

Executive Outlook on the Future of ESG, 2032 and Beyond

Oxford-Protiviti Survey: Key Findings

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1

Introduction

This study concerns the integration of environmental, social, and governance (ESG) considerations in current and future processes of corporate and organisational decision-making. The origins of the modern ESG movement are typically traced back to the tumultuous period of the 1960s, when newly-emerging social forces at work, including environmentalism and anti-war activism, fuelled a fundamental change in the way society viewed faith, values, business, and commerce.¹ Initially, the nascent ESG approach was primarily associated with socially responsible investing, which took the form of “ethical funds,” screening “bad” companies (e.g., armaments, alcohol, and tobacco manufacturers; gambling activities; etc.) from the investment portfolios of concerned investors such as the Quakers and the Methodist Church.² Over the following decades, investors, including individuals, institutions, and companies, have moved from simply omitting or avoiding companies that operate in certain risky areas toward the creation of a new, more holistic, ESG financial investment framework.

A twin goal of the ESG strategy is to promote good governance and corporate accountability and to raise the role of business in fostering environmentally and socially sustainable growth and long-term human development.³ For the purposes of this survey, ESG refers to a number of closely-related trends, including corporate social responsibility, socially responsible investing, impact investing, financing for sustainable development, sustainable finance, climate finance, and so on.⁴ The business leaders responding to this current survey were aware of these trends, but they were asked to consider not only the environmental, social, and corporate governance changes they were making now, but critically, to use their knowledge and experience to place their organisation in 2032, and look beyond. For, arguably, the most important criterion for determining growth in ESG development worldwide is to what degree ESG becomes part of a mainstream business strategy.

¹ Park, J. (2016). Socially Responsible Investment (SRI). In R. C. Anderson (ed.), *Berkshire Encyclopedia of Sustainability* (Oxford reference). Great Barrington, Massachusetts: Berkshire Publishing Group.

² Berry, T. C. & Junkus, J. C. (2013). Socially Responsible Investing: An Investor Perspective, *Journal of Business Ethics* 112(4): 707-720; Lehner, O. M. (2016). *Routledge Handbook of Social and Sustainable Finance*. London: Routledge; Krosinsky, C. & Purdom, S. (eds). (2016). *Sustainable Investing: Revolutions in Theory and Practice*. London: Taylor & Francis.

³ Jeucken, M. (2001). *Sustainable Finance and Banking: The Financial Sector and The Future of The Planet*. London: Routledge; Paraque, B. & Pérez, R. (eds). (2016). *Finance Reconsidered: New Perspectives for A Responsible and Sustainable Finance*. Bingley, UK: Emerald Group.

⁴ Bugg-Levine, A. & Emerson, J. (2011). *Impact investing: Transforming How We Make Money While Making a Difference*. San Francisco: Jossey-Bass; *Innovations: Technology, Governance, Globalization* 6(3): 9-18; Fatemi, A. M. & Fooladi, I. J. (2013). Sustainable finance: A new paradigm. *Global Finance Journal* 24(2): 101-113; Panayotou, T. (1998). *Instruments of Change: Motivating and Financing Sustainable Development*. London: Earthscan; Schmidheiny, S. & Zorraquín, F. J. (1996). *Financing Change: The Financial Community, Eco-Efficiency, and Sustainable Development*. Cambridge, MA: MIT Press.

2

The Oxford-Protiviti Survey: Unpacking the methodology and research questions

To assess the present situation and to forecast the upcoming developments in this field over the next decade and beyond, the Executive Outlook on the Future of ESG has captured insights from 250 company board members, C-suite executives, and business leaders across North America, Europe, and the Asia-Pacific region. The survey participants represent a broad range of industries, which include both publicly and privately held organisations and asset management companies. Data, which were collected in June and July 2022, were obtained via one-on-one computer-assisted telephone interviewing (CATI). Participants were asked a series of questions about the future of ESG in 2032, compared to current practice, concerning their own organisations. Additional questions were asked about the size and location of their organisation, as well as their gender, age, and job title.

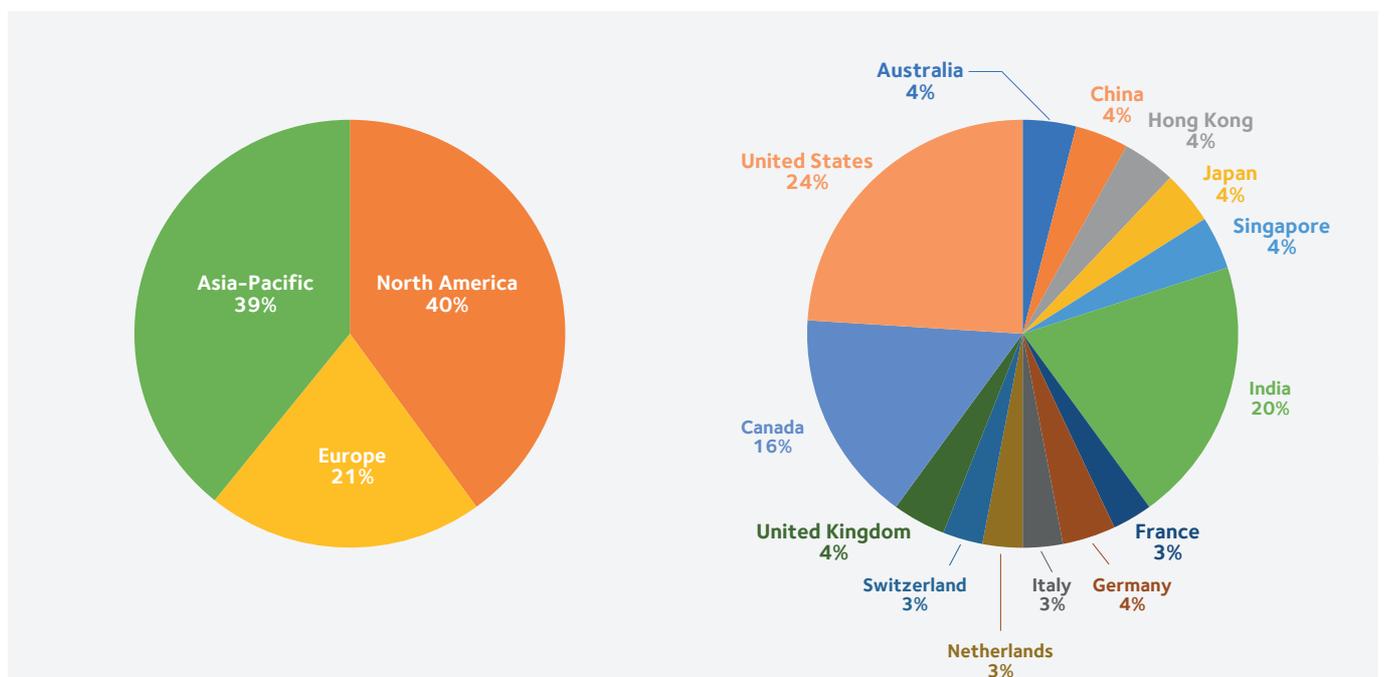
Following a series of introductory screening and demographic questions, the survey has put forward 20 core research questions in three groups. The first group focuses on the overall importance of the ESG framework to business practice. The second group of questions concerns environmental, social, and governance risks and opportunities, and the relevant agents of change. The third set of questions drills through individual environmental, social, and governance-related risks, as they are perceived both today and in a 10 years' time frame. All data were collected confidentially, and organisations and individuals were not disclosed.

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The Oxford-Protiviti Survey: Demographics

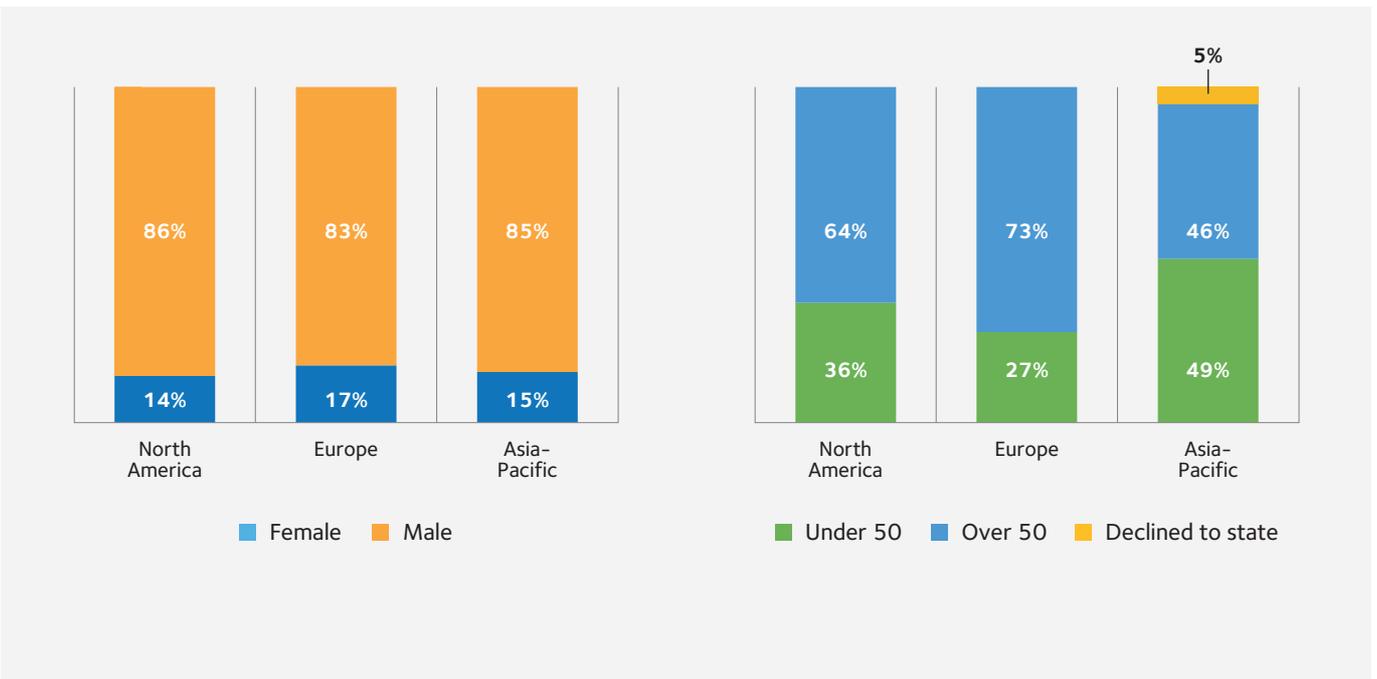
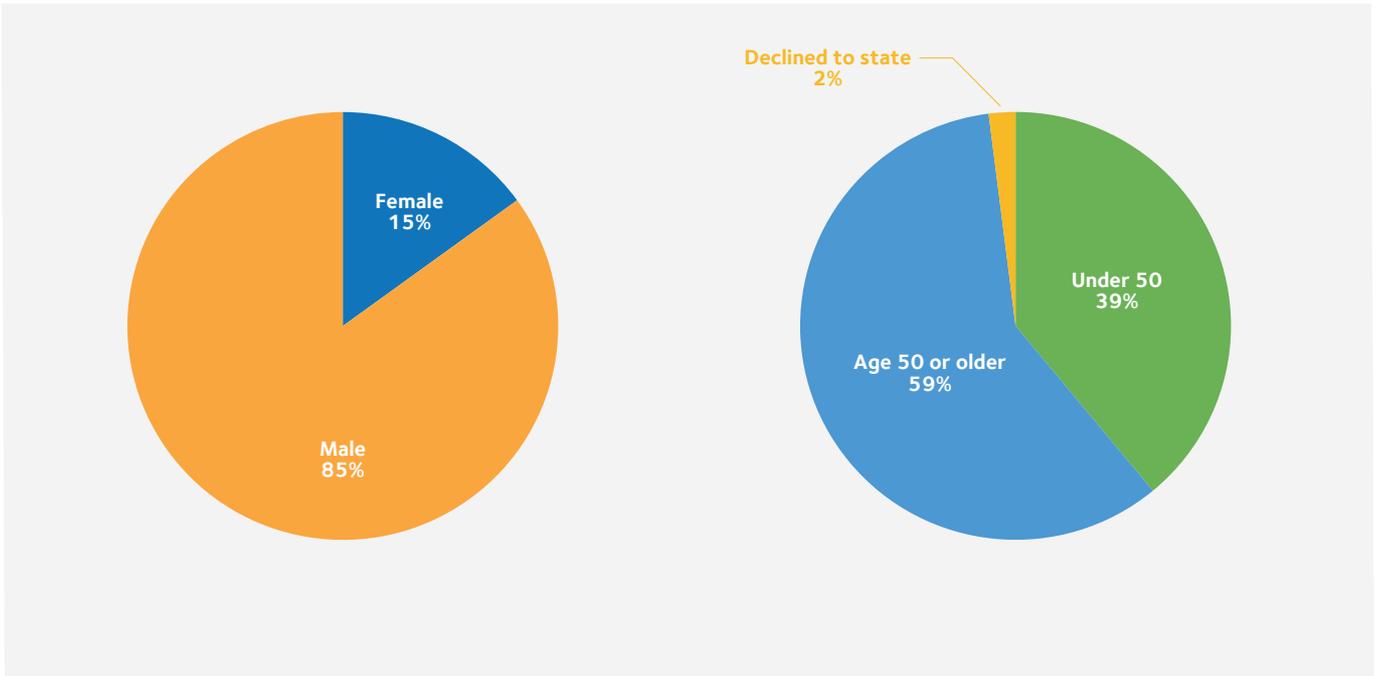
The total number of board members, C-suite executives, and business leaders surveyed was 250, of which 40% were located in North America; 39% in the Asia-Pacific region, and 21% in Europe. Country-wise, the largest representation of company headquarters covers the United States (24%), India (20%), and Canada (16%), with the rest of the countries included being distributed fairly evenly at 3% to 4% each. Overall, this research covers organisations headquartered in 14 countries and territories, with the aggregate population of 2.2 billion people, thus comprising almost 30% of the world's total population. The survey demographic results are summarised below.

