

RSM UK | THE REAL ECONOMY

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

October | 2021



RESEARCH PAPER

Summary

Environmental, Social and Governance – more commonly known as ESG – is a hot topic. From businesses, to investors and consumers, the focus on ESG matters is becoming increasingly important.

So, what is ESG and why is it imperative that businesses should put it at the core of their organisational strategy?

At its most simple, ESG refers to three core pillars or principles used to measure and evaluate an organisation's sustainability.

- How a business interacts with and impacts the environment.
- How an organisation is governed.
- How a business interacts with society and how that translates into value.

ESG strategies are more than just a narrative or a tick box exercise. In properly considering and acting on the issues at the core of ESG, organisations help their long-term resilience and sustainability.

Earlier this year, RSM conducted research with members of the the RSM Middle Market Leadership Council to gain insight into how businesses are progressing with ESG strategies. In this report we explore the results with a focus on the state of ESG in the middle market and how businesses are embracing it.

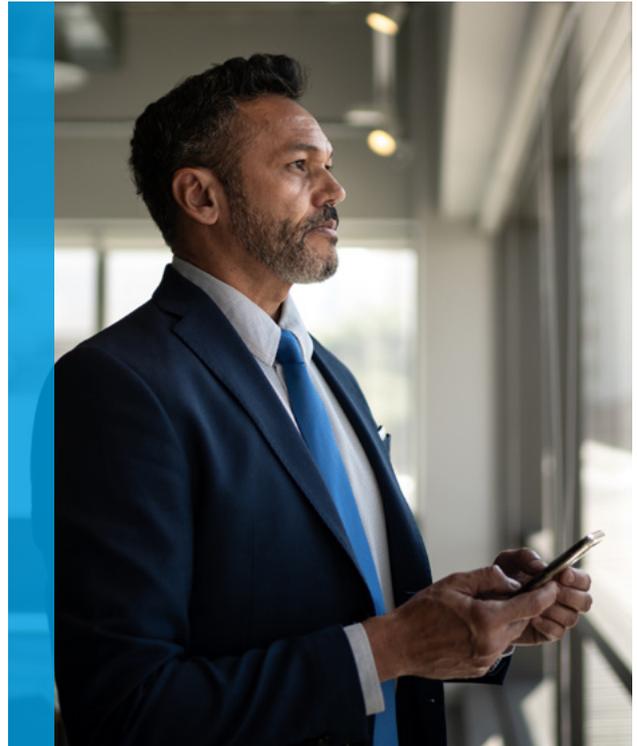
ESG in the middle market

It was surprising to us that only 56 per cent of those that we spoke to were familiar with the concept of using ESG criteria to evaluate the performance of organisations, businesses and/or investments.

This highlights the fact that there is still a large section of the middle market who are unfamiliar with the use of ESG within business, and who are not employing these strategies themselves.

Whilst we have seen a proportion of businesses who are unfamiliar with ESG, our research demonstrates that those who are familiar with it are taking significant action.

74 per cent of middle market businesses who are aware of ESG have formal (i.e, written) plans or strategies regarding their commitments to initiatives. So, what about the other 26 per cent?



74%

of middle market businesses who are aware of ESG have formal (i.e, written) plans or strategies regarding their commitments to ESG initiatives

Which of the following are reasons that your business does not have a formal ESG plan?

We have an informal plan/strategy

24%

The reasons we might need a formal plan aren't clear

20%

We are currently assessing the need for an ESG plan/strategy

17%

We are currently developing a formal ESG plan/strategy

16%

Other business goals have taken priority

8%

We don't feel a formal ESG plan/strategy is relevant to our industry

8%

We lack expertise internally about how to create a formal plan/strategy

6%

Many businesses are working with a less formal approach with a quarter of respondents saying they have an informal plan or strategy.

But for a small number of those businesses that don't have formal plans, there is a lack of clarity around the need for a plan and some feel that they don't have the right skills to create

an ESG strategy themselves. Whilst the numbers form a relatively small proportion of our overall responses, it is clear that more support is needed, especially for smaller businesses.

Of the businesses that do have formal plans in place, we asked for more detail on them.

Over two thirds of businesses who have a formal ESG strategy have a fully integrated plan which includes environmental and social commitments. A smaller, but still significant, number of businesses (57 per cent) have a dedicated senior executive whose primary responsibilities include establishing and achieving a vision for ESG.

