McKinsey & Company

McKinsey Sustainability and Strategy & Corporate Finance Practice

ESG momentum: Seven reported traits that set organizations apart

Survey respondents reporting increased impact from environmental, social, and governance (ESG) efforts say their organizations focus on both protecting and creating value.

May 2023

It is becoming increasingly essential for companies to understand and address the effects that externalities can have on their social license.[1] The latest McKinsey Global Survey on environmental, social, and governance (ESG) issues asked more than 1,100 respondents in more than 90 countries how their organizations are rising to this challenge.[2] More than nine in ten respondents say that ESG subjects are on their organization's agenda. While environmental topics are recently the ones making headlines, just one-third of respondents rank environmental issues as their organization's greatest ESG priority.

Survey respondents report that their organizations are not just paying lip service to ESG: many say their organizations are making meaningful ESG changes that have demonstrable benefits. More than two-thirds of respondents say their organizations have achieved broad impact from their ESG efforts in the past three years, and 43 percent report that their organizations have captured financial value from their ESG investments over that span—suggesting that the full effects of ESG are multivariable and may take time to fully capture. For example, one-third of respondents say their organizations' work with ESG topics has a strong positive effect on their own commitment to the organization and, in turn, to overall employee retention, consistent with the notion that ESG can underpin both value and values.[3]

Survey respondents who report that their organizations have both *created* financial value and *increased* broader impact from ESG—the two conditions for what we call "ESG momentum"[4]—point to seven organizational traits.

First, their organizations approach ESG from a growth perspective. The organization's priorities, respondents report, exceed merely conforming to industry standards or regulatory requirements and aim toward unlocking new opportunities.

Second, they report that their organizations strive to connect with external stakeholders and to be accountable to them.

Third, they identify specific stakeholder priorities for which their organizations are uniquely placed to excel; respondents say, further, that their organizations strive to make these priorities a core part of their business strategy.

Fourth, respondents say their organizations empower a specific executive in the C-suite to work with the CEO in defining and achieving ESG ambitions.

Fifth, their organizations build a central ESG team—which is not the same as building a large team. Respondents also say their organizations bring together talent from across the organization to help meet ESG goals.

Sixth, their organizations make considered efforts to embed purpose into multiple aspects of their business.

Seventh, their organizations tie ESG metrics to compensation, using KPIs to gauge progress on ESG objectives.

All told, survey respondents who identify their organizations as leading in ESG see their efforts as a means of both protecting and creating value.[5]

One-third of survey respondents say their organizations' work with ESG topics has a strong positive effect on their commitment to their organization.

1 For more, see Krysta Biniek, Vivian Hunt, Robin Nuttall, Lucy Pérez, and Hamid Samandari, "Does ESG really matter—and why?," *McKinsey Quarterly*, August 10, 2022.
2 The online survey was in the field from November 11 to November 26, 2021, and garnered responses from 1,141 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. Looking by industry, the largest share of respondents—17 percent—work in financial services. Nearly 30 percent of respondents work for organizations that they say have an annual revenue of $1 billion or more, and a similar share say they work for publicly held companies. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.
3 For more, see "Does ESG really matter?," August 10, 2022.
4 These organizations leading on ESG dimensions are ones that, according to respondents, have somewhat or significantly improved their ESG performance over the past three years, significantly better ESG performance than industry peers, and seen modest or significant value from their ESG investments over the past three years. The 107 respondents who describe their organizations as ESG leaders are effectively the top decile from among the survey results. We are not able to verify the ESG performance of respondents' organizations, because we do not ask respondents to identify their organizations.
5 For more, see "Playing offense to create value in the net-zero transition," *McKinsey Quarterly*, April 13, 2022.

Where ESG topics rank on organizations' agendas

In the survey, 93 percent of respondents say at least one ESG dimension—an environmental, social, or governance topic—is on their organization's agenda. While survey responses suggest that organizations broadly seem to recognize the importance of ESG overall, approaches and areas of focus vary by sector, industry, and region, consistent with differences in materiality.

Responses indicate that organizations in many industries are going beyond merely trying to meet regulatory requirements and view ESG as a growth opportunity. Promoting growth[6] is the reason that respondents most frequently cite for their organizations addressing ESG topics. This is a particularly common motivator for organizations within the energy sector, while compliance with regulations and industry norms are the most-cited motives by respondents in healthcare and pharmaceuticals, financial services, and the public and social sectors.

6 "Promoting growth" includes answers of "develop new growth opportunities (for example, new markets or products)" and "promote our ability to grow."

In many industries, respondents say organizations are addressing ESG topics because they see them as a growth opportunity.

