ESG RADAR 2023

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ESG REDEFINED: FROM COMPLIANCE TO VALUE CREATION

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Contents

Executive summary

ESG goals are no longer nice to have: They are business necessities. The value of ESG investment assets is projected to reach $53 trillion by 2025, one-third of global assets under management.[1] To tap into this growing pool of money, businesses increasingly need to show investors that they have low ESG risks. Concerns about greenwashing will also pressure firms to prove their commitment to become more responsible corporate citizens through internal investments and metrics that back up their results. However, companies often are uncertain about how much to invest in ESG and where to focus their efforts.

These forces combine to encourage, or even insist, that companies act quickly to become more responsible enterprises. If businesses don't set ESG priorities and act on them, they risk alienating their customers, investors, employees, or all of the above. Companies also can't afford to start initiatives that might drag down financial performance, particularly as an economic downturn seems more likely. Bad choices now can waste a company's time and money, and still leave them far from their ESG goals.

Pressure from the edges is pushing companies into a mature middle, where traditional business interests and ESG need to coincide and even amplify each other. The Infosys Knowledge Institute's ESG Radar examines the changes companies are making — and must make — to achieve their ESG goals, whether that is to become a more responsible corporate citizen or lower ESG risks.

ESG is a moneymaker

Our global survey of more than 2,500 business executives and managers found that — contrary to claims by some critics — spending on ESG correlates with higher profits. Ninety percent say they had moderate to significant returns, and none of the companies surveyed reported losses from their ESG efforts. Even so, companies tend to focus more on the brand benefits than on other financial outcomes and are not investing enough on changes needed to meet their ESG goals.

Overlooking the 'S' and 'G' in ESG hurts profits

Companies focus their efforts mostly on the E, or environmental, portion of ESG. This is no surprise since many businesses have committed to carbon neutrality, net zero, or at the very least, to substantially reduce their greenhouse gas emissions. These are valuable initiatives, but our study found that a greater focus on social and governance, such as having more women on the board and restructuring leadership, correlates with better financial outcomes.

Companies focus on the most obvious ESG efforts — but not always what's best financially

Firms have started to adjust their core business and encourage a greater focus on ESG throughout the workforce. However, many of these commonsense changes don't seem to make a significant financial impact. The companies with better profit growth are the ones that place responsibility for ESG at the highest levels and also diversify their board.

Recommendations: Companies expect ESG to pay off in the future. But why wait?

Businesses often think of ESG as a brand priority and a long-term investment that will one day combine the bottom line and real-world impact. But companies don't need to wait: Short-term financial benefits are available now. The following actions can accelerate more of ESG's financial rewards.

1. Treat ESG as a value creator, instead of a cost center.
2. Customers are important but prioritize employees in ESG efforts.
3. Embed ESG accountability in the leadership ranks to improve profits.
4. Transparency matters: Share ESG requirements and data throughout your value chain.

To succeed and sustain, ESG initiatives must eventually contribute to the bottom line. The right strategy now will allow businesses to reach that financial tipping point sooner and with a greater long-term payoff.

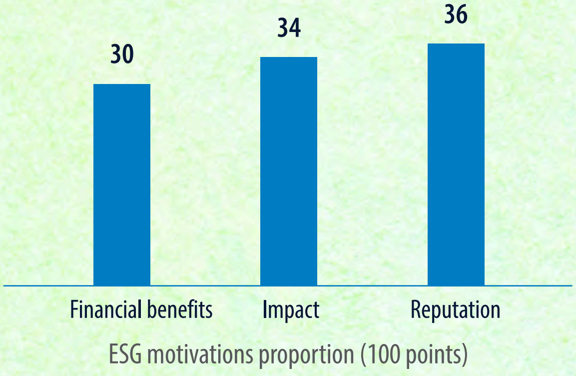
ESG is a moneymaker

The emphasis on various ESG priorities increased dramatically during the pandemic as social issues moved to the forefront and the world saw how slowing economic activity reduced greenhouse gas emissions.[2] Simultaneously ESG investments boomed — or at least held their own — as the global economy struggled.

Now, the inevitable ESG blowback has arrived. Prominent voices call ESG investing well-intentioned but deeply flawed, and suggest that companies should focus exclusively on the traditional bottom line and deprioritize ESG, or at least some elements of it.[3] Despite this pushback, many customers and investors are still pressuring companies to embrace ESG and integrate the principles into their enterprises.

Our study found that companies are motivated more by how ESG initiatives affect their reputation, rather than how these efforts will boost the bottom line (Figure 1). Although the difference is narrow, it is surprising since financial benefits are the standard driver of business decisions. Still, brand value certainly offers financial benefits to companies that are able to cultivate and maintain a reputation for quality, innovation, exclusivity, or even ethics. That might be enough for now since the current approach seems to be effective, although not necessarily optimized.

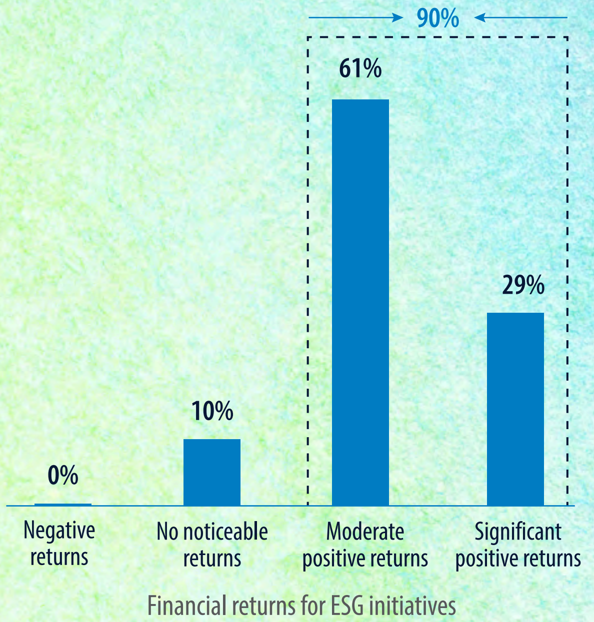
Figure 1. Financial benefits are not ESG top priority



Source: Infosys Knowledge Institute

It's clear that a focus on ESG goals can boost returns: 90% of our respondents — from eight regions and a dozen industries — say their ESG initiatives have produced either moderate or significant returns (Figure 2). The remainder, 10%, say their efforts broke even. None reported losses from their ESG work, which suggests that companies have adopted a careful, targeted strategy that prioritizes short- and medium-term efforts with the most certain returns.

Figure 2. Beyond branding, ESG delivers financially



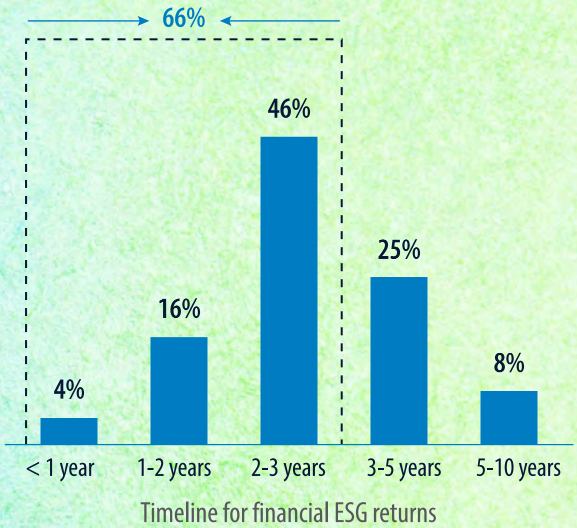
Source: Infosys Knowledge Institute

Most companies surveyed realized positive financial returns from their ESG efforts within a few years (Figure 3). The largest group (41%) report ESG returns in a two- to three-year window. Fewer than one-third say that it took longer to break even on their ESG investments.

