



Thomson Reuters Institute

The 2023 State of Corporate ESG

At the crossroads of data, regulations,
and digital solutions

Executive summary

If 2023 has proven anything, it is that increased uncertainty is the new normal. COVID-19, Russia's war in Ukraine, shifting economic sanctions, evolving regulations, heightened trade tensions, and extreme climate-related events have impacted supply chains, prices, labor supply, energy security, and much more. Now more than ever, companies are navigating a Volatile, Uncertain, Complex, and Ambiguous (VUCA) world.

It is against this backdrop that we set out to better understand how companies are approaching ESG, how this is evolving, and what solutions companies are putting in place to advance their ESG initiatives. We spoke to 24 C-suite and functional leaders in a range of roles from Chief Sustainability Officers to Chief Supply Chain Officers and surveyed 183 C-suite and functional leaders across a range of industries and geographies, focusing on North America and Europe.

Across our interviews and research, one clear and consistent theme emerged: we are at a crossroads in corporate ESG management, with regulation, data, solutions, and actions maturing rapidly. Thus, new challenges, needs, requirements, and opportunities are also emerging for companies looking to tackle ESG.

In this report, we'll delve into how companies are solving ESG-related challenges, explore the role of third-party solutions in that context, and look at examples of solutions companies are implementing to progress their ESG agendas.

Key findings on the 2023 State of Corporate ESG include:

- Companies are struggling to keep abreast of the multitude of ESG guidance and regulations, with the risk and compliance tasks of meeting regulations across geographies particularly stretched
- Companies are turning to third-party solutions to tackle a wide range of ESG activities, such as understanding emerging regulations, supplier and customer due diligence, or monitoring consumers and competitors
- Adoption levels are already high amongst large companies with investment accelerating behind tools and solutions
- While historically there has been high investment behind consultative support, spend is now shifting towards tools and software, particularly as ESG standards become more established and reporting more commonplace

As a result, ESG leaders are seeking new solutions related to data, regulations, and digital solutions:

- Companies are seeking integrated end-to-end solutions and approaches to streamline and simplify the solutions they have in place and improve their inter-operability and connectiveness with other existing enterprise solutions
- Companies are turning to AI and machine learning to connect disparate data and yield better ESG analysis and insights, especially for greenhouse gas (GHG) emissions tracking
- Companies are looking for honesty and transparency around what can and can't be delivered by solutions providers, which is particularly important given the risks now at stake (e.g., regulatory)
- Companies increasingly want help with engaging third parties, including suppliers to improve compliance, as well as tracking actions and performance over time

Key findings from our survey of C-suite and functional leaders involved in ESG include:

- 71% agree or strongly agree that the role of ESG in corporate performance will grow in the future
- 60% agree or strongly agree that their company is willing to invest to use ESG as a competitive advantage
- 56% agree or strongly agree that there's a consensus across their company's leadership on the high value of ESG investment
- 91% currently use third-party solutions related to ESG management

Methodology

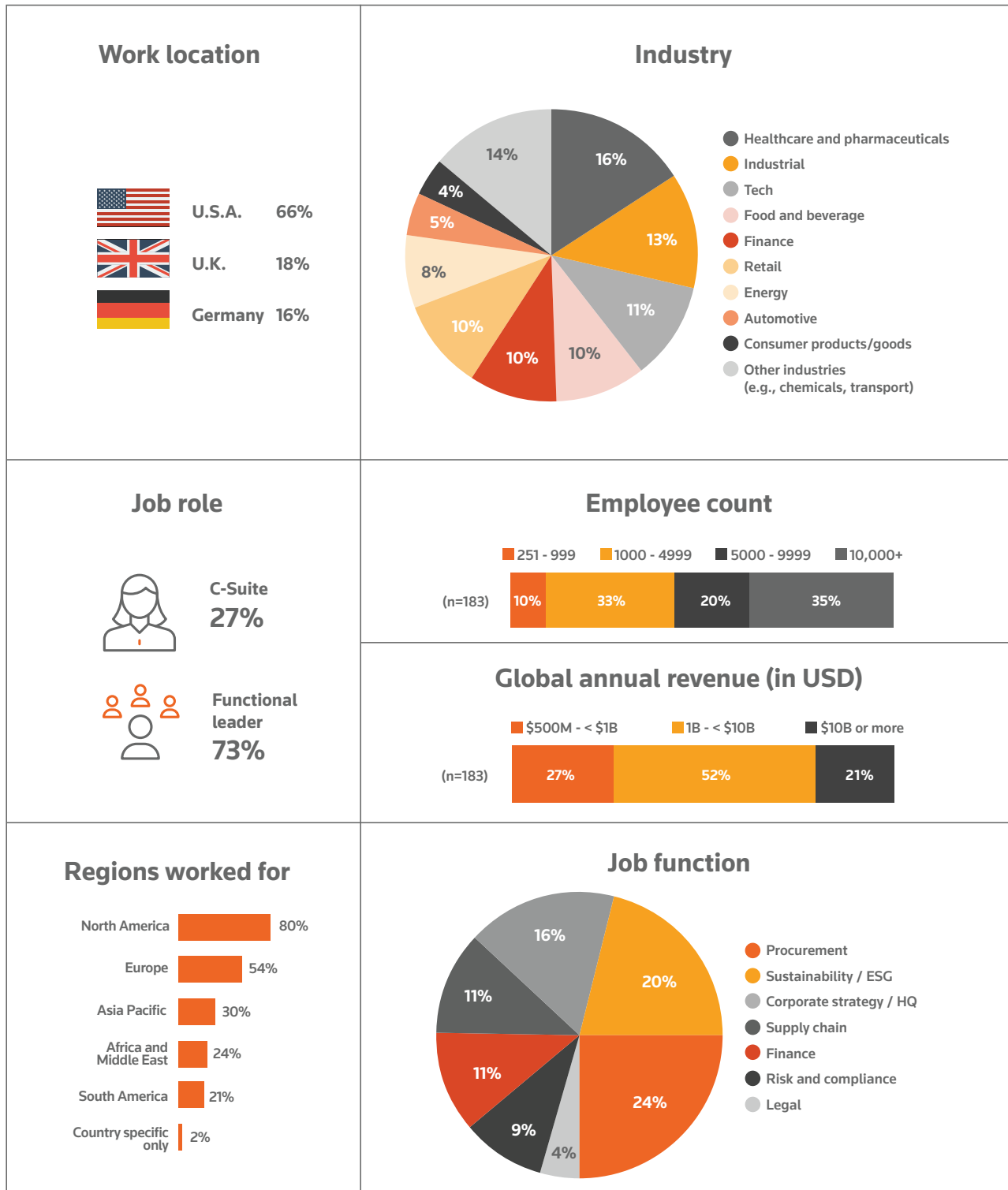
This report and its findings follow a customer research project conducted over the spring and summer of 2023 focused on North America and Europe and aimed at understanding the state of corporate ESG agendas, the awareness and adoption of third-party ESG tools, key decision makers and contributors to the selection process, amongst other research objectives. To gain a well-rounded perspective, the research spanned both an online survey and in-depth executive interviews. The survey component tallied 183 respondents in C-suite and functional leadership roles who are involved in the selection, implementation, and use of third-party market intelligence, information-enabled software solutions and/or managed service providers, or are involved in the vendor selection or vendor compliance processes, including ESG vendors.