In which part of the world and in which country is your company headquartered?

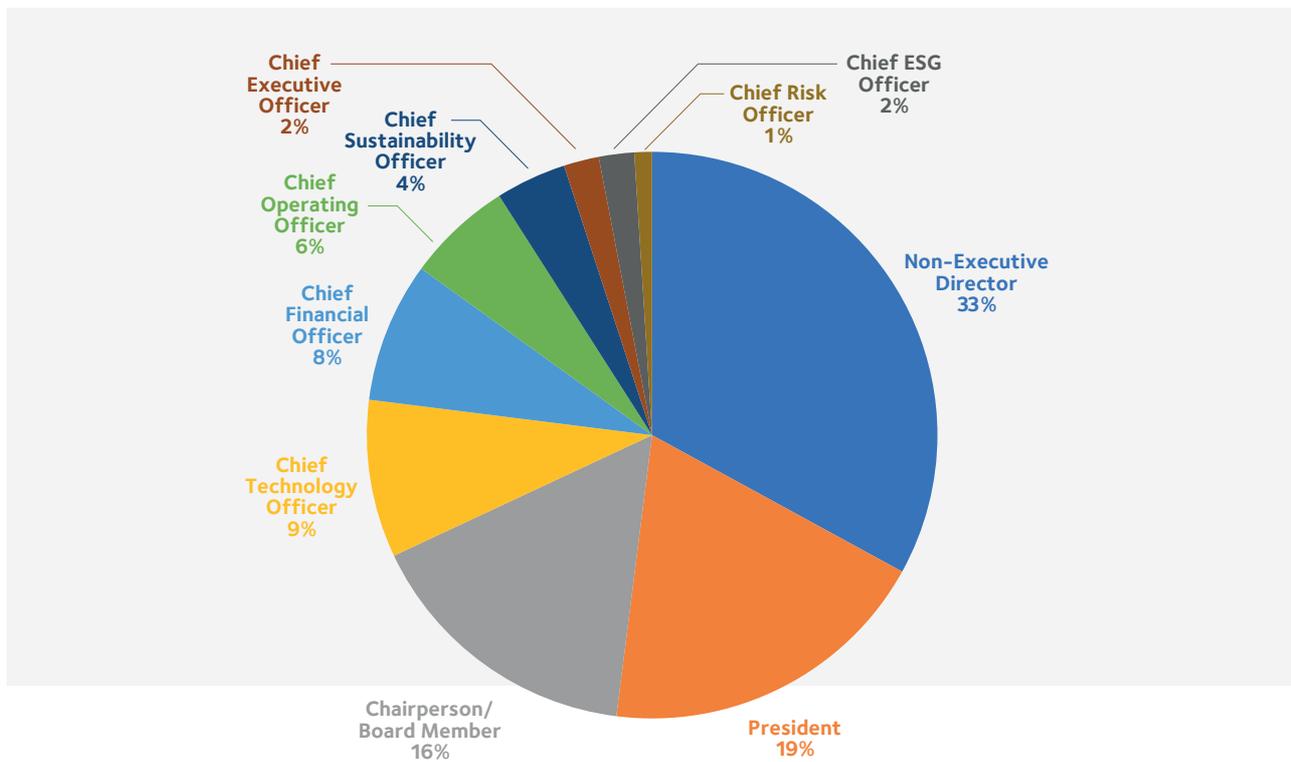


Survey participants' self-identified gender and age

Eighty-five per cent of the business leaders surveyed were male (15% female), with almost two-thirds being the age of 50 or older. The gender composition of the business leaders is almost identical across the three geographical regions surveyed. At the same time, while around a half of the C-suite executives in Asia-Pacific are under the age of 50, this younger cohort represents only 27% of the C-suite executives in Europe, with North America coming in at 36%.

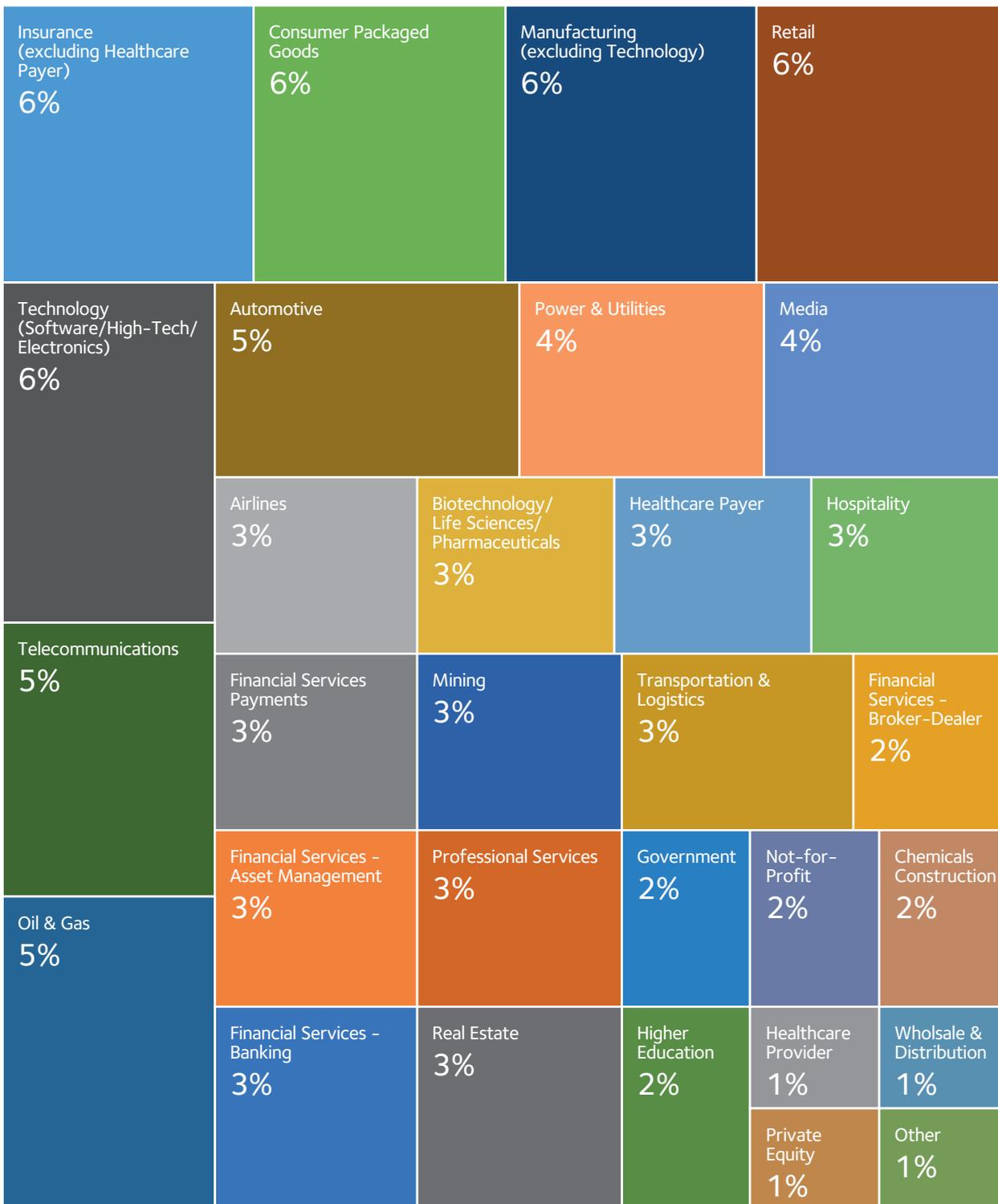


What is the title of the most significant / senior position you hold within your organisation?



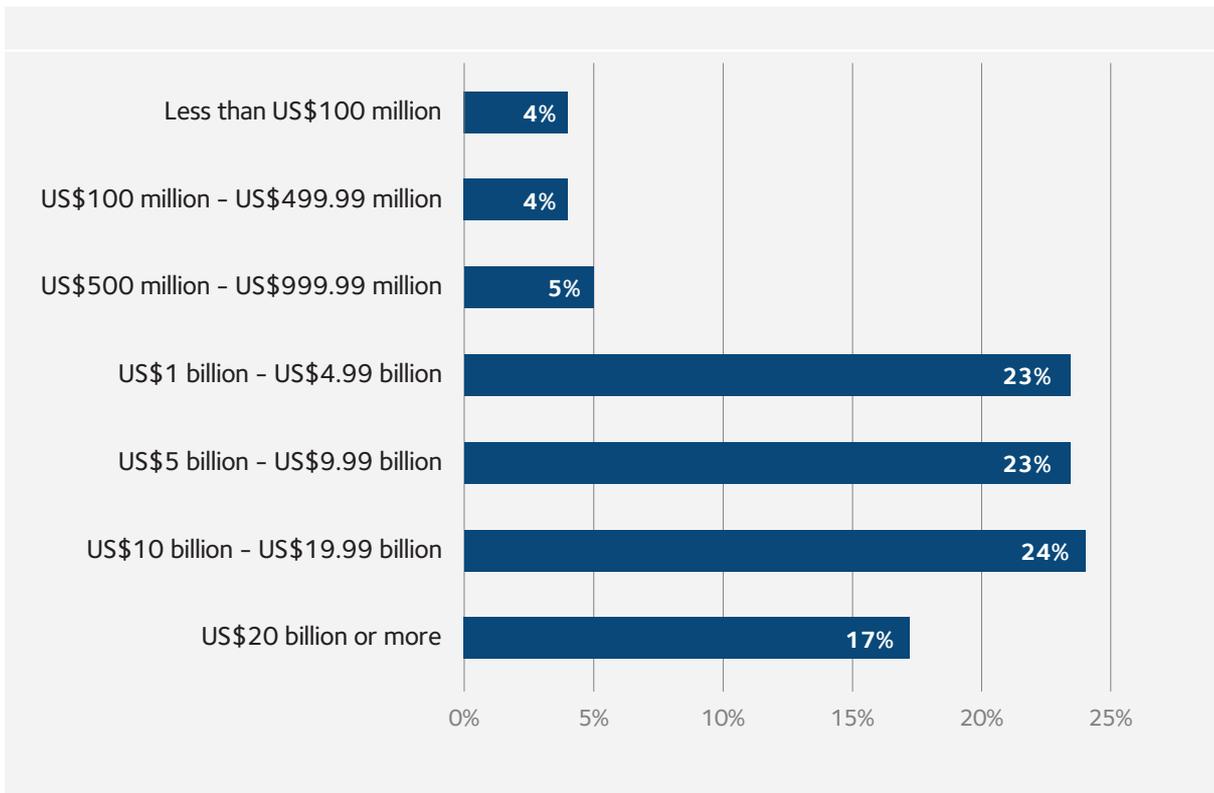
Over two-thirds of the business leaders surveyed occupied the company positions of Non-Executive Director, President, Chairperson, or Board Member. In terms of the primary economic activity of the companies surveyed, the most numerous representation comes from five branches with a 6% share each: Insurance (excluding Healthcare Payer), Consumer Packaged Goods, Manufacturing (excluding Technology), Retail, and Technology (Software / High-Tech / Electronics). At the bottom of the 31 industries surveyed, we find Healthcare Provider, Private Equity, Wholesale and Distribution, and Other, with a 1% share each, respectively.

What is your organisation's primary industry?