These timelines generally match what companies expect from technology investments that support their sustainability efforts. The book "Practical Sustainability: Circular Commerce, Smarter Spaces and Happier Humans," written by Infosys executives Jeff Kavanaugh and Corey Glickman, concluded that business leaders expect to see 25% annualized ROI in three to five years.[4] The payback is even faster on facility retrofits that are intended to optimize energy usage. For those projects, returns are possible in one to two years.

The ROI also depends on the internal calculations. If a sustainability project is intended to reduce greenhouse gas emissions, the math will vary greatly since different companies price carbon differently. The complexity of the calculations is also a factor. Straightforward projects — ones dealing with energy, water, and buildings — offer easy-to-measure data and cost savings. Other models are more complicated when they deal with ESG efforts that stretch throughout the value chain.

Figure 3. ESG initiatives deliver ROI within 3 years

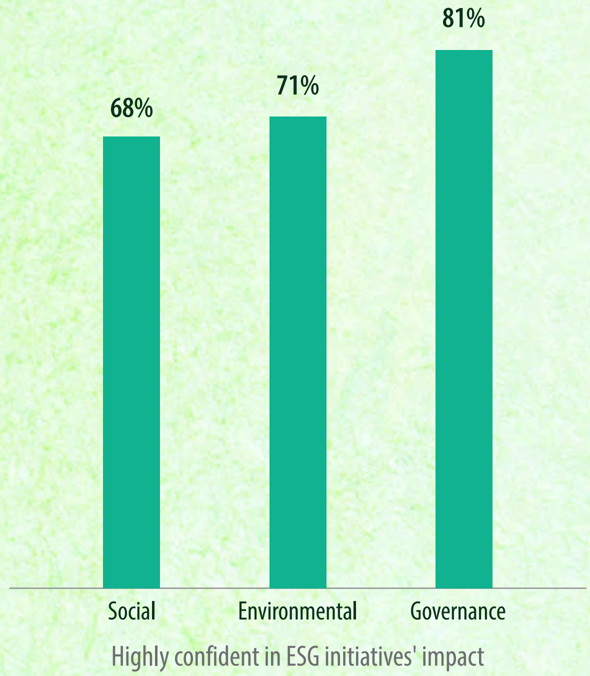


Source: Infosys Knowledge Institute

These positive financial results will please the C-suite and stockholders. However, the returns are also likely to generate some skepticism about the goal of ESG efforts. Articles from Bloomberg and Harvard Business Review have been critical of ESG investing as a trend that offers financial windfalls but skimps on the impact.[5,6]

Most of our respondents are confident that their ESG efforts have a long-term positive impact on people, planet, and profit — author and entrepreneur John Elkington's classic triple bottom line.[7] The greatest confidence was in the governance initiatives (81%). Environmental and social efforts were both about 70% (Figure 4).

Figure 4. Companies are confident in the impact of ESG initiatives



Source: Infosys Knowledge Institute

> **"The nature and scale of the challenges that we face are not going to be solved if we simply trade off. For example, the triple bottom line is about economic, social, and environmental value added. Very often people do run an equation which results in one of those forms of value being suppressed or actually going into reverse. We're basically saying unless and until we can integrate all of this into real world solutions, this is not going to work."**

John Elkington

Co-founder and chief pollinator, Volans

Difficult path ahead

It's getting harder for companies to stand out from the crowd when it comes to corporate responsibility. Businesses that promote their ESG credentials put more pressure on their peers to do the same, which creates a feedback loop. ESG starts as a differentiator for many firms and then turns into an expectation: the ceiling becomes the floor.

Businesses need to find new ESG strategies to differentiate themselves from their competitors, as George Serafeim of Harvard and Ioannis Ioannou of the London Business School determined when they analyzed 4,000 companies globally. Their findings were that ESG practices "converged" from 2012 to 2019.[8]

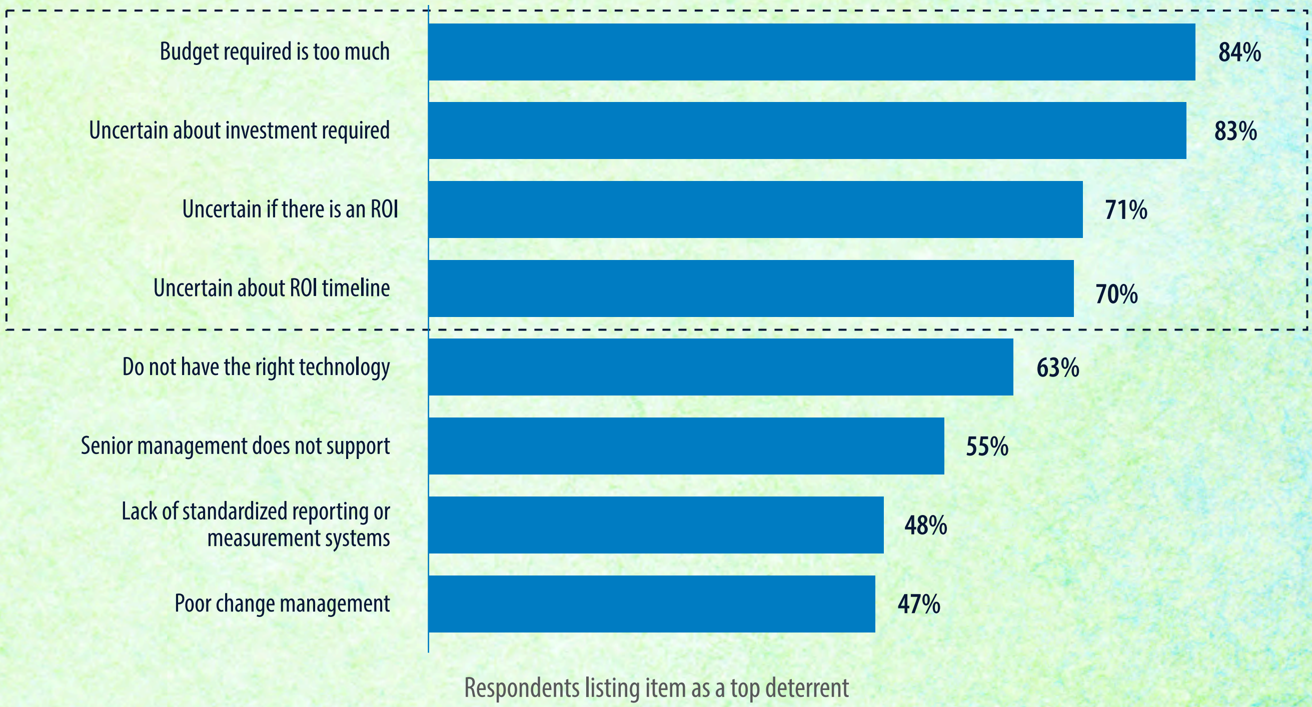
Also, despite the financial windfall from the ESG investing boom, there are also medium- to long-term threats ahead — many of them internal.[9] Companies risk derailing their financial progress through overly conservative budgeting, especially as they brace for economic tough times ahead.

Spend money on ESG to make money

Our analysis found that a 10 percentage point increase in ESG spending correlates with a 1 percentage point increase in profit growth. In other words, a company that currently spends 5% of its budget on ESG could expect a 1 percentage point profit increase if it were to increase ESG spending to 15 percent. The relationship between ESG spending and the bottom line is a complex one with many interconnected factors that can influence revenue and profits: customer loyalty, employee engagement, cost of capital, cost savings, reputation, and risk reduction.

Despite the clear link with profit growth, requests for budget increases are likely to be an obstacle in the current economy. Consistently high rates of inflation (a projected 8.8% globally this year) have backed many companies against a wall.[10] A Gartner survey of chief financial officers found that companies were running out of room to raise prices.[11] Firms were instead counting on cost reductions and automation to close a growing financial gap.

