Industrial, Energy & Natural Resources Survey 2023


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Turning ESG Responsibility into Business Opportunity

STANTON CHASE

I. Letter from the Authors

Dear clients and friends,

In today's world, the importance of companies' environmental, social, and governance (ESG) performance cannot be overstated. Investors, consumers, and regulators are all demanding greater transparency and accountability from businesses. At Stanton Chase, we recognize the need to stay at the forefront of these conversations and to uncover the strategies that are driving success.

To that end, we conducted a Global Executive Survey on The State of ESG in the Industrial, Energy, and Natural Resources Sectors.

The survey aimed to:

- Identify key business challenges, ESG-related challenges, and opportunities in the industrial, energy, and natural resources sectors

- Take the pulse of ESG performance through the eyes of business leaders driving the ESG agenda

- Measure the progress companies have already made in terms of ESG implementation.

We believe that these insights will help companies improve their ESG performance, set themselves up for success in 2023 and beyond, and contribute to a more sustainable future. We hope that you will find our survey report to be a valuable resource. As always, we welcome the opportunity to discuss these issues further and look forward to hearing your thoughts.

Warm regards,

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II. Key Findings

37% of respondents rated the economy as "better than last year," but 70% anticipate an increase in revenue

60% of organizations said sales, business development, and accessing new markets posed the biggest challenge to their business

70% of organizations are reshoring or near-shoring their supply chain, or considering doing so

40% of companies have already incorporated Industry 4.0, while 34% have implemented AI technology

89% of respondents consider ESG important, with 32% considering it extremely important

79% of companies have already implemented ESG initiatives

46% of companies say their brand reputation has already improved because of their ESG initiatives

34% of companies have a fully dedicated ESG role at their company

30% of companies are planning to hire a Chief ESG Officer

III. Executive Summary

Companies in the industrial, energy, and natural resources sectors are facing a variety of challenges in 2023.

In our previous Global Executive Survey, 81% of respondents stated that their current economic situation was consistent with or better than it was in 2021. However, this year, only 68% of respondents felt their economic situation was the same as or better than it was in 2022.

Our survey identified several key challenges facing companies in these sectors, including a lack of available funding, with 33% of respondents expecting there to be slightly or significantly less funding available over the next 12 months. Difficulties in sales, business development, and accessing new markets were reported as the biggest challenges.
The lack of competent and available executive talent was a problem for 40% of companies, and 36% of companies planned to nearshore or reshore their supply base to mitigate supply chain risks. 85% of companies also reported that ESG will impact the way they approach supply chain management, with nearly a third (30%) reporting that they will be changing suppliers.

Despite these challenges, 2023 presents opportunities for growth, innovation, and progress, particularly in the realm of ESG. ESG initiatives have already increased the market share of 10% of companies, and 35% expect ESG initiatives to increase their market share in the future. Nearly a quarter (24%) of companies also reported that ESG initiatives were making it easier for them to attract and retain talent.

"ESG initiatives have already increased the market share of 10% of companies, and 35% expect ESG initiatives to increase their market share in the future."

Our survey was attended by 179 diverse respondents, including 30% CEOs and 15% board members or board chairs. More than half (57%) of respondents represented global companies, and more than a third (34%) represented companies with revenues of $1 billion or more.

IV. Findings and Analysis

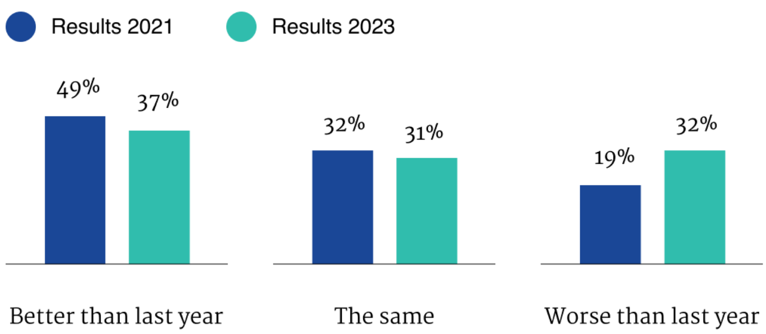
The Market Outlook is Optimistic Despite 2023's Challenges

68% of respondents reported that their economic situation was either the same or better than it was in the previous year. This is undoubtedly a positive outcome for those businesses, indicating that they have been able to weather the economic challenges that have arisen in recent times.