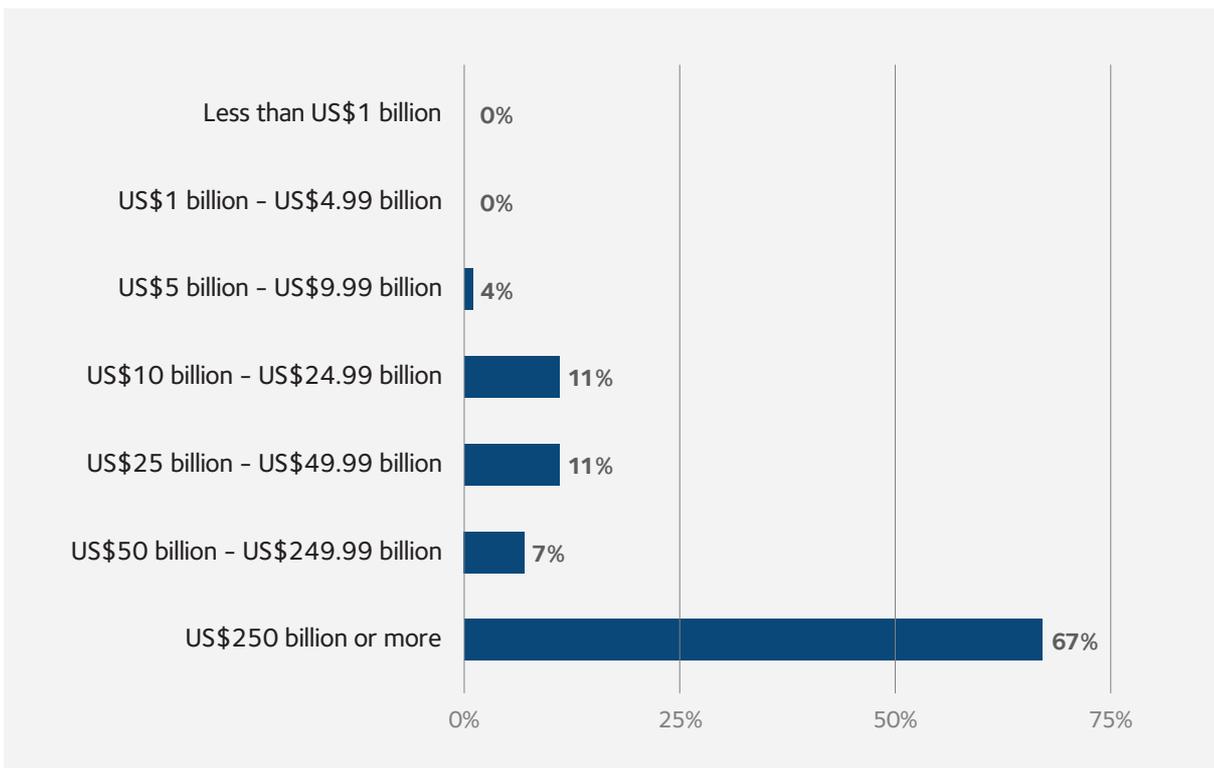


Seventy percent of the companies surveyed (excluding asset management firms) have annual gross revenue ranging from US\$1 billion to US\$20 billion; 17% of companies generate a gross revenue above US\$20 billion, while 9% of the firms are below US\$1 billion in size. For asset management companies (3% of the sample), over two-thirds manage US\$250 billion or more per year.

What is your organisation's size by gross revenue in U.S. dollars?



What is your organisation's size by assets under management in U.S. dollars? (Asset management companies only)



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Findings in brief: The global business perspective on the future of ESG to 2032 and beyond

The survey reveals the recognised importance of applying an ESG framework to business strategy and practice, but rather like responses to climate change, the immediate uptake of these new ways of working or investing is varied. The survey reveals a patchwork of engagement, most notably relative to geography and leaders' career stage.

Key points of evidence from the survey show:

- There is a notable difference between North American business leaders and their Asian-Pacific counterparts: While only 25% of North American respondents believe that ESG strategy will become extremely important by 2032, 71% of the respondents in the Asia-Pacific region trust that to be the case.
- Among all business leaders, 43% place environmental factors currently as the highest risk, 37% prioritised social factors, and just 20% are most worried about the risk posed by governance factors.
- Over 80% of business leaders surveyed believe that customer demands (42%) and regulatory requirements (39%) will be the main drivers of ESG strategy over the next 10 years, with public perception (13%) and employee expectations (6%) coming in a distant third and fourth place of importance, respectively.
- Among business leaders, 64% overall expect an increase in corporate spending on managing environmental risks in 10 years' time. However, the majority of North American executives (61%) trust that their company spending related to the environment will remain about the same or even decrease. Following this trend, over 80% of European and Asian-Pacific executives believe their corporate greenhouse gas emissions will decline by 2032, whereas 63% of North American business leaders expect them to remain about the same or increase.
- Only 7% of business leaders expect to significantly change their products and services in the future to minimise environmental impact—92% of respondents expect only moderate to slight changes to their product line and service offerings over the next decade.
- A 78% majority of business leaders believe that ESG reporting will become mandatory in 10 years' time, and a similar percentage expect that the costs of operational and compliance activities will have increased. This perception is prevalent amongst younger business leaders, and business leaders in Europe and the Asia-Pacific—62% of the global business leaders also expect the level of stakeholder engagement to have increased by 2032.

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Analysis: The overall importance of the ESG approach to business

The ESG approach to business practice is gradually becoming more mainstream, as a very high number of companies—almost three-quarters—reportedly have now established a dedicated ESG or sustainability post serving the corporate HQ. Internationally, European companies appear to be lagging somewhat behind, with one-third of the respondents having no dedicated ESG office holder as late as the summer of 2022 (Figure 1).

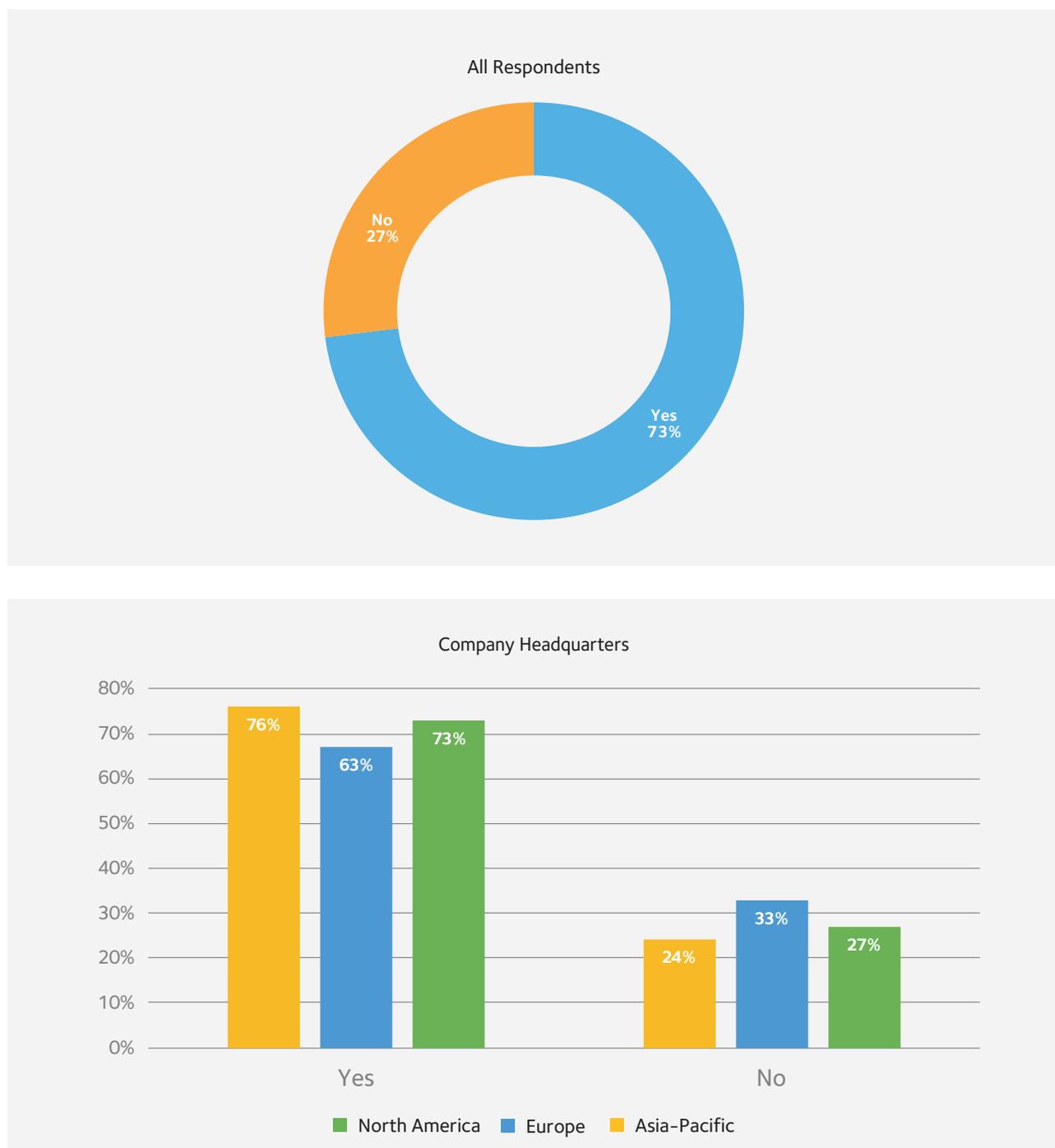


Figure 1. Does your company currently have a dedicated ESG or sustainability post?

In terms of the overall importance of ESG over the next 10 years, all business leaders surveyed have classified ESG as extremely or somewhat important to their future business success. Younger C-suite executives, those who are under 50 years old, are even more eager to make this recognition: 60% of them trust ESG will become extremely important over the next decade. At the same time, geographically, there is a notable chasm between North American business leaders and their European and Asia-Pacific counterparts: While only 25% of North American respondents believe ESG will become extremely important by 2032, 71% of the respondents in the Asia-Pacific region trust that to be the case (Figure 2).

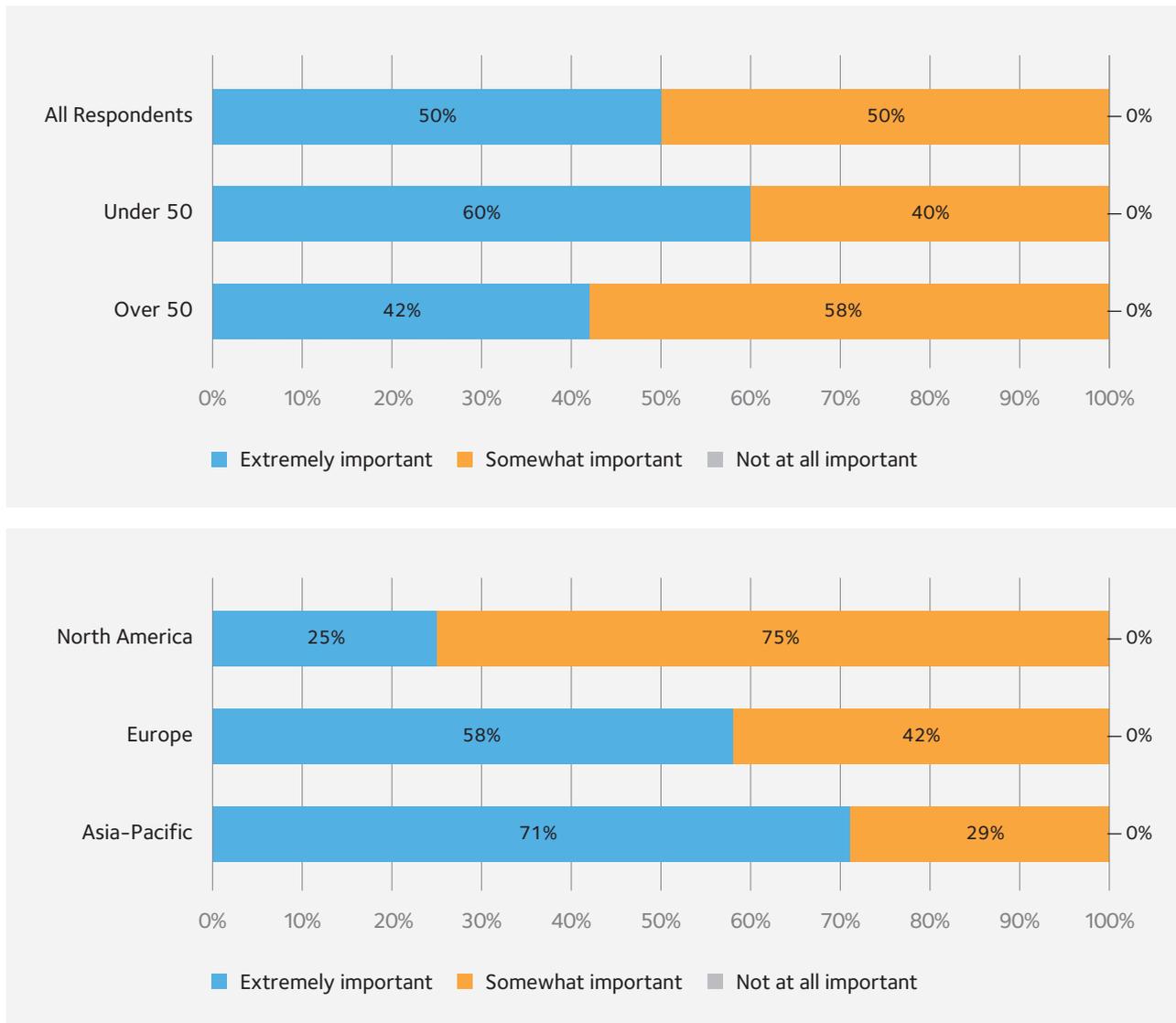


Figure 2. For a company like yours, how would you classify ESG in terms of its overall importance to your business success over the next 10 years?

The role of ESG in terms of its overall importance to corporate recruiting and retention efforts over the next 10 years is well recognised by 98% of the respondents. However, three-quarters of C-suite executives believe that role to be fairly moderate, with younger and Asia-Pacific business leaders expecting ESG to play a more important role for employee recruitment and retention (Figure 3).

