KPMG U.S. ESG and Financial Value Survey:

Businesses report ESG delivers value in many ways, but hurdles remain

Survey Report

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September 2023

Executive summary

KPMG U.S. 2023 ESG Survey

Summary of survey results

KPMG U.S. 2023 ESG survey reveals that business leaders are increasingly focusing on leveraging their ESG strategies to maximize value.

Despite economic uncertainty, 55% of respondents indicated that their organization scaled up their ESG efforts this year, while only 26% scaled back.

The survey found that 66% of larger firms (10k+ employees) are better aligning their business and environmental goals compared to five years ago.

ESG engagement and financial Value

Business leaders report that ESG engagement is adding financial value across a host of areas, with 43% of business leaders at larger firms reporting that ESG is improving financial performance compared to just 6% reporting it reduced financial performance.

M&A efficacy, access to new capital, and customer loyalty are the top areas where leaders believe ESG engagement adds significant financial value. In the longer term, organizations are expecting ESG to drive value across more areas, especially in improving resilience and attracting new customers with premium pricing.

Businesses feeling pressure

Eight in ten businesses say they are feeling at least some pressure from supply chain partners, employees, investors, customers, and regulators to be more transparent about their environmental and sustainability efforts.

Time pressure, lack of resources, and reporting requirements

Time constraints (51%) and regulatory uncertainty (44%) were cited as the biggest challenges to implementing ESG strategies and meeting reporting requirements.

Still, 53% are at least somewhat confident in meeting U.S. reporting requirements.

Almost half (46%) of companies have slowed down or stopped ESG reporting as they await the U.S. Securities and Exchange Commission's final rule on climate-related reporting expected in October.

Summary of findings

1

Business leaders are optimistic about the financial value of ESG today and in the coming years, especially in the largest firms.

2

Recession fears created an opportunity for many to differentiate, an opportunity that persists as ~25% of leaders report a compliance-only mindset.

3

Supply chain partners are the new “tip-of-the-spear,” edging out institutional investors and employees.

4

Time pressure and a lack of resources, including talent, are hampering efforts to implement ESG strategies and meet reporting requirements.

5

Over 50% of businesses are at least somewhat confident in meeting reporting requirements in the U.S. and elsewhere. Only 29% are "very confident.”

6

While there’s excitement about and engagement with generative AI, many businesses believe it is still too early to tell if it will be truly transformative for ESG.

KPMG

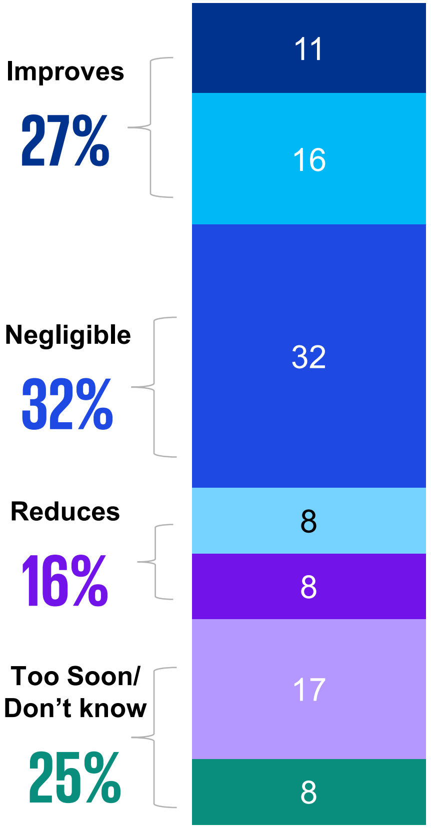
1. Businesses are advancing environmental and sustainability approaches.

Environmental goals	New innovations and technology	Environmental practices	Reporting demands	Recession	Communicating ESG efforts
43% Overall business objectives are more aligned than they have been in the past	**57%** Putting in significant efforts to reduce environmental impact	**56%** Adopting comprehensive environmental and sustainable practices	**51%** Preparing for enhanced reporting demands and requirements	**55%** Continuing ESG efforts despite potential recession	**76%** internally to employees **75%** externally to customers, partners, and investors

Business leaders – especially at larger firms – report that ESG is improving financial performance, with most scaling programs despite recession fears this year

Impact of ESG Programs on Financial Performance

Please rate the impact of your company's ESG programs on your financial performance. Select one.



	Total	Employee Size		
		500-5K	5K-10K	10K+
Improves	27%	26%	18%	43%
Negligible	32%	31%	37%	26%
Reduces	16%	16%	23%	6%
Don't know	25%	26%	22%	26%

Rob Fisher

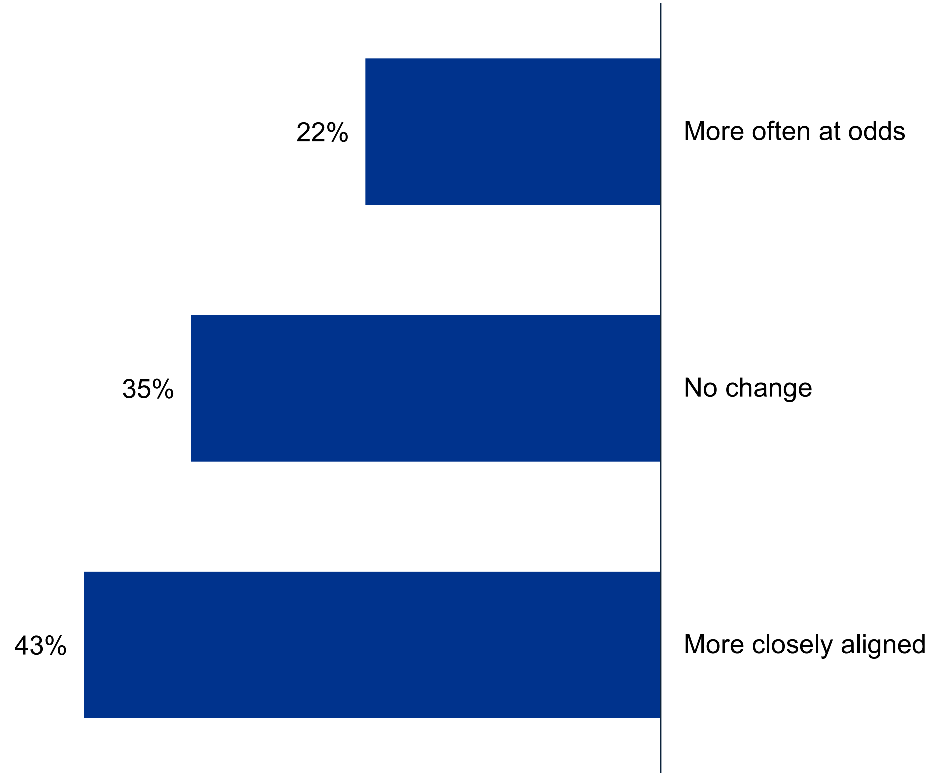
KPMG U.S. ESG Leader

"To truly be sustainable, ESG programs must be aligned with the business strategy, well-executed, and measured. The fact is there are many levers by which ESG can add financial value, but that also requires deep enterprise-wide engagement to maximize the potential and gain a competitive edge throughout the transition to a low-carbon economy."

