LEADING THROUGH A PERFECT STORM

HLB SURVEY OF BUSINESS LEADERS 2023

CONTENTS

KEY FINDINGS

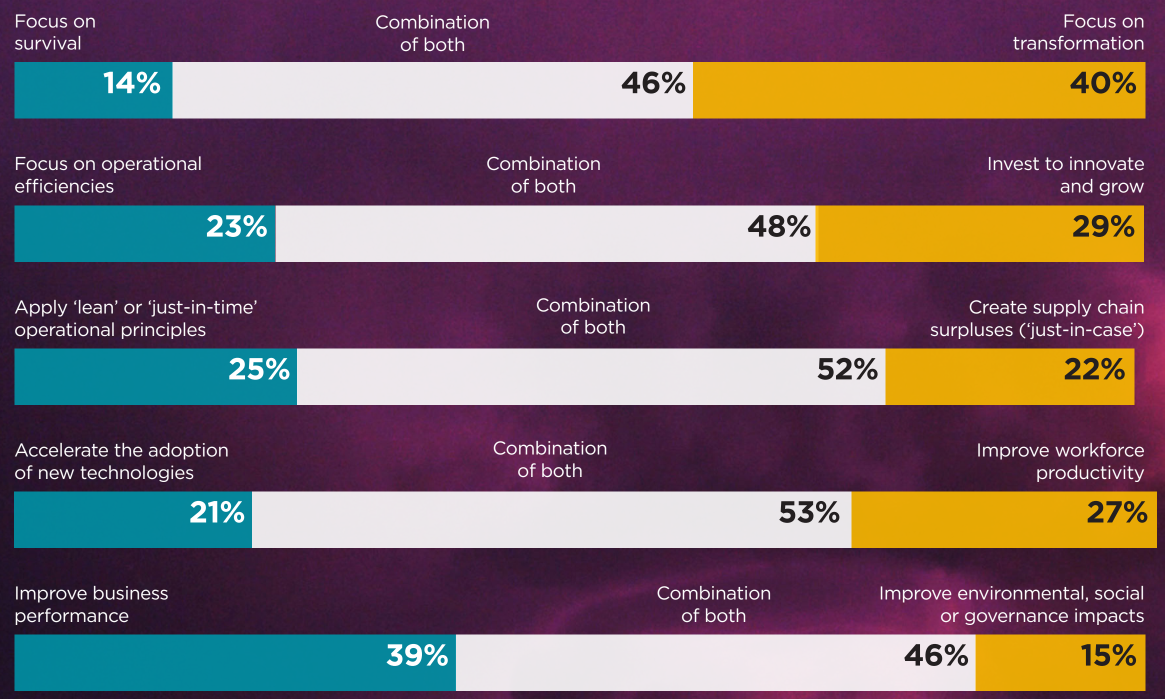
Business leaders are riding the storm of the permacrisis

82% ARE CONCERNED ABOUT INFLATION AS TOP RISK TO BUSINESS

27% DROP IN CONFIDENCE IN GLOBAL ECONOMIC GROWTH

35% SEE TALENT ACQUISITION AS THEIR GREATEST WEAKNESS

Balancing business continuity and business advancement



Meeting wider stakeholder expectations

69% HAVE A CLEARLY COMMUNICATED ORGANISATIONAL PURPOSE

34% ARE MAKING PROGRESS ON THEIR JOURNEY TO BECOME CARBON NEUTRAL

52% HAVE ESG COMMITMENTS BEYOND REGULATORY REQUIREMENTS

FOREWORD FROM THE CEO

Each economic era requires a new and different leadership style. Even though the rain falls equally, some leaders are better able to make the most of the permacrisis[1].

It is not a surprise, therefore, that our annual Survey of Business Leaders explores what C-suite executives are doing to survive the perfect storm, whilst at the same time preparing their organisations to prosper in the longer term. We surveyed 575 business leaders from 60 countries and various sector backgrounds to understand how they are managing the trade-offs between short-term and long-term priorities, what actions they are taking to build competitive advantage in turbulent times, as well as the leadership attributes they perceive as most advantageous in today's challenging business environment.

In the 1950s, conservative business leaders able to navigate rules and manage government relationships were well-positioned for industry prosperity. In the 1990s, during the dotcom boom, individualistic, unconventional, risk-takers like Steve Jobs and Bill Gates propelled new industries forward. In the 2010s, we entered an era of democratic, transformational, and technology-led leadership, offering a healthy balance of visionary encouragement and delegation.

From the beginning of this decade, digitisation served as a springboard for new offering types, distribution channels, and even entire business models. Increased connectivity powered globalisation, commoditising access to new markets, customer demographics, and knowledge. Consumer preferences have also evolved as technology started playing a more pivotal role in product purchases and service consumption.

Today's interconnected world also means leaders are continuously in the spotlight. Any corporate mishaps end up in the public domain, drawing massive media attention or even social action. Therefore, leaders need to cultivate new behaviours and corporate narratives.

We would like to thank everyone who gave their time to respond to our survey. We hope this report helps business leaders to face today's challenges head-on. If you would like to discuss any of the findings or topics raised in our report, we welcome the opportunity to do so.

Marco Donzelli
Global Chief Executive Officer, HLB

LEADERS FACE THE PERFECT STORM AHEAD

Recent years showered the leaders with a series of 'low-probability, high-impact events'. Having put the worst of the global pandemic behind, businesses around the globe have been struck by new mishaps.

> "One of the things that every business is going to have to deal with over the next several years is the fact that the world is going to be a little bit more volatile."
>
> **Joe Grekin, Partner at Schafer and Weiner, PLLC**

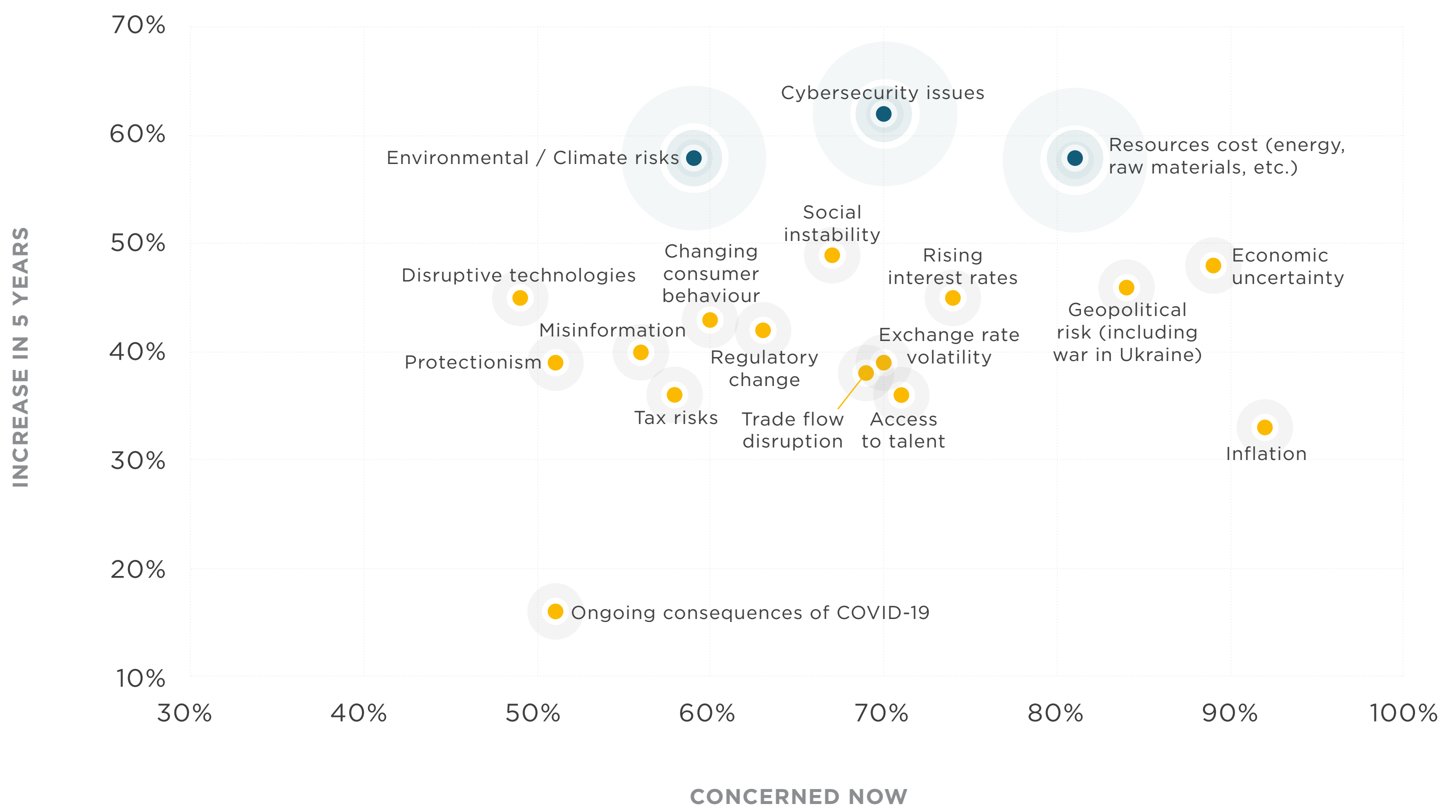
Russian aggression against Ukraine triggered a series of major macroeconomic events: a global energy crisis, food shortages, climbing inflation, and interest rates. The latest developments caught most industries at a point of a weak recovery. Business leaders were already apprehensive of ongoing economic uncertainty, rising inflation, and regulatory change — the top-three risks from last year's report. Simultaneously, businesses in many industries continued to grapple with ongoing talent shortages, trade disruptions, and digital-led business transformations.

