RESILIENCE BAROMETER®

PERSPECTIVES

JANUARY 2022 | PART 1

BUILDING A PATH TOWARDS CORPORATE RESILIENCE IN THE ESG ERA

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Introduction

As this edition of our Resilience Barometer highlights, ESG has become one of, if not the, greatest area of disruption, and transition - but also opportunity - for G20 businesses today.

In a progressively complex ESG environment, businesses find themselves under the scrutiny of social activists, shareholders, regulators, consumers and the media. Resilience Barometer research shows that more than a third (36%) of G20 companies say they are under extreme pressure to improve ESG and sustainability, and 91% expect media scrutiny around ESG. How can they best adapt to and navigate this new minefield, and how can ESG risk be converted into opportunity?

At the heart of resilience is proactivity and, despite the relatively short time that ESG has been a key corporate concern, we already see that companies are now looking beyond ESG as merely a burden and risk. Indeed, 88% of G20 companies claim to be shifting, or planning to shift, their approach to ESG from managing risk to identifying new business opportunities – a clear indication of a more optimistic, longer-term stance towards ESG.

With companies aware that ESG must be proactively addressed, it is how companies can best navigate the current ESG landscape – and build their resilience in an increasingly sceptical and pressured environment - that has become the burning question.

As we explore in our chapter on ESG, proactive vocalisation is becoming one of the key methods in which companies can effectively mitigate and address ESG risks and turn the ESG agenda to their advantage.

Companies that aren't actively vocal around the ESG agenda, that remain silent and fail to engage with the conversations driven by activists, changemakers and wider society leave themselves vulnerable and face isolation. Crucially, it will be CEOs themselves – across every sector - that will be expected to set the tone and lead from the front; in our report, 71% of CEOs reported being under pressure to personally communicate on social media.

In many different jurisdictions and industries, ESG continues to mean different things – ESG within the financial services industry has often been defined in a different way than in other sectors, for example. This however is set to change, and companies in all sectors and industries will need to ensure they are equipped for an increasingly regulated ESG environment,

Companies have often invested in ESG R&D without any clear framework, and so are unable to measure the genuine impact of their efforts. Therefore, one of the key ESG challenges they are facing is to demonstrate and measure that their efforts are tangible and impactful.

This in turn will ensure far greater resilience against media, stakeholder and regulatory investigations – as well as protecting from accusations of greenwashing.

A successful ESG programme also means implementing it in a sustainable way. In recent years many companies – aware that they need to be seen to be 'doing' ESG but without any knowhow - have lurched towards an ESG agenda, almost always over promising and under delivering, simply for the sake of 'doing good'. Effective ESG means a programme of providing long term jobs, economic sustainability and a stable resilience towards issues – undertaken in an open, non-siloed way so that the benefits of an effective ESG programme can permeate throughout the entire business.

KERSTIN DUHME
Senior Managing Director
Head of Energy and Industrials
Brussels

ESG permeates every aspect of business and is a central boardroom issue

Despite committing substantial resources towards ESG efforts, businesses report being drastically unprepared to navigate the current landscape.

CONSIDERABLE PRESSURE

36% of G20 companies surveyed say they are under extreme pressure to improve ESG and sustainability

THE NEED TO BUILD RESILIENCE

89% agree that companies should be run for the interest of all stakeholders, not just shareholders

84% of G20 companies surveyed agree that business leaders should engage with pressing social or political discourse

SHIFTING FROM RISK TO OPPORTUNITY

88% are shifting their approach to ESG from managing risk to identifying new business opportunities or plan to in the next 12 months