Organizations' top reasons for addressing environmental, social, and governance (ESG) topics, by industry, % of respondents[1]

Low — High

	Promote growth[2]	Meet regulatory or industry requirements[3]	Meet consumer expectations	Improve corporate reputation	Meet investor expectations	Attract, motivate, and/or retain employees
Oil and gas/electric power and natural gas	53	32	49	11	18	24
Consumer packaged goods/retail	51	32	40	22	7	18
High tech/telecom	49	36	23	16	27	36
Business, legal, and professional services	48	21	31	32	9	26
Healthcare/pharma and medical products	40	51	24	17	36	19
Public and social sectors	34	45	20	23	6	19
Financial services	32	46	23	23	32	13
Total	44	38	31	24	20	19

[1]Out of 14 answer choices provided. Respondents were allowed to make multiple selections; n = 1,141.
[2]Respondents who say a top reason that their organization is addressing ESG topics is to "promote our ability to grow" or to "develop new growth opportunities."
[3]Respondents who say a top reason that their organization is addressing ESG topics is to "conform with regulatory requirements" or to "meet industry norms or standards."
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

McKinsey & Company

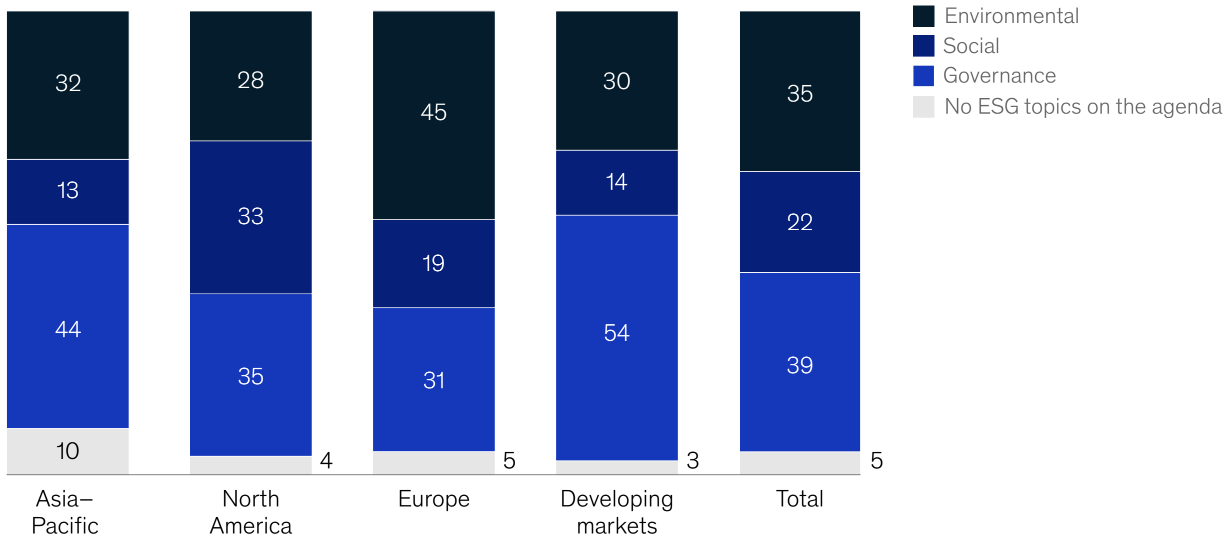
The ESG dimensions receiving business leaders' focus vary by geography and company size. While environmental issues are increasingly being featured in headlines globally, responses suggest that Europe is the only region where environmental topics tend to outrank governance on leaders' agendas. According to respondents, social topics are of outsize concern among organizations based in North America, where diversity, equity, and inclusion issues have come to the forefront in recent years. On the other hand, respondents working for organizations with headquarters in Asia–Pacific and developing markets tend to rank governance topics as their organizations' most important ESG priorities.[7]

Looking by company size, respondents at organizations with annual revenues of $1 billion or more are much more likely than others to say environmental topics outrank social and governance dimensions on their leaders' agendas (see sidebar, "What respondents say larger companies are doing differently").

[7] For more, see Michael Birshan, Madeleine Goerg, Anna Moore, and Ellora-Julie Parekh, "Investors remind business leaders: Governance matters," McKinsey, October 2, 2020.

Only respondents at organizations based in Europe tend to say environmental topics outrank governance topics on leaders' agendas.

Environmental, social, and governance (ESG) dimension that ranks highest on leaders' agendas, by organization headquarters location, % of respondents[1]



[1] Figures were recalculated after removing the 2% of respondents who say "don't know." They may not sum to 100%, because of rounding.
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

McKinsey & Company

Seven traits that respondents say organizations leading on ESG dimensions have in common

Our findings reveal seven traits of organizations that, respondents report, have developed clear ESG momentum. We compare responses from survey participants who say they work for leading, top-decile organizations against those who say they work for the lowest-decile organizations, as scored by self-reported ESG progress.[8]