A challenging period, christened as the 'permacrisis', is ahead of us. Our 2023 survey found that global businesses now face eight major risks. Over half of respondents now feel acutely concerned about the impacts of inflation (82%), economic uncertainty (79%), geopolitical risks (74%), rising resource costs (71%), rising interest rates (64%), access to talent (61%), exchange rate volatility (60%), and cybersecurity issues (60%).

Mariefi Kamizouli, Lead Economist at Loop, agrees: "Societies are facing negative growth, labour shortages, a War in Ukraine which is having a vast amount of negative economic and social impacts and we also have been dealing with a persistent weak investment and productivity." Lindsey Stewart, Director of Investment Stewardship, ESG and Sustainability Research at Morningstar also adds that businesses today have to "manage a high inflation wave to pay the bills, the energy cost, the demands from employees. [...] Structural transformation is needed to deal with things like integrating global supply chains to deal with sustainability concerns. That's an important juggling act".

A present-day risk radar prompts businesses to take decisive action, critical for survival. Yet, leaders must also plan for the future, which remains shrouded in heavy clouds. In the five-year perspective, cybersecurity risks, (62%), climate risks (58%), as well as social instability (49%) are expected to become more pressing than they are today. Each joining resources costs (58%), inflation (48%), and economic uncertainty (48%) as ongoing concerns. Traditional worries over tax risks or access to talent are expected to decrease over the same period.

Most concerning risks today and the increase in concern in 5 years



THE SILVER LINING

Amidst the storm, business leaders continue to display an enviable capacity to maintain a dual focus: on survival and perpetual business transformation. Konstantinos Sergakis, Professor of Capital Markets Law and Corporate Governance, at the University of Glasgow, says that now is the right time for the boards to “reflect really, really well on their key priorities, because you may also want to innovate and you may also be able to innovate, but you also have to understand where you currently stand and what are the priorities in order for you first to survive.”

In the next 12 months, our survey respondents are committed both to improving operational efficiencies (67%), reducing operating costs (48%), and adopting new technologies (45%) to achieve a wider set of long-term objectives — evolve, innovate, and grow. To hit the targets leaders will need to have an agile mindset and strong commitment to execution. “Be ready to respond to changing trends rather than sticking with a five-year plan, made before [the conditions changed],” Lindsay Stewart says.

Economic expectations are greatly muted this year with 53% expecting global growth to decline in 2023. At the beginning of last year, 54% of business leaders expected an increase in global growth, which failed to materialise. The current prognosis by the International Monetary Fund (IMF) puts the global growth slow down at 2.7% in 2023 versus 3.2% in 2022[2]. This is the weakest growth profile since 2001 except for the global financial crisis in 2008 and the most acute stage of the COVID-19 pandemic.

Yet, even in turbulent market conditions, business leaders believe in their organisations’ resilience. 79% are confident about their company’s ability to grow over the next 12 months. This sentiment isn’t just wishful thinking. Last year, 69% of leaders noted that market disruption motivated them to innovate. Mariefi Kamizouli agrees that “we have seen the importance of creativity and innovation during the pandemic. We saw that when companies who developed virtual services and delivery methods were able to quickly switch to new products and so were better equipped to weather the storm.”

Earlier strategic investments in corporate resilience, business model transformations, and current technologies mean that leaders face choppy waters on stronger vessels. Now they need to determine the right strategy for sailing through the crisis.

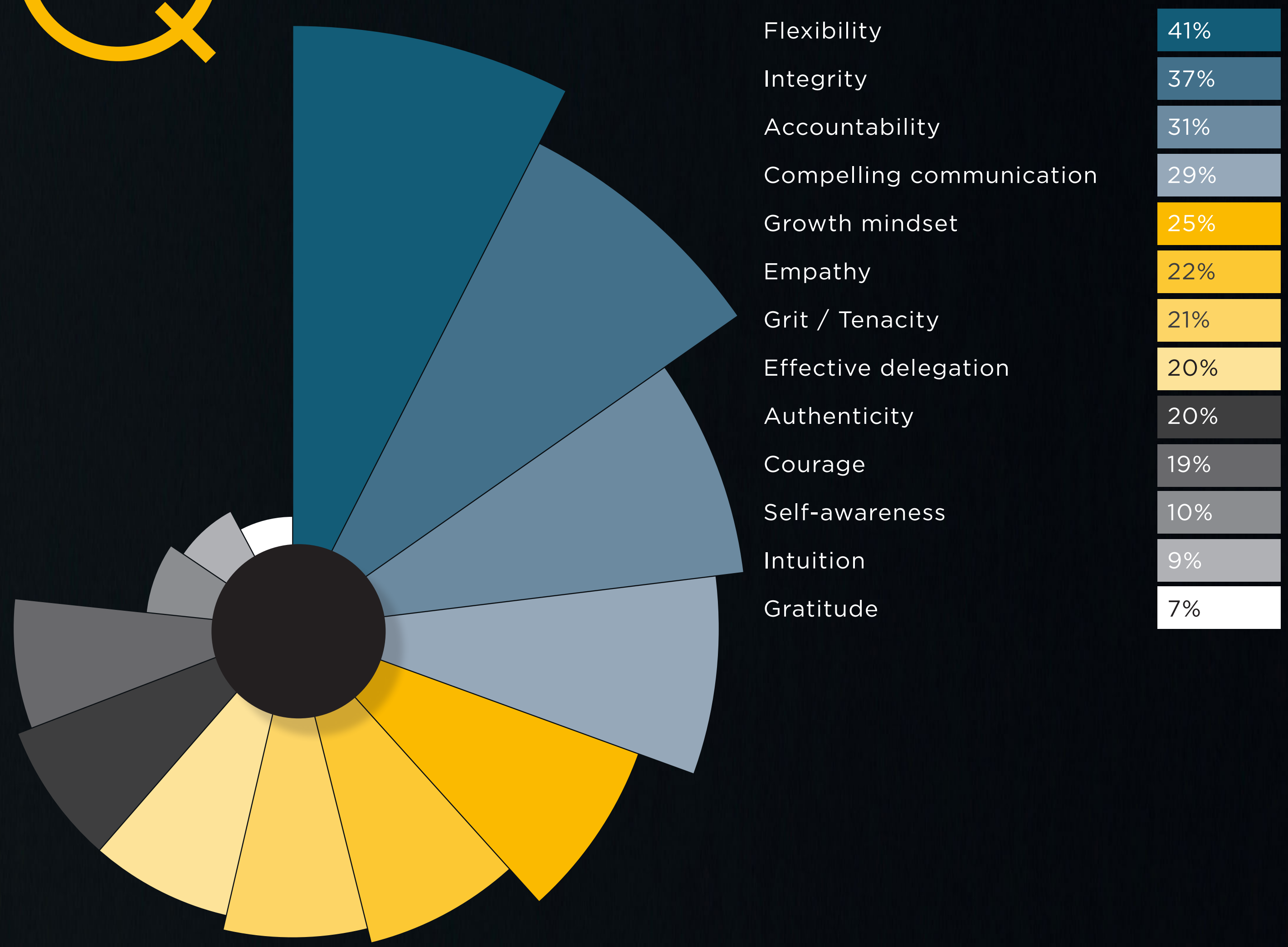
In our exploration of leadership in challenging times, we asked business leaders about critical leadership behaviours they will need to ride out the permacrisis. Courage, tenacity, and effective delegation all made the list of leadership behaviours valued in times of crisis. However, the top three: Flexibility, Integrity, and Accountability suggest the increasing importance of good stewardship in today’s hyperconnected world. We’ll explore their importance in turn and how successful business leaders are working to cultivate them.