Giving even more evidence to the fact that middle market businesses are embracing ESG, 96 per cent of our council familiar with ESG say that their business has committed to a corporate structure that incorporates social responsibility or environmental initiatives.

Which of the following best describes your ESG plan?

We have an ESG plan that includes all of our environmental and social commitments

68%

We have an ESG plan that includes some, but not all, of our environmental and social commitments

47%

We have a stand-alone social responsibility or social impact plan

29%

We have a stand-alone environmental plan

16%

Why are businesses embracing ESG?

There are many reasons businesses embrace ESG, but for those who are already doing so, what are their main motivations behind their actions?

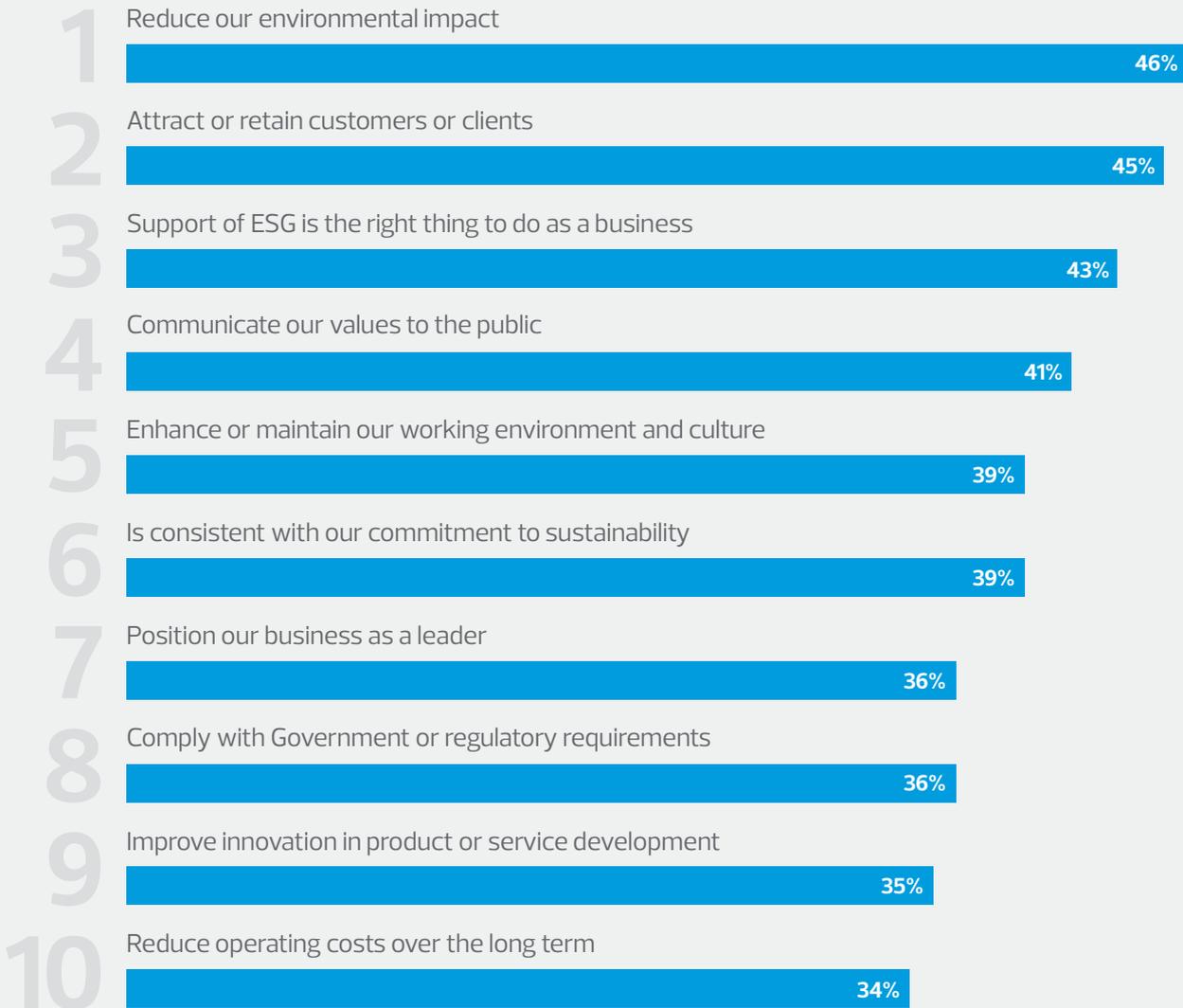
Of the respondents who are familiar with ESG, the top reason was to reduce their environmental impact, with almost half of respondents (46 per cent) selecting this option. Other responses in the top five were, 'supporting ESG is the right thing to do' (43 per cent) and 'support of ESG is consistent with our commitment to sustainability' (39 per cent.)