Figure 5. Financial concerns hinder companies from starting ESG initiatives

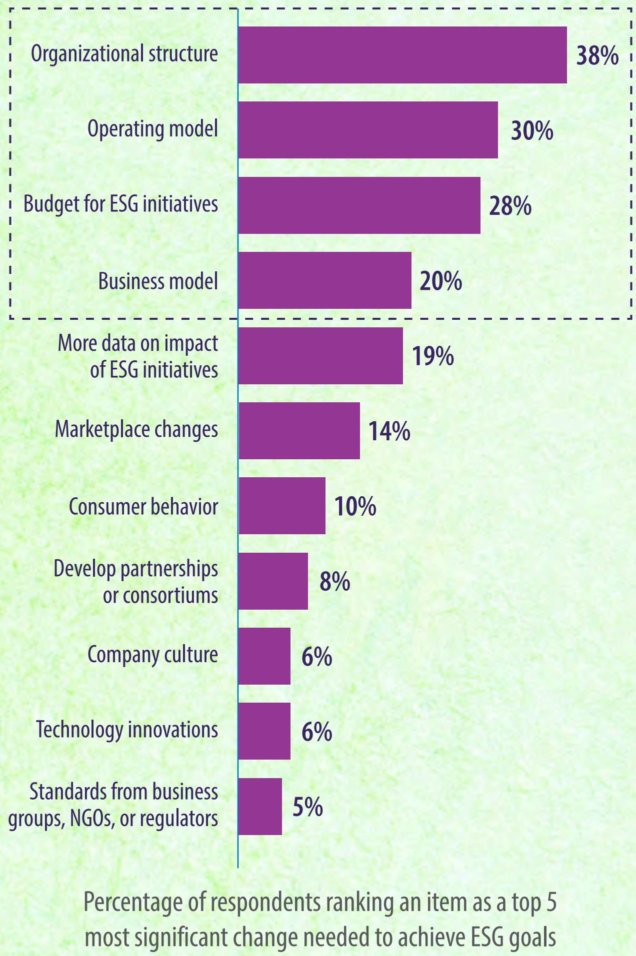


Source: Infosys Knowledge Institute

When asked to identify barriers to starting new ESG initiatives, money was the dominant theme. These executives and managers say that their most pressing concerns include the size of the budget required, the timeline for a return on investment (ROI), and questions about even whether there is an ROI (Figure 5).

There are similar concerns about how lack of investment will affect companies' progress toward existing ESG goals. A larger budget for ESG initiatives is the third-most-important change needed to achieve these goals, according to respondents (Figure 6). Recent research, however, indicates that ESG won't be spared from spending cuts. A KPMG survey of CEOs found that 59% plan to "pause or reconsider" their ESG efforts in the next six months.[12]

Figure 6. Companies need structural changes and more budget to achieve ESG goals



Source: Infosys Knowledge Institute

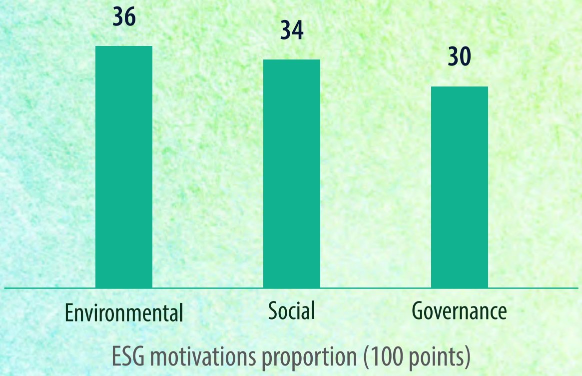
Overlooking the 'S' and 'G' in ESG hurts profits

ESG features three important — and sometimes overlapping — subjects. They are not always prioritized equally.

The United Nation's Paris Agreement and its predecessors elevated the environment to the top of many corporate agendas. More than one-third of the world's largest publicly traded companies have net-zero targets, and thousands more are taking steps to reduce their emissions.[13,14]

Our survey found that businesses now prioritize environmental initiatives over "S" and "G" efforts — although only by a small amount (Figure 7). Social was a slightly above average priority, potentially a reflection of the greater emphasis on social responsibility during the pandemic.[15]

Figure 7. Companies more often focus their ESG efforts on the environment



Source: Infosys Knowledge Institute

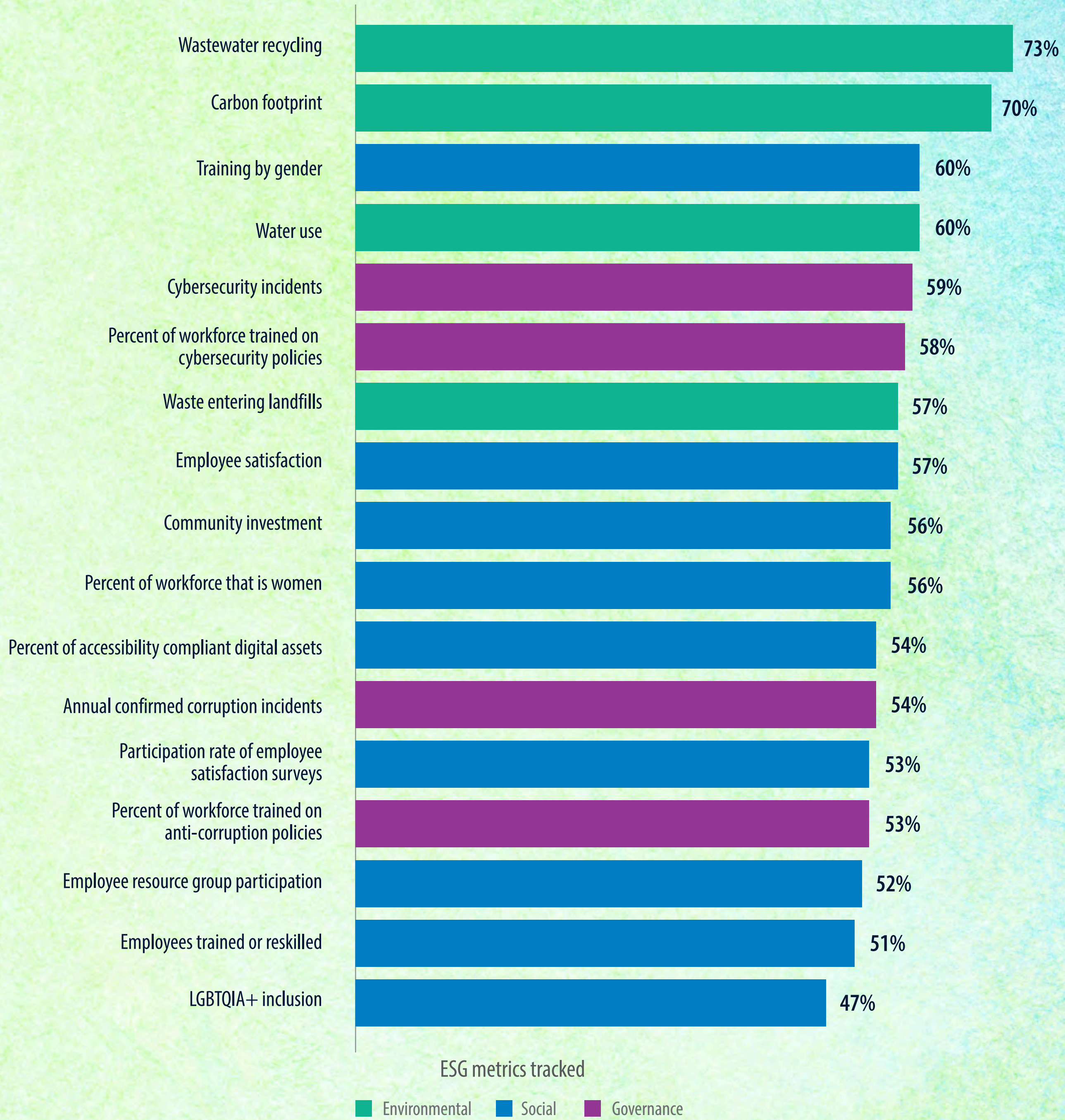
Companies are also more likely to track environmental metrics, such as carbon footprint, wastewater recycling, and water usage — although cybersecurity (governance and social) and training by gender (social) were also frequently measured (Figure 8).[16] Companies often find it easier to reach a consensus on the goals for environmental metrics, particularly businesses that have committed to net zero. In that case, the finish line is obvious. There is often less agreement on setting optimal social and governance goals, even if some metrics are easy to track.