“In a nutshell, be prepared for radical change. Prepare for the worst while trying to build a solid agenda with all of your constituencies.”

Konstantinos Sergakis, Professor of Capital Markets Law and Corporate Governance, the University of Glasgow

Q

What do you think are the essential behaviours for successful leadership in times of crises?



FLEXIBILITY: A RUDDER TO POWER THROUGH HIGH TIDES

Leaders need to ‘fulfil two needs with one deed’ — overcome today’s crisis by conserving resources where possible and investing in strategic areas of interest for success in the future. It’s not a surprise that ‘flexibility’ is the highest ranking ‘essential behaviour’ for successful leadership in a crisis.

Survival will require the ability to manage, often contrasting activities, at the same time. Among survey respondents, 46% plan to maintain a dual focus on survival and transformation. Though 40% is focused solely on the transformational aspect, which may stem from leaders' confidence in their company's ability to grow this year.

In practice, most leaders (52%) are simultaneously seeking operational efficiencies and investments to innovate and grow. A resounding 41% also maintain a focus on long-term priorities, rather than solely grappling with survival-critical short-term actions. Mariefi Kamizouli agrees that leaders must "manage the chains of what's happening right now and all the risks, but also incorporate new approaches without getting distracted from the main goals of their long-term strategy".

Bilateral priorities further reflect this year's choice of actions pursuing growth. A sound majority (67%) aims to improve operational efficiencies in order to grow and remain profitable over the next 12 months. The second priority is cost reduction (48%). The pursuit of leaner operational practices is a natural response to a crisis. However, Lindsey Stewart also encourages leaders to avoid sweeping decisions. "Efficiency is important on the cost savings side, but you can't cut your way to success. You have to keep an eye on where the growth is going to be coming from over the next 5 to 10 years".

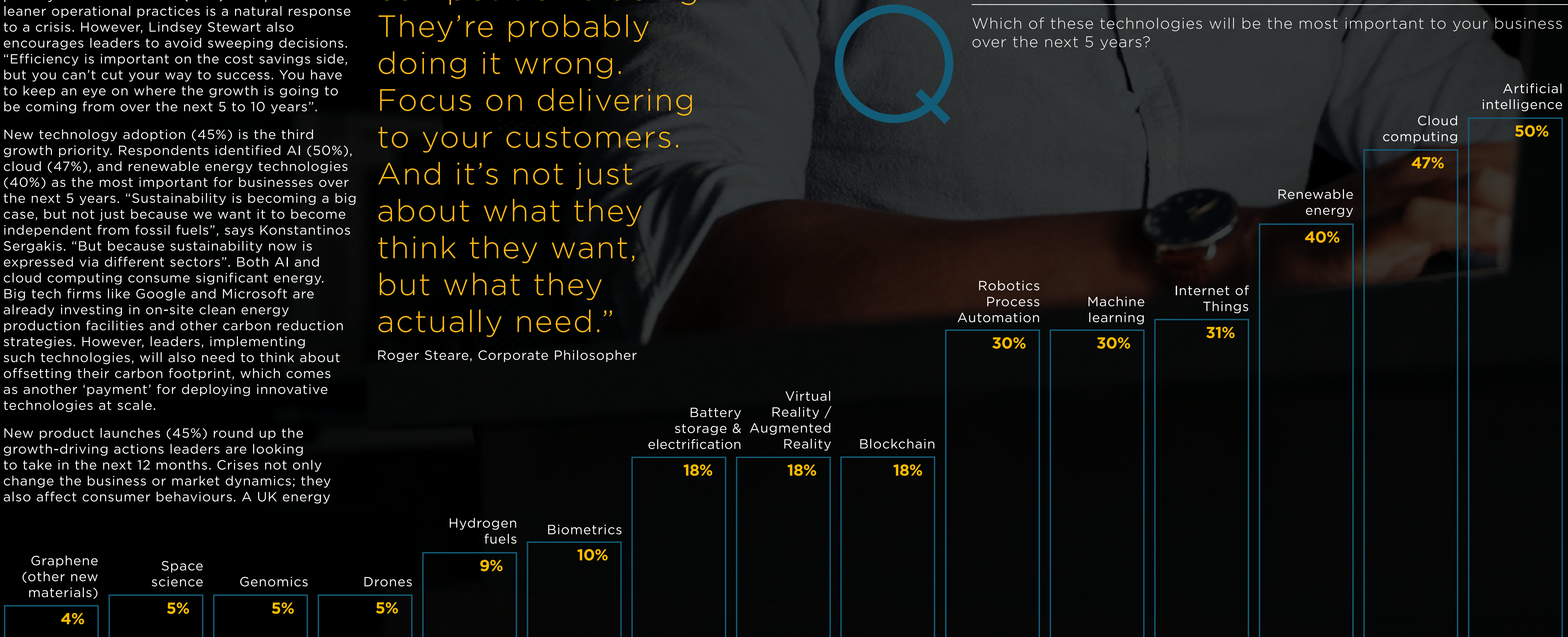
New technology adoption (45%) is the third growth priority. Respondents identified AI (50%), cloud (47%), and renewable energy technologies (40%) as the most important for businesses over the next 5 years. "Sustainability is becoming a big case, but not just because we want it to become independent from fossil fuels", says Konstantinos Sergakis. "But because sustainability now is expressed via different sectors". Both AI and cloud computing consume significant energy. Big tech firms like Google and Microsoft are already investing in on-site clean energy production facilities and other carbon reduction strategies. However, leaders, implementing such technologies, will also need to think about offsetting their carbon footprint, which comes as another 'payment' for deploying innovative technologies at scale.

