# Values driving value

CFOs looking to lead on ESG

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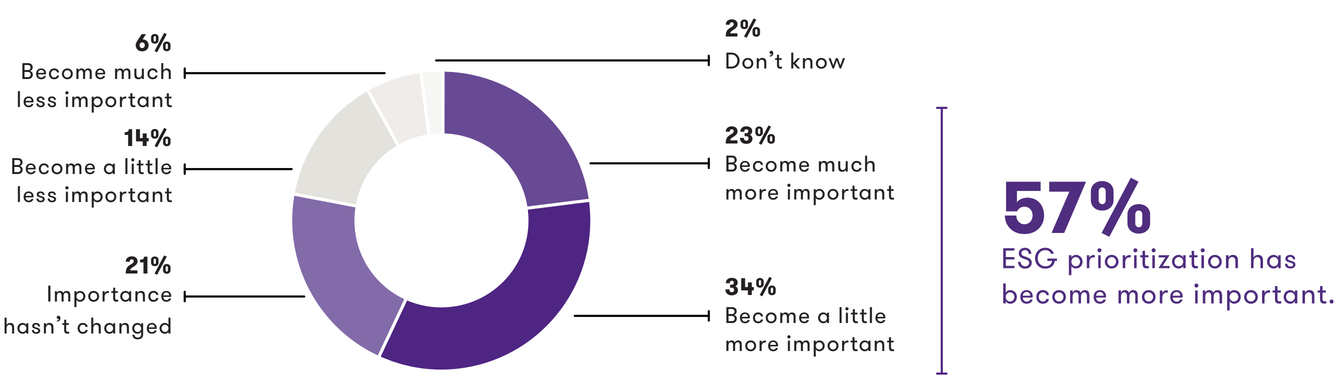
Prioritization of environmental, social and governance (ESG) investments has risen sharply since 2020, and many organizations are looking beyond compliance and are seeking to differentiate themselves as ESG leaders. Those are among the key findings in Grant Thornton's Q3 2021 CFO Survey. Among respondents, 57% report that prioritization of ESG has increased since the start of 2020, with 23% saying that it is much more important. And, while some companies await anticipated disclosure regulations from the SEC, many of them are looking beyond just compliance — 17% see ESG as a fundamental driver of financial success and an additional 69% say that ESG is either a top consideration or equally as important as financial success. Only 14% believe that ESG is a minor consideration or that financial results are the only thing that matters.

CFOs also cited ESG compliance as a growing concern. When asked about the biggest challenges facing their business, respondents say concern about ESG reporting and disclosures jumped from 13% in the second quarter to 27% in the third — the largest increase in any category.

"It was transformational when, two years ago, the Business Roundtable changed its statement on the purpose of a corporation from existing principally to serve shareholders to one that benefits all stakeholders, including consumers, employees and communities," says Jim Burton, Partner, ESG & Sustainability, Grant Thornton LLP. "Today, CFOs and other business leaders increasingly see ESG as a key value driver that's central to their mission and success."

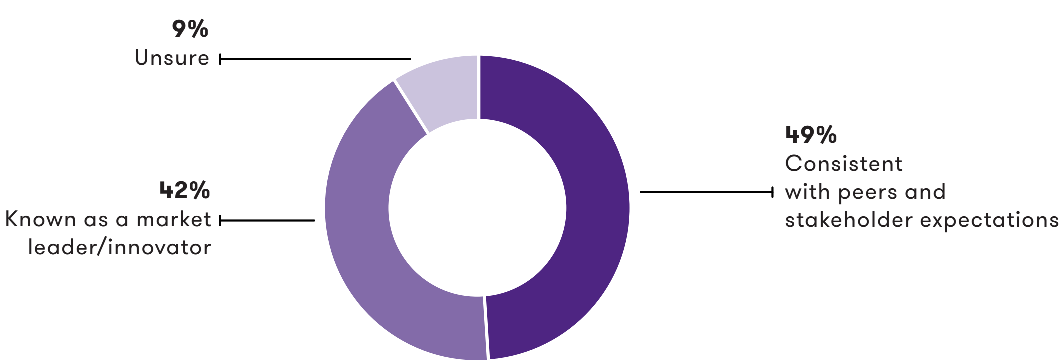
When asked about the desired end state of their ESG program, almost half (49%) aim to be consistent with peers and stakeholder expectations while 42% aspire to be known as market leaders and innovators. Perhaps most telling, nearly 8 out of 10 (78%) respondents report that their companies are integrating ESG expectations into both performance evaluations and compensation.