There is no argument about the importance of environmental efforts, particularly as we move toward multiple climate change tipping points.[17] Still, our research found that there are costs to overlooking the social and governance elements of ESG. A greater focus on those two areas is correlated with better financial outcomes, according to Infosys's analysis.

"Diversity done right is not a routine compliance exercise that demands little more than ticking boxes. When you bring people with different backgrounds and life experiences into your decision-making process, you get new and varied perspectives. This helps you make smart choices, avoid costly missteps, and open your enterprise to greater innovation."

Mohit Joshi
President, Infosys

Figure 8. Companies are more likely to track environmental metrics compared to 'S' and 'G'



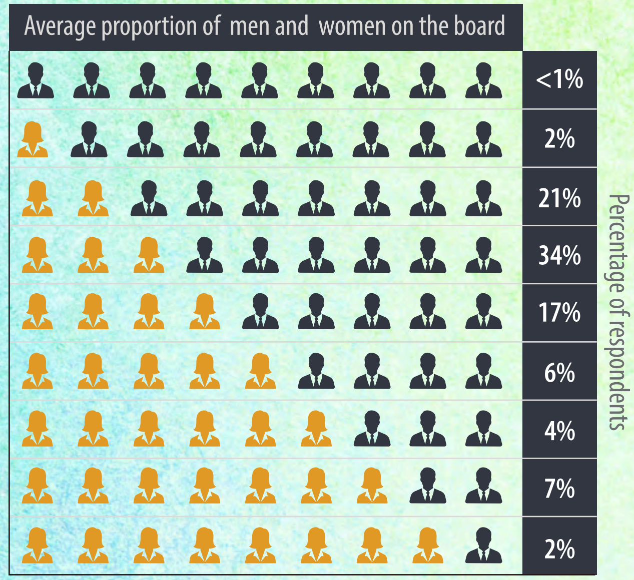
Source: Infosys Knowledge Institute

Social pays off

Our analysis found that a pair of well-regarded social initiatives were correlated to better financial performance. An increase in the number of women on a company's board and a greater employee focus related to ESG efforts were linked to higher profit growth.

Women are a minority on three-quarters of our respondents' boards, but those with a higher proportion excelled financially. A 10 percentage point increase in women on the board strongly correlates with a 1 percentage point increase in profit growth. Of those we surveyed, the average percentage of women on the board of directors was 41% (Figure 9). A more representative board is typically assumed to have a greater diversity of ideas.

Figure 9. Women are underrepresented on company boards



Source: Infosys Knowledge Institute

Our findings add another data point to what is already a mixed picture on this subject. A peer-reviewed 2017 meta-analysis by Katherine Klein, a management professor at the University of Pennsylvania's Wharton School, found no correlation between women on the board and financial outcomes.[18] However, a 2021 academic study examined companies in the S&P 500's information technology sector and found a positive correlation to price-to-earnings ratio, but not other financial metrics.[19] And student research at the University of Pennsylvania looked at women on the boards of Indian companies and found a positive impact on return on invested capital.[20]

Among the companies surveyed by Infosys for ESG Radar, the percentage of women on the boards was higher than what is found in other surveys. Recent research from Moody's Investors Service says the average for North American and European companies is 29%, an increase from two years ago when it was 24%.[21] This disparity suggests that these are more ESG-focused companies in our sample, which could have been a factor in our results.

Those numbers will inevitably increase in the medium-term. Various stakeholders are demanding a more balanced corporate board, whether its seeking significant representation or ensuring that women are not completely shut out. The European Union has reached a provisional agreement to require women to make up 40% of nonexecutive director positions and one-third of all board positions.[22] And BlackRock and State Street shareholders have used their financial might by voting against directors' reelection when the board is all male.[23]

Our analysis also indicates that companies report greater profit increases when their ESG efforts are motivated by how their employees view them, as compared to reputation among customers and other stakeholders. These benefits could be a result of greater success in recruitment and retention or better engagement among employees.

ESG leadership must come from the top

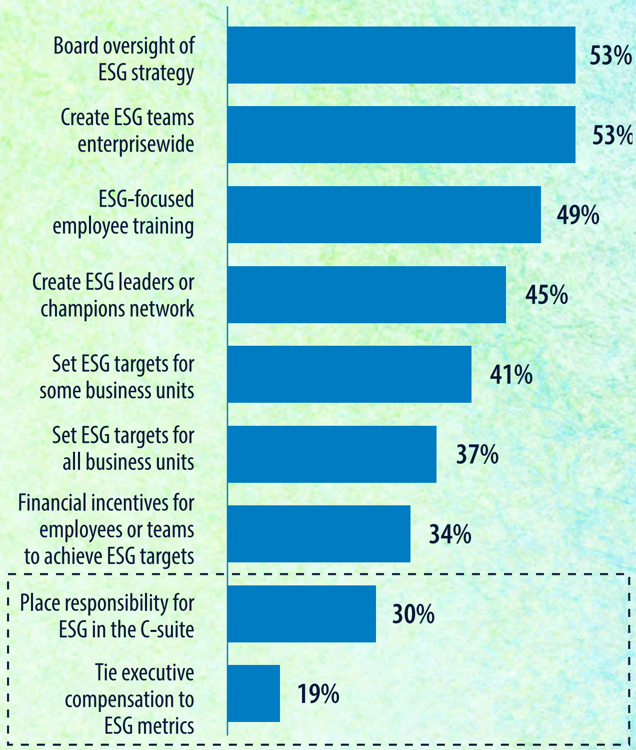
Governance was rated as the lowest priority among the companies we surveyed. One telecommunications industry executive interviewed for this report said: "Governance is an area that if you do it well, no one notices. But if it goes wrong, it poses the biggest reputational risk."

Like social initiatives, governance also showed great untapped financial benefits in our survey. Companies perform better financially when they have all the following: a chief diversity officer (CDO), chief sustainability officer (CSO), ESG committee on the board, and also when the CSO clears capital expenditures. That correlates with about a 2 percentage point increase in profit growth and revenue growth. Anything short of that does not help the bottom line.

This was one of the strongest correlations in our study and one of the most significant financial impacts. However, only about a quarter (27%) of the people surveyed say their company has all four elements in place.

Our survey data analysis also found that the C-suite and the top executive ranks were the most neglected areas for ESG (Figure 10). Just 19% of respondents say their company ties executive compensation to ESG goals. That was the least common organizational change we measured in the survey. The second least common was the 30% who say their firms place responsibility for ESG in the C-suite.