New product launches (45%) round up the growth-driving actions leaders are looking to take in the next 12 months. Crises not only change the business or market dynamics; they also affect consumer behaviours. A UK energy drinks company TENZING went ahead with releasing a new energy drink flavour amidst lockdowns. Their rationale was that due to confinements, people increased their at-home sports regimes to compensate for the lack of movement. Founder and CEO, Huib van Bockel, also admitted that launching at that time meant more exposure and visibility as competitors put their plans on hold. The company's estimated turnover for 2020 was £7.5 million, making them one of the fastest-growing drinks in the UK Sports & Energy segment for three years in a row[3].

"There's always a risk-reward calculation business makes every day," says Joe Grekin. Every past crisis has served as a springboard for new types of products. Now more than ever, leaders need to exercise flexibility in thinking to capture new growth opportunities as they transpire amidst changing market conditions.

> "Forget what your competition's doing. They're probably doing it wrong. Focus on delivering to your customers. And it's not just about what they think they want, but what they actually need."

Roger Steare, Corporate Philosopher



CORPORATE AGILITY AS A NEW KEEL

Flexibility in strategy has to further translate to lower-level action in critical areas such as talent acquisition, digital capabilities improvement, and supply chain management.

To minimise the ongoing impacts of disruption, the majority of leaders (52%) apply 'just in time' and 'just in case' principles to supply chain management. Surpluses in certain areas have become essential to overcome delays in raw goods shipment and mitigate ongoing trade flow disruption, which 59% of leaders see as a risk. Moreover, "supply chain disruption can reduce revenue, market share, and production and distribution" according to Mariefi Kamizouli — another factor that warrants a flexible response.

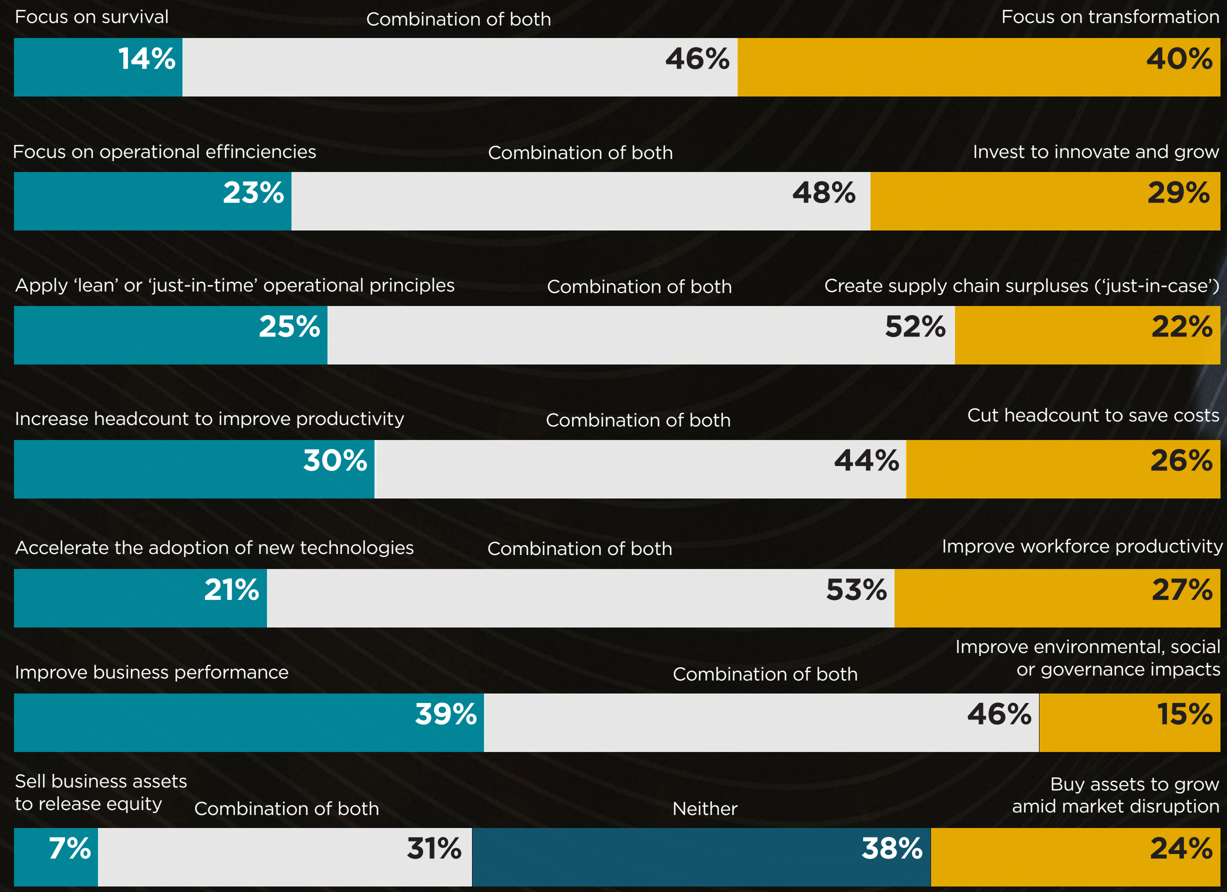
Among survey respondents, 58% expect resourcing costs to increase over the next 5 years and perhaps aim to build up raw material reserves for the longer term. "Having appropriate contingency arrangements in place for the supply chain is absolutely critical", agrees Dr Ian Peters, Director of the Institute of Business Ethics. Otherwise, leaders will struggle to cope with the imminent risks.

Lean inventory management practices are also required to maintain cost effectiveness — a priority selected by 48%. "The combination of disease and war has really hurt the global supply chains over the past several years", Joe Grekin points out. Leaders now need to continue fostering agility within their supply links, especially since "supply chain risks won't be a short-term factor, but more of a structural change that's going to take a bit of a while to work out", according to Lindsey Stewart.

Agile thinking further extends to talent management. Most leaders (44%) aim to both increase headcount in some areas and cut in others to remain competitive. "We need good people in the business to improve productivity and if we improve productivity, then we're much more likely to weather these storms," Dr Ian Peters agrees.

Q

What's the main focus for your business over the next 12 months?



Talent retention and nurturing will remain critical as many are struggling to hire new people. This year talent acquisition emerged as the top weakness they need to focus on, selected by 35% of leaders. Employers in business services, healthcare, real estate, technology, and transportation & logistics sectors, in particular, struggle to recruit the right people, or in the words of Joe Grekin, many "employers both face the cost of labour and also the cost of not having labour".

A flexible and agile people strategy will be critical to ensure smooth sailing in new market conditions. In Roger Steare's opinion, leaders will need to invest in two things: People with the right skill set and mindset and then talent nurturing. "The problem is we hire too many people with the right CVs, but the wrong mindset. [Instead], we need to hire character and train skills." Our survey respondents appear to recognise this issue as 34% plan to invest more in human capital in order to grow in the next 12 months.

35% of business leaders consider talent acquisition the greatest weakness to address in the next 12 months so the number

INTEGRITY: A BEACON IN STORMY TIMES

During trying times concerns run high, and everything the business does is under particular scrutiny. Leaders have to demonstrate commitment to the right principles, or else they risk losing their people's, customers', and stakeholders' trust. Soundly, 37% of business leaders agree that 'integrity' is an essential behaviour for successful leadership in a crisis.

Integrity can take many forms. For Dr Ian Peters, integrity means that leaders not only follow through with the promises but also "provide the right role model to others in the organisation." Mariefi Kamizouli also agrees that during challenging times leadership must be "empathetic, sensitive, attentive and listen to the feelings of others. These [behaviours] create a trusting environment and also create a lot of prosperity within the business."

These behaviours, however, are often relegated as leaders focus on the crises. Sweeping cost reduction can improve the balance sheet, but could also lead to less tangible losses in brand equity, employer branding, and innovative potential unless executed with the right ethos.