The remaining 32% of respondents reported that their economic situation had worsened compared to the previous year. This is an important reminder that business performance is not solely dependent on the industry in which a business operates, but rather on a variety of factors unique to each organization. These factors can include the specific business model, goals, agendas, and the different ways in which the economic climate affects different regions.

While the majority of respondents were positive about their economic situation and their organization's place in it, they were less positive than in previous surveys.

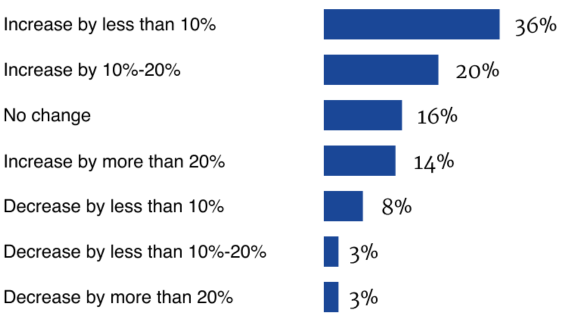
The Current Economic Situation



Continued Growth but Uncertainty About Available Funding

Despite concerns about the economic situation, most respondents are optimistic about their company's future revenue growth. It is worth noting that while only 37% of respondents rated the economy as "better than last year," a significant majority (70%) anticipate an increase in revenue. In fact, 14% of respondents anticipate an increase of more than 20%. This suggests that despite the challenges, respondents have confidence in their company's ability to thrive.

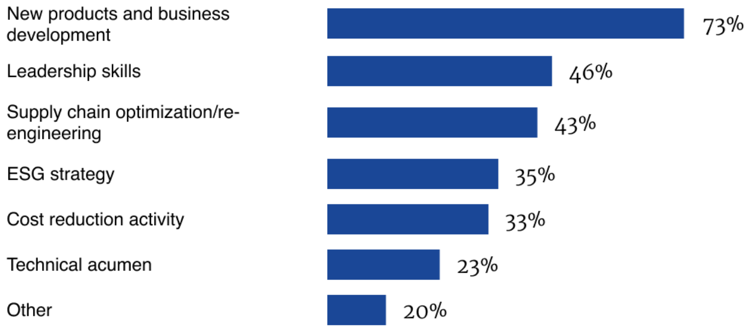
Revenue Changes in the Next 12 Months



Nearly three-quarters (73%) of respondents said new product and business development is crucial for growth in the next 12 months, while 46% identified leadership skills and 43% supply chain optimization/re-engineering as key drivers.

Our 2021 Global Executive Survey identified product development, talent management, and technology as the most important key drivers of growth. However, the results of our latest survey have revealed marked changes since then. Companies are now facing new obstacles that threaten their growth prospects, with the biggest challenge being supply chain instability. This challenge is forcing companies to rethink their traditional approach to supply chain management. A successful supply chain overhaul requires strong leadership, and this is reflected in the data related to key growth drivers as well.

Key Drivers for Growth Over the Next 1–3 years



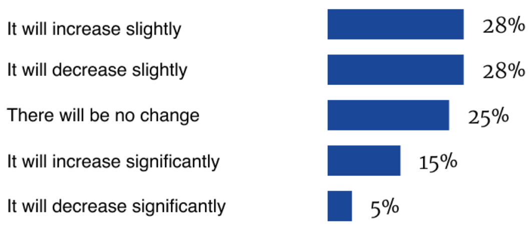
*Respondents were able to choose up to three options

Despite the challenging economic climate, a sizable 43% of respondents remained hopeful about the future, expecting more investment and funding in 2023. Only 33% anticipated a drop in funding and investment, with a mere 5% anticipating a substantial decrease.

The findings align with the overall positive outlook expressed by respondents regarding their companies' economic outlook and revenue growth. However, it is critical for companies to take a proactive approach in managing their funding and investments in 2023.