Figure 10. Organizational changes to enable ESG are focused everywhere but in the C-suite



Percentage of respondents whose company has made these organizational changes to achieve ESG goals

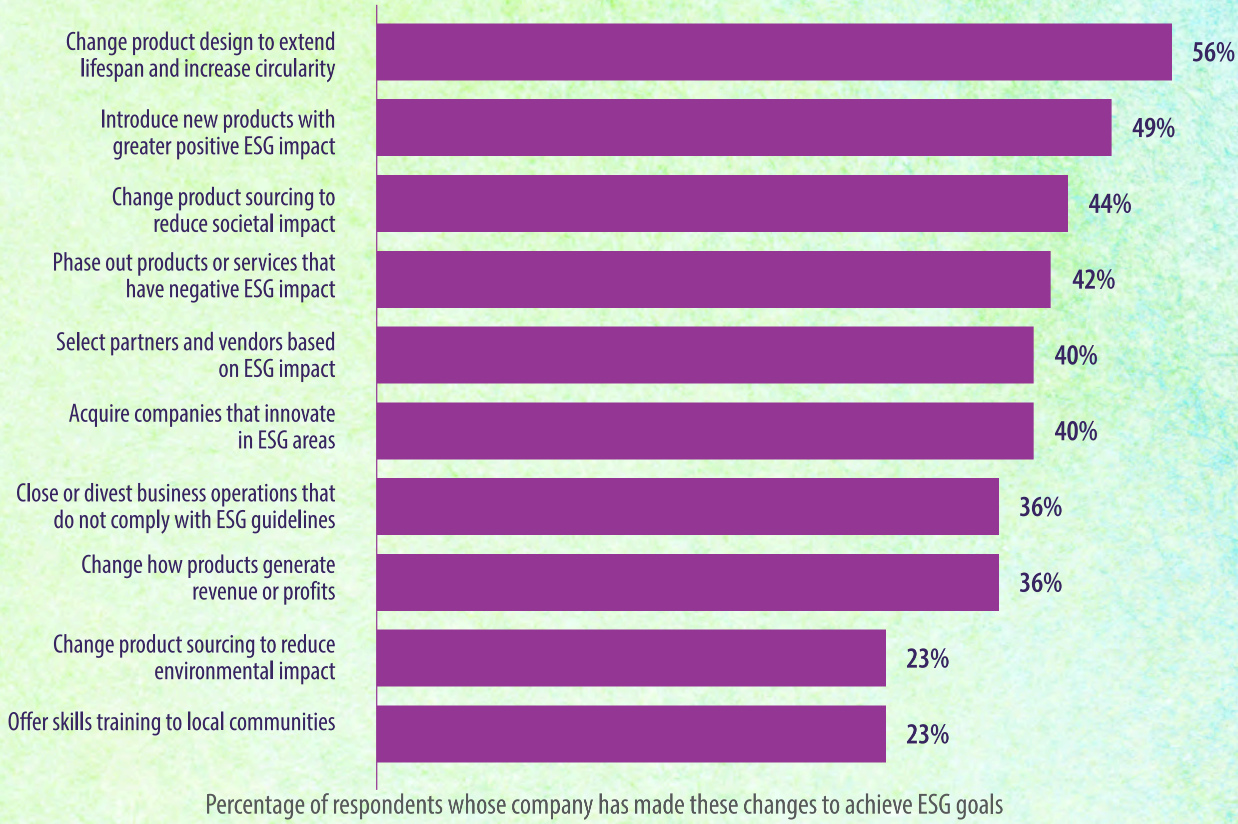
Source: Infosys Knowledge Institute

Companies focus on the most obvious ESG efforts — but not always what's best financially

Companies are taking ESG seriously by significantly changing their core business and attempting to create a culture of corporate responsibility (Figure 11). This burnishes their brand image, but a focus on these changes doesn't increase profit or revenue growth. The changes that actually enhance the bottom line are those linked to C-suite accountability and the diversity of the board, according to our analysis.

The four top changes companies made to meet their ESG goals were all related to products and services. More than half (56%) say their company has changed its product design to extend lifespan or increase circularity. That was the only change that a majority say they made. The other top actions were introducing new products with a greater positive ESG impact (49%), changing product sourcing to reduce societal impact (44%), and phasing out products or services that have a negative ESG impact (42%).

Figure 11. Companies focus on product changes to help them reach ESG goals

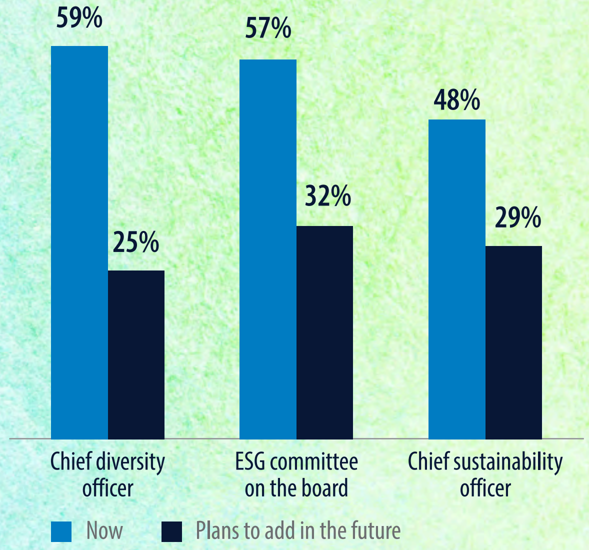


Source: Infosys Knowledge Institute

ESG underrepresented in the C-suite

Firms don't plan to boost their ESG capabilities at the top, despite the importance of leadership. This could limit the financial benefits of their ESG initiatives. A little more than half the companies we surveyed have ESG roles in the C-suite: a small majority has a CDO (59%) and an ESG committee on the board (57%). A narrow minority has a CSO (48%) (Figure 12).

Figure 12. ESG executive roles are common but not universal



Source: Infosys Knowledge Institute

These numbers seem unlikely to change significantly. Among those who don't have these organizational elements in place, majorities say they have no plans to change their leadership structure. About two-thirds say their company does not intend to create a board ESG committee. A large majority (71%) do not plan to hire a CSO. And three-quarters do not intend to add a CDO to their C-suite.

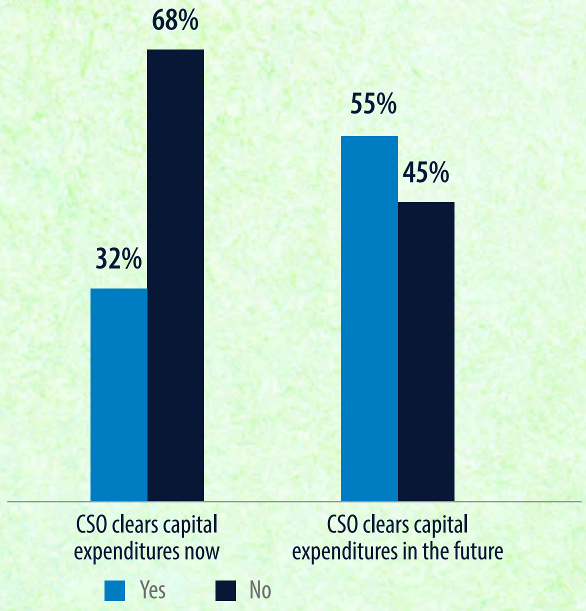
The boldest change is likely to come from the companies that already have a CSO. Few of those executives (32%) clear their company's capital expenditures. About one-third plan to give their CSO that responsibility in the future, which would elevate the percentage to more than half of respondents surveyed (Figure 13).

It seems obvious that a strong ESG commitment in company leadership will result in greater real-world impact. Our analysis points to that commitment also being one of the important keys to making ESG initiatives contribute to the bottom line, rather than just being an element of corporate compliance with minimal investment.

"In the past, it would have been really hard to be sustainable and financially viable," an executive with a multinational financial institution told Infosys. "Now, it's more cost effective to have a social enterprise where you are doing good and managing your business well. The financial benefits are key to ESG and have often been overlooked."

An unwillingness to add more ESG roles and responsibility to the leadership structure could have serious consequences if our findings persist into the future. The gap between the ESG haves and have-nots could expand — leaving some companies further behind and in danger of never catching up.

