ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2022

CPA AUSTRALIA

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Overview

Environmental, social and governance (ESG) has become increasingly important as organisations around the world grapple with growing uncertainties over complex global issues. A focus on ESG can help businesses attract investors, build customer loyalty, improve financial performance, and make business operations sustainable.

This report shows the results of a CPA Australia survey of ESG adoption and practices by Asia Pacific businesses.

The survey was conducted from 15 September to 7 December 2022. A total of 469 responses were received from accounting and finance professionals working in the Asia Pacific region.

Respondents came from a variety of industries. Financial and insurance services (17 per cent), public practice and accounting firms (14 per cent) and professional, scientific and technical services (10 per cent) comprised the largest share.

Respondents were from both smaller companies with fewer than 500 employees (42 per cent) and larger companies with 500 or more employees (57 per cent).

Twenty-six per cent of respondents held a senior level position.

The survey collected data on the extent organisations are embedding ESG considerations into their decision-making, organisational governance, and culture.

The survey found respondents from larger businesses were more likely to indicate their business has adopted ESG practices such as:

- internal policies on ESG matters
- ESG related targets / KPIs and related reporting
- sustainability / ESG reporting.

Regulation, leadership from board or senior management and reputational risk were the key drivers for ESG adoption. In contrast difficulty measuring and tracking ESG performance, lack of standardised ESG reporting standards and frameworks and costs were found to be the key barriers to ESG adoption.

The survey findings demonstrate that many organisations are aware of the risk climate-change pose to their businesses.

KEY FINDINGS

ESG practices most frequently used

71 per cent of respondents in all surveyed markets said that their companies had adopted at least one of the eight ESG practices listed in Figure 1. in the past 12 months. The most common ESG practices respondents adopted over the past 12 months were:

- internal policies on ESG
- setting ESG related targets
- KPIs and related reporting
- sustainability / ESG reporting
- Board committee / cross-organisation task forces.

Large businesses were notably more inclined to adopt ESG practices.

Conversely, compensation linked to ESG performance, adopting green and sustainable finance opportunities and net zero commitments and pathways were the ESG practices least likely to be used.

Larger businesses focused on internal ESG policies

Respondents from larger businesses were significantly more likely to report that their employer focused on internal ESG policies.

For larger businesses, “ESG related targets, KPIs and related reporting”, “sustainability / ESG reporting” and “board committee / cross-organisation ESG task force” were among the top ESG initiatives undertaken in the past 12 months.

Larger businesses are more likely to have adopted ESG practices

The proportion of respondents from larger businesses reporting that their organisation has adopted ESG practices was higher than respondents from smaller businesses

Of those businesses that had adopted ESG practices, 33 per cent said their organisation refers to the UN Sustainable Development Goals in their corporate reporting.

Majority of respondents believe that accountants are likely to be involved in areas of sustainability reporting

The top sustainability related roles or activities respondents believe that accountants are more likely to be involved in are:

- sustainability report preparation
- sustainability report data management
- obtaining green or sustainable finance.

Regulation was the major driver of ESG adoption

Regulation was the major driver for businesses to adopt ESG practices in the past 12 months.

Other key drivers of ESG adoption chosen by respondents were:

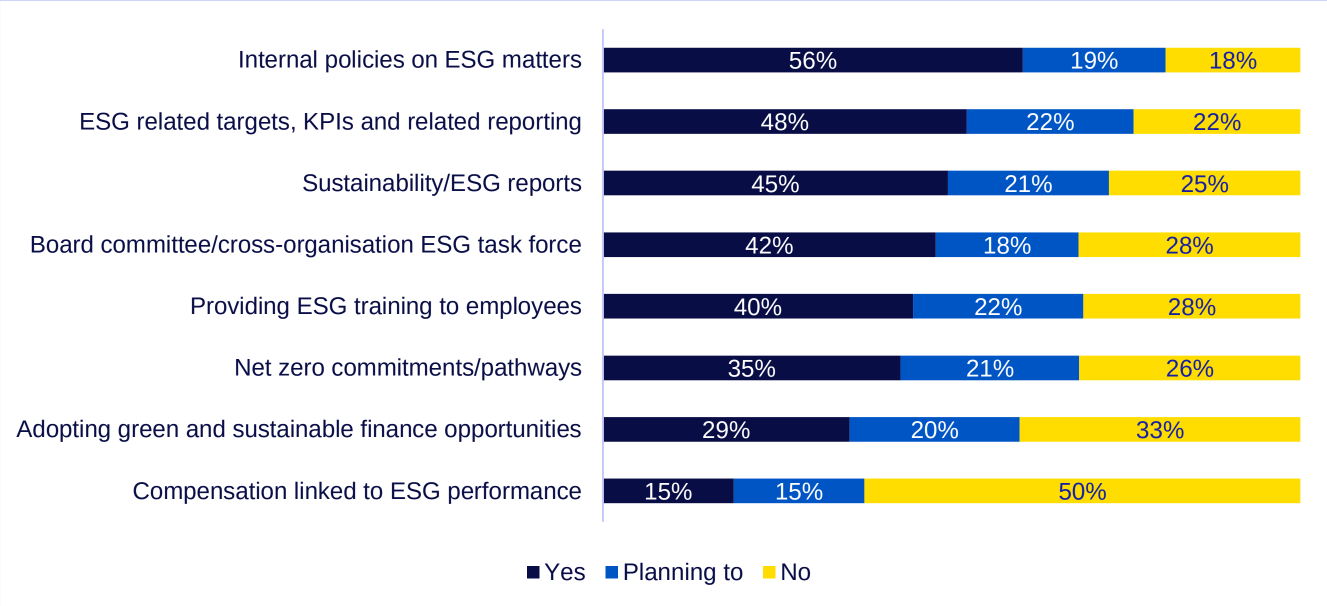
- leadership from the board/senior management
- reputational risk
- improving operational efficiency