This was complemented by 24 in-depth interviews with C-suite and functional leaders at a diverse range of companies across industries, sizes, and geographies. It included decision-makers such as Chief Sustainability Officers, Sustainability Managers, Chief Supply Chain Officers, Chief Financial Officers, and a Chief Risk Officer at recognized multinational brands with leading ESG programs. All interviewees had accountability for leading and/or managing ESG standards at organizations with third party screening and ESG reporting requirements.

73% of companies surveyed were over \$1B in global revenues, 57% had over 5,000 employees, and respondents were based in the U.S. (66%), U.K. (18%), and Germany (16%) across a wide range of industries and roles (24% procurement, 20% sustainability/ESG, 16% Corporate Strategy, 12% Supply Chain, and 11% Finance).

Almost all (87%) were directly involved in the selection (with 75% of that number involved in the purchase) of third-party market intelligence, information-enabled software solutions and/or managed services, while the rest were involved in the management or usage of such tools and/or solutions.

Our survey of 183 C-suite and functional leads covered a range of industries, roles, and geographies



At a crossroads in ESG management

From supply-chain disruptions to energy shortages, price spikes, and broader inflationary pressure, 2023 has proven to be a challenging year to navigate for many. With so many business pressures, how are corporate priorities changing around ESG? What challenges are companies facing in this area and how are they solving these challenges? Where do they see opportunities and how are they seizing these?

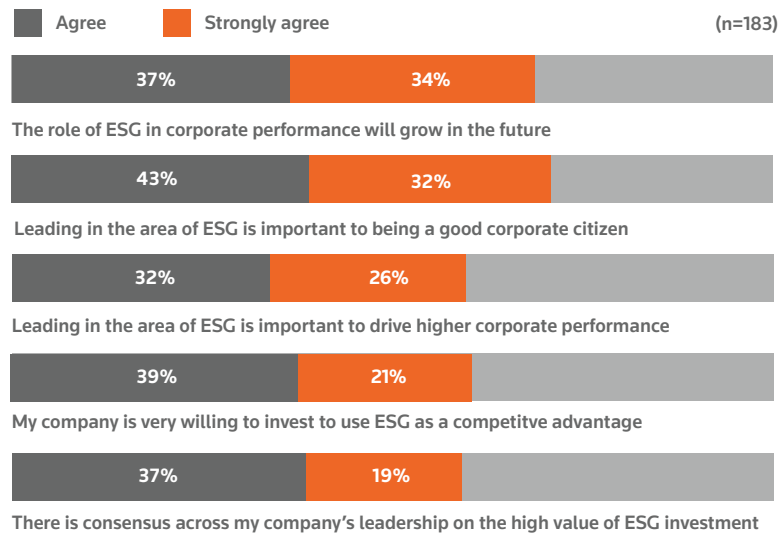
Despite rising costs of capital from rapid interest rate hikes and much publicized political and shareholder pressures, interviewees reinforced that ESG remains a major focus for many large multinational companies and is increasingly on the agenda of smaller-to-mid-sized companies (SMEs) too.

We found that 75% of C-suite and functional leaders involved in the selection, usage, and management of third-party market intelligence and information-enabled software solutions and/or managed service providers agree or strongly agree that leading in the area of ESG is important to being a good corporate citizen, and 71% agree or strongly agree that the role of ESG in corporate performance will grow in the future.

Not only are companies placing importance on ESG, our survey revealed that they are also willing to invest behind this to create competitive advantages. Of the large corporates we surveyed, 60% agree or strongly agree that their company is willing to invest to use ESG as a competitive advantage, and 56% agree or strongly agree that there's a consensus across their company's leadership on the high value of ESG investment.

Figure 1 Investing in ESG remains a top corporate priority

Q: How much do you agree with the following statements? (note: only showing combined percentage who stated “agree” and “strongly agree”)



These datapoints echo recent research by ECI Partners in their Growth Characteristics 2022 report, showing that 74% of 500 U.K. CEOs sampled now hold ESG as equally important as financial performance.¹

This continued attention should come as no surprise. 2023 has been marked by some of the biggest disruptions to both people and planet, with extreme climate change-related events causing widespread destruction and disruption.

The world is on track to mark the third year in a row in which climate change-related losses have exceeded over \$110B in damages.² Developing countries are asking for a similar amount – roughly \$100B – for an international climate change-related loss and damage fund ahead of COP28 in Dubai this December.