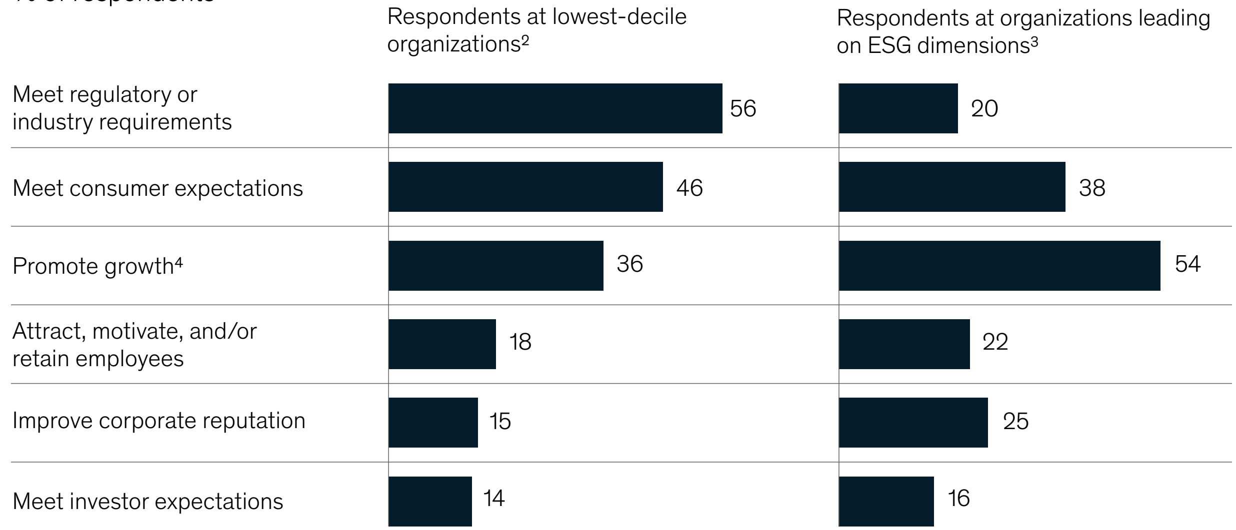
1. Sights set on growth

Respondents who report working for an organization leading on ESG dimensions are 1.5 times more likely than respondents from reported bottom-decile organizations to say their organizations approach ESG topics with the aim of promoting growth. Respondents from the lowest-decile organizations, on the other hand, are 2.8 times more likely to say ESG efforts are focused on conforming to industry standards or regulatory requirements.

[8] "Respondents from reported bottom-decile organizations" are the 100 who report seeing somewhat or significantly worse ESG performance in their organizations compared with industry peers.

Respondents reporting the most ESG momentum say their organizations focus on growth rather than compliance.

Organizations' top reasons for addressing environmental, social, and governance (ESG) topics, % of respondents[1]



[1] Out of 14 answer choices provided. Respondents were allowed to make multiple selections.
[2] Respondents who say their organizations' ESG performance is significantly or somewhat worse than industry peers'; n = 100.
[3] Respondents who say their organizations' ESG performance has somewhat or significantly improved over the past 3 years, ESG investments have brought modest or significant value over the past 3 years, and ESG performance is significantly better than industry peers'; n = 107.
[4] Respondents who say a top reason that their organization is addressing ESG topics is to "promote our ability to grow" or to "develop new growth opportunities."
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

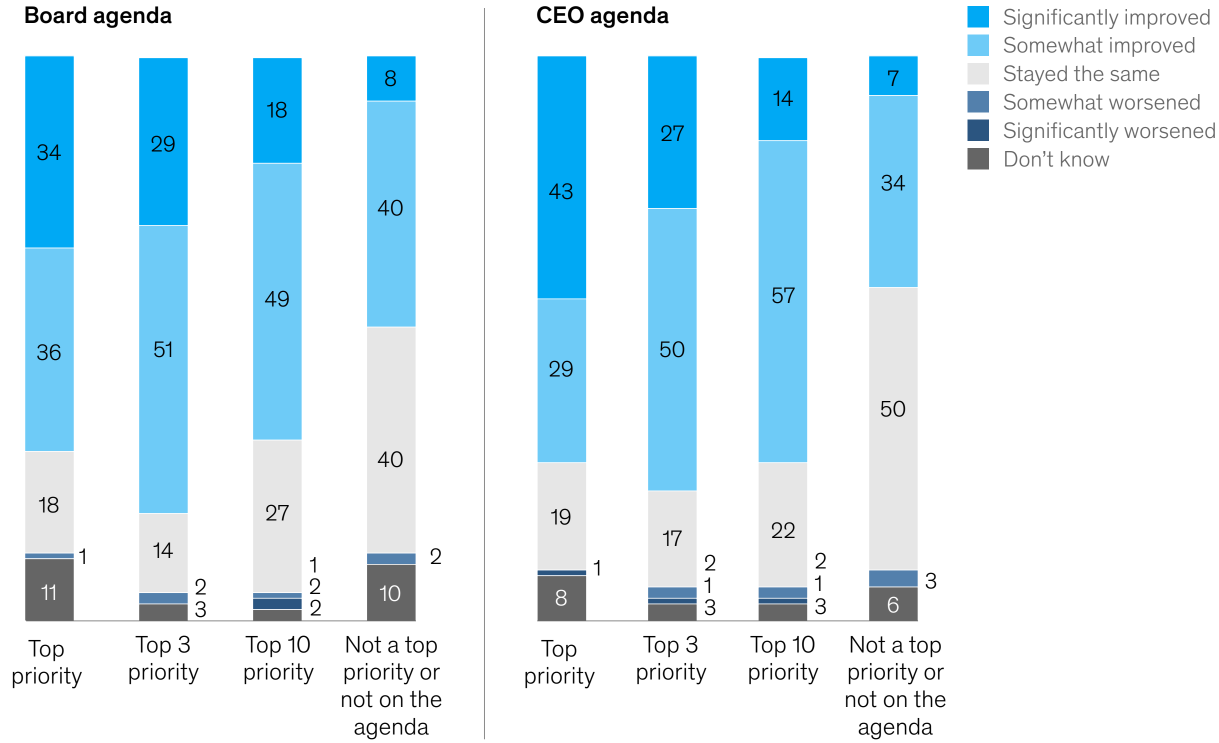
McKinsey & Company

2. Board directors and senior leaders who connect with external stakeholders
Respondents who report that their organizations have built ESG momentum are more likely than those at reported lowest-decile organizations to say their organization's board members, CEOs, and CFOs connect with external stakeholders and feel accountable to them.