Please rate the impact of your company's ESG programs on your financial performance: Significantly improves, improves, reduces, significantly reduces, neutral/negligible, too soon to tell/we have yet to measure

Compared to 5 years ago, the largest firms are better aligning their business and environmental goals

Alignment of business and environmental goals compared to 5 years ago

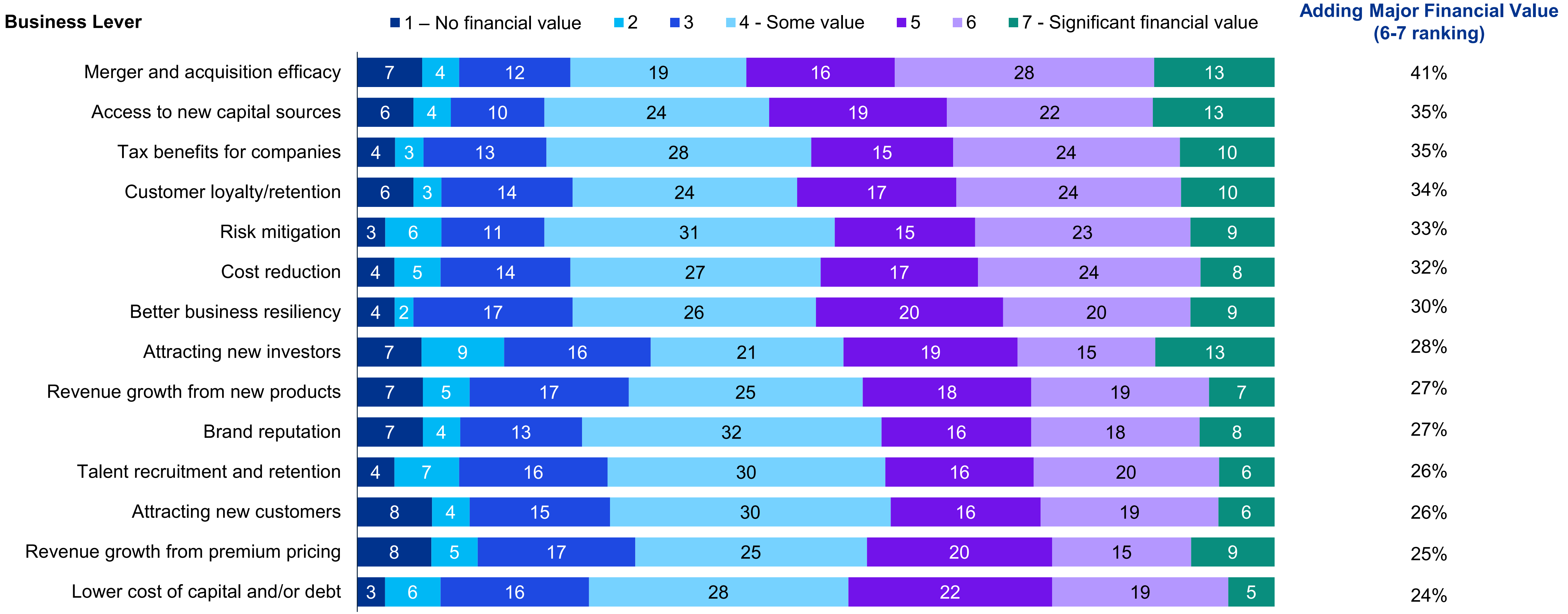


Employee size	500-5K	5K-10K	10K+
More often at odds	25%	20%	20%
No change	41%	37%	14%
More closely aligned	35%	43%	66%

Compared to five years ago, are your business objectives and environmental goals at odds, more closely aligned or they haven't changed.

Today, business leaders report ESG engagement is adding financial value across a host of areas, with M&A efficacy, access to new capital, and tax benefits leading the way

Financial Impact on Business Areas from ESG Efforts Today

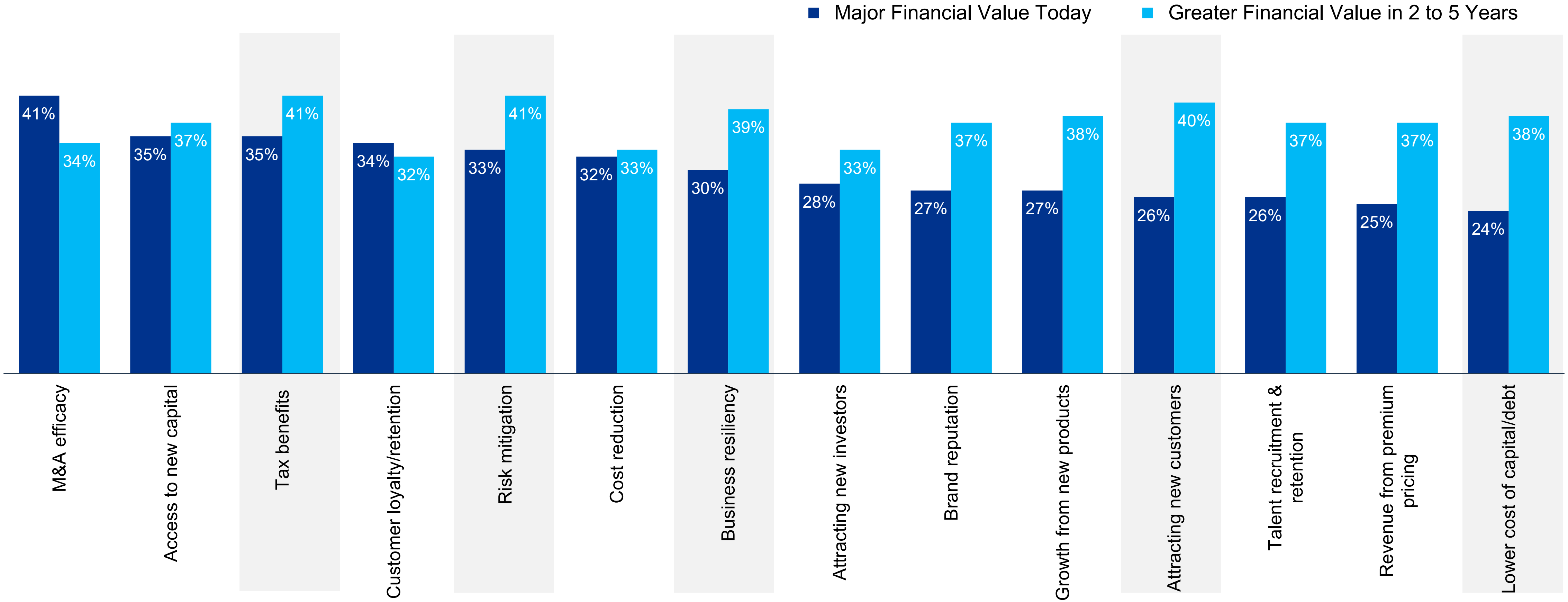


Note: %s may not add up due to rounding

How much financial value do you believe your company is realizing today from its environmental and sustainability efforts in each of the following areas?