The recent wildfires in Maui, Hawaii – the deadliest wildfire in the U.S. in over a century with a death toll of more than 100 – serve as a reminder that business and nature are inseparable.³ It is now established that the blaze was set off due to a combination of ailing electric infrastructure, drought conditions, and extreme weather. As a result, dozens of lawsuits have been filed against Hawaiian Electric, adding to the potentially billions of dollars in damages that electric utility companies face across the western U.S. for failing to cut off power during extreme weather events that led to other catastrophic fires.⁴

¹ ECI Partners, [Growth Characteristics 2022](#)

² Swiss Re, 3/29/23, In 5 charts: continued high losses from natural catastrophes in 2022

³ USA Today, 8/30/23: [How many people died in Maui fires? Officials near end of search for wildfire victims](#)

⁴ CNBC, 8/28/23: [Electric utilities face billions in wildfire liability with aging power lines risking another catastrophe](#)

Meanwhile heatwaves in Asia continue to cause droughts, impacting water tables and leading to significant crop failure – with China once again reaching its hottest temperature on record in 2023.⁵ Climate change-related food security has also impacted Europe, with February storms across Morocco and Spain leaving British grocery shelves empty of tomatoes, cucumbers, and lettuce.

“Climate change is directly affecting our business performance, particularly as a result of droughts, impacting supplies and productivity.” – CSO, global sugar refiner

Tourism – almost 10% of the world economy⁶ – is being impacted too. August wildfires in Greece were declared the largest wildfires ever recorded in the EU, burning an area larger than New York City within 10 days and claiming the lives of 20 people. These added to already significant wildfires in Greece earlier in the summer, including one in Rhodes which affected the holidays of tens of thousands of tourists, to whom the Greek government has offered free trips (at a presently unknown cost to the government). Tourism accounts for over 18% of Greek GDP⁷, making it a vital part of the country’s economy.

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– CSO, global sugar refiner

Due to an increase in these types of events, the insurance and re-insurance sectors are having to rethink how they underwrite risk, with commercial and operational implications for companies globally. For example, some companies are paying higher premiums or struggling to get insurance coverage due to increased climate change-related risks. Companies are also increasingly working with insurers to identify risks and take certain mitigation and climate-change resilience measures to help reduce premiums.⁸

“\$44 trillion of economic value generation – over half the world’s total GDP – is moderately or highly dependent on nature and its services and, as a result, exposed to risks from nature loss.” – World Economic Forum, New Nature Economy report⁹

With a significant amount of economic value depending on the health of our planet – over half of the world’s GDP according to the World Economic Forum – companies are increasingly realizing they must act today to build and maintain successful sustainable business operations for years to come.

⁵ Reuters, 7/17/23: [China logs 52.2 Celsius as extreme weather rewrites records](#)

⁶ WTTC; Oxford Economics: [statista.com/statistics/1099933/travel-and-tourism-share-of-gdp](https://www.statista.com/statistics/1099933/travel-and-tourism-share-of-gdp)

⁷ Statista, 2022, 8/29/23

⁸ Reuters, 11/11/21 Focus: [Risky business: Climate change turns up the heat on insurers, policyholders](#)

⁹ World Economic Forum, New Nature Economy series; [Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy](#)

Challenges and opportunities in tackling ESG

While the statistics presented above clearly demonstrate the continued focus and investment behind ESG overall, many leaders that we interviewed pointed to the rapidly evolving regulatory landscape as a key factor in maintaining focus on ESG. These are evolving at-pace globally, covering a wide array of topics from materials sourcing, labor standards, green taxonomies, deforestation, and many more.

One executive said there were close to 40 regulations on their radar, and another said complying with new regulations is what “keeps me up at night.” These include the EU’s Taxonomy for Sustainable Activities, Germany’s Supply Chain Act, the U.S.’s Uyghur Forced Labor Prevention Act, California’s new law to reduce single-use plastics, guidance from the Task Force on Climate-Related Financial Disclosures (TCFD) or the newer Taskforce on Nature-related Financial Disclosures (TNFD), upcoming EU regulation on deforestation-free products, to name but a few. Governments the world over are taking aim at everything from plastics, air pollution, chemicals, labor standards, nature protection, and more.

Layered on top are new rules governing specific industries, such as energy, oil and gas, and automotive. Several jurisdictions – including the U.K., EU, and California – have implemented laws to ban the sale of gasoline cars within just a few years’ time, requiring entirely new supply chains, infrastructure, and more.

Furthermore, new laws such as the U.S. Inflation Reduction Act have created new structures of incentives, including almost \$400B of available subsidies over the next decade to spur investment into green technology – yet another dimension of ESG-related investment that companies must navigate. The EU has reacted with similar pledges – with over €300B of funds in the Green Deal Industrial Plan.¹⁰

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¹⁰ CaixaBank Research, caixabankresearch.com/en/economics-markets/public-sector/eus-answer-inflation-reduction-act-you-cannot-have-dessert-until

For many companies across many industries, complying with new rules is quickly becoming a matter of business continuity. Those that get ahead of rules and regulations often benefit the most, setting themselves apart from their talent and investment communities and demonstrating superior corporate speed and agility. New operating efficiencies and cost savings actions – through energy efficiency, or more predictable supplies, for example – can also lead to higher profitability. By attracting better talent, they can outperform competition in the long run.

Rather than distracting from ESG, supply chain disruptions have reinforced the need to tackle ESG issues to help manage risks in this area. Whether better understanding suppliers and building more collaborative approaches to ensuring supply continuity or forging new partnerships and opening connections to alternative supplies, ESG is generally embraced as contributing to the overall agenda of managing risk and is often seen as part-and-parcel with improving business resilience.

Regardless of whether companies are leaders, laggards, or even skeptical in approaching ESG issues, we found that most companies are at a minimum keeping an eye on its development, realizing they won't be able to escape the topic as regulations advance and stakeholder pressures increase.

For most upstream B2B suppliers, this pressure is even more immediate, with large brand customers – such as automotive manufacturers, consumer packaged goods, and retailers – mandating their own standards across their supply chains. Non-compliant suppliers are at risk of getting dropped, creating an urgent and compelling commercial imperative for B2B suppliers to drive action around their ESG standards.

Some companies might need to source new suppliers or drive overall improvements in supply chain transparency. In this context, it's critical for companies to look under the hood; understanding ownership and control across many degrees of separation, looking at registries or shell companies in offshore countries, searching for financial misconduct issues such as money laundering or fraud, or identifying connections to individuals on sanctions lists.