Figure 13. Companies plan to increase CSO budgetary authority



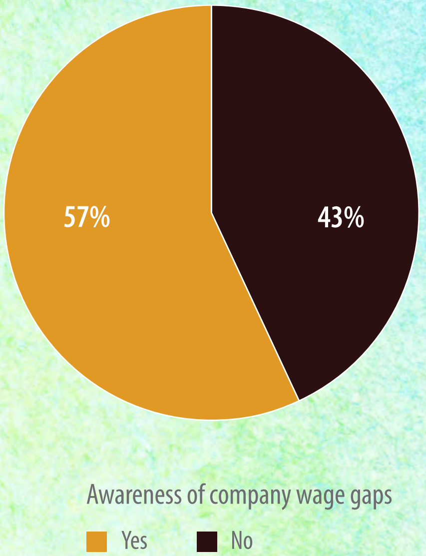
Source: Infosys Knowledge Institute

Struggles with 'S' and 'G' impact

Most businesses are not launching enough initiatives focused on governance, and as such, are missing out on both the short-term and long-term benefits that can flow from those. Firms have the greatest confidence that their work on governance has a long-term, real-world effect on people, planet, and profit. However, there are fundamental absences in their knowledge of important governance metrics, such as gender, executive, and minority wage gaps (Figure 14).

A small majority (57%) say they know their wage gaps. These gaps are important elements in the social portion of ESG and pose risks to reputation and the ability to attract talent. Executives need to understand the size of these gaps, dynamics that create them, and actions they might need to take.

Figure 14. Leaders are not fully aware of minority, gender, and executive wage gaps



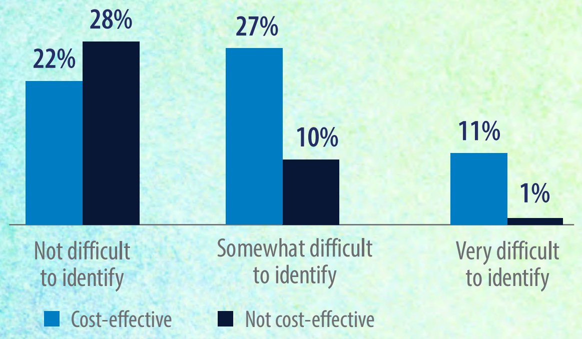
Source: Infosys Knowledge Institute

Supply chain hurdles on the horizon

A company's ESG evolution must start with its own employees, but it can't stop there. Increasingly, businesses want the supply chain to follow their lead: 40% say they select partners or vendors based on ESG impact. A growing number of companies are expected to account for their scope 3 greenhouse gas emissions and the social conditions of their partners' employees throughout the supply chain and value chain. In addition, only 1% say there is no effort to align supply chain partners with the business's ESG goals.

However, finding these kinds of partners is often a struggle (Figure 15). Half the respondents say it is difficult to find supply chain partners with good ESG credentials, although when they do find one, these partners are likely (60%) to be cost effective. When combining both factors, only 22% say these types of partners are both easy to find and cost effective. This creates a tension between short-term finances and long-term goals.

Figure 15. Difficulty of finding partners with strong ESG credentials is higher hurdle than cost

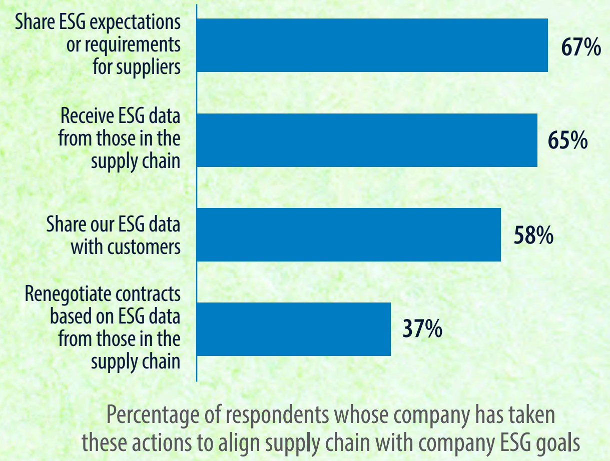


Source: Infosys Knowledge Institute

Despite these stated commitments, it's clear that many businesses have not fully embedded their ESG values into their supply chains (Figure 16). Only two-thirds of respondents say their company sets ESG expectations or requirements with their partners. And a little more than half (58%) share ESG data with those in the supply chain.

Without those basic elements in place, companies will struggle to fully achieve their ESG ambitions. Other research has also found that companies have a hard time understanding how to bring together their supply chain and internal ESG goals. An EY survey of executives found that companies have prioritized supply chain visibility, but only 37% are making progress on that front.[24]

Figure 16. Companies are not sharing ESG data within their supply chains often enough



Source: Infosys Knowledge Institute

> **"Data-driven insights of your end-to-end operations needed to achieve your sustainability goals, and the associated metrics developed at the corporate level, are essential to make financial sense of your sustainability decisions."**
>
> **Corey Glickman**
> Vice president, sustainability and design, Infosys

ESG: The new backbone of business

The survey results show a pragmatic and short-term approach to ESG. Many have now plucked the low-hanging fruit and have benefited financially from doing so. For many, reputation is the easiest initiative to launch and can show results quickly. Well-timed and well-coordinated marketing plans — when combined with clearly defined ESG efforts — can produce immediate benefits. This approach requires less investment and doesn't necessarily demand massive changes to the organizational and business models.

This strategy has served companies well — for now. Their ESG initiatives have mostly been profitable. Still, this approach is likely to be valuable only in the short term. The long-term expectation is that ESG efforts — particularly on the environmental side — will become more ambitious. These initiatives will need to generate significantly more revenue and profits and also improve the quality of life — both for employees and customers as well as the planet itself, whether it's greenhouse gas concentrations in the atmosphere or the health and welfare of workers. In that future, companies that don't have a strong ESG focus will struggle to stay afloat.

To adapt to this new environment, companies need to rethink where ESG fits within the enterprise. Business consultants and thinkers have sounded the alarm for years about technology and employee silos and how they hamper the ability to compete and evolve. What companies need now is an integrated approach to ESG, which at present often sits on the periphery of the organization. For long-term success, executives won't need to ask questions about ESG — they won't even be separate initiatives. They will be embedded in the company.

This kind of radical reinvention requires significant change management — and not just in the core workforce. This commitment to ESG must flow from and be led by the most senior executives in the company. They are the ones who understand how to deliver value and wield enough authority to empower change.

"S" and "G" are often hard to measure, and there is a great deal of uncertainty about how to link those initiatives to revenue or profits. An ESG-focused executive with little authority over core operations will struggle to succeed. Similarly, an executive who is integrated in operations but doesn't have enough authority will likely fail. Only those with a comprehensive vision of the enterprise will be able to clearly see the path forward.

"Going forward, sustainability is the way to do business. Organizations have to reorient their business models so that ESG is completely integrated within. That is the only way to maximize stakeholder returns."

Nilanjan Roy

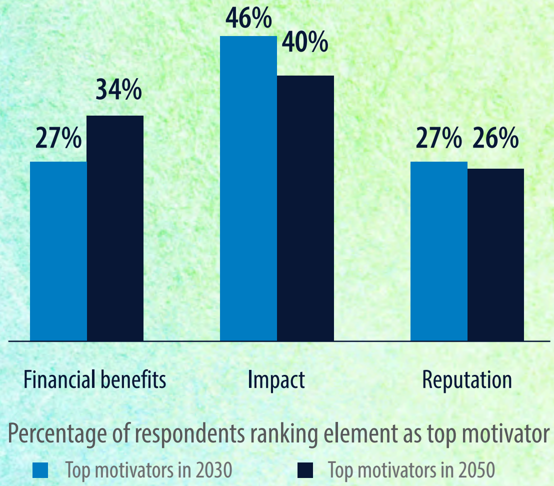
Chief financial officer, Infosys

Companies expect ESG to pay off in the future. But why wait?