+3 *percentage points higher than in September 2021*

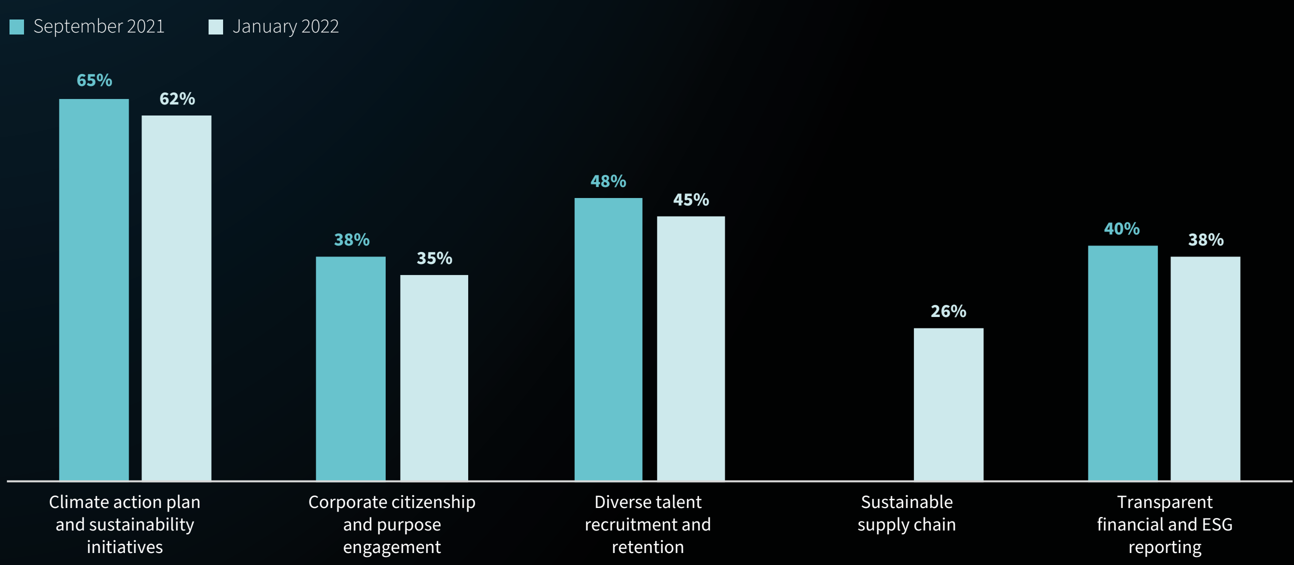
ESG AS A STRATEGIC IMPERATIVE

50% of G20 businesses state that they manage ESG and sustainability developments proactively

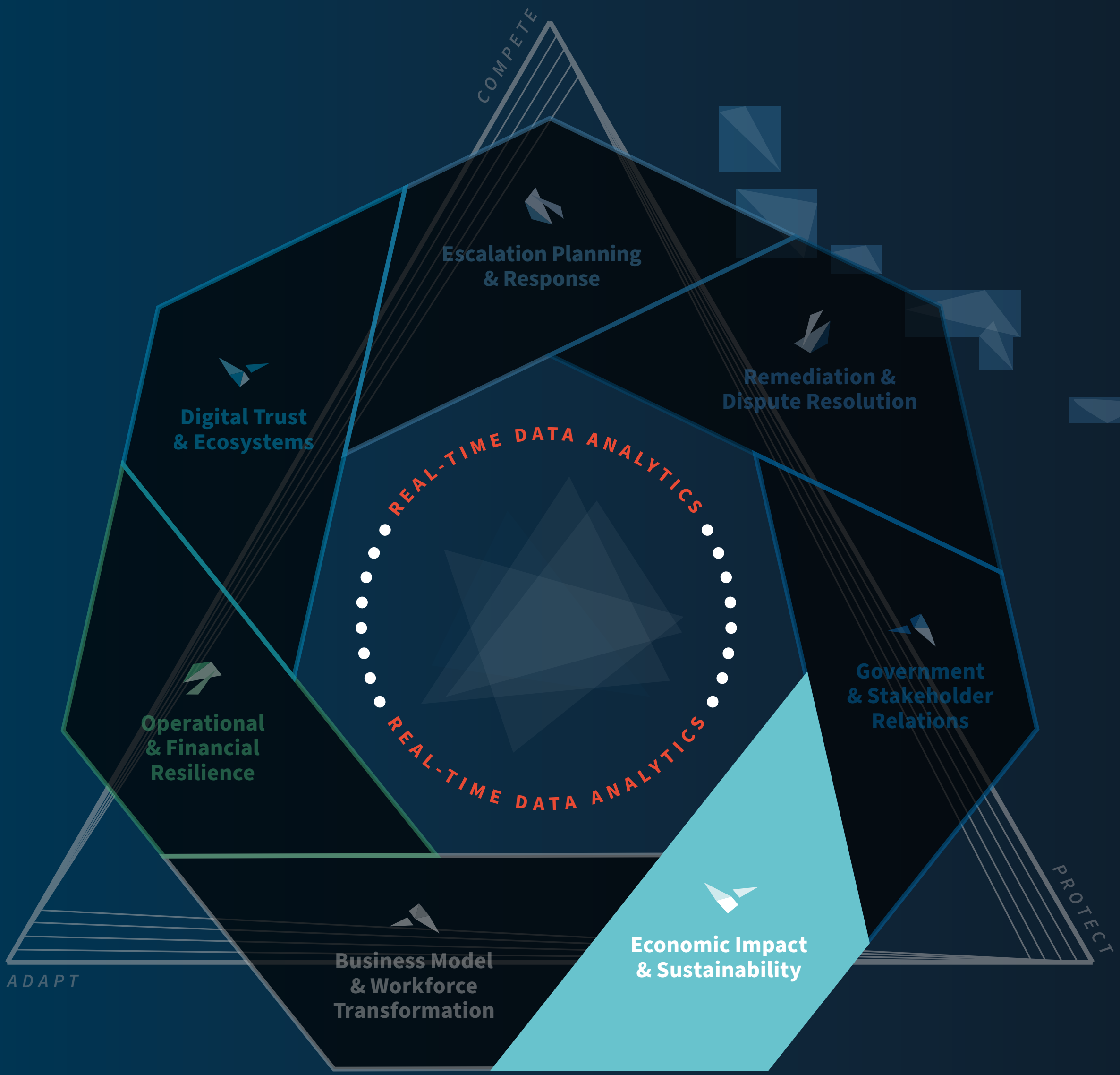
+8 *percentage points higher than in September 2021*