“For one of my F&B clients, it was revealed that 45% of their profit came from customers that bought because of their ESG performance. This shows how critical performance it this area really is.” – F&B sustainability consultant

Furthermore, most companies we spoke with are pursuing business opportunities related to the “green transition” or aligned with ESG issues more broadly. Recent NielsenIQ data shows why: from 2018 to 2022, products with ESG-related claims grew at a faster pace (6.4% CAGR) than products without such claims (4.7% CAGR). Multiple global consumer surveys have also revealed the growing consumer and employee interest in companies that improve society and the environment, especially amongst younger generations. Six-in-ten Millennials and Gen Zs are now willing to pay more for sustainable products and services .¹¹

“For one of my F&B clients, it was revealed that 45% of their profit came from customers that bought because of their ESG performance. This shows how critical performance it this area really is.”

– F&B sustainability consultant

Figure 2

Product sales grow faster when they include ESG-related claims



Yet many of the executives we spoke with felt the transition to sustainable or ESG-oriented offerings is far from straightforward. One executive at a global stationery brand said a competitor had recently been called out by consumer and civil society groups for making a poor choice of sustainable packaging. Or last year, the U.S. blocked over 1,000 shipments of solar components due to Chinese slave labor concerns, demonstrating the rigor and standards required in the transition to clean energy.¹²

¹¹ Deloitte 2023 Gen Z and Millennial Survey

¹² Reuters. 11/11/22. [U.S. blocks more than 1,000 solar shipments over Chinese slave labor concerns](#)

In our interviews, we also found several examples of companies who have developed ESG-aligned products despite ESG not being a strategic area of focus. For example, the CFO at a regional U.S. bank serving the U.S. Midwest region feels ESG is not culturally aligned to his company or the communities they serve, yet they developed a solar financing product and recognize that they will need to invest in monitoring and complying with ESG regulations as it evolves and advances.

For companies just starting off this journey, news and update alerts are a great start to build understanding of what disclosure requirements are coming. For those looking to implement ESG agendas more proactively, best practice controls and policies can be put in place with the help of third-party solutions providers.

“The region in which we operate is quite conservative, and ESG has not been embraced as it has been in many other parts of the country. So far, we have been largely informal in our approaches and processes related to ESG, however, we also know it’s looming on the horizon, and it’s something we’ll have to comply with in a more formal capacity.” – CFO, regional U.S. bank

Another, a U.S. based biotech start-up, is too early-stage for an ESG strategy. However they are designing their operations to be the safest and cleanest facilities in the world to ensure long-term business continuity and get ahead of more onerous EPA regulations and EU standards. They are also investing in solar for energy independence, as opposed to environmental, reasons.

“Everyone asked when we first started out: did you go to Mexico to skirt the EPA rules? No, not at all. Our equipment and technology far exceed European standards, and European standards exceed the EPA’s standards. We’re in Mexico for one reason and one reason only: it’s North America’s largest medical device contract manufacturing hub, period.”
– CFO, medical devices startup

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For companies looking to scale up their operations, understanding the geographies in which they might operate and the suppliers and partners they might work with are critical in the early stages. Companies can help avoid early missteps, lost investments, or reputational damages by putting the right solutions in place from the start.

Adverse media monitoring solutions on ESG-related topics such as forced labor, critical incidents, or environmental crime is crucial. So is identity verification, such as verifying business relationships for suppliers into sanctioned areas like Xinjiang, China.

While the business case for investing in ESG is growing, proving the value of investments remains critical, even amongst companies that are fully embracing ESG and incorporating it directly into their business strategies. These companies still look for ways to improve their businesses – through better products, greater efficiencies, attracting talent, or attracting customers – while also achieving a more people- and planet-friendly business model.

For example, one large multinational CPG we spoke with that is widely considered an ESG leader, is always looking for “win-win” scenarios and investments, where customers and the company can benefit, with a particular eye towards baking those benefits in at product, marketing, and sales levels. For many companies with similarly complex supply chains across various offshore jurisdictions, vendor screening against sanctions lists, running complex compliance programs, and analyzing country-level risks are critical components to building ESG-oriented product portfolios.

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“We are always looking for win-win situations where we can do good while also selling products. We also know that sustainable products sell better, so sustainability is fully integrated into our business approach.” – Sustainability Data Lead, global consumer packaged goods conglomerate

The leaders we spoke with at these companies often referenced their “license to operate” in this context, considering sustainability not just for the planet and society, but also for their business models.

“We have a social license to operate – the support of the community that is. If you fail, then you have roadblocks, disruption, and you lose value. Relationship with community is thus a key element of our business.” – CSO, Gold Mining Corporation

Regardless of approach, companies must always balance progress in one area with managing risks as they evolve and adapt their businesses.

“Although our stated goal is Scope 1 and 2 carbon neutrality by 2040, our leadership is pushing for sooner, anywhere from 2030 to [20]35. Making that happen in a timely basis while covering the risk, that is where a lot of time and effort is going.” – CSO, global sugar refiner

Next, we’ll take a look at how companies are tackling ESG and how their approaches to managing ESG across their supply chain and internal operations are evolving.

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How companies are managing their ESG agendas

To navigate today’s choppy – and often murky – waters, companies have turned to third-party support. Through our research we found that market intelligence tools and information-enabled software solutions comprise a key enabling layer as companies approach how they manage ESG topics. Third-party tools are proving a vital component of ESG management, and companies are investing in tools to automate data handling and collection, enhance measurement and reporting, monitor and comply with new regulatory requirements, conduct supply chain due diligence, manage operational risk, and drive better business decisions through analysis and insights.

In our analysis of C-suite and functional leaders, we found that 91% currently use third-party market intelligence and information-enabled software solutions and/or managed services for one or more key activities related to ESG management.

We defined key activities as: keeping up to date with ESG-related topics, best practices and regulatory / compliance requirements, improving / streamlining operational efficiencies and adhering to regulatory compliance ESG standards to avoid risk (i.e., supplier screening and customer onboarding), thorough supply chain, “Know Your Customer” and “Know Your Vendor” due diligence of external stakeholders in compliance with regulatory ESG standards, and ensuring adherence to state and federal regulations.