Companies pursue ESG initiatives for many reasons: to keep pace with new, sustainable competitors; to lower the cost of capital; or because it's central to the company's identity. No matter the motivations, ESG efforts are expected to add to the bottom line: short-term, long-term, or both.

Financial returns are a lower motivation now, but they will be much more important in the future, say the executives and managers we surveyed (Figure 17). This will be increasingly relevant as enterprises move further into areas where the financial benefits are less certain.

Figure 17. Financial benefits will increasingly motivate companies' long-term ESG efforts



Source: Infosys Knowledge Institute

Businesses still have many changes they can make that not only have immediate, real-world impact, but can also offer short-term financial benefits. These changes are incremental rather than a big bang approach that reinvents the business model. This both makes short-term sense and paves the runway for long-term success, which will require more dramatic changes. Action today can accelerate more of ESG's rewards.

1. Treat ESG as a value creator, instead of a cost center.
2. Customers are important but prioritize employees in ESG efforts.
3. Embed ESG accountability in the leadership ranks to improve profits.
4. Transparency matters: Share ESG requirements and data throughout your value chain.

1. Treat ESG as a value creator, instead of a cost center

ESG is maturing quickly, which creates risks that businesses might fall behind their competitors. When this bundle of ideas and initiatives emerged, organizations had to determine what ESG meant for their enterprises and how to address each element. This early implementation often leads to check-box exercises and the view that their ESG initiatives were defensive — keep your customers from fleeing to more sustainable competitors and satisfy regulators.

Now, ESG is moving into an offensive era — one that goes beyond just charging a premium for more sustainable products. Infosys's research determined that companies received greater financial benefits as they spent more on ESG (a 1 percentage point boost in profit growth in return for a 10 percentage point increase in spending). Previous Infosys research has also found positive connections between ESG and financial performance. The 2022 Digital Radar determined that companies that have a strong ESG commitment also make more effective use of their technology, which was a proxy for profitability.[25]

There is nothing novel about the idea that you have to spend money to make money. However, many companies are not applying that strategy to ESG as they would to other parts of their business. Too many companies instead treat ESG efforts as something that is needed but not necessarily wanted.

One main concern is that a lack of financial commitment will keep their companies from reaching their ESG goals, our research has found. The top deterrents — cited by at least seven out of 10 — were related to either spending or executive concerns about short-term financial benefits. Those ranked higher than other high-profile hurdles, such as change management, an absence of standardized reporting and measurement, and a lack of the right technology.

This hesitancy about how much to invest — and what to expect from returns — is present despite companies making money on their current ESG initiatives. These early forays into creating more sustainable products are good enough now but maybe not for long.

The global economy is inching toward a circular model that keeps products and materials in the economy as long as possible.[26] This shift requires significant investment to create a system where money is made by keeping goods out of the landfill rather than seeing discarded products as another sales opportunity.

A lack of commitment and direction won't necessarily stop companies from pursuing ESG initiatives or even creating some level of impact. But that lack of commitment will reduce the scale of the impact on the bottom line and on people.

2. Customers are important but prioritize employees in ESG efforts

Companies should look at ESG initiatives as a new front in the war for talent as the traditional focus on customers shifts to employees. The combination of low unemployment rates and skills gaps made many executives reevaluate which stakeholders to prioritize. Our research backs up the wisdom of that trend. Analysis of reported financial data and company priorities determined that businesses that concentrate their ESG initiatives on employees — more often than on customers — have higher profit growth. However, that data showed that companies prioritize customers and employees almost equally, with customers only slightly ahead (29% vs 28%).

Workers want their employers to be more ESG-focused, whether it's addressing climate change or increasing diversity. A Deloitte survey of millennials and Gen Z workers found that nearly half made choices about jobs and companies based on issues such as climate change, systemic racism, and wealth inequality.[27] In a report from Adobe, nearly one-third of employees say they would only work for an employer that prioritizes sustainability.[28]

A commitment to ESG can not only attract talent but keep them engaged and increase retention. The cost of voluntary turnover has been estimated at 25% to 200% of the cost of each employee's salary.[29] A recent academic study also looked at the impact of turnover on product failure rates at a Chinese manufacturer.[30] That research concluded that each percentage point increase in weekly turnover rate increased the product failure rate by 0.74% to 0.79%.

Christopher Marquis, professor of Sustainable Global Enterprise and Management at Cornell University, has researched the B Corp movement and found that their status can boost the bottom line and reduce costs.[31] In a discussion on the Knowledge Institute's podcast, Marquis said that the strongest evidence is for cost savings that come through talent retention.

Marquis said that the head of a B Corp once explained to him that "I never have to look for people. I don't have to think about that because everyone stays. And when I grow, I've got a line of people out the door waiting to come work for me."

The point of attracting and keeping the right talent is the effect that it has on the business overall. The workforce drives innovation, understands customer needs, reflects a company's core values, and executes the C-suite's vision. And when sufficiently motivated, the workforce can elevate every initiative.

One example of ESG-centric efforts is the use of inclusive design.[32] This approach can lead to the creation of new, innovative products and the development of previously untapped markets. Although focused on the needs of potential customers, inclusive design is most likely to succeed with a diverse workforce that can see opportunities in markets that had been ignored.

3. Embed ESG accountability in the leadership ranks to improve profits

Executive compensation is one of the most common ways to steer a company. The structure of salary packages can incentivize profits, revenue, growth, or higher stock prices — and prioritize short-term versus long-term goals. This strategy is well understood and ubiquitous. However, it is not yet commonly applied to ESG initiatives or goals. Just 19% of our respondents say their company ties executive compensation to ESG metrics.

The time for half-measures is over. Formally embedding ESG into the C-suite and on the board is an effective way to improve financial outcomes. The best performers create ESG-centric positions at the top of the leadership structure and also give some of them budgetary authority. Lesser changes are not correlated with better financial performance, which suggests that it is time to make bold organizational moves.

The current approach of assigning ESG and sustainability functions to legal or other departments rather than the C-suite risks making ESG a compliance issue rather than a business opportunity. A 2020 survey by the Society for Corporate Governance found that fewer than one-fifth of the companies made their CEO responsible for sustainability initiatives — a smaller percentage than those that said they have no ESG or sustainability function.[33] Instead of moving responsibility to those at the highest levels, businesses mostly have spread awareness of the importance of ESG throughout the rest of the workforce. About half created ESG teams at all levels, offer ESG-focused training, and created ESG leaders or "champions" throughout the enterprise.

These broad changes are time consuming and high effort. But it's unclear how strong the impact will be if top leadership is not just on board but also properly incentivized to value ESG factors.

That's not to say that executives are not feeling an ESG squeeze. More than half of respondents say their company has board oversight of ESG strategy, which brings pressure from above. Simultaneously, employees and potential employees demand that companies prioritize ESG issues, whether its social equity or carbon emissions.

Even with these demands, the C-suite will continue to prioritize its own portfolios and follow the incentives.

4. Transparency matters: Share ESG requirements and data throughout your supply chain

Enterprises have strived to build a culture of sustainability and to better serve customers who insist that businesses act more ethically. It is necessary to get your house in order but not sufficient to achieve ESG's grandest promises. Companies must look externally at how their business affects people throughout the supply chain and share that knowledge.

Greenhouse gas emissions, human rights abuses, and environmental degradation are all risks for the climate, company reputation, and individual lives. Those risks are often masked or even invisible due to the complexity of supply chains, particularly in the lower tiers.[34]

Our research found that almost all companies are interested in aligning their ESG goals with the supply chain, but there has been limited action. At least one-third of companies surveyed are not doing the most basic work — sharing expectations and requirements — to align the supply chain and their ESG goals. Even fewer (37%) say they renegotiate contracts based on ESG data from those in the supply chain. This shows a need for more leadership in the supply chain and incentives to share their ESG data, whether it's meeting new contract requirements or making themselves more appealing to others in the supply chain.