Difficulty measuring and tracking ESG performance was the most common barrier to ESG adoption

ESG adoption is not without its challenges. “Difficulty measuring and tracking ESG performance” was the most frequently nominated inhibitor to ESG adoption. “Lack of standardised ESG reporting standards and frameworks”, “cost” was also identified as key barriers.

ADOPTION OF ESG PRACTICES IN THE LAST 12 MONTHS

Figure 1. ESG practices used in the past 12 months



Note: Responses may not add up to 100 per cent due to rounding.

Figure 2. ESG practices used in the past 12 months – by business size

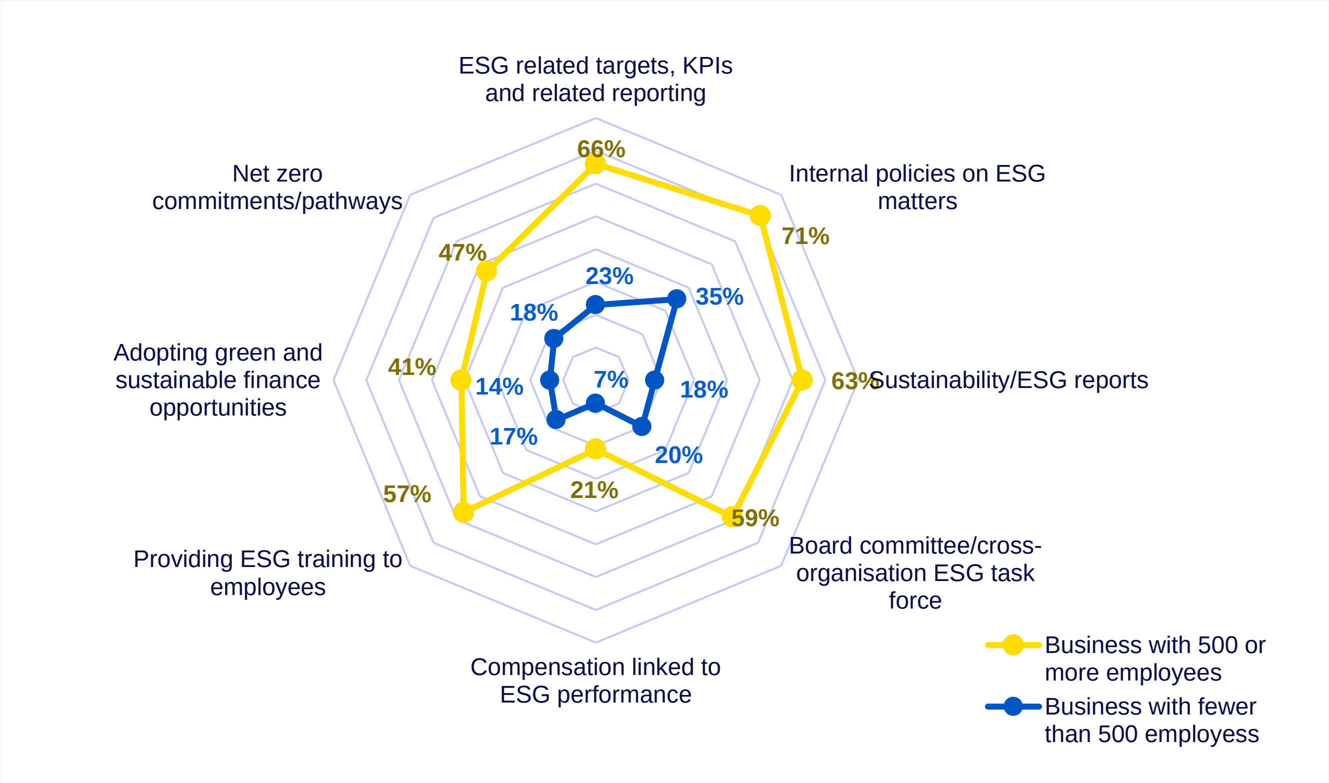


Figure 1 shows that internal policies on ESG were the most used ESG practice in the past 12 months. Fifty-six per cent of respondents stated that their business used such policies, with another 19 per cent saying their business is "planning to" to use them.

With more organisations adopting some form of ESG commitments, the use of internal ESG policies is no surprise and is expected to increase in the future

ESG related targets, KPIs and related reporting were the second most used ESG practice in the past 12 months.

We also expect this to increase as more businesses adopt ESG commitments such as net zero commitments. Such businesses will need to set targets, track and measure their ESG performance, and ultimately report on their progress.

