Grant Thornton

The journey to a sustainable future

Why the world needs a sustainable mid-market

Foreword

When it comes to sustainable business, much is known and written about the world's largest corporations given their obligations for reporting and transparency. However, the progress and actions of mid-market companies – the driving force of the global economy – have been largely ignored and unexplored.

Sustainability is quickly becoming a must-have rather than a nice-to-have for the mid-market. Firms are being driven by market competition, client demands and investor pressure, whilst in parallel they are under pressure to meet increasingly stringent regulations and standards. Yet for many firms this is brand new territory, and they don't have a road map or blueprint to follow.

The mid-market's role in the global supply chain means that it forms a vital part of the business ecosystem, connecting and serving organisations and their clients across the globe. As the mid-market becomes more sustainable itself, it will enable larger corporations to comply with supply chain requirements as well as set an example and pave the way for smaller firms: it becomes a lynchpin for the sustainability of the global ecosystem. In order to play its full role, the mid-market will need the right guidance, support and business environment that allows these businesses to thrive.

In this report, we explore the shape of that journey for the mid-market, what is driving these organisations to take action, what are the main barriers they have to overcome and what areas of sustainability will they focus on next. We set out our five recommendations to both large corporations and mid-market companies in order to provide a smoother path to sustainability.

Many mid-market firms have begun, but on the journey to a sustainable future, there is still a way to go. To overcome any hesitancy around taking the next step on their sustainability journey, firms need clear advice on what comes next and how to approach it.

The world needs a sustainable mid-market. It's vital to economies, societies and the planet. Businesses, governments, and other stakeholders must work collaboratively to make sure this vital part of the world economy succeeds.

Trent Gazzaway
Global head, Service line capability and quality,
Grant Thornton International

Green fuel

The commercial opportunity

The mid-market is being pulled to sustainability by the commercial opportunities it presents. Consumers increasingly look to support brands with strong credentials, while investors are increasingly conscious of the long-term value it can provide. Sustainability has become more than just a buzzword, it's a commercial opportunity.

This sentiment is reflected in our International Business Report (IBR) research.[1] It shows that the most important factor encouraging businesses to focus on sustainability is brand reputation.

In 2020, 58% of consumers across all generations said that they were willing to spend more for sustainable options, and by 2022, nearly 90% of Gen X consumers said that they would be willing to spend an extra 10% or more for sustainable products.[2]

This change in consumer priorities has a knock-on effect on the business-to-business mid-market as client businesses begin to demand action on sustainability throughout their supply chain, in part due to regulations such as Scope 3.[3]

> "There is a premium on businesses that have a good story to tell on sustainability."
>
> **Scott Wilson,** Head of ESG and sustainability, Grant Thornton UK.

The most important factors encouraging businesses to focus on sustainability:

19% Brand reputation

14% Market competition

11% Access to finance

9% Purpose of the business

8% Supply chain / customer requirements

The regulatory environment

The current regulatory landscape for sustainability is complex and can, in some markets, be stringent. Regulations are predicted to increase in scope throughout this year and beyond, as new laws emerge globally that mandate increased transparency and disclosure of companies' environmental, social and governance performance. Examples include the EU's Corporate Sustainability Reporting Directive (CSRD),[4] and the SEC's climate disclosure rules.[5]

Despite this, less than 7% of mid-market firms in our research cite jurisdictional or industry regulations as the main driver of their focus on sustainability initiatives. As sustainability regulation progresses at differing paces globally, some mid-market firms are struggling to make sense of the landscape and are therefore often reluctant to act on compliance until it is truly necessary. But whether mid-market firms are ready to admit it or not, regulation is an increasingly important driver of sustainability.

"Around 80% of our client engagement at the moment is to help clients meet their regulatory requirements and their reporting requirements." Scott Wilson, Head of ESG and sustainability, Grant Thornton UK

While firms might be pulled by the commercial opportunities, they are being pushed by the regulatory environment.