**How has your organization's prioritization of ESG changed since the start of 2020?**



**Which of the following best describes the value you put on ESG considerations within your organization's decision-making?**


**What is the desired end state for your organization's ESG program?**



The maturity and reach of ESG evaluation and reporting is uneven. When asked about the extent to which they evaluate and report on ESG, only 18% report across their entire value chain; 36% report on their own operations and immediate upstream/downstream, vendors, suppliers and customers; 29% confined reporting to their own operations; and 17% do not currently report.

"Most of those companies that are not currently reporting plan to start within the next two years," says Burton. "We're likely to see the reporting efforts continue to spread and deepen across value chains for all organizations, especially with so many organizations looking to be recognized as ESG leaders. A company's impact on society doesn't end within their operational boundaries. When you combine likely increased regulatory requirements with escalating market and public pressure, organizations will have to disclose more to compete."

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# ESG is complicating the war for talent

## CFOs remain concerned that talent shortages jeopardize strategy

ESG is adding a new layer of complexity to an already challenging employment marketplace.

The biggest drivers of ESG are inside, not outside, the company. When CFOs were asked which stakeholders are pushing their organization to enhance the maturity of their ESG programs, employees (42%) were the most commonly cited group, followed by organizational leadership (39%). When CFOs were asked to rank the top ESG issues for their organizations, employee retention and development (35%), diversity, equity and inclusion (30%), and employee health and safety (27%) took the top three spots.

"Employees want to work for employers who share and take meaningful actions that support employees' values, that embrace diversity and that demonstrate real care for their well-being and advancement," says Marjorie Whittaker, Managing Director, SEC Regulatory Matters and ESG & Sustainability, Grant Thornton LLP. "That's especially true among the most recent entrants to the workforce, so it's a trend that's going to accelerate over time. ESG isn't just something you worry about with investors, customers and regulators. It matters across the board and it's going to be an increasingly important differentiator in recruiting and retention."

But ESG is hardly the only concern.

A full 70% of CFOs are now concerned that talent shortages threaten their ability to meet short-term strategies — up from 64% in our second quarter survey — and concern about controlling overall benefits costs has edged up to 70% from 68%. Meanwhile, plans to return to a full-time in-office culture dropped to 28% from 33% while CFOs reporting plans for a hybrid employment model jumped to 59% from 50%.

When asked about their top workforce priorities for the next 12 months, attracting and retaining talent (49%), managing a hybrid workforce (47%), maintaining or improving culture (45%) and addressing employee work/life balance concerns (44%) top the list.

Filling vacancies continues to be a challenge while upward pressure on wages and benefits continues to build. The Delta variant threw a wrench into many plans for return to a full-time in-office model. Meanwhile, there is mounting evidence that employees value the increased flexibility and work-life balance they experienced working from home during the pandemic, and most are intent on maintaining at least some of that flexibility going forward. This is pushing the move toward hybrid and remote work models.

In fact, in a Grant Thornton survey of 1,584 full-time American employees, conducted in late June and early July, 79% reported wanting flexibility in where and when they work, and 40% said they would look for another job if forced to return to the office full time.

# CFOs optimistic, but preparing for new challenges

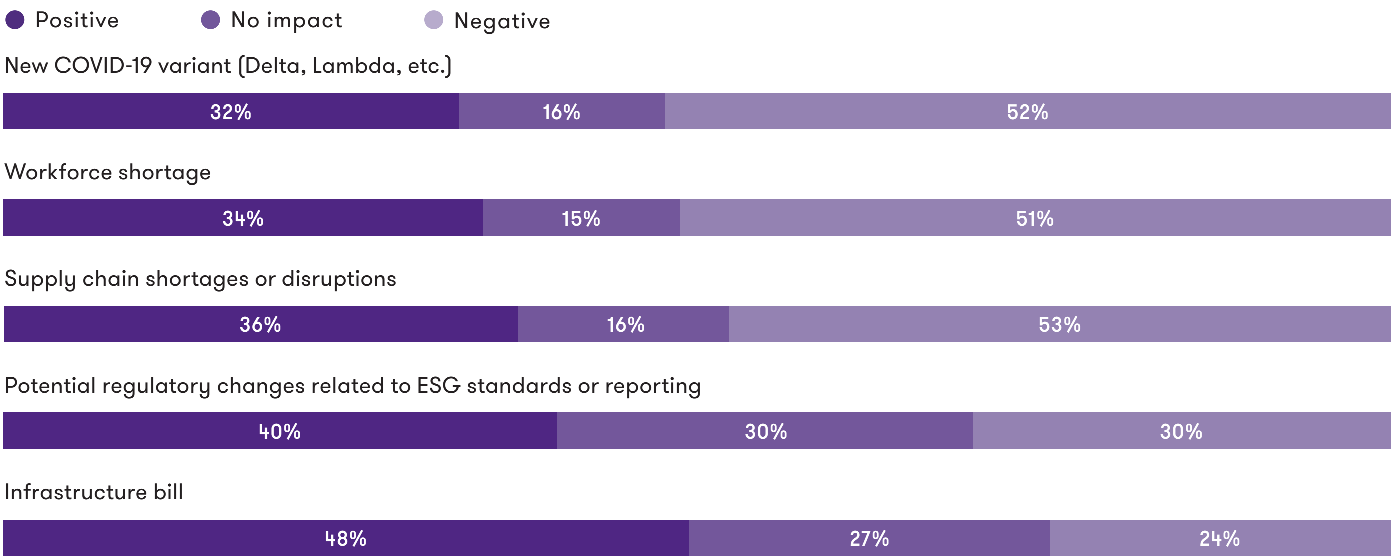
## Expecting a better economy while implementing pandemic lessons

