MOSSADAMS

The State of ESG for Mid-Market Organizations

CONTENTS

EXECUTIVE SUMMARY

Regulators, investors, supply chain partners, employees, and end consumers are all paying closer attention to environmental, social, and governance (ESG) principles right now. At a fundamental level, these stakeholders want to know that the companies they're doing business with and working for are conserving resources, treating people ethically, and complying with government mandates.

They also want to see that ESG is more than just lip service, and that the organizations they work with are indeed committed to sustainability, ethical practices, and compliance.

According to a new Moss Adams survey of 200 decision-makers, 76% of mid-market companies are already establishing ESG metrics, disclosing the related data, and identifying the accompanying risks. These and other survey findings prove the critical nature of ESG to corporate success. Companies simply can't afford to continue doing things the way they always have in a world that demands more—and where the next competitor is always just one mouse click or screen tap away.

Organizations that commit to robust ESG practices also benefit from reputational and brand value improvements; are better prepared to identify and mitigate sustainability-related risks; and attract and retain team members who prioritize employers that have strong ESG credentials.

This guide explores:

- Top survey findings
- Core ESG functions organizations focus on
- How organizations prioritize ESG reporting and disclosures
- Key drivers behind these efforts
- Challenges organizations have to overcome with ESG-related data collection and reporting

SURVEY METHODOLOGY

Market research company Talker Research conducted a random double-opt-in survey in July. Talker Research's team members belong to the Market Research Society (MRS) and the European Society for Opinion and Marketing Research (ESOMAR). The survey is based on input from 200 US ESG decision-makers or individuals, all of whom are involved with ESG sustainability initiatives such as strategy, reporting, and disclosures. Annual revenues of the respondents' companies range from $10 million to $1 billion.

THE EMPHASIS ON ESG IS REAL AND GROWING

As companies develop and commit to ESG strategies, they're also creating value for their stakeholders, themselves, and the world around them.

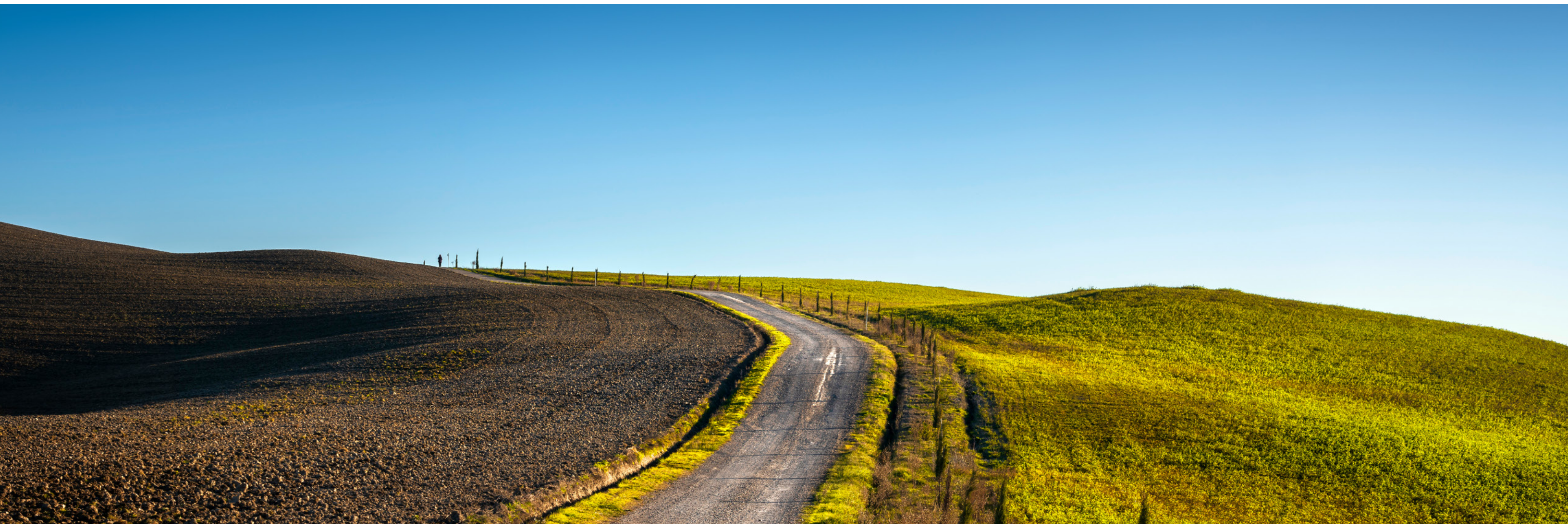
The impetus behind ESG strategy development and implementation doesn't stop there. In fact, ESG factors are often seen as indicators of an organization's long-term sustainability. Knowing this, 76% of corporations surveyed are setting goals, establishing metrics, disclosing data, and identifying ESG-related risk—all in the name of positioning themselves for current and future success.