Head wind

Head wind

Given the importance of the mid-market to global sustainability, it's key that we understand the obstacles they encounter in this area. Globally, the mid-market identifies four key barriers to successfully developing ESG initiatives:

- Cost: 15%
- Complexity of regulations and standards: 13%
- Resource requirements : 11%
- Volume of regulations and standards: 10%

Barriers to implementing sustainability initiatives vary by region. Mid-market companies in Africa consistently report that cost is their main barrier. This is likely because many African mid-market organisations operate in developing economies with reduced access to capital. However, this does not necessarily reflect the appetite for sustainability in this region and is more a reflection of the commercial reality.

In contrast, mid-market organisations in North America cite the complexity of regulations as their main barrier to sustainability. According to our IBR research, 57% of companies in North America expect to increase revenue from non-domestic markets, a much higher proportion than is the case for other regions. This forces North American business to navigate a number of different regulatory regimes as a result of their international supply chains and customers.

Mid-market organisations have various concerns about ESG/sustainability compliance.
Four issues stand out:

Resource required for staff and time compliance | Speed at which requirements change | Capital investment | Understanding the requirements for different jurisdictions

> “Understanding regulatory requirements is not most firms’ day-job. Becoming compliant with sustainability requirements is a significant additional ask.”
>
> **Catherine Duggan,** Head of sustainability in advisory consulting, Grant Thornton Ireland

Concern varies between industries. In financial services, companies are more likely to cite resource as an issue, including 72% of those in banking. Those in healthcare (53%), and construction (60%) are more likely to say they are concerned by the speed at which requirements change.

The sustainability regulation landscape is rapidly evolving globally, and the legal liability for ESG disclosures is also increasing.[6] This regulatory burden has ramifications for business costs–disproportionately affecting the mid-market, who are often large enough to be in scope but with less resource to achieve compliance.[7]