In 2020, when the pandemic broke, Jack Dorsey, then CEO of Twitter, publicly urged his people to prioritise their physical and mental health. Twitter was among the first to allow employees to stay remote forever. In the long run, this strategy helped Twitter minimise talent attrition.

In 2022, Elon Musk acquired Twitter and immediately cut nearly half of the workforce, forced the remaining staff to work all-nighters, and rolled back many of the employee wellness-driven initiatives, introduced by Dorsey. Though Musk has since publicly admitted that his actions were wrong, the damage was already done. Half of Twitter's top 100 advertisers had withdrawn from the platform[4].

"It is absolutely acceptable in these difficult times to focus on the short-term and say that we are doing [unpopular actions] because it's about survival," says Konstantinos Sergakis. "But publicly speaking this is a bad image, [especially if] everyone [else] is publicly portraying themselves as [both focused on survival and growth]." In his opinion, leaders need a wider "narrative, a clearly defined purpose," which multiplies the opportunities for attracting the right people whether they be customers, employees, or shareholders.

Among our survey respondents, 69% agree that they have clearly defined and communicated the purpose of their business. Of course, definitions of 'purpose' will vary. Increasingly, businesses are orienting their mission beyond financial performance. We found that 46% of leaders are simultaneously improving business performance and its environmental, social, and governance (ESG) impacts. Yet, 39% are focused on business performance improvements alone.

Lindsey Stewart says that "purpose can't just be a faddish slogan. It has to be absolutely central to how you're arranging your business". When companies are driven by clearly defined values, the returns soon follow. An eight-year business study concluded that high-growth companies use purpose to stay relevant in a fast-changing world[5]. They rely on 'purpose' as a beacon that guides their new product development efforts, facilitates expansion into new market verticals, and ensures high returns on investment.

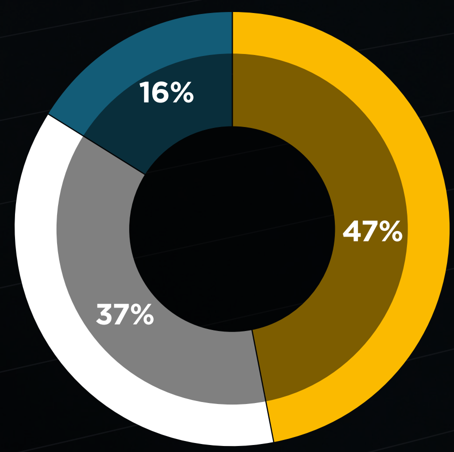
Ultimately, businesses need to remain profitable, which is more difficult in the current economic climate. Yet, leaders must be careful about setting ambitious (or plain unrealistic) targets as these can become grounds for contemptuous behaviours. To meet compliance requirements, Volkswagen's leadership faked reports on emissions for some 580,000 diesel vehicles it sold between 2006 and 2015. The truth soon came through, leaving the company with over US$30 billion in legal settlement fees, regulatory pay-outs, and product call-backs. In 2019, the company's former CEO, Martin Winterkorn, also faced charges from the US SEC for defrauding bond holders[6]. The "Dieselgate" caused significant reputational damage to VW, which led to a reduction in brand equity and market share.

During turbulent times, leaders regularly face integrity-based choices. The decision to do the right thing is not always easy, but it sends a powerful signal to your people, corporate stakeholders, and the public at large, showing that your company can be trusted, and, therefore, worthy of ongoing support.

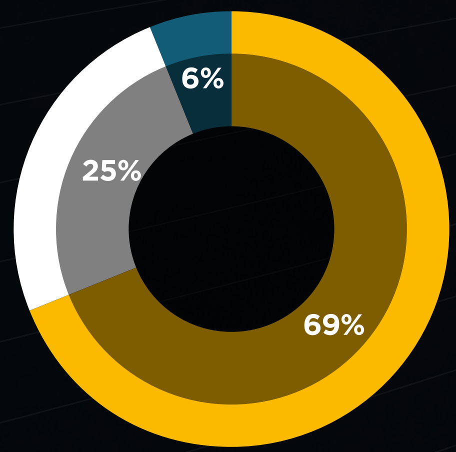
"Organisations need a clear sense of purpose supported by a clearly understood and shared set of values. That clear purpose should guide the organisation."

Dr Ian Peters, Chairman at the Institute of Business Ethics (IBE)

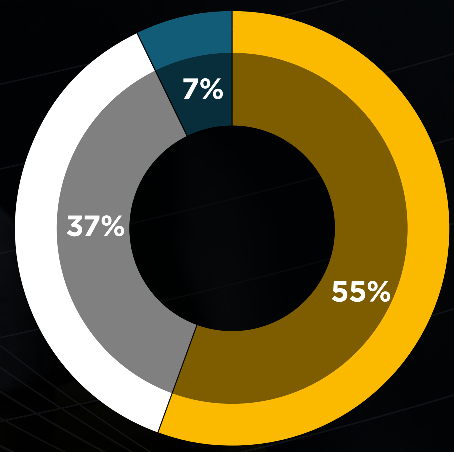
Do you agree or disagree with the following statements regarding your long-term business strategy?



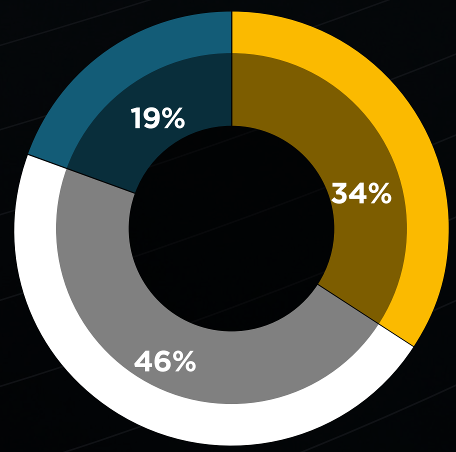
We have a succession plan for the next 5 to 10 years



We have clearly defined and communicated the purpose of our business



We are evolving our human resource model to meet requirements for the future of work



We are making progress on our journey to become carbon neutral in the next 5 years

AGREE NEUTRAL DISAGREE

STEERING YOUR BUSINESS WITH INTEGRITY

Integrity goes hand in hand with the shift towards a longer-term perspective on business planning and performance. To grow and remain profitable, over a third of business leaders (39%) plan to initiate strategy reviews.

An extended risk radar takes up boardroom attention and can cause conflicting priorities. However, as Roger Steare notes, "If we only focus on binary thinking, for example, if a+b=c, we ignore the rest of the alphabet. We need to understand that all sorts of weird and unexpected things might happen if we don't factor in the interactions between all the other d-z factors." Within these combinations, new risks and growth opportunities may emerge.

A deficit in strategic focus and integrity among the board members may become grounds for suboptimal choices. Businesses not beholden to quarterly reporting timelines might focus more on the best interests of the company than on what will look good in their next quarterly report. Roger Steare, however, cautions against overly focusing on operational efficiencies without giving any consideration to environmental social governance factors. "I think the most important part of ESG is actually G, which is around governance because governance should be about how we make decisions about the E and the S and the connections between them". Lindsey Stewart also believes businesses should refocus on sharpening the long-term strategic vision, but, at the same time, "empower their teams to come up with technical solutions rather than them having to do the firefighting themselves". Business leaders share a similar sentiment as 52% plan to equally focus on accelerating new technology adoption and improving workforce productivity.

Having an efficient workforce is crucial for achieving the ambitious priorities leaders have set for this year: operational efficiency improvements, new technology adoption, and new product launches.