In order to maintain financial stability, businesses may have to explore alternative funding sources and be vigilant in their expenditures. Additionally, companies should view ESG as a viable path to secure additional funding and investments, as many investors are closely monitoring ESG performance and requiring genuine commitment towards sustainability as a prerequisite for funding availability.

How the Availability of Funding Will Change Over the Next 12 Months

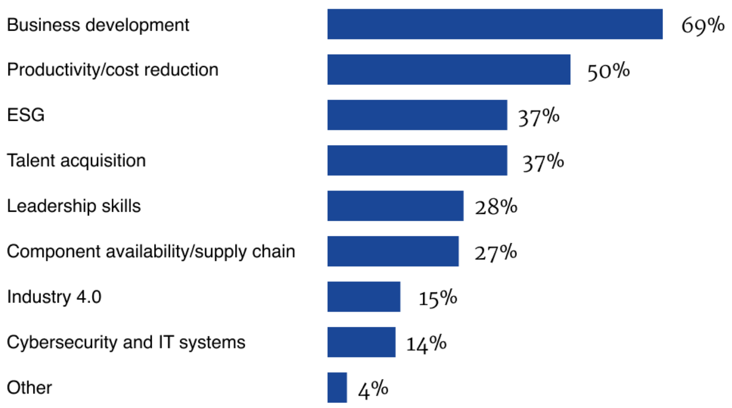


Business Development is an Opportunity and a Challenge

According to the respondents, the majority of executive teams are prioritizing business development and cost reduction. Consequently, companies are primarily focused on growth and cost efficiency rather than social and environmental responsibility. This focus is not surprising given the challenges of inflation, cost of capital, and strained global supply chains.

However, it is recommended that initiatives like Industry 4.0, cybersecurity, and ESG should not be completely de-prioritized. They might not offer the short-term growth that business development does, but if you are aiming for long-term growth and stability, they are essential.

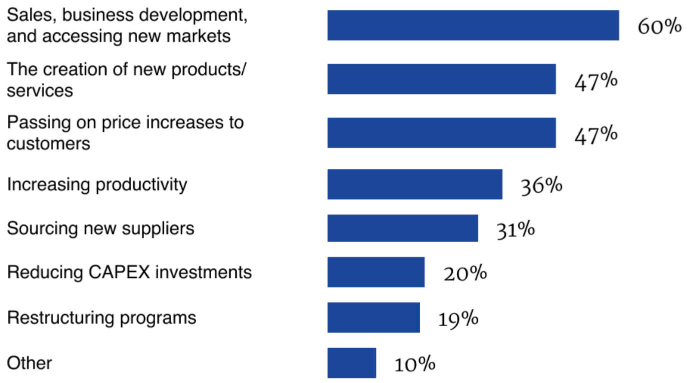
Top Priorities in 2023



*Respondents were able to choose up to three options

Sales, business development, and accessing new markets are the biggest challenges for most companies, followed by creating new products and services, and passing on price increases to customers. This indicates that companies are struggling to expand their customer base and maintain profitability in a competitive market. Additionally, economic challenges such as inflation further exacerbate these difficulties.

Top Challenges in 2023

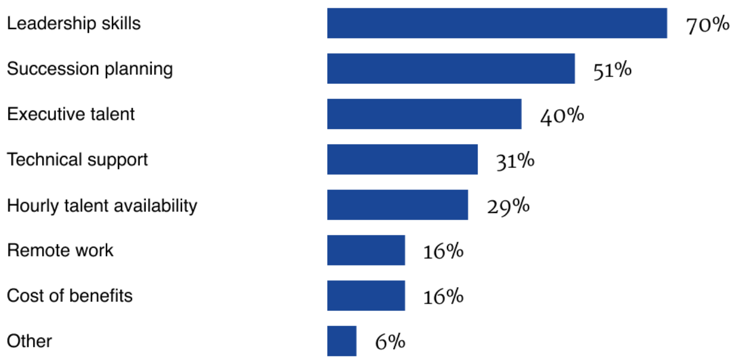


*Respondents were able to choose up to three options

The respondents identified several talent management and acquisition challenges that they anticipate facing in the next 12 months. For most companies, leadership skills and succession planning are the top talent issues, while some struggle with the availability of executive talent. This underscores the need for companies to prioritize the development and retention of their top talent to ensure long-term success.