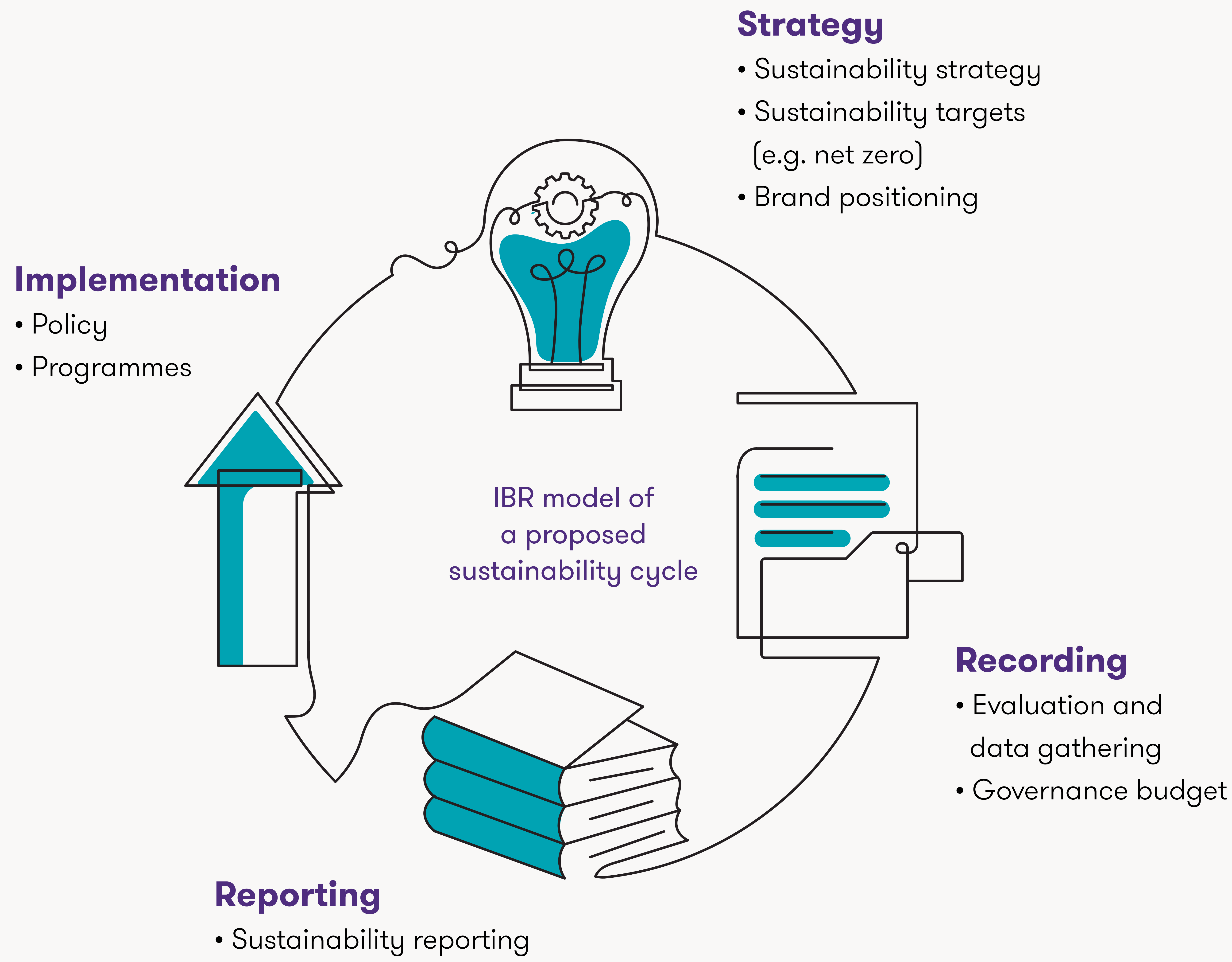
Plotting a course

Plotting a course

From our research and the IBR data, we have produced a proposed model for a 'sustainability cycle' which depicts the phases most mid-market firms will go through on the journey to becoming a sustainable business. The cycle is comprised of four phases, each encompassing different actions on sustainability. From the data we can also determine that the cycle is continuous and iterative.

Most of the mid-market has taken the first steps towards sustainability. Globally, 92% of mid-market businesses have implemented at least one action over the last 12 months, and 62% have implemented three or more.

But there is still a way to go: 39% of the mid-market has set sustainability targets, which compared to large companies is a low proportion.[8]



Top three actions taken:

51% **Sustainability strategy**

47% **Evaluation and data gathering**

40% **Sustainability reporting**

Our analysis shows that mid-market firms undertake many different combinations of actions on sustainability. Each cycle through the phases fuels subsequent ones, and as time goes on, a complex and interconnected journey forms. It's therefore helpful to picture the mid-market sustainability journey as a continuum.

"Where firms start is often a consequence of what has driven them to invest in sustainability in the first place. For instance, often those responding to regulation or client requests for disclosure will begin with data gathering or reporting. It's important to meet clients where they are – while not every client will be a leader in sustainability, the vast majority are committed to operating responsibly and want to meet external expectations in an efficient, right-sized investment."

Marjorie Whittaker, Managing director, ESG and sustainability, audit and assurance services, Grant Thornton LLP (US)

The sustainability continuum

Our research suggests that the sophistication of sustainability regulations and standards that an organisation is compliant with, is most likely to determine where they are on the sustainability journey. Those at the start of their journey are less likely to have been subject to regulation previously, and are therefore likely to have undertaken fewer sustainability actions or phases and have invested less in sustainability initiatives.

Discover

Firms feel the pressure to act but find limited resources and lack of stakeholder buy-in to be barriers.

Read more >

Explore

Sustainability is driven by brand reputation and market gains, but the risk of regulatory headaches looms.

Read more >

Evolve

Firms feel the push from clients' and market expectations, but costs and reporting challenges are a constant pull.

Read more >

Endurance

Competition in mature regulated markets pushes companies to stay ahead of the pack.

Read more >

As mid-market firms advance on their sustainability journey at differing paces, and begin to create their own sustainability cycles, many can be categorised under Discover, Explore, Evolve or Endurance.