The practices least used was linking executive compensation to ESG performance, adopting green and sustainable finance opportunities and net zero commitments / pathways. These practices are more likely to be used in latter stages of ESG adoption. This shows that while ESG adoption is on the rise, there is still significant opportunities for organisations to do more.

The survey results support the theory that smaller companies lack the financial or material resources, data and expertise to apply ESG practices to their operations.

Figure 2 demonstrates that respondents who reported working at larger businesses adopted ESG practices more often than respondents who worked at smaller businesses.

Other results

Respondents from China had the highest percentage of respondents reporting that their business had adopted internal policies on ESG matters (62 per cent).

China was also ranked first in terms of the percentage of respondents that said their business had adopted ESG related targets (60 per cent), compensation linked to ESG performance (25 per cent) and sustainability / ESG reporting (57 per cent).

Respondents from Malaysia were the most likely to state that their business had implemented an ESG board committee/cross-organisation task force (52 per cent).

ESG ACTIVITIES THAT ACCOUNTANTS ARE MOST LIKELY TO BE INVOLVED IN

Figure 3. ESG activities respondents believe that accountants are likely involved in

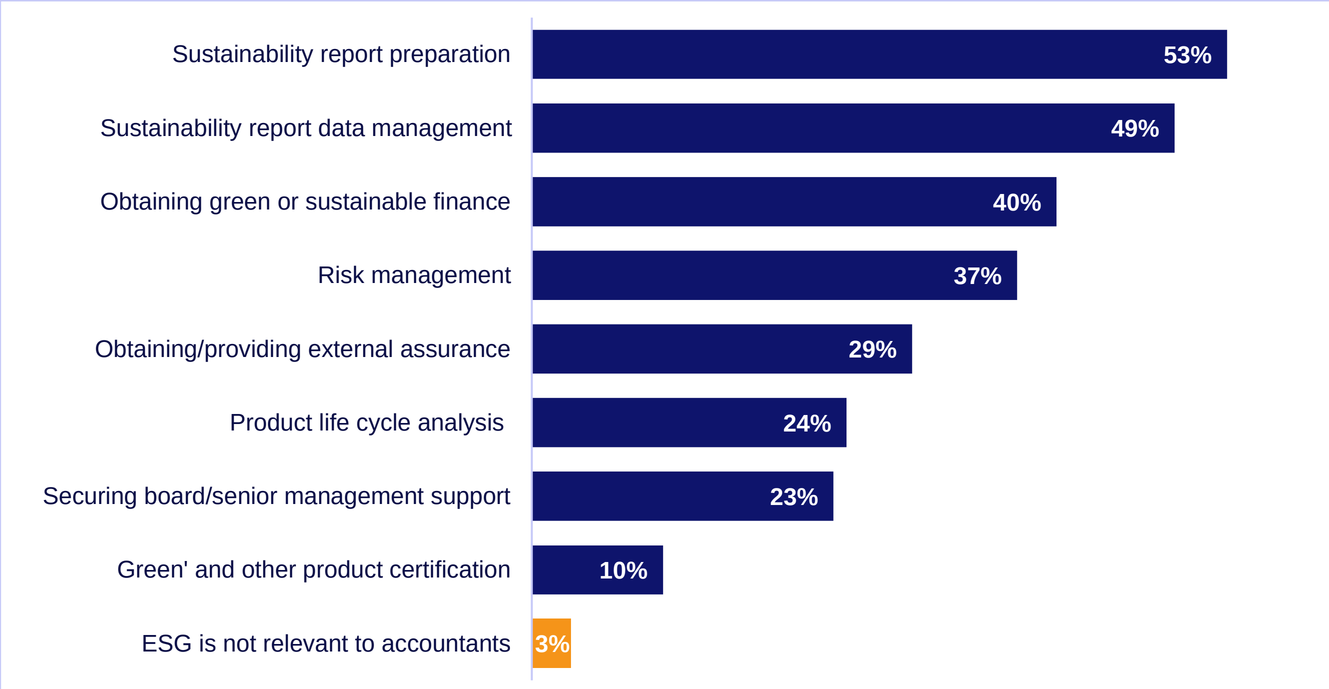


Figure 3 shows that sustainability report preparation was the ESG activity that respondents most expect accountants to be involved in.

The strong focus on reporting demonstrates that accountants will need to have the necessary technical skills and familiarity with sustainability reporting frameworks. The current issue of a lack of standardised ESG framework could be hindering the ability of accountants to effectively carry out their duties. The efforts of the International Sustainability Standards Board (ISSB) to create a common sustainability-related framework would help accountants in this role.

Given that sustainability report data management is closely linked to sustainability report preparation, accountants would also require sufficient data literacy to effectively identify, analyse, interpret, and communicate data.

The expectation for accountants to obtain green or sustainable finance was a surprising outcome given that this does not fall into the usual scope of work for accountants. Historically, accountants have been required to provide a range of financial metrics and reports to banks to secure finance. We would have thought the same would apply here.

We also note that a very small percentage of respondents (3 per cent) felt that ESG was not relevant top accountants.