Not all mid-market companies are at the same stage of the ESG maturity model. It's a fairly new concept for some organizations. By assessing where they stand right now and then putting initiatives in place, those companies can get to the next level and begin to leverage ESG as a true value driver.

> "An essential business advisor's early assessment can provide a clear understanding of ESG risks and opportunities, and the resulting insights can be leveraged to identify specific areas of improvement."
>
> — Colleen Rozillis, Partner, ESG Services

As a multifaceted endeavor, ESG hinges on the support and influence of various stakeholders. From employees and customers to investors, suppliers, communities, and regulators, each group plays an important role in shaping ESG performance. For instance, if team members feel undervalued or dissatisfied with their employer's environmental practices, it can lead to decreased morale, higher turnover, and a damaged corporate reputation.

Similarly, investors may be hesitant to invest in companies that have poor ESG track records, as this can signal potential risks to their financial returns. Put simply, a company's ESG performance is a reflection of its overall health and sustainability. It's also a testament to its commitment to ethical practices, social responsibility, and environmental stewardship—all of which are increasingly valued by stakeholders across the board.



PRIORITIZING ESG AS A BUSINESS IMPERATIVE

The ESG regulatory landscape is evolving and can be confusing, but mid-market organizations aren't waiting. Most of them are already managing some level of ESG reporting and looking for ways to improve upon and further prioritize this aspect of their operations. In fact, 94% of organizations surveyed report that they have a formal ESG reporting process in place.

In 87% of cases, companies are reporting these results and efforts in their annual corporate social responsibility or ESG reports, while 58% use their financial statements and 57% use their websites to publish those numbers. Half of companies include their ESG efforts and accomplishments in their internal policies and procedures.

When it comes to prioritizing ESG reporting and disclosures, most respondents—76%—consider it a high priority. Just 2% of respondents say their companies haven't prioritized ESG reporting and disclosures at all. The key drivers behind ESG or sustainability reporting and disclosures right now include the need to comply with related regulations (71%), strengthen the company's brand (68%), gain operational efficiencies (63%), or respond to stakeholder demand (49%).

Prioritizing ESG reporting and disclosures

76%

of respondents consider it a

HIGH PRIORITY

Key drivers behind ESG or sustainability reporting and disclosures:

71% need to comply with **REGULATIONS**

68% strengthen company's **BRAND**

63% gain operational **EFFICIENCIES**

49% respond to stakeholder **DEMAND**

NAVIGATING COMPLEX, EVOLVING REGULATORY TERRAIN

The ESG regulatory landscape is complex and dynamic. With a multitude of frameworks and regulations to navigate, companies face the challenge of navigating compliance amid a patchwork of geographic, size, and industry-specific requirements. Developing ESG reporting that meets the needs of varied audiences—and also works toward improved business outcomes—can be confusing in a world where assessments, disclosures, and standards constantly evolve.

The current global ESG compliance landscape includes both mandatory and voluntary frameworks. In Europe, for example, the Corporate Sustainability Reporting Directive (CSRD) mandates sustainability disclosures. In the US, the SEC is increasing its focus on climate-related disclosures and released the final Climate Disclosure Rule. Individual states have begun issuing similar acts.

Various stakeholders exert pressure to have an ESG strategy and report on ESG data, even if the organization itself may not be directly impacted by ESG regulations. Competitive pressure also comes into play in a world where many companies have already embraced ESG, developed initiatives around it, and started including voluntary disclosures in their 10-Ks and other financial documents.

For any company in a large organization's value chain, those entities may now be requesting or requiring more ESG reporting from their partners. There's also pressure to avoid greenwashing and social washing by providing proof that your company's ESG claims are accurate and substantiated. This means it's not enough to just talk the ESG talk anymore; organizations have to prove they're actually doing it.

These are some of the drivers that make ESG compliance increasingly important to multiple stakeholders such as employees, consumers, and shareholders. Organizations must be prepared and understand their options for collecting, assessing, and reporting on ESG data and providing assurance on that data. This is particularly important for mid-market organizations that suddenly find themselves impacted by and subjected to new regulations. Aligning internal teams, creating the reporting infrastructure, and developing the data disclosure channels can all take time, effort, and investment.