OBSTACLES FACED WHEN BUILDING ESG RESILIENCE

ESG pain points as reported by G20 businesses



Resilience agenda



CAROLINE DAS-MONFRAIS
Global Resilience Lead

"The message is clear: ESG is a strategic imperative that is linked to greater value creation and resilience for businesses. As we see an ever-increasing shift in focus towards ESG and sustainability, G20 companies have rightly increased spending on their ESG programmes. However, it remains unclear as to whether such investments have been effective, as business leaders remain unconfident about their expertise and continue to feel unprepared in the face of scrutiny and associated risks in this area."

Business resilience is defined by the ability to withstand, bounce back, adapt and grow—despite downturns or disruption. Economic volatility, government support schemes, social change and climate imperatives are driving relentless scrutiny of companies from governments and the public.

This increasingly unforgiving business environment requires organisations to invest in resilience and increase preparedness, to protect value and deliver sustainable growth.

The need for a business to adapt and evolve its resilience is now constant. Through real-time data analytics and expert analysis, we are able to identify patterns and develop a deeper understanding of how business landscapes are changing. This includes the macro trends impacting the economy, as well as the micro issues driving change in business models. Our 14 resilience scenarios break these patterns down and provide deeper insight into how these trends impact an organisation's position to pre-empt and mitigate for evolving crisis scenarios.

FTI Consulting's Resilience Agenda© captures the experiences of business leaders facing major challenges – whether commercial, technological, reputational or legal. It provides actionable insights to help companies withstand internal and external shocks by anticipating, quickly adapting and continuing to thrive.