All these responses are in line with responsible business practices that we would hope to see linked to ESG.

Among the other responses in the top five, the perception of taking environmental and social issues seriously is seen as crucial for businesses with 45 per cent of respondents embracing initiatives, saying that ESG was important to 'attract or retrain customers or clients' and 41 per cent responding, 'to communicate our values to the public.'



Top 10 motivations businesses considered to embrace ESG initiatives



The implementation of ESG initiatives for reasons around the growth of the business were seen as less important motivations, with only 34 per cent of businesses responding, 'to reduce operating costs over the long term' and the same number selecting, 'reduce business risks and vulnerabilities.'

Yet this is where businesses potentially need to focus in order to improve the sustainability of their business.

How are businesses using ESG?

86%

use ESG measures to evaluate the performance of their own business, with a quarter doing so to a great extent

The use of metrics allows businesses to access their own exposure to a variety of ESG risks, as well as those of their clients, customers and suppliers.

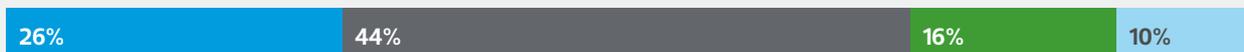
Of the businesses familiar with ESG, 86 per cent use measures to evaluate the performance of their own business, with a quarter doing so to a great extent.

A smaller amount – 75 per cent – use measures to evaluate the performance of other businesses with whom they interact.

Evaluating business performance using ESG measures

Does your business use ESG measures to evaluate **your** business's performance?

Yes, great extent
 Yes, some extent
 Yes, minor extent
 No



Does your business use ESG measures to evaluate **other** business's performance?

Yes, great extent
 Yes, some extent
 Yes, minor extent
 No





At present only some businesses are required to report externally on certain aspects of ESG, such as Gender Pay Gap, Modern Slavery or Energy and Carbon Reporting. But the landscape is changing, and businesses are starting to report on more than those required by regulation.

According to our research, 65 per cent of middle market businesses who use ESG strategies to evaluate their performance then report the data for an external audience. This number was consistent across businesses of all sizes, demonstrating that this goes beyond regulatory requirements.

However, it may not be as straightforward as it seems. In some areas of ESG, and especially the focus on environmental measures, there is no clear guidance to assist with external reporting, and with a wealth of different standards available to choose from means the results will vary from one business to another.

65%

of middle market businesses who use ESG strategies to evaluate their performance then report the data for an external audience

According to our research, the respondents who use ESG standards to support external reporting use nine different sets of reporting standards.

Whilst some companies only used one standard, many companies use multiple standards, with results showing an average of 3.2 per business. The difficulty then comes for anyone making comparisons between companies, as it is ineffective when not comparing like for like.



Which ESG standards does your business use for external ESG reporting?

Sustainable Development Goals (SDGs)

47%

World Economic Forum (WEF)

43%

SASB Standards (Sustainability Accounting Standards Board)

38%

GRI Standards (Global Reporting Initiative)

37%

Climate Disclosure Standards Board (CDSB)

35%

CDP Standards (Carbon Disclosure Project)

33%

IIRC Standards (International)

33%

Taskforce for Climate Related Financial Disclosures (TCFD)

31%

UN's Principles of Responsible Investment (PRI)