There's an overwhelming margin (69% to 12%) between CFOs who are optimistic about the U.S. economy over the next six months and those who are not. When asked about potential impact on their business on a range of topics, they were most concerned about the continuing pandemic (52%), workforce shortages (51%) and supply chain disruptions (48%). On the positive side, 48% anticipate that the proposed infrastructure legislation could aid their business.

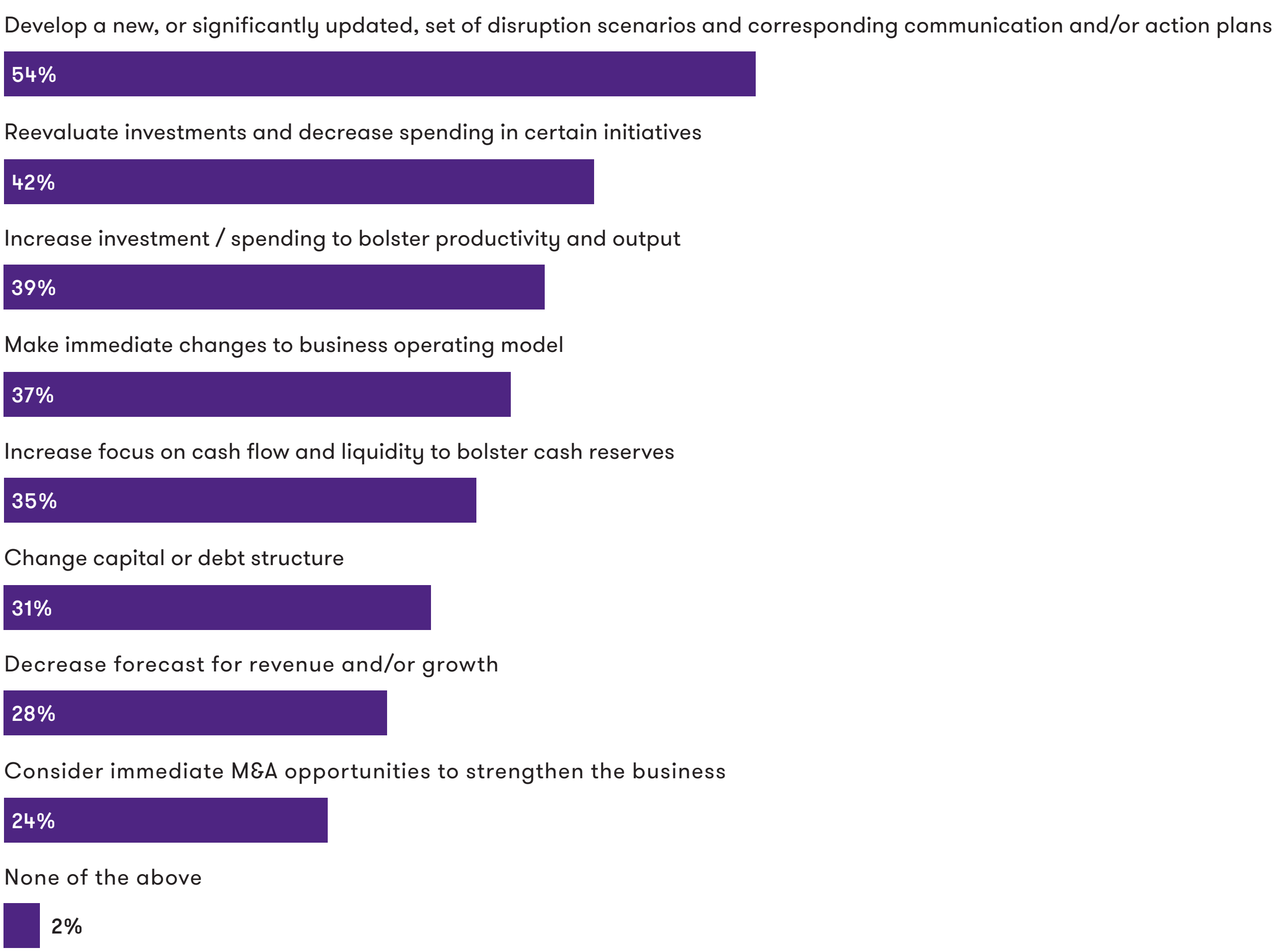
When asked what steps they plan to take to mitigate negative impacts from business disruptions, CFOs were scattered across a variety of choices. A majority (54%) chose developing new or significantly updated disruption scenarios and action plans. CFOs are also looking to increase investments to bolster output (39%), make immediate changes to operating models (37%) and increase focus on cash flow and liquidity (35%).