Despite these roadblocks, 49% of survey respondents say it's somewhat easier to collect and analyze ESG and sustainability data while 22% say the task is either somewhat or very challenging. The biggest obstacles cited include data availability and quality (49%), complying with ESG reporting frameworks (43%), integrating ESG with business strategy (41%), and a lack of time, money, and expertise needed for good ESG data collection and reporting (39%).

> "Independent verification of sustainability claims not only lends credibility to a company's efforts, but it also helps avoid 'greenwashing.' That way, the energy and focus can go towards transparency, accountability, and stronger corporate governance of sustainability and other initiatives."
>
> — Justin Neff, Partner, ESG Services

While collecting and analyzing ESG reporting may be challenging, organizations are also looking for ways to more efficiently manage this aspect of their operations. 70% indicate it's a high priority for them to improve their ESG data collection and reporting process and 29% indicate it's a medium priority. More than two-thirds of companies—69%—rely on dedicated ESG or sustainability teams to handle reporting while 20% use external sustainability consultants or advisors. For 11% of companies, ESG responsibilities are assigned to one or more departments.

The survey also found that 91% of companies currently obtain assurance for their ESG or sustainability reporting, with 74% getting reasonable assurance and 18% obtaining limited assurance for the data. This extra measure helps ESG claims hold up to stakeholder scrutiny at a time when greenwashing not only harms a brand's reputation but also holds back the sustainability movement as a whole.

Improving ESG Data
collection and reporting

70%

of organizations make it a

HIGH PRIORITY

ESG data collection and reporting challenges include:

49%
data availability and quality

43%
complying with reporting frameworks

41%
integrating with business strategy

39%
lack of time, money, and expertise

91%

of organizations obtain

ASSURANCE

for their ESG or sustainability reporting

HOW TO PUT YOUR BEST FOOT FORWARD WITH ESG

Embracing ESG reporting as a strategic tool not only aligns businesses with societal expectations but also paves the way for continued company growth and long-term success. With 98% of the mid-market companies surveyed prioritizing ESG reporting and disclosures right now, you don't want to fall behind your peers on this very important curve.

Companies that want to either improve upon existing ESG reporting practices, implement new policies, or enlist the help of an essential business advisor can start with these initial steps.

CONDUCT A MATERIALITY ASSESSMENT

This will help you understand what your ESG focus areas should be. ***"A materiality assessment will tell you what to focus on, so you aren't trying to 'boil the ocean' and are instead centered on material topics or risks to your organization,"*** Madison Poitras, FSA, Senior Manager, ESG Services said.

CONDUCT AN ESG SCAN

A scan will help you understand what's already happening at your organization and create an ESG team or committee to steer strategy in this area. Based on the results of the scan, ways to improve would be considering a system of record for your ESG reporting, such as an audit trail of your data or automation of your reporting process.

GET EVERYONE IN THE ORGANIZATION ON BOARD

Ensure alignment at the board level to support resource allocation in support of the company's strategic objectives. Understand your governance structures, including board oversight and management oversight of ESG objectives and strategy. Having the board and management on the same page will ease integration of business strategy.

ALIGN WITH AN ESG REPORTING FRAMEWORK

Use relevant ESG reporting standards to support your organization in reporting relevant information from an industry-specific and industry agnostic perspective.

DEVELOP AND REPORT ON PROGRESS

Based on focus areas and results of your ESG scan, develop key performance indicators (KPI) in accordance with the selected ESG reporting framework. Set clear, measurable KPIs aligned with the company's strategic objectives and implement data collection processes based on defined KPIs to report on progress.

PUT CONTINUOUS IMPROVEMENT TO WORK

ESG isn't a set-it-and-forget-it exercise. Based on KPI progress, adjust your ESG strategy and initiatives to improve performance, meet stakeholders' expectations, and stay compliant with new regulations.

ENLIST OUTSIDE HELP FROM AN ESSENTIAL BUSINESS ADVISOR

While 69% of mid-market organizations have a team dedicated to ESG or sustainability, this isn't the only way to succeed at ESG reporting. Especially if you're resource challenged, you have to do what suits your organization best. Mid-market companies striving for a more efficient and effective reporting and disclosure approach may want to enlist outside support from a provider that has deep expertise in this area.

Moss Adams has helped numerous mid-market companies achieve their ESG reporting and disclosure goals. Some of those companies started on the ground floor and lacked the expertise needed to develop an ESG reporting strategy, define their goals, and complete a materiality assessment. Many companies also needed help understanding the ESG regulations and compliance criteria impacting their operations. Because some ESG data is applicable to certain industry niches, Moss Adams also helps companies identify, use, and report on that data via its specialty services, which include carbon accounting and organizational assessments.