In the longer term, organizations are bullish on ESG driving value across more areas, especially in improving resilience and attracting new customers with premium pricing

Financial Impact on Business Areas from ESG Efforts Today vs the Next 2 to 5 Years

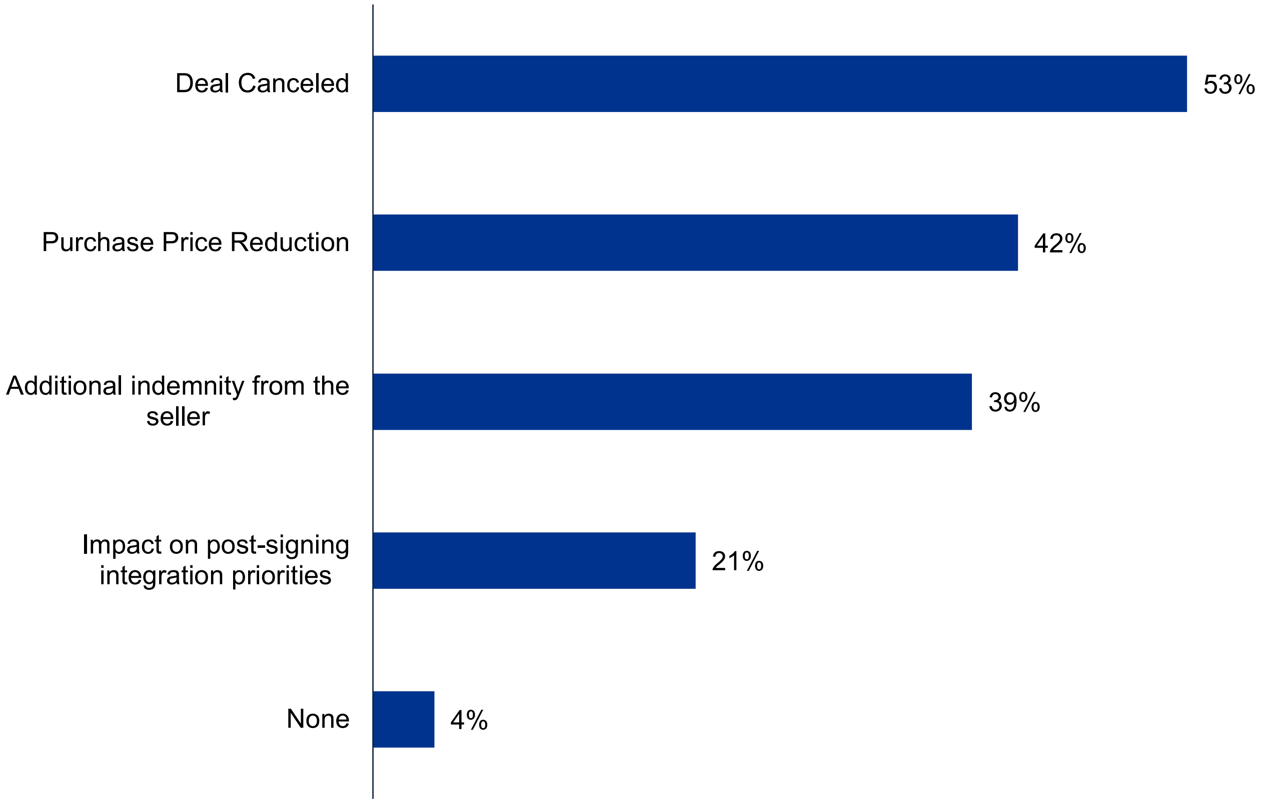


How much financial value do you believe your company is realizing today from its environmental and sustainability efforts in each of the following areas?
How much financial value do you believe your company will realize in the next 2 to 5 years with its environmental and sustainability efforts in each of the following areas?

Spotlight: Prior KPMG research found that material findings from ESG due diligence led to deal cancellations and price reductions

59% of corporate investors surveyed had deals canceled due to a material finding

Consequences of Material Findings



Clare Lunn

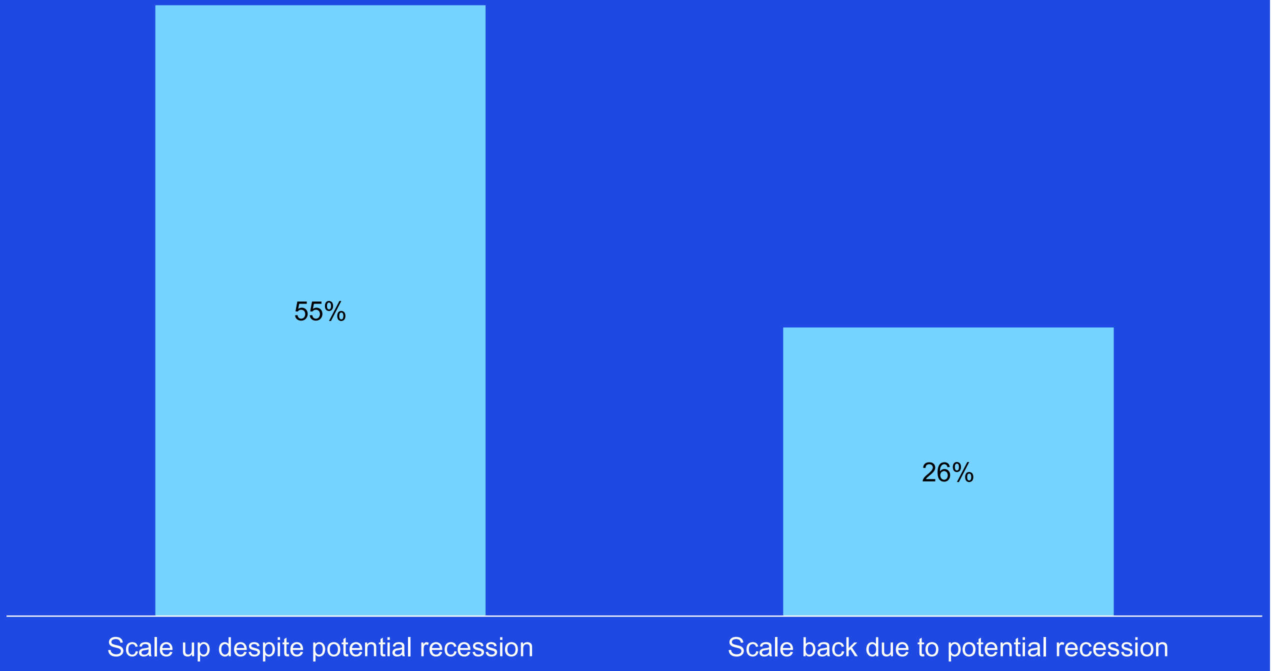
KPMG U.S. ESG Advisory Leader

> “The growing body of KPMG research leaves no room for speculation: Material ESG due diligence findings wield the power to shape deal outcomes, prompting cancellations and price adjustments. This underscores the need for astute ESG evaluation in today’s business environment.”

2. Fears of a recession created an opportunity to differentiate through ESG engagement, an opportunity that persists today

In 2022, our CEO Outlook found that while 70% of leaders believed ESG had positive impacts on financial performance, 59% were planning to pause or reconsider their organization's ESG efforts.

We revisited this question this summer



Rob Fisher

KPMG U.S. ESG Leader

> "This past year was a classic moment in having to balance short-term uncertainty with long-term goals. Businesses that recognize they need to make investments today will be in a better position to capitalize on those investments, attracting new investors and customers while improving their resilience over the long term."

Responses about company initiatives and perspectives reveal different ESG mindsets across businesses, creating opportunities for leaders to unlock value

ESG Leaders

Leaders are transforming their organizations through ESG-focused leadership roles, technologies and product strategies:

35% Purchased renewable energy or started providing more climate-friendly products or services

33% Created senior positions to drive environmental goals

29% Made investments in sustainability reporting technology

ESG Pace-Keepers

Over half of companies are putting significant effort toward scaling up their environmental and sustainability practices, including:

57% Incorporating innovations and technologies to reduce environmental impact

56% Adopting comprehensive environmental and sustainability practices

51% Scaling up on environmental and sustainability efforts in preparation for enhanced reporting demands/requirements

ESG Compliance-Focused

Compliance-focused companies are taking a wait-and-see approach as ESG rules and regulations move toward finalization:

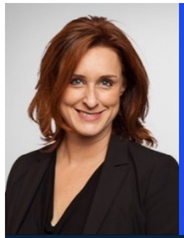
28% Only doing the minimum to comply with government regulations

18% Only responding to pressure from stakeholders such as investors and customers

3. Businesses are feeling pressure from multiple stakeholders to provide more ESG transparency while dealing with resource challenges.