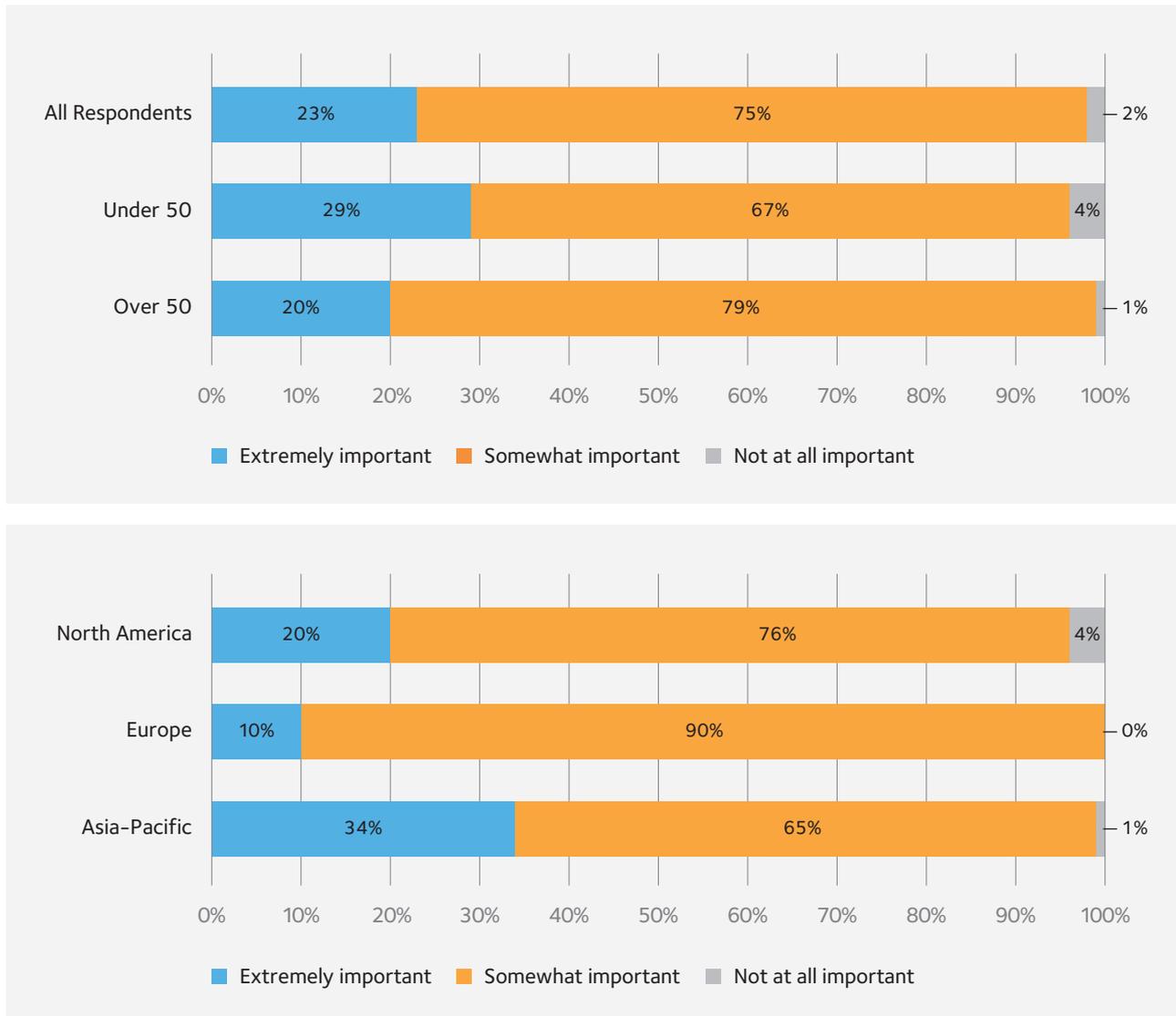


Figure 3. For a company like yours, how would you classify ESG in terms of its overall importance to your recruiting and retention efforts over the next 10 years?

6

Analysis: ESG risks, opportunities and drivers

Looking at the respondents' assessment of different types of risk currently facing their companies, 43% have put environmental factors as posing the highest risk, 37% have prioritised social factors, and 20% are most worried about the risk posed by governance factors. Younger C-suite executives are predominantly worried about social risks, whereas older business leaders' chief concern today lies with environmental factors. Geographically, environmental risks top the list of concerns in Europe and the Asia-Pacific region, whereas in North America, social risks come first (Figure 4). Whatever the respondent's age or geographical location, governance factors are considered to be the least risky amongst the three considered.



Figure 4. Rank the following factors according to the risk they pose from highest to lowest. For a company like yours, how would you assess the risk posed by environmental factors, social factors or governance factors? Shown: Percentage of respondents who ranked each factor first.

The role of ESG in terms of its overall importance to corporate recruiting and retention efforts over the next 10 years is well recognised by 98% of the respondents. However, three-quarters of C-suite executives believe that role to be fairly moderate, with younger and Asia-Pacific business leaders expecting ESG to play a more important role for employee recruitment and retention (Figure 5).



Figure 5. Rank the following factors according to the business opportunity they afford from highest to lowest. For a company like yours, how would you assess the opportunities afforded by environmental factors, social factors or governance factors? Shown: Percentage of respondents who ranked each factor first.

Research shows that the ESG approach to business practice over the decades has been driven by a number of competing forces, ranging from the pressure by institutional investors to demands from customers, behavioural expectations from one's own workforce, and as a public relations strategy for managing potential risks. Looking ahead, over 80% of the business leaders surveyed believe that customer demands (42%) and regulatory requirements (39%) will be the main drivers of ESG over the next 10 years, with public perception (13%) and employee expectations (6%) coming in a very distant third and fourth place of importance, respectively. The overall picture is driven by the respondents from North America and Europe, where regulatory requirements and customer demands rank firmly as the two main drivers of ESG. By contrast, in the Asia-Pacific region, it is not regulation but the public perception of one's company that will be the second most important driver of ESG over the next 10 years (Figure 6).

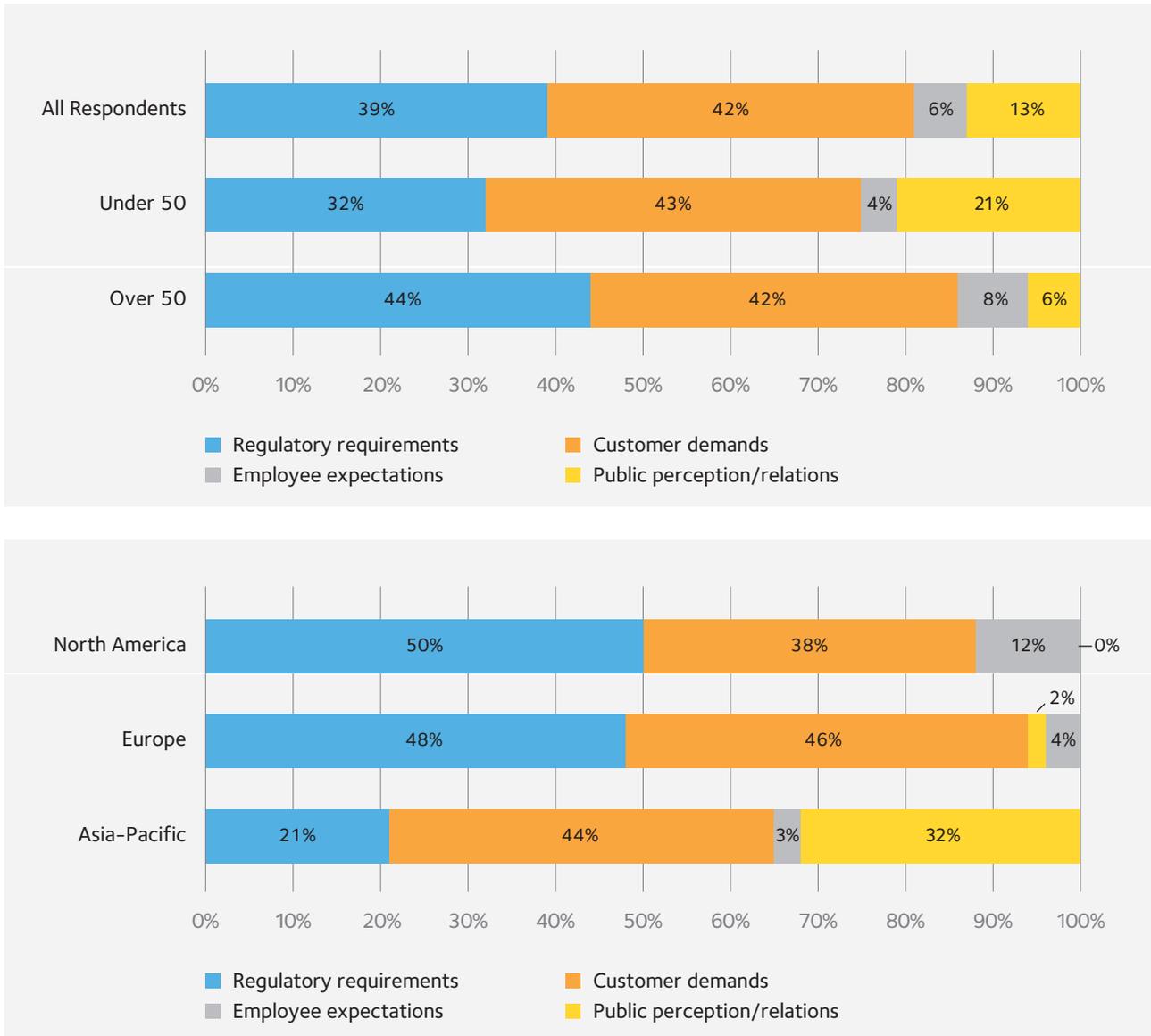


Figure 6. For a company like yours, what do you think will be the biggest drivers of ESG over the next 10 years? Rank from highest to lowest. Shown: Percentage of respondents who ranked each factor first.

7

Analysis: Environmental risks as the driver of change

The overwhelming majority of C-suite members (79%) believe environmental risks in the next 10 years will be moderate to low. The least concern about future environmental risks is reported by North American business leaders, only 7% of whom rank them as becoming extreme. By contrast, 34% of business leaders in the Asia-Pacific region rank future environmental risks as extreme (Figure 7).

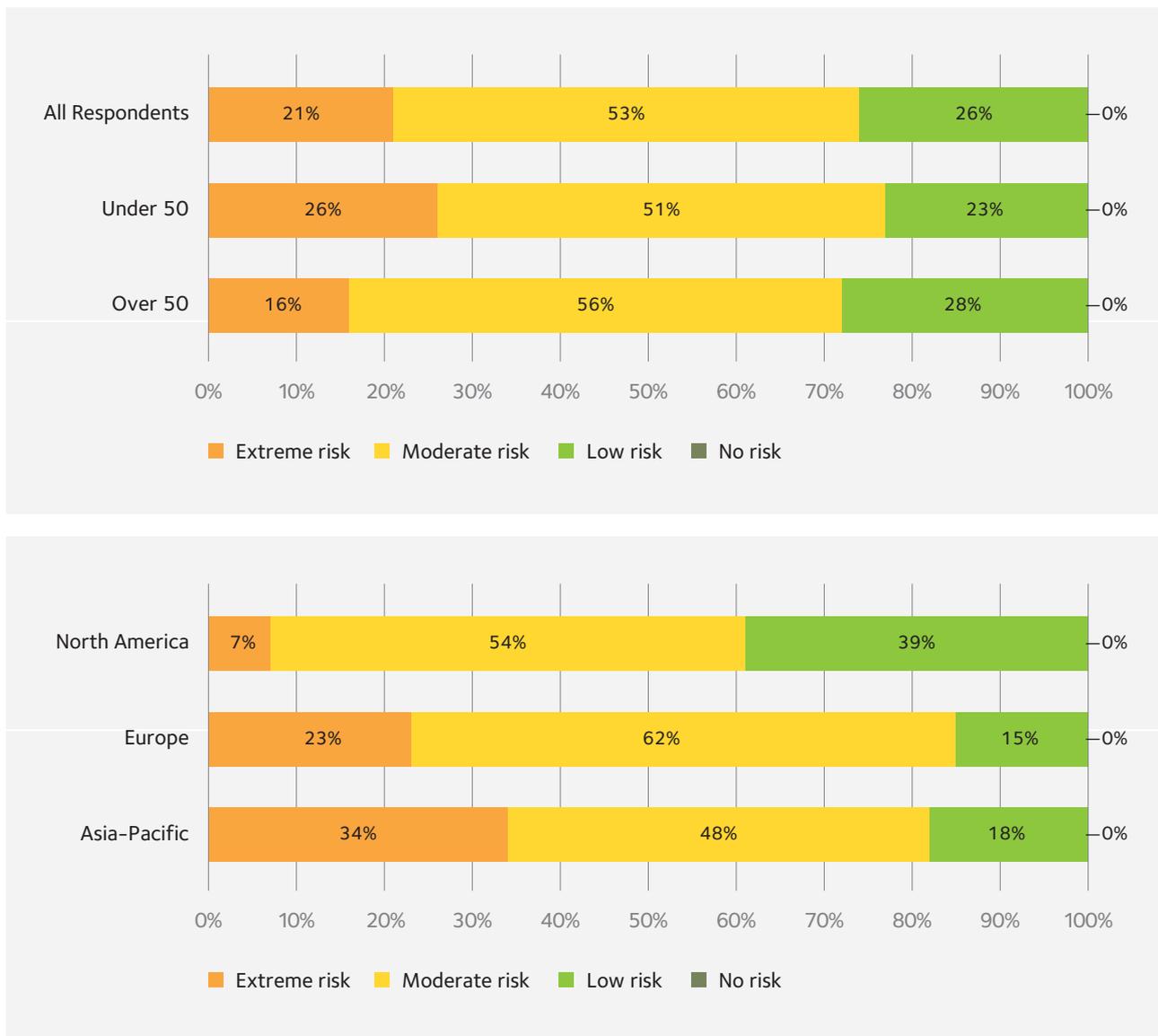


Figure 7. For a company like yours, how would you assess the future risk posed by environmental factors in 10 years' time?