14 RESILIENCE SCENARIOS

01. Inability to plan proactively for the future

02. Damage to reputation and public perception

03. Responding to changing fraud and financial crime threats

04. Class-action lawsuits, litigation and disputes

05. Regulatory and political scrutiny

06. Increased shareholder activism and other stakeholder pressures

07. Operations disrupted by climate emergency

08. Supply chain disruption and operational risks

09. Value proposition impacted by workforce and skills shortages

10. Business model and digital innovation challenges

11. Increased difficulty in securing financing and cashflow disruption

12. Energy shortages and price surges

13. Evolving cybersecurity threat landscape

14. Changing approaches to data privacy

IN NUMBERS

C-suite insights from

3,314

LARGE G20 COMPANIES

Participating companies directly employ

60.9 million

PEOPLE

Representing a total

USD42 trillion

GLOBAL TURNOVER

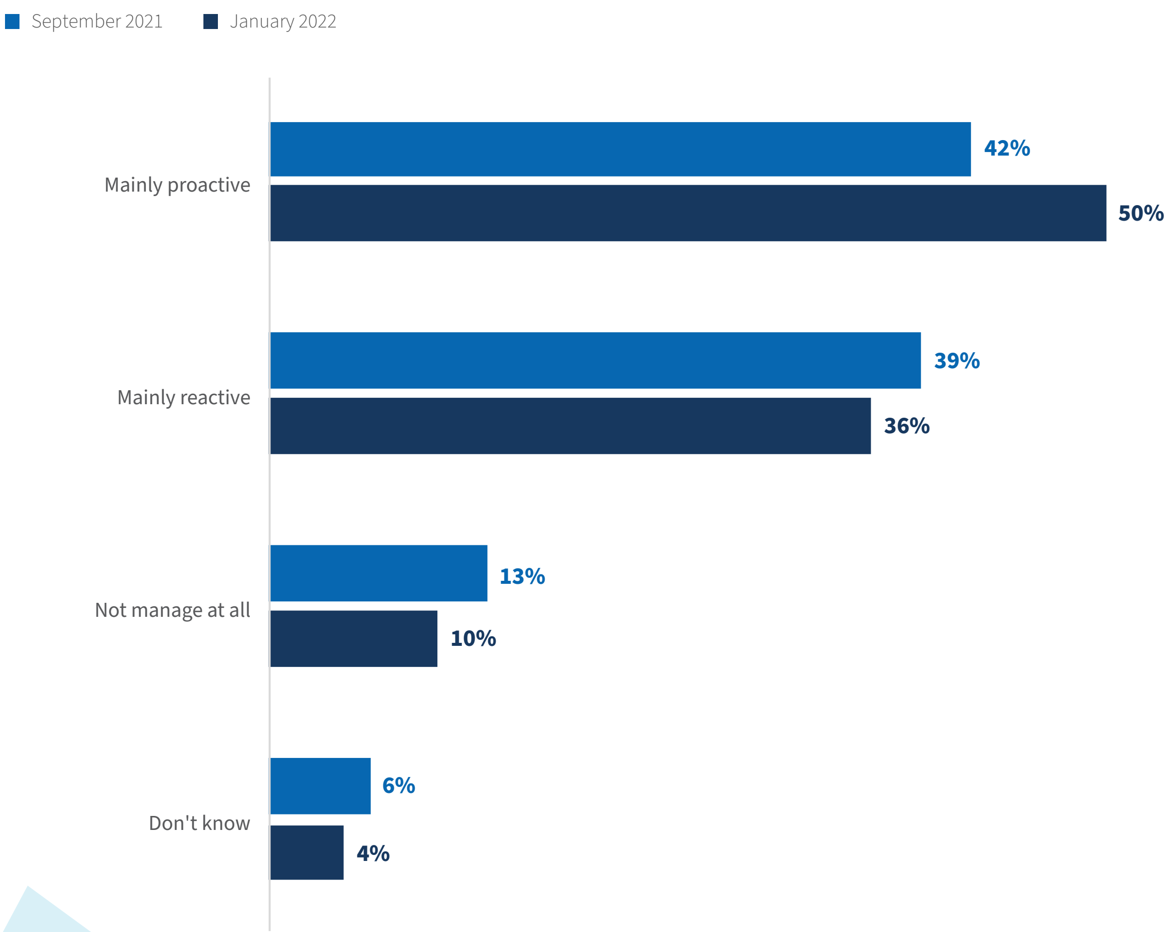
An ESG tidal wave

Building a path towards corporate resilience in the ESG era

G20 companies are currently in a period of learning and transition with regards to environment, social and governance (ESG) matters as well as broader sustainability issues. Despite committing substantial resource towards their ESG efforts, a majority of business leaders surveyed reported feeling woefully underprepared to navigate the current landscape.

Change is underway: 88% claim to be shifting, or planning to shift, their approach to ESG from managing risk to identifying new business opportunities (3 percentage points higher than in September 2021). This highlights a transition away from reactive firefighting towards positively embracing new possibilities. Examples include greater investments into research and development, re-imagining supply chains and product innovation. The message is clear: ESG is a strategic imperative which is linked to greater value creation and resilience for businesses. Correspondingly, 50% of G20 businesses state that they manage ESG and sustainability developments proactively, an 8-percentage-point increase from the September 2021 Resilience Barometer.

APPROACH TO MANAGING ESG AND SUSTAINABILITY IMPACTS



The pressure is on

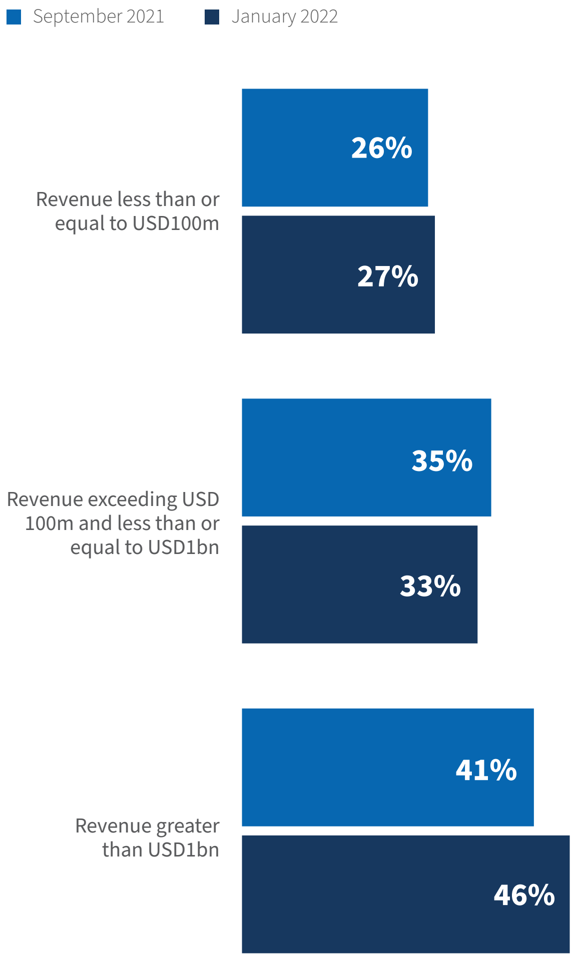
In 2022, 36% of G20 companies surveyed say they are under extreme pressure to improve ESG and sustainability. That number increases to 46% when considering businesses with turnover of more than USD1bn, up 5 percentage points from September 2021.