Also, the higher that respondents say external engagement is on their board's and CEO's agenda, the more progress they report that the organization has made with its ESG impact over the past three years. For example, respondents who say their organization's CEO makes external engagement their top priority are three times as likely as those reporting it as a top ten priority to say their organization has seen significant improvement in its ESG impact. Moreover, the higher that respondents say ESG is on the CEO's agenda, the more likely they are to report that their organization has captured significant value from ESG investments.

Survey respondents who say external issues rank highly on a board's and CEO's agenda report greater improvements than peers in the impact of ESG efforts.

How organizations' environmental, social, and governance (ESG) impact has changed over past 3 years, by prioritization of external-issue management, % of respondents[1]



[1]Figures may not sum to 100%, because of rounding.
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

McKinsey & Company

3. Prioritization of strengths that matter to stakeholders

Respondents who report their organizations as leading on ESG dimensions are much more likely than respondents at reported lowest-decile organizations to find that their organizations have identified business-model-specific ESG issues, particularly those issues that, respondents say, matter most to their external stakeholders. These organizations, respondents further report, identify and concentrate on the specific stakeholder priorities for which their organizations are uniquely placed to excel rather than diffuse ESG efforts across many avenues.[9]

[9] For more, see Donatela Bellone, Vivian Hunt, Robin Nuttall, Lucy Pérez, and Hamid Samandari, "How to make ESG real," *McKinsey Quarterly*, August 10, 2022.

Respondents who say they work for organizations leading on ESG report focusing on strengths in the areas that matter most to external stakeholders.

Respondents who say their organization is very effective at given practice, %

[1]Respondents who say their organizations' ESG performance has somewhat or significantly improved over the past 3 years, ESG investments have brought modest or significant value over the past 3 years, and ESG performance is significantly better than industry peers'; n = 107.
[2]Respondents who say their organizations' ESG performance is significantly or somewhat worse than industry peers'; n = 100.
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

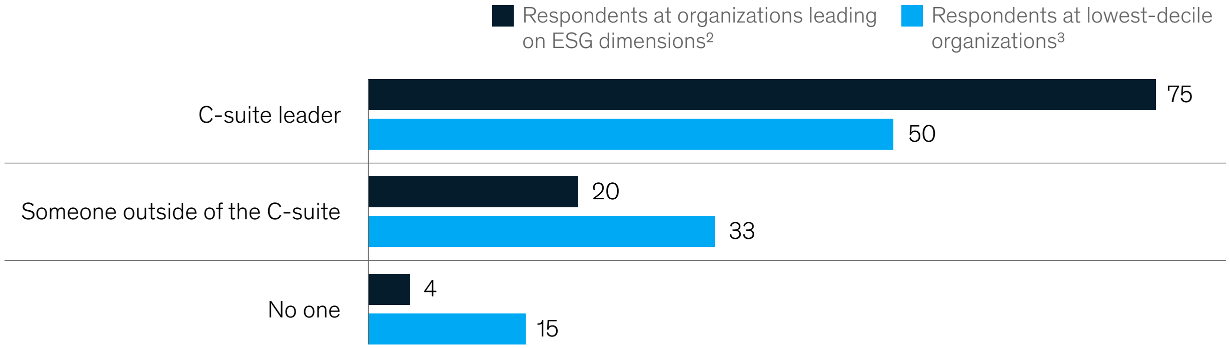
McKinsey & Company

4. An ESG leader in the C-suite

Most respondents at organizations that, according to survey results, have built significant ESG momentum report their organization's ESG teams are led by a member of the C-suite. This executive is empowered to define ESG ambitions and strategy with the CEO, ensure collaboration among the other members of the executive team, and orchestrate initiatives across the organization.

At organizations that respondents say have built the most ESG momentum, ESG-related work is overseen by a member of the C-suite.

Person who oversees environmental, social, and governance (ESG) topics at respondents' organizations, % of respondents[1]



[1]Figures do not sum to 100%, because respondents who said "don't know" are not shown.
[2]Respondents who say their organizations' ESG performance has somewhat or significantly improved over the past 3 years, ESG investments have brought modest or significant value over the past 3 years, and ESG performance is significantly better than industry peers'; n = 107.
[3]Respondents who say their organizations' ESG performance is significantly or somewhat worse than industry peers'; n = 100.
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

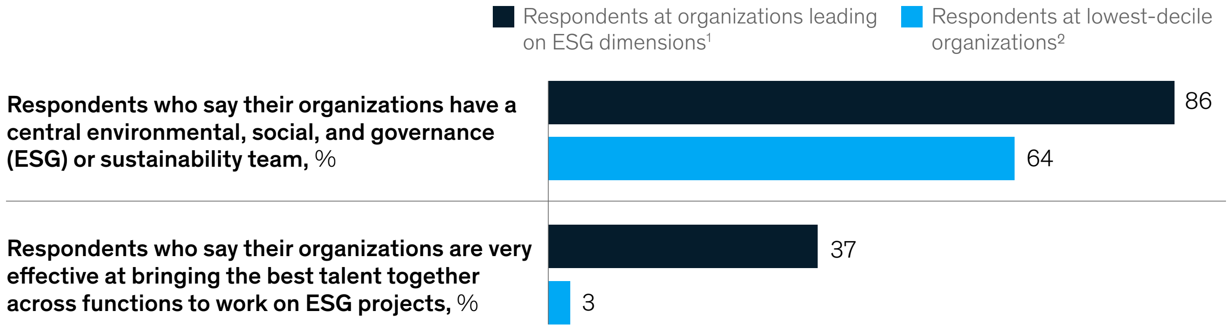
McKinsey & Company

5. A central team

Survey results suggest that having a central ESG team or function can enable ESG momentum: respondents who say their organizations are furthest ahead on ESG dimensions are much more likely than those at reported lowest-decile organizations to report that their organizations have such a team, even if the team includes five or fewer people. These teams can manage ESG-strategy- and target-setting processes, coordinate delivery of initiatives and ESG reporting across the organization, and ensure that ESG considerations are embedded into employees' day-to-day behaviors. They also coordinate across functions so that efforts are not siloed within one department.