8 in 10 businesses

say they are feeling at least some pressure from supply chain partners, employees, investors, customers and regulators to be more transparent about their environmental and sustainability efforts.



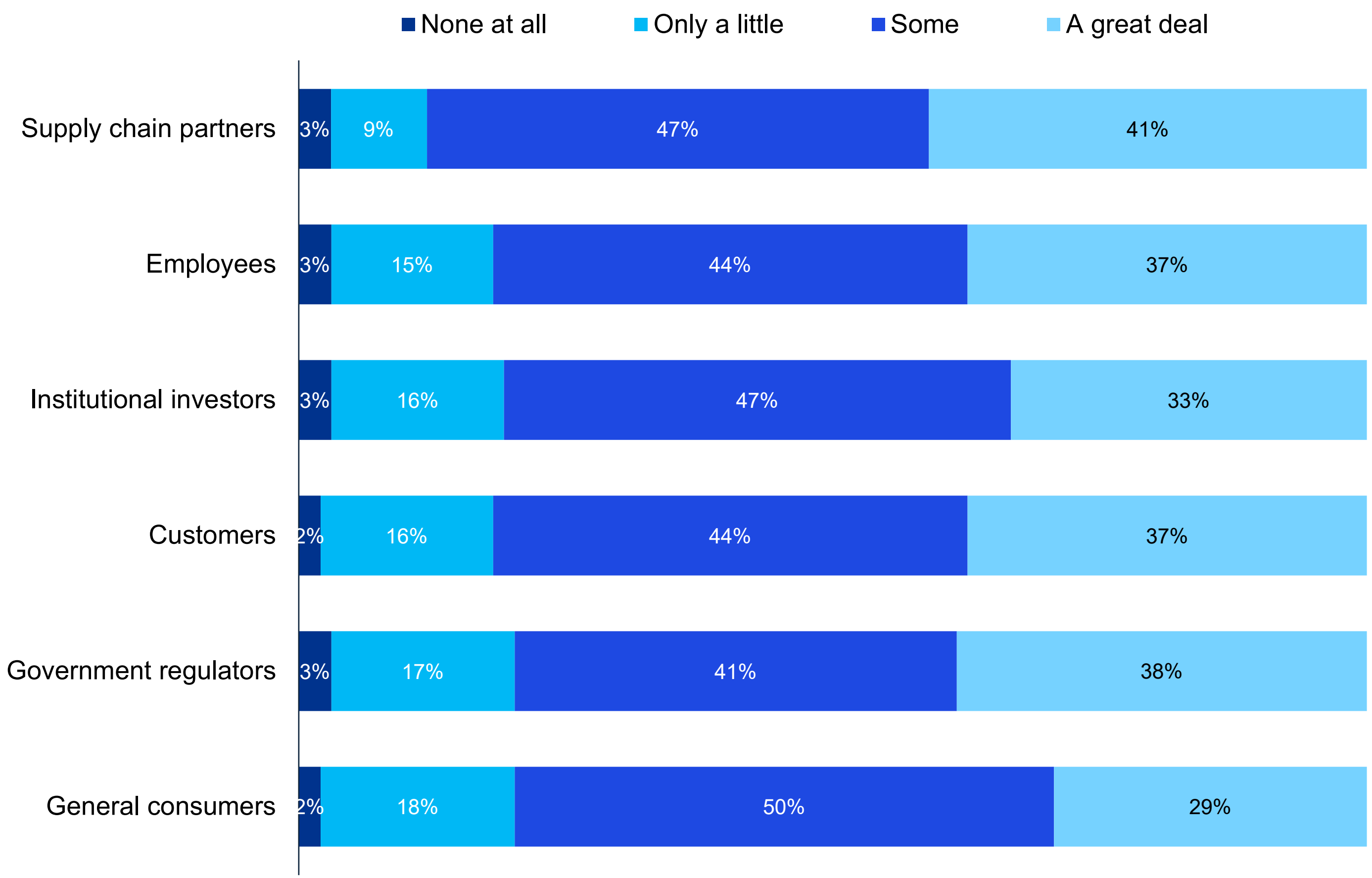
Katherine Blue

KPMG U.S. ESG and Climate Change Leader

"ESG is too often discussed as a compliance exercise, but businesses continue to report that pressure for engagement comes from not just government regulators, but also investors and customers. Today, supply chain leads the way, meaning both public and private companies must think critically about their strategy."

Companies are feeling pressure from multiple stakeholders especially supply chain partners to increase their ESG reporting and transparency

Demand for Increased ESG Reporting and Transparency From Stakeholders



	A great deal/some	500-5K	5K-10K	10K+
Supply chain partners	88%	92%	80%	86%
Employees	82%	84%	80%	77%
Institutional investors	81%	86%	68%	86%
Customers	81%	78%	83%	86%
Government regulators	80%	82%	75%	80%
General consumers	79%	82%	77%	74%

Note: %s may not add up due to rounding

4. Time pressure and a lack of resources are hampering efforts to implement ESG strategies and meet reporting requirements.

Top outcomes cited by businesses include:

Finding the right talent to work on **ESG goals and strategies**

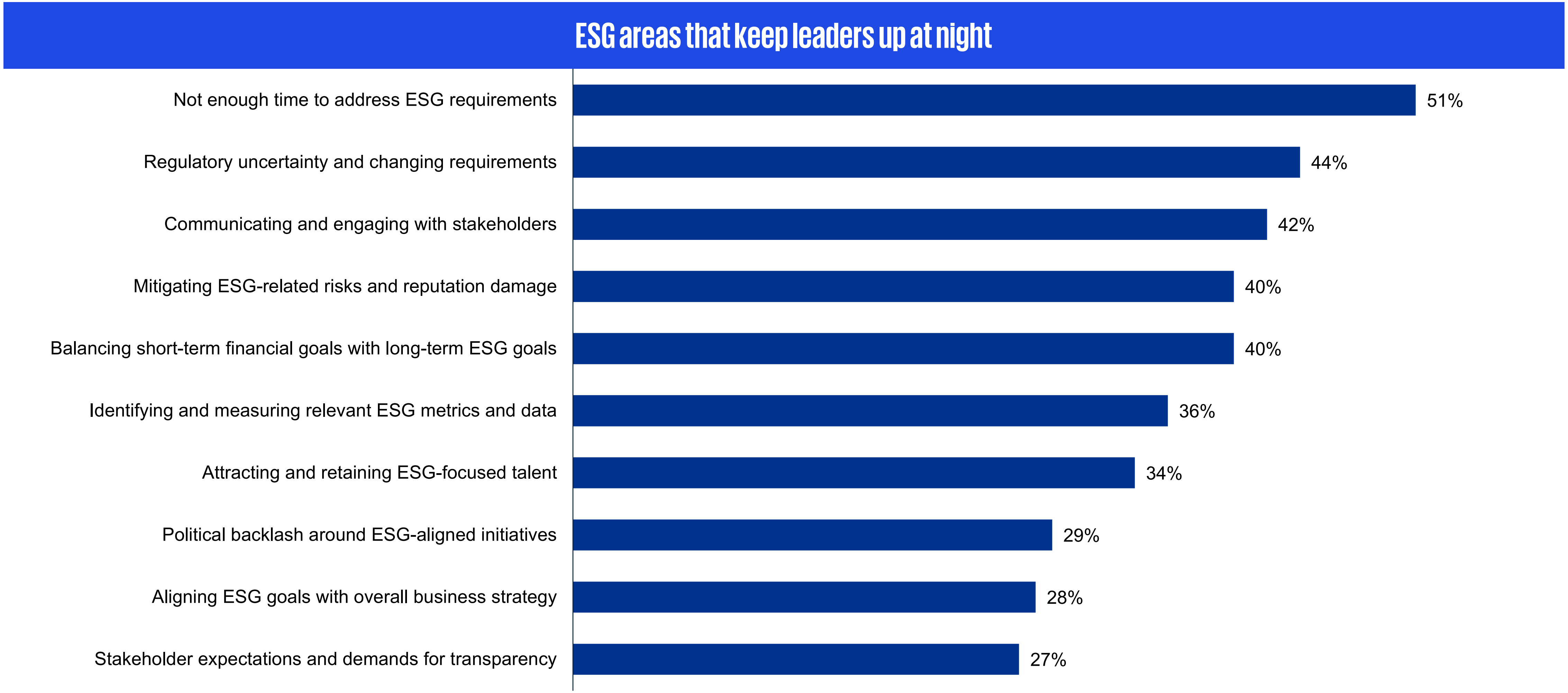
Balancing ESG goals with other business priorities