Enhanced focus on ESG and sustainability disclosures has also resulted in G20 businesses experiencing greater expectations and scrutiny from regulators or governments over their performance. Nearly half (49%) of Chief Risk Officers and 40% of Chief Legal Officers surveyed stated that they are already being investigated, or expect to be investigated, by regulators or governments over their company's ESG and sustainability practices in the next 12 months.

> "46% of G20 businesses with turnover of more than USD1bn state that they are under extreme pressure to improve their approach to ESG and sustainability. This drops to 27% for businesses with a turnover of under USD100m. However, a quarter of all CEOs surveyed reported their companies falling short on their integrated sustainability strategies."

HELEN NOWICKA
Head of Sustainability, UK

BUSINESSES UNDER PRESSURE TO IMPROVE ESG AND SUSTAINABILITY



And regulatory bodies are not the only concern. As companies' awareness of social issues grows, so does the public scrutiny they face: 91% expect media scrutiny, including on a range of ESG areas, namely employee wellbeing (38%), sustainability and environmental impact (35%), use of government aid (21%) and diversity, inclusion and equality (30%).

Stakeholders' expectation for business leaders to publicly communicate has grown during the period of accelerated political and social unrest brought on by the pandemic. 71% of CEOs reported being under pressure to personally communicate on social media, mirroring the findings of a separate survey conducted by FTI Consulting, CEO Leadership Redefined 2021. That survey found that 82% of investors and 75% of working professionals strongly believe CEOs must take a stand on issues of importance for society at large, from climate change to social justice, and public and employee health. With heightened expectations and such a strong spotlight on them, the way CEOs address these issues has a significant impact on their company' reputations.

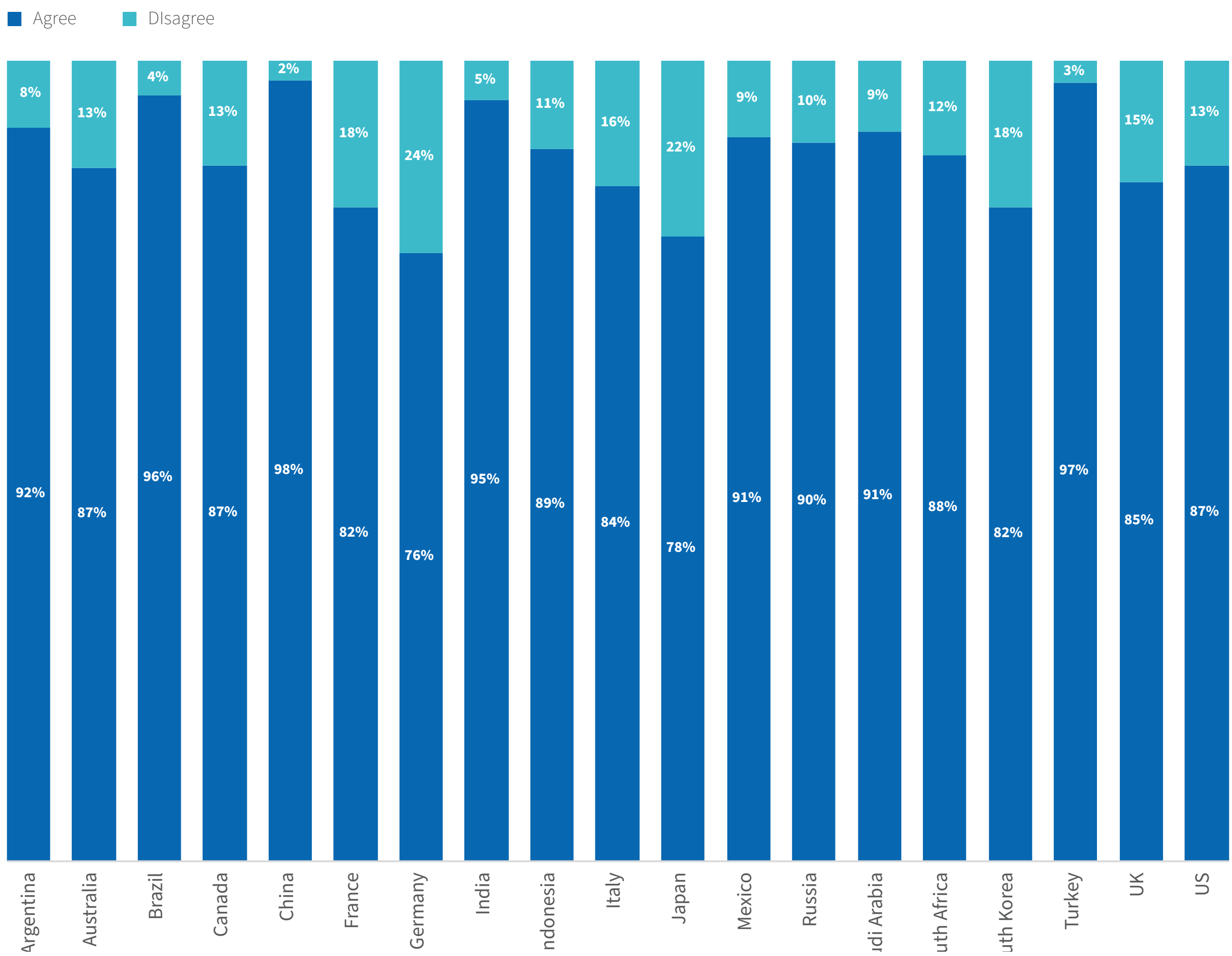
Building resilience amidst mounting challenges