In fact, bringing together talent from across the organization to help meet ESG goals is also a reported hallmark of leading organizations. Respondents reporting that their organizations have developed ESG momentum are more likely than those in the lowest decile to report that their employers are very effective at bringing the best talent together from across functions to work on ESG projects.

Respondents reporting the most ESG momentum say their organizations have a central ESG team as well as cross-functional ESG projects.



[1]Respondents who say their organizations' ESG performance has somewhat or significantly improved over the past 3 years, ESG investments have brought modest or significant value over the past 3 years, and ESG performance is significantly better than industry peers'; n = 107.
[2]Respondents who say their organizations' ESG performance is significantly or somewhat worse than industry peers'; n = 100.
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

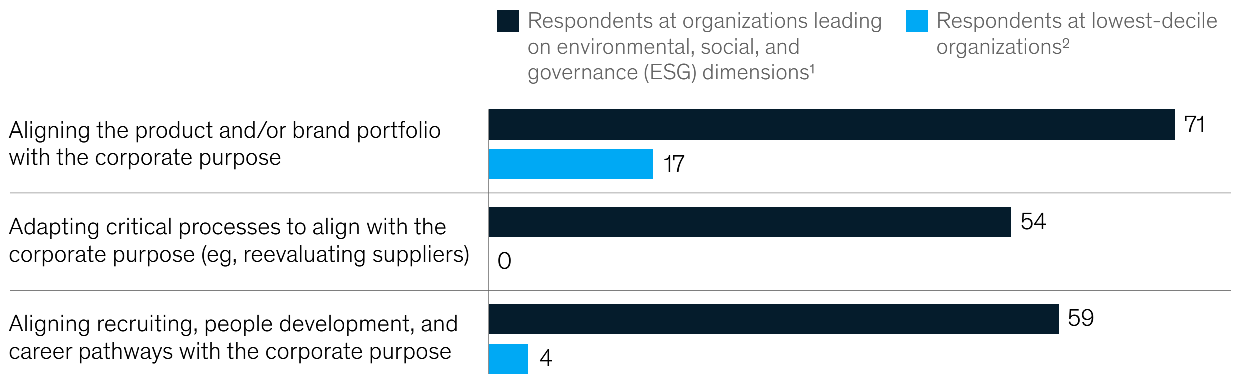
McKinsey & Company

6. Purpose embedded throughout the organization

Respondents who report that their organizations are leading on ESG dimensions say their organizations are very effective at embedding purpose into various aspects of their business, such as their product or brand portfolio and their talent-management efforts. By embedding purpose into organizational culture, the survey suggests, organizations can build an appetite for change that can bolster ESG initiatives.

Survey respondents who say their organizations exhibit superior ESG momentum report that purpose is embedded throughout the business.

Respondents who say their organization is very effective at a given practice, %



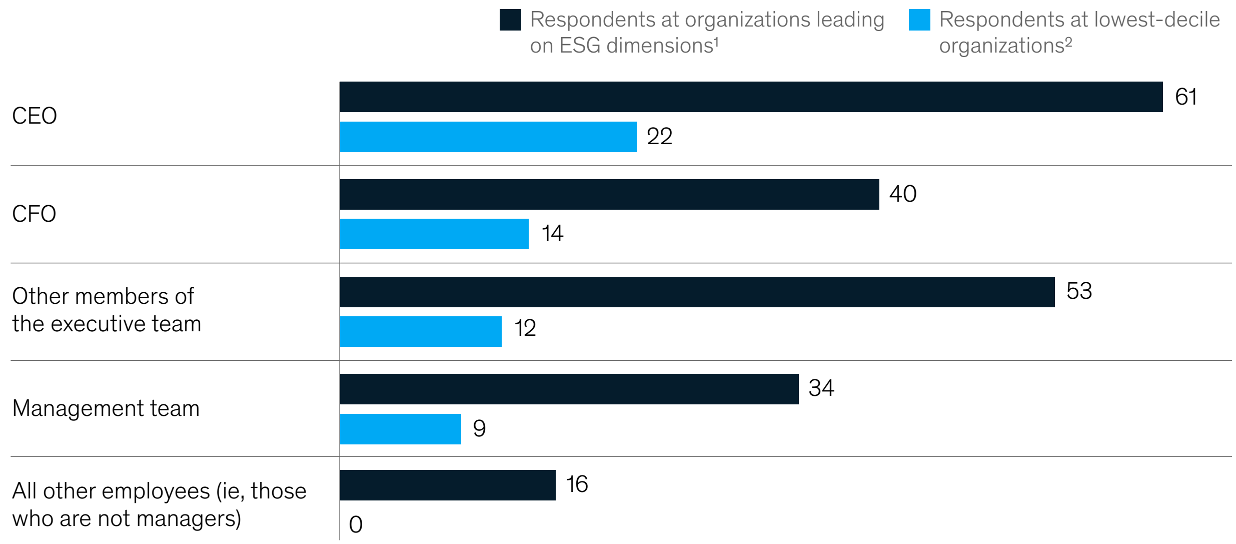
[1]Respondents who say their organizations' ESG performance has somewhat or significantly improved over the past 3 years, ESG investments have brought modest or significant value over the past 3 years, and ESG performance is significantly better than industry peers'; n = 107.
[2]Respondents who say their organizations' ESG performance is significantly or somewhat worse than industry peers'; n = 100.
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