Not keeping up with **competitors' ESG efforts**

High cost of resource and talent to manage reporting across different jurisdictions

Having adequate time to make **necessary business transformation** to address ESG regulatory requirements

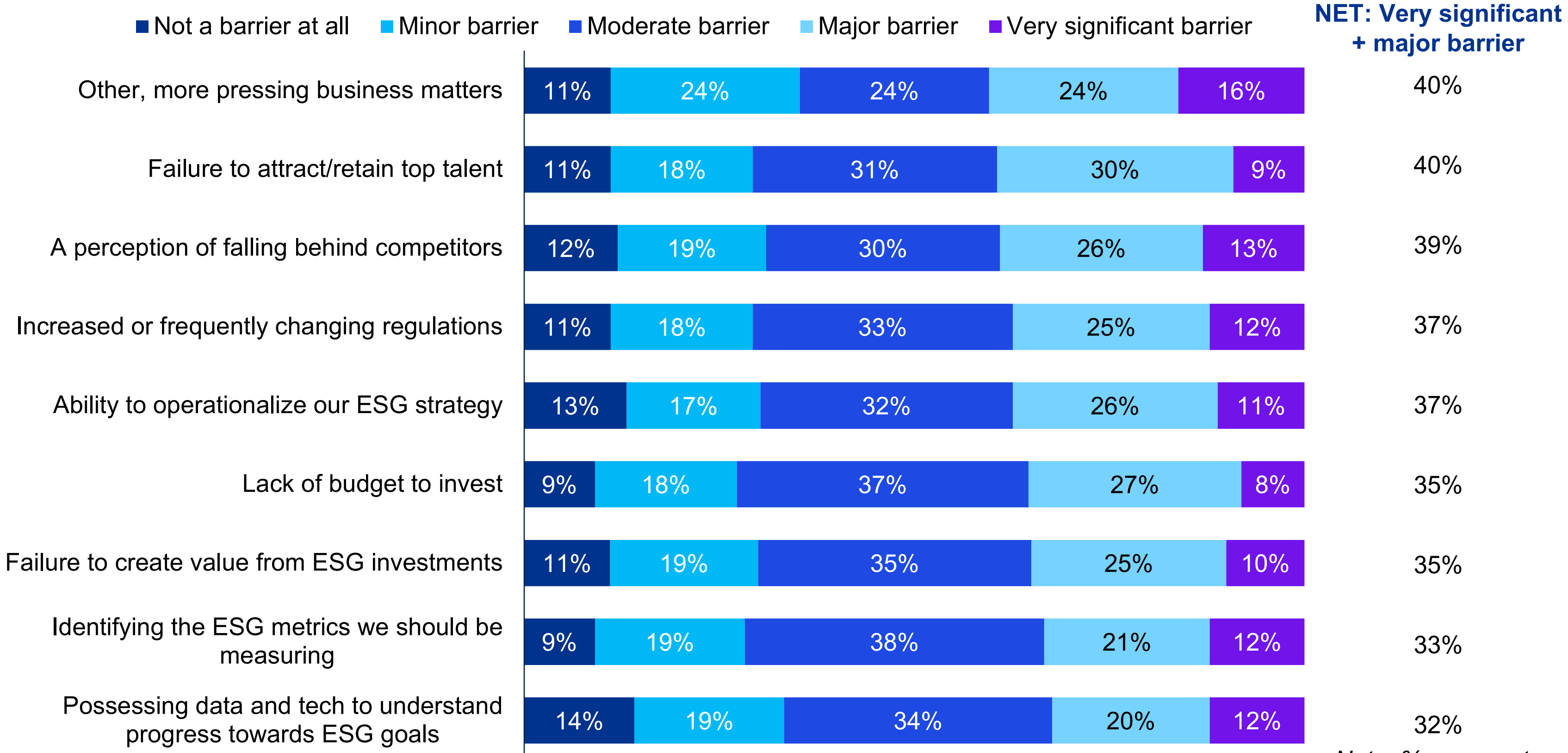
Time constraints, regulatory uncertainty and stakeholder engagement are keeping business leaders up at night



What keeps you up at night when it comes to ESG challenges?

Effectively delivering ESG strategy requires facing numerous barriers, creating long-term risks for companies

Major Barriers to Accomplishing ESG Strategy



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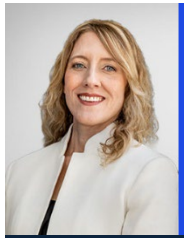
What do you see as the biggest barrier to delivering on your ESG strategy?



Emily Frolick
KPMG U.S. Trusted Imperative Leader

"Many barriers to carrying out an ESG strategy can become self-reinforcing. Other pressing matters, lack of talent, and a perception of falling behind can become long-term challenges if not overcome. Strategies that consider these risks and challenges can help build positive momentum over time."