Companies also face significant operational issues as a result of human capital challenges, particularly with technical support talent (31%) and hourly talent availability (29%). However, the biggest talent issue by far is leadership skills, which 70% of companies report struggling with.

Human Capital Challenges in 2023



*Respondents were able to choose up to three options

Supply chains have continued to be unstable since the COVID-19 pandemic started. Now with it behind us, they remain unstable, partially due to Russia's invasion of the Ukraine.

A significant number of companies are considering nearshoring or reshoring their supply chains to mitigate supply chain risks. This is a monumental decision, given that reshoring is a major, expensive, and long-term strategic move. Of the respondents, 36% have already decided to reshore or nearshore, while a massive 70% are either taking or considering taking such action. This indicates that industrial, natural resources, and energy companies are taking decisive steps to address their supply chain issues by reducing their reliance on complex global supply chains and moving towards more regional and local ones.

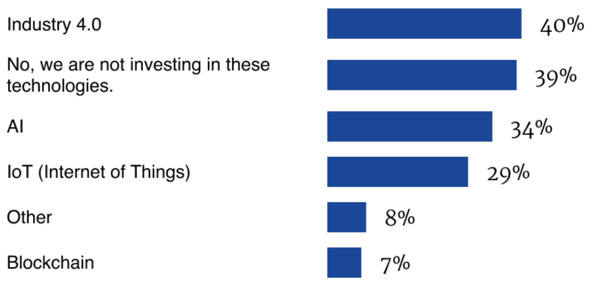
Companies Are Nearshoring or Reshoring Their Supply Base to Mitigate Supply Chain Risks

Investing in disruptive technologies can help businesses transform challenges into opportunities. According to our survey respondents, 40% of companies have already incorporated Industry 4.0, while 34% have implemented AI technology. This indicates a trend towards technological synergy in the industrial, natural resources, and energy industries, with companies adopting new technologies and innovating industrial technology products.

However, while a significant number of businesses are investing in disruptive technologies, some are not. This suggests that while some companies are open to new technologies to stay ahead of the competition, others may have concerns about implementation challenges and costs.

In 2021, respondents to our previous Global Executive Survey reported that the main challenges they faced in implementing or investing in disruptive technologies were a lack of in-house expertise or digital lead initiatives, a lack of the necessary leadership skills, and a lack of an overall digitalization strategy.

Investments in Disruptive Technologies



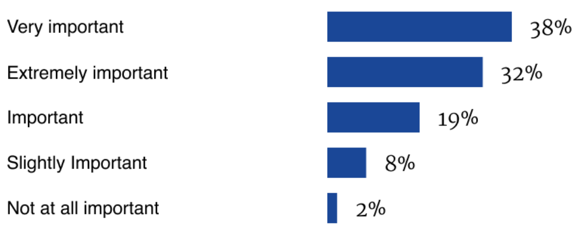
*Respondents were able to choose up to three options

ESG Leads to Improved Brand Reputation, More Customers, Increased Revenue, but Also Higher Costs

ESG is crucial for companies operating in the industrial, natural resources, and energy sectors. In fact, a staggering 89% of respondents consider ESG important, with 32% considering it extremely important.

By making ESG a priority, companies can enhance their financial performance over the long term and mitigate potential risks.

The Perceived Importance of ESG



While 75% of companies have initiated the implementation of ESG programs, 25% of respondents reported that their companies have not yet started. This delay in the adoption of ESG programs might be due to several factors such as limited resources, inadequate organizational structures, regulatory uncertainty, and perhaps an unwillingness to embrace the need for change.

Wide-ranging ESG initiatives often require substantial investments of time, money, and personnel, which may be difficult to allocate during challenging economic times. Additionally, fragmented responsibilities across different departments can hinder the development of a comprehensive ESG strategy. The rapidly evolving regulatory environment surrounding ESG may also create uncertainty for companies, causing them to hesitate in their investment in ESG initiatives.