22%

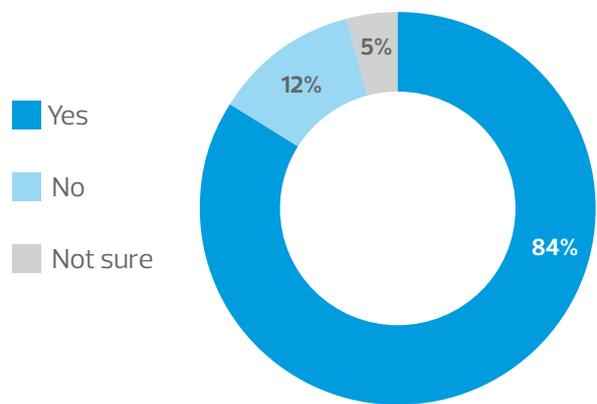
ESG and business sustainability

84 per cent of the members of our panel/council believe that their business's ESG policy contributes to the future sustainability of the business.

There is a good reason for this. Research shows that having a strong ESG policy woven in to the business strategy can contribute to long-term sustainability, with areas such as growth in top line performance, reduction of costs, and increase in productivity some of the key focus areas.

Business growth was the most relevant area for business's considering their ESG policy, with 84 per cent saying it was relevant or extremely relevant. Similarly 82 per cent of businesses felt that cost reduction was relevant to their ESG policy (47 per cent relevant and 34 per cent extremely relevant.)

Do you feel that your ESG policy contributes to the future sustainability of your business?



With so much focus on green finance, it is not surprising to see that 78 per cent of businesses consider investment decisions to be relevant when considering an ESG policy.

78%

of businesses consider investment decisions to be relevant when considering an ESG policy

How relevant are each of the following areas of business when considering your ESG policy?

■ Extremely relevant
 ■ Relevant
 ■ Somewhat relevant
 ■ Not at all relevant

Cost reduction



Business growth



Increased productivity



Investment decisions

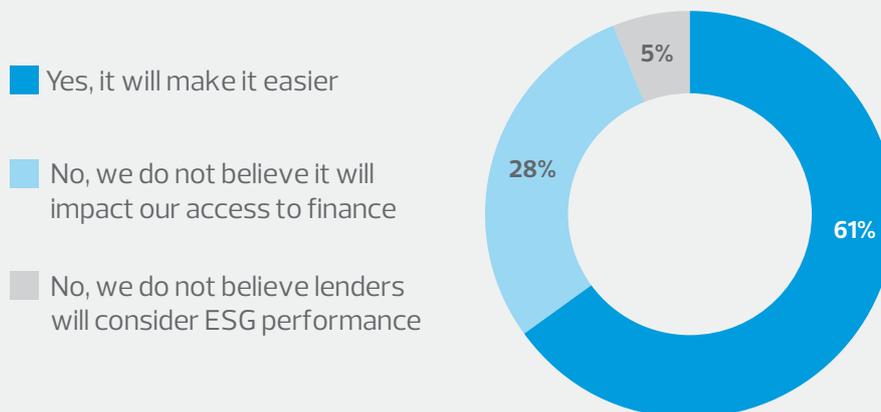


Access to finance

61 per cent of respondents who are familiar with ESG believe that having a successful ESG strategy will positively impact their business's access to finance within the next two years. This is not surprising as investors are increasingly factoring the ESG performance of businesses into their investment decisions. As a result, a business with a strong ESG policy that can be viewed externally will be better placed to gain access to funding when required.

For businesses that aren't quite there yet, many are taking steps to improve their ESG policies. 79 per cent of respondents said that they will be taking steps to improve ESG policies (36 per cent) or have already started to improve policies (43 per cent.)

Impact of ESG strategy on lending ability



*The additional 6% responded don't know

[Find more of our ESG insights here.](#)

Methodology

The research was carried out by The Harris Poll for RSM. 416 senior executives from UK middle market businesses defined as companies with a turnover between £10m and £750M or financial institutions with assets under management of £200m to £7.5bn were surveyed for the research.

Data for this survey was collected between 8 July and 28 July 2021. Information was collected by online survey or via telephone from 416 executives meeting the set criteria. All individuals qualified as executive level decision makers working across all regions and a brand range of industries. Responses have been weighted to ensure a true representation of the UK economy.

Chart percentages may not equal 100 per cent due to rounding.

Contact us



Mark Taylor

T: +44 (0) 7841 974994
mark.taylor@rsmuk.com



Simon Hart

T: +44 (0) 7949 231456
simon.hart@rsmuk.com

rsmuk.com

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