5. 53% of businesses are at least somewhat confident in their ability to meet future environmental and sustainability reporting requirements in the United States

Only a quarter of companies feel confident that they can meet future ESG reporting requirements across US, EU and other international jurisdictions

Almost half (46%) of companies have slowed down or stopped ESG reporting because of delays with US SEC final climate reporting rules

Two-thirds (67%) of businesses say that they will be required to report in 3 to 4 jurisdictions

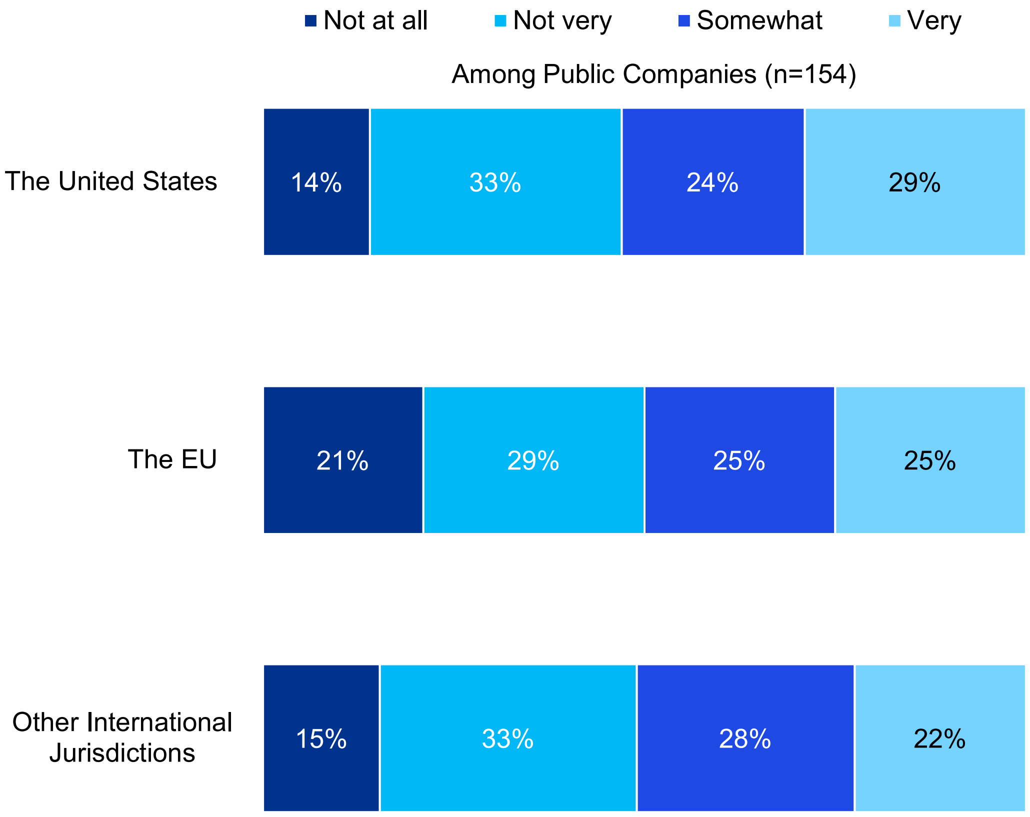
Maura Hodge

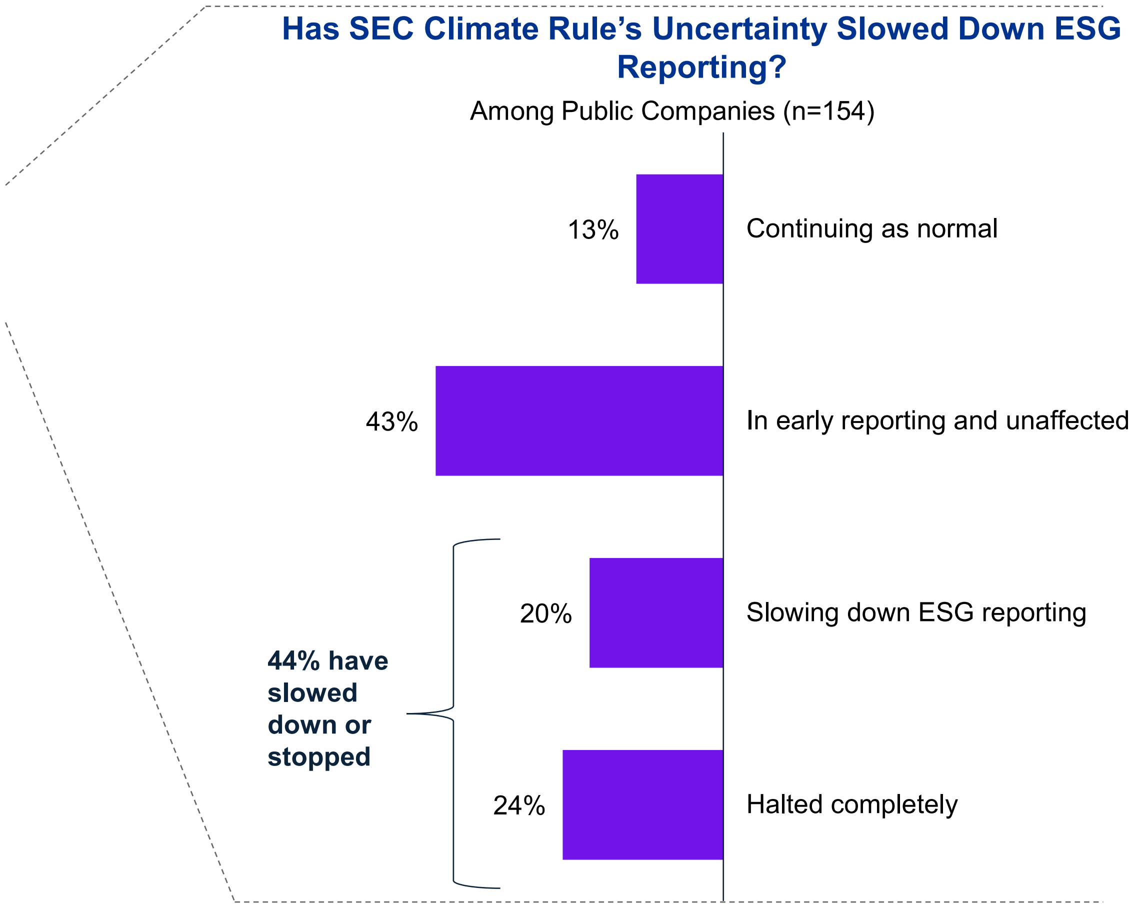
KPMG U.S. ESG Audit Leader

"For many companies, ESG reporting requirements are already here even as we await the SEC's final rule. While convergence has begun, organizations will undoubtedly struggle to navigate the web of global requirements as we determine the interoperability of the standards. The very cautious confidence among companies on reporting underscores the urgency to align one's reporting approach with business strategy today."

Only a quarter of companies feel "very confident" meeting future ESG reporting requirements across the U.S., EU, and other international jurisdictions