These goals aren't mutually exclusive. According to Roger Steare, leaders must focus on delivering quality goods and services at the lowest logical cost, obtained by profit optimisation: "If you optimise profit, you sustain significant working capital. Then you're more likely to survive the ups and downs of the economic cycle."

To navigate through the current cycle, leaders will also need a competent workforce. This however proves to be easier said than done. 'Access to talent' is one of the top risks identified for 2023. At the same time, 'talent acquisition' is considered an area of weakness by 35%, which business leaders want to address in the next 12 months.

Konstantinos Sergakis says that to attract the right people, leaders need to pay more attention to the social conversation happening in society. Gender pay gap, workplace bullying, lack of representation for people from minority backgrounds — organisations have a long list of problematic practices they need to rectify. Sergakis challenges leaders to stop jumping on multiple 'bandwagons' and instead think about how they can "champion the agenda by showing that you are already proactively defending and promoting certain societal values, not just in order to have your stakeholders with you".

Today's workforce demands high ethics and integrity from those they work for, while at the same time, expecting businesses to invest in employee well-being and equality, diversity and inclusion (EDI) initiatives. Among respondents, over half (55%) are committed to evolving their human resource model to meet the requirement for the future of work. A sound 47% of leaders have also established a succession plan for senior management charted for the next 5 to 10 years.

Q

Which of these areas do you consider weaknesses within the business that you need to focus on in the next 12 months?

Area	%
Talent acquisition	35%
Operational effectiveness	33%
Cost management	27%
Risk management	26%
Digital capabilities	25%
Supply chain	24%
Innovation	23%
Cybersecurity	20%
Brand strength	16%
New partnerships	15%
Customer acumen	11%
Fundraising	11%
Purpose beyond financial performance	11%

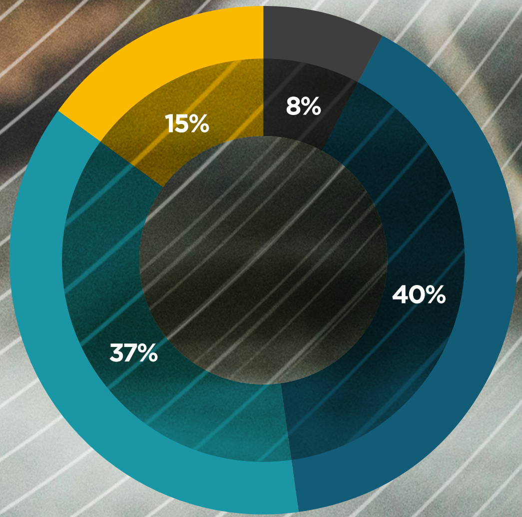
To leaders focused on improving workforce management, Roger Steare recommends "to focus on hiring people who believe in our work, who want to get stuck-in, who want to be team players and who want to learn". If your organisational values do not match the values of the people you want to attract, talent acquisition and retention will remain problematic.

ACCOUNTABILITY: A COMPASS TO STRAIGHTEN YOUR COURSE

Modern societies are more connected than ever. As a result, business activities are more visible, which often leads to greater public scrutiny of its leadership. Senior executives are being held accountable for their actions and behaviour by company stakeholders beyond investors, shareholders and customers. “Accountability” was selected as the third highest-ranking ‘essential behaviour’ for successful leadership in times of crisis.

Q

Where is your enterprise on the journey towards meeting your ESG goals?



■ WE DISREGARD ■ WE DO WHAT IS REQUIRED BY REGULATORS
■ WE TRY TO MEET WIDER STAKEHOLDERS EXPECTATIONS
■ WE ARE PURPOSE-LED

"ESG is unavoidable at this point. It's something you have to do whether you have a particular view on climate, whether you're pro or sceptic."

Lindsey Stewart, Director of Investment Stewardship, ESG and Sustainability Research at Morningstar

"The end user of the product or even the shareholder or stakeholder will demand change and more environmental, social and governance (ESG) practices," predicts Konstantinos Sergakis. In his opinion, investors will become more vocal about the problematic leaders their targets will have to address before receiving further support. Few companies can escape scrutiny.

Leaders we spoke to are well along the maturity curve towards a more purpose-led business strategy and are looking to redefine ESG goals. Among our survey respondents, 15% already identify as a purpose-led business and a further 37% attempt to meet wider stakeholder expectations in their ESG goals.

One European CEO in the Financial Services sector says that his company has ambitious plans to "contribute to a sustainable world, reduce our own ecological footprint; commit to supporting local investments; and invest in employee welfare", among other actions. A CFO in the manufacturing industry also "wants to be more aggressive on progress [towards ESG] as we believe this will give us a competitive advantage".

Yet, our data also suggest that not all leaders are as committed. 40% of respondents only complete ESG actions, required by regulators, rather than treat the wider themes of sustainability as an opportunity for innovation. 8% do not have any established ESG goals at all. Though, more than half (51%) plan to rethink their ESG responsibilities this year. Dr Ian Peters agrees that "organisations are in very different places on their journey to carbon neutrality: from understanding what it means, all the way through to delivering on it".

ESG commitments often also get a second priority amidst ongoing market turmoil. Joe Grekin observed that many of the US Midwest companies his firm is dealing with "[...] don't have the luxury at this point to be a purpose-driven company. Most of these companies are trying to be companies [and survive]."

However, as we discussed earlier, sustainability and profitability aren't mutually exclusive. On the contrary, wider commitments to 'green' practices, social welfare, and good governance can help leaders weather disruption and emerge stronger from it with a more sustainable (and profitable) business model. Neste, a former oil refinery and marketing company, now makes 70% of its profits from renewable energy products[7]. Despite the major turmoil in the energy markets, Neste has just received an A3 long-term issuer rating from Moody's Investors Service and its stock prices maintain a positive dynamic. China's biggest dairy manufacturer Yili Group was recognised among the top companies operating in line with the UN Sustainable Development Goals in 2022, thanks to its contribution to biodiversity protection and poverty reduction while growing 12% YoY[8].

Mariefi Kamizouli agrees that given the current market conditions "more sustainable sectors will grow faster and particularly those that rely less on energy and of course, businesses that use cutting edge technology are better equipped to [...] overcome the challenges of the next 12 months." For leaders, the current disruptions present ample opportunities for rethinking their core practices and changing them to better fit with societal expectations.

''The average lifespan of an FTSE 100 company is less than a generation, that's less than 20 years. We've got an economic model and we've got a business model which is clearly unsustainable," says Roger Steare. Therefore, some leaders may need to redefine what they mean by 'growth'.

ESG REPORTING IS A MAP FOR FUTURE GROWTH

ESG reporting acts as a mechanism for measuring leadership accountability and corporate commitment to wider global themes of carbon neutrality, fair pay, and ethical product manufacturing among other themes.

Globally, regulators call for mandatory ESG reporting. In late June 2022, the European Parliament reached an agreement on a new Corporate Sustainability Reporting Directive (CSRD), which would expand the scope of mandatory reporting, required of companies' operation on the EU market (including foreign entities). In November 2022, The European Financial Reporting Advisory Group (EFRAG) approved the European Sustainability Reporting Standards (ESRS), which outline the requirements for companies to report on sustainability-related impacts, opportunities and risks under the EU's CSRD. The first reports are due by 2025.

The US Securities and Exchange Commission (SEC) also presented a proposal for new sustainability disclosure in May 2022. Under this framework, publicly traded companies will have to disclose specific ESG information on climate targets, sustainability goals, risk management, and good governance.

"I feel there is a global momentum about sustainability."

Mariefi Kamizouli, Lead Economist, Loop

Various ESG frameworks and reporting requirements already exist such as Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI), Task Force on Climate-Related Financial Disclosures (TCFD), the International Integrated Reporting Framework and the IFRS Sustainability Disclosure Standards which were formed by the International Sustainability Standards Board (ISSB), a new working group created by the International Financial Reporting Standards (IFRS) Foundation.