Compliance with increasingly complex and exacting regulations and standards

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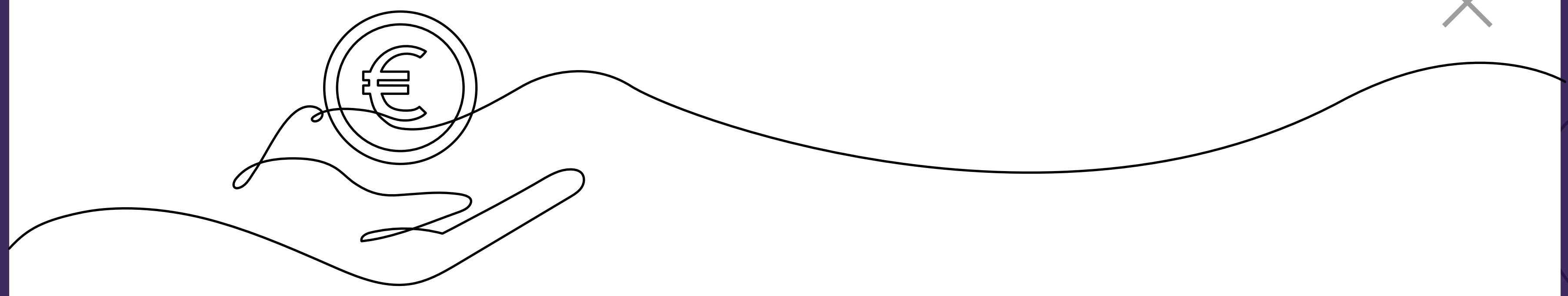

Discover

Businesses at the Discover stage tend to be starting out on their sustainability journey. Their key barriers are access to finance, and a lack of stakeholder buy-in. They are also unlikely to be under pressure from a regulatory or compliance perspective. Companies in the region of Africa tend to fall into this category.

Recommendations: Begin by assessing how action on sustainability might fit with your business strategy, including low-cost options e.g. waste management, and then devising a strategy and speaking to senior leadership to get stakeholder buy-in.

Evolve

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Explore

Organisations at the Explore stage are under less regulatory compliance burden domestically, but do have greater access to finance than Discover. They are therefore driven primarily by protecting and enhancing their brand and using sustainability as a competitive and commercial advantage. These organisations are often found in the United States.

Recommendations: Seeking advice on the assurance and reporting of your data is wise in order to avoid accusations of greenwashing. In addition, if planning expansion into jurisdictions with greater regulatory compliance requirements, speak to an advisor to guide you through this process.

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Evolve

The Evolve stage is where businesses are growing their investment in sustainability, these are often companies in regions such as Asia-Pacific which are heavily involved in the global supply chain. For this reason, they are required to comply with sustainability regulations set by larger/international client organisations. Their biggest barrier is still cost, but they are driven more by brand reputation and market competition.

Recommendations: Our key recommendation is to ensure that data gathering is accurate, complete and organised. This will enable subsequent iterations of strategy and implementation to be more efficient and effective. It will also enable reliable reporting and therefore higher levels of trust associated with the brand.

The sustainability continuum

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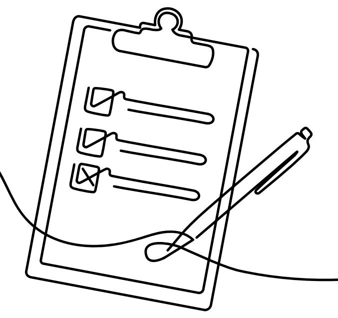

Endurance

Companies at the Endurance stage are found in regions with the most mature and sophisticated regulatory environments such as Europe and the UK and are likely to have carried out more complete sustainability phases. Endurance businesses are driven towards sustainability by competition and protecting their brand, but also often by a sense of purpose.

Recommendations: As compliance is key for these organisations, we recommend seeking advice on how to simplify the regulatory landscape and be compliant across multiple jurisdictions. Mid-market firms should also seek advice on how to link any actions undertaken so far, so that their reporting and implementation phases are cohesive.

...e,
Evolve or Endurance.

Compliance with increasingly complex and exacting regulations and standards

Case studies

A client in the Explore stage, who had taken a number of unconnected actions on sustainability, came to Grant Thornton wanting to 'prove' their ESG credibility by producing a report.