Confidence in Meeting Future ESG Reporting Requirements in Jurisdictions

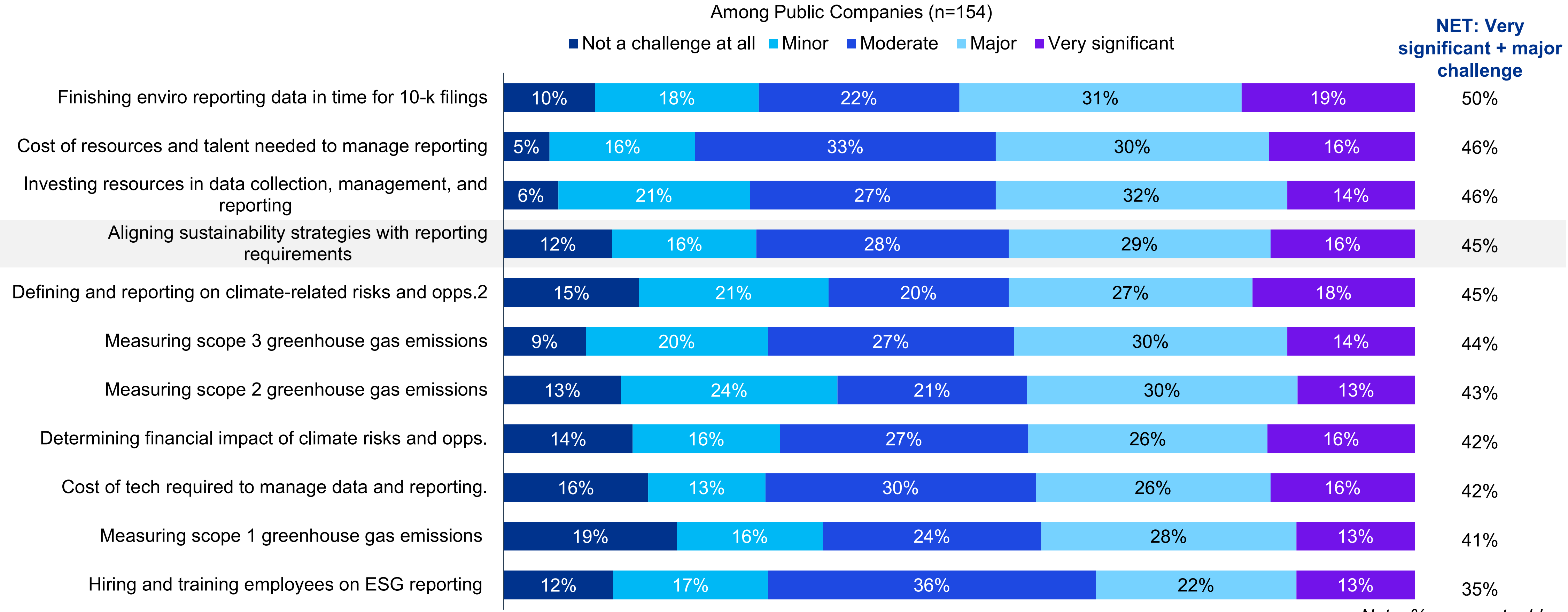




How confident are you in your company's ability to meet future environmental and sustainability reporting requirements in...

While resourcing, costs, and timing pose challenges to meeting ESG reporting requirements, aligning sustainability strategy with reporting requirements is a major hurdle

Major Challenges to Meeting ESG Reporting Requirements Across Jurisdictions



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Please rate the following potential challenges to your company's preparedness to meet proposed environmental reporting requirements across multiple, international jurisdictions.

6. Using Generative AI to achieve ESG goals is still in the early stages, and for many it is too early to tell if it will transform ESG approaches

Three-quarters **(77%)** are still determining if Generative AI will have a transformative role in helping them reach their ESG goals – only a fifth **(18%)** are more definitive that Generative AI will be transformational.

At this point, just over half **(52%)** expect Generative AI to help them achieve ESG goals through reducing operational inefficiencies, waste, etc.

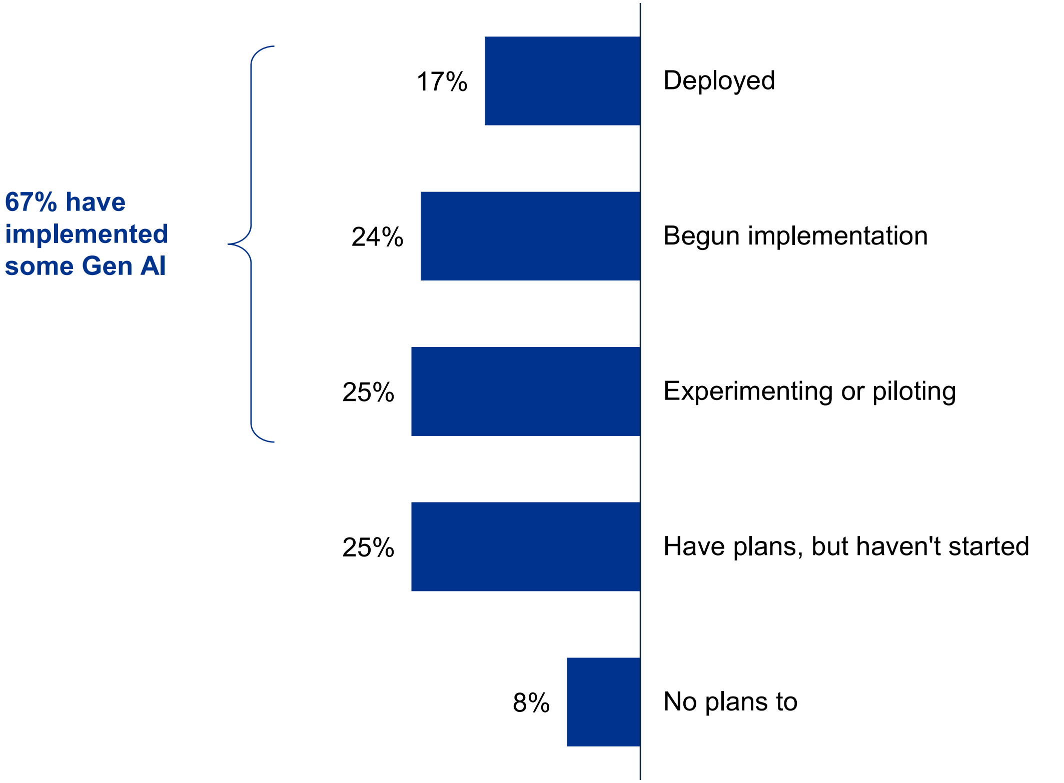
Tegan Keele

KPMG U.S. Climate and Technology Leader

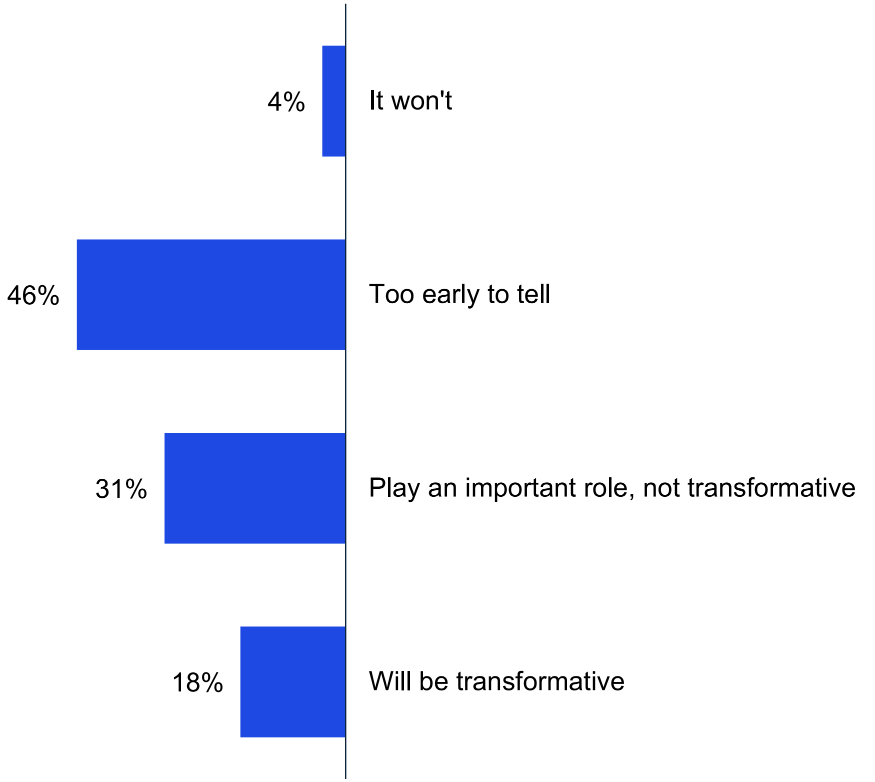
“Gen AI has transformative potential, and companies exploring this technology in their ESG strategy are on the right track. To fully realize the benefits of Gen AI, a strong foundation of reliable data is crucial. By pairing data and technology strategies, companies can unlock the full potential of Gen AI and gain a competitive advantage.”