Nevertheless, 64% of the respondents expect an increase in corporate spending on managing environmental risks in 10 years' time. As many as 70% of younger C-suite members, and 81% of business leaders from the Asia-Pacific region believe that future spending on managing environmental risks will increase. By contrast, the majority of North American board members and chief executives (61%) trust that in the future their company spending on the environment will remain about the same, or even decrease (Figure 8).

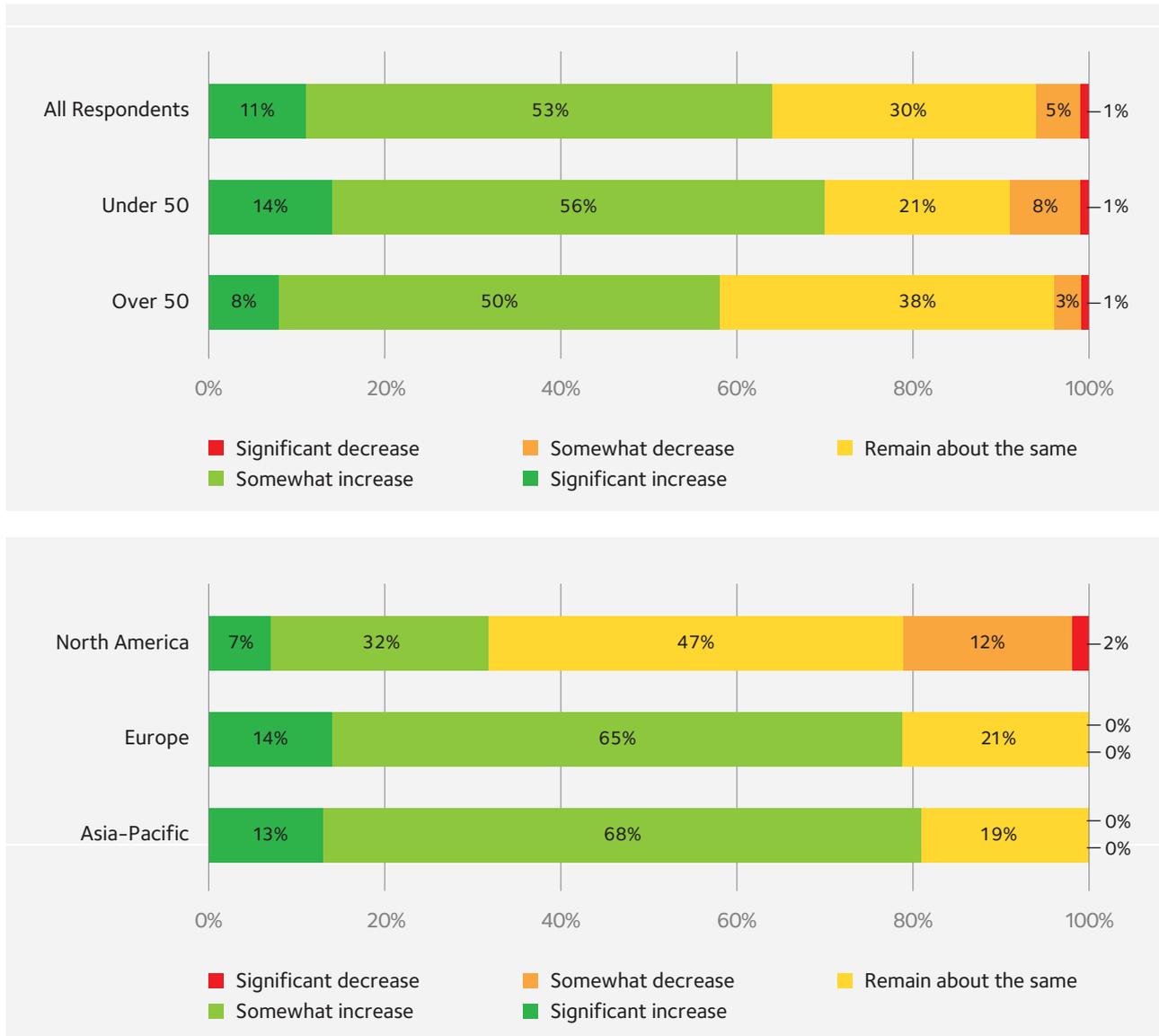


Figure 8. For a company like yours, how much change do you expect to see in spending on managing environmental risk in 10 years' time?

No significant changes to corporate organisational processes aimed at reducing the impact on the planet are expected in 10 years' time. The overwhelming majority of the business leaders surveyed (86%) are expecting any planet-saving changes to their organisation to be moderate to slight. The least amount of organizational change driven by ESG is expected by North American business leaders (Figure 9).

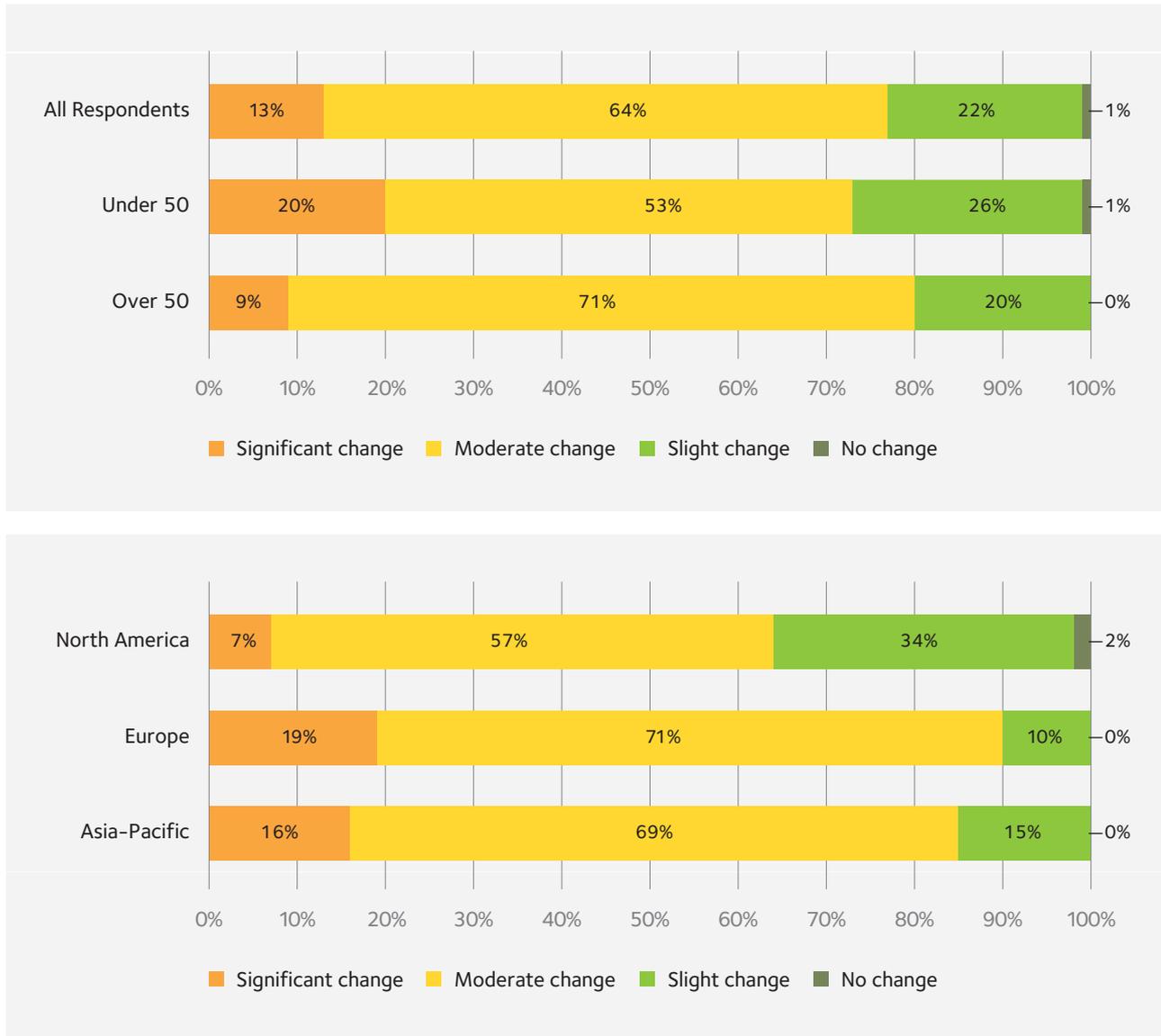


Figure 9. For a company like yours, how much do you expect your organisational processes will change in 10 years' time to reduce the impact on the planet?

The picture looks even more conventional in terms of introducing potential future changes to a company’s product or service line in order to reduce its impact on the planet, climate, and natural resources. Only 7% of business leaders expect a significant change in the future to their products and services aimed at minimising environmental impact. Ninety-two percent of respondents expect only moderate to slight changes to their product line and service offering over the next 10 years, with the responses being fairly consistent across the survey’s age and geographical breakdowns (Figure 10).



Figure 10. For a company like yours, how much do you think your product and service offerings will have changed to reduce your impact on the planet/climate/resources?

A much more tangible change is expected by global business leaders in terms of their planned emissions reductions: 66% of companies expect their emissions to decrease over the next 10 years, with even more ambitious targets being set by younger C-suite executives. A chasm in expectations, however, has been identified between North American compared to European and Asian-Pacific board members and chief executives: While 81% to 88% of European and Asian-Pacific CEOs, respectively, believe their corporate emissions will decline by 2032, 63% of North American CEOs expect the emissions to remain about the same or even grow in the future (Figure 11).

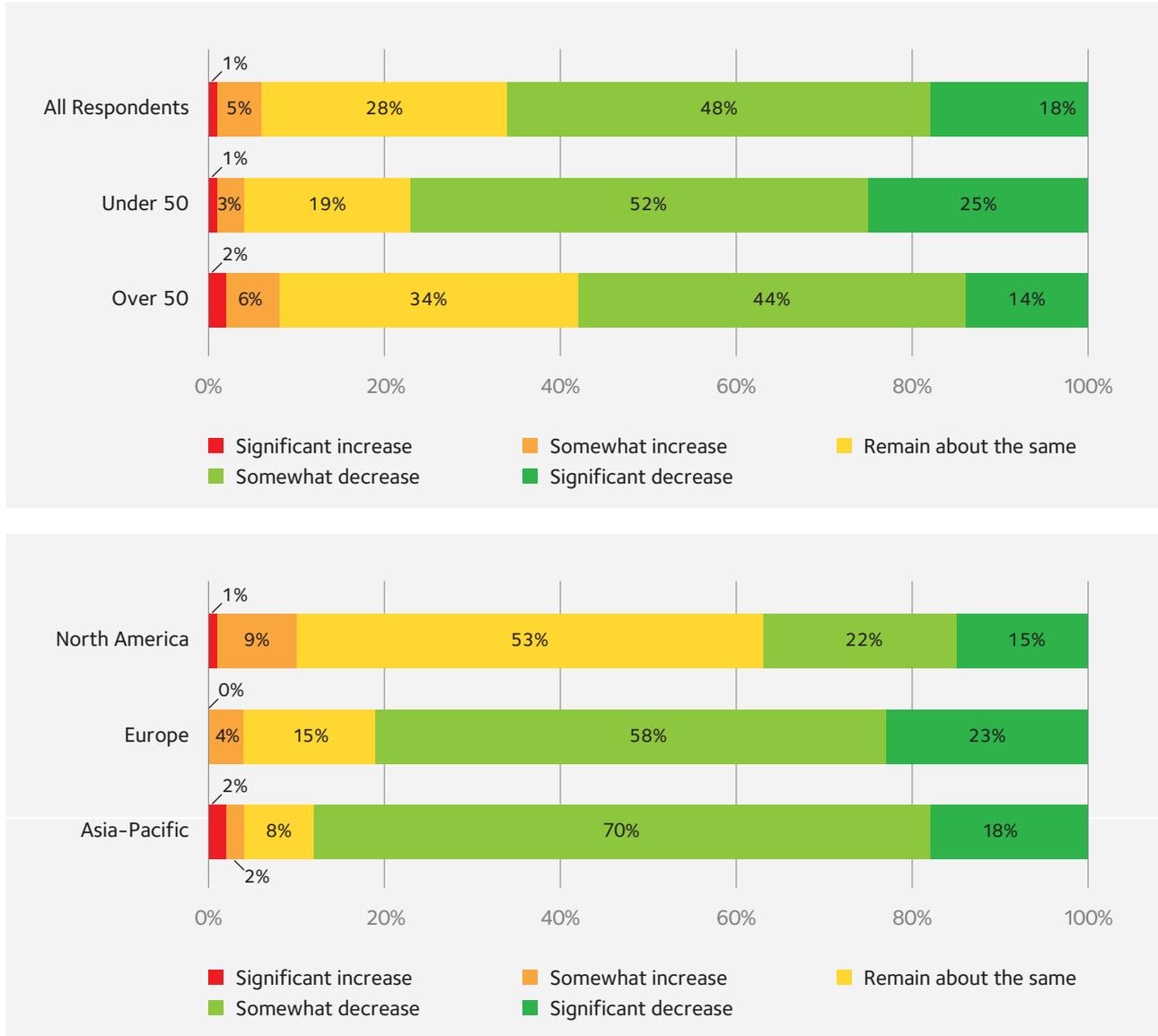


Figure 11. For a company like yours, how much do you expect the emissions produced by your organisation to change in 10 years' time?