Figure 3 Almost all large companies are using third-party software or services to support key ESG-related activities

Q: Which of the following statements best captures how your company uses third-party market intelligence, information-enabled software solutions, and/or managed service to support key activities?¹³

- Currently using to address all the activities outlined above
- Currently using to address some of the activities outlined above
- Currently using to address at least one of the activities outlined above
- Not currently using but are planning to use in the near future



¹³ Key activities include: keeping up to date with ESG-related topics, best practices and regulatory / compliance requirements, improving / streamlining operational efficiencies and adhering to regulatory compliance ESG standards to avoid risk (i.e., supplier screening and customer onboarding), thorough supply chain, “Know Your Customer” and “Know Your Vendor” due diligence of external stakeholders in compliance with regulatory ESG standards, and ensuring adherence to state and federal regulations.

We also looked at the use of third-party managed service providers across key areas. Our analysis reveals that the highest adoption of third-party managed service providers focuses on “keeping up to date with ESG-related topics, best practices, and regulatory/compliance requirements.” 81% of leaders surveyed are currently using solutions in this area. 73% are using solutions for improving or streamlining operational efficiencies and adhering to regulatory compliance ESG standards to avoid risk. This comes as no surprise given the sweeping ESG-related laws and regulatory changes coming into effect, as discussed earlier in this paper.

To keep up-to-date with ESG-related topics, laws, and maintain compliance, companies are turning to solutions that leverage broad datasets, AI, and software to monitor developments, track ESG disclosure requirements – such as the SEC’s comment letters to registrants – and follow how other companies are disclosing their ESG metrics.

With compliance also becoming a more important topic – now the top priority for legal departments as spelled out in our [2023 State of the Corporate Law Department Report](#) – tools that monitor key topics and tasks are more critical than ever. Tasks might include identifying and assessing risks, implementing controls, or designing policies and procedures to ensure strong compliance workflows around new topics. These are areas where third-party solutions can bring best practices, expert-led guidance, and tools, software, and processes to the table.

Figure 4

Use of third-party services is high across each key activity

Q: Which of the following statements best captures you and your team's usage of third-party managed service providers to support the following activities?

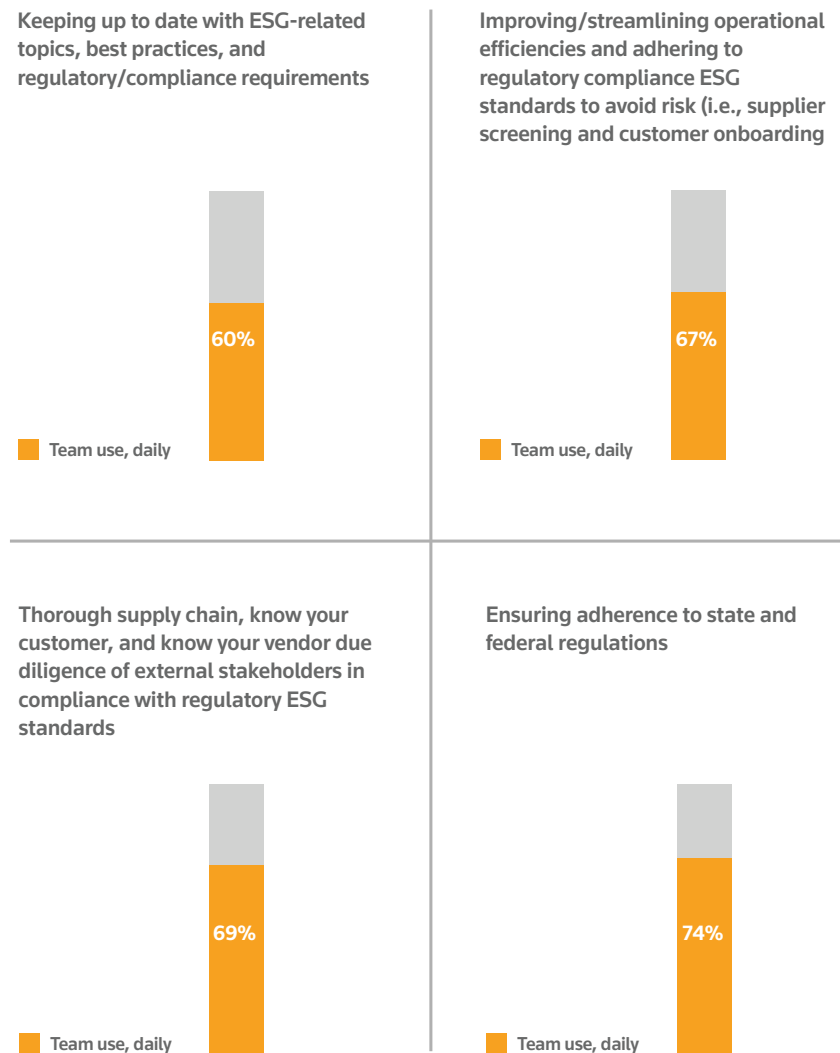


We also assessed the frequency of use of third-party tools, finding that most respondents are using third-party software regularly, with 61 – 74% of their team using solutions daily across several key areas, as show in Figure 5. This again underscores the importance that third-party tools are playing in helping companies manage their ESG agendas, actions, risk, and compliance programs.