Almost all business leaders report they have plans to implement or already have implemented Gen AI to meet ESG goals despite believing that its ultimate impact on ESG remains unclear

Status of Implementing Gen AI to Meet ESG Goals



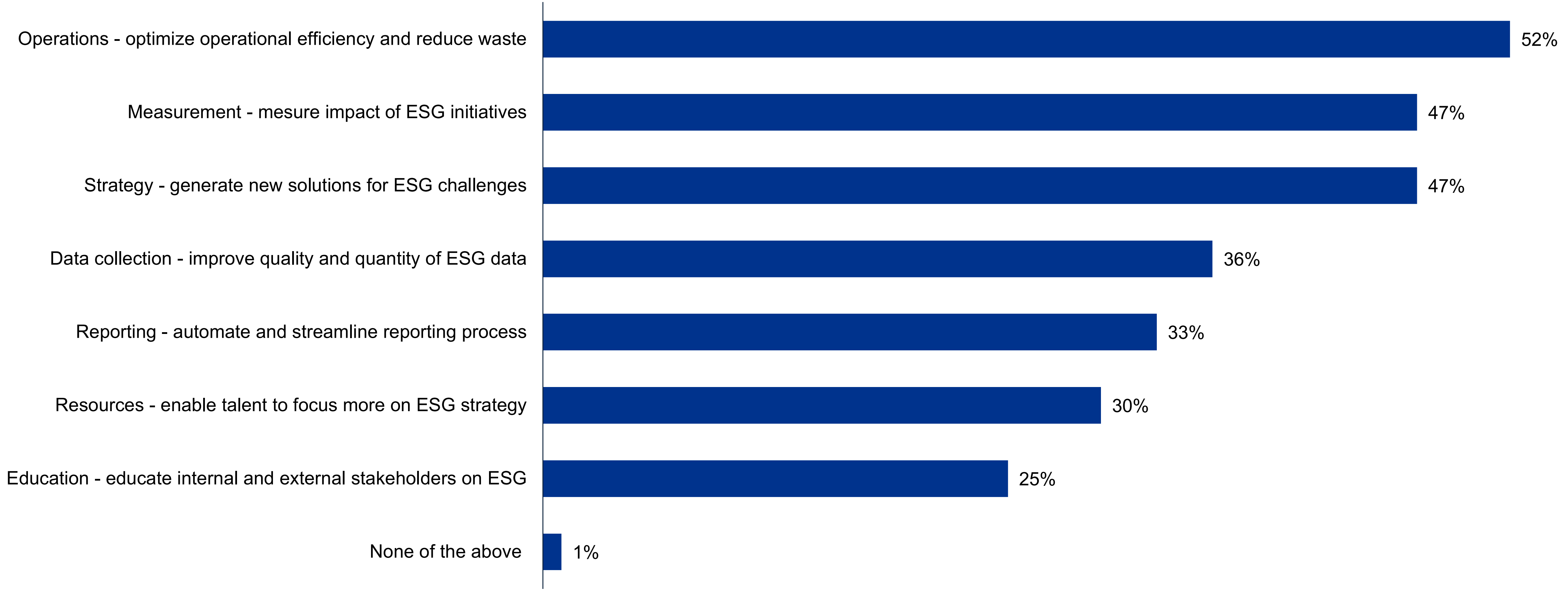
Will Gen AI be Transformative in Helping Reach ESG Goals?



Which of the following best describes your organization's current status regarding implementing Generative AI to help you carry out your ESG goals?
Based on what you have done so far with Generative AI, do you believe that Generative AI will be transformative in helping you address your ESG goals?

Most expect that Generative AI will help companies achieve ESG goals by reducing operational inefficiencies, waste, etc.

Areas Where Gen AI Will Have the Greatest Impact on ESG Goals



Where can Generative AI have the greatest impact on meeting your company's ESG goals?

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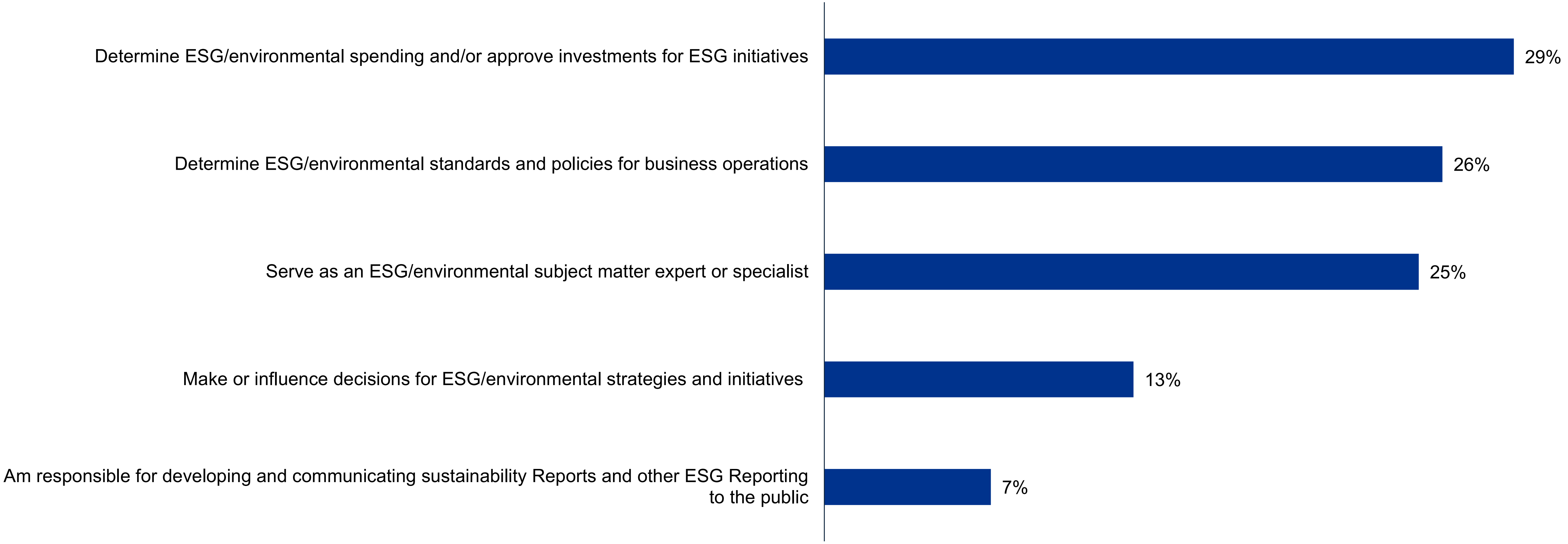
Appendix

Survey audience

We surveyed 201 business leaders (VPs, SVPs, presidents, C-suite executives and board members) at companies with more than $1B in revenue across industries, all responsible for aspects of their companies' ESG strategy. Among the companies, 77% are publicly traded, 92% are headquartered in North America, and 67% will report on ESG in 3 or 4 jurisdictions. 99% of survey respondents have worked at their company for more than 10 years.

Personal Role in Developing ESG Strategy



S13. Which of the following best describes your role in your company's ESG strategy? Select one.

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