8

Analysis: Social risks as the driver of change

The future risk posed by social factors is ranked as being moderate to low by around 9 in 10 of the business leaders surveyed, with a slightly higher risk being attributed to social factors in Europe and Asia-Pacific (Figure 12). As reported above, C-suite executives and board members rank the future risk posed by social factors lower than environmental risks.

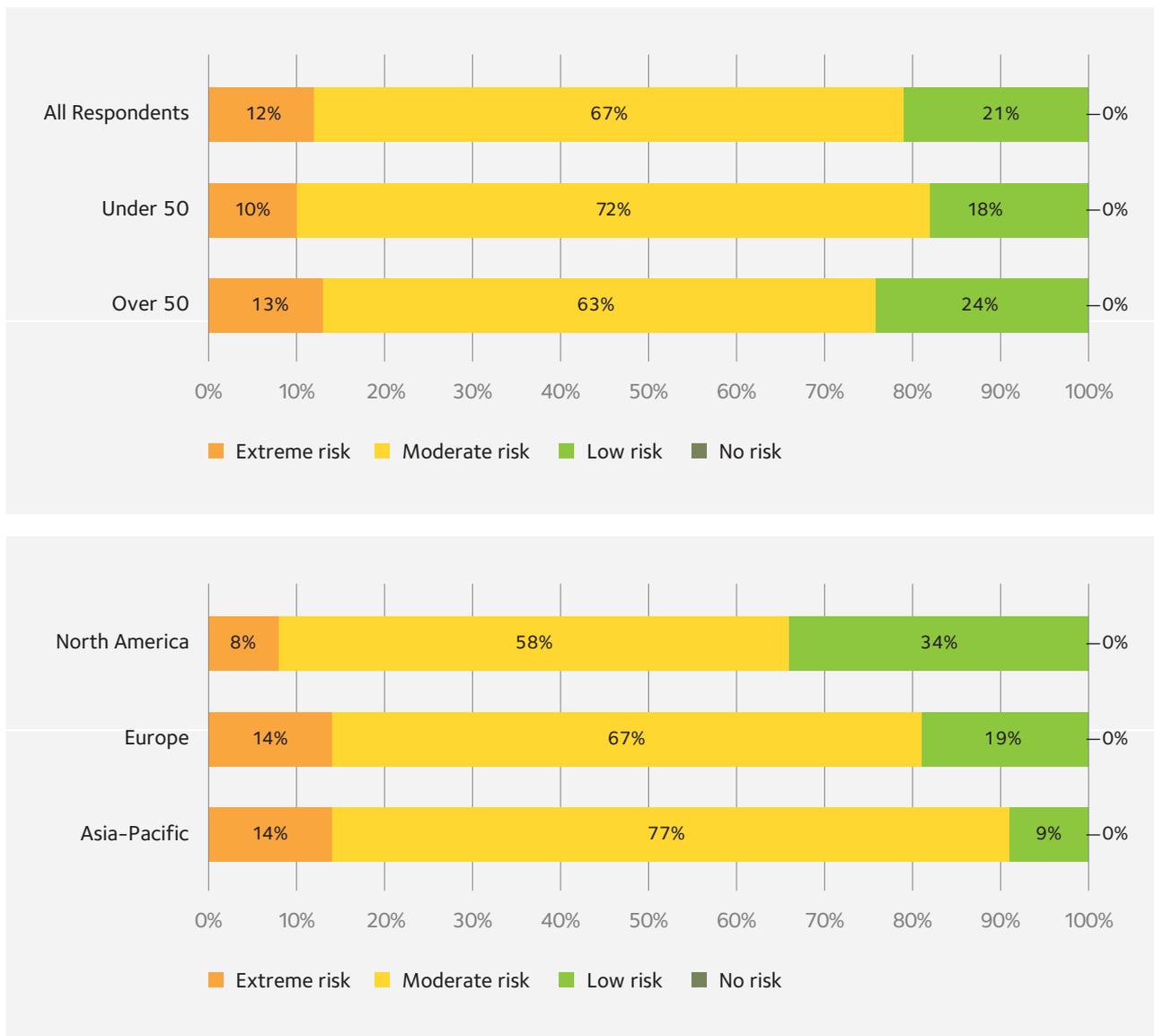


Figure 12. For a company like yours, how would you assess the future risk posed by social factors in 10 years' time?

The predominantly moderate to low perception of the future social risk factor reported above is reflected in the global business leaders' moderate to low levels of concern about how their Corporate Social Responsibility (CSR) practices and policies and public perception will have an impact upon their customers, clients and consumers. At the same time, 19% of business leaders are extremely concerned about their CSR public perception amongst customers, clients and consumers, with 23% of younger CEOs being extremely concerned. This figure is even higher (31%) amongst Asia-Pacific C-suite executives (Figure 13).

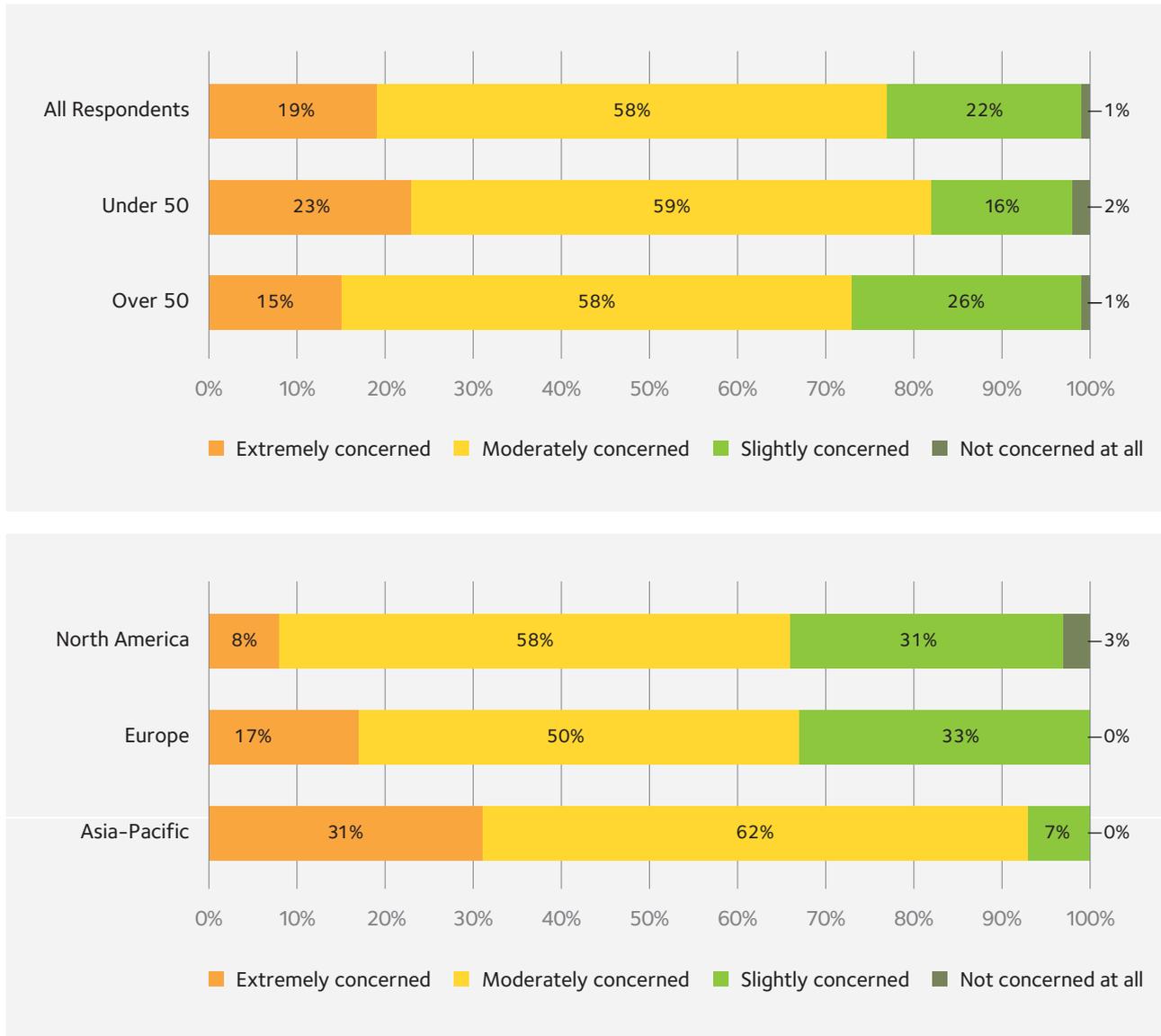


Figure 13. For a company like yours, how concerned are you about how your Corporate Social Responsibility practices and policies and public perception will impact your customers, clients and consumers?

Given the growing concerns about organisational CSR policies and their public perception by clients, most companies have altered their CSR objectives toward more pressing areas of public interest. When it comes to social responsibility, over the next decade, most companies will be focusing on diversity equity and inclusion, and on human rights as the two chief CSR priorities. Notably, both younger and older business leaders share these priorities. The main geographical difference lies between North America, where in addition to diversity, equity, and inclusion coming as a primary priority, CSR will also focus on data privacy as secondary, rather than on human rights, as in Europe and Asia-Pacific (Figure 14).

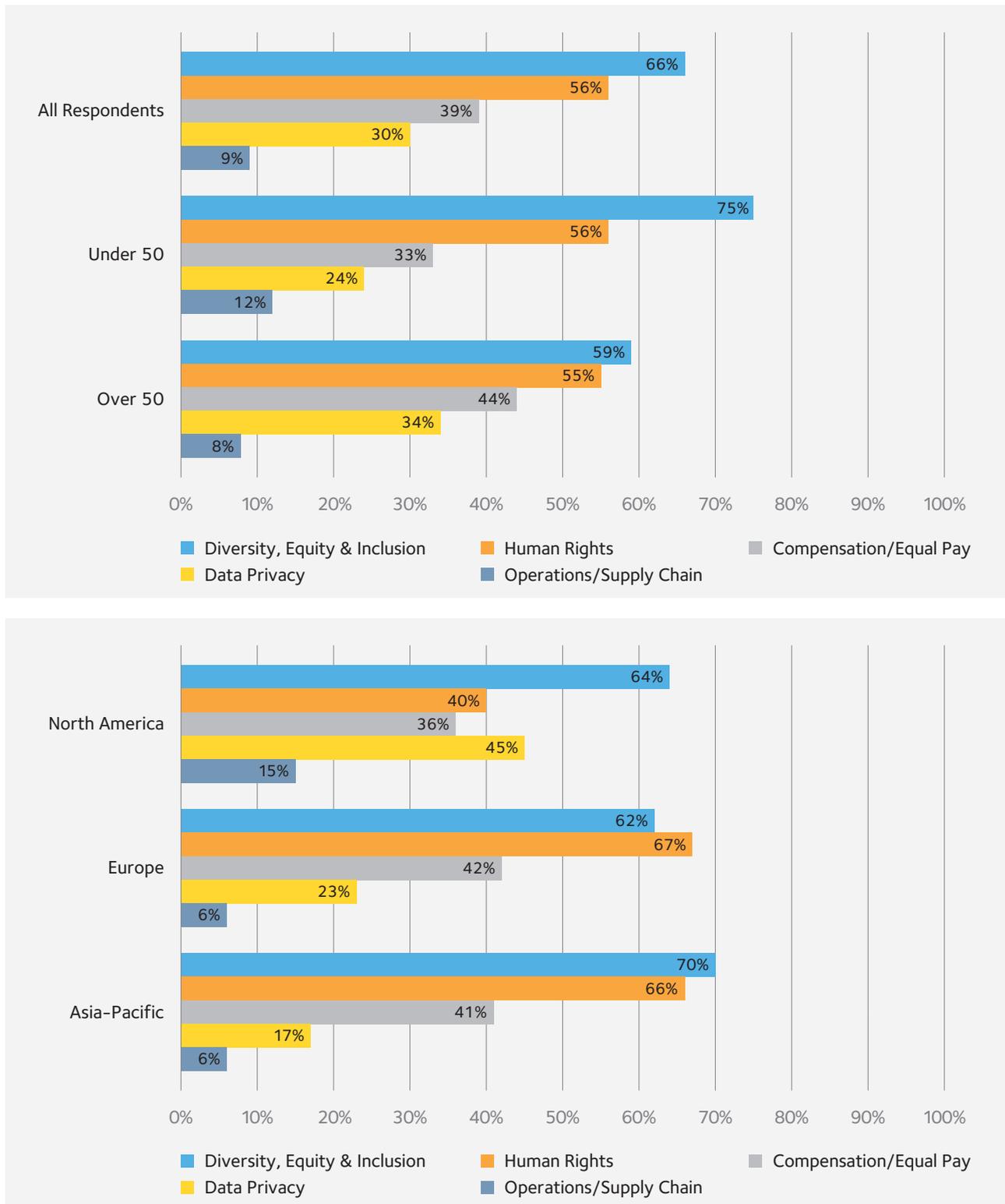


Figure 14. When it comes to social responsibility, which two of the following areas will your organisation be most focused on in 10 years' time?