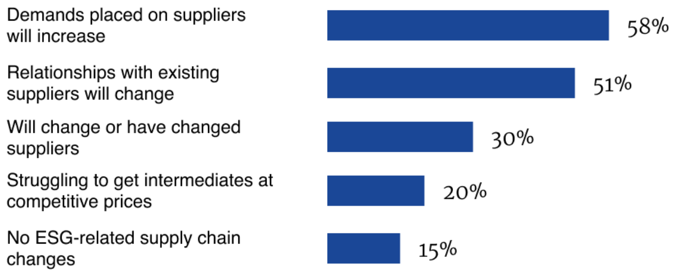
ESG Progress

In response to ESG concerns, companies are reevaluating their supply chain management approach. More than half (58%) of respondents plan to increase their demands on suppliers, while 51% anticipate changes in their existing supplier relationships. Additionally, 30% of the respondents have already changed or plan to change suppliers. This shift may also contribute to the reshoring and near-shoring decisions discussed earlier in this report.

This shift suggests an inclination towards stricter expectations of suppliers' ESG practices, necessitating companies to prioritize ESG considerations when selecting and managing suppliers.

Businesses must communicate transparently with existing clients to align on ESG priorities and expectations. Companies should also conduct due diligence on potential new suppliers to assess their ESG practices and ensure alignment with their own ESG priorities.

How ESG Affects Supply Chains

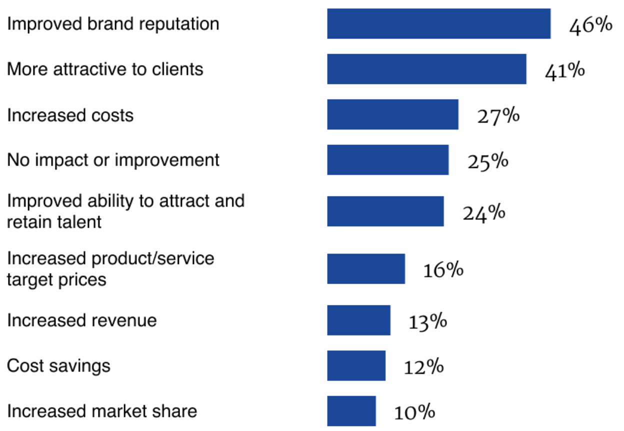


*Respondents were able to choose up to three options

ESG initiatives have a wider impact on businesses than just supply chain management. Our survey showed that 46% of respondents improved their brand reputation and 41% became more attractive to clients due to ESG. Companies prioritizing ESG can differentiate themselves from competitors and see positive impacts on their bottom line.

However, 27% of respondents reported increased costs, while 25% saw no improvement at all. Although implementing ESG standards can require significant investments, long-term benefits may outweigh short-term costs. Companies should evaluate potential benefits and costs to determine the best approach for their specific situation.

How ESG Initiatives Have Affected Companies

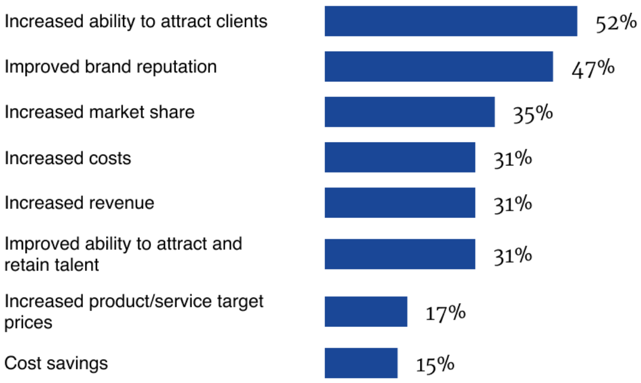


*Respondents were able to choose up to three options

ESG is not just important for its current benefits, but also for its future benefits.
Our survey found that 52% of respondents believed that their ESG initiatives would make them more attractive to clients, 47% believed it would improve their brand reputation, and 35% believed it would increase their market share in the future.

Businesses that prioritize ESG will have a competitive advantage in the marketplace of the future as consumers and institutional investors increasingly factor ESG criteria into their decision-making. Consumers are likely to choose businesses that align with their values, while a positive brand reputation can lead to increased customer loyalty, improved employee retention, and better relationships with regulators and policymakers.