Business leaders are laser-focused on ESG issues and the need to engage their stakeholders in ongoing discussions about their approach, with 89% of respondents in agreement that companies should be run for the interest of all stakeholders, not just shareholders. In addition, 84% believe that business leaders should publicly engage with pressing social or political discourse.

So, what are these companies doing to back up these beliefs?

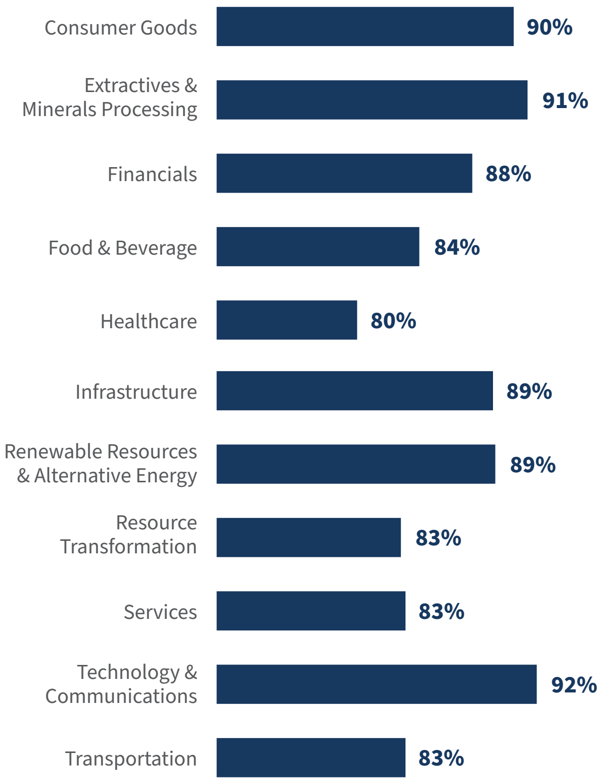
Of those surveyed, 88% reported that they are in the process of actively aligning their strategy to social purpose, while 86% indicated they have increased ESG and sustainability spending over the past 12 months. The percentages are even higher for business leaders in Latin America and Southeast Asia.

BUSINESSES ACTIVELY ALIGNING STRATEGY WITH SOCIAL PURPOSE



The top three industries where companies reported agreement with actively aligning business strategy to social purpose are Technology & Communications (92%), Extractives & Minerals (91%) and Consumer Goods (90%).

ALIGNING BUSINESS STRATEGY WITH SOCIAL PURPOSE



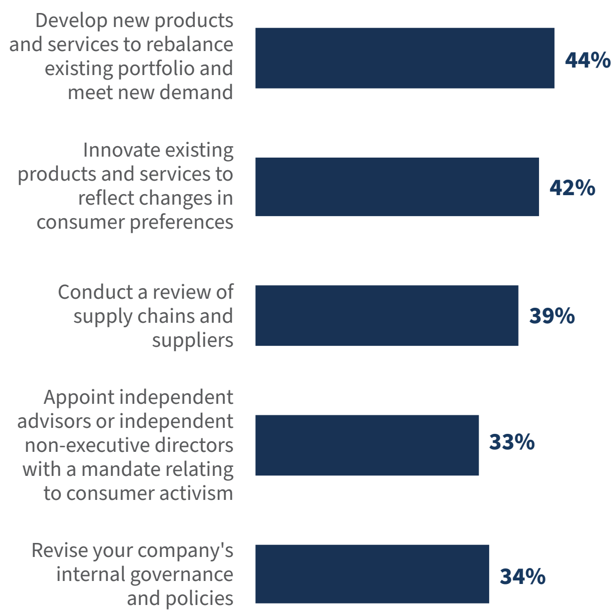
In addition, many businesses are increasingly aligning and adopting voluntary climate-related risk disclosures. According to the Task Force on Climate-related Financial Disclosures' (TCFD) Status Report published in October 2021, disclosures in line with its recommendations have accelerated by 9 percentage points from 2019 to 2020. 31% of companies said they have increased commitments to climate change in the last 12 months, and 34% said they have increased commitments to reducing their environmental impact more broadly.