We advised the client to first begin with a materiality assessment, to understand what sustainability actions would link to the overall purpose of the business, before creating a strategy and getting stakeholder buy-in.

The Grant Thornton team took a holistic approach and was able to connect the dots to set the business on the right course.

Case studies

A client in the Endurance stage with international operations, asked Grant Thornton to help them understand the regulatory landscape and how they could be compliant with their reporting.

First, we undertook a scoping exercise for the regulations. We then undertook a Double Materiality Assessment,[9] to ensure compliance and integrate sustainability within their core business strategies. After helping the client understand where the gaps were, we advised them on how to gather data and draft a report.

Grant Thornton's regulatory expertise across multiple jurisdictions allowed the client to navigate this challenge.

Where next?

Momentum for the sustainability journey is building, with 93% of mid-market firms saying they plan to implement at least one action in the next 12 months. Of those who've already implemented a strategy, over two thirds (65%) say they plan to continue strategising over the next year, suggesting even the first steps on the journey are not always perfected immediately. This further emphasises the cyclical nature of the journey, with each phase of sustainability evolving and shaping the others.

The industries which report maintaining or increasing their investment in sustainability initiatives the most, are financial services (64%) and the public sector (63%). This may be a result of increasing pressure from the public, investors and other stakeholders, and because these are industries with a greater downstream effect than many others. Financial services firms can have an influence on their clients, who span every industry, while the public sector can have a significant influence on the behaviour of companies within their jurisdiction.

Where businesses are investing may also indicate where they are on the sustainability journey: waste management and clean water are greater focuses of investment for mid-market firms in Africa which tend to be in the 'Discover' stage, whilst the most frequent selection for firms in Asia-Pacific, many of whom are at the 'Evolve' stage, are sustainable procurement/ supply chain reform and new sustainable products. Interestingly, renewable energy is selected by the highest proportion of businesses from North America, Asia-Pacific and Europe. This may be because the renewable energy sector is fairly well developed and decarbonisation is becoming an increasingly pressing economic and political priority for many countries.

The industries which report maintaining or increasing their investment in sustainability initiatives the most, are:

64%
Financial services

63%
Public sector

"It is likely to take firms five years to get reporting right and be confident in their results."

Glória Lucena, Due diligence partner and ESG leader, Grant Thornton Brazil

The path less taken

Our data suggests that mid-market companies are not currently focusing on sustainability reporting, and implementation, and are instead concentrating on strategy or data gathering. 48% of firms say that they plan to implement a strategy in the next 12 months, whilst only 40% of firms say they plan to begin reporting. A lack of action on sustainability reporting was the case across all regions: less than half of firms in each region have actioned reporting in the last year.

This may reflect mid-market firms' interest in brand reputation and taking actions that are visible and engaging for customers and stakeholders. It also reflects a reluctance to engage with some of the new regulations, and a procrastination by many firms when it comes to reporting requirements – either fearing the investment required, greenwashing allegations, or simply not knowing where to start.

"There is some reluctance to face reality when it comes to meeting regulatory reporting and standards. Sustainability compliance is complex and requires significantly more time and resource investment than say a regular audit." Andrew Rigele, National managing partner – ESG, Grant Thornton Australia.

Sustainability reporting is crucial to brand reputation. It can help mitigate risks by making achievements in sustainability tangible. It is also an opportunity for mid-market organisations to establish credibility in an area that they see as a competitive advantage.

For example, Seasalt – a mid-market clothing company which has made sustainability a core part of its brand – produces an annual Sustainability Report that details progress against a Science Based Targets Initiative (SBTi). This transparency gives consumers confidence, and allows Seasalt to promote its successes on sustainability as a way of differentiating its brand.[10]

Grant Thornton expects to see the levels of reporting and implementation increase in the next year. To realise the full commercial and reputational impact of sustainability, mid-market organisations need to be able to show credibility and transparency through their reporting.

Trade routes

When we asked mid-market firms, "to what extent do you agree that ESG/sustainability requirements are a potential barrier to international business expansion," 76% of respondents agreed with the statement.