Other findings

Out of all the locations surveyed, China had the most respondents who believe accountants are likely to be involved in sustainability report data management (54 per cent) and sustainability report preparation (53 per cent).

Respondents from Hong Kong had the highest percentage of respondents expecting accountants to be involved in 'green' and other product certification (17 per cent)

DRIVERS AND BARRIERS OF ESG ADOPTION

Figure 4. Key drivers of ESG adoption

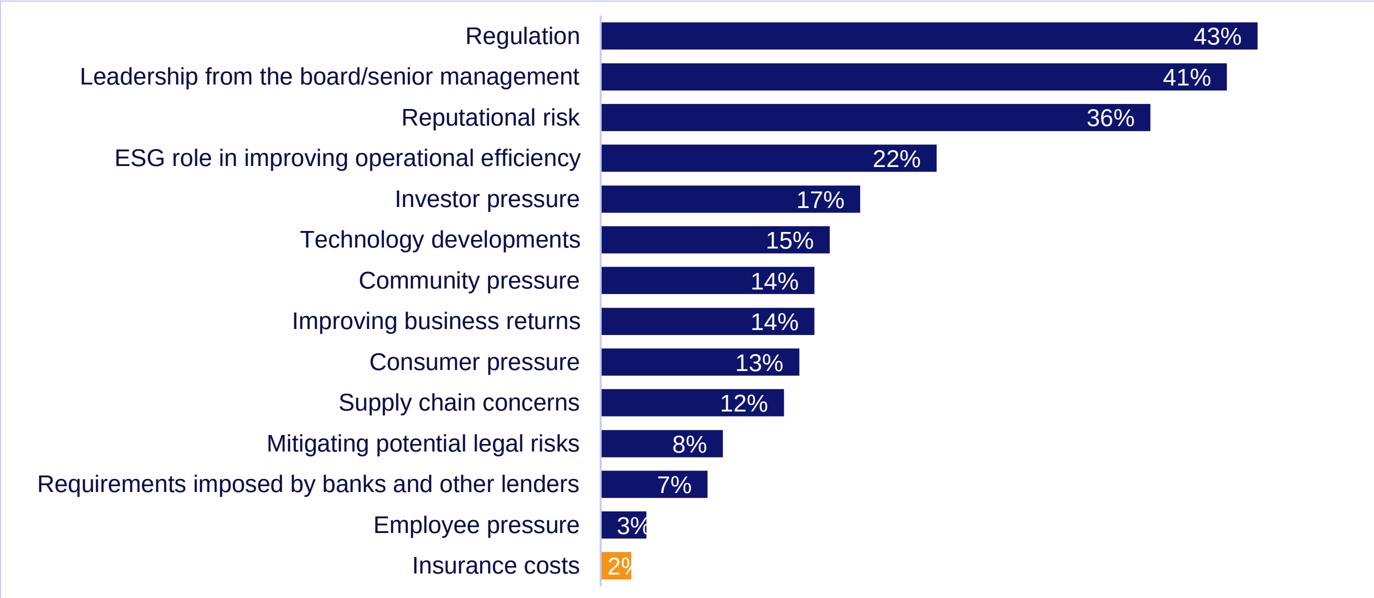


Figure 5. Key barriers to ESG adoption

Drivers of ESG adoption

When asked what the main drivers of ESG adoption are, the most popular option was regulation at 43 per cent.

Other popular choices included "leadership from the board / senior management" (41 per cent) and "reputational risk" (36 per cent).

The survey information shows that regulation plays a key role in ESG adoption. Organisations should not however wait for regulation before acting on ESG adoption, particularly given the volume of groundwork that would precede compliance, even if adoption relief is provided. It's also important to ensure that a board / senior management are well versed in ESG as strong leadership drives ESG adoption.

"Improving operational efficiency" was the fourth most popular driver, indicating that the adoption of ESG practices can improve profitability and productivity through for example, streamlining supply chains, and improving social and governance processes.

Other results

There were clear variations between markets. 40 per cent of respondents who chose employee pressure as a driver were from Australia.

28 per cent of respondents who chose supply chain concerns as a driver were from Hong Kong.

"Regulation" was most apparent in Mainland China (52 per cent) and least in Australia (22 per cent).

38 per cent of respondents who chose insurance costs as a driver were from Malaysia.

Challenges to ESG adoption

As shown in Figure 5, many respondents reported that ESG adoption in their business was hamstrung by "difficulty measuring and tracking ESG performance" (35 per cent).

The second most frequently chosen barrier was "lack of standardised ESG reporting standards and frameworks", "cost", and "lack of understanding of ESG" (32 per cent). This supports the concept that greater ESG adoption will require a consistent standard or framework for organisations to measure themselves against. With demand for ESG adoption being high in many markets, and coupled with the lack of suitably skilled professionals, could potentially drive-up costs. This ultimately makes it harder for business to adopt ESG practices.

ESG skills shortage (27 per cent) was the fifth highest barrier reported by respondents.

Other results

There were variations between markets in the challenges businesses face to adopt ESG. Malaysia had the highest percentage of respondents identifying “competing strategic priorities” (27 per cent).