How ESG Will Affect Companies in the Future

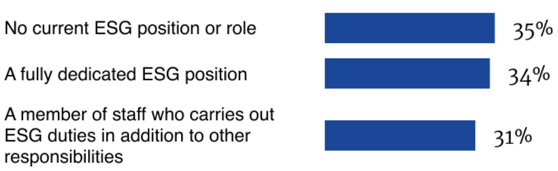


*Respondents were able to choose up to three options

Companies Are Still Slow to Hire ESG Professionals Despite Pressure from Customers, Employees, and Investors

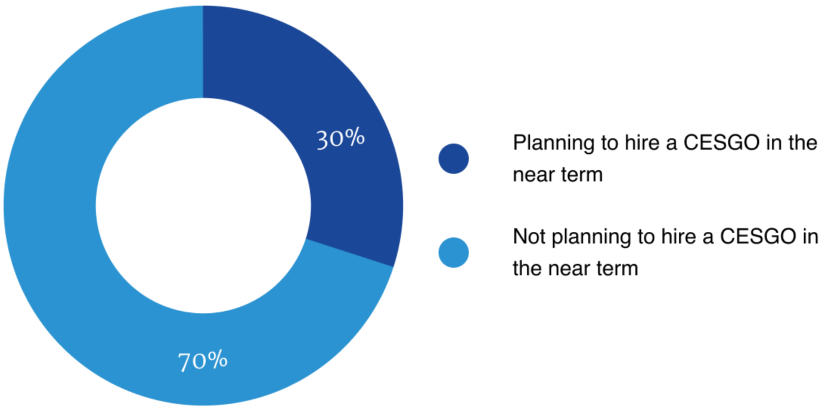
A significant proportion of companies have an ESG executive in some capacity. According to our survey results, 65% of respondents either have a fully dedicated ESG position in their company or someone in charge of ESG at their company, although the position is not solely dedicated to it.

Companies With a Dedicated ESG (Sustainability/CSR) Position



A smaller percentage (30%) of companies plan to have a Chief ESG Officer (CESGO) in their C-suite in the near term.

Companies That Are Planning on Hiring a Chief ESG Officer (CESGO) in the Near Term



A company's decision to hire a dedicated ESG executive is influenced by three factors. The first factor is the perceived importance of ESG to a company's business strategy. Companies that view ESG as critical are more likely to have a dedicated ESG position or a CESGO in their C-suite.

The second factor is resource constraints, which can make it difficult for small and mid-sized companies to justify the cost of a dedicated ESG executive. This is likely why 31% of respondents had someone in charge of ESG but not solely dedicated to it.

The third factor is future plans and priorities. 70% of respondents indicated that they had no immediate plans to acquire a CESGO. Some companies may prioritize other areas of their business or may not recognize the value of having a dedicated executive overseeing their ESG efforts.

Businesses Will Be Significantly Impacted by Upcoming ESG Regulations

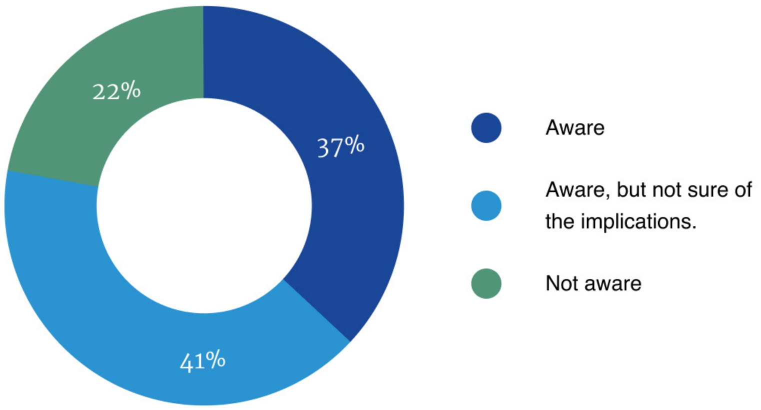
37% of respondents reported knowing about the upcoming ESG regulations in the EU and US, while 41% were aware of the regulations but unsure of how they would affect their business. 22% of respondents reported not being aware of the regulations.

The businesses who are unsure how these regulations will impact their business may be indicative of a lack of clarity in regulatory requirements, which could make it difficult for companies to understand how to comply.