McKinsey & Company

7. Incentives tied to ESG metrics
Respondents from organizations reported to have the most ESG momentum are nearly three times as likely as respondents from reported bottom-decile organizations to observe that their organizations tie CEOs' and CFOs' financial incentives to ESG metrics. Embedding key ESG impact metrics into leaders' and employees' incentives can demonstrate, both internally and externally, that ESG is a priority for the organization. It also helps ensure accountability for initiatives. An effective ESG incentive structure uses clear metrics, based on meaningful KPIs that gauge progress on key ESG objectives.[10]

Respondents reporting ESG momentum say their employers link financial incentives for leaders and employees with key ESG metrics.

Respondents who say given role's financial incentives are at least partly tied to environmental, social, and governance (ESG) metrics, %



[1]Respondents who say their organizations' ESG performance has somewhat or significantly improved over the past 3 years, ESG investments have brought modest or significant value over the past 3 years, and ESG performance is significantly better than industry peers'; n = 107.
[2]Respondents who say their organizations' ESG performance is significantly or somewhat worse than industry peers'; n = 100.
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

McKinsey & Company

[10] Ibid.

Not all organizations identified by respondents as ESG leaders have all seven of these components in place. But survey responses suggest how consistently these traits are celebrated by those reporting more momentum and value realization and how critical it is for organizations to go beyond mere declarations of intent. Embedding ESG in an organization manifests in well-considered, focused ESG initiatives that are core to the business model. While embedding ESG is complex, the value that ESG efforts can protect—and create—can be compelling.[11]

Survey responses suggest how critical it is for organizations to go beyond mere declarations of intent.

[11] For more, see Witold Henisz, Tim Koller, and Robin Nuttall, "Five ways that ESG creates value," *McKinsey Quarterly*, November 14, 2019; "Does ESG really matter?," August 10, 2022.

What respondents say larger companies are doing differently

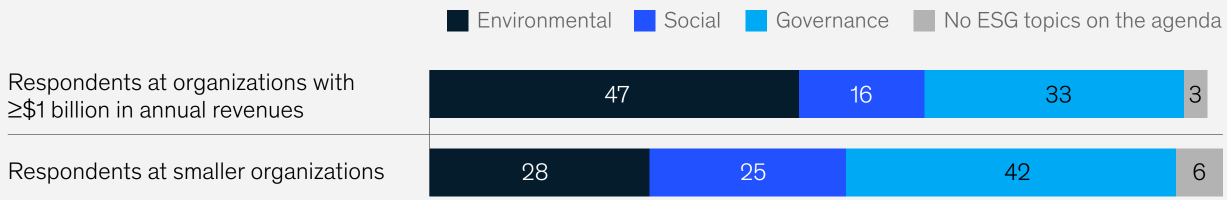
Other survey findings about how organizations are approaching environmental, social, and governance (ESG) efforts differ between respondents at large and smaller companies. Respondents who say they work for organizations with at least $1 billion in annual revenues are nearly 1.7 times more likely than those at smaller organizations to say environmental topics outrank social and governance topics on their leaders' agendas (Exhibit 1). Those at larger companies in Europe and North America report higher prioritization of environmental and social topics than governance topics, whereas the opposite is true in other regions.

When asked which specific ESG topics have the biggest effect on respondents' organizations, respondents at larger organizations are more than twice as likely as others to point to climate change and greenhouse gases, while respondents at smaller organizations are much more likely to cite governance structure.

Exhibit 1

A plurality of respondents at large organizations say environmental topics outrank governance and social topics on leaders' agendas.

Environmental, social, and governance (ESG) dimension that ranks highest on leaders' agendas, by organizations' reported revenue size, % of respondents[1]



[1] Figures were recalculated after removing the 2% of respondents who say "don't know." They may not sum to 100%, because of rounding.
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