It appears, however, that business leaders aren't fully prepared for new requirements to meet stakeholder demands. At present, 53% of survey respondents are unclear on the expectations of ESG reporting vs 47%, who have a good understanding of the new reporting requirements. These ESG reporting standards and frameworks vary according to your industry and the type of business you are operating. In practice this can translate to required disclosures in the areas covered in table 1.

E ENVIRONMENTAL ACTION	• Sustainability of produced products or provided services • Carbon footprint size and actions taken towards its reduction • Progress on any specific emission-related targets, set for the industry • Energy consumption levels and percentage of renewable energy sources used
S SOCIAL FACTORS	• Diversity, equity and inclusion practices in place • Adherence to specific labour, safety, fair pay standards • Code of conducts and ethical business practices in place • Anti-discrimination and anti-harassments measures adopte
G GOOD GOVERNANCE	• Number of product recalls issued per year • Number of services discontinued or amended due to non-compliance with laws and regulations or stakeholder concerns • Average time to pay outstanding invoices from suppliers and/or business partners • Mechanisms in place to prevent bribery, lobbying, and political contributions.

Business leaders who look beyond the box-ticking required by regulators will also realise the benefits of meeting key criteria for investors in their future potential for growth. Already, 91% of banks and 24 global credit rating agencies monitor ESG data. Additionally, 67% of banks screen their loan portfolios for ESG risks. By moving forward with ESG disclosures organisations can gain access to extra capital, required for the bold growth action, planned for this year, as well as tap into cost-saving opportunities, offered in the form of tax credits, rebates, and governmental grants.

"There's a huge transformation happening in terms of how the world is going to respond to climate transition, how it is going to be funded, how it is changing operationally", Lindsey Stewart says. "There are implied changes in regulation and consumer preferences, the risk of obsolete products, stranded assets, and changing business models. All business leaders must think about how they respond to the above even in terms of access to financing and how they're going to report in order to maintain access to financing".

Sustainable products are also gaining momentum with consumers and can be used to both capture and secure a bigger market share. At the same time, companies showcasing strong accountability have an easier time attracting a talented workforce with shared beliefs, and subsequently — less likely to become a target of lobby groups or shareholder activism.

"Shareholders and stakeholders will keep on demanding a clear narrative. When I refer to the narrative, associated with leadership skills, I also refer to empathy, courage, authenticity, and tenacity. You cannot support the narrative if you do not have all these kinds of behavioural traits as a leader."

Konstantinos Sergakis, Professor of Capital Markets Law and Corporate Governance at the University of Glasgow

EVERY STORM RUNS OUT OF RAIN

While the current business landscape is complex and challenging, there will be better times ahead. We asked C-suite leaders what advice they would give on how to survive and thrive in a challenging business environment. Four themes emerged. These are the questions business leaders should be asking themselves in order to emerge stronger after a perfect storm.

1 To what extent are you ‘risk ready’ for the next phase of disruption?

Industries are in a constant state of change. Disruption is now business as usual and you should be prepared to operate in a state of ambiguity.

Ask yourself: How can you remain alert to the changes around you? What tools can you put in place to monitor near-continuous change in your operating environment? What support might your people need to think ‘big-picture’? Have you given your team permission to offer a diverse set of insights to inform your risk monitoring?

It’s sensible to be prepared for the worst, but at the same time be on the lookout for new opportunities, as there will be plenty of them. Embrace the future. Opportunities are often greater in a crisis. Can you create an environment of open discussion around emerging risks and opportunities?

So not to miss the recovery, how can you support a spirit of innovation in gloomy times? Do your team have access to the market information they need to respond quickly to changing customer preferences? Are you taking a longer-term view in preparation for when the market conditions change?

2 Can you create more flexibility in how you lead and operate?

An ability to adapt to new circumstances as they present themselves has never been more critical. It’s clear that businesses are juggling many, often conflicting, priorities to drive a flexible and more successful operating model.

What does ‘being flexible’ look like across different aspects of your business? Can you help your people to be more resilient and prepared for change? What can you do to encourage a mindset of continuous learning?

Many leaders have suggested you need to be brave and innovate in tough times. What tools are you using to discern where to trim and where to invest to grow? What processes have you got in place to reinvent your offer according to variations in people’s preferences? How can you support your people to seize opportunities as they present themselves? Can you encourage your team to overcome the fear of making mistakes, and instead learn from them to grow?

3 What can you do to lead with integrity and encourage it across your business?

In times of crisis, maintaining high standards of integrity is even more of a challenge. However, it is in these tough times that integrity becomes more important than ever.

Most fundamentally, delivering on your brand promise is crucial to gaining customer loyalty, building trust, and retaining business. Is it clear why your business exists? Have you defined the purpose of your enterprise? Do you convey clear and compelling communication to articulate what you stand for?

Your people are critical participants in this, as they also need to embody the business ethos. Inviting input from employees and customers can help challenge old assumptions, ensure your intentions are clearly understood and your strategy is on track.

Having an attractive employer brand is critical, given the challenges around attracting and retaining talent. What attracts people to work for your business? How are you investing in the next generation of leaders?

4 How do you measure and report progress against your strategy?

Investors are now directing capital to investments that support their principles and values, often aligned with ESG principles.

A sustainable business strategy, fit for the longer-term, is best supported by focusing on both doing well and on doing good. With this in mind - How are you reporting on your business intentions? Do you do what you say you are going to do? Do you have a good understanding of the ESG reporting principles in your jurisdictions? Are you re-assessing your reporting framework to include new standards of good governance?

Many businesses now report on initiatives to improve environmental issues, however, the business response to human rights and initiatives to promote diversity are now equally important. How might you harness ESG reporting to drive competitive advantage?

Focus on what matters. Don’t be ruled by the numbers, instead, take note of what your metrics are telling you about the bigger picture.

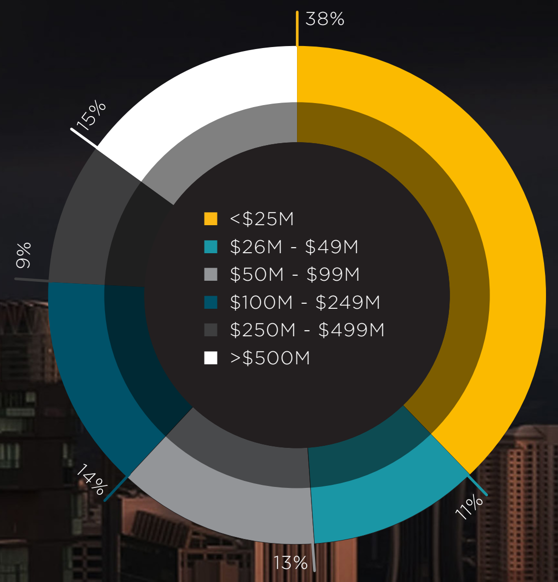
RESEARCH METHODOLOGY

Between September and November 2022, HLB collected 575 survey responses from business leaders across 60 countries and a range of industry backgrounds. Responses were collected via an online survey tool or telephone interview. The research sample was selected and controlled via HLB firms from their CRM data and supplemented with external market responses. In addition to the quantitative data, six in-depth interviews were conducted via video calls with various subject matter experts. The base for all figures is 575 unless otherwise indicated.