North American mid-market firms were the most likely to agree with the statement, with nearly nine in ten (87%) believing that sustainability requirements are a barrier. Given that they are already compliant with some of the world's most exacting standards, it was unsurprising that mid-market firms in Europe had a much lower tendency to agree, at 68%.

The most globalised industries, engaging in high volumes of cross border trade, and therefore more likely to be caught by rules in multiple jurisdictions, were the most likely to cite requirements as a barrier: 89% of mid-market banking firms agreed it was an issue, with financial services as a whole at 86%. However, mid-market firms are at an advantage compared to large corporations when it comes to having to adapt quickly as they are more agile.

"When you first find out about complex legislation you might see it as a barrier, particularly for expansion. But going forward mid-market firms can also see it as an opportunity." Glória Lucena, Due diligence partner and ESG leader, Grant Thornton Brazil.

Mid-market firms that believe ESG/sustainability requirements are a potential barrier to international business expansion:

The mid-market should see sustainability as an opportunity for differentiation, rather than an impediment to international expansion.

Case studies

A banking client in Australia was required to be compliant with Australian sustainability standards, but also chose to become compliant with Europe's stringent CSRD regulations.

This decision put the bank ahead of its competitors when it comes to sustainability, and in a better place for international expansion.

Mid-market firms are described as the powerhouse or engine of the economy, as they provide many of the links within the global supply chain.

The link in the chain

Mid-market firms are described as the powerhouse or engine of the economy, as they provide many of the links within the global supply chain. The prominence of the mid-market as a 'connector' within the global business ecosystem means that it can truly drive a more sustainable world. It can help make sustainability a strategic focus.

"Sustainability considers the full value chain, and mid-market businesses are smack in the middle of that. If they don't get it right the whole value chain falls down." Andrew Rigele, National managing partner – ESG, Grant Thornton Australia.

It is therefore critical for there to be a sustainable mid-market, which supports the rest of the business ecosystem to become more sustainable too. For this to exist, we need to help mid-market firms overcome regulatory barriers.

"Mid-market businesses often see sustainability as overwhelming and a mountain to climb… this is where Grant Thornton can offer value, providing the resource required to plot a secure route and guide businesses to the other side."

Trent Gazzaway, Global head, Service line capability and quality, Grant Thornton International

Conclusions

1. The world needs a sustainable mid-market. It's vital to economies, societies and the planet, because mid-sized businesses are the cogs which make the wheel of the global economy turn.

   Read more >

2. Mid-market firms are mainly motivated by commercial factors, and in particular brand reputation.

   Read more >

3. The mid-market is struggling with the high cost and complexity of aligning with rapidly changing regulations. Additional market dynamics, such as brand and supply chain requirements, are also putting significant pressure on mid-market companies.

   Read more >

4. The regulatory burden may be a barrier to mid-market businesses' international expansion plans, if they are not prepared to collect and report sustainability-related information as required by foreign jurisdictions.

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5. A 'one-size-fits-all' approach to sustainability doesn't work. Most mid-market firms have taken at least one step on their sustainability journey but firms' starting points are different.

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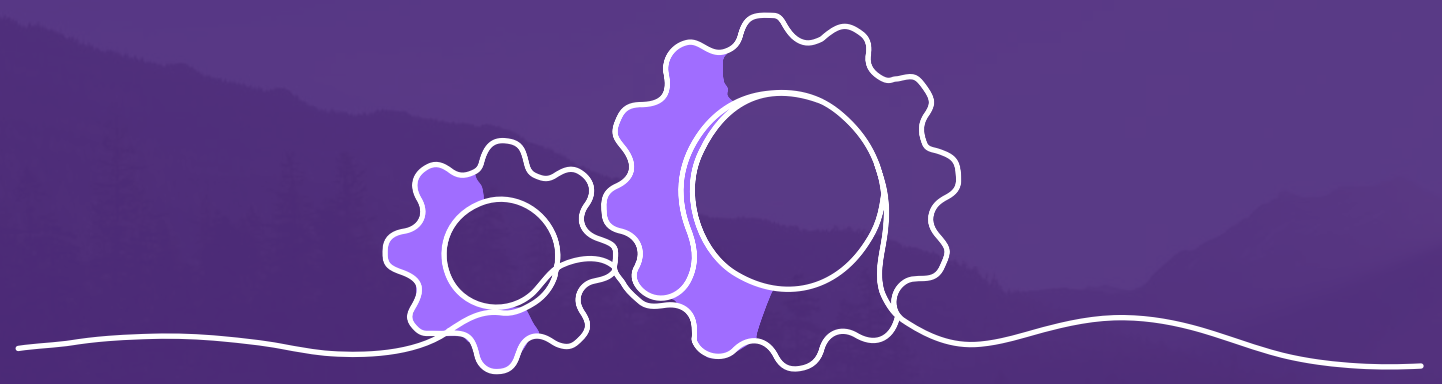