Figure 5

Third-party software is being used daily by most ESG management teams

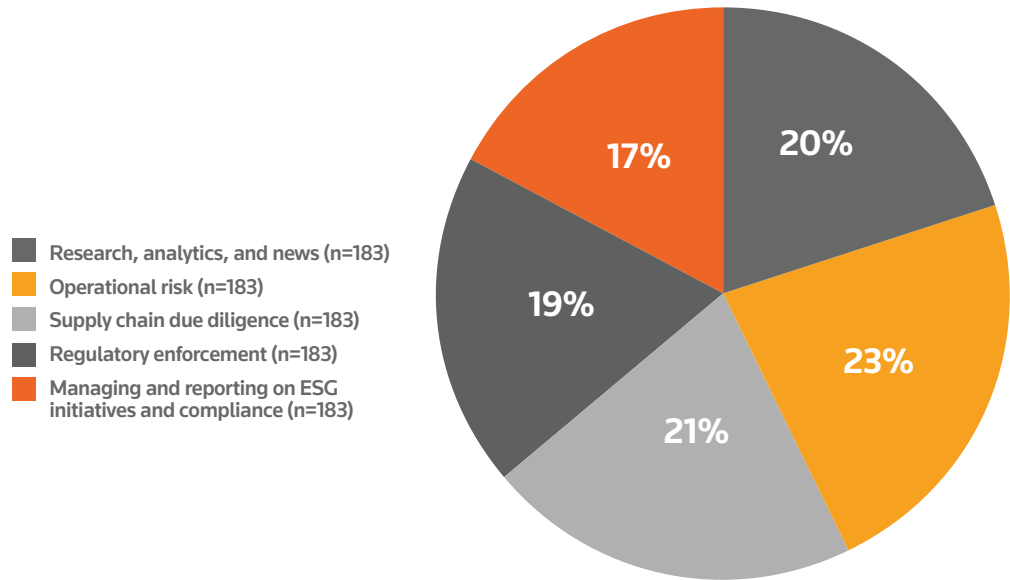
Q: Which of the following statements best captures the frequency by which you and your team use third-party market intelligence software to support the following activities?



We next looked at investment into ESG solutions and how companies are allocating their spend. Our survey revealed that present-day corporate investment behind ESG solutions is spread evenly across five key categories: operational risk (23% of budget); supply chain due diligence (21%); regulatory enforcement (19%); research, analytics, and news (20%); and, managing and reporting on ESG initiatives and compliance (17%). This highlights that companies must still tackle a wide range of areas with many competing priorities.

Figure 6 The typical corporate ESG spend is spread across many areas

Q: In your estimation, within your organization, what percentage of ESG investment is being spent in the following areas/buckets?



While many companies are working with managed service providers to develop and manage ESG approaches in their businesses, focus is increasingly turning to third-party software solutions. These already account for between 55 – 59% of investment across key areas, as compared to the share invested in managed service providers, and is set to increase, particularly as reporting requirements – and thus supporting datasets – become more standardized. This is particularly true in the areas of research, analytics, news, operational risk, and supply chain due diligence.

“As the maturity of this market grows, I don’t think we will need as many general consultants as we do now, but rather we’ll shift work to much more specialised (and more cost effective) solutions.”

– CSCO, international stationery company

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Frameworks such as TCFD have helped create common language and standards, which will help drive consistency in reporting and scale in solutions.

Figure 7 Most investment is in software vs. managed service across key categories

Q: In your estimation, how much of the spend in each of the following areas/buckets is split between third-party market intelligence, information-enabled software solutions, and/or managed service providers?

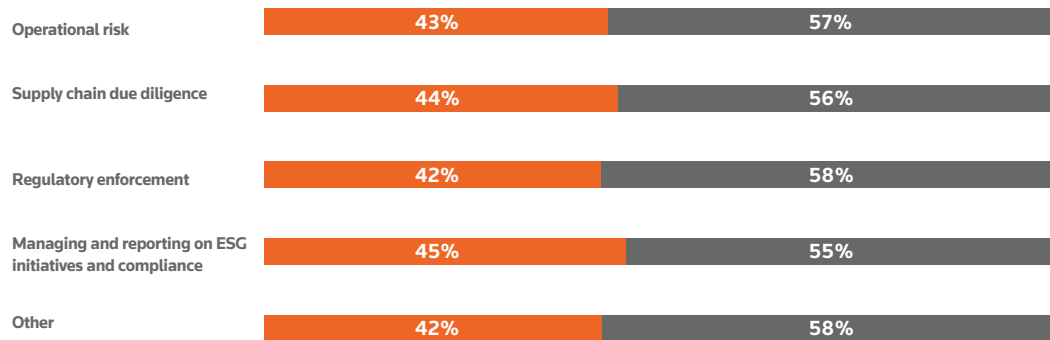
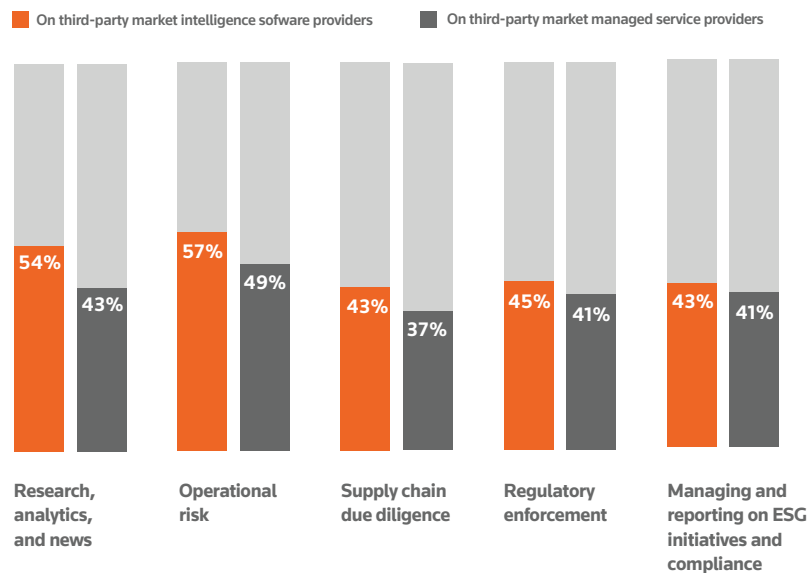


Figure 8 More companies are planning to increase spend on software vs. managed services

Q: In your estimation, compared to today's spend, how will spend on news and information resources, tools, and/or software solutions change for companies like yours, in the next year?



In our interviews with C-suite and functional leaders, we similarly found that investment into ESG solutions is increasing rapidly, with large corporates scaling spend by 2 – 3x over the next two-to-three years. Many companies are looking to replace outdated manual internal processes, such as Excel-based data collection and handling, with third-party tools and are relying more on third-party support.