"The economy presents some immediate opportunities for growth, but the pandemic has taught CFOs that their existing plans to recognize and deal with potential disruptions were inadequate," says Enzo Santilli, National Managing Partner of Transformation at Grant Thornton US. "Most are implementing new and broader definitions of risk and acting to bolster their resiliency and agility."

**Based on the list below, please rate how you expect the following to impact your business, if at all.**




**What actions do you plan to take to mitigate any negative impacts from the disruptions mentioned in the previous question?**



# As expenses push up, CFOs will push back

## Will inflation be a long-term concern?

Our survey finds CFOs are expecting expenses to continue to edge up in most categories. While the Fed continues to believe that current inflationary pressures will recede as pandemic anomalies are resolved, CFOs will be keeping a close eye on costs. Recruiting and compensation and benefits will continue to be concerns. Employers have had to boost wages, but that alone is not solving recruiting challenges.

“CFOs are planning to invest in operations to boost growth,” says Enzo Santilli, National Managing Partner of Transformation at Grant Thornton US, “but they are also looking to maintain reserves and keep a close eye on cash flow and liquidity.”

Cybersecurity and digital transformation continue to be priority areas of investment for CFOs. When it comes to digital transformation, they are closely divided between tech investments that solve key issues now (47%) and long-term technology infrastructure (53%). Those rates have stayed steady through the first three quarters of 2021.

**What are your expectations for expenses in the following categories?**

| Category | Percent decrease | Percent same | Percent increase |
|---|---|---|---|
| Cybersecurity | 7 | 34 | 59 |
| Real estate/facilities footprint | 17 | 49 | 34 |
| IT/Digital Transformation | 7 | 38 | 55 |
| Sales & Marketing | 10 | 48 | 42 |
| Operations | 13 | 43 | 45 |
| Compliance | 6 | 50 | 44 |
| Recruiting | 11 | 40 | 48 |
| Training/Development | 11 | 52 | 38 |
| Travel | 23 | 41 | 35 |
| Comp and Benefits | 8 | 42 | 49 |
| ESG | 8 | 53 | 38 |
| DE&I | 7 | 54 | 40 |

# Values provide a constant in a turbulent recovery

## Disruption, opportunity, workforce issues compete for CFO attention

While CFOs are fairly confident that the economic recovery from the COVID-19 pandemic will continue, conditions remain volatile and unpredictable. Organizations expect more disruption and are updating their plans to build resiliency, rethinking which investments can drive growth and keeping a close eye on cash flow and reserves.

Attracting and retaining talent remains a huge challenge, with most CFOs concerned that a talent shortage will directly impact their ability to execute strategy. Add to that workforce demands for hybrid work models and the inherent challenges of designing and implementing new, flexible work arrangements that fit their organization's unique business needs, workforce concerns will continue to dominate CFO time and attention.

Increasingly, though, CFOs and their teams can focus their efforts on helping their organization define and drive its values. From their employees to their leadership to their customers and their communities, emphasis on ESG is only increasing. How CFOs respond will help define their organizations' future and success.

## Contacts

**Jim Burton**
Partner, ESG &
Sustainability Services
**T** +1 303 813 3945
**E** jim.burton@us.gt.com

**Sean Denham**
Global Services Industry Leader
& Office Managing Partner
**T** +1 215 376 6010
**E** sean.denham@us.gt.com

**April Little**
Partner, Tax Reporting
& Advisory
**T** +1 832 476 3730
**E** april.little@us.gt.com

**Enzo Santilli**
National Managing Partner,
Transformation
**T** +1 412 586 3801
**E** enzo.santilli@us.gt.com

**Christopher Schenkenberg**
National Business Line
Leader, Tax
**T** +1 302 602 8987
**E** christopher.schenkenberg@us.gt.com

**Marjorie Whittaker**
Managing Director, SEC
Regulatory Matters and ESG
& Sustainability Services
**T** +1 202 521 1535
**E** marjorie.whittaker@us.gt.com

Grant Thornton