Almost all corporate executives believe that their CSR objectives will not be undergoing much change: 94% of the respondents expect their CSR to be changing only moderately or slightly. Whatever the age or geographical location, 6% at most expect their organisational CSR objectives to be radically different in 2032 (Figure 15). Hence, it is highly likely that organisational CSR as practised by global business leaders will maintain the following sequence of priorities: 1) Diversity, Equity, and Inclusion; 2) Human Rights; 3) Compensation and Equal Pay; 4) Data Privacy; and 5) Operations and Supply Chain Issues.

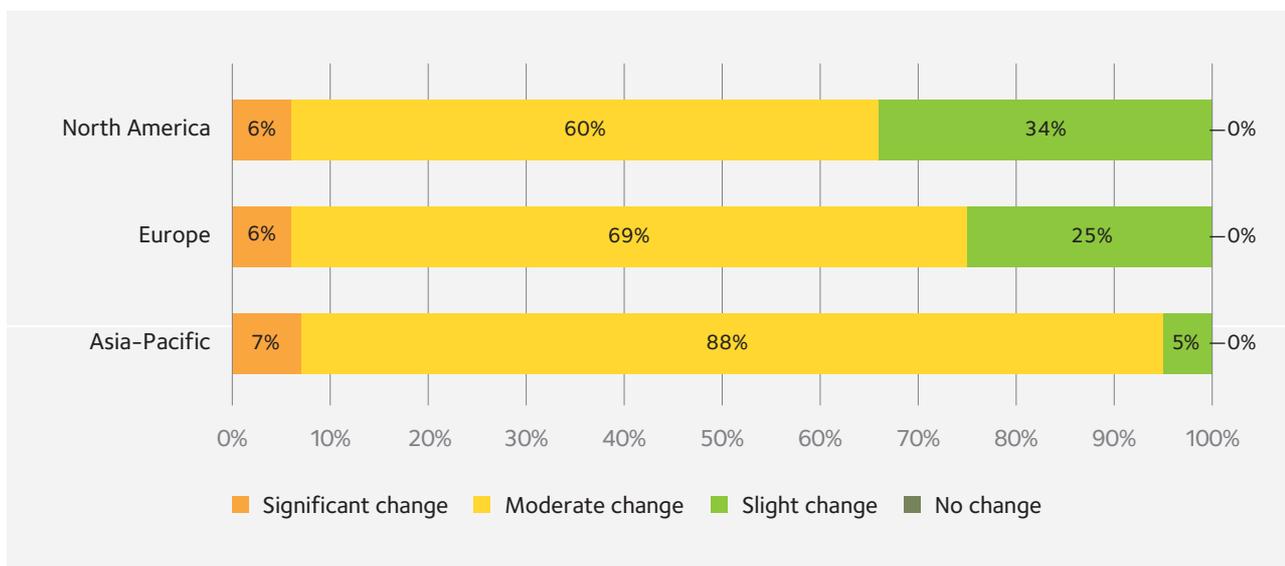
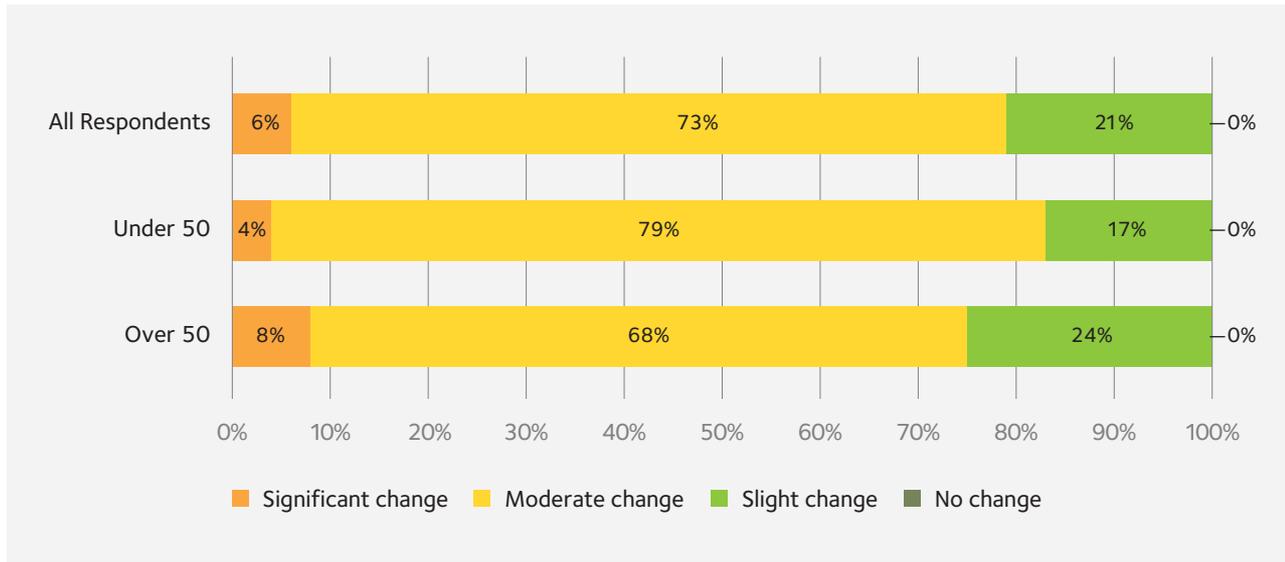


Figure 15. For a company like yours, how much do you think your organisational Corporate Social Responsibility objectives will have changed in 10 years' time?

9

Analysis: Regulation and governmental risks as the driver of change

The future risk posed by governance factors is believed to become extreme in 10 years' time by only 7% of the board members and C-suite executives surveyed, in comparison with 21% of the business leaders who trust environmental factors will pose extreme risk, and 12%, who trust social risks will become extreme by 2032. North American companies are relatively more relaxed about future governance risks, but the responses from different age and geographical demographic cohorts appear to be fairly consistent in assessing such risk as moderate to low (Figure 16).



Figure 16. For a company like yours, how would you assess the future risk posed by governance factors in 10 years' time?

At the same time, 78% of the business leaders believe that ESG reporting will become mandatory in 10 years' time. Importantly, most of the respondents (42% in total) consider this development to be extremely likely. This perception of forthcoming regulatory change is prevalent amongst younger business leaders, and the top managers and owners in Europe and the Asia-Pacific. Only in North America, the majority of board members and C-suite executives (51%) believe ESG reporting will continue to be a voluntary exercise (Figure 17).

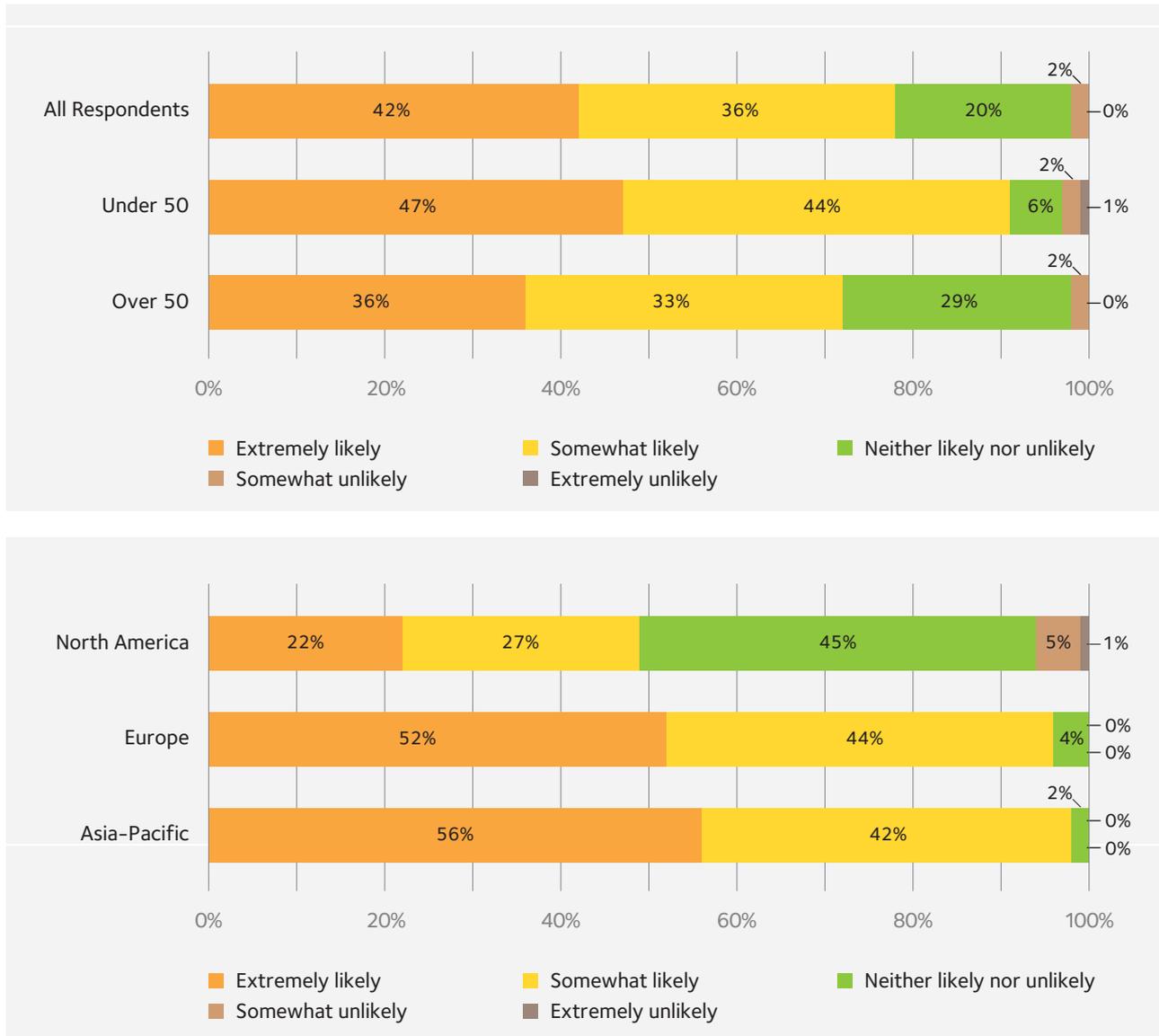


Figure 17. How likely do you think it is that ESG reporting will become mandatory in 10 years' time?

Alongside the anticipated regulatory requirements of mandatory ESG reporting in the future, the majority (71%) of the global business leaders expect the costs of ESG operational and compliance activities to have increased over the next decade. Across the three different regions, half of the respondents in North America expect ESG compliance costs to rise, whereas in Europe and Asia-Pacific these figures are even higher, reaching 81% and 88%, respectively (Figure 18).