1.

They are a key part of global supply chains, where much of the sustainability agenda will end up focusing. Mid-market businesses are also more likely to be customers of SME enterprises than larger businesses, and so have greater potential to influence sustainable behaviour in that cohort than larger businesses.

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As sustainability starts to bring greater commercial advantages and become a business necessity, access to finance will increase in importance. Investors will look out for businesses that have a good story to tell on sustainability, and that are accountable for their performance. Regulatory requirements are increasingly a global concern, as international markets come into contact with regional regulations, such as CSRD.

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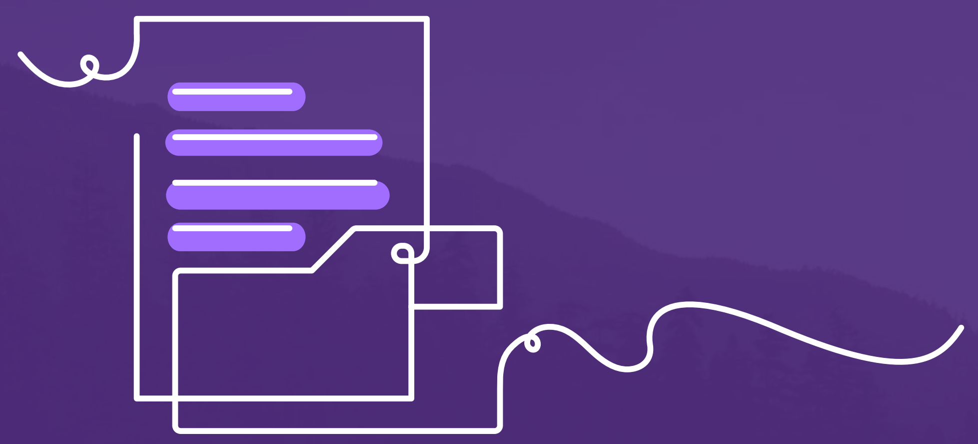

3.

Often mid-market firms don't know where to start when it comes to regulations, and so delay implementing sustainability measures. This is not helped by a regulatory environment that confuses many. Over time, this could lead to a dilemma whereby investment is needed to implement sustainability, but solid sustainability credentials are needed to attract investment. As further regulation comes into place, providing investors and consumers with data that allows them to compare progress, this will become a real concern for many businesses. Perceived poor performance on sustainability could drive potential investment elsewhere.

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As regulatory expectations grow, organisations will increasingly demand that their supply chains begin to collect and report sustainability-related information. A contractual obligation to provide this data is one mechanism companies may use to enforce this demand. For those in the supply chain that are unprepared, it may become a barrier to trade.

While complying with multiple sets of sustainability regulations should become 'business as usual' for many firms, there could be some growing pains for the international market, emphasising the need to seek good advice.

