability to external shocks such as COVID-19.

The clear and present dilemma today, particularly in Asia-Pacific, is what companies do about it. What do they need to do differently? What constitutes an appropriate response and what is the business case?

In many cases, answering those questions not only requires a fundamental change in business approach but harnessing the right resources to develop strategies and plans to deliver.

But the expertise needed to guide companies on that journey is in short supply and companies are struggling to respond effectively despite committing substantial resources, according to new research from FTI Consulting covering more than 3,300 companies across G20 countries.[1]

The Asia-Pacific results for FTI Consulting's latest annual Resilience Barometer show that 70 percent of companies do not believe they have sufficient expertise to cope with the increasing scrutiny of environment, social and governance (ESG) matters and sustainability.

More than two out of three companies said they had fallen short in their climate action plans and sustainability initiatives and 46 percent said they had underperformed in transparent ESG financial reporting. At the same time, 40 percent said their corporate citizenship strategy and purposeful policy engagement were not up to standard, and almost half believed their diversity and talent and recruitment strategies were insufficient.

Overall, 41 percent of the companies in the eight Asia-Pacific countries polled admitted feeling under extreme pressure to improve their approach to ESG and sustainability over the next 12 months.

ESG and sustainability developments were identified as among the most likely issues to harm the company in the next 12 months, below only cyberattacks and disruption in supply chains, which are also critically important, reflecting Asia-Pacific's strategic position at the centre of the global supply chain.

[1] FTI Consulting Resilience Barometer 2022: https://ftiresiliencebarometer.com/

Likely to be investigated

In addition, companies believe ESG and sustainability practices are the most likely to be investigated by regulators or governments, ahead of other pressing issues such as data privacy, government contracts, insider trading and business conduct. Some 34 percent of companies say they are either being investigated by regulators or governments over their ESG and sustainability practices or expect to be under probe in the next 12 months. In China, that percentage rises to 52 percent.

Four of the top five areas of underperformance identified by companies were connected to sustainability, and two of those supply chain-linked.

This again highlights the vulnerability of companies as they continue to struggle to influence and control processes and practices deep in supply chains where they become increasingly opaque and hard to manage.

Their growing concern shadows the introduction of new ESG and sustainability legislation in the Americas and Europe with increasing regulatory and government interventions over movement of goods globally. Three-quarters of companies said they have been negatively impacted by tariffs and other trade curbs in the last year.

One example of this increased pressure is a startling rise in the number and value of imported cargoes being stopped by U.S. Customs and Border Protection (CBP) over the last two years for forced labour allegations. In 2021, the CBP detained some 1,470 cargoes worth US$486 million for alleged forced labour violations in the supply chain in Asia. This was more than four times as many cargoes as 2020 and worth almost 10 times more.

The 2022 global FTI Consulting Resilience Barometer report incorporates the views of over 3,310 decision-makers (senior management, board member or C-suite) in large companies across all G20 countries and 11 industries with an average global turnover of more than US$12.7 billion. In Asia-Pacific, views were collected from more than 1,300 decision-makers in China, India, Japan, South Korea, Indonesia and Australia, as well as Singapore and Malaysia.

Despite the uncertainty and concern, the research clearly demonstrates growing understanding of the importance of ESG, with 96 percent of companies saying they have increased their commitment to ESG and sustainability in the last 12 months and 87 percent saying they have increased spending over the same period. In addition, nine out of 10 companies agreed they are actively aligning business strategy to social purpose demonstrating broad consensus over the need to integrate the concept seamlessly into strategy and plans. This was highest in China (98 percent), India (95 percent) and Malaysia (94 percent).

The recognition that ESG needs to be managed strategically also appeared embedded in boardrooms and leadership teams, with 89 percent saying they have shifted their approach from managing risk to identifying new business opportunities while 39 percent say they will conduct mergers and acquisitions (M&A) in the next 12 months to improve their ESG credentials and capabilities.

Against this understanding and increased resourcing, more than two-thirds of companies remain under-resourced and woefully under-prepared.

Partly, this reflects that many companies are at the early stages of the ESG journey, interpreting what it means to them and what they need to do, overwhelmed by the complexity of the ESG landscape with its confusing plethora of indices and tools and advice.

Though ESG commitment and changes in culture and approach must be driven from the top down, they need to be implemented from the bottom up – embedded throughout the company with all business streams and supporting functions adopting consistent criteria to drive changes in the way they work. This takes time and experience, which is in short supply.

Understanding of risks

For companies starting the journey, research is an essential first step to develop an understanding of the risks and how they are evolving and benchmark themselves against the industry ESG profile and competitors. This helps cut through the complex maze of information to hone in on priorities and how best to respond to them. The right experience and guidance are essential, particularly at board and leadership team levels as a significant part of the challenge of embedding sustainability into business strategy is internal communications, helping employees and contractors understand the business case and what they need to do differently. M&A to improve the ESG profile can be part of the answer and help drive a change in culture.

The reward for companies that make the adjustment is increasingly clear as international ESG legislation and regulation supersede voluntary standards and companies become more and more defined by their ESG credentials.

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