China had the highest percentage of respondents choosing “lack of standardised ESG reporting standards and frameworks” (30 per cent) followed by Hong Kong (18 per cent), while Australia and Singapore had the lowest (13 per cent).

China was also the market with the highest percentage picking “difficulty measuring and tracking ESG performance” (27 per cent) and “lack of understanding of ESG” (30 per cent), followed by Hong Kong (27 per cent and 20 per cent respectively).

On the other hand, respondents from Singapore were the least worried about insufficient return on investments (2 per cent). Malaysian respondents were the least concerned about lack of employee support (3 per cent). While Hong Kong was the highest in terms of employee support as a barrier to ESG adoption (44 per cent).

“ESG skills shortage” was a bigger challenge in Hong Kong (34 per cent) than in Mainland China (22 per cent).

BUSINESS UNITS RESPONSIBLE FOR ESG ADOPTION

Figure 6. Top business units responsible for ESG adoption

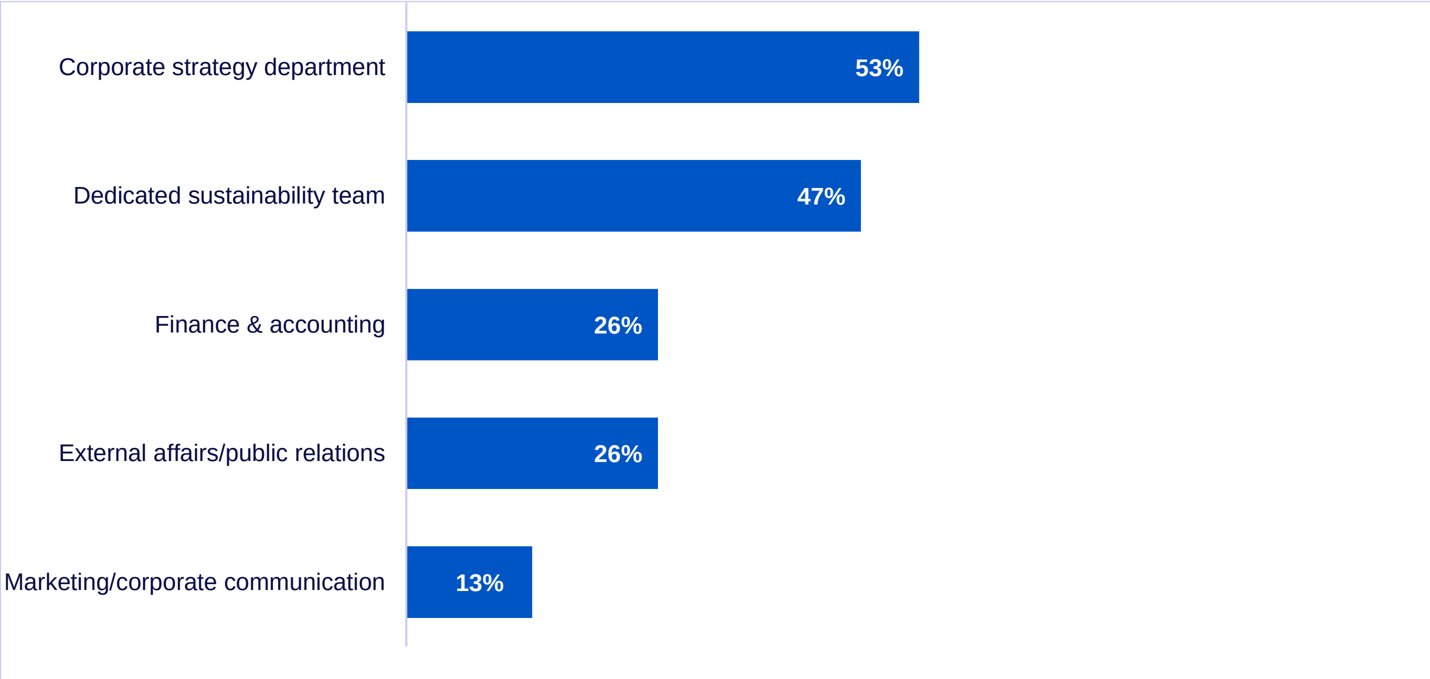


Figure 7. Top business units responsible for ESG adoption by business size

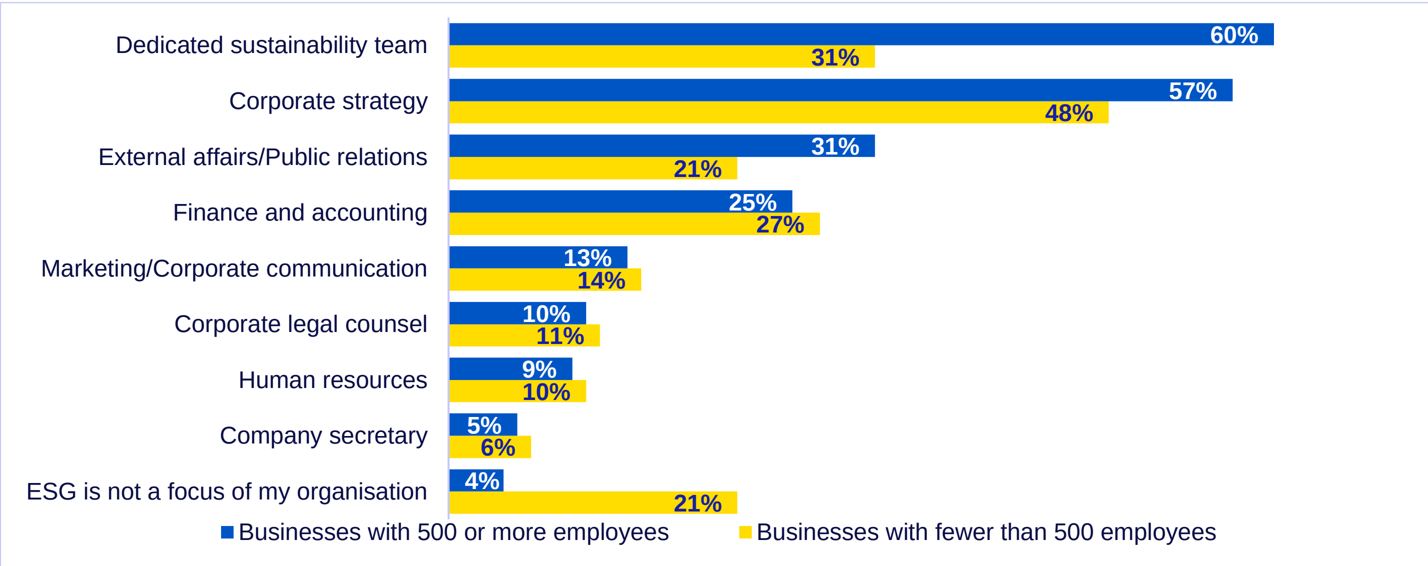


Figure 6 shows that their corporate strategy department or business unit (53 per cent) was most likely responsible for ESG at their organisation. Given that ESG adoption should be embedded into an organisation's business strategy, this is not an unexpected outcome. However, this potentially creates a risk that ESG decision making is too much of a top-down approach. That is, it has little tangible and practical application across the business. For example, in adopting a net-zero commitment, what implications does it have for the way offices operate, staff engagement and travel etc.

Further, it is encouraging to note almost half the respondents stated that a dedicated sustainability team was responsible for ESG practices for their organisation (47 per cent). The results also show that larger businesses were more likely to have a dedicated sustainability team to manage ESG adoption (60 per cent). This is expected given that larger businesses should have the economies of scale to establish a dedicated department for sustainability.

Larger businesses could also be required to publish sustainability reports and comply with various regulations which will be better managed by a sustainability team. Noting that any sustainability team is only as efficient as the business unit is embedded beside or working closely with.

While smaller businesses preferred their corporate strategy department to manage ESG adoption (48 per cent). Smaller businesses also were more likely to state that ESG is not a focus for their organisation (21 per cent of respondents).

Other findings

Out of all the markets surveyed, China had the most respondents who stated their organisation has a dedicated sustainability team (45 per cent).

Respondents from Hong Kong were the most likely to say that marketing and communications managed ESG (38 per cent). However, Hong Kong also had the highest number of respondents who stated that ESG is not a focus for their organisation (40 per cent).

Respondents from Australia were the most likely to say that corporate strategy was responsible for ESG adoption (47 per cent) followed by finance and accounting (31 per cent) and a dedicated sustainability team (25 per cent).