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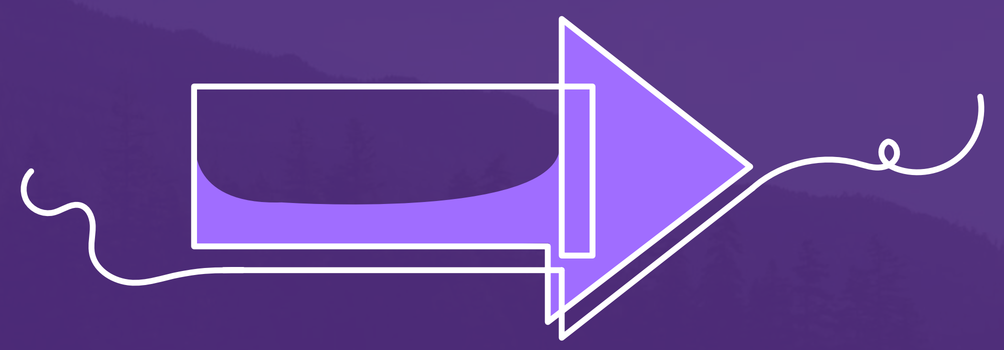

5.

Where companies start in the cycle is usually determined by the driver that has led them to invest in sustainability. If exposed to regulations and disclosure requirements, often they will begin with data gathering and reporting. For others, it makes more sense to begin with a strategy, and then begin gathering data to reinforce that strategy and make it more robust. It will be a cyclical, iterative process that relies on small refinements over time.

Recommendations

1. Take action sooner rather than later, when it comes to reporting requirements. Regulations and standards are only likely to get more complex and the resource to supply advice more scarce, which could increase the cost of becoming compliant.

Rather than waiting for implementation deadlines, acting now will give you time to build up your knowledge and processes, facilitating a smoother transition and helping to minimise the challenges of implementation. Improving the quality of your data requires time and investment, and so the earlier you start this process, the better.

2. For mid-market firms who get it right, being sustainable can offer a competitive advantage, whilst protecting brand reputation.

When you first see the complex legislation and regulation governing disclosures, you may see sustainability as a barrier. However, moving forward you should see it as an opportunity to enable deeper thinking about how to ensure the long-term health of your business.

Getting sustainability right will make your businesses more attractive to investors as well as customers, by strengthening and differentiating the brand. You will be more resilient, more easily able to attract and retain customers, access new opportunities and enter new markets.

3. Some mid-market firms may be hesitating to take action due to the complexity involved, but speaking to an adviser can help overcome some of this reluctance, simplify the process and plot the right course.

We understand how overwhelmed many mid-market firms feel – you have a product or service to sell, and sustainability is not your day job. Speaking to an advisor can help alleviate this and enable you to progress on your sustainability journey. Our job is to understand new requirements, we have a whole team of resource dedicated to this, and experience implementing requirements for clients all over the world.

4. **Larger companies need to work with their mid-market counterparts in supply chains to help them navigate regulatory issues. The world needs a sustainable mid-market and so do they.**

Navigating complex sustainability regulations is something many large firms are already doing. Sharing the expertise gained from this process will help their mid-market partners to adapt more effectively. Cooperation ensures a more resilient and compliant supply chain, enabling larger companies to meet their own sustainability goals, particularly in reducing Scope 3 emissions. A sustainable supply chain leads to reduced risks, improved efficiency, and enhanced reputations for all involved.

5. **The sustainability journey is not a sprint. It is likely to take most businesses several years to perfect their strategy and reporting and to adjust to external factors, but as always, the most important action is to take the first step.**

Taking the first step in the sustainability journey is crucial regardless of a business' size or industry. The first step, whether it's conducting a sustainability assessment or implementing a small-scale initiative, sets the foundation for continuous improvement and will position the company to better navigate the ever-evolving regulatory landscape.

To establish where you are and to find out where you need to go next on your sustainability journey, find your nearest Grant Thornton Sustainability services team.

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Methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey. Launched in 1992, the IBR provides deep analysis and insight into the views and expectations of around 14,000 business leaders globally on an annual basis.

The research runs quarterly, interviewing senior executives within mid-market organisations across 31 economies, from all industry sectors. It examines the economic and commercial issues affecting the growth prospects of companies globally.

The findings in this report are drawn from around 4,000 interviews conducted between April and June 2024. We have rounded the percentages and data points explored in this report to the nearest whole number. For this reason, some charts may not total 100%.

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