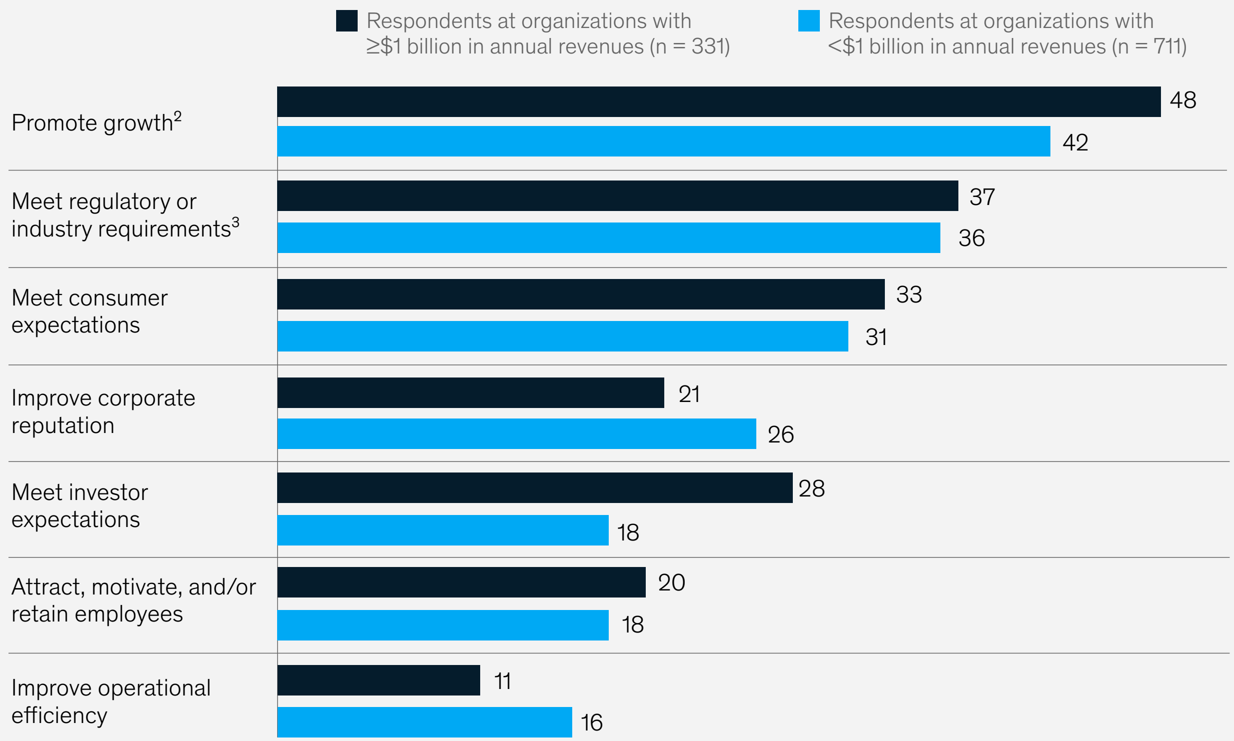
McKinsey & Company

The survey results suggest that organizations' motivations for pursuing ESG efforts also can differ by size. Respondents at both large and small organizations most often cite growth as a top reason for addressing ESG topics, followed by meeting regulatory or industry expectations. Yet that focus on growth—as well as on investor relations—is more commonly reported by respondents at larger organizations (Exhibit 2).

Exhibit 2

Respondents say both large and small organizations are most often addressing ESG topics because they see them as a growth opportunity.

Organizations' top reasons for addressing environmental, social, or governance (ESG) topics, % of respondents[1]



[1]Out of 14 answer choices provided. Respondents were allowed to make ≤3 selections.
[2]Respondents who say a top reason that their organization is addressing ESG topics is to "promote our ability to grow" or to "develop new growth opportunities."
[3]Respondents who say a top reason that their organization is addressing ESG topics is to "conform with regulatory requirements" or to "meet industry norms or standards."
Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

McKinsey & Company

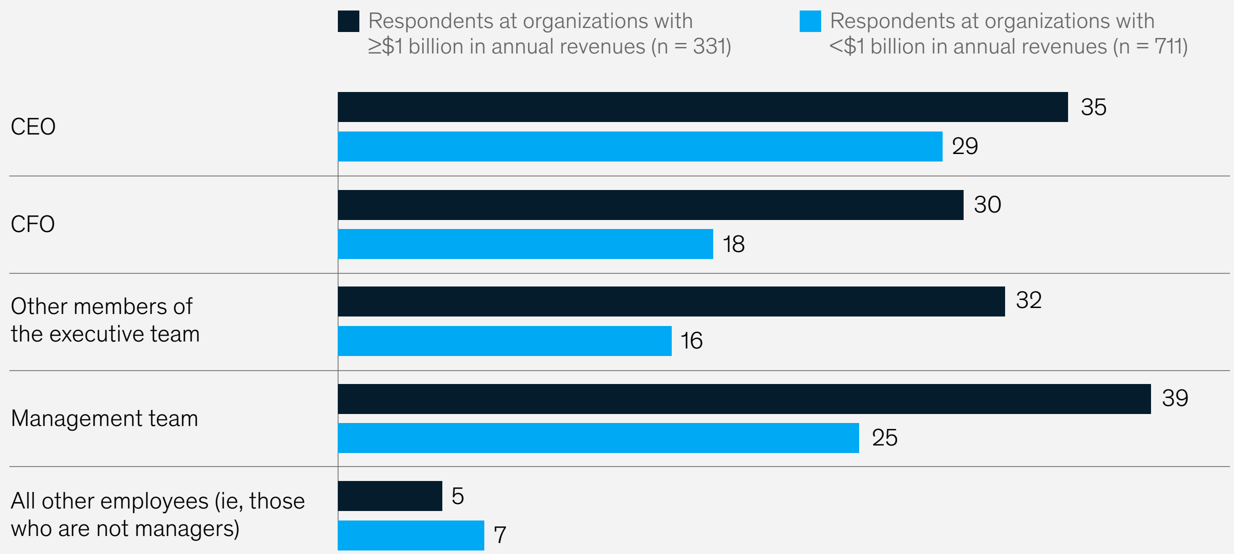
What's more, responses from larger companies suggest differences in the leadership and organization of their ESG efforts. While 24 percent of these respondents say their organizations have a chief sustainability officer in place who oversees ESG topics, just 10 percent at smaller organizations report that role, and they are much more likely than their large-company peers to say no one oversees ESG topics at all. At large organizations, respondents say the leader of ESG topics also oversees a variety of ESG-related functions—the corporate affairs or government relations, legal, communications, and philanthropy functions—much more often than smaller-organization respondents do.