MANAGEMENT OF ESG RISKS

Figure 8. Top ESG risks

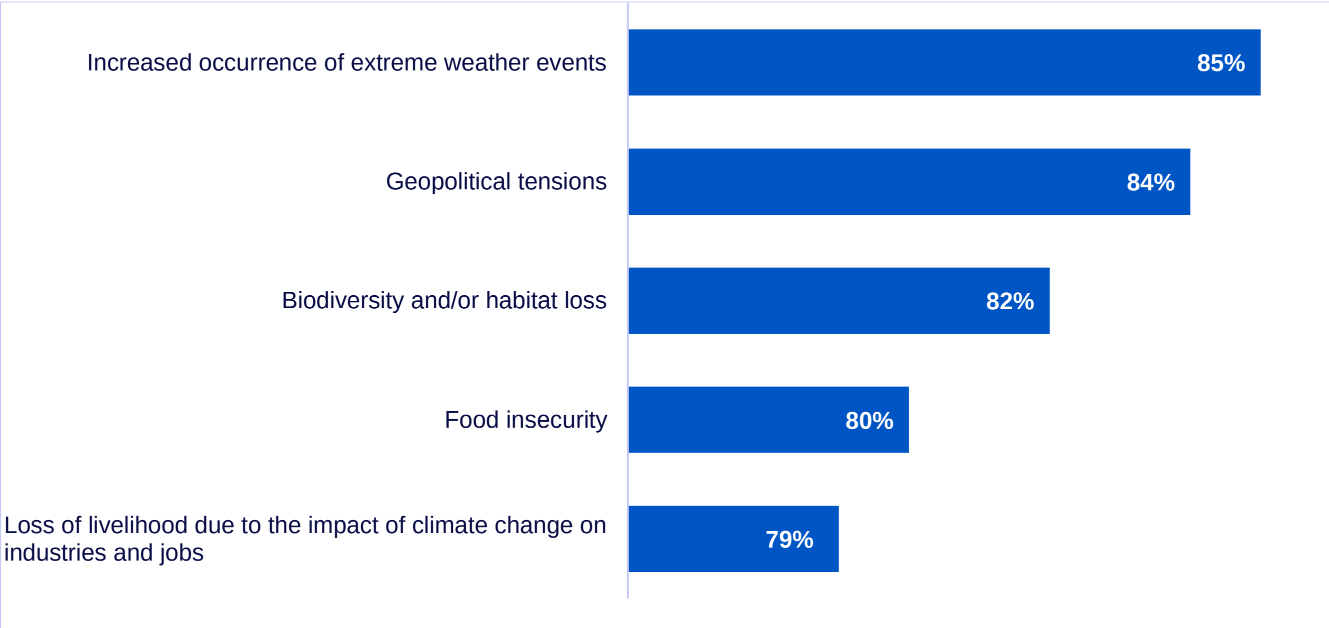
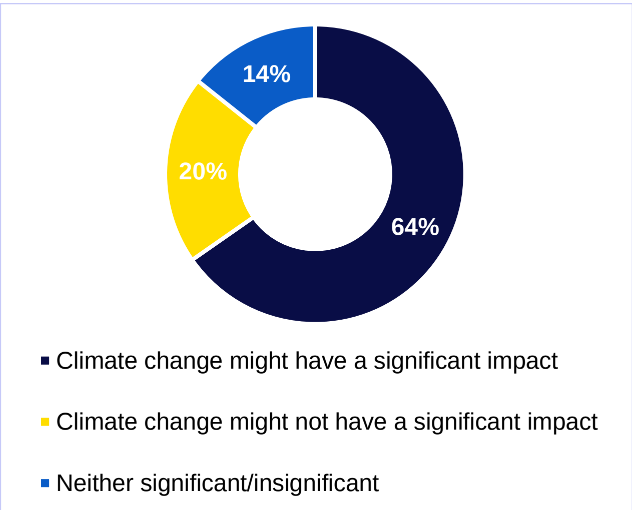
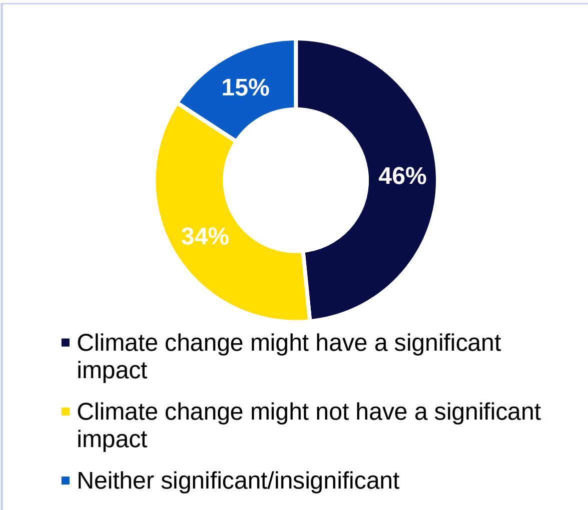


Figure 9. Impact of climate change on organisations

Businesses with 500 or more employees



Businesses with 500 or less employees



57 per cent of respondents stated that climate change might have a significant influence on their organisation's strategic decisions over the next 10 years.

Based on Figure 8, of the various risks surveyed, increased occurrence of extreme weather events (85 per cent) was the top risk identified by respondents. This result is consistent with the recent World Economic Forum Global Risks Report 2023.

Figure 9 shows that larger businesses were more likely to state that climate change will have an impact on their business (64 per cent) compared to smaller businesses (46 per cent).

This could be due to larger businesses being located globally or have extensive global supply chains. In this example, climate change could have a severe impact on an organisation's activities and future strategy should supply chains become affected. It could also be that smaller enterprises lack the capacity and time to fully understand / quantity the impact.

Other findings

Of the markets surveyed, China had the most respondents who stated that climate change might have a significant influence on their organisation's strategic decisions (27 per cent) compared to respondents from Singapore (9 per cent).

Respondents from China were most concerned about geopolitical tensions (88 per cent) followed by increased occurrence of extreme weather events (86 per cent).

Australian respondents were most concerned about the risk of food insecurity and geopolitical tensions (81 per cent), and least concerned about loss of livelihood and involuntary migration (62 per cent).