This basic disconnect suggests that companies have broad goals but don't know how to achieve them — or in some cases, don't even know where to start. The first steps in almost any process are collecting and analyzing the available data. In this instance, data is limited. About one-third of respondents say they don't receive ESG data from those in the supply chain. And more than four in 10 (42%) do not share ESG data with customers.

All our research and experience points toward a need to accelerate data sharing in all areas of the enterprise and value chain. The days of passing the buck are numbered, particularly when it comes to climate change.

Stakeholders are pressuring companies to disclose their scope 3 greenhouse gas emissions, which include the supply chain and customers.[35] These account for an average of 75% of a company's total emissions but are usually the most difficult to measure and control.

The International Sustainability Standards Board intends to include scope 3 emissions in the new standards that it is developing, although it might give companies more time to comply.[36] The organization's current standards are already used in 140 jurisdictions worldwide, so these changes can have a global reach. The US Securities and Exchange Commission is developing similar rules and has strong support from investors that collectively own or manage more than $50 trillion in assets.[37]

To fully achieve their ESG goals in all areas, companies need help from outside experts. Our research found that firms that seek ESG assistance from nonprofits have better financial outcomes. However, just 26% of the respondents say their company consulted with nonprofits on ESG issues (Figure 18).

The use of certain organizations can also lead to better financial performance: The companies that pledge to CDP or the Global Reporting Initiative (GRI) are more likely to have increased profit growth compared to their peers. Those that pledge to follow the UN SDGs also report an increase in profit growth, but the amount is about half that of CDP or GRI.

In many cases, working with a nonprofit is a signal that a company is sincere about its desire to take strong action and a willingness to be held accountable. This poses risks that a business might fall short in a more public way but a chance that ESG efforts are more effective and more credible to stakeholders.

Figure 18. Companies seek ESG help in many places

Source: Infosys Knowledge Institute

> **"Transparency is key to ensuring meaningful insights and measuring real progress on ESG efforts to build a sustainable world."**
>
> **Aruna C. Newton**
> Vice president of ESG governance and reporting, Infosys

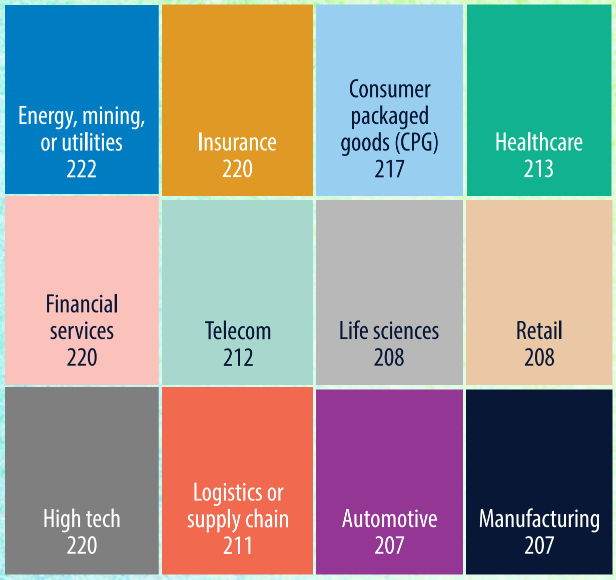
Appendix: Research approach

Infosys commissioned an independent third-party survey of 2,565 executives and managers. In addition to questions about ESG initiatives, we asked survey respondents for financial details including revenue range and yearly revenue and profit growth rates.

The survey was conducted from July to September 2022. It included respondents from companies with more than $500 million in annual revenue in the United States, United Kingdom, Australia, New Zealand, France, Germany, the Nordics, India, and China.

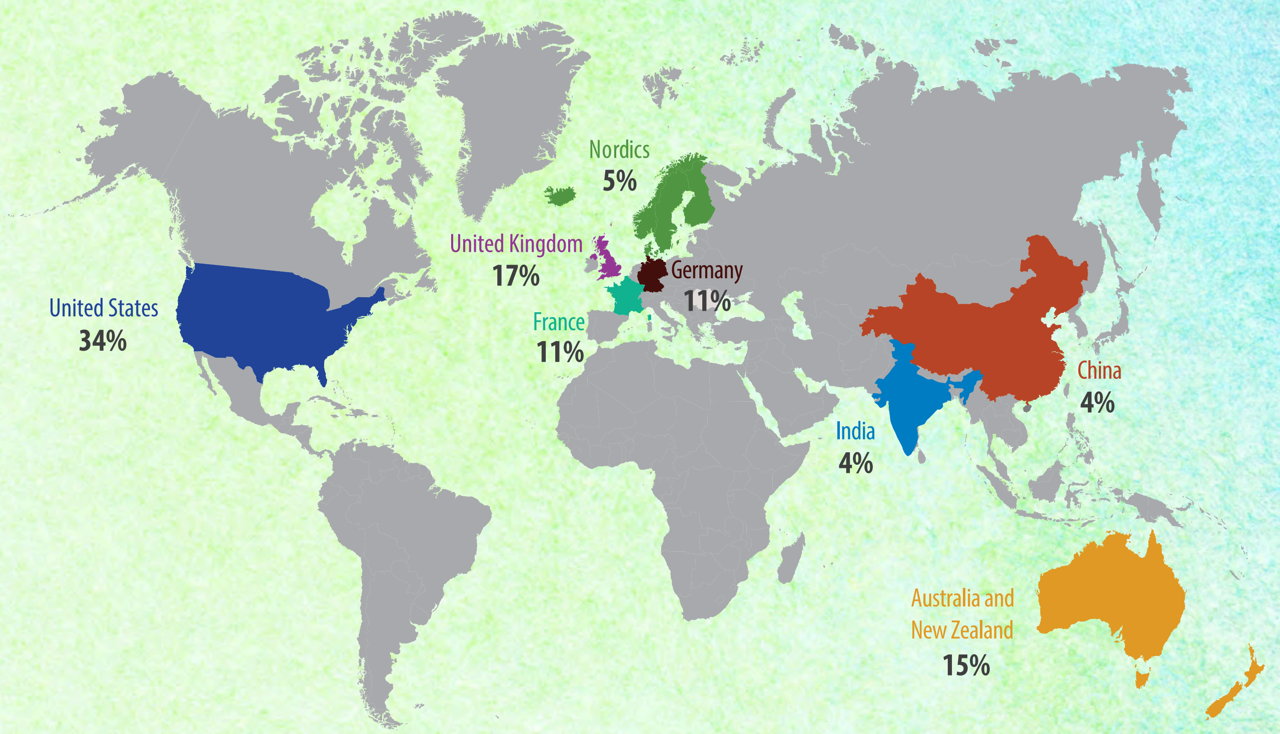
We identified and analyzed a large set of actions that could affect profit and revenue change related to companies' approaches to ESG. We then set base cases and found — via linear regression — actions that showed evidence of a statistically significant correlation with profit or revenue growth.

Industry

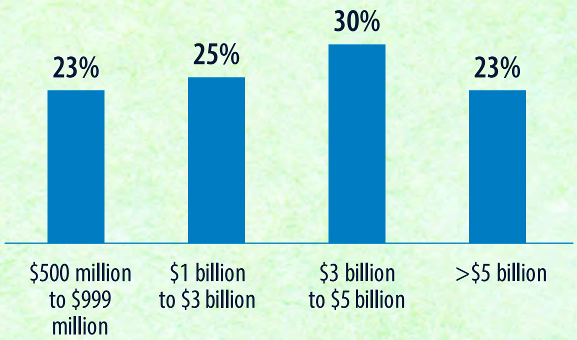


Job function

Country



Annual revenue



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