Companies based outside of the EU and US may not be aware of the regulations, as they may not be directly impacted by them.

Our survey results also suggest a need for improved communication and education about the regulations from regulators and industry bodies, as well as greater proactive efforts from companies to seek out information on upcoming regulations.

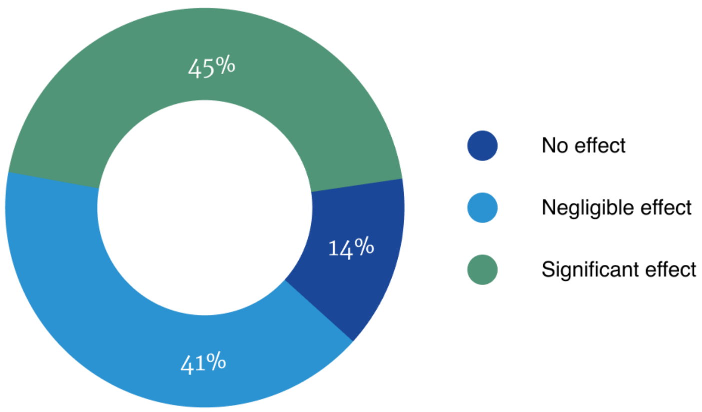
Companies That Are Aware of the Upcoming EU/US ESG Regulations



Nearly half (45%) of the respondents who were aware of the new ESG regulations believed they would have a significant effect on their business. Companies may need to make significant changes to their operations in order to comply with the regulations and avoid potential penalties.

More than half of the respondents (55%) stated that the regulations would either have a negligible or no impact on their business. However, it is possible that some of these businesses are underestimating the potential impact of the regulations. For instance, the regulations could indirectly impact the businesses through changes in investor preferences, shifts in consumer behavior, or increasing demands from clients who need to comply with ESG regulations in their home countries such as in the EU or the US.

How the EU/US ESG Regulations Will Affect Companies



V. Respondent Demographics

Respondent Roles

- 30% of respondents were CEOs
- 11% were board members
- 4% were board chairs
- 10% were CFOs
- 9% were CHROs
- 6% were sustainability/ESG senior managers

Respondent company revenue

- 13% of respondents represented companies with revenues higher than $5 billion
- 21% represented companies with revenues between $1 billion and $5 billion
- 11% represented companies with revenues between $501 million and $1 billion

Respondent company status

- 29% of respondents represented listed companies
- 29% represented non-listed companies
- 42% represented private companies

The survey received responses from various regions, including 22% from APAC, 67% from EMEA, 4% from LATAM, and 7% from North America. In terms of organization size, 57% of respondents were from global organizations, 24% from regional organizations, and 19% from national organizations. The respondents represented a variety of sectors. Some of the subsectors within the industrial, energy, and natural resources sectors that were represented include the engineering, construction, or building materials sector, the industrial equipment and components sector, the chemical sector, and the automotive sector.

VI. Recommendations

Coming Out on Top Despite the Current Economic Climate

- Focus on long-term growth and sustainability.
- Cut down on non-essential expenses, optimize operational processes, and negotiate better contracts with suppliers.
- Strengthen relationships with existing customers, suppliers, and partners.
- Encourage brave and creative thinking to outperform the competition.
- Embrace technology in business practices, operations, and products.
- Implement lean manufacturing practices, Industry 4.0, invest in technology to streamline operations, and optimize supply chains.
- Consider re-engineering your global supply chain through near-shoring or reshoring, and focus more on developing regional or local supply chains.
- Focus on new products, business development, cost reduction, and the ability to pass on cost increases to customers.
- Consider alternative funding options like peer-to-peer lending, invoice financing, revenue-based financing, and grants, while exercising caution to avoid negative impacts on future prospects.
- Enhance your investment and funding options by investing in ESG.
- Understand that ESG is like any other investment. If set up correctly, it will pay off in the medium-term.
- Develop agile leadership talent to navigate the prolonged series of major challenges faced by the industrial, natural resources, and energy sectors.