“Budget for third-party solutions is not a deal breaker. In the compliance world you are looking for software, not to hire people. None of the costs are deal breakers.” – Sustainability Manager, global eCommerce company

As a result, there is a very high degree of awareness of third-party solutions providers; 84% stated awareness of solutions providers in the area of “managing and reporting ESG compliance,” followed by 74% in the area of “research, analytics, and news,” and 68% in the area of “operational risk.”

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Figure 9 ESG leaders have high awareness of providers across key areas

Q: Are you aware of any providers that offer the following types of third-party market intelligence software and/or managed service solutions?



Looking forward: what companies require from solution providers

With such a diverse range of challenges and growing complexities, it should come as no surprise that companies have new requirements in the area of ESG management, particularly when it comes to the support and the role of third-party tools (and solutions therein).

Our research and interviews revealed several areas where companies are seeking solutions to drive better analysis, help avoid risks and traps, and yield better business decision-making that ultimately contributes to sustainable business outcomes.

These areas reflect some of the critical needs in response to broader considerations already discussed earlier in this paper, such as the new and fast-evolving ESG-related regulations – sometimes broad-sweeping, others related to specific industries, the need to adapt products and services to better reflect new customer demands, the need to manage risks in the face of more extreme climate events, or the need to tightly manage supply chains in light of geopolitical risks and inflationary pressures. These are some of the same pressures that cause 88% of businesses in our [2023 Corporate Global Trade Survey Report](#) to collect ESG information from suppliers.

One area that stood out as particularly critical, as revealed by C-suite and functional leaders interviewed, was the increasing expansion of economic sanctions. This is a critical point to consider when identifying and monitoring vendors and third parties, particularly in terms of preventing business transactions with entities involved in forced labor, fraud, and other illegal activities. Thus, the right level of support is important to prevent operational risks, reputational damages, manage supply chain transitions, and to ensure regulatory compliance.

While the range of needs is growing more complex as this space evolves, we have distilled our research findings into five key themes that we hope can help companies focus on areas with the potential for the greatest impact going forward:

1. Turning regulatory compliance into business advantage
2. Linking ESG trends across consumers, competitors, and the broader media
3. Integrating solutions and connections across company operations
4. Applying AI and machine learning to enhance data and analytics
5. Enhancing supply chain transparency

Let's explore each in depth.

Turning regulatory compliance into business advantage

Many companies we spoke with are seeking to create custom ESG programs that cater to their unique company and industry needs. Understanding regulations across geographies, and their relevance for specific industries, is a critical component. For larger companies, this must happen “at scale,” meaning, across their business and without gaps. This is an area where software can help, but also where companies are seeking honesty and transparency from third-party providers around what they can and can’t deliver, expecting clarity around existing gaps and how these can be addressed.

With so many different regulatory standards and approaches emerging, companies are turning to solutions for guidance on:

- Which emerging regulations are coming and how these will impact their businesses. For example, companies need guidance on how ESG topics affect a company’s accounting policies, now and in the future, or to help make sense of the disclosure requirements on the horizon.
- How they can adopt such regulations. For example, TCFD reporting, and what processes they need in place to meet these requirements.
- In what ways they can prepare for emerging regulation. Some are seeking to get ahead of the pack, others are seeking to ensure compliance.
- How their business can meet the most standards as efficiently as possible, ideally seeking “bang for buck” in their initiatives to get the most mileage from the actions they take. For example, determining whether meeting a certain labor standard can boost their ESG rating (attracting investors) yet also help qualify for B Corp status (attracting talent and customers).
- How they can operate in areas with regulatory gaps. For example, Scope 3 measurement and reporting, or carbon offsetting.

“There are probably 40 different frameworks out there – from TCFD, CDP, ISSB, UN Development Goals, SBTI – and they all have their own slant, with their own weighting, so we have to think about getting the best bang for buck for which we go for. There isn’t an aligned domestic or global platform for reporting, ratings agencies, and proxy guidance – this is an opportunity for the industry.” – CSO, gold mining company

Linking ESG trends across consumers, competitors, and the broader media

As discussed earlier in this paper, some executives we spoke with – particularly at consumer-facing companies but also beyond – highlighted the challenges of becoming an ESG-oriented company. Green packaging, for example, might intuitively seem like a good move, but it could easily create a backlash if a company doesn’t do it well, if they don’t communicate it to consumers, or if they don’t communicate it to customers in a way that is authentic and aligned with their brand identity.

Earlier in the paper we also looked at the consumer demand side of this, with consumers increasingly voting with their wallets for companies that they perceive as doing good, often looking for strong alignment with ESG principles.

Understanding consumer trends, monitoring competitor activities around ESG, and understanding how relevant topics and trends are being discussed or perceived is thus critical to avoiding missteps.

“A lot of people are jumping on the bandwagon, and thus it’s very easy to be misled. It’s such a difficult journey to make, so competitive intelligence is critical to learn from other people’s mistakes.”
– COO, global stationery brand

Solutions in this area include:

- Consumer insights tracking on ESG-relevant topics, such as understanding the importance of key ESG topics from plastics to emissions
- Monitoring competitor actions around ESG – either from annual reports, media monitoring, or ESG reports. For example, understanding their overall commitments, new product launches, their stances on relevant issues, but also mistakes and missteps and consumer reactions to these.

“A lot of people are jumping on the bandwagon, and thus it’s very easy to be misled. It’s such a difficult journey to make, so competitive intelligence is critical to learn from other people’s mistakes.” – COO, global stationery brand

Integrating solutions and connections across company operations

Our research identified that streamlined, integrated, and holistic approaches to data management are seen as critical to driving cross-company collaboration – in particular across the many stakeholders involved in delivering ESG actions. Several leaders we spoke with mentioned the desire to better understand their company’s entire risk universe through this exercise as well.

We found a core desire to bring tools and solutions together and to integrate data across key enterprise-level tools so that information flows more freely across an organization. For complex businesses operating in many geographies, the ability to align data, systems, and tools across geographies – and ideally harmonize tools across suppliers – would create significant operational efficiencies.