MARKET AWARENESS OF ESG REPORTING STANDARDS

Figure 10. Market awareness of ESG reporting standards

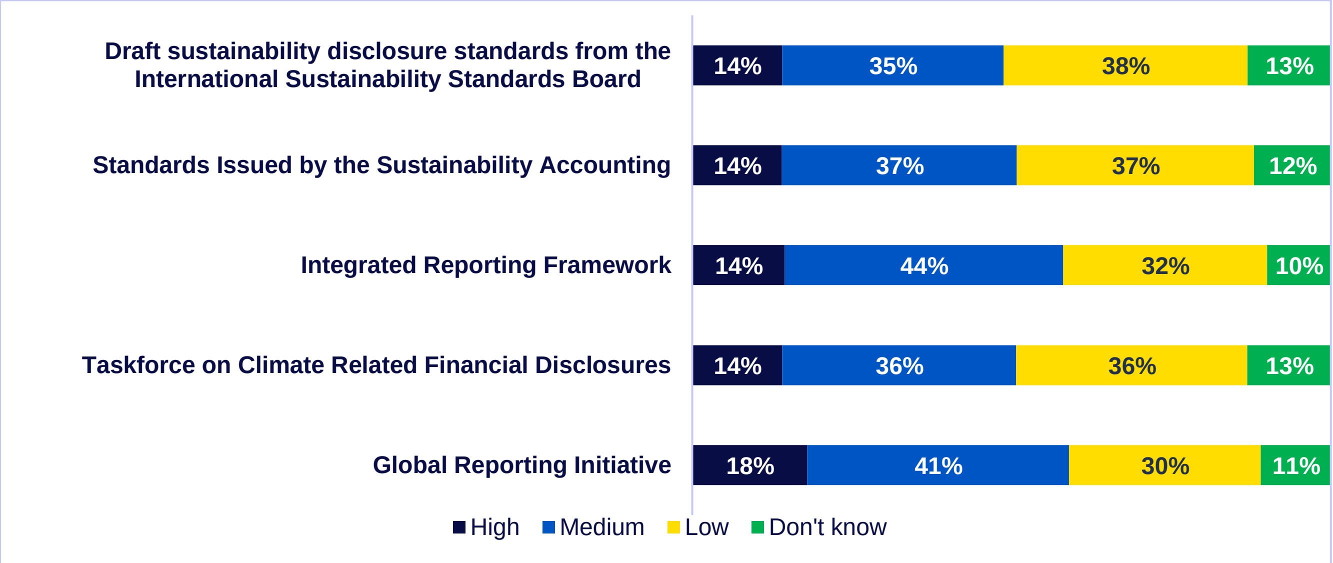


Figure 10 shows that the respondents are familiar with the various ESG reporting standards. The Global Reporting Initiative (GRI) had the highest level of market awareness across all markets.

The Integrated Reporting Framework had the next highest level of awareness. We can infer that GRI, and the Integrated Reporting Framework are the more common frameworks used by respondents for ESG reporting.

It's also encouraging to note that the level of market awareness for the recent draft standards from the International Sustainability Standards Board (ISSB) was on par with the other ESG frameworks.

However, the ISSB standards and the recommendations of the Task Force of Climate-related Disclosures (TCFD) have the least level of market awareness. As these two frameworks are somewhat new and advance, adoption of these frameworks may still be developing in many markets. We also note the ISSB and the GRI aligning workplans, which could potentially lead to a higher level of awareness globally.

Other findings

Respondents from China had the highest level of market awareness on standards issued by the Sustainability Accounting Board (SASB) (22 per cent).

Respondents from Australia had the highest level of market awareness of the Global Reporting Initiative (GRI) (35 per cent), while the ISSB was the lowest (24 per cent).

RECOMMENDATIONS

All businesses

- Define a starting point for you own ESG journey. This could be the result of an ongoing process of environmental scans and gap analyses or the adoption of a mechanism to identify risks and opportunities in a more holistic fashion.
- Develop a long-term strategy to embed ESG practices in your organisational strategy, business model, governance structures and risk management frameworks beyond the requirements of legislation (such as workplace health and safety).
- Build broader stakeholder awareness around your approach to ESG throughout the organisation's value chain focusing on the balance between economic resilience and environmental and societal wellbeing.
- Developing a robust and comprehensive change management plan to support organisational transformation and complementing each stage of the ESG journey.
- Adopt an integrated approach to embedding ESG in your organisation.
    - For some organisations this may mean having a dedicated sustainability team, which should work collaboratively with other business units to effectively drive the ESG agenda throughout the organisation.
    - Other organisations may enable their finance and accounting teams to embed ESG outcomes from the organisational strategy into KPIs and metrics. Consideration here should be paid to how such an approach will connect with the broader ESG strategy that the organisation has set for itself and how the team can work with the rest of the business, through for example the use of Finance Business Partners.

Large businesses

- Establish an organisational strategy to achieve specific focus areas such as net zero commitments and work collaboratively with the rest of the business to understand the true impacts of any resulting pathway.

- Avail yourself of established methodologies such as Scenario Analysis and stress testing to ascertain the true risk that considerations such as climate change poses to your organisations. Where industry scenarios don't exist, work with your peers to define systemic risks and measure the resilience of your own business model against such broader risks.
- Revisit your governance structure to ensure that ESG is addressed in a comprehensive fashion through structures such as your risk committee for example.
- Organisations should look to include ESG considerations as part of the performance metrics used for incentive payments and more directly to senior management compensation to drive ESG adoption throughout the organisation.

Small and medium businesses

- As businesses are looking to ensure their supply chains are ESG compliant, smaller businesses should seek professional advice to help formulate an ESG adoption strategy.
- Formulate practical approaches to ESG that will be both ambitious but cost effective. This could include revisiting the way that your own business operates, where it sources items such as office supplies, power, and water from and switching to suppliers that have verifiable ESG credentials.