Get Ahead of Legislators and Make ESG Strategy an Ongoing Investment

- Engage with stakeholders, including investors, employees, customers, and communities, to understand their expectations and concerns regarding ESG.
- Assess your current ESG performance and identify areas for improvement.
- Establish metrics and key performance indicators (KPIs) to track progress towards ESG goals.
- Incorporate ESG considerations into decision-making processes, including capital allocation and risk management.
- Continuously monitor and update your ESG strategy to reflect evolving legislation and regulations, stakeholder expectations, consumer demands, and changing market conditions.
- Ensure transparency and accountability by reporting regularly on ESG performance, including progress towards goals and targets.

Success Starts and Ends With Leadership

- Strong leadership is essential.
- Executives should have knowledge of ESG, even if it is not their primary focus.
- Support your top executives with ESG-related education.
- Build a talent pipeline that prioritizes continued growth and learning. This ensures that your executive team stays updated on ESG developments, such as new regulatory requirements, and that talent is always available on your board and executive team
- To attract talented executives who can drive growth and sustainability initiatives, consider offering more competitive compensation, opportunities for growth, a positive company culture, and flexible working conditions.
- Offer opportunities for your leadership to question the status quo and creatively rethink revenue and growth opportunities.
- Consider appointing a Chief ESG Officer as regulations and stakeholder demands surrounding ESG are expected to become more common and demanding in the future. Investing in a CESGO now is a smart strategic decision, as their market value will only increase in the future.

Review Supply Chain Management for Optimal ESG Compliance

- Develop and enforce a code of conduct for suppliers that includes ESG principles.
- Establish ESG performance metrics for suppliers and hold them accountable for meeting sustainability goals.
- Provide training and development programs for suppliers to help them improve their sustainability practices.
- Develop supplier diversity programs to promote the inclusion of underrepresented groups in the supply chain.
- Implement environmental monitoring and reporting systems to track and reduce the environmental impact of your suppliers.
- Consider the environmental impact of transportation and logistics. For example, reducing carbon emissions by optimizing shipping routes, using low-emission vehicles, and considering nearshoring.
- Select suppliers with ESG certifications.

VII. About Stanton Chase

Stanton Chase ranks among the world's top 10 executive search firms. It has been a market leader for executive search and leadership consulting since 1990.

Stanton Chase operates through focused industry practice groups, each led by a global practice leader who is an industry expert. As an international firm with operations in over 45 countries, Stanton Chase provides both a global perspective and local insight.

Stanton Chase's experienced global consultants can help you every step of the way, whether you are looking for the best talent or making sure your leadership team is as effective as possible.

We help CEOs assemble the most effective ESG teams. We also work with other leaders to realize their potential in contributing to successful ESG policies.

Learn more about our ESG functional expertise here.

To connect with our global consultants in the industrial, natural resources and energy sectors, click here.

For more information, visit www.stantonchase.com or follow us on LinkedIn, Twitter, or Facebook.

VIII. About the Authors

Jan Duniec

Jan Duniec is Partner at Stanton Chase Warsaw and the Global Practice Leader of Stanton Chase's Industrial Practice. He is an experienced consultant with 17 years of plant and business executive management experience.

He is a graduate of the University of Manchester with an honours degree in Physics. He has dual Polish and British citizenship and is fluent in both languages. He was resident in the UK until 1991, and has been predominantly based in Poland since then.

Click here to learn more about Jan.

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Christian Ehl

Christian Ehl is a Partner at Stanton Chase Düsseldorf and the Global Practice Leader of Stanton Chase's ESG Practice. He has 19 years of experience in executive search, leadership advisory, sustainability, and ESG.

He finished his studies in international business administration at the Accadis Business School. He also completed a separate degree from the University of Newcastle (UK). He speaks German and English fluently and has a good understanding of Spanish.

Click here to learn more about Christian.

IX. Special Acknowledgements

We would like to acknowledge all Stanton Chase offices that helped facilitate the survey and thank all of the respondents who took part in it.

We would also like to thank and acknowledge the following contributors:

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 Fernando Rodriguez – **Regional Practice Leader ESG, LATAM, and Regional Sector Leader for Mining, LATAM**, at Stanton Chase Santiago

 Christine Fisher – **Managing Director** at Stanton Chase Calgary

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