This must be combined with honesty and transparency from solutions providers around what they can and can’t deliver. We found a consistent sense of scepticism in what providers are promising and that ESG leaders are regularly bombarded with new solutions.

Core requirements in this area include:

- Integrated end-to-end solutions and approaches, such as with ERP systems, supplier portals and vendor management systems
- Broader solution sets under one roof, with providers being able to deliver more than one capability to streamline the number of solutions, but without forgoing quality, such as industry and company-specific solutions or guidance
- Connecting with ERP, procurement, and customer management systems to help data and insights flow across the company
- Turning disparate ESG data into actionable insights useful for key stakeholders to the ESG agenda, such as procurement and sourcing, vendor management, compliance, or sales and marketing
- For B2B suppliers, the ability to integrate with customer tools and solutions of choice to reduce workloads down the supply chain

“We need a systems approach, a 360-degree perspective. A lot of solutions deliver against what’s required but what about the bigger picture? What about the implications for the business?” – Sustainability Policy Lead, global technology leader

“We are looking for system integrators to combine solutions and find synergies. But if they can’t deliver 90% satisfaction levels, I’d rather they say it.” – Energy Procurement & Sustainability, global consumer goods company

Applying AI and machine learning to enhance data and analytics

While data has become abundant, much data around ESG remains burdened by manual processes and disparate sources. AI, machine learning, and advanced analytics techniques hold the promise of being able to solve some of these data challenges by helping analyze unstructured or atypical datasets and thus have the potential to help surface new insights related to ESG.

For example, AI can help analyze supplier invoices to help build a better understanding of Scope 3 emissions before approaching each supplier for detailed analysis, or it can be used to read ESG reports and recommend potential actions. It can also help tap into emissions datasets and apply these across a product portfolio using detailed product-formulation data. New applications of AI will significantly speed up analysis and drive proactive decision-making, for example via real-time event monitoring and risk flagging. Currently this is often reactive and stuck in crisis management.

Areas that companies and solutions providers are addressing are:

- How to use AI to extract insights from data and improve automation of ESG processes, such as using third-party ESG data to build product-level emissions profiles
- How to better connect disparate datasets to improve decision-making, make better tradeoffs, and drive business impact
- Using AI and analytics to verify existing conclusions, often derived from manual data collection. For example, AI can help monitor and analyze data from media alerts or court proceedings, which may hold insights that can verify or annul a supplier's stated position.
- More generally, reorienting data analytics to be more future-oriented as opposed to reactive. For example, in areas such as predictions monitoring or avoiding unnecessary investigations.

"A best-in-class solution integrates AI to capture external data to challenge our internal data. It needs to have the intelligence by the tool to capture what's in the media, or in courts (summons in proceedings), etc." – Chief Supply Chain Officer, luxury yacht manufacturer

"Many companies have solutions in place but are not using it to their business advantage. You can use those platforms to improve your business. Evaluation platforms are the ones that make an impact in the supply chain vs. the ratings platforms." – F&B sustainability consultant

Enhancing supply chain transparency

Time and time again we heard from ESG leaders that their companies are struggling to fully engage suppliers with new ESG-related requirements. Know Your Customer and other enhanced due diligence processes are becoming more critical in light of new regulations, labour standards, and customer requirements – in particular driven by large consumer brands.

Yet suppliers are often too small, under-resourced, or operate in geographies with poor transparency and reporting standards to fully comply. Corporates need support building good solutions in this area, or at least in terms of finding alternative suppliers that can meet these new requirements.

For companies seeking to reduce their GHG emissions specifically, this is a critical area, as this often can't be done without reducing Scope 3 emissions; that is, those emissions that take place at the level of a company's suppliers. There are also industry-specific challenges, such as in chemical storage and usage, where inadequate audit control of product safety and working standards are often a result of poor procurement and tracking systems in producer countries.

Similarly, reporting mandates often lack important data because companies are not required to disclose sub-suppliers' information and, if they become liable to do so, can circumvent legal liability to defend competitive advantage for confidentiality reasons and thus further undermine the quality of data on reporting.

In building supply chain transparency, companies need increased support with:

- Engaging suppliers broadly, with support, guidance, and training to help suppliers understand and navigate new requirements, and ideally help derive value for them
- Tracking actions and performance over time, including communicating with suppliers and helping monitor progress against key actions required of them
- Analysis of suppliers using available datasets, such as blacklisted suppliers lists or adverse media content monitoring, and employing AI for improved predictability
- Using global beneficial ownership analysis to unpick business relationships into sanctioned areas or with regards to other high-risk factors
- Similarly, ongoing vendor monitoring, using data and tools such as media alerts to highlight incidents that may affect a supplier's ESG compliance, including environmental crime, forced labour, or other critical incidents

“For my larger suppliers, the information I need to gather and push up is not that hard. It’s the smaller guys who don’t have the resources or the desire to provide the information that I need to comply with my requirements ... I’m having to get rid of smaller suppliers I’ve done business with for 20 years because they can’t keep up, unfortunately, but I can’t complete our job without it.”
– CFO, global auto parts supplier

“We need platforms to be simple for suppliers – they have to be straightforward for the actual users.” – Senior Director Global Sustainability, battery manufacturer

Conclusion

2023 has proven yet again that we are navigating complex and challenging times with continued visible impacts the world over. Businesses generally recognize the challenge and are thus orienting towards building more sustainable, resilient business models. Through our research we found that 71% of C-suite and functional leaders agree or strongly agree that the role of ESG in corporate performance will grow in the future.

Companies are also facing a rapid evolution in three key areas that will dramatically affect progress. These are:

- Data: primarily spurred by advances in AI
- Regulations: evolving quickly around the world and impacting many new areas
- Digital Solutions: rapidly maturing to bring new capabilities and insights to companies in the area of ESG

By embracing these areas and tackling the three key areas highlighted above, companies and solutions providers can advance ESG from being an overall burden that must be managed, to instead being a driver of better business decisions and growth. It is business leaders who steer and manage ESG initiatives successfully that will turn words into actions and help their businesses thrive and succeed in this new era.

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