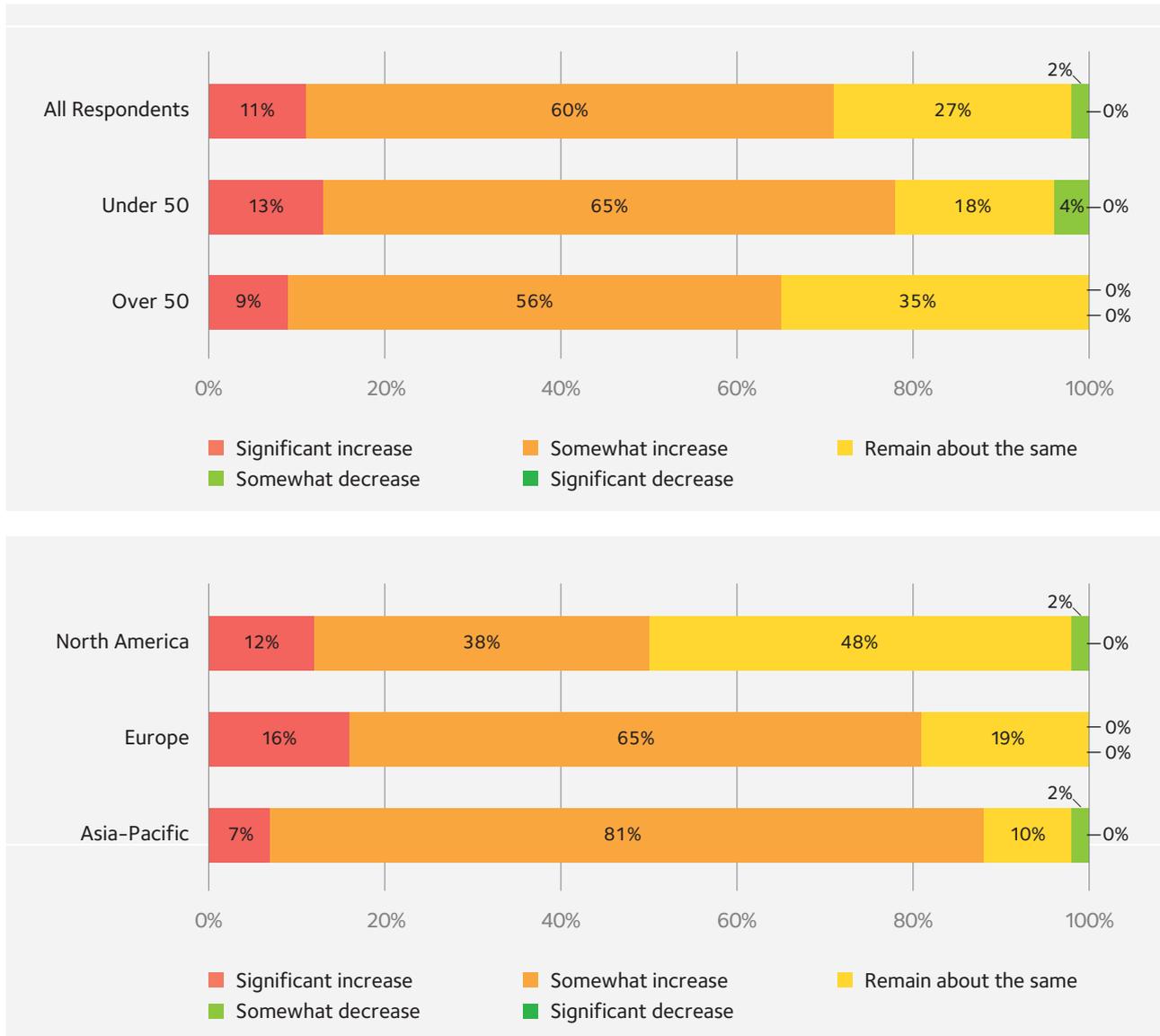


Figure 18. For a company like yours, how much do you expect the costs of ESG operational and compliance activities to have changed in 10 years' time?

In addition to the would-be mandatory nature of ESG reporting and the growing costs of ESG operational compliance activities, 62% of the global business leaders also expect the level of stakeholder engagement to have increased by 2032. A future rise in stakeholder engagement is widely expected by European (72%) and Asia-Pacific (79%) companies. By contrast, 47% of the North American respondents expect their level of stakeholder engagement to remain about the same as today, or even decrease (Figure 19).

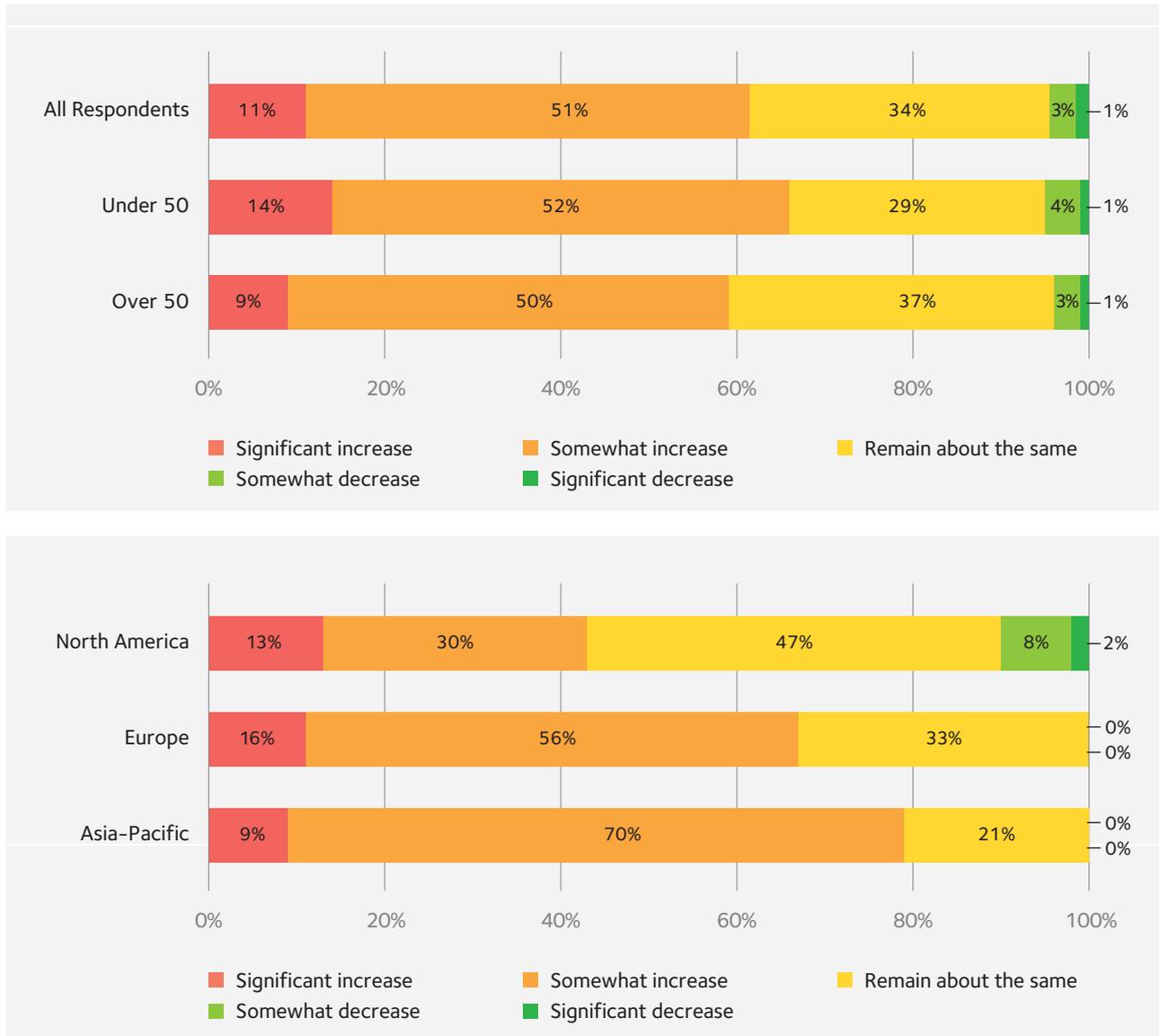


Figure 19. For a company like yours, how do you expect the level of stakeholder engagement to have changed in 10 years' time?

Despite the potential tightening of regulatory ESG requirements and the expectations of growing stakeholder engagement, the ESG perspective on business practices is not going to cause a radical shift in the board appointment processes—only 10% of the business leaders surveyed believe a future change to their company board appointment processes to be extremely likely, with a further 50% of the respondents considering such a change to be somewhat likely. North American business leaders are the most conservative in this regard: only 44% of them anticipate any changes to the board appointment procedures, whereas European and Asian-Pacific C-suite executives are more confident that such changes are likely to occur by 2032 (Figure 20).

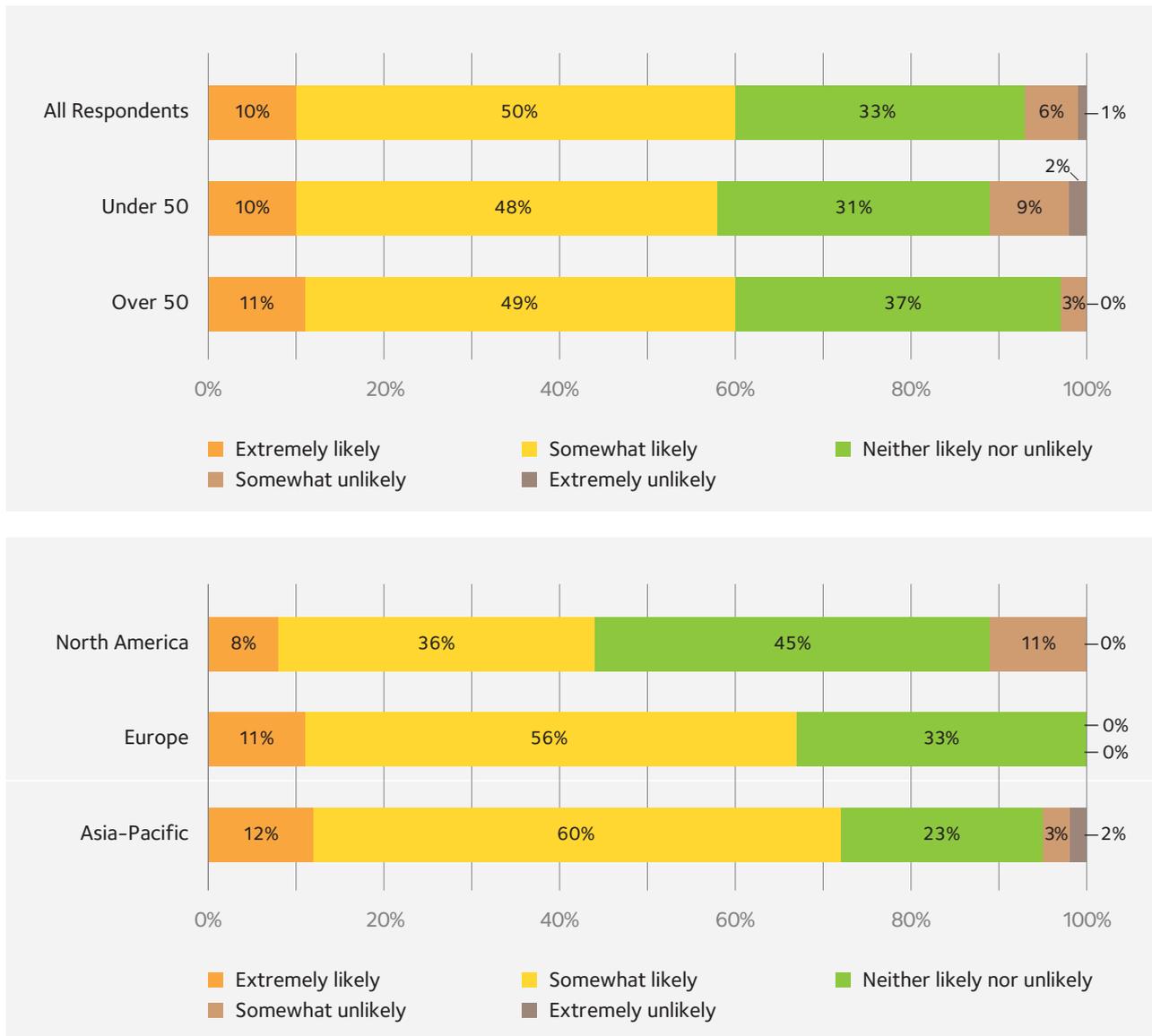


Figure 20. For a company like yours, how likely do you think it is that the board appointment processes in your organisation will have changed in 10 years' time?

ESG policy and practice are becoming more mainstream across all businesses with 73% of those surveyed already having a dedicated ESG post or office. ESG practices will be even more a necessity for any profitable business by 2032 as the climate crisis and more sustainable living dominate day-to-day livelihoods on a global scale. The time has already passed when ESG awareness was a potential, even increasingly profitable, option for companies. The drive toward internationally comparative ESG indicators will have been achieved within the decade, generating a level playing field in terms of global assessment for companies of all sizes throughout the world. While leaders across the globe acknowledge the growing importance of ESG for their businesses over the next decade, North American leaders show a relatively lower engagement with the level of this importance. Slow adoption in this respect may have serious consequences when universal ESG assessment criteria enable a singular global framework and generate measurable ESG expectations. While good leadership will drive this field forward, ultimately, it will be the consumer, ESG-dominated competition, and the market which will decide which companies win, and which fail over the next decade.

Across the board, younger business leaders are more attuned to the growing importance and necessity of active ESG business leadership and commitment as they look toward the next generation of business operating in the context of climate crisis. Environmental factors lead the drive to ESG action as the most important, with governance the least. However, the importance of adherence to new regulatory frameworks, as well as transparent and responsible business management are highlighted as important goals over the next decade. Asian-Pacific leaders again are more attuned to the importance of environmental factors over the next decade, and North American the least. Two-thirds of companies seek to reduce their greenhouse gas emissions over the next 10 years, with even more ambitious targets being set by younger executives. Nevertheless, despite concern, the overwhelming majority of the business leaders surveyed (86%) are expecting any planet-saving changes to their organisation to be moderate to slight. There is awareness of social factors for ESG-related action, but most leaders feel that existing CSR practices and policies reduce the importance of this perspective over the next decade.

One of the main survey takeaways is a recognition of the costs of, and the need to implement, ESG policy and practice by all business leaders. There is also the international awareness that ESG will be an essential driver and component of profitability and sustainable business by 2032.



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