Responding to social and governance issues is also top of the corporate agenda. For example, 39% of G20 companies reported that they plan to conduct a review of their supply chains and suppliers, and a further 44% are planning to develop new products and services to meet this growing demand. Another 37% reported that in 2021, they increased their investments towards workforce and human capital.

> "40% of CEOs surveyed report being under extreme pressure to improve their company's ESG performance. However, it is no longer just about having an ESG corporate strategy, but about having the right governance framework in place to manage the environmental and social issues that subsequently emerge. Investors are increasingly looking at overall ESG performance and the programme's ability to adapt to changes in stakeholders' demands rather than companies' approach to individual issues."

RODOLFO ARAUJO
Senior Managing Director

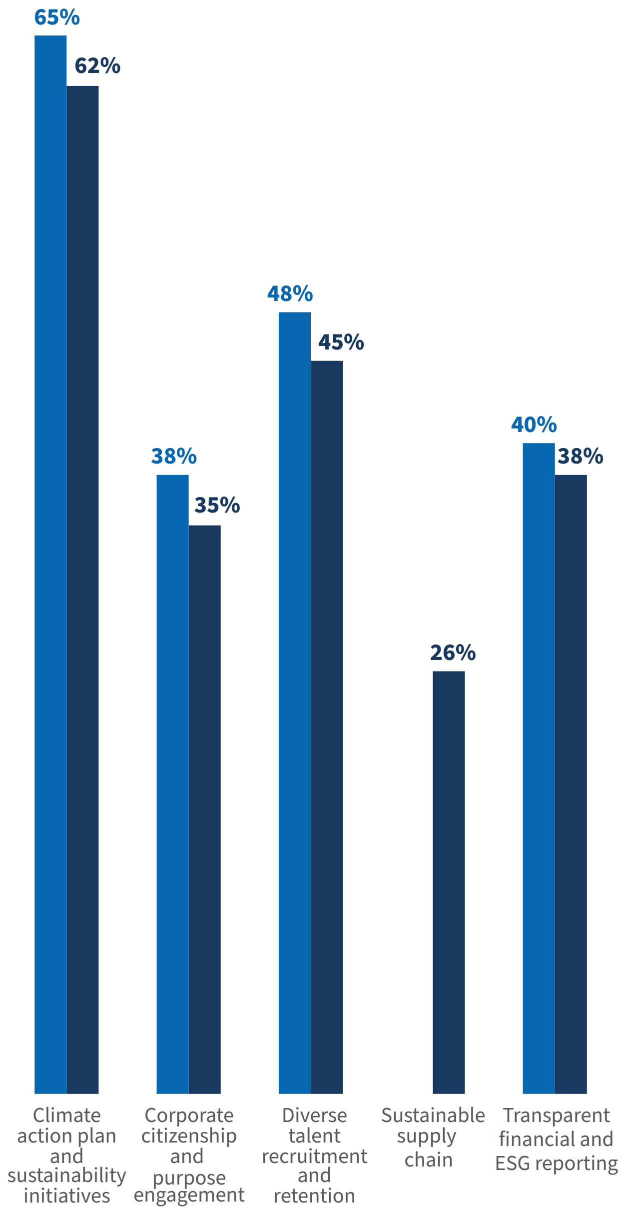
PLANNED ACTION IN RESPONSE TO ANTICIPATED CONSCIOUS CONSUMERISM IN 2022



The hurdles ahead

The long-term effects of this resource allocation and the ROI are still unclear, and despite their efforts, many corporates reported feeling ESG-inadequate, with 66% saying they do not have sufficient expertise to cope with increasing scrutiny from a broad range of stakeholders, including regulators, customers, employees, local communities, and of course shareholders. And 38% of G20 respondents believe they are falling short when it comes to transparent financial and ESG reporting.

ESG PAIN POINTS AS REPORTED BY G20 BUSINESSES



Climate change woes are top of mind for many G20 corporates, with 26% concerned by economies failing to tackle climate change quickly, and 24% concerned that such measures might cause economic damage without adequate interventions and coordination.

This brings to light the perplexing paradoxical challenges faced by businesses leaders across industries and markets. And although 86% of G20 companies have increased investments in ESG and sustainability efforts over the past 12 months, 62% still believe that they are falling short in terms of a climate action plan and related sustainability initiatives.

The myriad of social and governance issues presents another maze of challenges, with more than a fifth (21%) of respondents reporting that they are still falling short in their corporate citizenship strategy to engage, support and contribute to their wider local communities.