IT'S TIME TO TAKE ACTION

Based on the survey results and what's going on in the world around us right now, organizations are clearly taking ESG frameworks, standards, reporting, and disclosures very seriously. The regulatory environment can be difficult to navigate, but the pressure coming from all sides—investors, partners, customers, employees, and others—is just too much to ignore.

Rather than risk being left behind, mid-market companies are stepping up to the ESG plate and asking themselves these important questions:

- Do we have an ESG strategy?
- Do we feel confident in our ESG reporting?
- Is that reporting complete and accurate, or not?
- Do we have internal controls in place over our ESG data?
- Do we have proper oversight of our ESG reporting process?
- Can we impact our bottom line by reporting more ESG initiatives?
- Do my largest customers and partners have an ESG strategy? And, how will this impact our cumulative business?

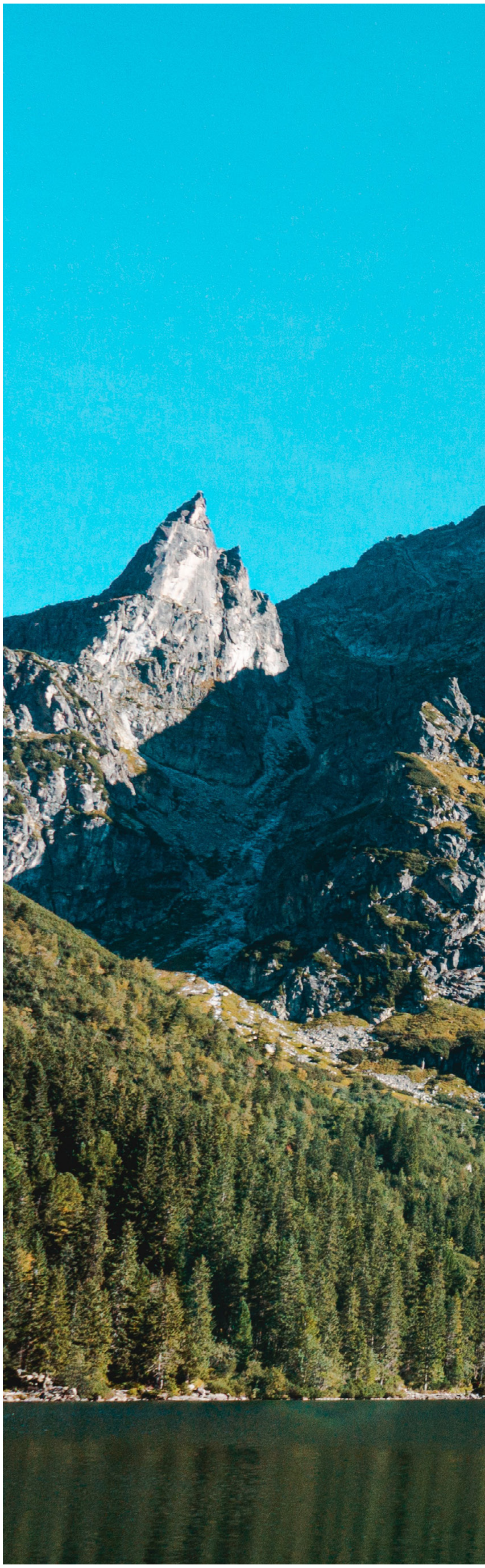
Moss Adams' latest survey underscores the growing importance of ESG and sustainability reporting across a wide range of industries. As regulatory scrutiny intensifies and global frameworks converge, it's clear that ESG is no longer a peripheral concern but rather a core element of corporate responsibility. Regardless of their size or sector, organizations must integrate ESG into their strategic plans in order to successfully navigate the evolving landscape, mitigate risks, and capitalize on sustainability-related opportunities.

ESG ADVISORY SOLUTIONS

Align your business practices with **ESG principles** to help accelerate your mission and transform your culture while strengthening brand value and your bottom line. We help organizations make an impact and live their values through a range of services.

KEY FOCUS AREAS

- ESG examinations and reviews
- Assistance with supplier, customer, and employee codes of conduct
- Assistance with GHG emission calculations
- Board governance assessments
- Tax benefit claims for ESG practices
- Strategy and operations consulting
- Data analytics and ESG software solutions
- Compliance with transparency in supply chains act
- ESG current state assessment
- Materiality assessments
- Reporting readiness assessment
- ESG reporting



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