Those at larger organizations are also nearly twice as likely as others to say their organizations have an ESG team of more than five employees, with a median of eight employees.[1] They also report federated governance of ESG projects much more often than respondents from smaller organizations do, and they say their companies embed key ESG impact metrics into leaders' incentives more often than their smaller-company peers do (Exhibit 3).

Exhibit 3

Respondents at large organizations are more likely than peers to say their organizations link financial incentives for leaders with key ESG metrics.

Respondents who say given role's financial incentives are at least partly tied to environmental, social, and governance (ESG) metrics, %



Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

McKinsey & Company

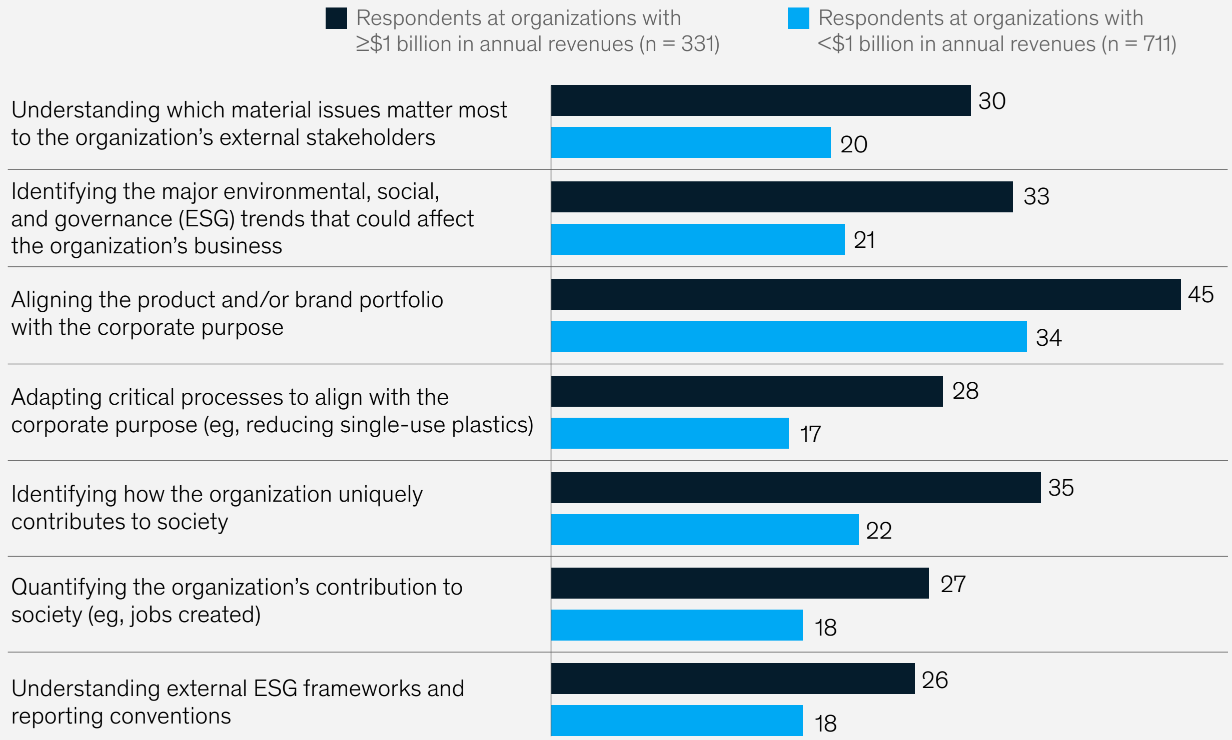
1 Looking at data from respondents at organizations with at least $1 billion in reported annual revenue, an ESG team of three people is in the 25th percentile for size, and a team of 15 is in the 75th percentile.

Finally, respondents from larger organizations rate their effectiveness at core ESG- and purpose-related practices more highly than others do (Exhibit 4). Furthermore, they report progress more often: they are 1.5 times more likely to say their organizations' ESG impact has significantly improved in the past three years, compared with their smaller-company peers.

Exhibit 4

Respondents at large organizations are more likely than others to say their organizations excel at a range of ESG- and purpose-related practices.

Respondents who say their organization is very effective at a given practice, %



Source: McKinsey Global Survey on environmental, social, and governance topics, 1,141 participants at all levels of the organization, Nov 11–26, 2021

McKinsey & Company

The survey content and analysis were developed by **Bengi Korkmaz,** a partner in McKinsey's Istanbul office; **Robin Nuttall,** a partner in the London office; **Lucy Pérez,** a senior partner in the Boston office; and **Jérémie Sneessens,** a senior partner in the Brussels office.

They wish to thank Mercan Bakirezen, Leo Geddes, Pablo Illanes, and Alexandre Lichy for their contributions to this work.

McKinsey & Company

Find more content like this on the

McKinsey Insights App

Scan • Download • Personalize

Designed by McKinsey Global Publishing