Supply chains are one of the greatest exposure points for companies falling short of ESG compliance – 35% of Chief Risk Officers and 32% of Chief Legal Officers reported that their companies fall short in sustainable supply chains.

> "As organisations continue to assess and improve their ESG position, data analytics and machine learning tools will play a key role in helping to audit, understand and maintain that position. Resilient organisations use technology to bring together relevant unstructured information such as policy and supply chain insights, alongside structured information like HR and facilities records, to quickly grasp the whole picture and address disparities between ESG policy and practice."

JON CHAN
Senior Managing Director, Technology

Short-term losses for long-term gains?

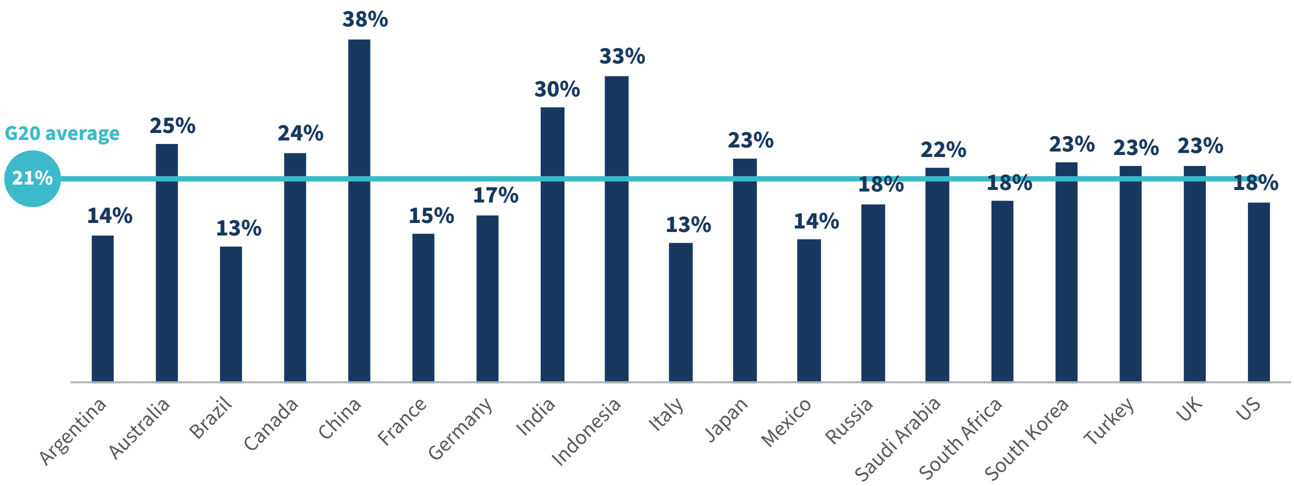
Our data shows that companies across jurisdictions suffered material negative financial losses attributed to ESG and sustainability-related issues. 21% of G20 respondents reported a loss of revenue attributable to ESG and sustainability issues in the last 12 months. This indicates an opportunity to further cultivate resilience by re-calibrating investments and strategic decisions in this space.

A tectonic shift in focus on ESG and sustainability issues has occurred across corporates, law firms and capital markets. Addressing how to proactively advance and assess ESG risk, compliance and investment will be critical to building resilience and engaging all stakeholders — clients, shareholders, employees and communities.

G20 companies have rightly increased spending on their ESG programmes, but it remains unclear as to whether such investments have been effective, as business leaders remain unconfident about their ESG expertise and continue to feel unprepared in the face of scrutiny and associated risks in this area. With multiple ESG frameworks and a lack of clear regulatory guidance, the path towards long-term resilience is yet to be defined.

Proactivity is tipping the balance in favour of ESG opportunity creation. Resilient organisations are increasing preparedness by developing adaptable ESG strategies, assessing and mitigating ESG-related risk in a holistic way, and leveraging analytics to deliver new solutions. The benefits that resilience creates from increased innovation – as well as extended social engagement – are beginning to be realised, alongside the consequences of inaction or 'business as usual'.

COMPANIES THAT LOST REVENUE ACROSS JURISDICTIONS AS A RESULT OF ESG AND SUSTAINABILITY ISSUES IN 2021



KERSTIN DUHME
Global Investigations
Global ESG Lead, Strategic Communications

"An increasing number of organisations report shifting their approach to ESG from managing risk to identifying new opportunities, yet one in five businesses continue to attribute revenue loss to ESG or sustainability shortfalls. As the pressure increases to deliver when commitments are made, businesses must set out a strategic roadmap with measurable milestones to stay on course."

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About us

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes.

Operating globally across 27 countries on six continents, we offer a comprehensive suite of services designed to assist clients right across the business cycle – from proactive risk management to the ability to respond rapidly to unexpected events and dynamic environments.

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