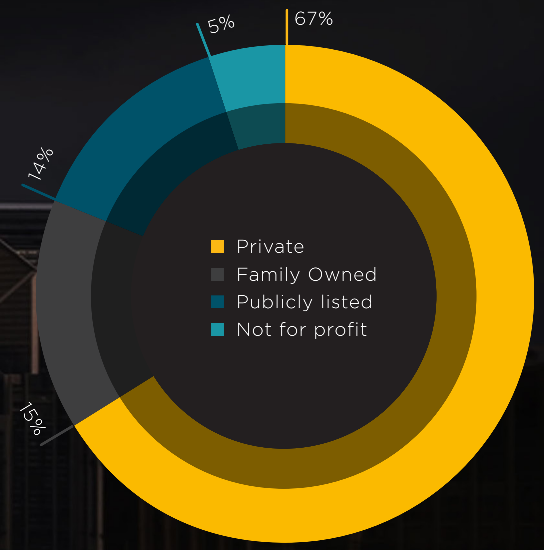
Note that not all figures in this report sum up to 100% as a result of rounding percentages, excluding neutral responses or when respondents could choose more than one answer. More data and information about this survey is available upon request. Please contact:

LESLEY HORNUNG
HEAD OF MARKETING & DIGITAL
+44 (0)20 7881 1100
L.HORNUNG@HLB.GLOBAL

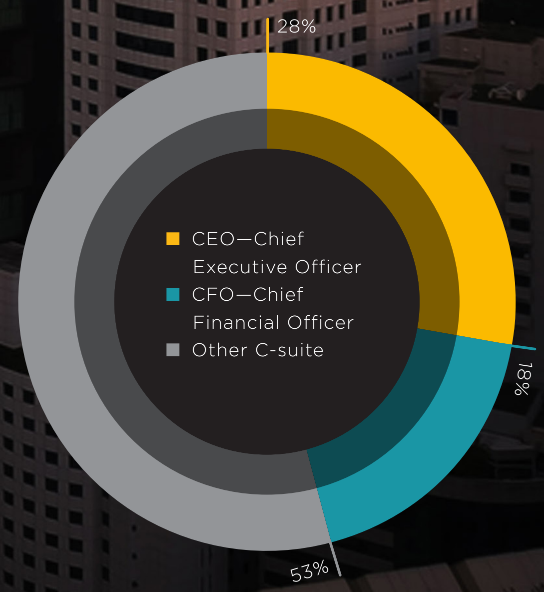
Company size by annual revenue in US$



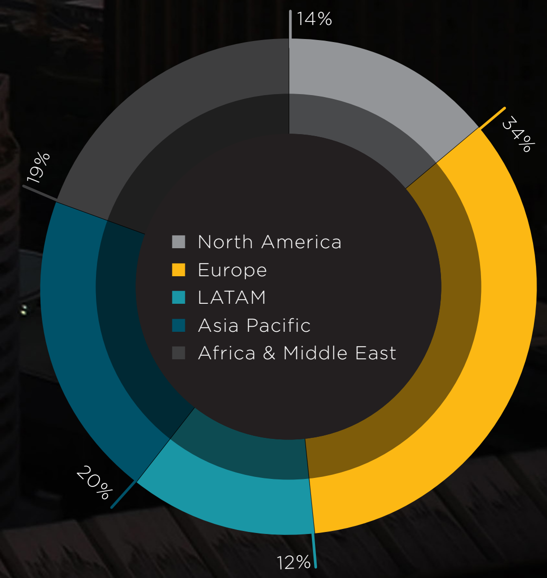
Respondents by type of company



Respondents by title

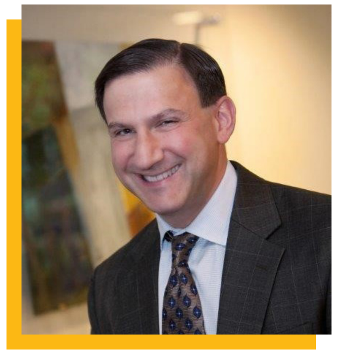


Company headquarters



IN-DEPTH INTERVIEWS

In addition to our quantitative research, this year we interviewed six subject matter experts on the topics of economic uncertainty and risk, organisational purpose, ESG and effective leadership in challenging times. Each 45-minute interview was conducted in late November. The final data from the survey was shared with the interviewees for their feedback and perspective.



JOE GREKIN
Partner
Schafer and Weiner, PLLC

KONSTANTINOS SERGAKIS
Professor of Capital Markets Law and Corporate Governance
University of Glasgow

DR IAN PETERS
Director
Institute of Business Ethics (IBE)

LINDSEY STEWART
Director of Investment Stewardship Research
Morningstar

MARIEFI KAMIZOULI
Lead Economist
Loop (part of the 55 Group)

ROGER STEARE
Senior Advisor on People & Culture, Leadership & Learning, Organisational Development, Ethics, Diversity & Inclusion

ACKNOWLEDGEMENTS AND THANKS

Carlos Morales
Caroline Monk
Charles (Chip) Hoebeke
Clensy Appavoo
Coco Liu
Corney Versteden
Cristine Cai
Daniel Masferrer
Dr Ian Peters
Joe Grekin
Julia Schneider
Konstantinos Sergakis
Lesley Hornung
Lindsey Stewart
Lucio di Giallonardo
Marcello Fonseca
Marco Donzelli
Mari-Anne Kehler
Mariefi Kamizouli
Nikola Verespejova
Paul Ashburn
Paul Ogbogbo
Ralph Mitchison
Rita Carolan
Roger Steare
Susanna Spada
Tony Lamb
Vijay LNarasimhan

ENDNOTES

1. Shariatmadari, D. (2022) A year of 'permacrisis', Collins Dictionary Language Blog. Available at: https://blog.collinsdictionary.com/language-lovers/a-year-of-permacrisis/ [Retrieved 16 December 2022].
2. IMF (2022) World Economic Outlook, October 2022: Countering the cost-of-living crisis, IMF. Available at: https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022 [Retrieved 16 December 2022]
3. King's Business Club 2020. Disruptive marketing at Tenzing. Available at <https://kingsbusinessclub.co.uk/wp-event/disruptive-marketing-at-tenzing/> [Retrieved 14 December 2022].
4. NPR. 2022. Twitter has lost 50 of its top 100 advertisers since Elon Musk took over. Available at <https://www.npr.org/2022/11/25/1139180002/twitter-loses-50-top-advertisers-elon-musk> .[Retrieved 14 December 2022].
5. HBR. 2019. Put Purpose at the Core of Your Strategy. Available at <https://hbr.org/2019/09/put-purpose-at-the-core-of-your-strategy>. [Retrieved 14 December 2022].
6. Knowledge at Wharton. 2019. Exhausted by Scandal: 'Dieselgate' Continues to Haunt Volkswagen. Available at <https://knowledge.wharton.upenn.edu/article/volkswagen-diesel-scandal/>. [Retrieved 14 December 2022].
7. Hydrocarbon Processing. 2019. Neste CEO touts energy transformation through renewables, sustainability. Available at <https://www.hydrocarbonprocessing.com/news/2019/06/irpc-eurasia-19-neste-ceo-touts-energy-transformation-through-renewables-sustainability>. [Retrieved 14 December 2022].
8. Xinhua. 2022. Chinese dairy giant Yili revenue reaches 63.2 bln yuan in H1. Available at <https://english.

HOW HLB CAN HELP

Businesses are operating in chaotic and changeable conditions, and companies who do not adapt risk their future survival. Our findings suggest that introducing more flexibility into your strategy, combined with continued efforts to build stakeholder trust and embrace ESG standards, will help to build resilience and support future growth. If you would like to explore the findings in this report and how they inform your next phase of growth, we would welcome the opportunity to discuss these with you.

www.hlb.global/surveyofbusinessleaders

TOGETHER WE MAKE IT HAPPEN

HLB THE GLOBAL ADVISORY AND ACCOUNTING NETWORK